Submission No 15

INQUIRY INTO REMOVING OR REDUCING STATION ACCESS FEES AT SYDNEY AIRPORT

Organisation: Sydney Airport Corporation Limited

Date received: 8/11/2013

8 November 2013

The Director
General Purpose Standing Committee No. 3
Parliament House
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Via email: gpscno3@parliament.nsw.gov.au

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Dear Director

Re: Submission: Removing or reducing station access fees at Sydney Airport

Sydney Airport welcomes the opportunity to make a submission to the Legislative Council's General Purpose Standing Committee No. 3 Inquiry into Removing or reducing station access fees at Sydney Airport (the Inquiry).

Background

Sydney Airport: Creating jobs and economic activity

Sydney Airport acts as a major generator for a range of economic activity. Its close proximity only 8 km from Sydney's Central Business District provides a unique advantage for business and tourism, major events and conference industries, over other state capitals.

For example, Sydney Airport:

- Influences decisions by companies to locate their head offices in Sydney and improves their competitiveness;
- Attracts new investment to the NSW and Sydney economy;
- Retains existing companies and secures their expansion projects;
- Promotes exports through air freight and enhances the competitiveness of our economy through the provision of efficient passenger and freight services; and
- Attracts new businesses, leisure activities and tourism-based incomes and creates new jobs.

A recent study by Deloitte Access Economics into the economic impact of Sydney Airport measured the airport's economic and social benefits.

This study found that Sydney Airport generates or facilitates:

- **Jobs**. Direct and indirect employment of 283,700 jobs (equivalent to 8 per cent of NSW employment), including 160,000 direct jobs (28,000 directly on airport)
- **Economic activity**. Direct and indirect economic contribution of $27.6 billion (equivalent to 6 per cent of the NSW economy and 2 per cent of the Australian economy)
- **Household income.** Direct and indirect contribution of $13.2 billion

It is forecast that the economic activity generated or facilitated by Sydney Airport will increase to over $42 billion in 2033. Total employment will increase to over 400,000 jobs by 2033.

A relatively small activity at the airport can have a potentially large positive economic impact.

For example, an additional daily A380 service to Sydney from China would, over a year, contribute an estimated:

- $388 million to the Australian economy
- $233 million to Australia's household income
- 5,000 jobs (4,000 of which would be in NSW).

Sydney Airport's role in supporting tourism

Sydney Airport has an unmatched route network which includes 46 international, 23 domestic and 26 regional destinations.

Sydney's status as Australia's pre-eminent global city, in turn, supports the route network at Sydney Airport and the development of Sydney Airport and related businesses. The availability of direct flights to a wide network of destinations significantly strengthens the competitiveness of the Sydney tourism industry.

The partnership between Sydney Airport and Destination NSW is actively working to boost tourism, attract new airlines and increase airline services to Sydney, in support of the NSW Government's target of doubling overnight visitor expenditure by 2020. Sydney Airport and Tourism Australia are also working together to promote tourism to Australia.

Growth in aviation activity at Sydney Airport

Earlier this year, Sydney Airport exhibited for community and stakeholder comment a Preliminary Draft Master Plan (PDMP).[1] The PDMP, which covers the 20-year planning period to 2033, included aviation activity forecasts. These forecasts were independently prepared for Sydney Airport in consultation with airlines.

[1] The PDMP was on exhibition between 5 June and 30 August 2013. Submissions received are now being considered and the PDMP will, where appropriate, be amended to produce a Draft Master Plan which will be submitted to the Australian Government for consideration by the end of the year.

These forecasts show that:

- Airline passengers are forecast to grow from around 37 million passengers in 2012 (around 100,000 a day) to 74.3 million passengers in 2033 (around 200,00 a day).
- Total fixed wing aircraft movements are forecast to increase from 322,000 movements in 2012 to 409,000 movements in 2033.
- Air freight is forecast to increase from 615,000 tonnes in 2012 to 1.011 million tonnes in 2033.

Ground transport access to Sydney Airport

As noted above, Sydney Airport serves around 100,000 airline passengers every day. When added to the 28,000 people who work at the airport and those who visit the airport to meet or greet passengers, it is estimated that around 150,000 people every day need to use ground transport of one form or another travel to and from Sydney Airport.

Ensuring these airline passengers, airport workers and visitors can get to and from Sydney Airport efficiently and in a timely manner is vitally important.

To facilitate this, Sydney Airport is committed to enabling and facilitating a range of reliable, sustainable and cost effective transport options.

The PDMP includes a Five Year Ground Transport Plan (GTP), in which a number of projects to significantly improve road traffic capacity in and around the airport were outlined. In particular, proposed works to intersections around the T2/T3 passenger terminal precinct, proposed road works within the T1 passenger terminal precinct and the creation of public transport facilities aims to reduce congestion and improve traffic flows in and around the airport.

The GTP was developed in consultation with the NSW Government's transport agencies, including Transport for NSW (TfNSW), NSW Roads and Maritime Services (RMS) and the Sydney Motorways Project Office (SMPO).

A survey of over 14,000 airline passengers, airport visitors and airport staff was undertaken by Sydney Airport and TfNSW in June 2012 to provide information on the journeys people took to and from the airport, including how they travelled. This was the most comprehensive survey of its kind ever undertaken for Sydney Airport. The results of this traveller survey guided the preparation of the PDMP (and GTP).

Sydney Airport was pleased that, as part of its most recent budget, the NSW Government announced $282 million in WestConnex Enabling works, including $29 million for works on existing roads in the Port Botany and Sydney Airport Precinct.

Public transport mode share

Sydney Airport supports an increase in the use of public transport by people travelling to and from the airport.

Presently, there is only one (1) public bus route – Route 400 – that services Sydney Airport's passengers terminals. Most other major airports in Australia (and around the world) have many more bus services. Those wishing to travel to the airport by train must pay a Station Access Fee (SAF) on top of their normal Sydney Trains fare. This inflates the usual train fare by around 400%. It currently costs an adult $15.90 or $16.70 to travel from the CBD to the Domestic or International Terminal Stations respectively.

