Published name
Bruce Dale

Short comment
I am submitting a variation of a presentation I gave to the Tourism Top End Membership about the NT's airline markets in November 2023.

My background includes supporting aviation policy development in New Zealand, airport business development in Northern Australia, airline network planning and a tourism masters degree that included study of the relationship between regional/remote destination development and airline connectivity.

Currently I am independent of any organization with a financial interest in the aviation sectors.

The issue of high fares is pertinent in the NT as it is highly reliant on flights for connectivity.

As a former airline worker, I am concerned that cabotage is being considered. The reason for my concern is that Australian airlines and their workers could end up competing with airlines that have advantages such as pay rates, work conditions and human rights standards that could not be matched by Australian airlines.

It's a significant step for the Australian government to advocate for an uneven market place to the degree that an Australian airline would risk prosecution for illegal work standards should it try to match an overseas airline's advantages. This is especially important for the production, sale and consumption of a service that would happen entirely within Australia.

Furthermore, there is multi million dollar support of international flights through state, territory and federal aviation attraction funds. Why export our tax dollars to import illegal work conditions?

For me, the first step is to understand IF a lack of competition is the driver of high fares.

The NT has Australia's weakest aviation market. It has consistently had Australia's lowest load factors. As a result low cost airlines have consistently reduced flights here. Examples include cuts by Jetstar, AirAsia, Tiger and Virgin.

It is worth noting that Darwin is Australia's most open capital city market with QF and VA group domestic seat share sitting under 80% due to local competitors.

Understanding why open and dynamic, fare-lead competition has failed in the NT may unlock solutions for the issues the white paper is trying to address.

Key to that is the interaction between destination and air travel.

Factors like the Top End's tourism attractions closing down during the wet severely reduce holiday demand. During the wet, the market responds correctly to a condition of oversupply by cutting capacity and lowering fares. Peak dry season demand sees higher fares, but accommodation often reaches capacity, which will limit the airlines ability to fill flights if people have no-where to stay. Indeed, the fact the places like Darwin can fill up at peak pricing reflects the regions position as a highly desirable, "bucket list" destination.

Indeed the NT's seasonal demand variation is the highest in Australia and one that impacts all players in the visitor economy.

It's worth noting that Tasmania was also a destination with seasonal demand and poor perceptions of visiting during winter. It was able to address it's challenges by creating new products and reasons for travel. It became the highest growth market in Australia.

There are plenty of options to be explored and trialed before any relaxation of cabotage.

Pinctada Insights

UNDERSTANDING AIRLINES

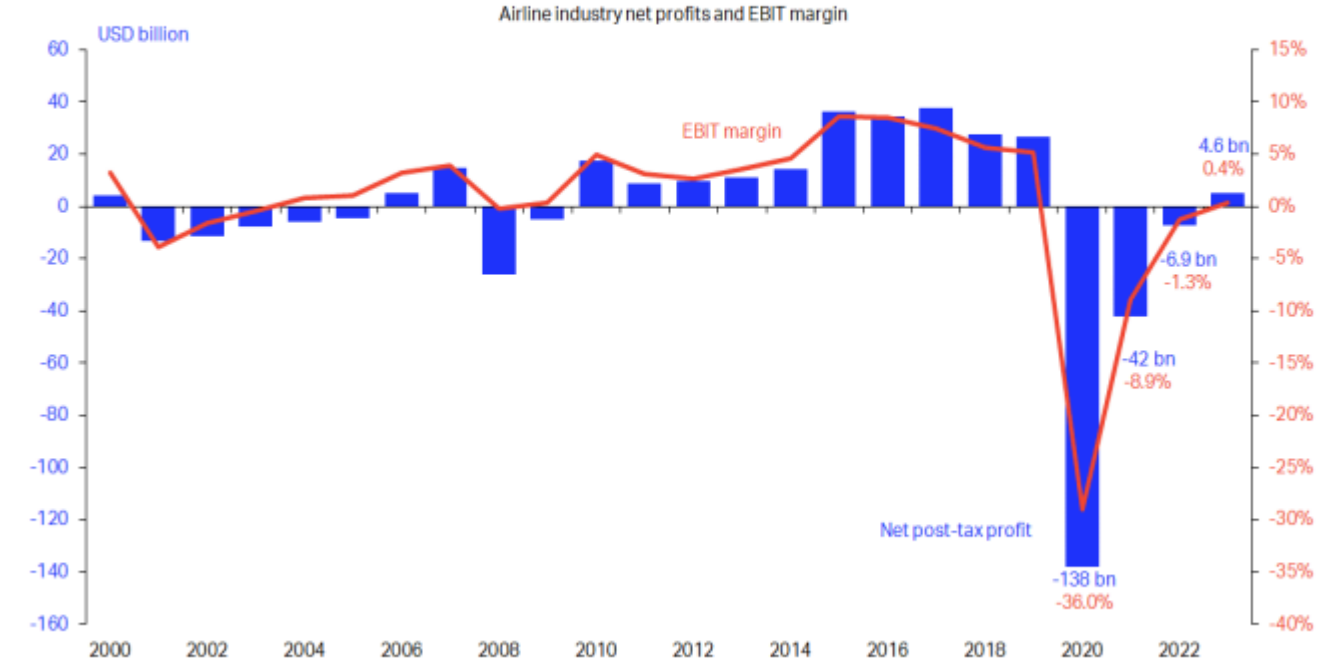
Presentation includes modelling prepared with due care to represent conditions and realistic scenarios, final airline performance remains commercial in confidence

