Sydney Airport

12 December 2014

Dr Warren Mundy
Commissioner
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC 8003

Dear Dr Mundy,

Re: Productivity Commission research project – Australia's International Tourism Industry

Thank you for the opportunity to provide a submission to the Productivity Commission research project on Australia's international tourism industry.

Sydney Airport would welcome the opportunity to provide any additional information or support to help improve Australia's international tourism industry. Should you wish to discuss this matter further or clarify any of the issues covered in this submission, please contact Mr Jon Stewart – Manager, Government Relations and Major Projects (

Yours sincerely,

Kerrie Mather
Chief Executive Officer

cc: The Hon Tony Abbott MP – Prime Minister of Australia
The Hon Warren Truss MP – Minister for Infrastructure and Regional Development
The Hon Andrew Robb AO MP – Minister for Trade and Investment
The Hon Scott Morrison MP – Minister for Immigration and Border Protection
The Hon Joe Hockey MP – Treasurer of Australia

Sydney Airport

Australia's International Tourism Industry

Productivity Commission Research Project

12 December 2014

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Introduction

Sydney Airport welcomes the opportunity to provide a submission to the Productivity Commission research project into Australia's international tourism industry. As Australia's largest sustainable international export sector, Sydney Airport is committed to ensuring the ongoing prosperity of the tourism industry and encourages any steps that will lead to the continued growth of international visitation, particularly from our key source markets.

A number of opportunities exist to maximise increased visitation and investment through the promotion of pro-competitive practices, including reducing protectionist measures that limit international aviation activity and tourism growth, reducing competitive distortions that exist between Australia and a number of competitor markets for inbound visitors, and making improvements to the regulatory and operating environment to increase the development of tourism supply.

Background

Sydney Airport is Australia's international gateway and premier airport. The airport is located 2km from Port Botany, 8km from the Sydney CBD, and less than 10km from the iconic Sydney Harbour and the southern beaches. Surrounding the airport is a network of light-industrial and tourism-related businesses that rely on or support the airport, such as freight/logistics, catering, engineering, vehicle rental businesses and accommodation businesses.

Sydney Airport does not just serve passengers travelling to or from Sydney; it is also Australia's largest transport and logistics hub. Some 34 international, 6 domestic and 6 regional airlines operate from Sydney Airport to 97 destinations, including 11 international and 8 regional destinations not served by any other Australian airport. Many passengers and large volumes of freight transfer between these flights. The role played by Sydney Airport in providing access to Australia's regions is also significant, helping to support the tourism industry's ongoing efforts to promote regional dispersion of international visitors.

As the heart of our national aviation network, more than two-fifths of all international visitors and more than one-fifth of all domestic passengers pass through Sydney Airport annually. In 2013, 38 million passengers travelled through Sydney Airport, more than 100,000 a day – making Sydney Airport the 27th busiest airport in the world. This is forecast to increase to over 74 million by 2033.

A January 2013 study by Deloitte Access Economics into the economic impact of Sydney Airport quantified the benefits of these activities. Key findings of the study include that Sydney Airport generates or facilitates:

- Jobs. Direct and indirect employment of 283,700 jobs (equivalent to 8% of NSW employment), including 160,000 direct jobs, 28,000 of which are on-airport
- Economic activity. Direct and indirect economic contribution of $27.6 billion, equivalent to 6% of the NSW economy and 2% of the Australian economy
- Household income. Direct and indirect contribution of $13.2 billion. Additionally, at $82,000 per annum, the average FTE wage of an employee working on the Sydney Airport precinct is 13% higher than the NSW average for all employees.
- Taxes. Direct and indirect taxes, including:
  - Substantial income tax and GST revenues to the Australian Government

- Substantial payroll taxes to the NSW Government
- Annual contributions, in lieu of rates, to Botany Bay, Rockdale and Marrickville Councils.

Using forward-looking modelling, the study also indicated that Sydney Airport's economic contribution will increase as the airport develops (refer to Figure 2.1). It is forecast that the economic activity generated or facilitated by Sydney Airport will increase from $27.6 billion in 2012 to over $42 billion in 2033 and total employment will increase from 283,700 jobs in 2012 to over 400,000 by 2033.

This 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 service from Dubai would, on an annual basis, contribute an estimated:

- $342 million to Australian GDP
- $206 million to Australia's household income
- 4,400 jobs (2,800 of which would be in NSW).

Similarly, an additional daily Airbus 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).

In addition, the study highlights the significance of Sydney Airport within the local community. There are over 800 businesses operating at Sydney Airport with these businesses having a profound impact on local employment figures.

With this in mind, Sydney Airport maintains the view that the economic benefits to the Australian economy and downstream tourism industries from increased international tourism activity are significant.

In the current global economic climate and with the Australian dollar remaining higher than average, reducing barriers to travel and improving the efficient use of tourism infrastructure will be essential if Australia is to improve its international competitiveness and present a compelling value proposition to prospective visitors. Improving the visitor experience begins at the time intention becomes a decision to travel. From that point on, the process should be as seamless and simple as possible, starting with the visa application right through to departing from Australia.

Tourism plays a vital role in both the Australian and NSW economies. One of Australia's largest sustainable industries, the tourism sector contributes more than $90 billion annually to Australian gross domestic product (GDP), equating to more than 5% of the Australian economy. This is represented by over 920,000 employees across the sector, a number which continues to grow year on year.

International visitation and capacity trends

The importance of international aviation and Sydney Airport to the community has increased substantially over the past 20 years, with a 190% increase in total passengers and a 187% increase in international passengers.

The evolution of low cost carriers (LCCs) and technology advancement has led to significant reductions in real airfares, which has in turn stimulated traffic growth. Further, liberalisation of air rights has encouraged growth in air travel and improved tourism and trade ties between nations.

Many of the industry changes reflect gradual trend shifts sustained over long periods of time, many of which are ongoing. These broad trends were and are taken into account in preparing forecasts of passengers, aircraft movements and airport capacity requirements across the airport sector in Australia. A number of key insights have been obtained when examining passenger and capacity trends over the last two decades:

- Passenger demand has grown more quickly than the general economy
- New generation aircraft have steadily become larger, quieter, safer, more fuel efficient and more comfortable for passengers
- Airlines have increased the average number of passengers on a given size aircraft through increased seating density and improving technology so that a higher proportion of seats are filled
- Lower fares as a result of increased efficiencies and new technology are stimulating demand
- The gradual increase in the proportion of leisure passengers, which has enabled and been supported by the growth of low cost airlines
- Changing airline partnerships and alliances have resulted in new products and offerings for passengers.

Other variations are more unpredictable and frequently produce only short term change. At the most extreme are the periodic disruptions arising from major events, such as terrorism, war, natural events (including volcanic ash clouds, floods and earthquakes) and health scares (such as Ebola virus disease, SARS and H5N1). In most cases, traffic levels quickly return to the previous trend once the circumstances causing the disruption have abated.

On the other hand, higher oil prices, concerns over climate change, and the long-term sustained effects of the Global Financial Crisis have combined to reduce aviation traffic growth over the past several years and it is widely expected that traffic will not recover to the preceding trends. In particular, the major economic forecasters are not predicting a period of above-average economic growth that would typically give rise to a period of above-average traffic growth in the short to medium term. Accordingly, traffic is not expected to recover to the pre-GFC trends at least in the foreseeable future.

Internationally, recent trends tend to support the view airlines no longer serve national catchments but instead serve regional (e.g. Europe or Asia) or global catchments. All airports globally are competing for the new generation aircraft that are being delivered to predominantly Asian, Middle Eastern and LCC airlines. These developments have dramatically increased the level of competition among airports for traffic in Australia, as elsewhere.

