

East Arnhem Regional Economic Development Committee

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File Ref:

Committee Secretary

Senate Standing Committee on Rural and Regional Affairs
and Transport
PO Box 6100
Parliament House
CANBERRA, ACT, 2600

Dear Committee Secretary

Re: The Australian Government's inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities

The East Arnhem Regional Economic Development Committee (REDC) welcomes the opportunity to provide a submission to the Australian Governments Inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities.

East Arnhem Land is a remote area in the North East of the Northern Territory covering around 33,000 km² with a population of approximately 15,000 people, with 70% of the population being Aboriginal. There are 11 communities and towns in the region, 6 of them island based and there are numerous permanently occupied Aboriginal homelands. All the communities and towns, and nearly all the homelands, are serviced by remote air strips, aerodromes and airports of various capacities and condition (see **Attachment A**). These aerodromes are utilised by Careflight, Police Airwing, Telstra (via charter helicopter), a number of air charter operators (commercial and not-for-profit) and commercial regular passenger transport (AirNorth, Mission Aviation Fellowship (MAF) and Fly Tiwi).

Nhulunbuy is the economic and social hub for the region and is approximately 1,000km from Darwin by road, which is mostly unsealed. Nhulunbuy has the major airport for the region with around 16,000 landings and take offs each year. Seasonal weather plays a role in the region with the wet season bringing monsoonal rains that routinely disrupt road access making it difficult, and

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East Arnhem Regional Economic Development Committee

sometimes impossible, to reach remote areas and communities for basic supplies and services.

Air services are essential for economic and social wellbeing and provide access to services such as critical emergency health care, emergency flood or cyclone evacuations and support, and to facilitate police and emergency services response.

The main industry in the East Arnhem region is mining, with significant bauxite and manganese operations on the Gove Peninsula and Groote Eylandt respectively. These industries rely heavily on the air services to bring high priority freight and highly skilled employees and contractors for operational and project purposes.

Whilst mining is an important industry for the region, it is not a major employer of local Yolngu and Anindilyakwa people. Instead, the predominant employer of local people is in land management, tourism and creative industries, niche primary industries (forestry and small scale agribusiness) and government (health, education, aged care, disability etc.) and related services. All of these industries rely heavily on air services in the delivery of services or related activities.

Importantly, the economy and population of the region is steadily growing following the recent challenges with the Gove refinery curtailment however significant high cost and remoteness challenges exist which are either a barrier to new, expanded or existing businesses and organisations. The unemployment and transition from welfare (work for the dole) to work challenges for this region are immense, with an estimated 5000 jobs needed in 'on-country' regionally based industries to address the disproportionately high Aboriginal disadvantage in workforce participation and wealth creation.

There are, however, concerted efforts underway to diversify the regional and local economies. The region is highly prospective for tourism, fisheries and aquaculture, minerals and energy resources and niche agribusiness. Aerospace industry development is well progressed through the planned Arnhem Space Centre (Equatorial Launch Australia) and long term defence and border protection industry development is possible. There is also significant growth in government and human services through the National Disability Insurance Scheme and new aged care services for the region. **Addressing historically high air, road and sea supply chain logistics costs through targeted private and public investment in key infrastructure and logistics services is critical to industry growth in the region.**

The population of Nhulunbuy, the regional centre, has rebounded strongly since 2014, with growth from an estimated resident population of 2100 to 3300. Population and economic growth continues in the region, this is reflected in the air passenger movements through Gove Airport that show an increase from 72,200 per annum (Nov 2015) to 84,000 (Nov 2017).

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East Arnhem Regional Economic Development Committee

High costs in freight and passenger transport and associated remote infrastructure make it challenging to reach other parts of the Territory and Queensland and leads to increased business and servicing costs.

Some of the air services challenges which the region population and industries face include:

- There is a distinct lack of competition on the intra and inter regional regular passenger transport air routes which results in some of the most expensive air travel in Australia for one of the most disadvantaged populations (**Refer Attachment A**)
- The high cost of air services drives up the cost of human and business services, with the cost of living in the region more expensive than Darwin and other cities. This restricts the ability of Traditional Owners and other businesses to develop viable and sustainable enterprises and industry development projects;
- The high cost of airfares restricts mobility options for Yolngu employment and makes the region less competitive when attracting tourists and skilled workers;
- Intra-regional connectivity is poor and major secondary routes to large Aboriginal communities don't connect through the regional hub at Gove Airport to encourage visitation and access to services and employment (**See Attachment B**);
- Remote aerodrome operators, if there is one at all, face significant challenges in infrastructure deficits, maintaining security, safety and accessibility for servicing air services operators; and
- The limited air freight to and from the region restricts the ability of local enterprises to access high quality fresh goods and get high value niche goods to markets.