WANT TO MAKE A SMALL FORTUNE? EARN A BIG ONE, THEN START AN AIRLINE

IATA Economics' Chart of the Week

9 December 2022

A return to industry profitability in 2023



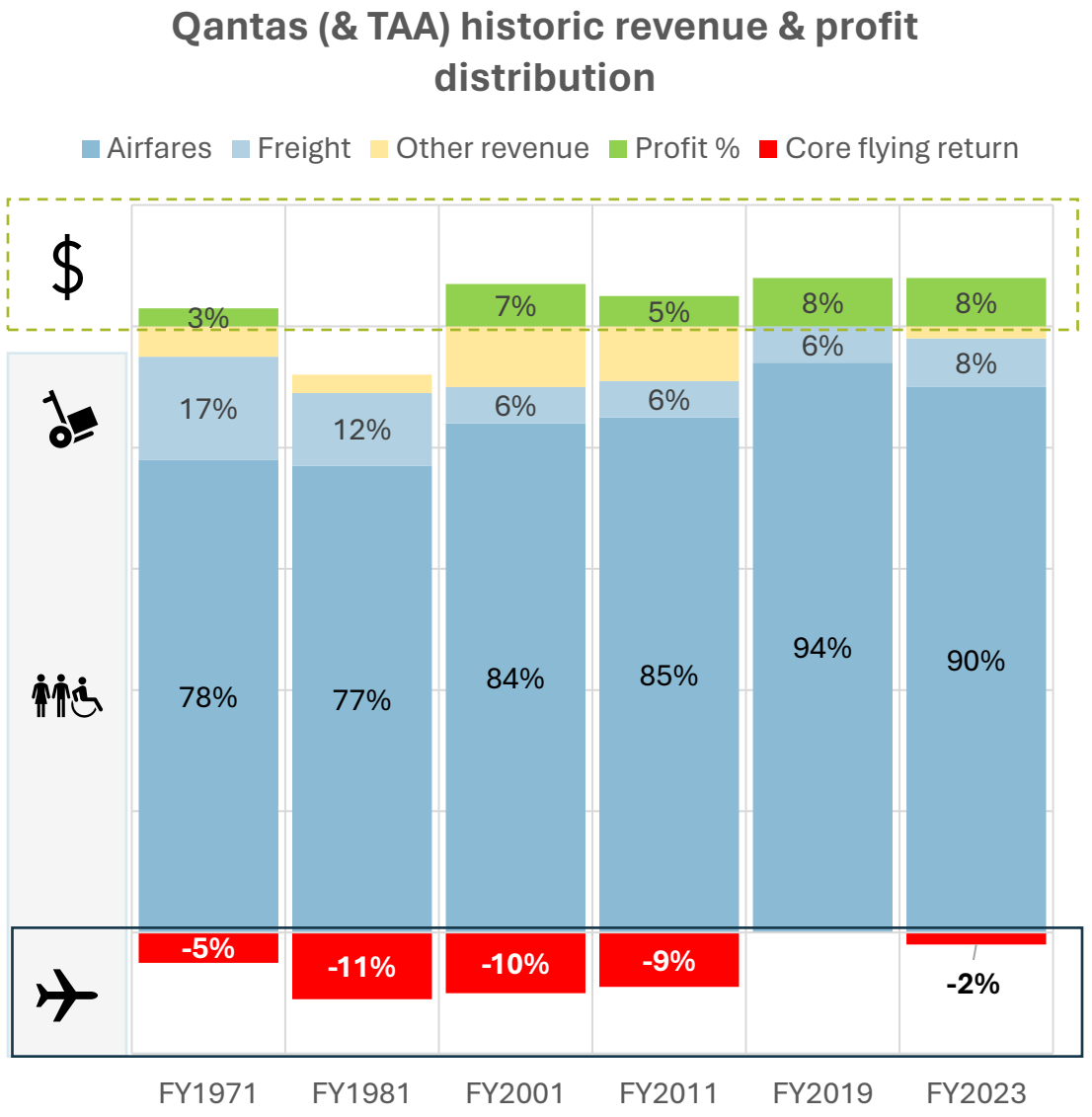
Source; IATA Economics

Airline industry is recognised as a capital intensive, cyclical and often unprofitable sector

Although COVID losses were extreme, note the sustained unprofitability 2000-2010 decade

AIRLINES ARE BIG, *BAD* BUSINESSES

- Australia's aviation sector larger than NT's $23bn economy (QF had $19bn turnover)
- Qantas is an investment grade airline, but its long-term finances shows why airlines struggle
- Airfares and freight revenue may not fully cover flying costs
- Other revenue streams are critical for profitability e.g. frequent flyer or ancillary charges



Core flying business performance = revenue from tickets & freight

Source: Qantas and TAA annual reports online- direct or via Australian government archives

Pinctada Insights

IF AIRLINES WERE FACTORIES, THEY WOULD MANUFACTURE SEAT KILOMETRES

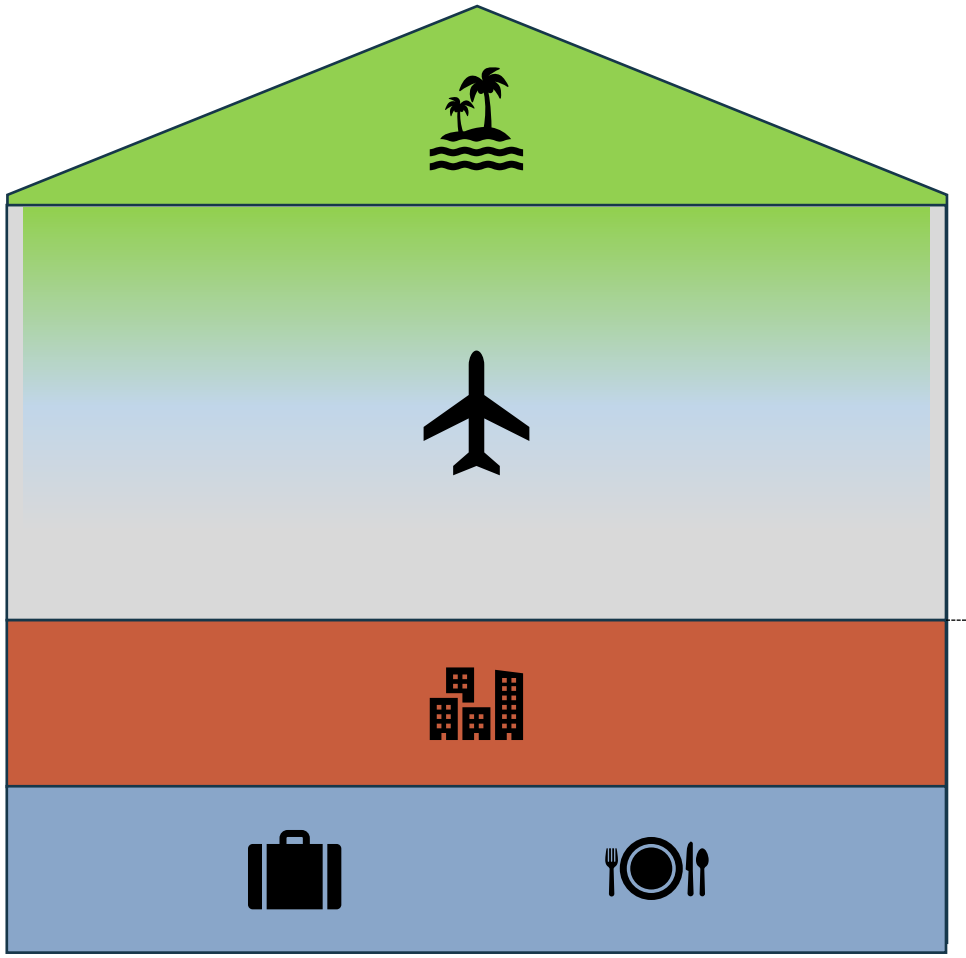
DRW

1 million seat kms round trip

BNE

BNE-DRW-BNE:
$100,000 each time
11 hrs of aircraft time
Costs: about $120m per year for all 3 airlines

HOW DO AIRLINES SET FARES?

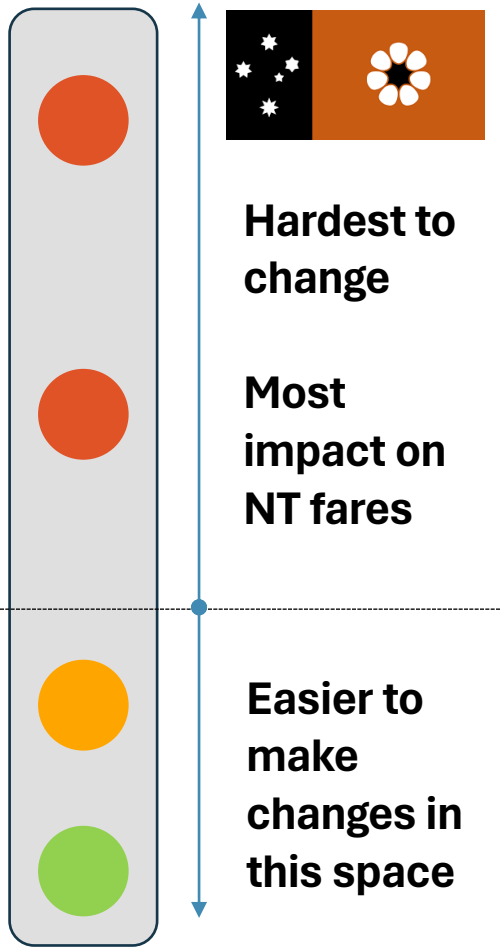


Destination drives demand
Seasonality, pax type

Aircraft and flight costs
Flight distance
Aircraft type and configuration
Estimated load factor