In addition, the importance of international inbound airlines to Sydney Airport has been steadily growing and Sydney Airport expects that this trend will continue, particularly from Asian carriers supporting increased travel demand from Australia's key inbound growth markets.

As the primary enabler of international visitation to Australia, aviation provides a vital link to the world. During the 12 months to November 2014, Sydney Airport welcomed 3.38 million international visitors – almost half the total inbound foreign arrivals to Australia. This represents a 5.4% growth in foreign arrivals, compared with the 3.21 million passengers from the preceding year.

As illustrated below, Sydney Airport's top twenty source markets reflect a mix of key emerging Asian markets and Australia's traditional mature markets in Europe and North America.

Figure 1 – Total international arrivals by foreign residents

Nationality	Passengers Sept 13-14	Annual Growth	5 Year CAGR	Market Share
New Zealand	561,448	1.2%	2.8%	17%
China	439,043	14.9%	13.5%	13%
United Kingdom	360,294	2.4%	-1.3%	11%
United States of America	305,558	4.9%	1.0%	9%
South Korea	156,822	4.7%	2.8%	5%
Japan	142,381	3.9%	4.3%	4%
India	124,472	14.7%	5.1%	4%
Germany	97,210	-0.8%	-0.7%	3%
Malaysia	95,838	16.4%	14.8%	3%
France	93,332	5.4%	-0.3%	3%
Canada	90,635	0.4%	0.0%	3%
Indonesia	79,562	0.6%	5.1%	2%
Singapore	69,099	7.0%	11.0%	2%
Hong Kong	57,873	12.9%	3.7%	2%
Philippines	47,469	12.2%	7.0%	1%
Taiwan	45,802	15.8%	0.6%	1%
Ireland	44,353	-1.6%	-0.7%	1%
Thailand	40,779	6.3%	1.0%	1%
Italy	38,502	0.9%	4.0%	1%
South Africa	33,086	-11.9%	-3.4%	1%
Other	460,431	4.6%	2.9%	14%
TOTAL	**3,383,987**	**5.4%**	**3.4%**	**100%**

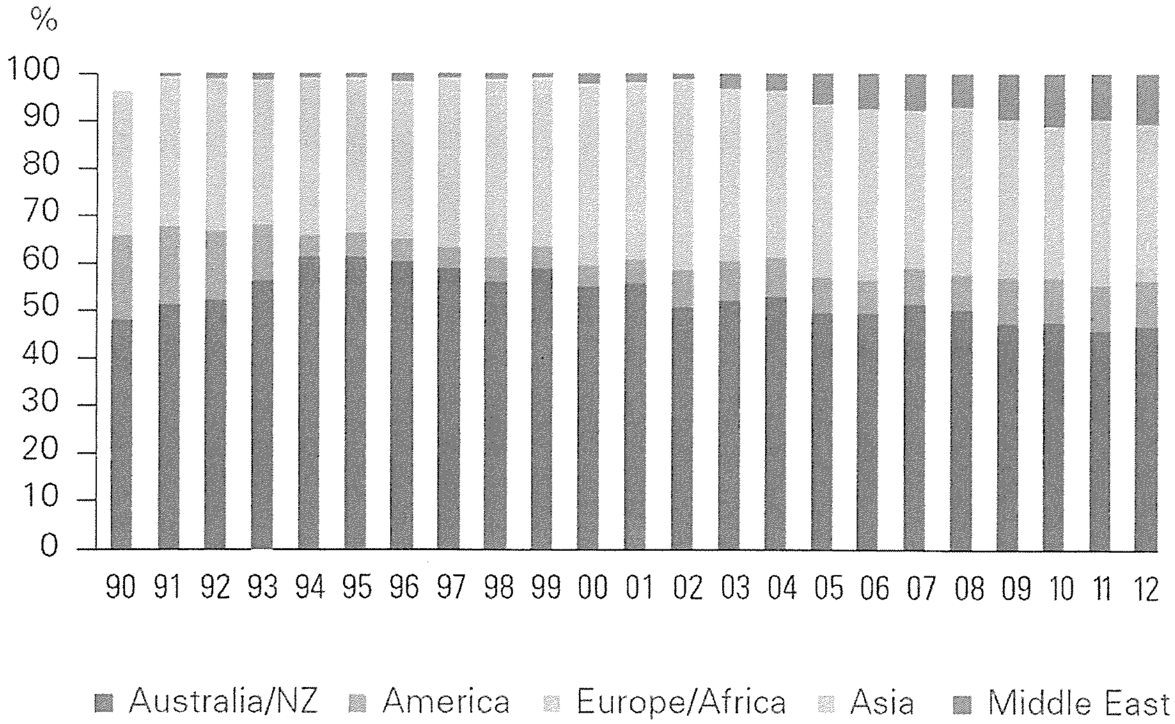
(Source: OAD, 2014)

Individual airline strategies can change quickly and are very difficult to forecast. Over time, the accumulation of these changes to strategies and business models, airline alliances, and relative growth rates can completely transform the landscape for any given airport. Some of the changes that have occurred in the aviation industry over the past 20 years include:

- More than half of the international airlines which operated to Sydney Airport during the past two decades have been replaced by other airlines
- In particular, Asian and Middle Eastern airlines have replaced all of the continental European airlines (aside from British Airways) that have flown to Sydney Airport
- 88% of international capacity growth since 1991 is being offered by airlines that were not operating to Sydney Airport in 1991

- Since Ansett stopped flying in 2001, three low-cost airlines commenced flying – Virgin Australia having since transformed itself into a full service airline
- Almost 30% of the international airlines operating to Sydney Airport in 1999 were no longer operating in 2004 and had been replaced by new airlines
- The Qantas Group created Jetstar Airways, an airline which has very different service and infrastructure requirements to Qantas Airways
- Four international low cost carriers now operate at Sydney Airport, none of which operated at Sydney prior to 2005.

Figure 2 – International capacity by region of airline at Sydney Airport – 1990-2012

