INQUIRY INTO REGIONAL AVIATION SERVICES

Organisation: Sydney Airport Corporation Limited

Date received: 14/03/2014

14 March 2014

The Director
NSW Legislative Council Standing Committee on State Development
Parliament House
Macquarie Street
Sydney   NSW   2000

Dear Sir/Madam

Re: Submission to Inquiry into regional aviation services

Sydney Airport welcomes the opportunity to make a submission to the NSW Legislative Council's Standing Committee on State Development as part of its Inquiry into regional aviation services.

Attached for your information is a copy of our submission.

If you would like any further information, please feel free to contact Mr Ted Plummer, Head of Government and Community Relations on (02) 9667 6182.

Yours sincerely

Kerrie Mather
Chief Executive Officer

Submission from Sydney Airport

Inquiry into regional aviation services

Background

Sydney Airport: Creating jobs and economic activity

Sydney Airport supports or facilitates significant economic activity. 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, and total employment will increase to over 400,000 jobs.

The Deloitte study highlights that a relatively small development at Sydney Airport can have a potentially large economic impact on both the NSW and Australian economies. As an example, an additional daily A380 from China would, on an annual basis, contribute an estimated:

- $388 million to Australian GDP

- $233 million to Australia's household income

- 5,000 jobs (4,000 of which would be in NSW, including in regional areas).

Whilst not of the same magnitude, additional regional services or larger regional aircraft can also contribute materially to the economy:

- An additional daily B737-800 to a regional destination (eg Port Macquarie) would contribute $24 million to Australian GDP and 310 FTE jobs

- Up-gauging a daily regional service from a Saab 340 to a Dash 8-400 would (where supported by demand) would contribute $5 million to Australian GDP and 60 FTE jobs.

Sydney Airport's role in supporting tourism

Sydney Airport has an unmatched route network which includes 47 international, 24 domestic and 24 regional destinations. 36 international, 6 domestic and 6 regional airlines fly to Sydney Airport.

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 and regional NSW tourism industry. This supports several hundred thousand direct and indirect jobs in the state's tourism industry, many of which are located in regional NSW.

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.

Master Plan 2033

New development plan for Sydney Airport

On 17 February 2014, the Australian Government approved Sydney Airport's Master Plan 2033. A copy can be downloaded at: http://www.sydneyairport.com.au/corporate/master-plan.aspx.

The development plan for Sydney Airport shown in the Master Plan would see the airport transformed into two integrated terminal precincts, combining international, domestic and regional airline services in each of the precincts. It reflects extensive consultation over more than two years with stakeholders to understand their priorities. It is designed to ensure Sydney Airport can facilitate growth over the 20-year planning period. The development plan delivers considerable benefits for all airline passengers, including regional passengers.

The community and stakeholder consultation and engagement undertaken to prepare the Master Plan – which included regional airlines using Sydney Airport and other key stakeholders across regional NSW – was more extensive than that undertaken for any of Sydney Airport's previous Master Plans.

The Master Plan will deliver a number of benefits for regional airlines and their passengers. These are addressed in more detail below.

Forecast growth in aviation activity

In 2033, the Master Plan shows that Sydney Airport is projected to handle approximately:

- 74.3 million passengers, including 3.2 million regional airline passengers
- 409,500 aircraft movements, including 74,500 regional aircraft
- Around one million tonnes of freight.

For international and domestic (including regional) passengers these forecasts represent annual average growth rates of 4.2% and 2.9% respectively. Overall, this is a forecast average annual growth rate of 3.4%.

Sydney Airport anticipates that the aviation industry shift towards larger, cleaner, quieter, new generation aircraft will continue and passenger numbers will continue to grow at a faster rate than aircraft movements.

More detailed information on the aviation activity forecasts can be found in **Attachment A**.

