

GOVERNMENT REGULATION IN COMMERCIAL AIR TRANSPORT
THE NORTHERN TERRITORY EXPERIENCE

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ABSTRACT: *This paper begins with a brief examination of the regulation vs deregulation debate both in Australia and elsewhere and proceeds to a discussion of the special features of the Northern Territory Air Transport environment.*

Next is a summarised outline of the development of the N.T. Aviation industry and the inter-relationship with government policy/legislation in the period since self government. This in turn leads to an outline of current arrangements.

Consideration is given to identifying and establishing a suitable data base as an aid to decision making. The paper concludes with an examination of the various options currently confronting the N.T. Government in the search for a workable framework of policy and legislation for its commercial aviation network.

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INTRODUCTION

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Next is a summarised outline of the development of the N.T. Aviation industry and the inter-relationship with government policy/legislation in the period since self government. This in turn leads to an outline of current arrangements.

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There is a need for review. Firstly, because all supplemental air route licences are due for renewal in June 1984 it is now appropriate to consider what, if any, changes need to be made to existing arrangements.

Secondly, discussions are underway with the regional airline, Airlines of Northern Australia, who seek some changes to the air route system.

Thirdly, the Commonwealth will shortly be calling for submissions to a number of reviews on various aspects of their aviation policy. It is therefore appropriate to comment in the light of our own policy review which should have first been completed for the sake of consistency.

REGULATION VS DE-REGULATION

The issue of commercial regulation of the aviation industry by Government is a long standing one. The large number of papers produced in recent years have canvassed virtually every conceivable viewpoint to the point where the topic has almost been 'done to death'.

Advocates of deregulation see an efficient system with better schedules and cheaper fares. Opponents see the industry experiencing a relatively short period of heavy competition before the emergence of a dominant operator who would then be free to cut services and raise fares. Opponents also seek to introduce the spectre of reduced safety standards resulting from any enforced cost cutting which competition might introduce.

Among the more useful examinations of Regulation produced in recent times are -

Report on the Review of internal air services and policy; W.A. Director General of Transport (1982).

The review recommended a complete departure from the policy of providing total protection to a single airline on internal jet routes. This policy had been the essential characteristic of state airline policy since 1968.

Transport Regulation in South Australia - Government of South Australia December, 1982 which concluded that no compelling reasons exist for the State Government to control air services

Unregulated airline markets - the South Australia experience Starrs : Starkie which, when examining actual events in South Australia reported that, inter alia, increased competition appears to have produced a number of beneficial features for the traveller such as improved flight frequency and a more diverse structure of air fares. This discussion was in the context of competition between a long established airline and a new, supplemental airline

William Frazer Memorial Lecture at 4th National Transport Symposium. "United States Experience in Airline De-regulation" which says deregulation is an unqualified success in that services have found proper levels. Many experts there however believe that the jury is still out

New Zealand and Tasmania have also recently concluded aviation policy reviews. New Zealand opted for a degree of increased freedom of domestic routes while Tasmania was more in favour of maintaining controls

It can be inferred from all this that in balance the scales appear to be tipping in favour of de-regulation. While the N.T. can well draw on the work of those who have gone before, the very differences in its transport infrastructure mitigate against the use of precedents to provide guidelines for future action.

N.T. Air Transport Characteristics

In its submission to the 1977 domestic air transport policy review the Northern Territory made the observation that "the review should not entertain grandiose notions about the role of aviation in the progress and development of the nation". It suggested instead that the review should simply regard air transport as one of a number of alternative transport modes.

That is a useful standpoint from which to develop this section of the discussion on the relative usefulness of air transport.

AIR TRANSPORT IN N.T. 1984

It is clear that as surface modes of transport improve (national highway system, high speed rail) then the absolute need for air as a preferred method of travel decreases.

Further, the demand for air transport is sensitive to price increases. This factor has been apparent in the easing of demand in domestic air transport (DOA statistics) over the past two years and the apparent success of substantially lower priced, if slower methods of air transport. East West airlines, an operator of alternative services, claims that 70% of its passengers on those services are not from the established airlines but from surface modes!

However, while this factor is evidently important to air route planning in southern states, it is much less so within the Northern Territory.

Extreme distance between population centres (Figure 1) and the widespread absence of reliable road access make the use of air the primary method of transport. This situation is not expected to vary markedly in the next 5 - 10 years.

There are, however, a number of exceptions to this general rule. The upgrading to the Stuart Highway between Darwin and Katherine and the construction of the all weather Arnhem Highway between Darwin and Jabiru have made both Katherine and Jabiru much less dependent on air. Similarly, the opening in August 1983 of the Lassetter Highway between Alice Springs and Ayers Rock and the continuing upgrading of the Stuart Highway between Alice Springs and Tennant Creek will substantially reduce the dependence of the Ayers Rock and Tennant Creek communities on air transport.

However, as the road journey from Alice Springs is around 5 hours in both cases compared with about an hour by air a significant population of the travel market to both destinations will remain with air.

In particular, long distance passengers and those on business can be expected to substantially favour air while tourists generally can be expected to favour road on a cost basis (N.T. travel survey 1983).

Apart from those exceptions air transport is the primary means of passenger transport in the N.T.

