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Senator Trish Crossin
Chair, Standing Committee on Legal and Constitutional Affairs
Parliament House, Canberra

Via: Online Submission

Dear Senator

RE: Inquiry into the Passenger Movement Charge Amendment Bill 2012

The Northern Territory Government welcomes the opportunity to provide a submission on the proposed amendments to the *Passenger Movement Charge Act 1987* to increase the rate of the Passenger Movement Charge (PMC) by \$8 to \$55 effective 1 July 2012; and introduction of an annual indexation of the PMC from 1 July 2013.

Background

The combined demographic, geographic, climatic and economic characteristics of the Northern Territory result in the aviation industry forming a considerably more significant input into the Northern Territory economy – across all industries – than it does to the national economy, especially tourism. Tourism is one of the main sectors of the Territory economy, contributing about 7 per cent to the Northern Territory Gross State Product. Tourism is a major employer in the Territory and is one of the few industries that offer sustainable economic development opportunities in regional Australia, particularly for Indigenous people. With the majority of international tourists arriving by air, aviation is particularly important to tourism in the Territory.

The realisation of the Darwin regional international gateway (The “Darwin Hub”) is dependent on maximising international visitor movements via Darwin airport, as well as interstate Australians who fly internationally through Darwin. The Darwin Hub is expected to provide economic benefits via tourism and associated growth in related industries, as well as improve access for Territorians; a priority under the *Territory 2030* strategic plan. Nearly 100 000 Australian residents (excluding Territorians) and over 57 000 international visitors used Darwin as their international departure city in 2011, providing tourism and wider economic benefits to the Northern Territory.

Realising the importance of aviation, the NT Government is investing significantly in developing the Darwin Hub to improve and facilitate direct access via Darwin. Darwin Airport is investing up to \$34 million in expanding its current terminal.



Passenger Movement Charge

Tourism Research Australia's 2011 research into the PMC indicated that although the Australian economy benefits as a whole (through increased revenues) it has a negative impact on Australian tourism output and tourism experiences.

Increasing the PMC is intrinsically linked to other costs which already make Darwin more expensive than other international gateways. Consequently, the proposed amendments to the PMC must not be considered in isolation, especially for Darwin and for regional Australian gateways more generally.

Whilst the proposed amendments to the PMC will apply to all Australian international gateways, its impact will be felt across Darwin more acutely than other regions by the nature of the PMC being an equalised charge, independent of the destination. Nearly all international departures from Darwin are bound to short-haul South East Asian destinations; the PMC already constitutes a greater per cent of the airfare from Darwin (between 13 per cent and 17 per cent of the airfare from Darwin). Refer Attachment A for details (Source: Darwin Airport). The proposed amendments will make this proportion even higher.

Already, the Australian Government-mandated security standards impose a disproportionate cost burden on regional international gateway airports. Unlike the PMC, the primary fixed security costs dictate that the cost-recovery charge required at low passenger volume airports, such as Darwin International Airport, are markedly higher on a per passenger basis than at major gateways. As a result, security charges at Darwin International Airport (DIA) are second only to Alice Springs Airport.

In addition, the Commonwealth has also indicated that it will ask airport operators to pay a higher proportion of the cost of providing Australian Federal Police at airports and these costs are anticipated to be passed onto the passengers. The effectively 24-hour operational requirements at Darwin Airport and the associated above-average labour costs result in a largely irreducible cost structure. The high costs of labour and security charges at Darwin Airport which are recovered over a smaller passenger cohort than other major airports impact negatively on Darwin's price competitiveness.

Currently, over 80 per cent of international visitors utilise domestic aviation links to and from the Northern Territory and roughly 15 per cent of the total leave via Darwin for overseas destinations. From 1 July 2012, under the Australian Government's carbon price system, average one-way airfares to Darwin will rise \$6 or more (double the national average) due to longer sector lengths.

The existing high cost of operations in Darwin, the increase in airfares under the carbon scheme and the proposed increase to the PMC will further exacerbate the cost and discourage interstate and international visitors to using the Darwin Hub. The NT Government is concerned about the significant cost burden on our air passengers. Furthermore, the reliance of the Darwin Hub on low cost carriers who are typically more exposed to price sensitive and leisure consumers poses, additional risk for Darwin (Access Economics, 2008).

An increase in the PMC, as a component of a suite of airport, security and passenger charges, raises further our concerns about the significant cost burden on airlines operating to Darwin, and those airlines' expansions internationally and domestically through Darwin. As examples, Jetstar recently suspended its operations to Ho Chi Minh and reduced operations to Denpasar from Darwin. Jetstar continues to state

publicly that its operations to Darwin are amongst its most marginal, primarily due to the high cost of operation.

The introduction of indexation to the PMC should not be applied, especially with Australian Customs and Border Protection resources being reduced. This will do little to change the perception of Australia as an expensive destination versus other competing international destinations. It will further widen the gap between the competitiveness of the southern Capital Cities with the emerging economic Capitals in the north with close links to Asia.

The net cost of meeting mandated Australian Government requirements and associated costs in relation to international travel using Darwin Airport acts as an impediment to the Territory's economic development. Alleviating this burden would generate significant benefits for the regional economy and provide a channel for the pursuit of the Australian Government's regional and Indigenous economic development agendas.

Conclusion

An element of the Senate's assessment of the amendment of the Passenger Movement Act should also consider the value of the PMC and also its role in relation to passenger experience, and the impact on regional destinations like Darwin. Appropriate consideration should be given to ensuring the minimisation of red tape and the costs borne by passengers and maximisation of the airport's contribution to the Northern Territory economy.

The proposed amendments to the PMC are timed poorly, especially given they will exacerbate the vulnerability of the tourism sector in the face of weak global economic conditions, strong competition from near Asian markets, the strength of the Australian dollar and recent increase in aviation fuel prices. This is particularly acute for regional international gateways, like Darwin. The Northern Territory Government's view is that the Australian Government should be looking at ways to stimulate tourism, particularly in regional Australia, rather than extracting additional revenue from a struggling sector.

The Northern Territory Government asserts that any increase in the value and future indexing of the PMC must be considered by assessing the prevailing operating environment and taking into account the broader implications it may have for regional international gateways, like Darwin.

Differential and ongoing PMC relief for smaller regional international airports would assist in air traffic growth, regional service expansion and recovery of the Australian tourism industry in regional and remote areas and should be considered as a part of this inquiry.

Yours sincerely

MAL'ARŊDIRRI McCARTHY



Attachment A:
Passenger Movement Charge as % of Airfare for Top 7 Destinations from Darwin

Origin	Destination Name	Year	Avg Fare in USD	% Avg Fare \$55 PMC- assume parity AUD-USD
DRW	Denpasar Bali	2011	358	15%
DRW	Ho Chi Minh City	2011	765	7%
DRW	Dili	2011	328	17%
DRW	Manila	2011	610	9%
DRW	Singapore	2011	516	11%
DRW	Christchurch	2011	463	12%
DRW	Auckland	2011	524	10%
		Weighted Avg Fare	\$448.31	Weighted Average for top 7 destinations= 13% (more than GST)

Source: Sabre and Darwin Airport