The NSW Government's legislative framework for regulating intrastate aviation

Under the NSW *Air Transport Act 1964* (the AT Act), the NSW Government (through the Minister for Transport and Transport for NSW) regulates intrastate air routes by limiting competition on low volume routes and licensing these routes on a "one-route one-licence" basis. Higher volume routes are deregulated (unlicensed), which allows open competition.[1]

These arrangements recognise that higher volume routes can operate competitively, while it is assumed that lower volume routes may not be as robust and are protected from competition or the assumption that this will provide greater stability and encourage route development.

Air services from one place in NSW to another place in NSW cannot be conducted unless the person is the holder of a licence issued under the AT Act. A number of exemptions to the licensing provisions are established within the AT Act, namely:

- Services operating on fewer than 5 occasions within any period of 28 days over the route
- The provision of a charter service, being any air transport service that is operated or provided otherwise than as a regular service over a particular route
- The provision of a regular air transport service over a deregulated route.

The Minister for Transport has the power to deregulate intrastate air routes and has declared as deregulated all intrastate routes not linked to Sydney Airport and the routes between Sydney Airport and:

- Albury
- Armidale
- Ballina
- Coffs Harbour
- Dubbo
- Griffith
- Lismore
- Orange
- Port Macquarie
- Tamworth
- Wagga Wagga
- Newcastle (Williamtown)

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[1] Information sourced from Transport for NSW website.
http://www.transport.nsw.gov.au/content/legislative-and-policy-framework (accessed on 28 February 2014)

Terms of Reference – 1

Cost of access to Sydney Airport, regional New South Wales airports and other landing fields including:
  a) *airport operator landing fees imposed at various airports and services and facilities included in those fees;*
  b) *methodology for calculating landing fees for different classes of aircraft.*

The Australian Government's legislative framework for regulating charges paid by regional airlines at Sydney Airport

Aeronautical services and facilities provided by Sydney Airport to 'regional air services' are declared to be notified services under the Competition and Consumer Act 2010 (Cth) (the CCA Act). The declaration defines regional air services as regular public transport air services operating wholly within the state of New South Wales. This situation has applied since 1 July 2002.

Aeronautical services and facilities provided by Sydney Airport to regional air services are declared under Declaration No. 93 which commenced on 1 July 2013 and ceases on 30 June 2016.[2] This means that Sydney Airport must provide a price notification to the ACCC prior to increasing its prices for those services.

In undertaking its assessment of any price notification, the ACCC is directed to give special consideration to the Australian Government's policy outlined in a direction made under the CCA Act (Direction No 34, dated 27 May 2013). The Government's policy states that, to facilitate continuing access to Sydney Airport by operators of regional air services, the total revenue-weighted percentage increase in prices over three years from 1 July 2013, or part thereof, should not exceed the total percentage increase in the Consumer Price Index (CPI) over that same period.

Under the system, the aeronautical charges paid by regional airlines at Sydney Airport have not increased since May 2001 Therefore over the period to 2013, aeronautical charges at Sydney Airport have fallen in real terms by 29%.

Benchmarking regional NSW airport charges

In 2010/11, Sydney Airport engaged Ernst & Young to perform an analysis and produce a report that benchmarks regional ("intrastate") NSW airport charges between the financial years ending 2002 and 2010.

These regional airports correspond to the following routes to and from Sydney Airport:

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[2] See http://www.accc.gov.au/regulated-infrastructure/airports-aviation/airports-aviation-price-notifications

Route type	Routes to and from Sydney Airport
Non-Regulated Licensed Routes	• Coffs Harbour • Ballina • Albury • Port Macquarie • Wagga Wagga • Dubbo • Tamworth • Armidale • Griffith • Orange • Lismore • Newcastle (Williamtown)
Regulated Licensed Routes	• Merimbula • Parkes • Lord Howe Island • Moree • Broken Hill • Bathurst • Moruya • Taree • Mudgee • Grafton • Narrandera • Narrabri • Cooma • Cobar

In addition, the report includes a benchmark analysis of charges in the major capital city airports in Australia – Sydney, Melbourne, Brisbane, Perth, Adelaide and Bankstown airports.