Business efficiency
Overheads etc

Services:
Low cost vs network

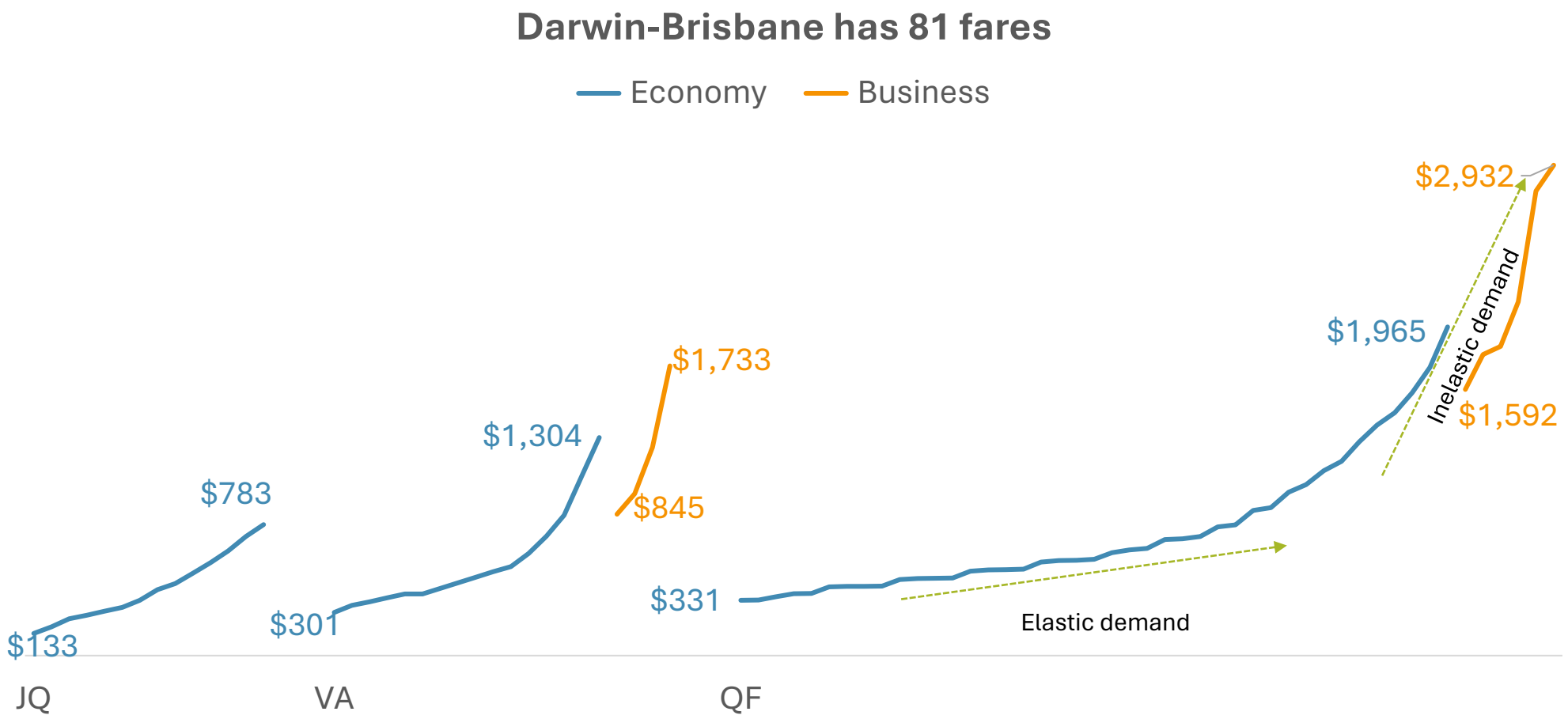


Hardest to change

Most impact on NT fares

Easier to make changes in this space

HUNDREDS OF FARES FOR SALE BUT MOST ARE SOLD BELOW COST



Source: Expertflyer fares published on 25 October 2023

DEMAND ELASTICITY AND RESPONSE TO PRICE CHANGES

ELASTIC DEMAND

- Linked to type of travel or destination attributes eg holiday
- Good market response: Fare decreases result in pax growth and net increase in revenue
- Airline cash burn means they are highly motivated to reduce fares to stimulate demand

INELASTIC DEMAND

- Linked to type of travel or destination attributes eg work, Darwin in the wet season when many nature based attractions close
- Fares decreases result in lower revenue as passenger growth is insufficient to offset fare declines

DESTINATIONS DRIVE DEMAND

- Airline travel is a derived demand good
  - Demand comes from work, play, visiting family
- Destinations have attributes that influence demand:
  - Uluru is a global icon
  - Darwin's appeal is seasonal
  - Mines for work only
- Response to fare changes will reflect the destination's appeal and travellers' reason for travel

WHY IS THE NT A UNIQUE AIR MARKET?

Distance

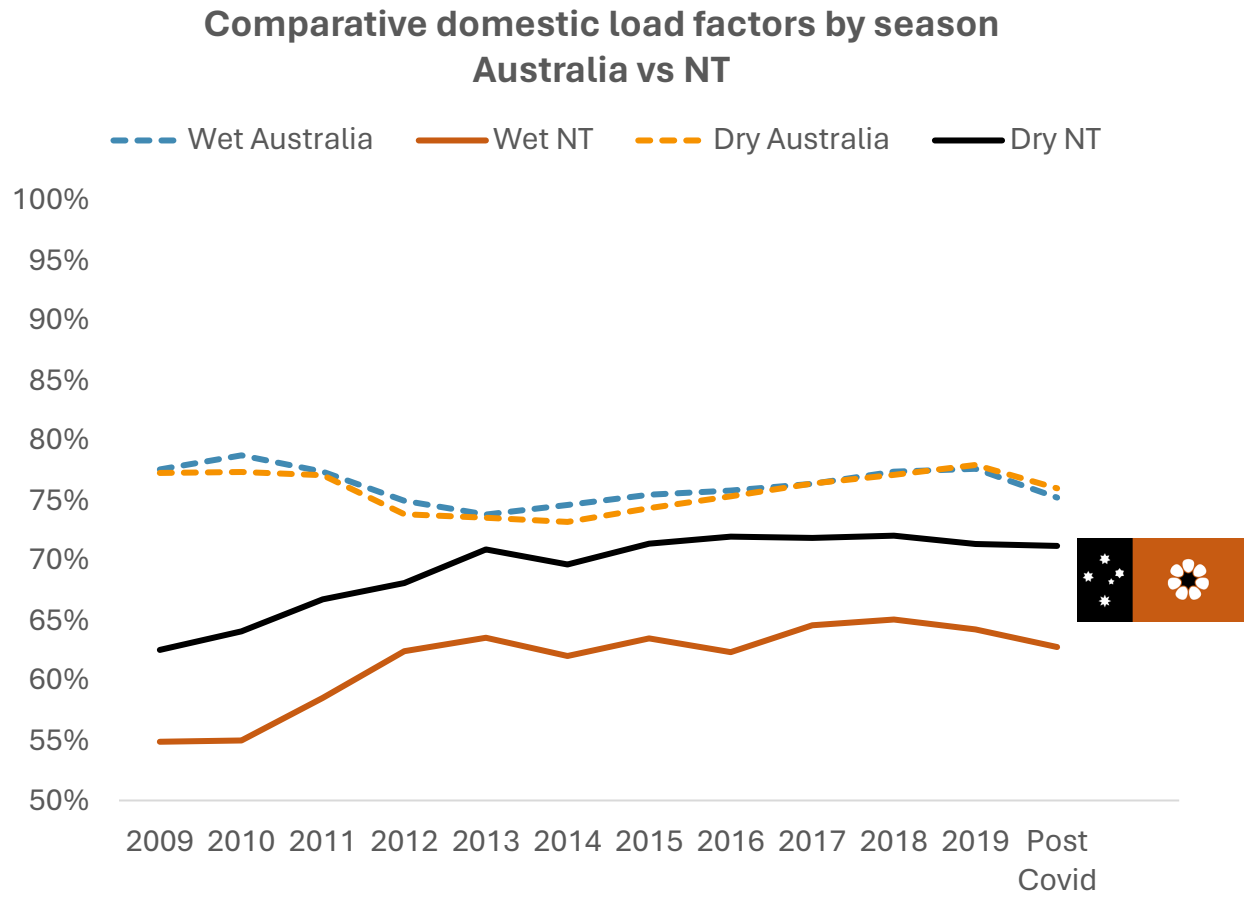
- Average sector of 2,200km, twice Australian average
- High costs requiring significant aircraft time
- 5% of Australia's seat kms; comparable to SA that has nearly 2m people

