

CONFIDENTIAL

CABINET DECISION

NO. 1047

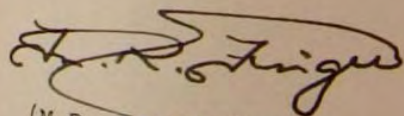
---

Submission No.: 847

Title: PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE.

Cabinet -

- a) approved the establishment of a regional airline in accordance with the terms and conditions of a Memorandum of Understanding with East-West Airlines as initialled by the Acting Chief Minister on Monday 21 January 1980, and authorised the Minister for Transport and Works to sign this document on behalf of the Government; and
- b) directed that a further submission be prepared outlining the implications of the Memorandum of Understanding, the proposed necessary amendments to the Aviation Act, and progress in the transfer of the necessary aviation powers from the Commonwealth.



(M.R. FINGER),  
Secretary to Cabinet.

23 January, 1980.

---

CONFIDENTIAL

AMENDED RECOMMENDATION TO CABINET REGARDING  
REGIONAL AIRLINE

It is recommended that

1. Cabinet approve the establishment of a regional airline in accordance with the terms and conditions of a Memorandum of Understanding with East-West Airlines as initialled by the Acting Chief Minister on Monday, 21 January 1980 (summarized in Attachment 'A'), and authorizes the Minister of Transport and Works to sign this document on behalf of the Government.
2. Cabinet call for a further submission outlining the implications of the Memorandum of Understanding, the proposed necessary amendments to the Aviation Act, and progress in the transfer of the necessary aviation powers from the Commonwealth.



SUMMARY OF THE MAIN PROVISIONS OF MEMORANDUM OF UNDERSTANDING  
BETWEEN  
THE NORTHERN TERRITORY GOVERNMENT AND EAST-WEST AIRLINES

- 1 The understanding is between the Northern Territory Government, East-West Airlines Ltd of New South Wales, and East-West Airlines Northern Territory Ltd which has been registered in Darwin. The Memorandum is a statement of intent by the parties and as such is not a legally binding document.
- 2 The Memorandum calls on East-West Northern Territory Ltd to seek to acquire all the issued share capital of Connair.
- 3 Upon acquisition of Connair, East-West Northern Territory Ltd shall continue to provide Connair's services and continue to employ all Connair employees. East-West Northern Territory Ltd shall change its name to Northern Airlines Pty Ltd and change the name of Connair to Northern Airlines Operations Pty Ltd.
- 4 (1) East-West NT shall be established with an authorised capital of \$5,000,000 comprising 5,000,000 shares of \$1 each;  
(2) Prior to the execution of the Contract East-West shall apply for and East-West NT shall issue to East-West 1,530,000 shares at par paid up to 67 cents;  
(3) East-West NT shall issue a further 1,470,000 shares at par paid up to 67 cents to NT residents.
- 5 The Board of East-West NT shall consist of either 5 or 7 persons of whom 2 or 3 respectively shall ordinarily reside in the Territory. The senior full-time executive responsible for the operations of the Regional Airline



(who is presently contemplated to be the General Manager) shall ordinarily reside in the Territory.

- 7 In providing regular public transport operations the Regional Airline shall -
- (a) introduce suitable turbo prop aircraft where appropriate to the operational and traffic requirements of the regular public transport operations;
  - (b) introduce such flights as mutually agreed by the Regional Airline and the Minister by Fokker F28 or other equivalent jet aircraft on the following routes by mid-1981 -
    - (i) Darwin/Katherine/Tennant Creek/Alice Springs or any combination of these stopping places;
    - (ii) Darwin/Gove;
    - (iii) Darwin/Groote Eylandt; and
    - (iv) Alice Springs/Ayers Rock.

- 8 (1) The Territory shall procure that airline licences for a term of 5 years are issued to the Regional Airline so as to enable it to provide the regular public transport operations required by the Memorandum of Understanding.

(For reasons relating to the Trade Practices Act, East-West do not desire that the Memorandum of Understanding refer to the exclusive nature of these licences. However, the contract referred to under Section 10 will specify that the licences will be exclusive except on the direct Alice Springs/ Darwin route.)

- (2) The Territory shall procure that at the end of the term of the licences granted pursuant to sub-clause (1) those licences are renewed for a further term



of 5 years.