Together, the lack of bus services and the high cost of train travel discourages people from using public transport. This is particularly the case for the 28,000 people who work at the airport and who need to commute every day. For example, the SAF adds around $1,000 a year to the cost of a weekly train ticket for these workers. Discouraging people from using public transport encourages them to use various forms of road transport to access the airport, which, of course, adds to traffic congestion.

However, despite these disincentives, the traveller survey referred to above showed that the public transport mode share has actually *increased* by one percentage point a year over the past five years from 12% to 17% (comprising 15% by train and 2% by bus). Given that passenger numbers have increased from around 30 million to 37 million over that time, the actual number of people accessing Sydney Airport by public transport has grown considerably over the last five years.

For the purposes of the PDMP, a shift of 5 percentage points (comprising 4% by train and 1% by bus) from the existing base of 17% has been estimated for the period to 2018, representing continued growth of one percentage point a year. It is noted that, over this period, annual passenger numbers are forecast to increase from around 37 million today to more than 46 million in 2018. This one percentage point increase per annum therefore represents a significant increase in the actual number of people using public transport to access Sydney Airport.

A further shift of 2 percentage points (comprising 1% by train and 1% by bus) has been estimated for the 20-year planning period to 2033 because there is less certainty of improved public transport provision over the longer term.

Rail services to Sydney Airport

As the NSW Government has primary responsibility for the rail network (in terms of train frequency, fares and the quality of rolling stock), Sydney Airport supports the NSW Government's *2012 Long Term Transport Master Plan* (2012 NSW LTMP). This includes the various rail-specific initiatives announced by the NSW Government in its *Sydney's Rail Future: Modernising Sydney's Trains* document.

Relevantly here, the 2012 NSW LTMP commits the NSW Government to preparing an Improvement Plan for Port Botany and Sydney Airport Precinct as follows:

> *"A central part of the Improvement Plan is to investigate options to improve public transport services in the precinct for commuters and travellers, and to mitigate growing passenger vehicle congestion around Sydney Airport and on the road network.*
>
> *a) We will implement the following initiatives by 2016 to improve public transport in the Port Botany and Sydney Airport precinct:*
>
> *b) Work with Airport Link Corporation to identify ways to improve public transport services to and from the Airport to service growing passenger numbers, including:*
>
> - *New timetables to Sydney Airport in the morning peak in 2013 and 2016*
> - *An increase in the number of peak hour rail services on the Airport Line from eight to 12 per hour, subject to available rolling stock availability*
>
> c) *Investigate new and extended bus route options to the Airport and work with Sydney Airport Corporation Limited to provide appropriate infrastructure to support additional bus services in the precinct*
>
> d) *Work with Sydney Airport Corporation Limited to provide additional signage and indicators at the Airport and elsewhere to advertise and encourage public transport use."*[2]

Sydney Airport is encouraged by the fact that the NSW Government has already commenced implementing these commitments. That the NSW Government is taking its rail commitments seriously was demonstrated only recently when the Minister for Transport announced that extra services to provide at least eight trains an hour between Sydney Airport and City Circle stations would be delivered between 7am and 9pm as from 20 October 2013.[3] This additional rail capacity, which represents the first expansion of public transport services to and from Sydney Airport for many years, is welcomed by Sydney Airport and, in part, was made possible by the former Government's successful Rail Clearways Program.

Sydney Airport understands that there is potential to provide greater long-term rail capacity. For example, upgrades to the power supply and safety measures outlined in *Sydney's Rail Future* will allow for up to 20 services per hour on the airport line in the medium to long term.

Sydney Airport believes there is a great opportunity for the public transport mode share to Sydney Airport to be further increased and, to help achieve this outcome, has advocated for reform of the Station Access Fee (SAF) on rail and the provision of additional public bus services to the airport.

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[2] *NSW Long Term Transport Master Plan*, NSW Government, (December 2012), p. 203.
[3] Media Release, Hon. Gladys Berejiklian, NSW Minister for Transport, (17 September 2013).

The station access fee (SAF)

As noted above, the SAF discourages people from using public transport. It distorts the transport choices people make.

Since 2008, Sydney Airport has advocated reform of the SAF and long argued that it should be reduced. Reducing the SAF would ensure there is real choice for the 150,000 people who need to travel to and from Sydney Airport every day.

Sydney Airport made a submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail (now Sydney Trains) Fares 2009-2012 concerning the fare structure that applies to users of the four Airport Link Company Stations.

In that submission, Sydney Airport argued that the fare structure for passengers using these stations, when compared to the fare structure for passengers using Sydney Trains' overall network, was (and remains) inequitable. It price discriminates against those workers, residents and visitors who choose to use rail transport in this part of Sydney and therefore discourages rail patronage to Sydney Airport and, more generally, a part of Sydney that is experiencing strong employment and population growth. This contributes to existing traffic congestion. Reforming the fare structure for the Airport Rail Line will increase the number of people using the line and these stations. In turn, this will:

- Produce significant benefits for people who use the Airport & East Hills Line, and Eastern Suburbs and Illawarra Line and who live or work in the areas where the four Airport Link stations are located;
- Reduce congestion on busy roads such as the M5 East Motorway, M5 South-West Motorway, Princes Highway, Botany Road, O'Riordan Street and General Holmes Drive;
- Improve air quality and reduce greenhouse gas emissions by reducing vehicle use;
- Avoid the human and economic costs associated with road accidents and road damage; and
- Ensure existing transport infrastructure is used more efficiently than is the case now, and encourage a modal shift in favour of public transport.

The lobbying efforts of Sydney Airport (and many others including the City of Sydney, City of Botany Bay and Marrickville Councils) produced some success in March 2011 when the then NSW Premier announced the removal of the SAF from two of the four Airport Rail Link stations, being Green Square and Mascot. As expected, rail patronage through these two stations has increased significantly. Figures provided to Sydney Airport suggest that patronage through these stations doubled within a year.

This decision – which Sydney Airport welcomed at the time – vindicated two of Sydney Airport's central arguments. First, it proved that removing the SAF *is* possible, requiring only a commercial negotiation leading to an agreed outcome between the NSW Government and the Airport Link Company. Until then, government had said it could not remove the SAF because it was contractually bound not to do so. Second, it proved that removing the SAF would deliver a significant mode shift in favour of public transport, in this case a doubling of rail patronage in just one year.