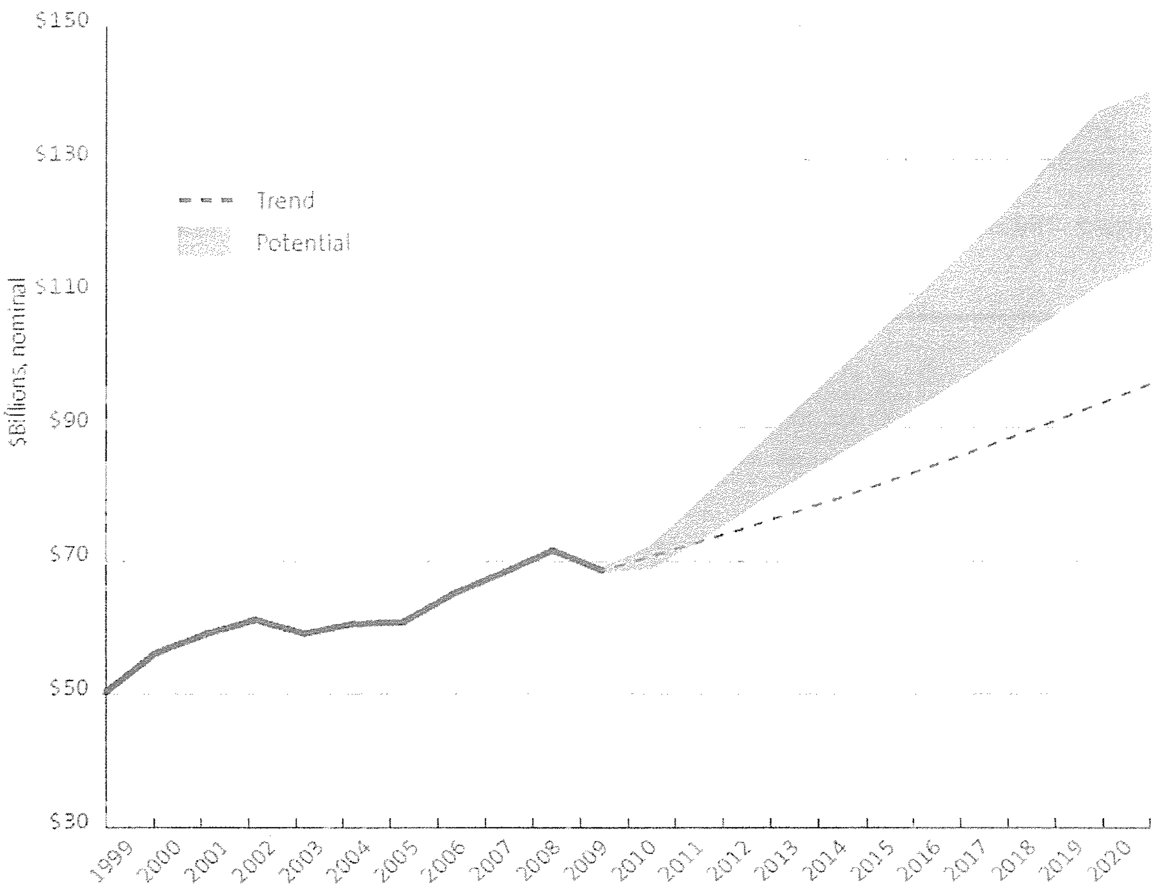


(Source: Tourism Futures International, 2013)

In order to capitalise on the strengths the visitor economy can deliver to Australia, the *Tourism 2020 Potential* was released by the former Department of Resources, Energy and Tourism in 2010 to set a number of goals for improving tourism growth and output. The core of the strategy aimed to increase total overnight visitor expenditure to $115-$140 billion per annum by 2020 (commonly framed as a doubling of overnight spend from $70 billion in 2009 to $140 billion in 2020). This was seen as an essential goal to ensure the Australian tourism industry remains globally competitive, while delivering significant economic benefits to the nation.

At the commencement of the *Tourism 2020 Potential* strategy in 2010, the trend in tourism growth projected a modest increase in overnight spend to around $95 billion by 2020. This fell significantly short of what industry and government collectively regarded as the potential of our industry should structural and regulatory reforms take place to promote growth.

Figure 3 – Potential for overnight tourism expenditure by 2020

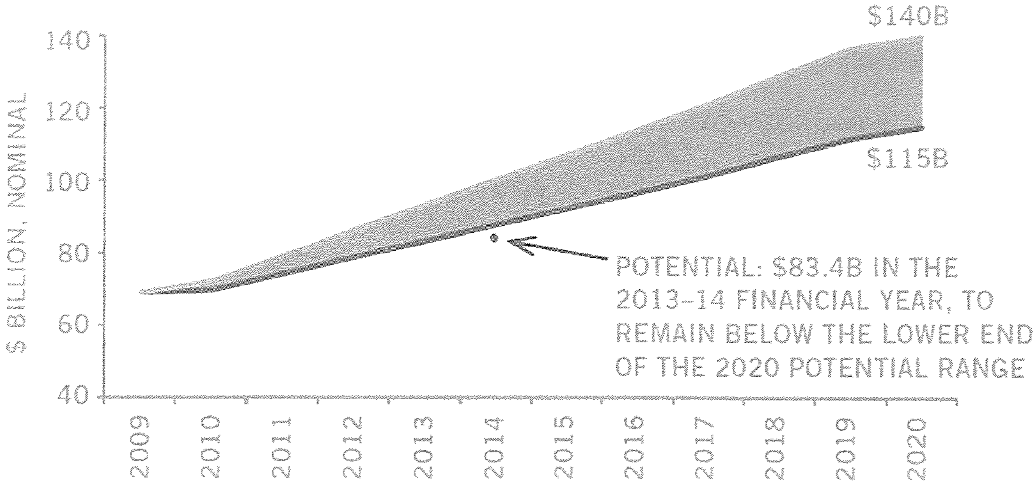


(Source: Tourism Australia – Tourism 2020 Growth Potential, November 2010)

However, since the commencement of the *Tourism 2020 Potential* strategy, slower than anticipated growth caused by limitations in tourism supply, such as international aviation access, accommodation supply and tourism infrastructure investment has resulted in the to-date progress falling below the lower limit of the strategy. As of October 2014, the overnight visitor spend per annum was $83.4 billion, approximately 5% below the lower end of the potential range.

Critical to the implementation of the *Tourism 2020 Potential* strategy is continued high growth from a number of key Asian markets, including China, Korea, Hong Kong, Japan, Malaysia, Indonesia, the Philippines and Vietnam. Australia's relative proximity and natural attractiveness as a destination has provided a strong foundation to attract visitation in the past, and the comparative ease and cost of travel has provided Australia with a competitive advantage against our natural long-haul rival destinations, such as New Zealand, the United States and Canada, and a number of European markets.

Figure 4 – Recent tracking for the Tourism 2020 Potential



(Source: Tourism Research Australia – State of the Industry, October 2014)

However, in recent years, Australia has failed to keep up with reforms made by a number of rival long-haul markets, such as wide ranging tourist visa simplification measures, aviation access liberalisation, travel taxation reduction and increases in funding to promote tourism demand stimulation. This has eroded the competitive advantage experienced in the past, making visitation to Australia more expensive and difficult, and has led to a steady reduction in the market share of outbound Asian visitation to Australia, particularly China, as other markets capitalise on their recent reform activities.

In order to ensure Australia reaches the *Tourism 2020 Potential* targets to support economic development and prosperity, a number of tourism supply reforms should be considered by the Productivity Commission that will allow industry to attract increased visitation to Australia, while also promoting greater investment in tourism infrastructure from sources both foreign and domestic.

Recommendation 1:

In order to ensure the *Tourism 2020 Potential* is met, Sydney Airport recommends ensuring the role of government in developing tourism demand continues. The role of Tourism Australia in driving demand in source markets, in cooperation with state-based tourism organisations, is of vital importance to Australia's international tourism sector and should continue to be supported by Austrade in foreign source markets. At the very least, Tourism Australia's ongoing marketing budget should be maintained at existing levels and funding should continue to be appropriated directly from federal government revenue.

Furthermore, Sydney Airport recommends Tourism Australia take a more proactive role in consulting with industry to identify target markets for demand development. In particular, this should focus on the aviation sector given the expertise and experience in identifying growth international opportunities.

International air services agreements (ASAs)

Unlike other trade agreements where free trade exists unless governments impose restrictions (such as protection tariffs or trade quotas), international air routes are restricted by default until two governments make arrangements to allow access.

Air services agreements (ASAs) are bilateral treaties between two countries (or markets, in cases such as Hong Kong, Dubai and Abu Dhabi, for example) to allow air traffic (including seat capacity, measured in seats or frequencies of aircraft per week, codeshare rights, on-rights, e.g. the right to carry passengers beyond the second country party to the treaty, and air cargo access) between and beyond the two jurisdictions party to the agreement. At present, Australia currently has ASAs between more than 90 markets around the world.