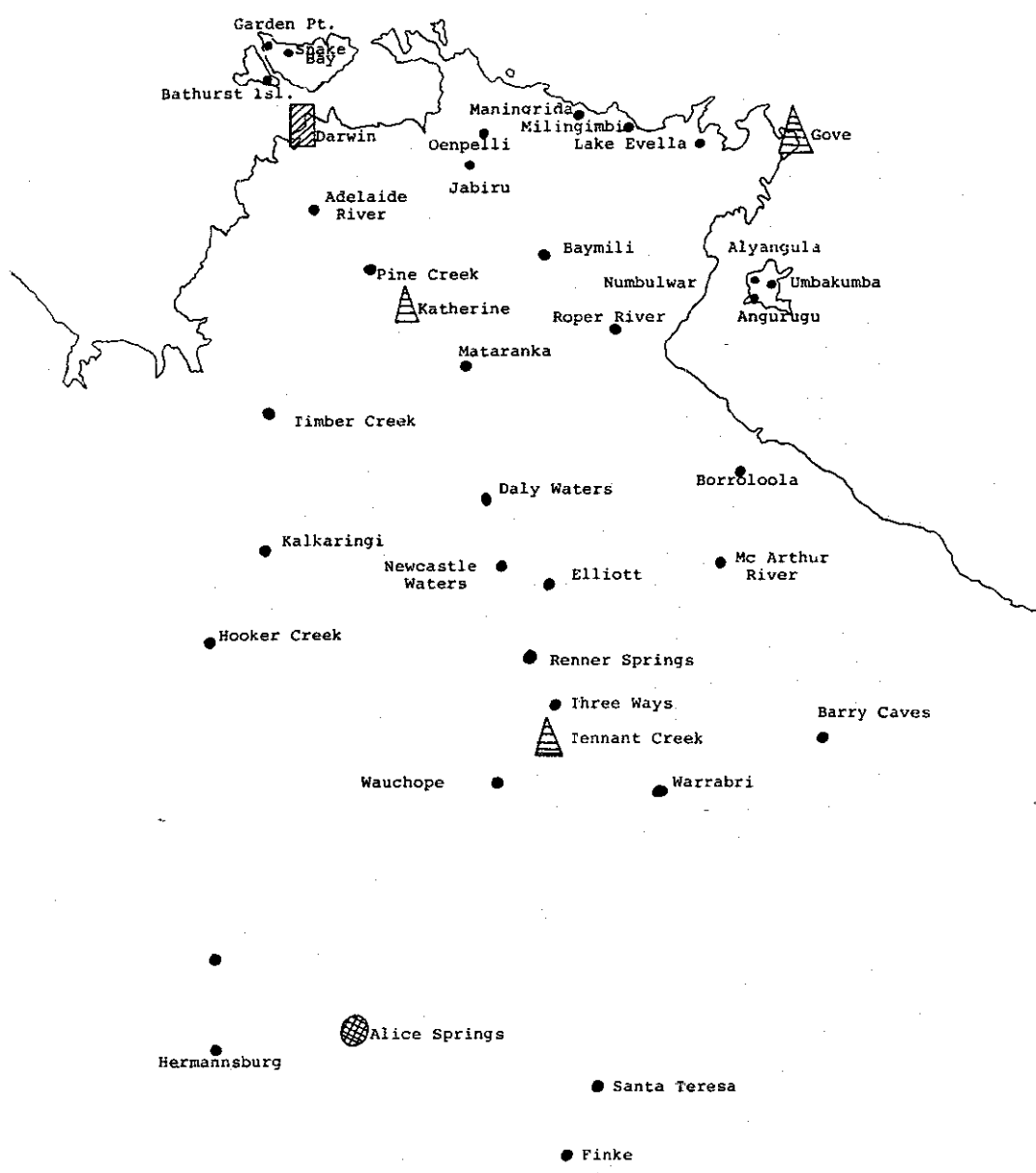
Northern Territorians living outside the major centres live in conditions of isolation that perhaps few who live in cities can truly understand.

The Territory occupies an area approximately 1.346m sq km, six times that of Victoria, and yet Victoria's population is 33 times greater than that of the Territory's.

In the Territory topography climate and distance combine to put obstacles in the way of freedom of movement of both people and goods.




NT POPULATION DISTRIBUTION

"AREA - 1,346M SQ KM"



PRECIPITATION OCT/MAR

Ranges from 150mm in the south to 1200mm plus in the northern extremities

-  50 000 plus
-  15 000 plus
-  3 000 plus
- Other centres

MAIN CENTRE DISTANCES KM

Darwin/Alice Springs	1305
Darwin/Gove	647
Darwin/Katherine	279
Katherine/Tennant Creek	600
Tennant Creek/Alice Springs	462

AIR TRANSPORT IN N.T. 1984

For example there are but 7 towns with significant populations and only two of these, Darwin and Alice Springs, are of considerable size. They are over 1,300 km apart. Yet -

- most major centres receive frequent airline services
- most others receive supplemental air services
- and the smaller settlements and stations receive Commonwealth subsidised rural mail services

The N.T. has 97 licenced aerodromes, a massive 22% of the Australian total of 434. By way of comparison South Australia has 31 licenced aerodromes. Some 70+ commercially registered aircraft are engaged in the provision of locally based charter and supplemental airline services. To these must be added a large (approx 190) number of privately owned aircraft used for a variety of private transport arrangements.

The majority of outback communities and station properties do not have the advantage of all weather road links and the high precipitation of the monsoon 'wet season' means that many communities are totally reliant on air for months of each year.

It is not possible to over emphasise the social problems encountered by these remote areas as a result of the long distances and the paucity of transport services available.

In such an environment, the policies of the N.T. Government must clearly be directed to supporting conditions where those people can receive as efficient an aerservice as is economically possible.

To add to the uniqueness of the geographic situation we must add the very high proportion of aboriginals in population centres outside the main towns. The aboriginal population in the N.T. is currently around 25% of the total and this rises to over 90% in many small towns. The aboriginal has sufficiently different travel needs to the European population characterised by extremely high personal mobility (walkabout) and the relatively unpredictable nature of such travels.