Even though the SAF remains for the two airport stations, removing the SAF from Green Square and Mascot Stations would have had a beneficial effect on the ground transport network around Sydney Airport because it would have reduced the number of cars travelling in the busy CBD to Sydney Airport corridor.

The NSW Government has acknowledged the issues concerning the SAF. For example, as stated in its 2012 NSW LTMP:

> *The passenger rail service charges a station access fee, resulting in a premium ticket price for passenger rail to Sydney Airport that may encourage substitution with car or taxi travel. For a 6.7 kilometre train trip to the domestic airport from Central Station, a passenger pays $15 (single) or $23 (return).*

Sydney Airport previously engaged expert consultants Booz & Co. (as they then were) to quantify the uplift in patronage that could be expected should the SAF be abolished or reduced for the two airport stations. A copy of their report is **attached**. Booz found that (based on a 2010 base year):

> *"The immediate impact on rail patronage in 2011/12 as a result of the fare reform is estimated at:*
>
> *a) 1.7 million additional passenger journeys for the two airport stations made by rail rather than by road-based modes;*
> *b) This uplift is equivalent to a first year increase of approximately 35%;*
> *c) In the long-term (i.e. 2011/12 to 2034/35) the fare reform is estimated to increase rail patronage by an additional 69 million passenger journeys, which will be diverted from road-based modes over 24 years.*[4]

In preparing its advice (and to calibrate its fare model), Booz used the most up-to-date rail patronage information available from the experience at Green Square and Mascot Stations.

> *"The removal of the SAF from fares to and from the two non-airport ALC stations (i.e. Green Square and Mascot) in March 2011 demonstrated the capacity of fare reform to increase passenger demand and encourage a shift away from road-based transport."*[5]

Relevantly here, Booz indicated in its advice that the increase in patronage through the two airport stations would likely not be as high as it was for Green Square and Mascot. They indicated that:

> *"This reflects the core differences between the two passenger transport markets. In particular, a significant proportion of the airport ground access passenger market is not contestable from an airport rail perspective in the sense that price signals are largely irrelevant to mode choice decisions. For example, an international air passenger with significant checked baggage or the domestic air passenger able to charge a limousine or taxi trip to a corporate expense account would not be expected to respond strongly to the removal of the SAF."*[6]

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[4] *Impact of Fare Reform on Sydney Airport Rail Link*, Booz & Co., (September 2011), p. 6.
[5] Note that, as discussed elsewhere, more contemporary advice to Sydney Airport was that the combined increase for both stations had reached 100% within 12 months.
[6] Refer to reference 4 above.

Sydney Airport has long advocated for the reduction of the SAF to increase patronage on rail for all airport users. The NSW Government is therefore encouraged to negotiate with the Airport Link Company to allow this to occur.

The impact of the 'no compete' clause

The original contract between the Airport Link Company and the NSW Government (that, in part, allows the SAF to be charged) is known as the *New Southern Railways Agreement*.[7] It has been renegotiated twice since coming into force.

This contract inhibits decisions being made by government to provide additional bus routes and services to and from Sydney Airport. This is because the Agreement defines so-called 'Material Events' which, were they to occur, could result in compensation being payable to the Airport Link Company.

Relevantly here, one such Material Event is defined as:

> *"A State of Commonwealth Body developing or substantially upgrading or granting a concession for another person to develop or substantially upgrade an alternative subsidised land based public transport route between the CBD and the Airport (other than a route for motor traffic or car parking at or near the Airport)"*[8]

This so-called 'no compete' clause means that a new bus service/route between the CBD and Sydney Airport could be seen as a "subsidised land based public transport route."

Sydney Airport believes this clause resulted in the NSW Government deciding to terminate its new Metro M20 bus service at Mascot shops, rather than continue it to Sydney Airport's Domestic Terminal precinct (as had been suggested by Sydney Airport). As well as reducing the SAF, Sydney Airport believes the 'no compete' clause should be reviewed.

Sydney Airport would be pleased to discuss this submission with Committee members should that be appropriate. For further information, please contact Sydney Airport's Head of Government and Community Relations, Mr Ted Plummer, on

Yours sincerely

Kerrie Mather
Chief Executive Officer

Enc: *Impact of Fare Reform on Sydney Airport Rail Link*, Booz & Co.

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[7] Information can be found on the NSW Treasury website at http://www.treasury.nsw.gov.au/ppp/nsw_projects/projects_which_have_been_awarded/rail/new_southern_railway_stations_agreement.

[8] Restated Stations Agreement 2005 – New Southern Railway, NSW Treasury, clause 4.12. The Agreement can be downloaded at http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0009/3105/railways-contract.pdf (accessed on 20 October 2013).

Submission No 15

Attachment 1

INQUIRY INTO REMOVING OR REDUCING STATION ACCESS FEES AT SYDNEY AIRPORT

Organisation: Sydney Airport Corporation Limited

Date received: 8/11/2013

booz&co.

FINAL REPORT

Impact of Fare Reform on the Sydney Airport Rail Link

SYDNEY AIRPORT CORPORATION LIMITED

SEPTEMBER 2011

SYDNEY

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Important Note

Booz & Company findings represent our best judgment based on the information available. Booz & Company has relied on certain internal, external and publicly available information and cannot be responsible for the accuracy or completeness of this material. Booz & Company is unable to predict the future and inevitably some assumptions used may not be realised and unanticipated events and circumstances occur. Booz & Company cannot provide, and disclaims any form of, assurance that the forecasts documented will be achieved to any extent and notes actual outcomes could vary materially. These findings have been prepared for the exclusive use of Sydney Airport Corporation Limited and no other parties may rely on them.