Small population

- 1% of Australia's population

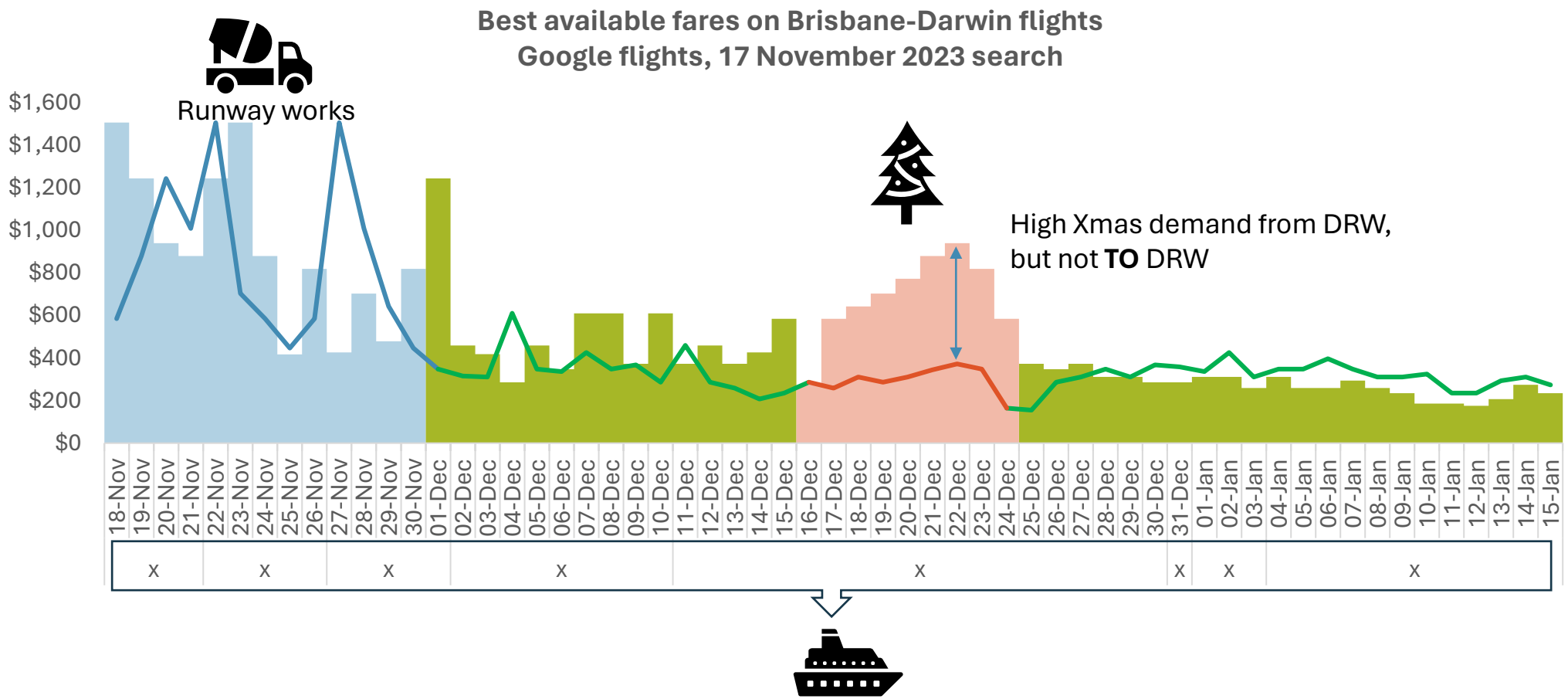
Australia's most seasonal market

- Biggest swing between wet/dry in the country



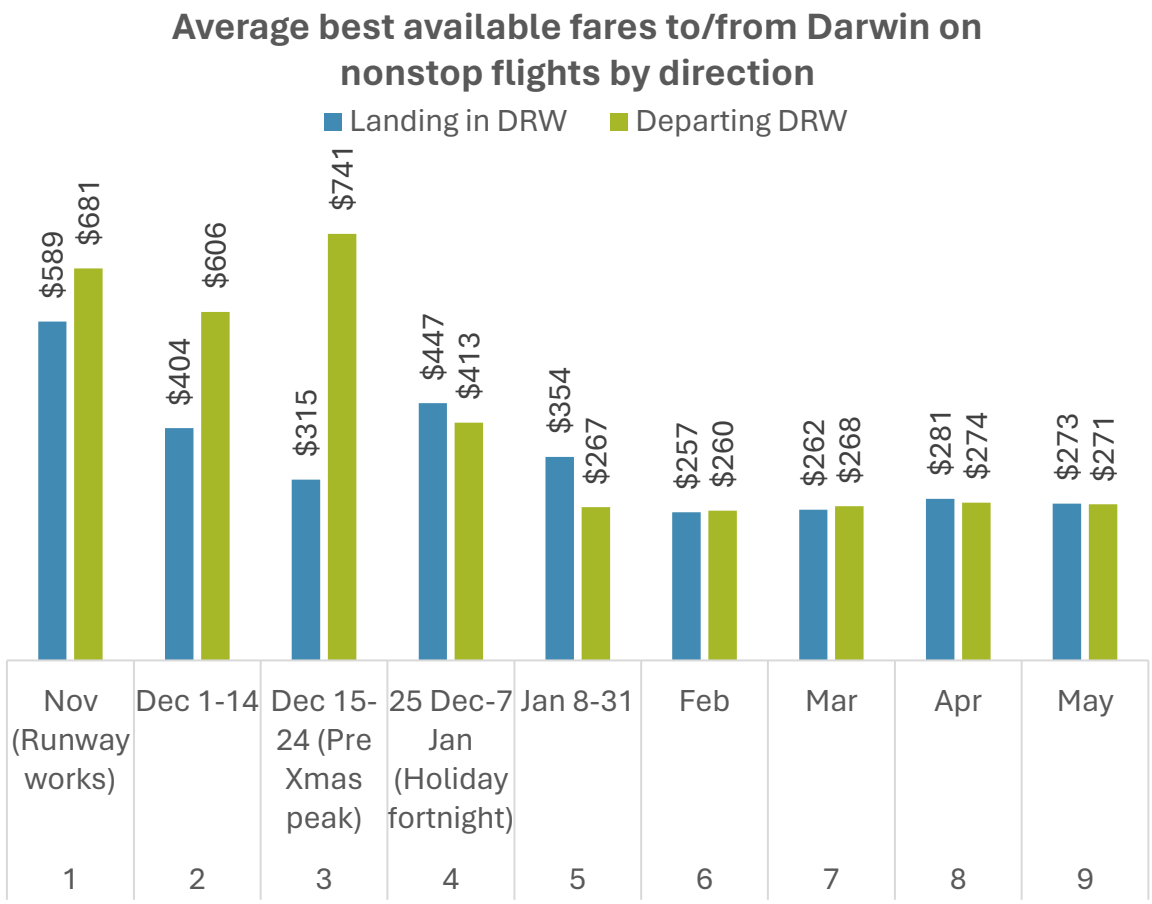
Source: Pinctada Insights modelling using Cirium capacity data and BITRE top 20 airport passenger data

