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Hon Warren Entsch MP
Chair
Joint Parliamentary Committee on Northern Australia
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Entsch

**Re: Inquiry into Opportunities and Methods for Stimulating the
Tourism Industry in Northern Australia**

As you will be aware, Northern Territory Airports has already made a submission to, and appeared before, the Committee in relation to this inquiry. I have recently become aware of oral evidence given by Dr Roberts and Professor Samuel on behalf of Airlines for Australian and New Zealand (A4ANZ) on 20 October 2017, and also written submissions made by Virgin Australia and Qantas Airways, which on their face may be misleading.

Each of these parties have suggested to the Committee that airports are providing infrastructure that is not fit for purpose and that airlines have no capacity to resist such actions and the charges that flow from such investment. This is not the case. It should be understood that for smaller airports, what makes infrastructure "fit for purpose" is largely determined by aviation safety standards (administered by CASA), security standards (administered by the Office of Transport Security) and building standards determined by the relevant Commonwealth or State legislation. Communities also have reasonable expectations as to the amenity of terminal buildings and indeed the International Air Transport Association (IATA) produces standards for passenger terminal design. It needs to be understood that changes to these standards, especially in relation to security, have created unavoidable cost increases that are being passed onto airlines.

The Committee has already received evidence that Qantas has been able to delay terminal development in Townsville despite it being supported by local business interests and its major competitor. In the case of Darwin Airport, we engage closely with our airline customers and are not in a position to proceed with major aeronautical investments without explicit support from airlines.

In Darwin Airport's case it took many years of negotiation to finally enable the much needed terminal expansion to occur, the first major expansion since the terminal was commissioned in 1991. Jetstar did not agree to the required expansion for its services in 2007 so the expansion did not commence. Key to the agreement was requirement for transit passengers to make a contribution (\$4 per passenger) to the required expansion needed for the then Jetstar pan Asian hubbing strategy. Agreement was finally achieved in 2011 with the terminal expansion opened by Prime Minister Abbott in 2015 and the hubbing strategy no longer in operation.

More recently at Alice Springs, we see Qantas (who represent 90% of the passenger traffic) short paying invoices since July 2015 where a modest 3% increase was applied to support the next five years of growth, capital expenditure and operating expenditure at this port. Alice Springs Airport continues to wrestle with recovery of the short payment by Qantas despite the other carriers agreeing and paying the charge.

I would therefore encourage the Committee to ask airlines to identify precisely which airports have indulged in the behaviour they describe and provide those airports with the opportunity to respond.

The question of airport market power has been assessed by the Productivity Commission in three public inquiries – 2002, 2006 and 2011, with another inquiry scheduled for 2018. In 2006 the Commission formed the view, which was accepted by the Government, that Darwin Airport lacked sufficient market power to warrant being included in the group of airports subject to price monitoring, a view it confirmed in its 2011 report. The Commission also considered the position of Cairns in 2002 and formed a similar view. The logical extension of the Commission's work is that smaller airports, including places such as Alice Springs, Broome and Townsville, do not possess any substantial market power.

Virgin Australia suggests that airports have not been complying with pricing principles that have been promulgated by the Australian Government but does not identify which airports are acting in this way. Qantas and A4ANZ make similar claims about excessive prices. These principles can be found on page 159 of the Commission's 2011 report. I can assure the Committee that Darwin and Alice Springs Airports have at all times complied with these principles since they were established in 2002 and indeed, because of the bargaining power of both the Qantas and Virgin groups, have accepted financial outcomes inferior to those established by the principles. Again I would encourage the Committee to ask airlines to identify precisely which airports have indulged in the behaviour they describe and provide those airports with the opportunity to respond.

As the Committee would be aware, the Economics and Industry Standing Committee of the Legislative Assembly of Western Australia is currently inquiring into regional airfares in Western Australia. The Australian Airports Association has made a submission to that inquiry that sets out the challenges faced by regional airports in that state, many of which are in Northern Australia. Rather than repeat that material, I would strongly encourage the Committee to review that submission that can be found at: <http://www.parliament.wa.gov.au/Parliament/commit.nsf/a7b778ee55fef62a4825772700174a2c/ca2cca9d89d798dc4825817d002d22a7?OpenDocument>. I am sure the Association would be happy to answer any questions the Committee might have regarding that submission or issues relating to airports more generally.

If I can be of any further assistance to the Committee, please don't hesitate you contact me.

Yours sincerely

Ian Kew
Chief Executive Officer