- 9 (1) The Territory shall consider a request accompanied by detailed proposals made to it by East-West or the Regional Airline for guarantees of finances provided to the Regional Airline by others.
- (2) It is acknowledged by East-West and the Regional Airline that the Territory would not ordinarily consider a request of the type specified in sub-clause (1) but the Territory shall give favourable consideration to such a request if it is demonstrated by East-West or the Regional Airline that there would be -
- (a) a significant adverse effect on East-West in its operations outside the Territory or its borrowing capacity for its operations outside the Territory; or
- (b) a significant adverse effect on the Regional Airline if a guarantee was not provided by the Territory.
- (3) Nothing contained in the Memorandum of Understanding shall be taken to be either an offer or an undertaking by the Territory to provide to East-West or the Regional Airline any guarantee or other financial support.
- (4) East-West and the Regional Airline acknowledge that operating capital is not to be sought from Northern Territory Government sources.
- (5) The loan of \$1.8 million from East-West Airlines of New South Wales to East-West NT to buy out Connair is to be repaid in such a way as to ensure a continuing financial involvement by the New South Wales Company in East-West NT.



- 10 Upon the execution of the Memorandum of Understanding, the parties shall negotiate a Contract and the conditions of the licences, and it is the intention of the parties that subject to East-West and East-West NT performing any preconditions required by the Memorandum of Understanding the parties shall execute the Contract and the licences shall be granted to the Regional Airline by the Territory.
-

CONFIDENTIAL

CABINET DECISION

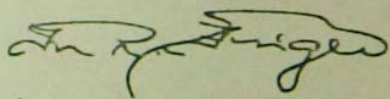
NO. 991

---

Submission No.: 847

Title: PROPOSED NORTHERN TERRITORY REGIONAL  
AIRLINE.

Cabinet deferred further consideration.



(M.R. FINGER),  
Secretary to Cabinet.  
5 December, 1979.

---



THE NORTHERN TERRITORY OF AUSTRALIA

CONFIDENTIAL

Copy No. 1

FOR CABINET

SUBMISSION No. 847

Title: PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE

Cabinet Member: HON. R.M. STEELE, MINISTER FOR TRANSPORT & WORKS

Purpose: To seek a decision by Cabinet on the options available for establishment of a regional airline in the Northern Territory.

Relation to existing policy: Consistent with Cabinet Decision 902 setting out requirements for a regional airline and relating to Air Transport legislation which passed all stages at November Sitzings of the Legislative Assembly.

Timing/ legislative priority: High priority. An early decision is required.

Announcement of decision, tabling, etc.: No public announcement until after the interested parties have reached agreement on the purchase of Connair.

Action required before announcement: Further negotiations with the selected airline operator over the purchase of Connair.

Staffing implications, numbers and costs, etc.: Nil

Total cost: Nil

CONFIDENTIAL



Department/Authority ..... DEPARTMENT OF THE TREASURY

COMMENT ON CABINET SUBMISSION No.

TITLE: ..... PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE

COMMENTS:

The submission notes that TAA's view is that the Cabinet requirements set out in Decision No. 902 represents an "ideal position that is simply not attainable in the short-term". Their submission indicates that with the constraints set down on minimum frequency levels limits on increasing tariffs and the requirement that there be no subsidies, means that the airline would only be able to cover its direct operating costs.

The Ansett submission while not seeking a subsidy, indicates that the Company would expect the entire operation to be profitable and would not accept responsibility for losses between the time it takes over Connair and the time it can be given exclusive licences by the Northern Territory Government.

To some extent the two airline policy makes possible operations in the Northern Territory less profitable than would operations by a Company not affected by that policy, and for this reason East West could be expected to earn a better return than Ansett or TAA.

On the other hand it is by no means certain that if East West were given the licences it would be able to run a profitable operation, and the main concern of the Treasury is therefore the risk that the Northern Territory Government may be drawn into subsidising an unprofitable operation in order to maintain a reasonable level of service in the Territory. Should this question ever become a practical issue, subsidisation may be seen as a softer option than other alternatives, such as curtailing the activities of competitive charter operators.

It should also be noted that the success of East West's operation is partly contingent on limitations on the growth in TAA and Ansett operations on the Sydney/Alice Springs and Cairns/Darwin routes in accordance with a traffic growth related formular. Such a restriction would be difficult to enforce. Furthermore, the success of the East West operation will depend on non-confrontation by TAA and Ansett, which at least in the case of Ansett, might not be readily forthcoming.

The success of East West's operations, being thus contingent on factors outside the control of both East West and the Northern Territory Government must run some risk of being unprofitable, and losses arising in such circumstances that is beyond East West's control would place considerable pressure on the Northern Territory Government for subsidies.