About Booz & Company

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments and organisations. Today, with more than 3,300 people in 57 offices around the world, we bring foresight and knowledge, deep functional expertise and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage. Booz & Company has strong quantitative and analytic skills and extensive experience in the transportation sector, which spans aviation, highways, urban transportation, railroads, and maritime operations around the globe. We consult across all modes of transportation, providing expertise in strategy and policy, operations, organisational design, technology and infrastructure. Our work with government and commercial clients in North America, Europe and the Asia Pacific region has given us the global perspective and industry know-how to help transportation companies and regulators meet today's business challenges through strategy-based transformation. Our ability to develop and implement strategic and technological solutions that deliver tangible results sets us apart from the competition. To learn more about Booz & Company visit www.booz.com.

Executive Summary

Sydney Airport Corporation Limited (SACL) has a strong commitment to provide convenient, cost effective and sustainable ground transport to Sydney Airport for passengers, staff and visitors. With the publication of the Airport Ground Travel Plan (AGTP) in 2006, Sydney Airport demonstrated its commitment to exploring innovative ways to improve ground transport options and increasing the public transport mode share from 15% to 20% by 2024.

Currently, customers travelling to and from the Airport Link Company (ALC) 'International' and 'Domestic' airport stations pay substantially more than customers travelling a comparable distance elsewhere on the CityRail network. The price premium imposed on users of the two airport stations (i.e. Station Access Fee or 'SAF') is added to the standard CityRail fare. This pricing distortion means that fare reform represents a quick and effective mechanism to increase the attractiveness of rail for trips to and from Sydney Airport.

The removal of the SAF from fares to and from the two non-airport ALC stations (i.e. Green Square and Mascot) in March 2011 demonstrated the capacity of fare reform to increase passenger demand and encourage a shift away from road-based transport. In particular, it was reported in June 2011 that passenger throughput at Green Square and Mascot was 70% higher on a year-on-year basis, with 50% being attributed to the removal of the SAF and 20% to natural market growth[1].

Having estimated the impact of removing the SAF at the four ALC stations in February 2010, this report re-examines the expected market impact of aligning Airport Link fares for International and Domestic stations with standard CityRail fares. In addition to updating the estimates to reflect the latest available market data, the actual experience observed at the two non-airport stations (i.e. Mascot and Green Square) provided an opportunity to review the anticipated market behavioural response of removing the SAF at the two airport stations.

The immediate impact on rail patronage in 2011/12 as a result of the fare reform is estimated at:

- 1.7 million additional passenger journeys for the two airport stations made by rail rather than by road-based modes;
- This uplift is equivalent to a first year increase of approximately 35%; and
- In the long-term (i.e. 2011/12 to 2034/35) the fare reform is estimated to increase rail patronage by an additional 69 million passenger journeys, which will be diverted from road-based modes over 24 years.

We estimate that this will immediately increase the share of air passengers using rail to travel to and from Sydney Airport to around 15%.

We note that the estimated patronage uplift at the two airport stations (i.e. 35%) is significantly lower than that observed at the two non-airport stations (i.e. 50% attributed to the removal of the SAF). This reflects the core differences between the two passenger transport markets. In particular, a significant proportion of the airport ground access passenger market is not contestable from an airport rail perspective in the sense that price signals are largely irrelevant to mode choice decisions. For example, an international air passenger with significant checked baggage or the domestic air passenger able to charge a limousine or taxi trip to a corporate expense account would not be expected to respond strongly to the removal of the SAF.

It is important to note that these projections are unconstrained in the sense that they assume that the forecast uplift in demand for airport rail services

[1] 'Ticket Sales Rocket as Airport Line Prices Plunge', Sydney Morning Herald, p.3, 9 June 2011.

can be accommodated by timetabled CityRail services. In this context, we note that during the preparation of the 2009 Sydney Airport Master Plan, consultation between SACL and the NSW Government indicated that the number of trains could, over time, increase from 12 to at least 20 in each direction. This suggests that appropriate capacity can be created to support the estimated uplift in passenger demand for services at the two airport stations.

1. Introduction

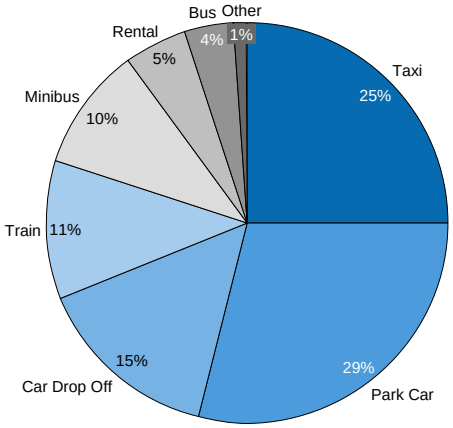
Sydney Airport Corporation Limited (SACL) has a long stated strong commitment to supporting the provision of convenient, cost effective and sustainable ground transport to Sydney Airport for airline passengers, staff and visitors. This commitment was demonstrated in the Airport Ground Travel Plan (AGTP) (2006), which described SACL's objective to:

- Identify and target specific opportunities to promote non-car modes of access to Sydney Airport;
- Promote a shift to more sustainable transport modes to access Sydney Airport; and
- Increase the public transport mode share from 15% to 20% by 2024[2].

Ensuring that public transport (particularly rail) provides an attractive alternative to private road-based passenger transport is therefore exceptionally important from a SACL perspective.

Ground access to Sydney Airport is dominated by road-based trips for all market segments (i.e. air passengers, airport employees, and meeters and greeters). As illustrated in Figure 1, the Sydney Airport public transport mode share (i.e. bus and train) to Sydney Airport was estimated at 15% in 2006, whereas private road-based trips were estimated at around 84%. To achieve a 5% increase in the public transport mode share by 2024 (i.e. to 20%), ground access by public transport will need to increase by over 30%.

Figure 1 – Sydney Airport Ground Access Mode Share, 2006



Source: Sydney Airport Ground Travel Plan 2006

The attainment of this target can be achieved via the provision and promotion of attractive and competitively priced public transport services. The policy levers available to Government and the respective public transport operators that can impact on mode share include:

- Fare
  - Products
  - Levels
- Service levels
  - Hours of operation
  - Frequency
  - Route structure
- Service quality
  - Ease of ticket purchase
  - On time running
  - Vehicle cleanliness etc.
- Marketing and communications
  - Customer awareness and informed decision making

Of the public transport modes available for passengers to access Sydney Airport, rail has been, and would be expected to continue to be, the dominant public transport mode used to access Sydney Airport by all market segments. Accordingly, rail needs to represent a highly attractive ground access option.