The small and shifting populations in many areas are an obvious difficulty since unrestricted competition may render uneconomic the operation of low frequency scheduled services with light aircraft.

The purpose of the preceding remarks has been to demonstrate the 'unusual' character of air transport in the Northern Territory as a preface to discussion later in the paper.

BACKGROUND HISTORY

It is relevant at this stage in the paper to recapitulate on recent aviation history in the N.T. and on a number of pertinent events since the granting of self government in 1978 which bear upon the present situation.

Legislation

At self government it was necessary for the Commonwealth to transfer certain powers to the N.T. including commercial regulation of aviation. The Territory then had to draft its own Aviation Act which was assented to on 27 May 1980. The essential features of the Act are that it provides for the licencing of all commercial air activities, including regular public transport, within N.T. borders and provides penalties for unlicensed operation. The Act remains unchanged at the time of writing although some amendments are under consideration.

Airservices

At self government the principal airline in the N.T. was Connellan Airways which provided a wide network of scheduled services (Figure 2) to over 20 centres with mainly DC3 and Heron aircraft. Those services were supported by Commonwealth subsidy. (See Appendix for full details of subsidy). The history of Connellan had been eventful. The routes which it served in 1977 could not have operated viably without subsidy and that subsidy was being progressively withdrawn by the Commonwealth. Also, despite the title of 'airline' the company had not been successful in its applications to gain regional airline routes within its sphere of influence.

The fortunes of Connellan continued to decline and eventually (1980) its assets and routes were acquired by East West Airlines subsidiary, Northern Airlines. Northern were singularly unsuccessful and also ceased operation after 10 months operation with accumulated losses thought to be in the order of \$6M. Their operations had not been subsidised. (Figure 3).

At that juncture the N.T. Government commissioned a needs survey amongst the affected settlements and after considering the views expressed by the users allocated routes to a number of local charter operators for 3 years from June 1981.

After some initial teething problems primarily associated with a lack of experience in operating scheduled services the Regulation 203 routes (now supplemental airline) are running well and statistics received from operators indicate satisfactory passenger loads in almost all instances. The overall pattern is one of moderate growth and stability.

FIGURE 2

CONNAIR
(1977)