At present, the Australian side of the ASAs limit activity only between airports in Sydney, Melbourne, Brisbane and Perth, with other international airports around Australia free to operate services in an unrestricted manner. A similar market access arrangement occurs in the foreign nation, depending upon individual national circumstances and market conditions.

While not required under the international framework that governs the establishment of ASAs, the vast majority of agreements deliver reciprocal rights to both parties of the treaty, e.g. if the Australia-Hong Kong ASA provides total seat capacity per week of 45 frequencies, airlines of both markets are able to operate up to 45 services between Sydney, Melbourne, Brisbane, Perth and Hong Kong.

In the majority of cases where seat capacity has reached the limit, typically it is foreign airlines that have exhausted their allocation, while Australian carriers utilise only a small percentage of the total.

Figure 5 – Existing key market constraints with current utilisation of total capacity

	Australian Carriers	Foreign Carriers
China	9%	106%
Malaysia	0%	98%
Hong Kong	30%	100%
Qatar	0%	100%
Philippines	31%	89%
Fiji	95%	102%

Insufficient capacity

Sufficient capacity

(Source: Department of Infrastructure and Regional Development; OAG, November 2014)

Under the current ASA framework, the Department of Infrastructure and Regional Development negotiate on behalf of all Australian airlines and the tourism industry more broadly. However, the current framework provides little transparency around the negotiation priorities established by the Department when conducting negotiations. While a 'national interest' test exists, industry has little visibility over how this is determined and opportunity for input is minimal. While Australian airlines are often represented in the delegation for these negotiations, airports are not.

The stated policy position of the federal government is to renegotiate ASAs ahead of demand to prevent undersupply. However, ongoing delays in bilateral capacity negotiations, which have fallen behind demand in many key growth markets, restrict the level of access to the Australian market from foreign carriers, preventing any further growth from international visitors. Further, while many markets are not at the complete capacity limit, the occasional practice of international airlines to 'capacity hoard' restricts the opportunities for new entrants into the market. Delays in capacity increases risk economic and tourism growth, which is highly reliant on inbound international visitation.

Where new capacity is being considered, it is important that capacity levels will allow Australian and foreign airlines to add seats ahead of demand. At the very least, agreements should provide no less than five years' worth of growth. Airlines make aircraft purchase and market development investment decisions years in advance and for Australia to be competitive relative to other destinations, airlines require longer term certainty in accessing air rights on Australian routes. At present, there are a number of markets that are at capacity and face significant limitations for growth. These markets include China, Malaysia, Hong Kong, Qatar, the Philippines, and Fiji. Foreign airlines are particularly important to international tourism, as many passengers continue to display a general preference for flying with an airline domiciled in their own country.

Sydney Airport believes that airlines should have the ability to make their own decisions as to which routes are commercially viable. Airlines require access to the most commercially sustainable markets to be able to provide certainty of service across a network. Airlines increasingly will only serve destinations that allow them to make a reasonable rate of return; otherwise they will be compelled to divert their services to other, more commercially attractive destinations. It should not be a role of government to determine sustainability of international air services.

Should foreign airlines fail to secure more access to Australia, the alternative is to deploy the additional capacity on other overseas markets, which will not be in Australia's best national interest. This will result in decreased competition, higher costs for travellers and significantly lower economic benefits for the entire Australian economy.

Current market limitations

While Sydney Airport welcomes the Australian Government's efforts to continue its negotiation schedule, it is vitally important that the planned timeline for negotiations reflect existing market demand and current capacity limitations. As such, Sydney Airport feels it is important that the Department of Infrastructure and Regional Development consult more broadly with industry to determine order of prioritisation to ensure limited resources are allocated in the most effective and efficient manner. At present, there are a number of key inbound markets for Australia that require renegotiation of the existing ASA. These markets include the following:

China

Increased competition and capacity between Australia and China has ceased as a result of the Australia-China ASA reaching the artificial supply quota. This is despite the very high and increasing demand that exists for travel between the two nations. A number of Chinese airlines that do not currently serve the Australian market have indicated a willingness to commence services immediately should the limitation on capacity be lifted, in addition to expanding services provided by the four incumbent Chinese carriers.

Combined, these additional services equate to 220,000 annual seats and an increase of $360 million in Australian GDP. During 2013, the China Tourism Academy, the research arm of the China National Tourism Administration, recorded that over 97,000,000 Chinese nationals travelled abroad – up 14% from 2012. The China Tourism Academy also indicated it expects outbound tourism to surpass 100 million Chinese nationals during 2014. To indicate the level of growth expected, President Xi Jinping stated during 2013 that outbound tourism could reach 200 million by 2020, which is in line with UNWTO projections.

Chinese visitor expenditure has also risen to the world's highest, surpassing German and US tourists in 2012. With a 40% increase from 2011, Chinese traveller spend has increased to over US$102 billion per year. On average, Chinese visitors to the United States spend US$7,107 per person, compared to the inbound visitor average of US$2,440. With this in mind, it is clear there is enormous potential in the Chinese market and should aviation capacity not meet demand in the coming years, Chinese travellers will seek to visit other destinations where airline ticket prices are less restrictive.

Philippines

A lack of capacity to operate under the Australia-Philippine ASA has prevented the introduction of further competition on various routes between Australia and the Philippines. This has reduced the availability of options for travellers between the two countries and beyond. Philippine low cost carrier Cebu Pacific Air has indicated a desire to commence weekly services from Manilla, however, the existing bilateral agreement prevents greater than five services per week. Allowing an increase to daily services will enable the airline to develop the yield necessary to operate the route in a sustainable manner. The required increase from five to seven services per week equates to 91,000 additional annual seats which could generate more than $62 million for GDP.

Malaysia

Sydney Airport analysis shows that while the Malaysian market has experienced an increase in available capacity in recent years, these rights have been exercised by airlines of Malaysia and the availability for further growth is highly limited. The recent lift in Malaysian based capacity delivered an increase of over 100% in Malaysian visitation to NSW – a major increase in a market identified by Tourism Australia as one of Australia's top ten priorities to achieve Australia's growth targets by 2020.

This increase has also delivered a significant economic benefit to the NSW economy since it came into force. Between June and November 2013, the increase in capacity on the Kuala Lumpur to Sydney route delivered an additional $60 million in overnight visitor spend to the NSW economy and generated over 46,000 additional visitors to Australia. With the Malaysian air services agreement currently at a limit that will prevent the entry of any new daily services to Australia, the economic benefits of increased visitation growth will decline.

Hong Kong

The Hong Kong-Australia ASA has been at capacity for some time, reflecting the current negotiation deadlock experienced between the Australian Government and the Hong Kong Civil Aviation Department. Cathay Pacific currently utilises all available capacity on the Hong Kong side of the ASA, and requests for further capacity have been declined by the Australian Government without the provision of an air operator's certificate for low cost carrier, Jetstar Hong Kong.

Furthermore, Hong Kong Airlines is currently blocked from commencing services to Australia under the current air services agreement. While Cathay Pacific hold 100% of frequency allocations on the Hong Kong side of the agreement and continues to request more capacity from the Australian Government, any new entrant to the Australian market from Hong Kong will be unable to commence services. The addition of services by Hong Kong Airlines equates to 178,000 seats and could add more than $173 million to the Australian economy.

Qatar

Qatar Airways are currently blocked from adding further capacity to Australia under the existing air services agreement. A proposed Sydney to Doha route has the potential to add up to 237,000 annual seats, generating an increase of $240 million in Australian GDP.

