

# **Submission to the Industry Commission Inquiry into the International Air Services Commission (IASC)**

## **Sydney Airport, Federal Airport Corporation**

### **Executive Summary**

This is a public submission and is not confidential.

The main purpose of this submission is to provide an understanding to the Commission of the issues at airports that influence the access and handling of international airlines.

Capacity is an issue at Sydney Airport and the regulatory environment impacting on the airport ensures that access to the Airport at peak needs to be carefully managed.

The economic and social benefits of international tourism and trade are significant to Sydney, NSW and Australia. Airports are an integral part of these industries making Sydney Airport and continued access to the Airport vital to the growth of the sectors. Sydney Airport supports that the market should be allowed to operate as freely as possible in deciding where and when airlines operate. Furthermore, the airport management can assist airlines to manage access to the airport at times that can be beneficial to both airlines and the efficient use of the airport infrastructure.

The Airport would support greater liberalisation of access to Australia by international airlines and better access to and management of the bilateral process to ensure that infrastructure issues can be discussed and optimised during the negotiation stage.

### **Sydney Airport**

Sydney Airport is the premier international airport and the major aviation hub in Australia with the majority of international and interstate flights operating in Australia moving through the airport each day.

In 1996/97<sup>1</sup> over 21 million passengers used Sydney Airport as follows: International passengers 7,300,000 Domestic passengers 13,400,000 Regional passengers 1,200,000 (estimate).

In 1996/97, there were 275,000 aircraft movements at the airport; of that approximately 16% were international aircraft movements.

<sup>1</sup> All figures are quoted are from the 1996/97 FAC Annual Report (refer Attachment G for the relevant section).

There are 40 international airlines service Sydney Airport (refer Attachment A for the list of airlines). The majority of international movements are by scheduled passenger aircraft but there are approximately 20 scheduled international freighter operations each week.

Sydney Airport is currently operated by the Federal Airports Corporation (FAC) and is administered under the Federal Airports Act 1988. Up until July 1997, Sydney Airport was part of a network of 22 Australian airports operated by the FAC. At that time, Brisbane, Melbourne and Perth Airports were leased to private operators. These privatised airports are now administered under the Airports Act 1997.

It is expected that by July 1998 another 15 FAC airports will be privatised. This will leave Sydney, Bankstown, Hoxton Park and Camden Airports as the only airports under FAC control. The Government has indicated that Sydney Basin airports leases will not be sold until the noise issue at Sydney Airport is better managed and the site for the Second Sydney Airport is settled.

The privatisation of Australian airports does allow some competition for traffic and each airport is now actively encouraging the growth of operations. Sydney Airport has established 2 units to promote growth in airline operations (Airline Development Unit) and freight (Freight Operations Unit). The ability to attract and keep new and additional services will be based on pricing structure, service standards and capacity. Knowledge and access to potential new entrants is also an important element in trying to grow the market.

### **Growth At Sydney Airport**

The Australian Travel and Tourism Industry has been heavily impacted by the Asian Currency Crisis. There are reports in the media of a significant decline in international visitors as high as 25% (ABS survey estimate). The domestic market is considered to be stagnant and under threat from the low cost holiday opportunities for Australians in Asia.

By comparison to these reports, traffic at Sydney Airport has, to date, held up relatively well to date. All sectors, except international passengers, show a slight growth over the same period last year. Even with the international passengers, the decline is less than expected in December and only 5.6% in January.

It should be noted that the current performance at Sydney Airport is not expected to hold up over the next few months for the following reasons:

a) Many leisure travellers pre-book tours and it is believed some of the North Asian travel seen over the last months is the result of these pre-booked and pre-paid fares. This is now likely to drying up in those countries that were first impacted by the currency crisis.

b) Qantas, Ansett and Korean Airlines are cancelling some or all Korean services effective 1 March 1998.

c) The domestic and NZ leisure markets are expected to be increasingly diverted to Asian destinations.