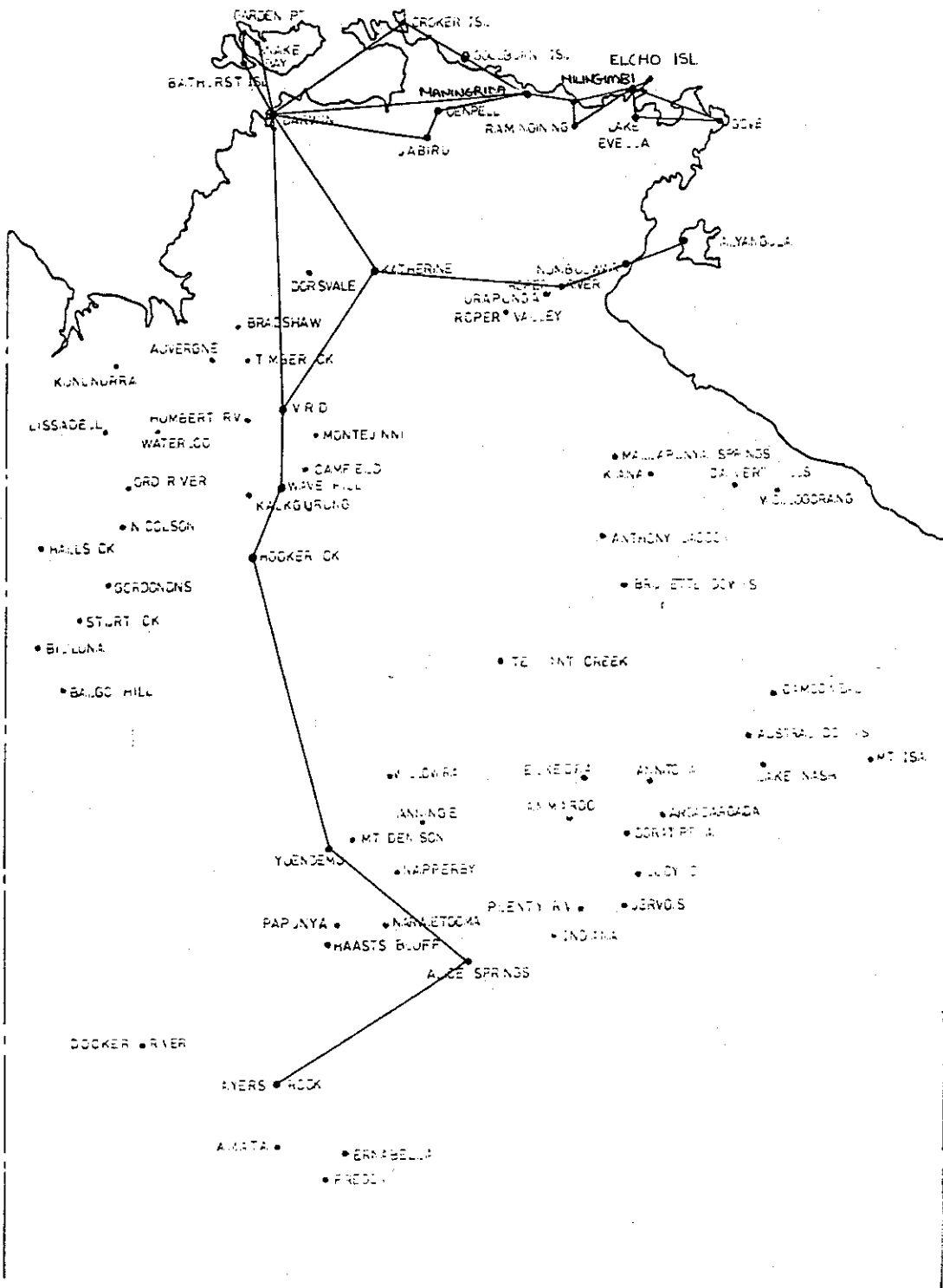
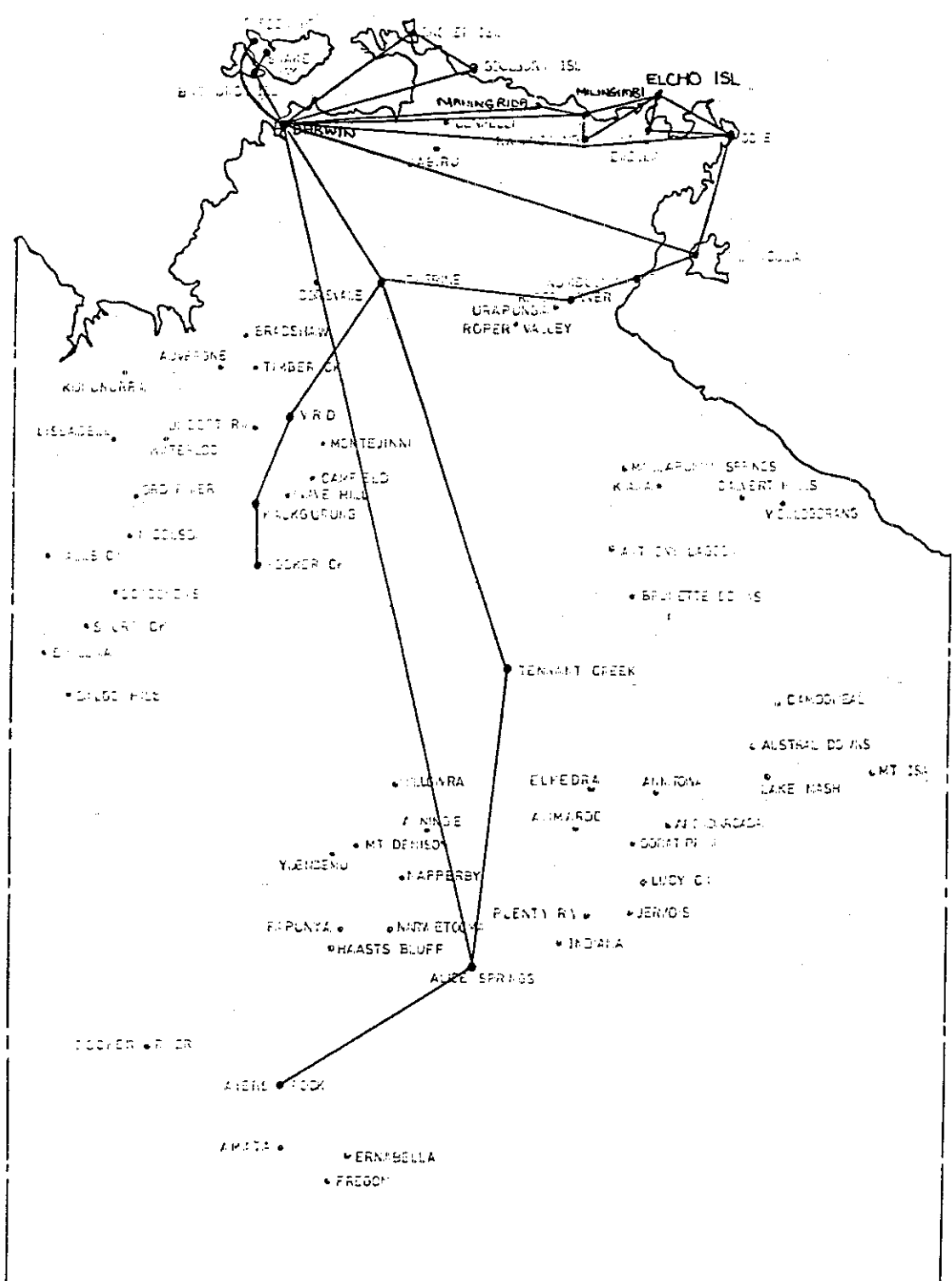


Figure 3

NORTHERN AIRLINES (1980)



AIR TRANSPORT IN N.T. 1984

The internal trunk routes, between Darwin/Gove/Groote Eylandt; Darwin/Katherine/Tennant Creek/Alice Springs and Alice Springs to Ayers Rock were at the same time allocated to Ansett subsidiary, Airlines of Northern Australia, in this case for a period of 5 years. The Government had first called for and received expressions of interest from a number of airlines before making this allocation.

An important feature of this service was the establishment of a Northern Territory regional airline agreement which clearly spelt out the then aims and aspirations of the Northern Territory on one hand and the obligations of the airline on the other. Of particular interest was the commitment of the airline to an agreed frequency of air services.

In the intervening period of 2½ years the airline has requested, and been granted, permission on a number of occasions to reduce both frequency and capacity on the centre run route to a level more akin to demand.

Those arrangements have allowed internal airfares to grow at a much lesser rate than for the national airlines, (See Figure 4). However, there are signs that some of the services currently offered are not always meeting demand.