*R. J. Temple*

SIGNED: A.B. ASHLEY

DESIGNATION: UNDER TREASURER

DATE: 4/12/79



Department/Authority..... DEPARTMENT OF LAW

COMMENT ON CABINET SUBMISSION No.

TITLE: ..... PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE .....

COMMENTS:Constitutional Considerations

At the present time the control of civil aviation in the Northern Territory is in the hands of the Commonwealth Department of Transport. An approach has been made to the Commonwealth that control of intra Territory civil aviation be handed over to the Northern Territory; present indications are that this may be done some time in 1980. Until such powers are handed over to the Northern Territory, the Territory does not have the power to implement the submission.

If and when such powers are given to the Northern Territory Government, this aspect will have to be reconsidered. However, if the Territory is given powers similar to those exercised by for example Western Australia, it would appear that there would then be no constitutional difficulties about the proposal.

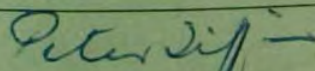
Legal Implications1. Acceptance of Cabinet Decision No. 902

Any agreement reached at this time between the Northern Territory Government and East West airlines would be not legally binding. However, a document in the nature of "Heads of Agreement" could be executed to record agreement in principle.

2. Negotiations to be Completed Within 3 Weeks

Such a requirement could not be made legally enforceable, since any agreement made at this time between the Territory and East West Airlines could not be legally enforceable.

SIGNED:



DESIGNATION:

CROWN SOLICITOR

DATE: 3/12/79



Department/Authority ..... DEPARTMENT OF LAW

COMMENT ON CABINET SUBMISSION No.

TITLE: ..... PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE

COMMENTS:

3. Traffic On-Carriage to be Divided "Fairly"

The meaning of this recommendation is not clear. If "fairly" means equally it should say so. If some other division is proposed it should be specified.

4. First Refusal on Aero-Medical Service Contract

This proposal would have to be considered in the light of any existing contractual obligations to T.A.A.

5. Requirement that Jet Aircraft be Introduced

Presumably such aircraft would have to be obtained overseas. If so, this requirement could be frustrated by the Commonwealth authorities which control the issue of the import licence necessary for the importation of such aircraft.

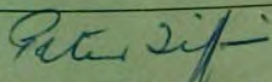
6. Suggestion that Territory Government Intervene in Negotiations Between East West Airlines & Connair

Paragraph 4(b) refers. Any involvement of the Northern Territory Government would have to be "behind the scenes" to the extent that any such involvement is based on the exercise by the Territory of powers to control intra Territory civil aviation, legally binding actions will have to be deferred until such powers are given to the Territory by the Commonwealth.

Involvement of Department of Law

Paragraph 10 of the submission suggests that the Department of Law has been closely involved with the preparation of this submission. This is not correct.

SIGNED:



DESIGNATION: CROWN SOLICITOR

DATE: 3/12/79



Department/Authority ..... DEPARTMENT OF LAW

COMMENT ON CABINET SUBMISSION No.

TITLE: PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE

COMMENTS:

The Department of Law was involved in the initial discussions with the Commonwealth Department of Transport in July of this year. This resulted in a submission to the Commonwealth on changes to their legislation which were necessary to put the Northern Territory in the same position as the States. Since then the Department of Law has provided ad hoc advice on certain specific questions. Apart from this advice, the Department has not been involved with the subsequent deliberations of the working party.

Instructions for the Northern Territory Aviation Act were given directly to the Legislative Draftsman and, in accordance with his normal practice, such instructions were not circulated to other branches of the Department of Law.

This Cabinet submission was made available to the Department of Law for comment late on Friday 30 November, with the request that the comments be available early on the following Monday morning.

SIGNED:

*Peter Jiff*

DESIGNATION: CROWN SOLICITOR

DATE: 3/12/79



THE ISSUE

1. In line with Cabinet Decision 902 which laid down the requirements of the Northern Territory Government for the establishment of a regional airline, it is necessary to decide upon an airline operator to undertake the task.

BACKGROUND

2. The Government's requirements were circulated to potential operators who had expressed an interest in establishing a Northern Territory regional airline, including the purchase of Connair. Applications were received from Lindner and Graham, Skywest Jet Charter, East West, TAA and Ansett. Subsequently, two aviation consultants were appointed to form a Working Party under the Chairmanship of the Deputy Secretary, Transport and Works, to make recommendations on the selection of an operator for a Northern Territory Regional Airline and also give consideration to the impact such an airline will have on current licensing arrangements.