HIGH DEMAND = HIGH FARES; FARES DIFFER BY DIRECTION



Source: Google fares best available conducted on 17 November 2023

VALUE FOR MONEY FARES IN DARWIN REQUIRE ADVANCE BOOKING



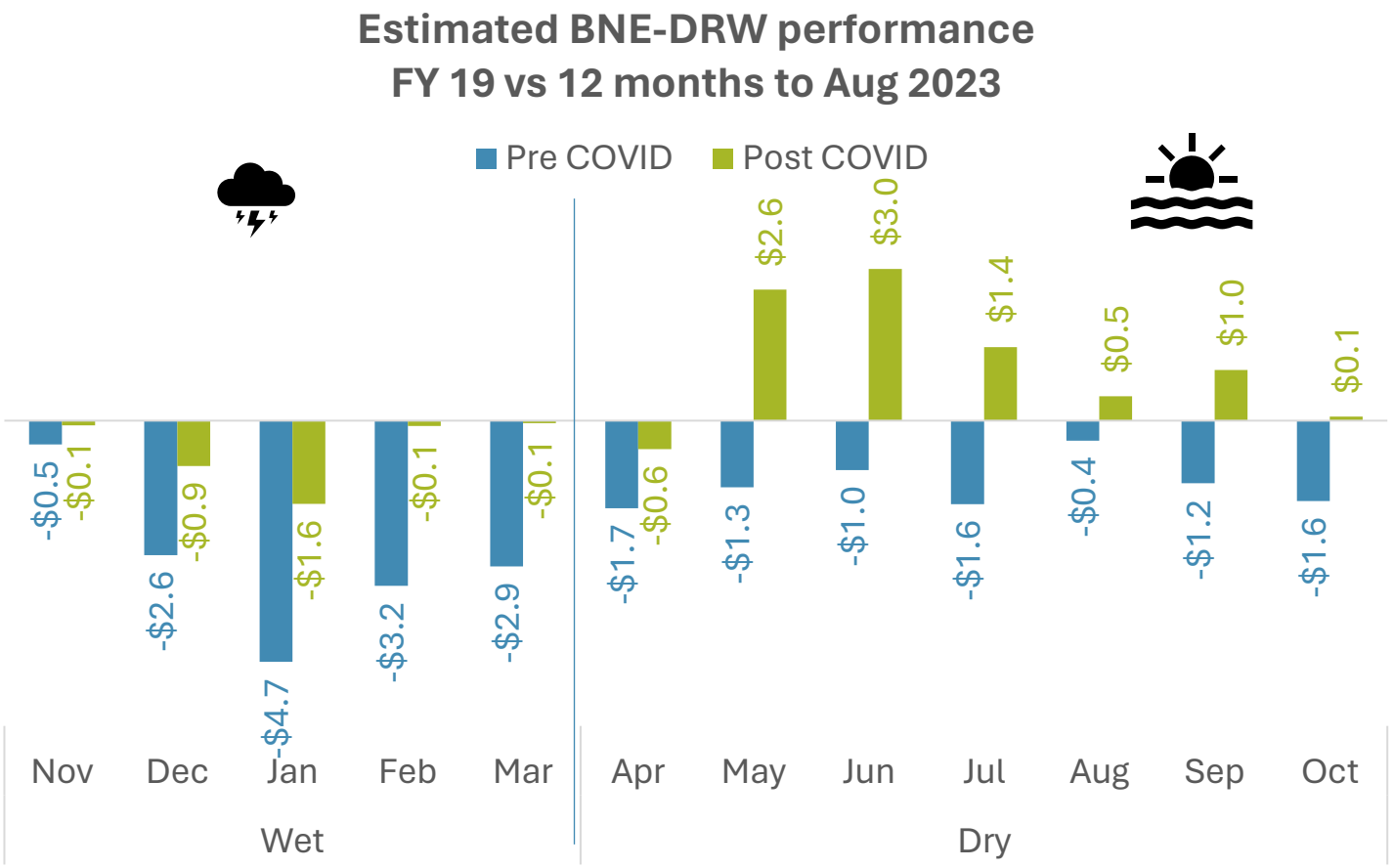
Source: Google fare search 25 November 2023

Observations:

- High fares for late booking during runway works when flights may have up to 1/3rd of their seats blocked due to shortened runway- this will be replicated in 2024 as well
- Low fares to DRW in Xmas week due to weaker in-bound demand
- Low fares require about 3 months lead time- normal in the Australian market

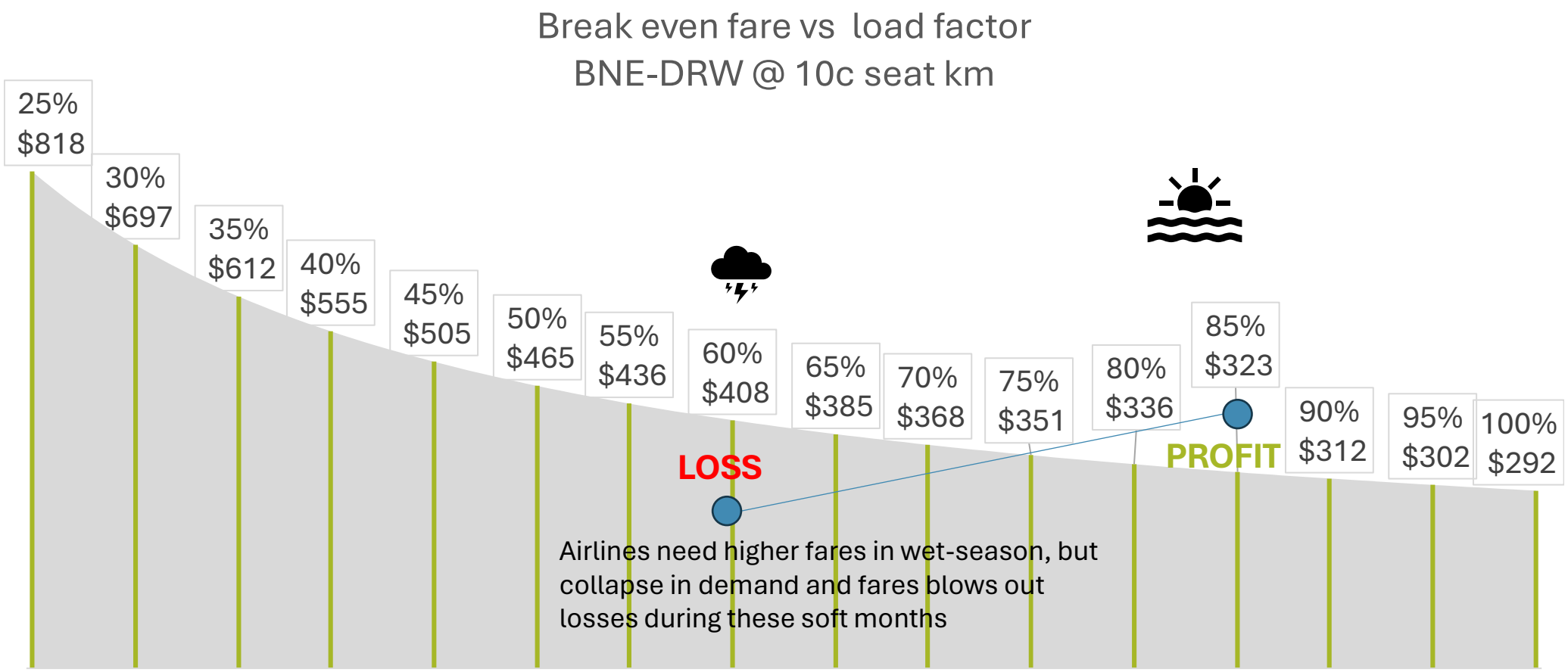
AIRLINES STRUGGLE IN THE NT DUE TO SEASONALITY