In the Ernst & Young report, the respective charges are segmented into two categories:

• Non-Regulated Licensed Routes
• Regulated Licensed Routes.

To ensure this submission contains the most up-to-date information, the data published in the 2011 Ernst & Young report was updated by Sydney Airport to include relevant data for 2013. This is shown in **Attachment B**.

As can be clearly seen, aeronautical charges at Sydney Airport are in most cases considerably lower than at the regional NSW airports. They are also materially lower than the domestic charges at Sydney Airport and lower than the regional charges at the other major capital city airports.

Over the past decade, airport charges have generally increased slightly above inflation for:

• Flights to/from other capital city airports

- Flights to/from the NSW regional airports
- International and domestic flights to/from Sydney Airport

These increases over time reflect inflation-related cost increases, additional security requirements, and substantial additional investments at many airports.

In summary, the charges at Sydney Airport for regional services are relatively low (when compared to both other airports and domestic services at Sydney Airport), and have declined by 29% in real terms over the past decade.

Terms of Reference – 2

Financial management and viability matters impacting on RPT operators, including:

  a) *economics of operating various types of aircraft, including modern single engine turbine compared to older twin engine piston aircraft;*
  b) *impacts of compliance costs, including per passenger costs;*
  c) *suitability of "hub and spoke" systems for potential routes for smaller passenger numbers;*
  d) *the viability of passenger loading for different classes of aircraft.*

While airlines are clearly more intimate with the matters impacting on their financial viability, Sydney Airport believes that targeted government assistance could improve outcomes for regional communities.

Encouraging government assistance for regional NSW airports

In many cases, market growth through larger aircraft has been facilitated by investment in airport infrastructure by local government owners and operators of larger regional airports. For example, Port Macquarie – Hastings Council recently completed a $21 million airside infrastructure upgrade at Port Macquarie Airport to underpin the region's future growth, economic development and tourism potential. The upgrade marks a significant milestone for the airport and the local Hastings community, with the upgraded runway now providing the capability for larger jet aircraft (up to 180-seat B737/A320 aircraft) for the first time in the airport's 60 year history. The project was supported by $15 million in funding assistance from the Australian Government.[3] Airports at Coffs Harbour and Ballina were previously similarly upgraded to facilitate use by larger jet aircraft.

There are other airports across NSW that have restrictions on the aircraft that can be handled at their respective airport due to infrastructure limitations. These limitations include runway length and other airfield infrastructure issues. Sydney Airport would welcome the establishment of a government assistance fund for regional NSW airports, to encourage continued infrastructure investment at regional airports.

Such funding could be provided through an appropriately amended component of the Australian Government's existing Regional Aviation Access Programme.

Supporting passenger demand through efficient means

Historically at Sydney Airport, passenger demand growth has been facilitated by larger regional, domestic and international aircraft. This has formed the basis of the 2033 Master Plan capacity forecasts, which is based on continued modest increases in aircraft size and growth in movements through the operating day, to accommodate passenger growth.

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[3] Information sourced from http://www.pmhc.nsw.gov.au/airport/about-the-airport/airport-upgrade (accessed on 28 February 2014).

Where supported by passenger demand, Sydney Airport could be better utilised as an important infrastructure asset if larger aircraft were encouraged. However, Sydney Airport is also conscious of the:

i)   availability of suitable regional aircraft; and
ii)   significant operational and financial costs involved for airlines to change/up-gauge their existing fleets.

Government therefore, could support this through initiatives such as the reinstatement of the En-Route Rebate Scheme (Australian Government) or by establishing similar NSW Government schemes.

Terms of Reference – 3

Economic impact on regional communities of gaining or losing RPT services, including:

a) *the local business community;*
b) *the impact on general aviation and regional airport management of the gain or loss of RPT services to regional centres;*
c) *the potential for future economic development;*

impacts for local, state and Federal governments, including licencing arrangements for services less than 50,000 passengers per annum.

