

**THE CABINET OFFICE
NEW SOUTH WALES**

Mr Richard H Snape
Presiding Commissioner
Productivity Commission
Level 3, Nature Conservation Way
Cnr Emu Bank and Benjamin Way
BELCONNEN ACT 2617

Dear Mr Snape

I refer to the Productivity Commission's Draft Report on International Air Services ('the Report').

While the New South Wales Government supports the intent of the policy changes outlined in the Report, there is a need for some of the anticipated benefits to be determined more comprehensively and for greater examination of the potential costs of liberalisation. While in most cases this is acknowledged in the Report, there are a number of outstanding matters which have not been adequately considered.

Environmental considerations

The benefits of liberalisation are at least partly dependent on increased access to airport facilities and increased airport capacity. Realisation of a more liberal regime which delivers benefits to consumers and industry is therefore likely to mean increases in air traffic, expansion in infrastructure and/or possible changes in the distribution of air traffic between city and regional airports.

The Commission canvasses the likely benefits of liberalisation for consumers and industry but does not consider the likely environmental impacts of changes in international air services. These include impacts on noise and air quality from aircraft and airport-related land transport and construction activity and impacts on water quality and waste disposal from fuel or chemical spills. In relation to aircraft noise, the Report does not consider levels of community tolerance towards increases in aircraft movements.

Impact on services to regional NSW

Access to Sydney Airport for regional airlines is a major concern for regional development interests in New South Wales. It is critically important for regional development that regional business people, in particular, have ready, low cost access to Sydney, and this means access in peak hours.

Regional airlines are required by the Commonwealth Government to hold 30 per cent of Sydney Airport's peak capacity. The Report proposes that a market for trading in landing and take-off slots be investigated. Moves to deregulate slot management could threaten the currently guaranteed regional airline access in peak periods, to the detriment of rural businesses.

One issue that the Commission needs to investigate further is whether slots for regional services in a deregulated slot market should be tied to individual operators or to particular routes. If slots were tied to individual operators, it is conceivable that certain routes would be abandoned where operators decide to withdraw services on those routes.

In relation to landing charges at Sydney Airport, the Commission proposes that there be greater use of peak load pricing at congested airports in Australia. However, the Commission has not considered the regional implications of increased peak landing charges. An important way of securing continued access to Sydney for regional airlines would be to charge for landings on a per head basis. There would also appear to be a continuing role for the Australian Competition and Consumer Commission in reviewing charges to Sydney Airport to ensure that charges for use of this monopoly facility are not so high as to generate excessive returns to the facility owner.

Safety issues

While ownership restrictions are becoming less significant in the context of recent changes in ownership policy, alliance development and code share arrangements which now apply in the international aviation industry, there would appear to be some valid concerns regarding safety standards which need to be better assessed by the industry prior to any change in ownership requirements for the designation of carriers.

If the Commission's final report takes account of the issues outlined above it should provide a sound basis upon which to make decisions on the future structure of international air services in Australia.

Yours sincerely

Roger Wilkins
Director General