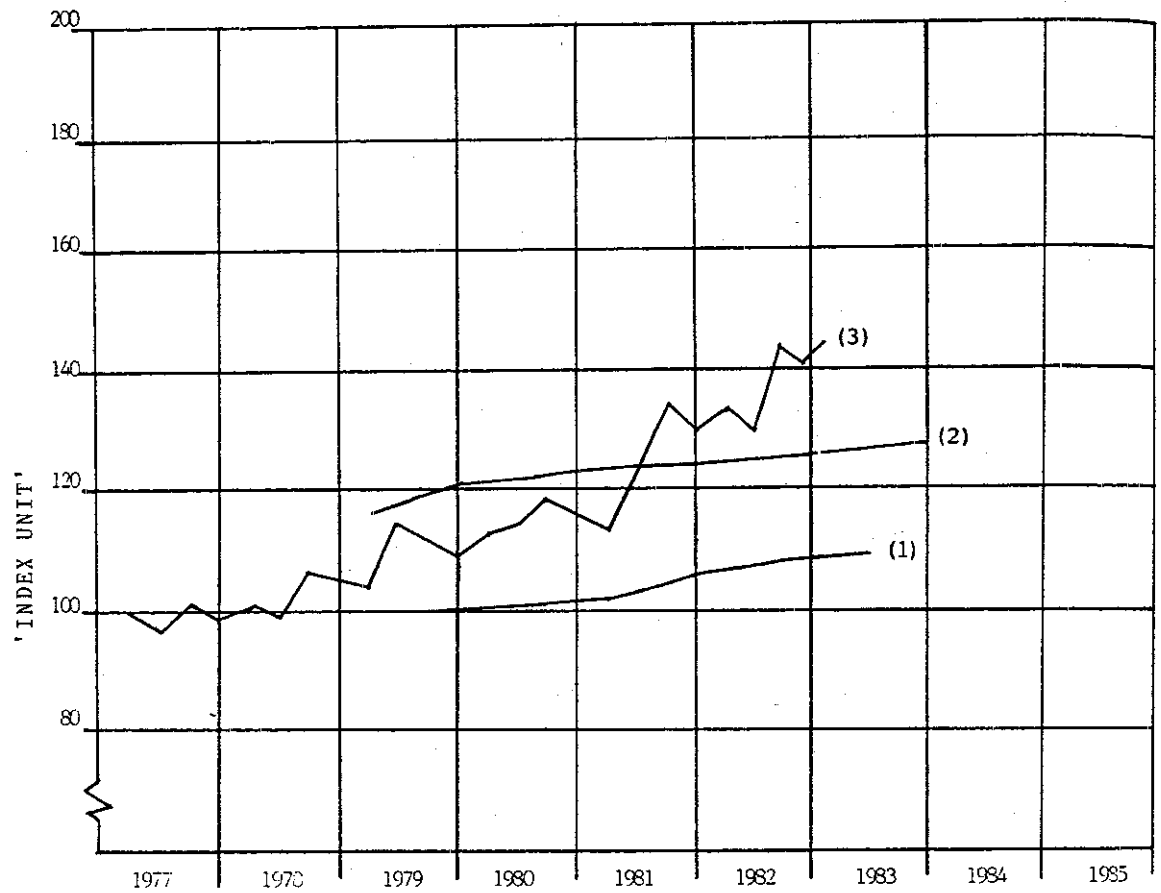
Policy Development

In 1979 the Northern Territory Government commissioned a study of air transport policy options to be carried out by Mr Frank Gallagher from the office of the Western Australian Director General of Transport. Mr Gallaghers excellent and exhaustive study was formally presented to Government in May 1979. Twenty one findings were presented and a substantial number of these were adopted by the Government of the day.

Of particular relevance to this study is Mr Gallaghers recommendation that, "it is essential that regular aerservices be provided to isolated communities who can demonstrate either demand or social need for them". (Gallagher, 1979 p.V, major findings). He goes on to say that the air route network then in existence was appropriate to the demands and needs of that time.

Following industry consultation, and after considering Gallaghers report, the Government subsequently adopted a policy which required that all commercial aviation activity was to be licenced under the provisions of the Northern Territory Aviation Act. A later refinement was that all Regulation 203 (supplemental air routes) would be issued on an exclusive basis which meant that the licence holder would have exclusive rights, not only to scheduled services on the route but also to any charter flights.

MOVEMENT - PASSENGER FARES
 1977 - 1983
 COMPARATIVE ANALYSIS



LEGEND

- (1) N.T. TRUNK ROUTES (DARWIN - ALICE SPRINGS via PORTS) PER KM
- (2) N.T. COMMUTER SERVICES PER KM
- (3) MEDIUM HAUL AUSTRALIA DOMESTIC ROUTES - SOURCE: B.T.E. PER KM

Following industry representations claiming oversupply of aircraft, Cabinet twice approved moratoriums on the issue of charter and aerial work licences the second being in October, 1981 for a period of one year. At the end of this time licences were to become more readily available.

In February, 1983 cabinet subsequently re-affirmed the policy that new aviation licences would become more readily available. Concurrently it was confirmed that protection of the existing air route network was to be maintained and surveillance activities designed to support that policy have since been stepped up to ensure industry compliance.

Some additional new air routes have become licensed without route exclusivity because operators were prepared to operate those services without recourse to route protection. Figure 5 shows existing services.