Sydney Airport has not investigated the impacts of RPT services on individual regional communities. However, as highlighted in the Background, the Deloitte Study was requested to evaluate the socio-economic impacts of regional services to Sydney Airport more broadly. The study identified that additional regional services or larger regional aircraft can also contribute materially to the economy:

- An additional daily B737-800 to a regional destination (eg Port Macquarie) would contribute $24 million to Australian GDP and 310 FTE jobs

- Up-gauging a daily regional service from a Saab 340 to a Dash 8-400 would (where supported by demand) contribute $5 million to Australian GDP and 60 FTE jobs.

Sydney Airport supporting regional aviation

Sydney Airport recognises the importance of its existing network of services to regional communities in NSW. This regional network also supports the development of the international and domestic networks at Sydney Airport.

Over the past 20 years, regional traffic has grown at Sydney Airport, with a 221% increase in passenger numbers.

Sydney Airport is proud of the service it provides to regional communities, including an extensive route network during the peak hours, facilitating connectivity with international and domestic routes, and lower airport charges than almost all other airports in the Sydney-regional route network.

In summary:

- With the exception of Lord Howe Island that has flights scheduled for a leisurely start to passengers' holidays, all regional destinations are served in the morning and afternoon peak periods.

- Sydney Airport's 24 regional routes have an average of six movements each during the peak hours.

Sydney Airport has seen growth in regional demand matched by airlines up-gauging to larger aircraft. Over the long term, 7-9 seat aircraft have been replaced with 17-19 seat aircraft, which in turn have been progressively replaced by 30-36 seat, 50 seat, 64-72 seat, 100 seat and 170-180 seat aircraft. Regional aircraft have increased in size more quickly than any other market segment, and the increase in aircraft size has both responded to and promoted passenger growth.

As Sydney Airport's recently approved Master Plan 2033 shows, with continued modest increases in regional aircraft size and growth in movements through the operating day, Sydney Airport will continue to be able to accommodate all passenger demand for regional air travel.

As noted in the Background, 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.

Terms of Reference – 4

Potential for development of future modern RPT aviation including:

a) *opportunities for regional aviation manufacturing and servicing;*
b) *the development and supply of sufficient numbers of trained and skilled aviation personnel;*
c) *local, state and Federal government arrangements for staff travel;*
d) *opportunities for dual use RPT services to include both freight and passenger legs on the same routes.*

This section is more relevant to regional airlines.

Terms of Reference – 5

Any other matter relating to the provision of aerial regular passenger transport services.

Sydney Airport believes that outcomes for regional communities could be improved through the reform of the current operational restrictions that govern Sydney Airport.

Reforming Sydney Airport's operational restrictions could improve outcomes for communities in regional NSW

Sydney Airport suggests a more flexible approach could be taken in relation to the aircraft movements cap for all flights, including regional flights.

The existing 80-per hour cap on aircraft movements became law only after various political parties promised to limit movements to 85, 80 or other amounts. The Coalition, who had committed to 80 movements per hour won the 1996 federal election and implemented the 80-per hour cap. The 2012 *Joint study on aviation capacity in the Sydney region* recommended that the movement cap be increased to 85 per hour during peak hours, which has been supported by NSW Premier Barry O'Farrell.[4]

Even if the existing cap of 80 movements per hour were to remain, an exceptional category for low-impact, quiet (including regional) aircraft could be designated whereby they are not included in the cap. The *Sydney Airport Curfew Act 1995* has long recognised that smaller aircraft have a lower noise impact and, as such, they can therefore operate between 11pm and 6am.[5] If such aircraft are already exempt from the curfew restrictions, it follows they could be exempted from the movement cap.