The fare reform proposed by SACL (i.e. aligning fares to and from the two airport stations to CityRail

[2] Sydney Airport Corporation Limited, 2009, Sydney Airport Master Plan, p 89.

system-wide standard fares) represents a 'quick win' in terms of increasing the attractiveness of rail as a means of travelling to and from Sydney Airport. Importantly, it would also remove a perceived anomaly where customers using the two airport stations pay a premium fare when they are effectively offered the same service as other CityRail customers across the entire network. Specifically, the proposed fare reform would:

- Quickly increase the number of people travelling to and from Sydney Airport by train;
- Result in the more efficient use of existing rail infrastructure (i.e. existing rail infrastructure should be efficiently maximised ahead of committing substantial extra sums of capital to new infrastructure projects with long lead times); and
- Help to alleviate existing (and future) traffic congestion on roads such as the M5 East Motorway, reduce greenhouse emissions and improve local air quality[3].

Responsibility for the competitive positioning of airport rail services rests with both a private company (i.e. Airport Link Company) and RailCorp. SACL has no role in the setting of airport rail fares and service levels and does not benefit financially from any increase in rail patronage that may result from initiatives that improve the attractiveness and use of public transport.

Box 1 summarises the key features of the Sydney Airport rail operating model.

In February 2010, Booz & Company submitted a report to SACL that addressed the estimated market impact of removing the Station Access Fee (SAF) or 'Gate Pass' from the applicable fare charged by the Airport Link Company (ALC) for travel to and from the four ALC stations (i.e. International, Domestic, Mascot and Green Square).

Box 1 – Sydney Airport Link Operating Model

- Sydney Airport Link was developed as a 30-year concession between the New South Wales Government and the private sector under the Public – Private Partnerships (PPP) model
- The four Airport Link stations (i.e. International Airport, Domestic Airport, Mascot and Green Square stations) are owned and operated by the Airport Link Company;
- All train services are provided by CityRail as part of the suburban network;
- Airport Link generates a revenue stream through a 'fare premium' or 'Station Access Fee' (SAF) that is charged for all trips to and from the two Airport stations (i.e. International and Domestic);
- The SAF is added to the 'standard' CityRail fare and varies by both customer type (i.e. Adult, Child etc.) and ticket type (Single, Return, Weekly etc); and
- In March 2011, following an agreement reached between the (then) New South Wales Government and ALC, the SAF was removed from CityRail fares charged for travel to and from two ALC stations, namely Green Square and Mascot. However, this agreement did not extend to removing the SAF from CityRail fares to and from the two Sydney Airport stations (i.e. International and Domestic).

Source: Booz & Company

The subsequent removal of the SAF from fares to and from the two non-airport Airport Link stations (i.e. Green Square and Mascot) in March 2011 demonstrated the capacity of fare reform to increase passenger demand and encourage a shift away from road-based transport. In particular, it was reported in June 2011 that passenger throughput at Green Square and Mascot was 70% higher on a year-on-year basis, with 50% being attributed to the removal of the SAF and 20% to natural market growth[4].

[3] Sydney Airport Corporation Limited, 2009, SACL's submission to the Independent Reference Panel concerning Transport Blueprint for NSW, p 2.

[4] 'Ticket Sales Rocket as Airport Line Prices Plunge', Sydney Morning Herald, p.3, 9 June 2011.

The purpose of this report was to revisit the potential impact that removing the fare premium (i.e. SAF) would have on the demand for rail services at the two airport stations in 2011/2012 and beyond. In doing so, the following three key areas were addressed:

- **Model Structure**: the original model was calibrated to a 2009/10 base year and the model was reconfigured to a 2010/11 base year.
- **Fare Elasticities:** it was necessary to review the fare elasticities and demand function used to estimate the demand change associated with the removal of the SAF, with consideration given to the actual experience at Green Square and Mascot.
- **Base Year Data**: by necessity the previous study relied upon estimates of demand at the ALC stations and we have replaced this by actual throughput data publicly released by ALC. Other key statistics such as Sydney Airport passenger throughput were also updated.

2. Rail Market

The Airport Link market is not a single homogenous market. The rail market share varies across market segments and there are variations in the relative importance of rail service attributes across market segments.

In essence, the rail market comprises several key market segments:

- Airline passengers (i.e. international and domestic airline passengers);
- 'Meeters and greeters' (i.e. non-flyers that accompany a passenger to or from the airport); and
- Airport employees (i.e. people employed at and around the airport by SACL, airlines, freight companies, retail outlets and other Government agencies such as the Australian Customs Service, Australian Federal Police, Department of Immigration and Citizenship);
- Air-crew employees (i.e. people employed by airlines that act as crew for the airlines, distinct from Airport employees)

The two airport stations serve distinct customer market segments (see Table 1 below).

Table 1 – Market Segments Using Airport Link Stations

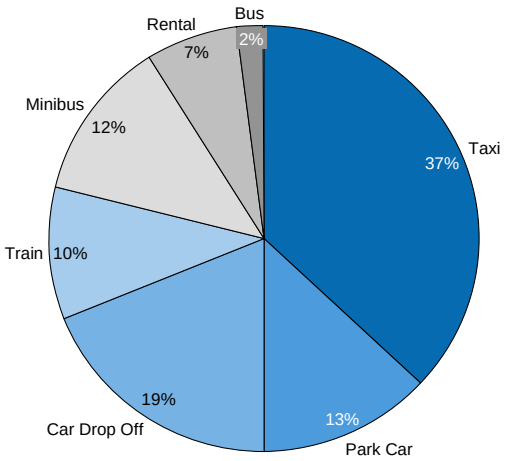
Customer Segment	International Airport	Domestic Airport
International Passengers	✓	
Domestic Passengers		✓
Meeters and Greeters	✓	✓
Airport Employees	✓	✓
Air-Crew Employees	✓	✓

Source: Booz & Company

2.1. Airline Passengers

In 2010, 35.6 million airline passengers used Sydney Airport[5], representing an average of almost 100,000 per day. As outlined in the approved Master Plan, the number of passengers is forecast to increase to 78.9 million in 2029, or an average of 216,000 per day. For airline passengers travelling to both International and Domestic terminals in Sydney, road-based transport is the preferred ground access mode. The proportion of airline passengers using public transport to access the airport is estimated at 12% as illustrated in Figure 2. The public transport modal split comprises 10% train use and 2% bus use.