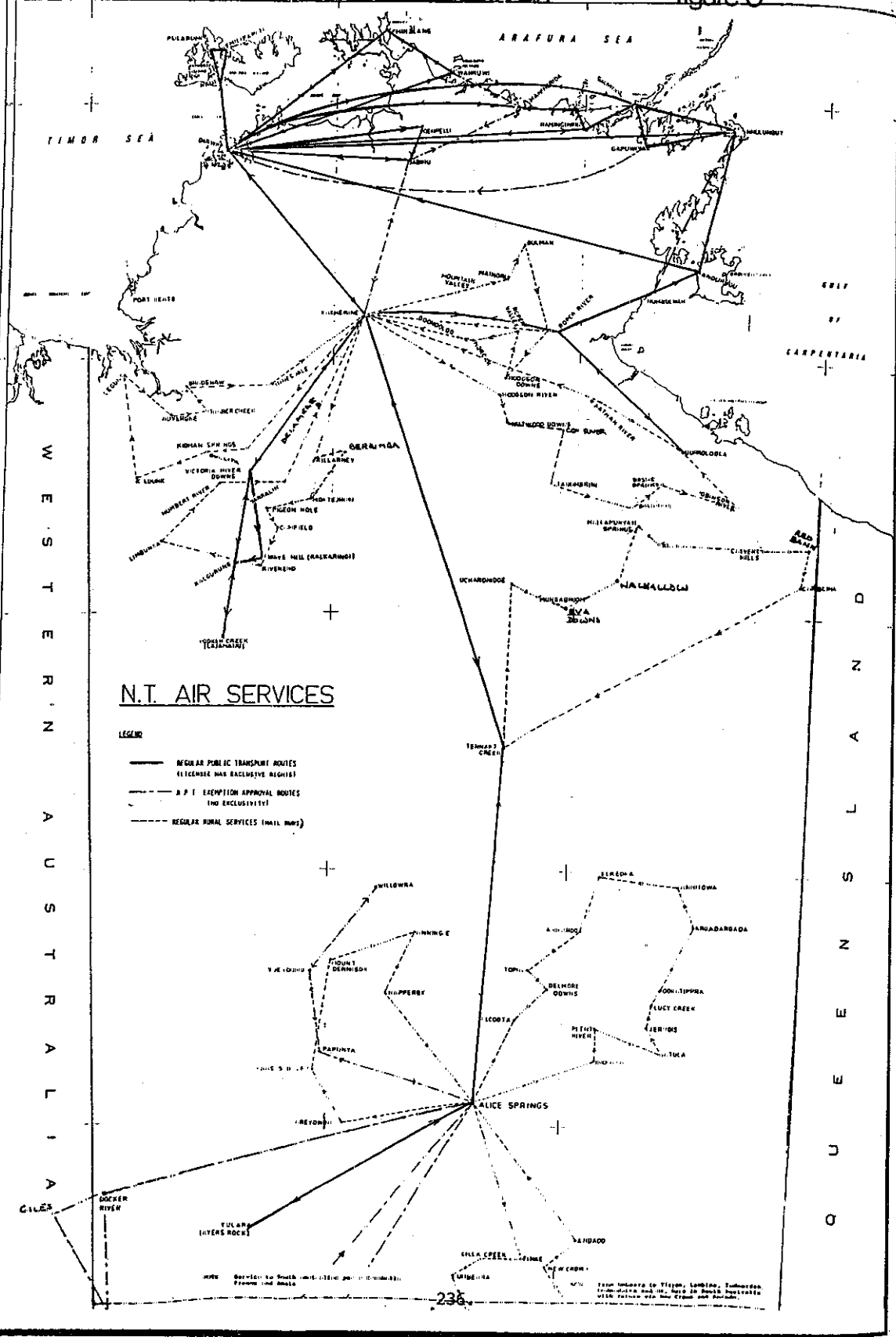
THE CURRENT SITUATION

At the end of the moratorium period (February 1983) on the issue of new charter and aerial work licences there was a substantial backlog of licence applications in the aerial work and charter categories. Because the requirement changed to a situation where the applicants to those categories of licence were simply required to meet a basic criteria in terms of financial reserves and an ability to meet DoA licencing requirements there was a consequent increase in the number of aerial work and charter licences issued. The majority of new applications received have been from very small operators with specialised needs or tasks to perform and the balance of operations has thus not substantially changed. The long established larger operators retain roughly the same proportion of available business as before.

Supplemental air services generally report a moderate growth in passenger loadings (Figure 6). The general tendency over the past 2½ years have been for passenger movement to move in favour of scheduled services at the expense of charter where suitable services exist.

It is possible to draw the conclusion from this that the existing service pattern is more closely aligned to community needs than its predecessors.

The reductions in seat capacity on the 'centre run' services operated by Airlines of Northern Australia i.e. Darwin/Katherine/Tennant Creek/Alice Springs and return have been matched by a reduction of Tennant Creek and Katherine traffic in the order of 19% for the 2½ year period. The passenger transport survey conducted in August 1983 indicated that there had indeed been a significant drift from air to road (private cars) for passengers travelling from Katherine to Darwin and from Tennant Creek to Alice Springs.