This could increase regional, domestic and international airline access in peak periods while making the peak hour periods more efficient and concentrated, and could reduce the spreading of noise into off-peak times simply due to artificial capacity constraints during the peak period.

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[4] See media release at
http://www.premier.nsw.gov.au/sites/default/files/SYDNEY%20AIRPORT%20AND%20P
ORT%20BOTANY.pdf (accessed on 28 February 2014).
[5] For example, certain types of propeller-driven aircraft with a maximum take-off weight (MTOW) of less than 34,000 kilograms can operate during these times. The Saab 340 flown by Regional Express (Rex) has a MTOW of just over 13,000 kilograms.

Passenger forecasts (millions)

	2012	%	2033	%	CAGR[6]
International	12.4	33.5%	29.6	39.8%	4.2%
Domestic	22.5	60.8%	41.5	55.8%	3.0%
Regional	2.1	5.7%	3.2	4.3%	2.1%
Total	**36.9**	**100%**	**74.3**	**100%**	**3.4%**

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[6] Compound annual growth rate

Appendix B – Ernst & Young analysis updated to 2013
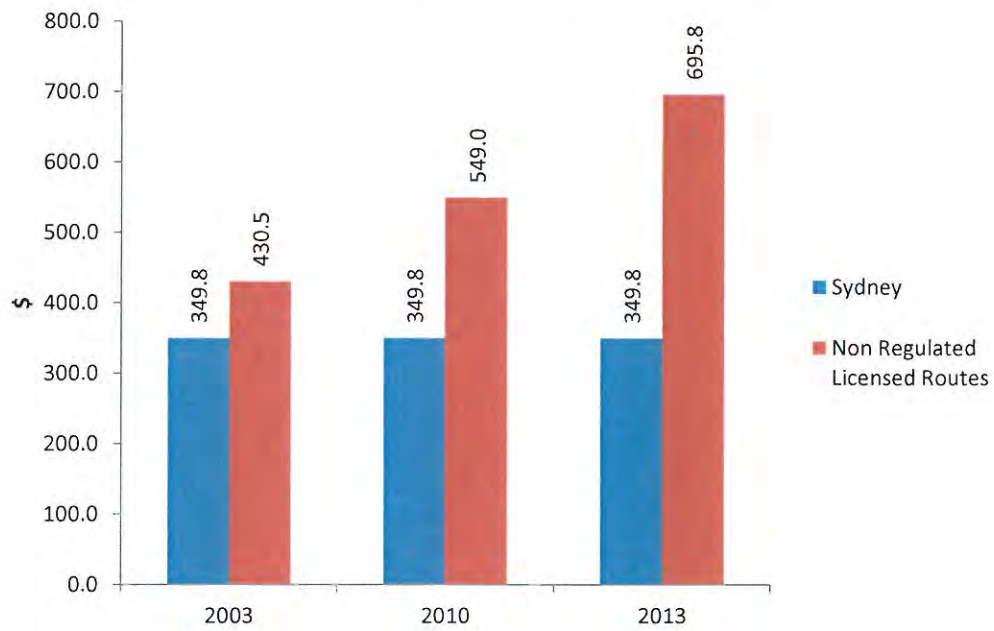
Figure 1: Per turnaround fees and charges comparison