CONSIDERATION OF THE ISSUE

3. The findings of the Working Party are contained in the Report attached to this submission. Their recommendations are :

- . The Northern Territory Government should accept the application of East West Airlines to operate the new Northern Airline subject to total acceptance by East West Airlines of the precise requirements set out in Cabinet Decision No. 902, particularly in regard to subsidy.

- . Negotiations between East West Airlines and Connair for the purchase of Connair should be concluded within a period of three weeks after the Cabinet decision is taken.

- . The Northern Airline should endeavour, as far as practicable, to ensure that traffic on-carriage is divided as fairly as possible between Ansett and TAA.



. The Northern Airline should be given all the support, short of financial subsidy, which the Northern Territory Government can provide.

. The Northern Territory Government should give the Northern Airline the right of first refusal for the contract for the Northern Territory Aero-medical Service (now operated by TAA) and use its best endeavours to secure, for the Northern Airline, Commonwealth contracts for coastal surveillance.

. The Northern Territory Government should give sympathetic consideration to any proposals made to it by the Northern Airline for financial guarantees and, where appropriate, for competitively priced loan funds.

. The Northern Territory Government should reconsider its requirement that the Northern Airline should introduce jet aircraft on all intra-Territory routes by June 1981.

. The Northern Territory Government should use its best endeavours to have the Commonwealth Government approve the importation of suitable jet aircraft for use on Northern Airline routes.

4. The consideration leading to these recommendations are set out in the Working Party's Report. Two matters need further emphasis :

(a) In recommending that the Government reconsider June 1981 as the date for the introduction of jet services on intra-Territory routes, the Working Party has drawn attention to the difficulties that might arise in establishing the viability of the Northern Airline if the date is rigidly adhered to. As the Working Party has made clear, however, the new Northern Airline should give full weight to the firm desire of the Northern Territory Government to see suitable jet aircraft introduced on the main intra-Territory routes at the earliest possible time consistent with sensible economic judgement.

...5/..



(b) In recommending East West, the Working Party has drawn attention to the difficulties this might create with the Connair Board over the purchase price. In this regard, the Northern Territory Government must expect to play an important role in bringing about a satisfactory agreement.

#### OPTIONS

5. In the overall context of the Government's requirements to establish a regional airline in the Northern Territory, the only realistic option is for Cabinet to decide upon the alternatives considered by the Working Party and which are set out in their Report.

#### FINANCIAL CONSIDERATIONS

6. Acceptance of the Working Party's recommendations would not give rise to financial involvement of the Government.

#### EMPLOYMENT CONSIDERATIONS

7. No additional staffing requirements.

#### PUBLIC IMPACT OF THE RECOMMENDATIONS AND PUBLICITY

8. No public announcement should be made until agreement has been reached between the selected operator and the Connair Board over the terms of the purchase of Connair. A comprehensive press brief will be prepared in readiness for the eventual announcement which can be expected to create significant national interest. The selection of East West will be popular with the public generally.

#### COMMONWEALTH AND LOCAL GOVERNMENT INTEREST

9. The Commonwealth has been kept in touch with developments. The Federal Department of Transport declined to be represented on the Working Party.



CO-ORDINATION

10. The Law Department has been closely involved in the preparation of the Northern Territory Aviation Act and on the proposals for the establishment of the regional airline.

TIMING

11. An early decision is required because of the present Connair problems.

RECOMMENDATION

12. I fully concur in the findings of the Working Party and I seek Cabinet agreement to the implementation of their recommendations. Accordingly, I recommend that :

. The Northern Territory Government should accept the application of East West Airlines to operate the new Northern Airline subject to total acceptance by East West Airlines of the precise requirements set out in Cabinet Decision No. 902, particularly in regard to subsidy.

. Negotiations between East West Airlines and Connair for the purchase of Connair should be concluded within a period of three weeks after the Cabinet decision is taken.

. The Northern Airline should endeavour, as far as practicable, to ensure that traffic on-carriage is divided as fairly as possible between Ansett and TAA.

. The Northern Airline should be given all the support, short of financial subsidy, which the Northern Territory Government can provide.

. The Northern Territory Government should give the Northern Airline the right of first refusal for the contract for the Northern Territory Aero-medical Service (now operated by TAA) and use its best endeavours to secure, for the Northern Airline,

...7/..



Commonwealth contracts for coastal surveillance.

. The Northern Territory Government should give sympathetic consideration to any proposals made to it by the Northern Airline for financial guarantees and, where appropriate, for competitively priced loan funds.