The REDC also recognise that there are significant pressures on the air services industry in servicing the region including pilot and crew shortages for some classes of aircraft, high cost landing fees, high cost fuel and maintenance challenges and high cost regulatory frameworks.

The REDC strongly believes that a combination of regulatory reform to support industry growth (without compromising safety standards), regulated air routes supported by industry subsidisation, targeted infrastructure investment in remote aerodromes and targeted industry support for air operators in workforce development and aircraft maintenance will have a dramatic effect on driving down the cost of living and establishing and running business. This will promote significant employment, investment across all industry sectors but in particular in highly prospective areas including tourism, human services, construction, fisheries and aquaculture, resources (mining and energy) and education (including international education).

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East Arnhem Regional Economic Development Committee

We acknowledge that the above is not yet supported by a strong business case or economic model however we consider the below return on investment would flow to regional traditional land owners, communities, Commonwealth and Territory Governments and business:

- For every Community Development Programme (work for the dole) participant who transitions to employment, there is a possible maximum saving of around \$80,000 per annum to Commonwealth programs. Modestly, the creation of up to 200 new jobs in the tourism sector alone could generate Commonwealth savings of up to \$8 million per annum or \$40 million over a five year period in the Community Development Program alone. This simple model assumes only \$40,000 of the \$80,000 per participant average is realised.
- Further to this, there are also likely to be significant savings to the Territory and Commonwealth through flow on or indirect savings in healthcare, community safety and education as the link between real jobs and wellbeing are well established.
- There will also be increased taxation benefit to both Commonwealth and Territory jurisdictions and a range of community and regional development benefits.

Further detail in response to various Inquiry discussion points is set out below.

Social and economic impacts of air route supply and airfare pricing;

As road access is limited in East Arnhem Land, air services are vital for the social and economic development of the region by supporting delivery of and access to education, health, justice, welfare, employment, recreation, cultural and other services for residents in the area.

Social and economic development objectives are heavily impacted by the high cost of freight and passenger transport. Currently, there is only one large commercial air service provider operating in the region and not all of these services connect through the regional hub Gove Airport. Three routes directly service the Maningrida, Milingimbi, Elcho Island (Galiwin'ku) and Groote Eylandt communities. One service provides interstate transport between Darwin and Cairns via Gove. **(Attachment B).**

Government agencies, NGO's and public/private healthcare providers operating out of Gove rely on charter air services to efficiently access outlying communities. 2015-16 data shows that one regional coordination body chartered 542 flights, one regional healthcare provider chartered 290 flights and the Northern Territory Government chartered approximately 1200 flights. This data supports initial significant demand for an improved Regular Passenger Transport (RPT) route from Darwin to Gove via Maningrida, Milingimbi/Ramingining and Galiwin'ku and potentially on to Groote Eylandt. **(Attachment B).**

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East Arnhem Regional Economic Development Committee

Current data suggests that the high cost of air services is driving up the cost of human and business services and restricting the ability of entrepreneurs to develop viable and sustainable enterprises and industry development projects. There is much industry development work underway which will see increased demand for aviation services, these include; development of the Gove Port, Tourism development and an increase in the presence of Government services in Nhulunbuy.

The high costs of airfares restricts mobility options for residents and businesses, resulting in the region being less economically competitive when attracting tourism and skilled workers.

The REDC firmly believes that improvements to the cost, intra and inter regional connections and scheduling of major air routes will have significant flow on benefits, by offering safe and reliable travel for our regional population and supporting industry growth across all sectors.

How airlines determine fare pricing;

Airfare pricing is determined by a number of factors. Key contributors to higher airfares in regional areas include the cost of safety and security, which imposes a high cost burden on low passenger volume airports. These costs need to be recovered through passenger charges.

The remote locality of the region leads to higher costs in fuel, operating systems and aircraft maintenance adding to the overall pricing of flights. These high costs impact on the regions ability to sustain and grow businesses and niche markets.

The lack of pilot and maintenance personnel training in the Northern Territory and the high cost associated with undertaking training and testing interstate or overseas plays a role in overall operating costs, some of which is passed on to customers.

Costs of fares in the region are also influenced by market forces and internal business influences, not only in the region, but on other routes that the airline travels. The actual airfare cost may not necessarily reflect the profitability of the route, but may be subsidising other regional routes.

A lack of competition is also a known factor in higher consumer costs.

Pricing determination, subsidisation and equity of airfares;

Market forces tend to fail on smaller routes where passenger numbers are lower and the aircraft serving them are smaller. The economics of operating small aircraft come into play and restrict the supply of air services. This is because as the size

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East Arnhem Regional Economic Development Committee

of aircraft declines the cost per passenger-kilometre increases. Where aircraft are carrying few passengers the costs begin to outstrip revenue.