Figure 2 – Sydney Airport Ground Access Mode Share, Airline Passengers, 2006



Source: Sydney Airport Ground Travel Plan 2006

For the 1 in 10 (i.e. 10%) airline passengers using rail, the primary tickets used would be a single, return or 'City Transfer[6]. The extent of the price premium levied on airline passengers is best illustrated by way of examples:

- To travel to/from Wolli Creek to Central, one station further than the International Airport to Central, an adult single fare falls by 79%, from $15.00 to $3.20; and

[5] Sydney Airport Key Highlights 2010, viewed September 2011, <http://www.sydneyairport.com.au/SACL/Annual-Report.html>

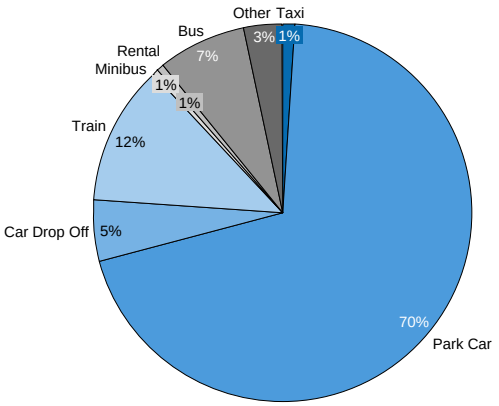
[6] CityRail, 2011, CityRail fare calculator, viewed August 2011, <www.cityrail.com.au>

- Adult single fares to a range of outer-suburban/regional centres from Central are all lower than the $15.00 charged for the 6.7 kilometre Domestic Airport journey including Berry ($7.80, 140 kilometres).

2.2. Airport Employees

More than 16,000 people are estimated to be employed within the Sydney Airport site, with the maximum daily employee population estimated at 12,000 employees. The employee market segment accounts for approximately 13% of typical weekday ground access movements at Sydney Airport[7]. The majority of airport employees use private vehicles to access the airport site.

Figure 3 – Sydney Airport Ground Access Mode Share, Airport Employees, 2006



Source: Sydney Airport Ground Travel Plan 2006

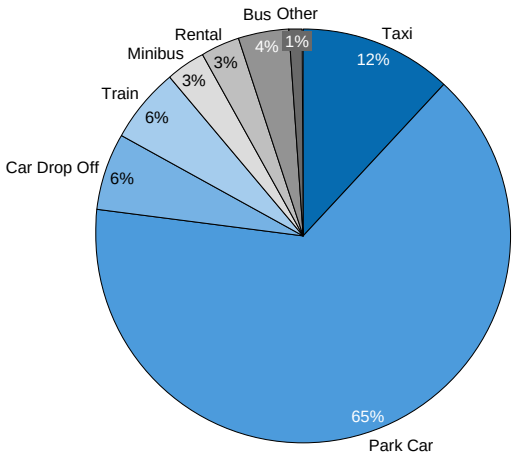
Less than 15% of Sydney Airport workers are airline flight crew[8]. This indicates that the majority of employees are essentially regular commuters (i.e. travelling to and from the airport each day). As such, the favoured ticket types for this segment include standard commuter products such as weekly, quarterly or yearly rail tickets. Again, the extent of the premium paid by airport employees compared to 'standard' Sydney commuters is best illustrated by an example:

- For an almost equivalent fare, an adult can travel on a weekly ticket from Central to the Domestic Airport station (6.7 km) or Central to Riverstone stations (46 km). This implies that a commuter can travel up to 785% further each day for the same price.

2.3. Meeters and Greeters

There are tens of thousands of people who meet and greet airline passengers at Sydney Airport every day. Meeters and greeters account for approximately 15% of total ground access movements at Sydney Airport[9]. The majority of meeters and greeters drive airline passengers to the airport. As demonstrated in Figure 4, public transport only captures around 10% of total trips made by meeters and greeters, of which the rail share is only 6% (i.e. only about 1 in 17 persons meeting or seeing off a passenger at the airport uses the train). The most relevant product type for meeters and greeters are the standard and off-peak return tickets.

Figure 4 – Sydney Airport Ground Access Mode Share, Meeters and Greeters, 2006



Source: Sydney Airport Ground Travel Plan 2006

The extent of the premium paid by meeters and greeters can again be illustrated by examples:

- An adult travelling on an off-peak return fare from the Domestic Airport to North Sydney station (13.0 km), pays almost 4.5 times more to travel from an airport station than for a comparable distance elsewhere on the

[7] Sydney Airport Corporation Limited,2006, Sydney Airport Ground Travel Plan, p. 7.

[8] Sydney Airport Corporation Limited,2006, Sydney Airport Ground Travel Plan, p. 11.

[9] Sydney Airport Corporation Limited,2006, Sydney Airport Ground Travel Plan, p. 7.

CityRail network, such as Central to Chatswood (12.9 km); and

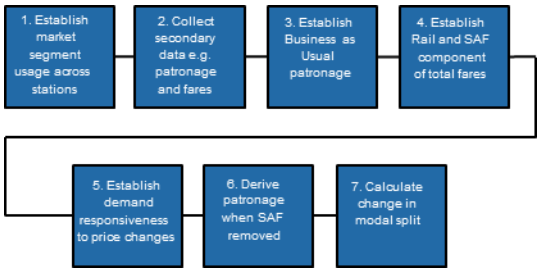
- An adult return fare travelling from International Airport station to Town Hall costs $26.60, whereas to travel an equivalent distance on the CityRail network (from Town Hall to Croydon) costs $8.00. This equates to a price differential of 330%.