. The Northern Territory Government should reconsider its requirement that the Northern Airline should introduce jet aircraft on all intra-Territory routes by June 1981.

. The Northern Territory Government should use its best endeavours to have the Commonwealth Government approve the importation of suitable jet aircraft appropriate for use on Northern Airline routes.

(Original signed by

ROGER STEELE,

Minister for Transport and Works.

in Melbourne - 30 November 1979.)



REPORTWORKING PARTY ON A NORTHERN TERRITORY REGIONAL AIRLINEBACKGROUND

1. At its meeting on October 17, Cabinet laid down the guidelines for the issue of licences to operate a Northern Territory regional airline (Cabinet Decision No. 902 -- attached at Annexure A). The guidelines were circulated to potential operators who had expressed an interest in establishing a Northern Territory regional airline.

2. Applications were received from :

Lindner and Graham

Skywest Jet Charter

East West Airlines

Ansett Transport Industries

The Australian National Airlines Commission (TAA)

The proposals and relevant subsequent amendments are available for reference in relation to this report.

3. Subsequently, it was also decided to establish a Working Party to "make recommendations for a Northern Territory regional airline and also give consideration to the impact such an airline will have on current licensing arrangements".

4. The Working Party comprised :

Mr. J.W. Reilly

Dr. K.N.E. Bradfield

Mr. Rex Banks

Mr. Gordon James acted as Secretary to the Working Party.

The Working Party met in Darwin on November 12-16 and in Melbourne on November 28-30.

...2/..



5. For the purpose of this report the proposed airline is referred to as the Northern Airline, without prejudice to any name which might be chosen later for it.
6. Lindner and Graham withdrew their application by telex message dated November 13.

#### GENERAL PRINCIPLES

7. The Working Party made its recommendations against the background of several major principles developed during its deliberations. These were :
  - . the selected applicant must have the demonstrated experience and the technical and operational expertise necessary to conduct a large scale, regular airline service of the type envisaged.
  - . airline services within the Northern Territory could best be provided by an independent regional organisation based on a single existing airline.
  - . an airline based on a consortium of existing airlines was a less preferable option.
  - . from various points of view, including the development of new routes, the introduction of a wider variety of promotional fares, greater flexibility in frequencies and scheduling, and tourist development, it would be preferable if the selected operator was able to operate free of the constraints of the two airline policy.

#### SKYWEST JET CHARTER

8. Skywest Jet Charter is a West Australian based air charter company, operating principally with organisations associated with mining and oil exploration projects. The application was rejected as the Working Party considered it had nothing to offer the Northern Territory over and above those put forward by the more established and more experienced airline operators.



AUSTRALIAN NATIONAL AIRLINES COMMISSION (TAA)

9. The TAA proposal has merit in that it stems from a major domestic airline which has the experience and ability to operate the type of service envisaged. However, TAA's proposal falls short of the Northern Territory Government's requirements for a regional airline.
10. TAA obviously has looked closely at the Cabinet requirements and has concluded that they are not attainable in the short term. TAA expressed this view clearly in its submission by saying :
11. "In the Commission's view the specification represents an ideal position that is simply not attainable in the short term. It is not possible to meet the specifications as set down with the constraints on minimum frequency levels, limits on increasing tariffs, subsidy payments, and cover direct operating costs let alone make any contribution to overheads or profit."
12. TAA recognised also that their commitments to the two airline policy would impose limitations on their operation of a regional airline. Indeed their consortium proposal, in which TAA would hold less than 50% of the shares, was devised, at least in part, to avoid this.
13. Despite this, however, the Working Party felt that this commitment, no matter how it was legally avoided, could nevertheless tend to influence TAA's attitude to further development of the regional airline. The Working Party also concluded, as stated earlier, that a single entity airline was preferable to the consortium approach.
14. For these reasons and the fact that both the East West and Ansett applications more closely met the N.T. Government's stated requirements, the Working Party decided against recommending TAA as the successful applicant.



EAST WEST AND ANSETT

15. Both East West and Ansett have made proposals which would largely meet the Government's requirements for a Northern Territory regional airline subject to the qualifications which appear below. A broad comparison of the advantages and disadvantages of the proposals each has submitted is as follows :

ANSETT16. Advantages

(a) Considerable experience in the type of regional service involved in the main intra-Northern Territory routes through its subsidiary operations in W.A./N.S.W./S.A.