On the positive side there are some possible compensating factors later in the year:

a) Additional services have been scheduled by some South East Asian carriers to commence in the second quarter of 1998.

b) Qantas has noted in the media that it is likely that Sydney will be used more for hubbing international traffic to other Australian destinations.

The effect longer term of the Asian Economic Crisis is not expected to be limited to the short term and it is unlikely that sustained recovery will be experienced before 2000. The current forecasts for growth in the Sydney Basin published by the Department of Transport and Regional Development (refer *Attachment F*) are now considered to be optimistic over the next 8 to 10 years and it is expected that in the period at least one year's growth could be lost. Recent forecasting by the Corporation has been undertaken and can be made available on a confidential basis to the Industry Commission.

### **Economic Impact of the Airport**

An airport is an essential service to the community it serves. It provides transportation, communication and trade links to/from other countries and within a country. This is particularly vital to Australia, where distance has been the major challenge to the social and economic development of this nation.

The growth of a safe, reliable and prosperous aviation industry has been a major contributor to the defeat of the "tyranny of distance" opening Australia to the world and the world to Australians. The Transport and Tourism industries are now inextricably linked and over the past decade Tourism has grown to be one of the most important sources of employment and foreign exchange in Australian.

A study published in March 1996 by Dr Paul Hooper of the Institute of Transportation Studies analyses the economic impact of Sydney Airport (a copy has already been provided to the Commission, other copies are available on request). Key findings of the study are:

1. 33,500 jobs are directly related to airport activity

- a further 33,000 jobs are created through flow-on effects
- approximately 8% of the workforce of Sydney (1 in 12 jobs).

2. The airport requires the services of 500 businesses and organisations to meet the needs of the airport users.

3. The airport annually generated \$3.5 billion of economic benefit to the Sydney Region and a further \$3.8 billion in flow on effects.

4. International visitors using the Airport spend \$2.6 billion annually in the Sydney area.

5. Sydney Airport with its frequent, direct services and wide choice of airlines enables good access to international trading partners

- Business travel has grown by 10% each year for the last 10 years - now 2.6 million passengers use the airport annually for business related travel.

6. The Airport sector has helped maintain employment in the region.

- Traditional manufacturing is leaving the airport region.
- It is being replaced by warehousing, office developments and service industries mostly related to airport activity.

7. Sydney Airport is a dynamic economic hub and a catalyst for regional development

- Sydney Airport is the ideal springboard for export activities because of access. Exports that move by air are high value products that require fast, secure & reliable service.
- The annual value of exports by air through Sydney Airport is \$6 billion.
- The location of the airport has been a key factor in decision to build rail and road links connecting the southern areas of city to the CBD and the fast developing western regions of the city

As a hub of economic activity, the influence of Sydney Airport spreads across a wide spectrum of businesses and its region of influence is extensive.

The scope of activity, directly related to the airport (that is existing only because there is an airport) includes maintenance of runways and terminals, administration, air traffic control, refuelling, the operations of nearly 50 airlines, maintenance, catering, baggage and cargo handling. (refer to page 13 of *Economic Significance of Sydney Airport*, Hooper et al 1996).

A secondary set of services includes customs, immigration, quarantine and related government functions. These activities can be described as airport-specific, taking place as they do on airport property and being related directly to the running of the airport.

A second set of activity can be described as 'airport-using' activity. It includes retailers in the terminal, hotels servicing airport workers and customers such as airline staff and passengers, tour operators, hotel coach operators etc.

A third, indirect set of economic activity relates to industries such as the taxi industry, bus operators, tourism venue operators and so on, also benefit from airport activity.

The State Government has considered Sydney air traffic growth in its plans to enhance the public transport system in and around the airport district. The M5 East, Eastern Distributor and Airport Link Railway initiatives for example are income and employment generators with long term benefits for the city and state.

Overall, the airport-related industry is in a strategic position to support the tourism industry, services and manufacturing sectors, importers and exporters. The airport participates in the internationalisation of the Australian economy.