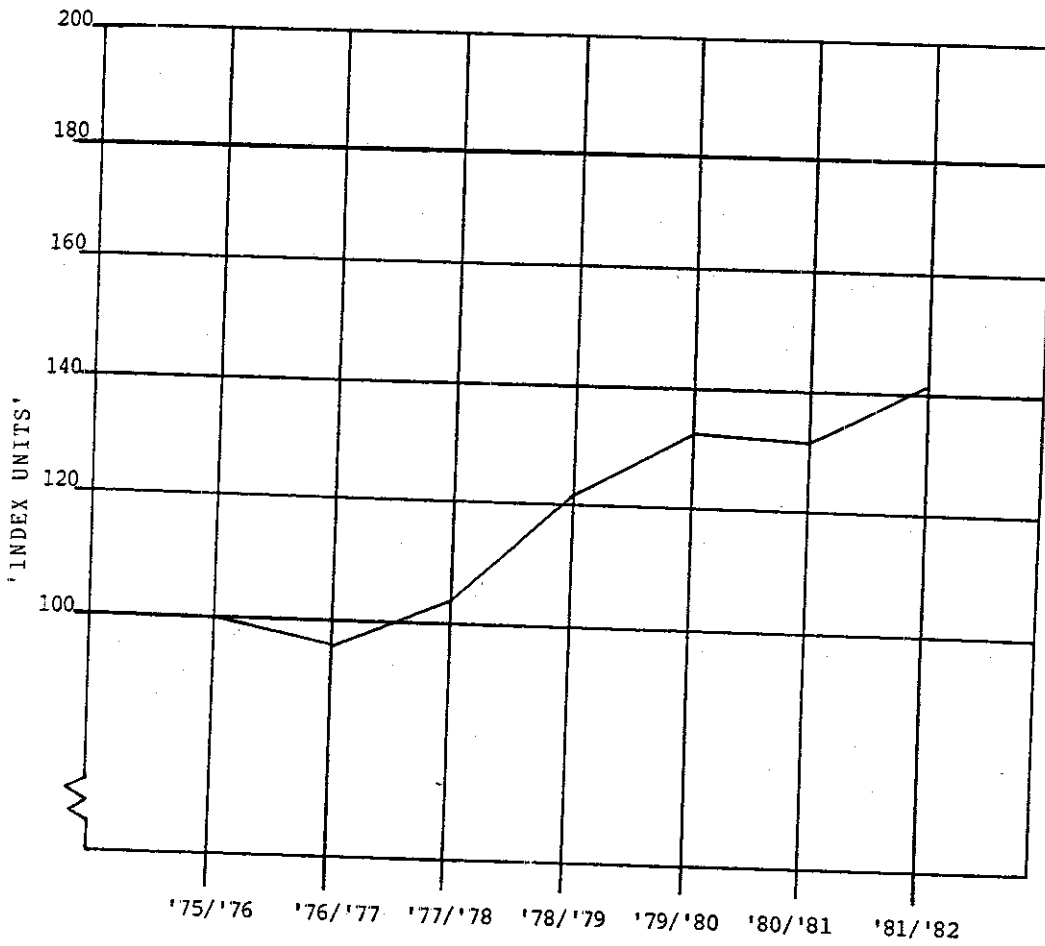
N.T. AIR SERVICES

- LEGEND
- REGULAR PUBLIC TRANSPORT SERVICES (EXCLUSIVE RIGHTS)
 - - - A.P.T. EXEMPTION APPROVAL ROUTES (NO EXCLUSIVITY)
 - REGULAR RURAL SERVICES (MAIL ONLY)

WESTERN AUSTRALIA

GULF OF CARPENTARIA

MAJOR N.T. AIRPORTS
PASSENGER TRAFFIC GROWTH
ALL SERVICES



Under these conditions, it is difficult to determine whether the NT Government should insist on maintenance of service levels which have an effect on fare levels or allow alternative services to operate.

EVALUATION

It is apparent that a rational analysis of past and present events is a necessary prelude to planning for the future. Because the N.T. has, as yet, only 5 years in self government, there has not been a long accumulation of suitable data on which to draw.

It was therefore decided in 1981 that a data base should be established as a matter of priority. The measurements to be applied to the industry were -

- . passengers
- . cargo/mail
- . load factors
- . fares
- . hours flown (all categories)
- . aircraft in service
- . annual financial results

Computer programmes have been designed in house as required to store and present this information in a variety of ways in order to provide an adequate basis for decision making.

It is now possible to measure the total growth of the industry from year to year and the comparative strengths of each section of that industry. The performance of scheduled services are able to be measured as to whether demand is being met and also whether adequate revenue to recover costs is being attained. Cross subsidisation between different routes operated by the same company can be measured as can cross subsidisation between various revenue earning segments.

In addition to the collection of information, to adequately prepare for the task of evaluation of the present system, it was decided to undertake a passenger transport survey of a selected number of population centres about which very little was known in terms of travel needs and preferences. While the survey began purely with a view to learning more about air travellers, it soon became apparent that, where alternative modal choice existed these alternatives should also be measured to gain as complete a picture as possible of these communities travel characteristics, of their perceptions of existing services and of their attitude to changes to these services. This was the first time such a survey had been carried out in the Northern Territory.

Ultimately, it was also decided to undertake a structured random sample survey of households in Groote Eylandt, Nhulunbuy, Katherine and Tennant Creek to gain information on residential travel patterns and views.

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Modal surveys of air and bus services were undertaken between Darwin, Katherine, Tennant Creek and Ayers Rock and also of the air services between Darwin, Nhulunbuy, Groote Eylandt and Cairns.

In addition, a survey of all visitors to Uluru National Park was undertaken in August in association with the N.T. Conservation Commission. All surveys were conducted in the months of July and August 1983.

The overall benefit gained from these surveys was a much clearer understanding of travel patterns within the N.T.

In order to gain the views of smaller communities not included in the travel survey, advertisements were placed in the press and the local councils were written to. In both cases the request was for comment on the suitability or otherwise of existing air service arrangements.

The responses to those requests were few in number and centred mainly on perceived shortcomings in timetables such as times or days of operation and frequency of service. Interestingly enough there were no complaints about fares or the exclusive allocation of air routes.

In order to firm up input into the decision making process a seminar of operators and user groups was also held in September 1983.

In general terms, the seminar provided little new light on the subject because those operators who presented views served only to pursue their sectional interests. If there was one general viewpoint it was that the industry favoured some, but not total, deregulation. The extent of such deregulation was not specified.