(b) The introduction of F28 jet services six days a week on the centre route by mid-1980 - (Darwin/Katherine/Tennant Creek/Alice Springs).

(c) An Ansett based regional airline licensed by the Northern Territory Government could provide the leverage to seek improved Ansett services on major trunk routes.

(d) Ready employment of all Connair staff.

17. Disadvantages

(a) Ansett have proposed an arrangement for the Northern Airline similar to that of MMA, ASA and Airlines of NSW. This indicated that the Northern Airline would be a closely controlled subsidiary of the Ansett organisation. As such, even though there could, and probably would, be equity from outside the Ansett organisation (Ansett has proposed an eventual 25 per cent local equity) there would be little chance that the Northern Airline would be permitted to develop and expand in any way which was inimical to the requirements of the two airline system on the national trunk routes.



In fact, clause 17 of the schedule to the Airlines Agreements Act 1952-73 clearly imposes an obligation upon Ansett to "do everything within its power to ensure that the company or firsts in which it has from time to time, whether directly or indirectly, a controlling interest will do all such things and acts as this agreement and the Civil Aviation Agreement Act 1952 provides that they will do and that those companies and firms will not do anything inconsistent with the provisions or purposes of those agreements".

(b) While the Ansett proposal does not seek a subsidy, it has been made clear to the Working Party that Ansett expects the entire operation to be profitable and that Ansett could not be expected to accept responsibility for the loss between the time it takes over Connair and the time at which it can be given exclusive licences by the Northern Territory Government in order to cross-subsidise the losses expected on the present Connair routes.

Exclusive licences could not be given until Commonwealth legislation to transfer the necessary licencing authority to the Northern Territory Government has been completed by the Commonwealth Government. This cannot be expected before March 1980 at the earliest.

#### EAST WEST AIRLINES

#### 18. Advantages

(a) Operations experience and management structure well geared to providing regional service such as main intra-Territory routes.

(b) Evidence of a genuine determination by the company to introduce a Northern Territory based regional air service.

(c) Indications of a more flexible approach to routes, fares and schedules to stimulate demand and to the provision of timetables on interstate routes from Darwin and Alice Springs more suited to the needs of the Northern Territory travelling public.

...6/..



(d) Independence from the two major domestic airlines and not therefore influenced by the two airline policy. This should not be construed as criticism of the two airline policy as it applies on major trunk routes. However, the Working Party does not believe that the involvement of the proposed Northern Airline in the two airline system would be in the best interests of the Northern Territory.

(e) The possible future expansion of the Northern Airline on to regional international routes linking Darwin with such centres as Bali, Port Moresby and Timor (under licence to Qantas) would appear to have more chance of gaining Commonwealth Government/Qantas agreement if the Northern Airline was independent of Ansett and TAA.

(f) Ready employment of all Connair staff.

19. Disadvantages

(a) The major intra-Territory services would be limited to F27 aircraft until the Commonwealth Government gives authority to import F28 jet aircraft. It is, however, reasonable to expect that the Commonwealth Government would not hinder the introduction of jet aircraft for use on the routes proposed.

(b) East West Airlines is seeking a guarantee that TAA and Ansett only increase their operations on the Sydney/Alice Springs and Cairns/Darwin routes in accordance with a traffic growth related formula - a guarantee which neither the Commonwealth nor the Northern Territory Governments could legally enforce.

OTHER CONSIDERATIONS

20. Assistance from Northern Territory Government

The Working Party considers that none of the applications received offers a totally satisfactory solution to the fulfillment of all the requirements as set down by Cabinet. The solution recommended is the one which the Working Party considers would go furthest and best towards meeting those requirements.

...7/..



21. It emphasises that the recommended applicant will require all the support, short of financial subsidy, which the Northern Territory Government can provide.
22. This includes the preferential allocation of Government-paid travel and cargo movement, the right of first refusal for all aviation and appropriate engineering work required by the Government and protection where possible from traffic erosion on its routes by charter operators.
23. Two other matters of importance to the financial viability of the new Northern Airline are the aero-medical service now conducted by TAA on behalf of the Northern Territory Department of Health and available Commonwealth Government contracts for coastal surveillance.
24. It is recommended that the Northern Territory Government should ensure that the new Northern Airline should have the right of first refusal to the aero-medical service contract and also use its best endeavours to see that the Northern Airline secures available Commonwealth contracts for coastal surveillance.
25. In regard to the aero-medical contract, it is suggested that TAA be given at least three months notice of termination to operate the services.