While these figures are pertinent to Sydney Airport and reflect the critical mass of an airport handling over 21 million passengers. All international airports would contribute to their communities in the same way proportional to their scale of operation.

### **Capacity at Sydney Airport**

Capacity at Sydney Airport was assessed in the Environmental Impact Statement (EIS) for the Parallel Runway to be 350,000 movements a year. Given the current movement rate of 275,000 there is still considerable theoretical capacity at the Airport. However, this capacity is limited by several factors and as was noted in the recently released EIS into the Second Sydney Airport, at Badgery's Creek that Sydney Airport could be expected to reach its capacity by 2006. Capacity is limited as follows:

1. Sydney Airport has a jet curfew (refer *Attachment B* for details of the curfew). This curfew is enforced by legislation - Sydney Airport Curfew Act. Dispensations under the Act are limited and are only granted in exceptional circumstances by the Department of Transport and Regional Development.
2. Sydney Airport has a movement cap of 80 movements an hour. This cap is also enforced by legislation - Sydney Airport Demand Management Act 1997. The cap is administered by demand management system or runway slots. The slot system further limits use of capacity by preserving regional<sup>2</sup> airline slots from being traded for domestic or international aircraft operations.

3. An operating plan for Sydney Airport has been developed (the Long Term Operating Plan for Sydney Airspace - LTOP) to reduce the impact of aircraft noise on residents for Sydney. The main aims of the plan are to:

- a) Fairly share the noise across Sydney.
- b) Give residents time off from flight operations - respite.
- c) Direct as many flights as possible over water and non-residential areas.
- d) Wherever possible, not expose residents to noise from both landings and departures

These 3 environmental controls at the airport operate to limit the capacity at the Airport below the technical capacity of the runways.

#### *Curfew*

The operation of the curfew impacts primarily on the long haul international airlines creating a high morning arrival peak, which drives demand for international terminal facilities. The provision of terminal facilities at Sydney Airport is the limiting factor on the growth of international movements. The terminal is currently at capacity most days between 0700 to 1000 hours each morning. Demand for this time remains high with an estimated 170 terminal slots each week being sought for the next scheduling season<sup>3</sup> that could not be granted. The majority of these services accepted a less desirable slot outside the peak.

It should be noted that the international peak (0600 to 1000 hours) overlaps with the domestic and regional morning peak, which starts about 0700 and runs to about 0930 hours.

#### *Cap*

For a short time between 0700 and 0800 hours each Monday to Friday, Sydney Airport is currently scheduled for 80 movements an hour. It is rare that 80 movements are actually operated but nevertheless airlines are not able to schedule any additional services during the peak. The peak is relatively brief, though the hours to the either side of the peak only have a limited number of slots available. There are still slots available at other times of the day for all categories of service.

<sup>2</sup> A regional service, as defined by the Act, is a service that starts and finished its operation within NSW. This does not include services operating to/from the Australian Capital Territory.

#### *Slots*

The slot system permits the establishment of historical precedence for slots ("grandfather rights") to allow an airline to have some certainty in continued access to the Airport at preferred times and to ensure that their investment in equipment and infrastructure can be recovered. This is in accordance with standard international practice as operated by the International Airline Transport Association (IATA) in schedule management. The difference with the system introduced at Sydney Airport is

that slots grandfathered by regional airlines can not be swapped for other categories of operation, ie, domestic and international flights.

This impacts on capacity as regional operators hold 30% of the peak capacity at Sydney Airport. If market forces could operate to allow the economic use of the runway system these slots would be swapped or traded for international or domestic flights. The regional slot provision or "regional ring fence" limits growth of international services in the peak, as there is only limited slots left at the peak and the hours to either side of the peak as noted above.

### *LTOP*

The LTOP is designed to use all 3 runways at the Airport to ensure that noise is equitably shared. The use of the parallel, north south runways provide the greatest capacity per hour for the airport - theoretically around the 80 movements per hour (actual performance is slightly less and is heavily influenced by weather). The modes that use the crossing east west runway all have a lower capacity, ranging from 40 to 70 movements per hour. The modes that use the east west runway are the modes that provide the greatest noise sharing impacts.