A BLUEPRINT FOR THE FUTURE

While there is little evidence that the N.T. public are dissatisfied with their aviation service, it is apparent from the researches described earlier that some changes are necessary and ought properly to be reflected in any future changes to air service arrangements. These are -

- .. improved connections - particularly between local and interstate services
- .. more seat availability to/from Katherine and Tennant Creek
- .. a wider range of concessional fares for tourists and others
- .. a greater recognition of the aspirations and needs of aboriginal users
- .. a better 'mix' of larger/smaller aircraft on some routes to provide greater frequency of operation
- .. a need to ensure that 'route exclusivity' is not misused against the consumer

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To consider the subject on the basis of 'fors' and 'against' changing the present systems we have listed the following -

Those against argue -

- "If it ain't broke don't fix it"! - i.e. no change unless there is a specific reason for change.
- stability is needed to justify the levels of investment required for modern commuter aircraft. Operators have already had almost 3 years of such stability
- the service provided is more likely to be dependable if it remains protected.
- remote communities without alternative transport can only be served if the air transport to the community operates in a protected environment

Those for say -

- exclusivity sometimes permits the operation of uneconomic scheduled services which would not be possible in a free market situation. While this may superficially be of advantage to the customer, someone somewhere, has to pay either in higher fares or in other ways
- exclusivity leads to 'a dog in the manger' attitude when licensees sometimes unreasonably refuse charter access to others.
- exclusivity can breed the formation of cartel type arrangements between operators with similar licences - these tend to unfairly discriminate against operators who are not so licenced by 'closing the door' to available charter work. This is of considerable concern since such arrangements are often changed capriciously to the immense confusion of all.
- some operators have unreasonable expectations of Government to police route exclusivity at all costs. In many cases complaints about route infringements are found to be without substance.
- route exclusivity mitigates against free competition and is thus against the spirit and intent of N.T. government policy since it does indeed restrict freedom of choice - sometimes unreasonably.
- statistics indicate that route exclusivity on supplemental air routes has the potential to breed cross subsidisation in one of two ways - the first of which is to use good profits from RPT services to subsidise charter rates and thus unfairly compete in the market place using the profits from a protected environment to do so.

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- the reverse of the last point. Charter rates producing high profits which permit the operation of RPT routes at loads which would otherwise not be profitable. Our researches to date indicate that both situations sometimes occur but only to a very mild degree and are thus not of particular concern. The fact remains that the potential for such misuse still exists.
- insensitivity to client needs. One thing that did come from our survey was that RPT schedules are not always in tune with the needs of the user. In a protected environment operators have little incentive to change and are often reluctant to do so. It is, however, admitted that sometimes perceived needs are not realistic in terms of actual demand.

Having listed the 'fors and 'againstst' as we see them, we now move to a consideration of the possible options available.

- do nothing
- de-regulate
- make changes to existing regulation

On balance there is a middle road which appears to achieve a number of required objectives:

- provide a reasonable level of tenure and protection for RPT operators
- provide adequate opportunity for charter competition
- reverse the potential for the worst forms of abuse of the exclusivity privilege.

In order to achieve this 'middle of the road' result, the following 5 point package has been considered:

- increase existing RPT route licence tenure from 3 to 5 years
- remove the exclusivity provision i.e. charter available to all appropriately licenced operators.
- strengthen the aviation act to make it extremely difficult for private owners to supply aircraft for charter operations and to strengthen penalties for illegal activities.
- allow RPT schedules to operate on a 'market force' basis without prior government approval. Thus RPT routes should in fact more nearly reflect market demand and this should be reflected in fares and frequency.

MURDOCH

the introduction of an industry code of ethics to accompany the other measures. The industry has agreed to consider a proposal which would incorporate certain mutually agreed ethics.

In the case of routes currently allocated to Airlines of Northern Australia, the NT must now consider and decide on what form it's internal trunk routes should take in the future.

The airline has indicated a desire to be freed of the obligation to operate light aircraft services in favour of a basic core of jet flights and while it continues to be obliged to do so under the original airline agreement a continuation of flights which are uneconomic can only result in an increase in fares.

There are some positive reasons for considering licencing a supplemental carrier to operate in parallel over Airlines of Northern Australia routes, such as improved frequency and better connections. Those points were listed as being desirable in the results of the travel survey.

In conclusion, we can summarise by making the observation that the road taken in the N.T. has been the right one to date. The industry is stable and the public appear to be generally well served except for the exceptions noted in the report.

A potential blueprint for further developments is to -

- (i) provide some freeing up of the charter work availability to the industry by modifying as necessary route exclusivity
- (ii) provide opportunities for local supplementary operators to expand their services onto trunk routes where their category of operation will provide a more economic and a more frequent service in a supportive role to the airline already operating.

In concert with other projects which are proceeding this approach establishes a reasoned framework for future developments.

APPENDIX
CONNELLAN AIRWAYS
SUBSIDY
ARRANGEMENTS

AIR TRANSPORT IN N.T. 1984

- Connellan Airways began operations in July 1939. (Services between Alice Springs and Wyndham). Services operated were subsidised by 1,000 per annum from the Commonwealth Government, and an additional 3000 over 3 years by the Royal Flying Doctor Service
- Cost plus subsidy agreement was negotiated with the Commonwealth By E.J. Connellan in 1966, whereby Connair was guaranteed a minimum return to share capital for 14 years. In return, Connair guarantees to provide regular air services to their expanded network of 100 plus stations plus settlements. By 1966, Commonwealth subsidy totalled \$300,000/annum.
- By 1973, the subsidy totalled almost \$900,000/annum (almost $\frac{1}{2}$ of Connair's total revenue)
- In 1973, Commonwealth announced a gradual withdrawal of subsidy support which was to cease in September 1980 with a final payment of \$250,000
- 1976, Crisis year for Connair : Finances critically affected by subsidy withdrawal
- IDC established in 1976, mainly to investigate and suggest a rationalisation of the Connair route network

Commonwealth Subsidies for Connair - \$'000s

1962/63	230	1972/73	886
1973/74	765	1974/75	625
1975/76	608	1976/77	550
1977/78	633	1978/79	510
1979/80	284		

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