- DRW-BNE was used as an example of route performance
- The pre-COVID exit of low cost Tiger saw a substantial increase in average fares
- Route potentially went from heavy loss to break even

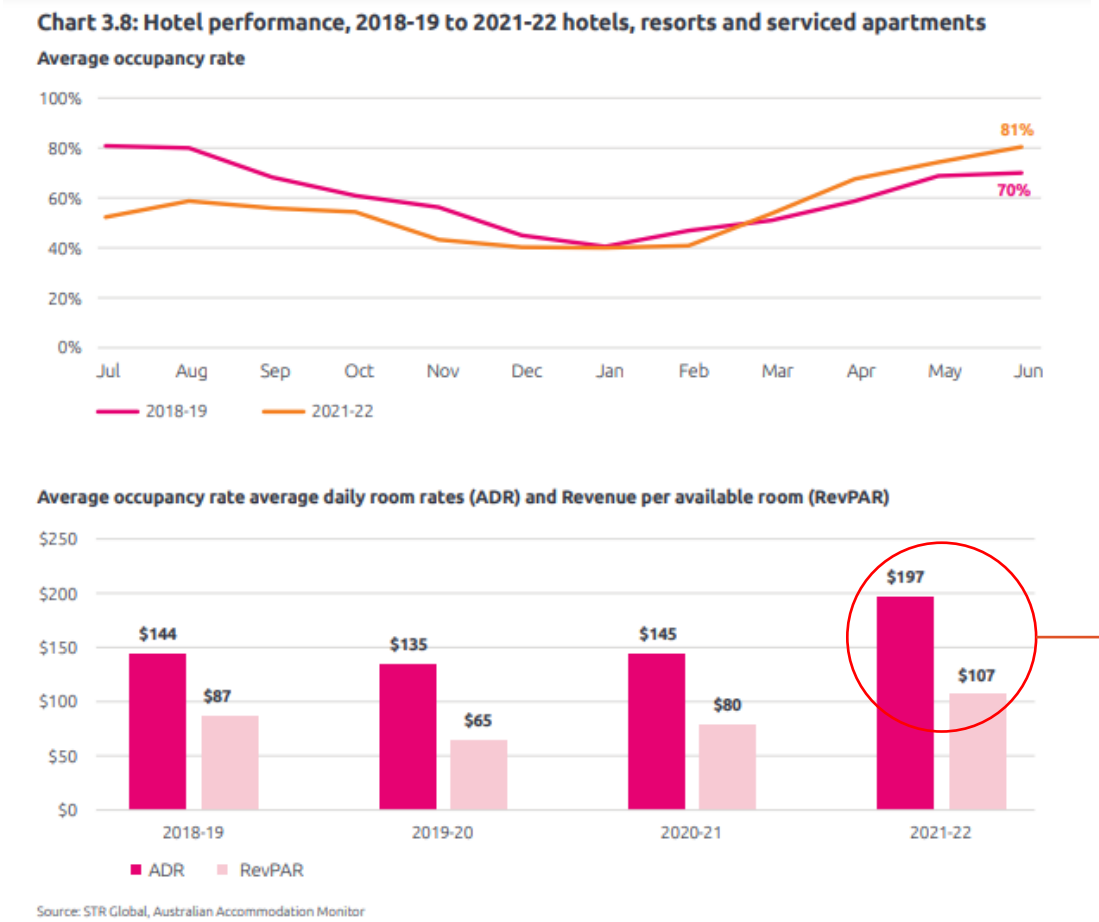


Source: Pinctada Insights modelling using Cirium fare & capacity data and BITRE sector data

SEASONALITY SEES BREAK EVEN COSTS MOVE IN THE OPPOSITE DIRECTION TO THE MARKET CONDITIONS



AIRLINE SEASONALITY IS MATCHED IN THE ACCOMMODATION SECTOR

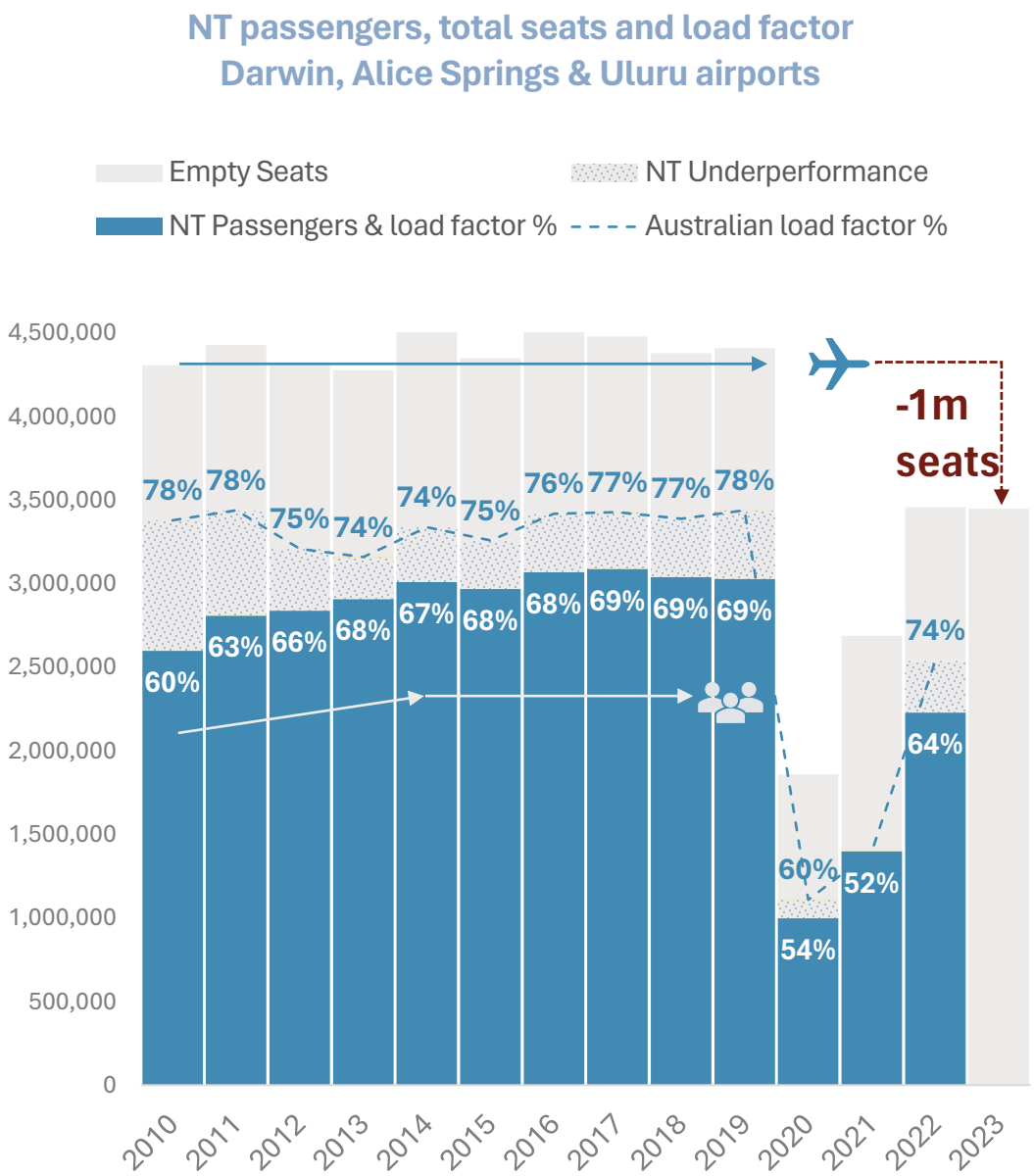


- Hotels are the closest match to airlines with a perishable product and variable pricing model
- The NT government publishes hotel performance data
- This also shows the large wet/dry seasonal variation
- The impact of seasonality and low utilisation is the large disparity between room rate paid by the guest (ADR) and average revenue per hotel room (RevPAR)