The Minister for Transport and Regional Development has recently directed that the noise sharing modes be used between 0600 and 0700 hours, 1100 to 1500 hours and 2000 hour to curfew irrespective of traffic demand. This effectively lowers airport capacity in these "off peak" hours to the capacity of the modes.

### **Access to Sydney Airport**

To obtain access to Sydney Airport, an international airline must have or gain the following:

- a) Access under the bilateral agreement operating between Australia and its country of origin.
- b) A runway slot
- c) A terminal slot.

<sup>3</sup> Next scheduling season is the Northern Summer 98 which runs from 29 March to 25 October 1 998

The airline must also demonstrate to the Airport Management that it has:

- a) An emergency and security program based on IATA standards.
- b) Adequate arrangements for ramp handling, passenger and baggage handling.
- c) Emergency maintenance arrangements.

At present Sydney Airport is not party to the discussions on bilateral access for airlines. The airport is often only aware that an airline has new or extended access rights when slots are sought.

Neither runway nor terminal slots are granted by the Airport. Under the Demand Management Act, the Minister appoints a Slot Manager to handle runway slot allocation. This Manager has a process to follow to ensure equitable management of slot allocation. This process is covered by regulations under the Act. The Slot Manager for Sydney Airport is Airport Coordination Australia (ACA). ACA has also been appointed by Sydney Airport to allocate international terminal slots<sup>4</sup>.

International terminal capacity is agreed by the Airport Facilitation Committee<sup>5</sup> and is based on the number of aircraft parking bays and the limiting passenger processing facility (refer *Attachment C* for the current Capacity Control Rules for the Sydney International Terminal).

An airline may be able to hold access rights to the airport and a runway slot but be unable to obtain a suitable peak hour slot for the international terminal. Prior discussion with the airport operator can be useful in assessing terminal capacity arrangements and options for new or additional services.

### **Aeronautical Charges**

Landing fees for Sydney Airport are established under S56 of the FAC Act (refer *Attachment D*) and are approved by the Minister and the Australian Competition and Consumer Commission. Current landing fees for Sydney Airport are at *Attachment E*. It should be noted that the Airport has commenced discussions with the airlines to change the current aeronautical charges. It is hoped that the new fee system will be available in early 1998/99.

<sup>4</sup> Terminal slots have been allocated at Sydney Airport using IATA principles for over 20 years.

<sup>5</sup> The Facilitation Committee comprises the airport operator, airlines, Customs, the Australian Quarantine and Inspection Service, Immigration and Air Traffic Control.

The fees currently include a peak and shoulder hour surcharge. This surcharge was introduced several years ago to discourage growth of the peak and limit use of the airport at peak times by light aircraft. The charge was successful in that there was some spreading of the peak into the shoulder hours and the period before and after the shoulders plus the virtual elimination of General Aviation movements in the peak<sup>6</sup>. It is not proposed to remove this charge due to the continued high demand for peak hour slots.

The aeronautical arrangements established under the Airports Act for the privatised airport is different from the FAC Act and incorporate a "CPI minus x" factor.



## **Efficient Use of Airport Infrastructure**

The high peak demand for both runway and terminal facilities at Sydney Airport has lead to a relatively inefficient use of resources. Investment continues to provide for the peak demand and there is uneven use of these facilities for large portions of the day. The cap and slot system will provide some incentive to spread the peak as the market grows, as slot availability in the peak is limited. The regional ring fence will operate against efficient use. However, the nature of international scheduling does mean that the ability to flatten the peak is very low, based as it is on:

1. fleet utilisation;
2. the impact of curfews at other airports;
3. airport congestion in various other parts of the world; and
4. the location of Australia at the end of the international route structure.

One option for the airport is aggressive marketing of the off peak aligned with incentives for airlines to use the off peak. To do this effectively requires access to airlines prepared to enter this market or to extend existing operations. Better access to bilateral planing and negotiations would allow the airport to work with potential operators to grow the market to the advantage of the airport and the city and State it serves.