3. Analysis of Fare Reform

3.1. Approach

The impact that removing premium pricing (i.e. the proposed fare reform) would have on the demand for rail services at the two airport stations operated by Airport Link was examined over a 24-year period. Our approach is depicted in Figure 5 below:

Figure 5 – Methodology



Source: Booz & Company

The impact of fare reform on patronage was examined by comparing a 'business as usual' scenario and the case for removing premium pricing (i.e. 'fare reform' scenario). The impact of the fares reform was modelled in 2011/12, based on 2010/11 patronage and fare data.

3.2. Business as Usual

The underlying features of the 'business as usual' scenario were:

- No real fare changes; and
- Patronage was forecast over a 24-year period (i.e. 2011/12 to 2034/35) based on constant growth rates.

Base year (i.e. 2010/11) patronage was estimated by drawing together data regarding airport throughput made available by SACL and 2010 station throughput figures published by ALC[10].

Base year patronage (i.e. 2010/11) was reported as:

- 1.5 million at International station; and
- 3.3 million at Domestic station.

Details of current fares for travel to and from the two airport stations were obtained from the CityRail fare calculator. For example, single adult fares travelling from each of the airport stations to Sydney Central station are as follows:

- $15.00 for the International station; and
- $15.00 for Domestic station[11];

As set out in Table 2, estimated patronage growth reflects both the growth at Sydney Airport by passengers, employees and meeters and greeters.

Table 2 – Estimated Growth Rates by Market Segment, 2011/12 to 2034/35

Customer Segment	Growth Rate
Domestic Passenger	3.9%
International Passenger	4.8%
Meeter and Greeter	2.1%
Aircrew Employees	4.2%
Non-Aircrew Employees	3.2%

Source: Sydney Airport Corporation Limited Transport Blueprint (2009)

International and domestic airline passenger growth rates were sourced from SACL's 2009 submission to the Transport Blueprint for NSW (as per the Sydney Airport Master Plan[12]). The growth rate for meeters and greeters was estimated at 50% of the air passenger growth rate reflecting the declining propensity of people to meet or see off passengers at airports. Aircrew employees and non-aircrew employees were assumed to grow at 100% and 75% respectively of average Sydney Airport passenger growth.

[10] Airport Link Company Pty Ltd submission to Productivity Commission regarding the Economic Regulation of Airport Services (2011)

[11] CityRail, 2011, CityRail fare calculator, viewed August 2011, <www.cityrail.com.au>

[12] Sydney Airport Corporation Limited, 2009, Sydney Airport Master Plan.

3.3. Fare Reform

The underlying features of the 'fare reform' scenario include:

- Base case patronage (i.e. 2010/11) as per the 'business as usual' scenario;
- Estimation of real fare changes associated with the magnitude of the fare reform (i.e. removal of SAF);
- Application of fare elasticities to the estimated fare change to assess the impact on the demand for Airport Link services in 2011/12 (i.e. over and above underlying growth); and
- Application of long-term passenger growth rates from 2012/13.

Fares were analysed to identify the rail and Station Access Fee (SAF) components of total fare. Firstly, single adult fares between each of the Airport Link rail stations to Central were identified. Secondly, the relevant fares for comparable distances elsewhere on the CityRail network (i.e. non-Airport Link rail stations) were also established. A comparison of these fares enabled the effective SAF premium to be identified.

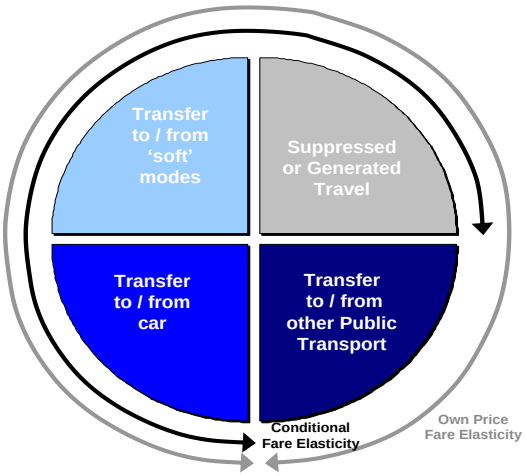
The application of fare elasticities enabled passenger responsiveness to the removal of the SAF premium to be determined. Fare elasticities were established using the Booz & Company 'CityRail Fare Elasticity' report commissioned by the Independent Pricing and Regulatory Tribunal (IPART) in 2008. This report provided a system-wide own-price (conditional) elasticity estimate for CityRail of -0.29 and a single ticket elasticity of -0.48. With the exception of aircrew and employees, the airport market was assessed to most resemble the public transport single ticket market and therefore:

- -0.48 was adopted as a starting point elasticity for the air passenger and meeter and greeter market segments; and
- -0.29 was adopted a starting point elasticity for aircrew and non-air crew market segments.

For application to the two airport stations under the 'fare reform' scenario, two key modifications were deemed appropriate.

Firstly, the IPART estimates make allowance for induced or suppressed demand associated with fare changes – one of the components of estimated own-price elasticity as shown in Figure 6.

Figure 6 – Composition of CityRail's Elasticities



Source: Booz & Company

The airport market differs to other destinations that can be accessed by CityRail in the sense that there is essentially no discretionary travel element. That is, airline passengers have to, or are about to, make a flight and the work trip is non-discretionary for airport employees. The only airport station market segment where travel is discretionary is the meeter and greeter market (i.e. they can choose whether or not to travel to the airport). These non-discretionary travellers are more fare inelastic and the CityRail base elasticity estimate applied to passengers and employee market was scaled down to remove the impact of suppressed and generated travel.

A second adjustment was made to the elasticity estimates for all market segments. The Booz & Company report suggests that the estimated own-price elasticity should only be applied to fare changes of up to 10%[13]. In this case, we needed to estimate the change in demand associated with substantially larger fare changes. It was therefore assumed that fare elasticities are directly proportional to the change in real fares and the elasticities for all market segments were scaled up accordingly.

The resultant fare elasticity estimates used in the analysis are detailed in Table 3. For example, it

[13] Booz & Company as commissioned by the Independent Pricing and Regulatory Tribunal, 2008, CityRail Fare Elasticities, p. ii.

suggests that a 10% increase in fares facing airport passengers will reduce the demand for Airport Link services by 5.2% (i.e. own-price elasticity of -0.52).