Source: https://www.tourismnt.com.au/research-strategies/strategies/updated-tourism-industry-strategy-2030-t2030

NT IS AUSTRALIA'S WEAKEST MARKET

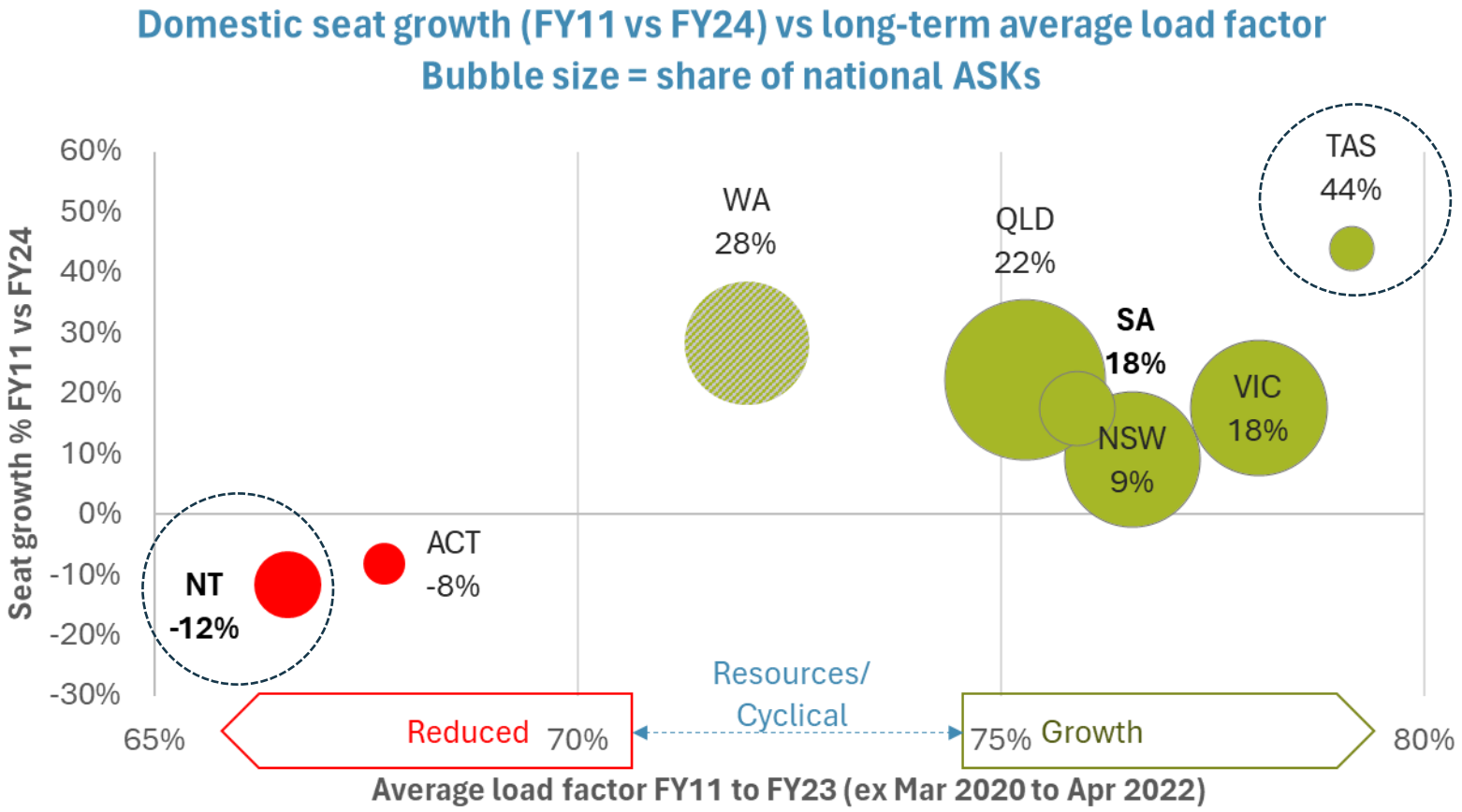
- NT seats stagnated 2010 to 2019
- Passenger growth ceased in 2014
- NT's loads averaged 67% = 1 in 3 seats going empty
- Low cost airlines often require 80%+ loads to be viable
- Average NT sector approx. 2,200km = longest in Australia
- Low loads + long sector costs challenge low cost viability
- 2/3rds of 1m seat loss vs 2019 from low cost airlines: Tiger, Virgin & Jetstar



Source: Pinctada Insights modelling using Cirium capacity data and BITRE top 20 airport passenger data

AUSTRALIA'S DOMESTIC GROWTH IS LINKED TO LOAD FACTORS

- Australian long-term average load factor was **75-80%**
- TAS had Australia's highest load factors and growth
- TAS changed its destination profile from cold to cool!
- **Both** Territories' seats below FY11, strong correlation with historically weak load factors



Source: Pinctada Insights modelling using Cirium capacity data and BITRE airport passenger data