Figure 2: Per passenger fees and charges comparison
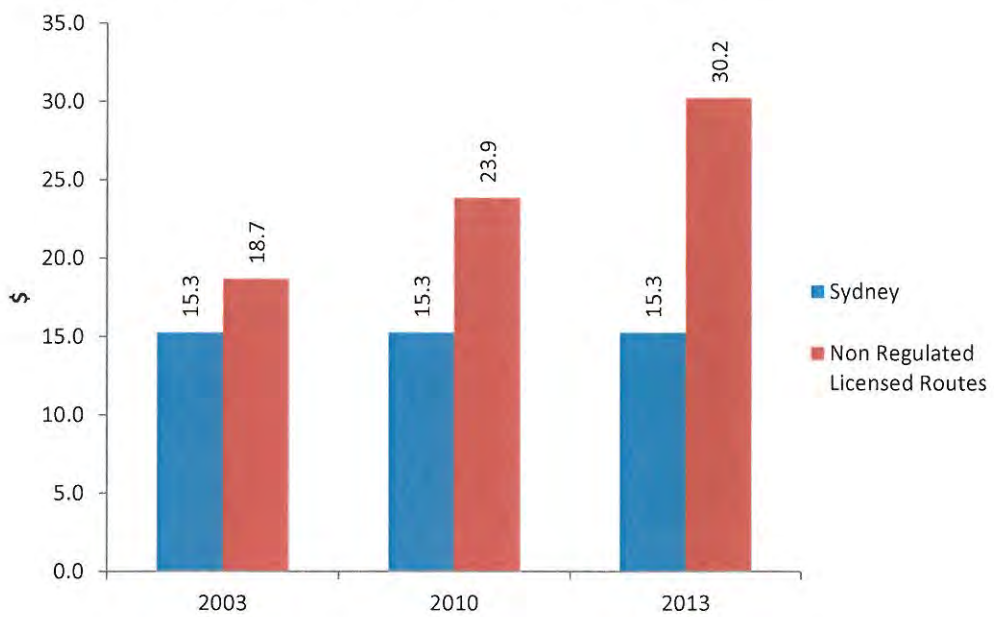
Figure 3: Per turnaround fees and charges comparison