The Middle East is one of Australia's fastest growing inbound markets with an overall year-on-year growth in visitor arrivals of 14.9% in 2013. Both its geographic location and Qatar Airways' extensive network make it an ideal transit point for traffic to and from Europe, Western Asia and Africa. As a result, a capacity increase between Australia and Qatar opens up high volume markets beyond the Middle East.

82% of all passengers travelling to and from Australia on Etihad Airways and 75% of Emirates passengers currently travel to and from destinations beyond the carriers' Abu Dhabi and Dubai hubs. These destinations, which form part of the government Tourism 2020 strategy, include European markets which have shown significant inbound growth over the last twelve months, including the United Kingdom, Germany and France, which saw an increase in visitor arrivals to Australia of 6.9%, 5.0% and 6.1% respectively. The government's Tourism 2020 strategy estimated that these three European markets combined have the potential to grow visitor expenditure by between $8.6 billion and $10.4 billion by 2020.

With its unique network, Qatar Airways does not cannibalise but rather expands the existing available international one-stop network from Australia by establishing links to destinations not served via the Middle East at present. Seventeen of the potential destinations for travellers in Qatar Airways' network beyond Doha are not served by Emirates and Etihad Airways, including Berlin, Oslo, Edinburgh and Ankara. Excluding markets that require significant back tracking, only four of the Qatar Airways' destinations beyond Doha are served by Australian carriers; London, Dubai and Johannesburg by Qantas Airways and Abu Dhabi by Virgin Australia.

Recommendation 2:

Sydney Airport supports a review of how ASAs are currently negotiated to place greater emphasis on the benefits of increased competition, including job creation, economic expansion and tourism growth. A more transparent and proactive manner must be adopted by the Australian Government when conducting negotiations, taking into consideration the benefits of free competition to both international visitors to Australia and Australians seeking to travel overseas. Industry should be allowed a greater level of involvement in the determination of Australia's priorities and ability to shape the ongoing strategy in negotiating ASAs.

Further, while representatives of Australia's domiciled carriers often attend ASA negotiations, airports subject to the ASAs should also be invited to attend and support the government's efforts to seek an outcome that best fits the national interest.

Additionally, the process for concluding the mandate for negotiations and scheduling of talks with foreign governments should be improved to ensure the most expeditious process possible. While Sydney Airport acknowledges that there are instances where delays in continuing the process are out of the control of the Australian Government, we must ensure that our government takes all possible steps to progress these meetings as a matter of priority.

Tourist visas

The provision of simplified and cost effective visa arrangements for international visitors is essential to creating an affordable and approachable process. While Sydney Airport acknowledges that progress is being made by the Department of Immigration and Border Protection to simplify and expedite the visa application process, there remains room for improvement.

The World Travel and Tourism Council (WTTC) and the United Nations World Tourism Organization (UNWTO) have recently co-published an assessment of visa facilitation practices around the world. The report notes that while destinations on average require 63% of the world's population to obtain a visa prior to departure, tremendous progress has been made over recent years - 2% of the world's population can now apply for an e-visa, 16% can apply for a visa on arrival and 18% do not require a visa for leisure travel. Australia was ranked 42nd for improvements to procedures for 20 or more countries between 2010 and 2012, up 24 places.

This follows a 2012 study modelling the benefits of visa facilitation reform in G20 economies, with reforms holding the potential to generate an additional US $206 billion in tourism receipts and 5.1 million jobs by 2015. Key recommendations included improving information delivery, facilitating current processes, differentiating treatment for tourists, instituting e-visas and establishing regional agreements. Among G20 economies, Australia was named as having the third most open visa policy, with 4% of current source markets requiring visas in 2011.

While progress is being made to simplify and expedite the visa application process with the move to online visa processing for all countries, there remains room for improvement to meet the significant enhancements made by competing markets to attract larger numbers of tourist visitors. User-pays processing models would provide a faster option for passengers willing to pay a premium, which should extend to preferred customs and immigration clearance on arrival in Australia. Sydney Airport also supports the implementation of a more equitable fee structure for visas which better reflects the cost of processing, and a review of charges associated with visitor, student and working holiday maker visas in light of significant increases over the past few years.

Specifically, a number of key inbound visitor markets still face high visa charges, longer than required processing periods and more onerous identification and processing requirements than some of our more mature inbound markets. China, Thailand, the Philippines, Vietnam, India and South Africa all face the significantly higher $130 processing cost together with a 3-4 week processing period in addition to a lengthier and more complex processing regime. This is very different to a number of other Asian markets such as Japan, Hong Kong or Korea that are able to receive 30 minute online processing for $20 by completing a simple and light-handed application form.

A number of other countries have adopted improved visa arrangements to capitalise on increased visitor growth.

<u>United States</u>

In early 2012, President Obama took steps to shorten the visa processing period for Chinese visitors from four months to three weeks. Not surprisingly, this resulted in increasing the capacity of visa processing in China by 40%. It is estimated that an associated increase in Chinese visitation could create up to 1.3 million jobs and add US$850 billion to the American economy by 2020 through increased traveller demand and higher overnight visitor spend.

New Zealand

The New Zealand Government announced 'Vision for 2015' in March 2012, which is designed to reduce cost and processing times for visa applications. A new technology platform, known as Immigration ONLINE, is being introduced in stages over three years and will allow for most visa applications to be dealt with entirely online. Efficiencies and improvements in the process will result in a significant reduction in cost, with some visa classes reducing in cost by as much as 80%.

With Australia falling behind and facing increased competition from these and other nations to attract the growing number of Asian tourists, the federal government must take all necessary steps to ensure access to Australia is as simple and cost effective as possible. The Tourism & Transport Forum (TTF) recently released a report outlining a number of recommended improvements to the visa charging and processing arrangement system. *Visitor Visa Reform: Reducing the Barriers for Travel to Australia* lists a number of reforms that will improve Australia's competitive standing among long-haul destinations competing for increased Asian visitation, while maintaining the integrity of our immigration and border controls.

Sydney Airport is highly supportive of ongoing reform to our border facilitation arrangements in order to secure a competitive advantage for Australia as a destination. Continued imposition of trade tariffs and charges significantly harm the growth potential of Australia and jeopardise the sustainability of our visitor economy.

Recommendation 3:

Sydney Airport strongly supports a raft of measures to simplify visa processes and costs for visitors to Australia. These measures include:

- Rapid implementation of online visitor visa processing, prioritising Asia
- Extend visitor visas to 36 months to facilitate multiple trips, improving Australia's competitiveness while reducing processing costs
- Introduce a user-pays premium multi-entry visitor visa processing model to provide a faster option for passengers willing to pay, including preferred customs and immigration clearance on arrival (working hand-in-hand with VIP passenger processing)
- Produce visitor visa forms in other languages to better service identified key visitor source markets, prioritising Asia
- Examine a more equitable fee structure for visas addressing the current inequities in visitor visa costs between Australia's traditional and emerging source markets (for example, $20 for a visitor from the UK versus $130 for a visitor from China or Indonesia)

Border facilitation cost recovery and service provision

The tourism and aviation sectors have often been a target for general government revenue raising, particularly given the limited impact of these decisions on electoral popularity. Governments of both persuasions have therefore often increased direct and indirect taxes on tourism and aviation operators, with some decisions creating enormous long term impacts.

The imposition of travel related taxation, whether they are classified as fees, charges or other levies, erodes Australia's competitiveness in the global tourism market. Adding to the cost of visitation, these charges suppress visitor demand, particularly across the more price elastic leisure segment, directly leading to lower spending, a reduction in economic growth and investment and significantly slower job creation.