NT HAD FLIGHT CUTS & A SWAP TO SMALLER AIRCRAFT

DRIVERS OF DOMESTIC SEAT CHANGE FY11 VS FY24

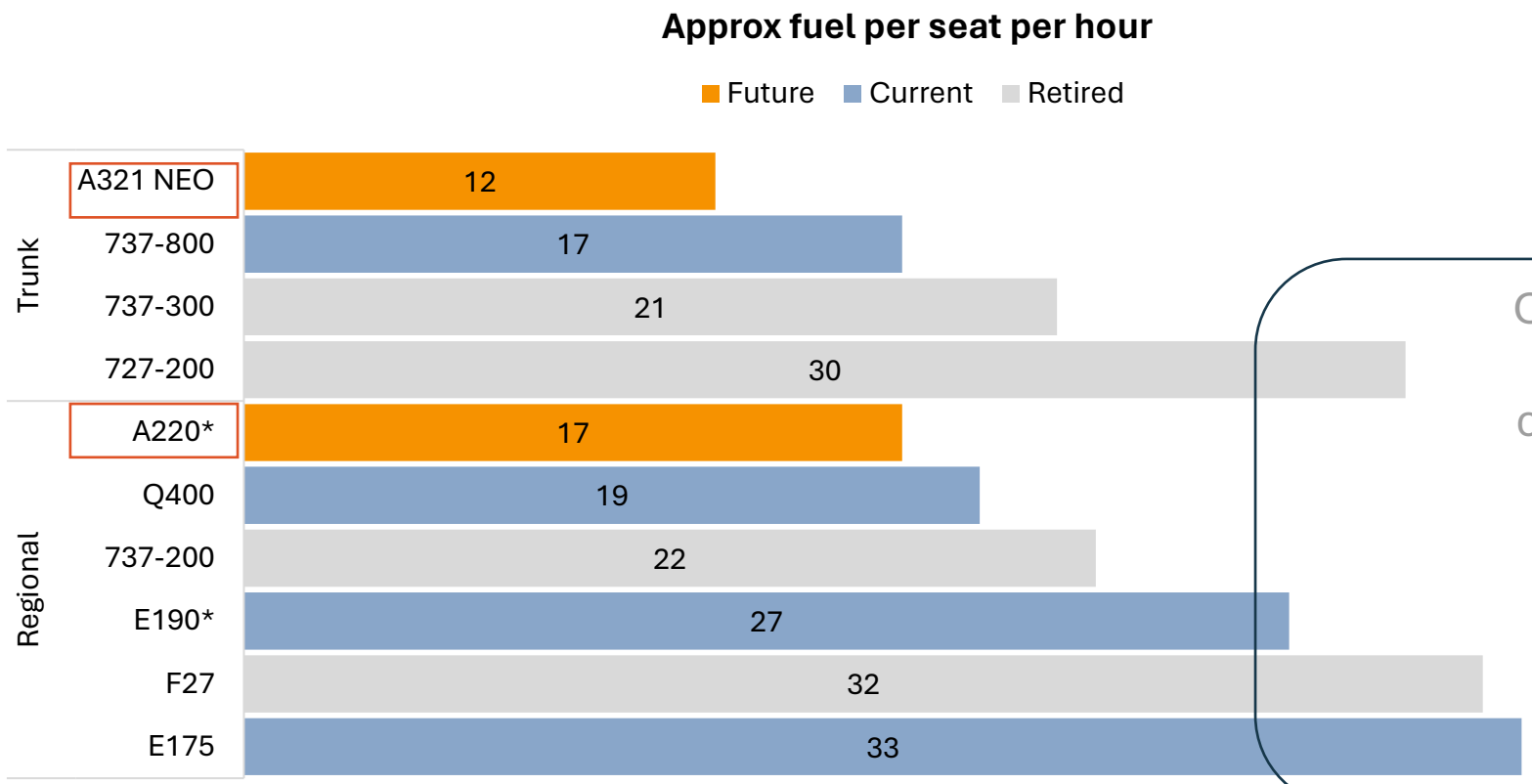
	Aircaft Size		Total flights	Net seat change
	Seats/flight	% change		
TAS	(3)	-3%	48%	44%
WA	5	4%	23%	28%
QLD	(3)	-3%	25%	22%
VIC	8	5%	12%	18%
SA	18	18%	0%	18%
NSW	13	12%	-3%	9%
ACT	(6)	-6%	-3%	-8%
NT	(3)	-3%	-9%	-12%
Total	**6**	**5%**	**11%**	**17%**

BIGGEST CONTRIBUTOR TO CHANGE

- Increased flights
- Larger aircraft (ADL & SYD have curfews)
- Smaller aircraft (but notable SYD-CBR cuts)
- **Flight cuts & smaller aircraft**

Source: Cirium capacity data

SMALLER AIRCRAFT MEAN HIGHER COSTS PER SEAT/KM- BUT NEW AIRCRAFT COMING!



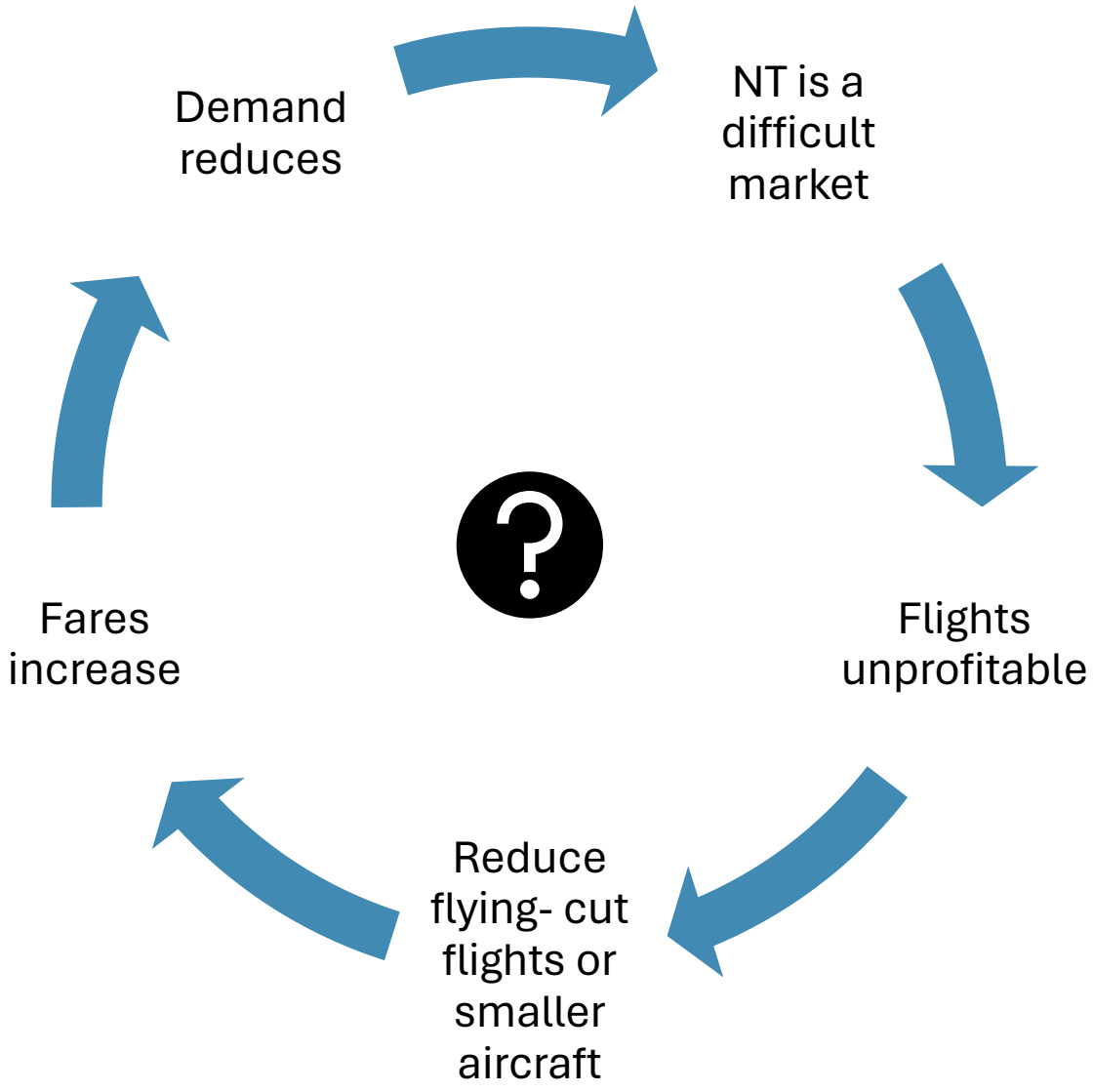
Current regional jets may have performance comparable to the 1980s

*New aircraft types are ordered once every 20 years, they are game changers for regional flying

Pinctada Insights

WHAT WILL BREAK THE CYCLE?

1) Better understanding of how airlines operate
2) How can wet season travel be increased, especially inbound demand
3) New technology aircraft with lower costs at the right size for the NT to help lower fares
4) Up-coming investment boom may challenge sectors of visitor economy as workers displace leisure travellers



Pinctada Insights

Thank you