Table 3 – Estimated Fare Elasticities, Airport Link Market

Rail Station	Fare Elasticity
Airport Passenger	-0.52
Meeter and Greeter	-0.81
Aircrew Employee	-0.32
Non-Aircrew Employee	-0.32

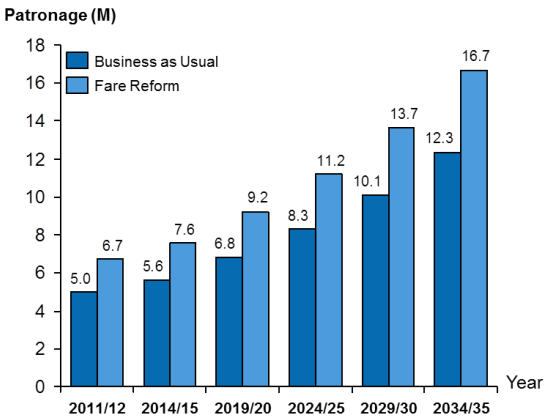
Source: Booz & Company

These fare elasticities were applied to the estimated effective fare changes for each market to estimate the uplift in patronage associated with the withdrawal of the SAF.

3.4. Results

The proposed 2011/12 fare reform has a major impact on estimated patronage at the two Airport stations. Figure 7 compares total patronage under the 'business as usual' and 'fare reform' scenarios over a 24-year period.

Figure 7 – Estimated Airport Link Rail Patronage, 2011/12 to 2034/35



Source: Booz & Company

The initial impact of fare reform in 2011/12 highlights that:

- Rail patronage is forecast to be 35% higher in 2011/12 under the 'fare reform' scenario. This equates to 1.7 million additional journeys being made by rail rather than road-based modes.

Over the long-term (i.e. 2011/12 to 2034/35) the fare reform is estimated to have the following effect:

- An additional 69 million journeys diverted from road-based modes over 24 years.

3.5. Modal Split Impacts

Under the fare reform scenario, there is an immediate uplift in the rail mode share in 2011/12 and beyond. As presented in the Sydney Airport Ground Access Report (2006), the rail mode share was estimated at 10% for international and domestic airline passengers, 12% for employees and 6% for meeters and greeters in 2006.

We estimate that the estimated increase in rail demand by airline passengers associated with the removal of the SAF would increase the rail mode share for this segment to around 15%.

4. Discussion and Conclusions

The purpose of this report was to estimate the impact on rail patronage if fare reform was implemented at the two airport stations operated by Airport Link (i.e. removal of premium pricing). The analysis illustrates that the removal of the SAF would dramatically improve the price competitiveness of rail relative to competing modes. This can be demonstrated through the following examples:

- Airport Link is not currently a highly attractive option for groups of two or more travelling from Sydney Airport to the Sydney CBD (i.e. a return taxi fare of around $50[14] compared to a total return rail fare of $50 for two people). However, with the removal of the SAF, the cost of two return rail fares would fall to $12.80[15] – considerably changing the competitive position of rail compared with both taxi and the private car.
- For the single traveller with a CBD destination, the cost of using rail on a return ticket would fall from 50% of the equivalent taxi fare to just over 10% of the comparable taxi fare.

The impact of the fare reform is reflected in the 2011/12 initial estimated uplift in patronage of:

- 35%, or an estimated 1.7 million additional passenger journeys being made by rail rather than road-based modes to Sydney Airport.
- In the longer term, the benefits of the fare reform become more pronounced and over the 24 years to 2034/35 it is estimated that an additional 69 million rail journeys will be made compared to the 'business as usual' scenario.

We estimate that this will immediately increase the share of air passengers using rail to travel to and from Sydney Airport to around 15%.

We note that the estimated patronage uplift at the two airport stations (i.e. 35%) is significantly lower than that observed at the two non-airport stations (i.e. 50% attributed to the removal of the SAF). This reflects the core differences between the two markets. In particular, a significant proportion of the airport ground access market is not contestable from an airport rail perspective in the sense that price signals are largely irrelevant to mode choice decisions. For example, an international air passenger with significant checked baggage or the domestic air passenger able to charge a limousine or taxi trip to a corporate expense account would not be expected to respond strongly to the removal of the SAF.

[14] Sydney Airport taxi fare information, viewed September 2011, http://www.sydneyairport.com.au/SACL/Taxis.html

[15] CityRail, 2011, CityRail fare calculator, viewed September 2011, <www.cityrail.com.au>

Appendix 1. Data Summary: Patronage under 'Business as Usual' and 'Fare Reform'

Year	International Airport		Domestic Airport	
	Business as Usual Patronage (000's)	Fare Reform Patronage (000's)	Business as Usual Patronage (000's)	Fare Reform Patronage (000's)
2010/11	1,500	1,500	3,300	3,300
2011/12	1,567	2,092	3,424	4,658
2012/13	1,636	2,185	3,552	4,832
2013/14	1,709	2,283	3,686	5,013
2014/15	1,786	2,385	3,824	5,201
2015/16	1,866	2,492	3,968	5,397
2016/17	1,949	2603	4,117	5,599
2017/18	2,036	2,720	4,271	5,809
2018/19	2,128	2,842	4,432	6,028
2019/20	2,223	2,970	4,599	6,254
2020/21	2,323	3,104	4,772	6,489
2021/22	2,428	3,244	4,952	6,734
2022/23	2,537	3,390	5,138	6,987
2023/24	2,651	3,543	5,332	7,250
2024/25	2,771	3,703	5533	7,523
2025/26	2,896	3,871	5,742	7,807
2026/27	3,027	4,046	5,959	8,101
2027/28	3,164	4,229	6,183	8,407
2028/29	3,308	4,421	6,417	8,724
2029/30	3,458	4,622	6,659	9,053
2030/31	3,615	4,832	6,911	9,395
2031/32	3,779	5,052	7,172	9,750
2032/33	3,951	5,282	7,444	10,119
2033/34	4,131	5,523	7,725	10,501
2034/35	4,319	5,775	8,018	10,898

Source: Booz & Company