In recent years, the federal government has proposed the increase of a number of travel related taxes or charges. The most significant of these charges is the Passenger Movement Charge (PMC), Australia's departure tax. Originally designed as a cost recovery levy for the provision of government mandated border facilitation services, such as customs, immigration and biosecurity screening, the PMC has gradually transformed into a general revenue raising tool for government.

Since its introduction in 1991, the PMC has increased seven times, now costing passengers $55 per journey and collecting more than $908 million in 2013. However, over the same period, the total expenditure on passenger facilitation has decreased marginally in real terms, with less than $230 million being spent on border processing during 2013. This disparity is further highlighted over the short term. Since 2006, the PMC has increased by more than 30%, while the total expenditure on passenger facilitation has declined.

The over-collection of the PMC not only reduces demand for visitation to Australia, but also impacts on the delivery of services at Australia's airports and seaports. With the consistent growth in arrivals to Australia, particularly from developing Asian markets, the demands for border facilitation services continues to increase. In recent years, Australia's major gateways have all experienced an increase in passenger movements, while the provision of border facilitation resources have, in real terms, declined.

This has downgraded the passenger experience, with queue times for processing at the primary and secondary line increasing beyond record levels in recent years. As the first experience for visitors to Australia, this creates a poor initial impression, impacting repeat visitation or discouraging visitors from recommending Australia as a destination to others – both of which undermine our ability to achieve continued growth in key Asian markets.

In order to better meet the forecast demand in passengers, particularly from high-growth Asian markets where processing times are often longer than for traditional, mature markets, Sydney Airport strongly recommends returning the PMC to a hypothecated cost recovery regime. This will allow the option to either reduce the PMC to a level conducive with the total expenditure, increase the border facilitation expenditure to the amount collected by the PMC, or a combination of both. This will both improve demand while providing additional resources to passenger facilitation, thus improving the visitor experience.

A significant downside of the current flat structure of the PMC is the impact on short-haul markets. As a flat charge applies to all international airfares regardless of the distance or total cost of the ticket, short-haul markets are particularly impacted by the PMC, with the proportionate cost of the charge significantly higher than for long-haul routes. For example, a one-way fare from Sydney to Christchurch can be as low as $170, with the PMC comprising more than 30% of the total ticket cost.

This is particularly damaging for trans-Tasman travel and prevents future growth in the already mature New Zealand market. In order to stimulate further growth in short-haul travel, Sydney Airport recommends reducing the PMC on short-haul markets where demand growth would be constrained by the proportionally high charge.

Internationally, recent trends have shown that most foreign governments have proactively dismantled or taken steps to reduce many departure taxes or levies on the movement of passengers. These governments understand that the downside impacts of demand suppression significantly outweigh the revenue generation opportunities.

For example, a recently research report by Dutch economic consultancy SEO Economic Research, which indicated that an Irish departure tax of €10 per passenger would create a negative economic impact of more than double the amount the tax was scheduled to generate, led to the Irish Government dismantling their Air Travel Tax in April 2014, less than 5 years after its introduction. Other nations have also taken similar steps including the Netherlands and Malta, with Germany and the United Kingdom reducing their charges – particularly noteworthy actions to take during the ongoing European fiscal crisis.

Recommendation 4:

Industry is united in its opposition to any increase in travel related taxes or charges. Sydney Airport has long supported a reduction in the Passenger Movement Charge and would welcome a progressive reduction over time, in line with the total amount expended by border facilitation agencies on passenger processing. This would ensure the PMC returns to the original mandate of the legislation as a hypothecated cost recovery charge and that service levels provided to passengers, particularly for inbound visitors, more accurately reflect the Passenger Movement Charge amount.

Sydney Airport further recommends increasing the level of funding available to Australia's border agencies to improve service quality, particularly for arriving visitors. This includes increased resources for automated processing, such as additional inbound SmartGates and a comprehensive implementation of outbound automated e-gates.

Optimising Sydney Airport

To address Sydney's long-term aviation needs, the Australian and NSW governments established the *Joint Study on Aviation Capacity for the Sydney Region* (the Joint Study) in 2009 to develop an effective strategy for meeting the future aviation capacity needs for the Sydney region. The Joint Study report, released in March 2012, examined and recommended a number of solutions to Sydney's growing aviation needs. Key among these was maximising the use of Sydney Airport given the advantages it presents to business and tourism markets, improving the use of other existing aviation assets in the Sydney region, and selecting a site for a secondary Sydney airport.

The NSW Government is investing heavily to upgrade road and transport infrastructure in the vicinity of Sydney Airport as shown by its $282 million package of WestConnex enabling works and the proposed WestConnex Motorway itself. While Sydney Airport is also investing heavily in infrastructure and passenger experience improvements, the Joint Study, the NSW Visitor Economy Taskforce and numerous other reports generated over the last 15 years have highlighted the inefficiencies created by the numerous inflexible and, in some cases, out-dated operating restrictions designed to deliver positive environmental benefits to the community. However, the inflexible and outdated nature of the existing operational restrictions deliver suboptimal outcomes for the community compared to the outcomes that could be achieved by more modern regulations that reflect and incorporate technology improvements, while limiting Sydney Airport's true operating capacity.

The operating restrictions, in combination, are unique to Sydney Airport and include a curfew (11:00pm – 6:00am), a cap on hourly runway movements and slots (limited to 80 per hour), and a 'regional ring-fence' (ensuring intrastate air services maintain an allocated amount of all movements at Sydney Airport). An additional restriction on airport operations is the unique noise sharing regulations – the Sydney Airport Long Term Operating Plan (LTOP). While it is accepted some of these restrictions are intended to achieve important public policy and environmental outcomes, it should be recognised that, in combination, they impose a significant competitive disadvantage on Sydney's ability to attract tourists and businesses to Sydney and Australia, and restrict the ability to operate in a truly competitive environment, particularly in regard to long-haul international operations that often prefer late night or early morning arrival/departure times to meet connections at hub airports.

<u>The movement cap and slot management scheme</u>

The *Sydney Airport Demand Management Act 1997* (Cth) (the Demand Management Act) establishes the structure and guidelines that regulate the operation of the movement cap and slot cap at Sydney Airport. Additionally, the Demand Management Act also establishes the higher level framework of the slot management scheme at Sydney Airport. More detailed guidelines relating to the slot management scheme are contained within the associated *Sydney Airport Slot Management Scheme 2013* (Cth) and the *Sydney Airport Compliance Scheme 2012* (Cth).

At present, the Demand Management Act restricts aircraft movements at Sydney Airport to no more than 80 in any regulated hour. A regulated hour is defined as a non-curfew period of 60 minutes commencing on the hour, 15 minutes past, 30 minutes past or 45 minutes past. This creates 15 minute block periods where the cap is counted, e.g. 8:00am-9:00am, 8:15am-9:15am, 8:30am-9:30am, and so on.

The Demand Management Act (and associated slot management and compliance instruments) also creates the guidelines for the allocation of slots at Sydney Airport, restricted to a maximum of 80 per hour.

The way in which the current movement cap and slot management scheme interact prevents Sydney Airport being used as efficiently as possible, causing delays and resulting in tens of thousands of airline passengers being routinely and unnecessarily inconvenienced. The latter, in particular, undermines Sydney's (and Australia's) reputation as a destination for international tourists. As a noise management tool, it is also a particularly blunt and ineffective instrument, which treats quieter aircraft exactly the same as noisier aircraft. It can also perversely operate in a way that concentrates aircraft noise in particular locations throughout the day and prevents noise sharing from being implemented. This is the exact opposite of what the Long Term Operating Plan (LTOP) for Sydney Airport seeks to achieve.