As set out above, the REDC strongly believes that a combination of regulatory reform to support industry growth (without compromising safety standards), regulated air routes supported by industry subsidisation, targeted infrastructure investment in remote aerodromes and targeted industry support for air operators in workforce development and aircraft maintenance will have a dramatic effect on driving down the cost of living and establishing and running business. This will promote significant employment, investment across all industry sectors but in particular in highly prospective areas including tourism, human services, construction, fisheries and aquaculture, resources (mining and energy) and education (including international education).

We acknowledge that the above is not yet supported by a strong business case or economic model however we consider the below return on investment would flow to regional traditional land owners, communities, Commonwealth and Territory Governments and business:

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- Further to this, there are also likely to be significant savings to the Territory and Commonwealth through flow on or indirect savings in healthcare, community safety and education as the link between real jobs and wellbeing are well established.

There will also be increased taxation benefit to each jurisdiction and no doubt a range of community and regional development benefits.

Determination of regulated routes and distribution of residents' fares across regulated routes;

See above response

Airline competition within rural and regional routes;

There is a lack of competition on the intra and inter regional air routes which result in some of the most expensive air travel in Australia for one the most disadvantaged populations. In addition, a national pilot shortage has created competitive recruitment of pilots with regional and remote airlines such as AirNorth citing this as a major issue contributing to flight disruptions and cancellations.

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East Arnhem Regional Economic Development Committee

Previously RPT services have expressed concern that the heavy use of charter services in the region doesn't allow space to operate a RPT service to some remote areas. However, it can be argued that the heavy reliance on charter services proves that there is a need for RPT services that will be greatly utilised.

Consistent RPT service where secondary routes connect through the regional hub at Gove Airport would support the introduction bigger planes or alternative commercial airlines in the region. Add to this knowledge that mining operations on Groote Eylandt are transitioning from residential to a fly-in-fly-out model increases demand on the regions already limited services.

Consistency of aircraft supply and retrieval of passengers by airlines during aircraft maintenance and breakdown;

It is common for the region to experience flight delays, cancellations and last minute changes occur with little or no notice impacting on services, families and business with some of the air service providers in the region. It has been noted that these occur often due to aging fleet and maintenance issues. Air service providers have stated previously that the skills and knowledge to address carriage issues on the ground in the region is not available and as a result maintenance and any identified issues must be addressed in the bigger regions such as Darwin or Cairns.

Airnorth released a media statement on the 15 January 2018 in regards to the current disruption of RPT services to the region. The statement stated that the air service is currently experiencing a shortage of pilots and that at date they had 11 vacant positions. Regional Aviation Association of Australian (RAAA) through the NT news recently commented that the NT crisis of pilot shortage follows a decision by the Federal Government to rescind two-year working visas for foreign pilots and although this has since been reinstated and this hiatus although only for a short period effected recruitment activity. RAAA believe the upset in the region with its only commercial airline is a result of this temporary visa cancellation.

It is difficult to obtain accurate statistics on delays and cancellation of commercial flights as they are rescheduled and the delays are not recorded as such.

Any related matters.

Maintaining aerodrome compliance and addressing infrastructure deficits at most regional airports is a major challenge for aerodrome operators. In addition, in many cases there are no aerodrome operators in place due to these issues and the potential liabilities for operators if an incident occurs. Revenues available to operators are also limited and unlikely to generate reasonable profits or even meet full compliance costs.

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East Arnhem Regional Economic Development Committee

Whilst a range of Territory and Commonwealth program are in place to support aerodrome operators, the deficits in operating revenue and capital are substantial and needs to be addressed by both levels of Government, in partnership with the private sector.

In conclusion, the REDC has specific priority to work with the aviation industry and Governments to address issues in the region and are actively developing a range of strategies. The REDC welcomes this inquiry to help build sustainability for the regional air routes and to attract investment and ensure the long term success of the region both socially and economically.

Yours sincerely

Klaus Helms

Chair

5 February 2017

The REDC consists of senior representatives of Developing East Arnhem Limited, Laynhapuy Homelands Aboriginal Corporation, Dhimurru Aboriginal Corporation, Gumatj Aboriginal Corporation, Rirratjingu Aboriginal Corporation, East Arnhem Regional Council, East Arnhem Land Tourism Association, Nhulunbuy Corporation Limited, Arnhem Land Progress Aboriginal Corporation, Regional Development Australia NT, ARDS Aboriginal Corporation, Rio Tinto, and East Arnhem Chamber of Commerce.

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