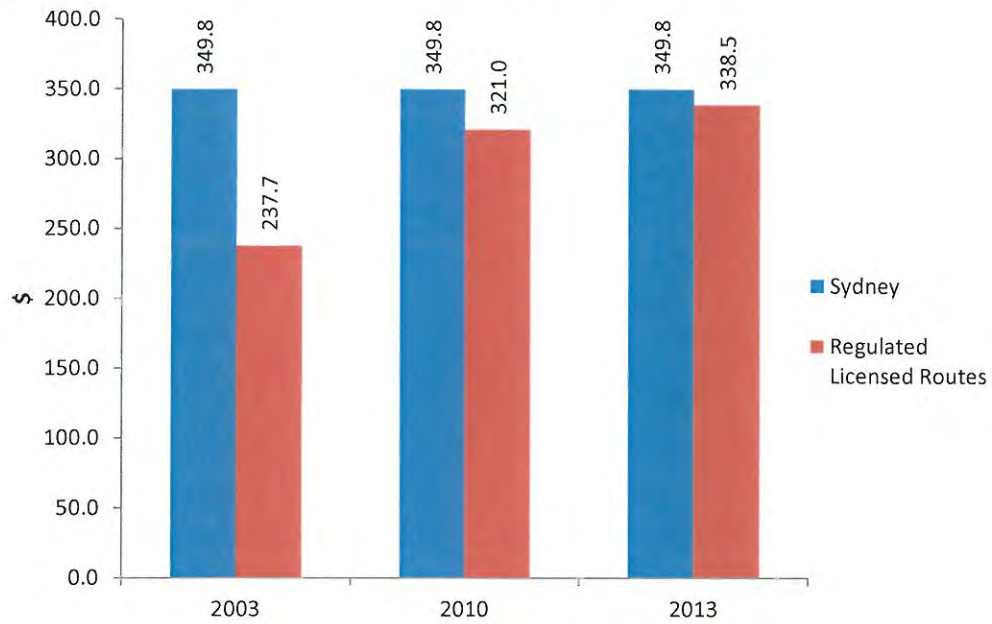
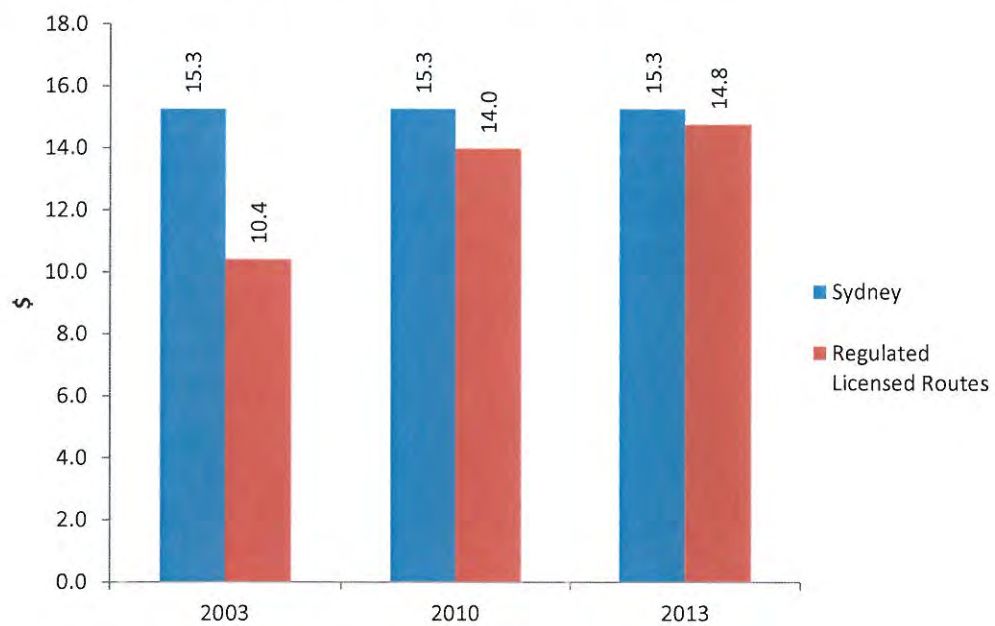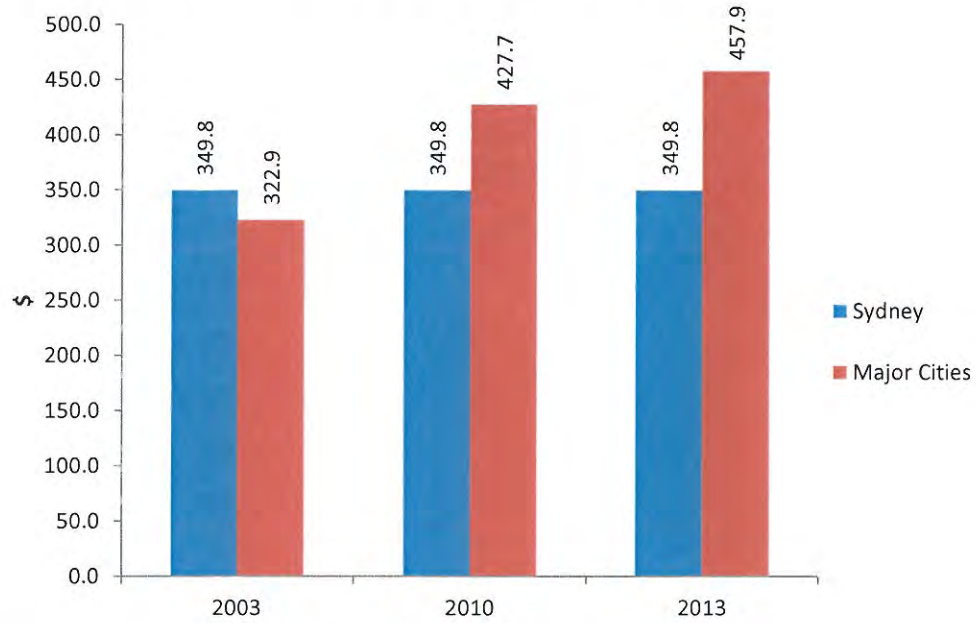**Figure 4: Per passenger fees and charges comparison**