Weather plays a critical role in creating delays and inefficiencies across the national aviation network. The current structure of the movement cap prevents Airservices Australia and Sydney Airport from being able to recover from major disruptions, effectively exacerbating the problem and pushing delays at Sydney Airport further throughout the day. This has been particularly apparent at Sydney Airport in recent weeks with frequent thunderstorm activity in the Sydney area causing substantial delays in services.

A substantial volume of traffic operates to and from Melbourne and Brisbane airports each year, both of which have only one parallel runway to meet demand levels that justify two parallel runways during the peak hours. Should weather impact operations at other locations such as Melbourne and Brisbane airports, Sydney Airport's ability to reduce pressure on other locations and the entire national aviation network is significantly reduced.

The inflexibility in Sydney Airport's existing movement cap means that the time taken for the national aviation network to recover extends well beyond the duration of the original disruption. Consequently, whenever weather or other disruptions cause delays at Sydney, Melbourne or Brisbane airports (particularly during the peak), tens of thousands of airline passengers across Australia are significantly impacted, again undermining Australia's reputation as a tourist destination.

For example, if a major storm occurred on a weekday morning at 7am and continued until 8:30am before reducing in severity, a large number of scheduled services would be delayed until after 8:30am. With the cap in its current form, many of the services could be delayed by several hours to prevent the movement number exceeding 80 across subsequent regulated hours. This generates significant inconvenience for passengers, impacts the economy though lost productivity and delivers suboptimal noise outcomes for the community.

A recent study in the United States commissioned by the Federal Aviation Administration (FAA) quantified the cost of delays to the American economy, putting the composite annual figure at over US$32.9 billion[1]. Of this amount, US$16.7 billion, or just over half the cost, was borne by passengers. This number was calculated based on lost passenger economic productivity due to flight delays, cancellations and missed connections, plus expenses such as food and accommodation that are incurred from being away from home or work for additional

[1] http://www.isr.umd.edu/NEXTOR/pubs/TDI_Report_Final_10_18_10_V3.pdf

time. Further, the report found that airlines shoulder more than US$8.3 billion in additional costs generated by increased expenses for crew, fuel and maintenance, among others. Nearly half this cost is due to padded schedules – the hidden delays that are built into schedules by airlines that anticipate network-wide disruptions as a regular occurrence.

As the backlog of aircraft are prevented from departing or arriving as demand dictates in order to maintain the 80 runway movement limit, noise sharing runway modes that would otherwise be used in the later morning, where the average movement rate is down around 40-55 movements per hour, would not be used until much later in the day, if at all. As a result, the community experiences more concentration of aircraft noise for a longer period of time – the opposite of what noise sharing and the LTOP intends to counteract.

The existing movement cap and slot cap have not been significantly reformed since their inception, and the genesis of the cap is rooted in a political debate rather than reflecting international best practice for noise abatement. The *Joint Study on Aviation Capacity in the Sydney Region* (Joint Study) recommended that both be reviewed and reformed, recommendations the former government immediately ruled out, and was echoed by the NSW Visitor Economy Taskforce report in 2012. In addition, the drafting of the Demand Management Act is inconsistent with the original intent which was to limit "scheduled movements" (i.e. slots) to 80 per hour rather than actual runway movements.

There are opportunities to reform the Demand Management Act in a way that reduces inconvenience for passengers, improves the efficiency of airport operations (both at Sydney and other airports around Australia) and improves noise sharing outcomes under the LTOP. That is, the clear 'winners' of reform would be passengers, airlines and the wider community.

Fundamentally, the proposal involves delinking the movement cap from the slot cap. All commercial and private aircraft require a scheduled slot to land or take off from Sydney Airport with only military, emergency and helicopter movements receiving an exemption. Airport Coordination Australia (ACA), an independent company appointed by the federal government, allocates slots and manages slot coordination at Sydney Airport.

By regulating the scheduling of 80 slots per hour across the day (a slot cap, or 'scheduled movement cap') rather than the actual number of aircraft movements on and off the runway in any given hour (the runway movement cap), Sydney Airport would be able to significantly improve operational performance. This would allow delayed aircraft to arrive or depart as required, enabling the backlog of delayed aircraft to be cleared faster and providing the ability to move into preferred noise sharing modes far sooner. Both outcomes are, in Sydney Airport's view, clearly in the public interest.

Allowing Sydney Airport's demand management system to operate more efficiently and with greater flexibility will also improve infrastructure utilisation and reduce the likelihood of ground based congestion in the future. Under the current system, departures are ground held in order to prevent a breach in the cap, while arrivals are generally still permitted (for safety reasons), raising the number of aircraft present at Sydney Airport. The additional aircraft result in a combination of:

- aircraft waiting in a departures queue approaching the runway threshold, resulting in additional ground-based noise and aircraft emissions and potentially interfering with taxiing of other arriving or departing aircraft; and

- aircraft waiting on a gate, potentially requiring other aircraft to bus passengers (reducing service quality), wait for a gate or be towed to a layover bay (at significant cost).

This would mean that aircraft will no longer be forced to remain on the ground, allowing clearance of aircraft as they present at the threshold, enhancing the efficiency of the airfield. The changes to the Demand Management Act will result in the total volume of aircraft movements remaining the same – a maximum of 80 per hour across the 17 operational hours of the day. This means that Sydney Airport's capacity and overall noise impact does not change.

<u>Curfew shoulder period</u>

The *Sydney Airport Curfew Act 1995* (Cth) (the Curfew Act) and Regulations allow international passenger jet aircraft flights to arrive at Sydney Airport between 5am and 6am and 11pm and 12 midnight (known as the morning and evening curfew shoulder periods respectively):

- For the morning curfew shoulder period, the Curfew Act would permit up to 35 aircraft movements per week (and no more than 7 on any one day), which may only be landings. However, the Curfew Regulations prescribe lower limits, being no more than 24 movements per week (and no more than 5 on any one day); and

- For the evening curfew shoulder period, the Curfew Act would permit up to 14 aircraft movements per week (and no more than 4 on any one day), which may be landings or take-offs. However, the Curfew Regulations prescribe zero movements between 11pm and midnight.

By law, these flights must occur over Botany Bay or uninhabited parts of the Kurnell Peninsula, thus avoiding direct impacts on residential areas.

In June 2011, the NSW Government established the Visitor Economy Taskforce and charged it with developing a strategy to double overnight visitor expenditure to NSW by 2020. Achieving this target would generate more than $36 billion in overnight visitor expenditure by 2020.

Following extensive consultation, the Visitor Economy Taskforce released its final report in June 2012 and made a number of recommendations for government policy and regulatory reform in order to achieve the target. Specifically, the report recommended that:

> *"Landings in the morning shoulder curfew period should be increased from 24 to 35."*

In December 2012, the NSW Government responded favourably to this recommendation, calling for existing numbers of flights during both the morning and evening curfew shoulder periods to be increased to levels allowed under the Curfew Act:

> *"The NSW Government supports better utilisation of the existing infrastructure [at Sydney Airport]. Current regulation regarding shoulder movements should be updated to match [the] Sydney Airport Demand Management Act 1997. It would result in a further 11 morning landing slots and 14 take off/landing slots in the evening peak per week."*

The NSW Government's acknowledges that the 25 additional international passenger flights per week would deliver significant growth in international tourism to Sydney, particularly at times where hub foreign hub airlines flying to Australia wish to operate.