Possibility of industrial action by aircrew

26. The Working Party understands that the general policy of the Australian Federation of Airline Pilots is that it would oppose action by Government to remove operators from existing routes but that it would accept the cessation of services for commercial reasons.



27. While not in any condoning such an approach and, in fact, being strongly opposed to it, the Working Party feels that it is only realistic to take note of such a philosophy which could result in industrial action against the Northern Airline whether based on an Ansett or an East West operation.
28. In the case of an Ansett based operation, some industrial action could come from the cessation of the TAA F27 services to the Territory with a consequent reduction in the number of aircrew required. There could also be some reaction to the Northern Airline taking over the MMA F28 routes even though it would be within the same overall Ansett organisation.
29. In the case of an East West based operation industrial action could come from the cessation of the F27 services of both Ansett and TAA and the F28 service of MMA and would be more likely to be of greater consequence.
30. It is not suggested that the possibility of industrial action should be taken too seriously. It is, however, suggested that it be kept in mind as something which may have to be faced, particularly in the formative stages of the new airline.

#### CONCLUSIONS

31. Both the East West and Ansett proposals largely meet the requirements of the Northern Territory Government as set out in the guidelines issued to potential applicants (see Annexure A).
32. Both applicants have the necessary competence, financial capacity and technical and operational experience in the particular type of operations envisaged to provide an appropriate service for Northern Territory residents.
33. It became, therefore, a question of judging which of the two operators had the greater incentive, not only to provide the type of public service sought by the Northern Territory Government, but also to develop and expand the new Northern Airline as an innovative and aggressive operator, particularly in terms of fares, schedules and new routes.

...9/..



34. Because it is free from the practical and legal inhibitions imposed on Ansett under the terms of the two airline policy which applies on Australia's main trunk routes, the Working Party concluded that East West Airlines should be the preferred applicant.
35. Additionally, the Working Party considered that East West had emerged, and should continue to develop, as a specialist operator of the type of regional air services which will be the backbone of the new Northern Airline. By contrast, and despite its extensive and substantial subsidiary regional network, the natural and principal concentration of Ansett could be regarded as being rather towards trunk route operations with large capacity jets.
36. The Working Party recommends therefore that the Government should licence an airline based on the East West proposal as the operator of the new Northern Airline. This recommendation is subject to the applicant's total acceptance of the precise conditions set out in the Government's guidelines (Cabinet Decision No. 902), particularly in regard to the non payment of subsidy.
37. The Working Party records that East West did express serious concern about the losses that the new airline was expected to sustain during the period immediately after the take over to Connair's existing operation. Ansett expressed similar concern. Nevertheless, the Working Party believes that the granting of Intra-Territory licences, especially those of an exclusive nature, represent an asset of considerable commercial value and that East West should be prepared to accept any losses which may occur as part of the introductory expenses of the new airline.
38. The success of the new Northern Airline, to a large degree, will depend upon the support and good will of both TAA and Ansett. Co-operation rather than confrontation between the three organisations is vital.



39. The continued development of the Northern Territory also will be influenced by the quality of service provided by TAA and Ansett on the main State-Territory trunk routes. The Northern Territory Government would naturally wish to see frequencies increased and the introduction of more innovative fares and a better pattern of flights.
40. A Northern Airline based on East West could be expected to face some confrontation from the major domestic airlines. Both Ansett and TAA could be seen to suffer some disadvantage due to the cessation of their F27 services within the Northern Territory both in terms of the actual routes themselves and in terms of traffic on-carriage.
41. In addition, the Ansett organisation would face an extra penalty in having to withdraw the F28 services provided by its subsidiary MMA from the Darwin, Gove, Groote Eylandt routes when the new Northern Airline acquires suitable replacement jets of its own. The possibility of legal challenge cannot be ruled out.
42. In the light of these circumstances and in the hope of achieving co-operation rather than confrontation, the Working Party recommends that the new Northern Airline should endeavour as far as is practicable, to ensure that traffic on-carriage is divided as fairly as possible between TAA and Ansett. Both airlines indicated that they regarded the question of on-carriage as a matter of considerable commercial significance.
43. This division of on-carriage could be subject to regular review with TAA and Ansett. The Working Party recommends also it be made clear to both TAA and Ansett that there is no intention of depriving them of their ability to carry traffic between Darwin and Alice Springs as part of their regular trunk jet routes to other State capitals.