Figure 5: Per turnaround fees and charges comparison

Figure 6: Per passenger fees and charges comparison
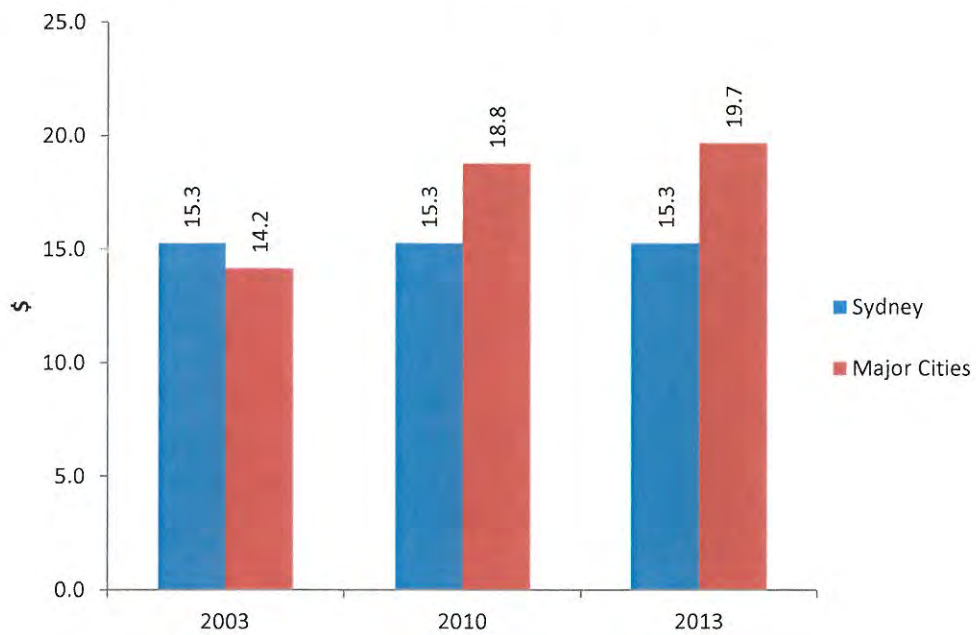
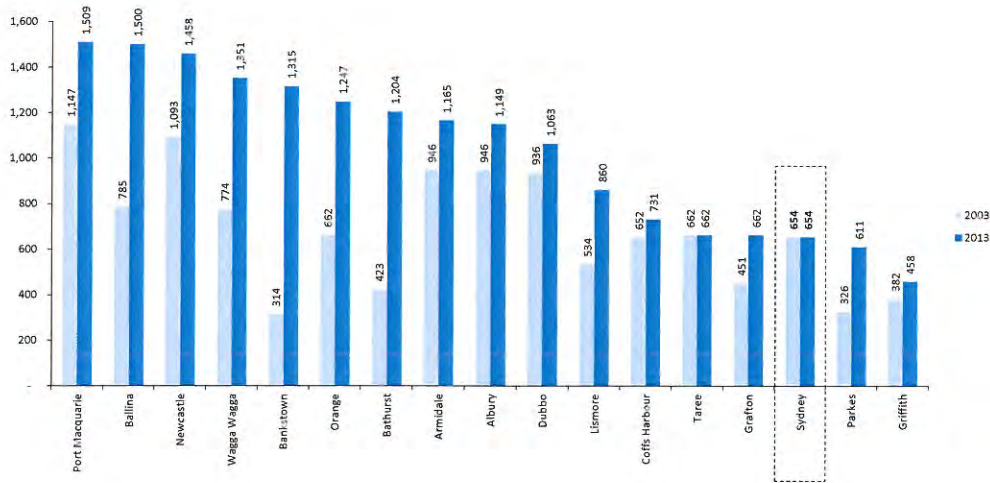**Figure 7: Total charges per turnaround by airport (Q400, 2003 and 2013)**

Figure 8: Cumulative average annual growth rate comparison