Sydney Airport estimates that aligning the permitted number of shoulder flights in the Regulations with those in the Curfew Act could inject more than $1 billion into the NSW economy every year.

Recommendation 5:

Identify the cost of delays to the Australian economy resulting from the existing structure to the runway movement cap and examine the benefits of reform for the tourism industry, the travelling public and the wider community affected by aircraft noise.

Examine the benefits of the NSW Visitor Economy Taskforce recommendation to increase the number of approved curfew shoulder period movements to the level stipulated in the Curfew Act.

Airport regulation

Investment and commercial negotiation

In 2002, the economic regulation of airport services was changed from a regime in which the ACCC needed to approve all price changes, to a regime in which airports and airlines directly negotiated with financial and service quality monitoring by the ACCC. The Productivity Commission's recommendation, and the Australian Government's decision, to change the model of economic regulation was "*intended to facilitate investment and innovation by airports*". At the time, "*significant increases in the charges inherited from the days of government service provision were widely accepted as necessary to put airport operations on a sustainable longer term footing.*"

The Productivity Commission conducted reviews into the economic regulation of airport services in 2006 and 2011. These reviews noted that, under the light-handed monitoring regime:

- There has been a marked improvement in aeronautical investment, without the bottlenecks that have beset other infrastructure sectors
- Airports' productivity performance has been high by international standards
- Service quality has been satisfactory to good
- Airport charges do not point to the inappropriate exercise of market power
- Commercial agreements with airlines are becoming more sophisticated

While airlines have identified significant price increases since 2000, this reflects the unrealistically low starting point, consistent with the 97% price increase at Sydney Airport approved by the ACCC in 2001. In 2006, the Productivity Commission stated that "*Price and rate of return outcomes are not outside the boundaries that might have been expected when monitoring was introduced. Prices have risen, but the bulk of these were endorsed by the Government in the move to a light-handed regime, in large measure, to ensure that future investment needs are properly addressed.*"

As you would expect in (or in preparation for) commercial negotiations, airlines argue that airports should have a low cost of capital – and in particular, argue that airports have low risk. In Sydney Airport's experience, airlines' fail to present direct empirical estimates of the overall asset beta, instead offering theoretical or empirical arguments that relate to proxies for one element of systemic risk.

The empirical evidence (applied to long established financial theory and regulatory practice) demonstrates that the long term average asset beta of all listed global airports of ~0.75-0.80 is higher than:

- The long term average asset beta of all listed airlines of ~0.60-0.70. Airline returns are also significantly influenced by non-systemic risks. For example, airline returns can be materially impacted by individual airline decisions to compete for market share at the expense of profitability
- The asset betas agreed in the commercial agreements with airlines
- Materially higher than the long term average asset betas for utilities of ~0.30-0.40

Commentary by airlines and the ACCC on airport profitability relies heavily on the financial information in the ACCC Monitoring Reports. Unfortunately, these reports are largely based on historical accounting and don't reflect the relevant regulatory decisions and aeronautical agreements. As a result, reliable conclusions cannot be reached.

For example, Sydney Airport's regulatory and commercial agreements have (since the ACCC Decision in 2001 that pre-dated both the introduction of the monitoring regime and privatisation) consistently used indexed asset bases in combination with a real WACC. By contrast, the ACCC Monitoring Reports include a historic cost asset base. In addition to other inconsistencies, this has resulted in significant differences between the reported financial results and the underlying results.

Over the past 10 years, Sydney Airport's return on capital employed has been below the commercially agreed WACCs.

<u>Airport monitoring</u>

Price and quality of service monitoring has been a key feature of the light-handed regulatory regime at Australian federally-leased airports and Sydney Airport supports its continuation. However, it is important that such monitoring is conducted appropriately and serves its policy purpose. Moreover, monitoring needs to respond to changing competitive and commercial circumstances, as the costs and benefits of monitoring are not static.
The key principles of effective monitoring should be:

- Consumer-focussed: the airlines and airports have commercial relationships to provide a joint product to passengers. Monitoring should be designed to support consumers, particularly passengers, who have varying relationships with businesses and government agencies (which are all part of performance assessment)
- Non-distortive: monitoring should not distort collaboration to improve performance or distort competition between airlines
- Focused: monitoring should concentrate on areas in which the airport has potential market power, should provide useful information concisely, and exclude extraneous information
- Robust: methodologies for obtaining, analysing and reporting data should be objective, unbiased, transparent and statistically robust
- Comparable: benchmarking should be against comparable airports in comparable circumstances rather than against each other where the only similarity is the national geographic context
- Timely and cost-efficient: monitoring should be cost-efficient and the results published quickly.

The *Airport Monitoring Report* published by the ACCC each year is intended to support the policy objective of light handed regulation. The report is also a high profile and influential document that can affect the general public and investor perception of the airports being monitored. The effect on corporate reputation and brand is appreciable. That the report can influence the decisions of governments is demonstrated by the timing of the 2011 Productivity Commission review into the economic regulation of airport services, which was brought forward by at least a year in response to matters raised in the 2008/09 ACCC report. ACCC reporting is not cost-free to the government, the airports or the airlines, including both the direct costs of the review and the uncertainty introduced into investment decisions.

The monitoring reports are limited through the absence of useful, comparable and up to date information, and contain commentary that is based on incomplete information – some of which is contradicted by evidence presented.

Given the real costs that can arise from unreasonable criticism, a good policy process (and natural justice) requires compelling evidence before critical comments are made, and not mere suspicion – the caveats used in the recent ACCC reports are not sufficient.

The integrity and usefulness of the ACCC monitoring process would be supported if the airports were able to respond to the full draft report before it is published. This would allow airports the opportunity to correct errors or misplaced conclusions. The preparation of reports of the Commonwealth Auditor General follows this process, as do the Productivity Commission's own draft inquiry reports. The airports should also have the opportunity to incorporate within the ACCC report a response to any of the ACCC comments.

Additionally, the ACCC Monitoring Report compares survey results for the four very different Australian airports, but makes no attempt to compare the airports against their international peers. Sydney Airport's peers for comparison purposes would include international airports with similar levels of activity, and Melbourne Airport to some extent.

Most importantly, the monitoring reports should be compliant with the appropriate ISO standards – standards which are prepared by Standards Australia.

Finally, it should be noted that the recent monitoring reports are published eight months after the reporting period ends, which further diminishes their public policy usefulness.

Recommendation 6:

With the current light-handed monitoring regime consistently receiving the support of the Productivity Commission over a number of successive reviews into the economic regulation of airport services, Sydney Airport recommends the continuation of the existing light-handed regulatory arrangement. This will generate ongoing benefits to airport users, particularly passengers, supported by record infrastructure investment by airport operator companies.

In order to improve the reporting arrangements, Sydney Airport recommends that joint service level targets should be agreed with each airline, commencing with many of the largest airlines. These agreements will help airports and airlines identify service priorities and improve joint service delivery. Different priorities and expectations of different airlines would then be reflected across individual agreements.

Further, Sydney Airport believes that audited self-reporting of individual service level agreements will provide the most useful information for regulators to monitor the conduct of airports and their relationship with airlines. The reporting threshold should be increased to biennially, acknowledging the high cost to airlines and airports.

In addition, it is recommended that airports continue to conduct surveys of airlines to understand their expectations and priorities. Sydney Airport would support publication on an aggregated level of the top five priorities of the airlines.