## **Freight**

Last year 515,000 tonnes of airfreight were handled at Sydney Airport. The majority of this being carried in the holds of passenger aircraft. There are some dedicated freighter operations but at present this is not a significant market.

Growth projections around the world show airfreight growth as positive and in excess of passenger growth. Aircraft manufacturers such as Boeing are predicting strong growth in pure freighter aircraft demand.

<sup>6</sup> There are still 25,840 GA movements each year at Sydney Airport, almost all outside the peak.

Airfreight is a major and undeniable component in the commerce of the country. Airfreight is also a major component of the Sydney Airport total product. Over 50% of the Australia's airfreight pass through Sydney Airport.

The Sydney Airport Airfreight Strategy currently being implemented is designed to deliver:

1. Increased airfreight capacity.
2. Increased airfreight quality.
3. Increased choice for the Airlines of freight-related service providers.

Various obstacles to Sydney Airport getting its share of this airfreight growth include:

1. The movement cap

2. The curfew
3. Freighter bay availability during the relatively short daily peaks.
4. The ability to cater for off-schedule dedicated freighter flights (a common occurrence with freighter aircraft).
5. Ability of the export market to meet reasonable airline yield expectations.
6. Unreliability of backload support.
7. High investment non-hubbing port

Because the use of bilaterals has the potential to apply additional restrictions to the airfreight industry, it would be valuable from an airfreight perspective for Sydney Airport to be directly involved in the process of negotiating such flying rights.

The recent, relatively unnoticed decision to allow Cargolux what essentially amounts to fifth freedom or on-carriage rights for airfreight is interesting. It may also indicate that flying rights are not the only factors in the airfreight story for Australia.

## **Charters**

At present the majority of international flights operating to Sydney airport are scheduled passenger operations. There are small number of regular charter operations that use Sydney Airport for the Northern Winter Season, e.g. Britannia and Canada 3000. These operations run 1 or 2 flights per week for up to 13 weeks - offering usually a discount service and price. Indications are the services have been successful.

There are also a few special "one off" international charter services each year. These services are often related to special events such Chinese New Year, Christmas, sporting events and the linkage to special sea cruises (e.g. QE11 and the Concorde).

It is not clear if it is current bilateral arrangements that restrict growth of this market or if it is just the economics of the charter operations to/from Australia or both. This is an area of activity that the Airport's Airline Development Unit will be investigating over the next 2 years to determine if further operations can be encouraged to operate to/from Sydney.

## **Domestic Cabotage**

The present arrangements for international airlines only permit domestic on-carriage. The Domestic on carriage component of passenger movements at the International Terminal is approximately 252,000 passengers last year.

Growth in the domestic passenger market has been flat in the last year with Sydney Airport recording a 1% decline in domestic passengers in 1996/97 over the previous year. The trend to date this year has been slightly better by growth is only 3% year to date over last year. With the Asian Economic Crisis, this is not expected to be sustained for the remainder of the year.

There are some indications of interest by a new domestic entrant operating on the east coast of Australia, which may stimulate growth in the market. The market growth in the domestic sector was significant during the time of Compass 1 and 2 indicating the competition and the existence of low fares in the market can stimulate growth.

An alternative to a new domestic entrant is domestic cabotage by international operators. Given the fragility of the growth in the domestic market and the possibility of new entrants on the East Coast is not recommended that domestic cabotage be pursued on the eastern seaboard. However, consideration could be given to east west market to encourage growth and lower fares in this market.

### **Further Information**

If further information is required on any of these matters the Airport would be pleased to assist, please contact me on 02 9667 9111. Additionally airport staff will be available to address the Commission on 12 March at the public hearings in Sydney. The following officers will attend:

Mr Bill Bryant	Manager Airline Development
Mr Stephen Cropper	Public Affairs Manager

Julianne Alroe  
**Manager Business Planning and Communications**

27 February 1998