44. The Working Party considers that there could be serious problems in the negotiations between the successful applicant and the Board of Connair.
45. East West have offered \$1.8 million for the company based on a draft balance sheet at 30th September 1979. If the losses since that date are substantial, as is claimed by East West, the valuation and therefore the price offered by East West will be lower. Furthermore, East West wish to defer settlement until 1st February 1980. This would mean that the expected further losses incurring to that date would be borne by the existing Connair shareholders. This is likely to be unacceptable to the Connair Board.
46. Discussions with Ansett management indicate that in their case there would be a similar and perhaps even greater problem in regard to the amount and date of settlement.
47. The Working Party suggests, therefore, that the Government should insist that the negotiations between the successful applicant and Connair should be concluded with a period of three weeks after the Cabinet decision is taken. This obligation should be accepted as the responsibility of both parties as the longer the matter remains unresolved, the more difficult the financial position of the Northern Airline becomes.
48. The Working Party recommends further that the Northern Territory Government reconsider its requirement that the new Northern Airline should introduce jet aircraft on the main intra-Territory routes by June 1981. The date on which suitable jet aircraft can be introduced is a matter over which East West (if it is to be the successful applicant) does not have total control as its plans to acquire jet aircraft are subject to the Commonwealth Government issuing the necessary import licences.



49. The Working Party considers that in view of this and the uncertainty about the financial viability of the new airline during the introductory period of the next 1-2 years, this matter is best left to the commercial judgement of the airline itself. However, the new Northern Airline should give full weight to the clearly expressed and firm desire of the Northern Territory Government to see suitable jet aircraft introduced on these routes at the earliest possible time consistent with sensible economic judgement.

50. Local involvement

East West Airlines has proposed that a public company, initially unlisted, be formed in Darwin to operate the new Northern Airline with a minimum of 51 per cent ownership by East West Airlines Ltd and up to 49 per cent offered to the public in the Northern Territory.

51. East West proposes also that the Board of the Northern Airline should comprise five members of whom two would be Territory residents including, preferably, the chairman.

52. The Working Party supports the principle of local equity and such participation of local residents on the Board.

RECOMMENDATIONS

53. The Northern Territory Government should accept the application of East West Airlines to operate the new Northern Airline subject to total acceptance by East West Airlines of the precise requirements set out in Cabinet Decision No. 902, particularly in regard to subsidy.

54. Negotiations between East West Airlines and Connair for the purchase of Connair should be concluded within a period of three weeks after the Cabinet decision is taken.

55. The Northern Airline should endeavour, as far as practicable, to ensure that traffic on-carriage is divided as fairly as possible between Ansett and TAA.



ANNEXURE 'A'

Title:

PROPOSED NORTHERN TERRITORY REGIONAL  
AIRLINE

Cabinet approved the following requirements for a Northern Territory Regional Airline:-

- . to provide a suitable level of services for small communities as now served by Connair without reduction of existing services at a reasonable price without subsidy;
- . to provide a suitable level of services between communities now served by Ansett/MMA and TAA with no increase in the present fares (except general) increases caused by rising fuel costs, etc);
- . to provide the facilities to enhance the Northern Territory's tourist market from interstate and overseas and the travel demands of Northern Territory residents; and
- . to provide services to meet the requirements of the Northern Territory Government itself as may be agreed between the Government and the operator from time to time.

This would involve:-

- . an airline with a legal identity of its own with Territory based management;
- . employment for all Connair staff;
- . a level of Northern Territory equity to be achieved in the long term;
- . a viable operation which will not require early changes in frequency of regular air services and financial arrangements;



Title:

## PROPOSED NORTHERN TERRITORY REGIONAL AIRLINE.

- . using suitable turbo-prop aircraft on lower traffic density routes and, until June 1981, where and when demand warrants it on higher traffic density routes, using F27, F28 or equivalent jet or prop-jet aircraft;
- . after June 1981 at the latest using jet aircraft on all trunk routes;
- . maintenance of the present level of air fares except where genuine increases in operating costs can be demonstrated;
- . agreement of a formula regarding air fare increases;
- . making appropriate allowances for fluctuations in demand over time, the provision of the equivalent existing services to the small Connair served communities;
- . at least daily services linking Darwin and Katherine Darwin and Gove, Alice Springs and Tennant Creek, and Slice Springs and Ayers Rock, and at least five services a week linking Darwin and Groote Eylandt;
- . a role for existing charter operators to supplement the airline services on suitable routes where smaller loadings are required; and
- . a positive approach to improving incidence, frequency scheduling and fare structure of services between the Northern Territory and interstate destinations and overseas destinations.