



Deputy Premier
Minister for Transport

Mr Neil Byron
Commissioner, Price Regulation of Airport Services Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Byron,

I am writing in response to the Price Regulation of Airport Services Inquiry announced by the Federal Treasurer and the open invitation for submissions to the Commission.

I note that the terms of reference require the Inquiry to adopt an economy-wide view, taking account of all the various interests involved, to determine what is best for the community as a whole. The Commission is to also have regard to matters including economically efficient airport operations and commercially negotiated outcomes that protect small users and new entrants.

My letter endeavors to inform the Inquiry on the implications of issues relevant to the New South Wales community as a whole, and to clearly articulate preferred approaches on those issues.

By way of background, Sydney Airport is Australia's pre-eminent aviation gateway in terms of passengers, air freight and economic importance and the State Government is supportive of its development as an aviation gateway to the NSW and Australian economy. Passenger volumes are estimated to almost triple over the next two decades.

However, the airport is the most severely constrained in relation to areas available to expand its activities of any Australian airport, and operates in a highly developed urban neighborhood, which limits the scope and increases the impacts and costs of providing support infrastructure and services.

The growth of Sydney Airport needs to be coordinated and undertaken in an orderly and planned manner and consistently with the remainder of the metropolis, to achieve a whole of community approach, distribute economic benefits in an equitable manner and manage the impact on both the city's environment and its residents.

The following key comments are submitted in relation to issues relevant to the State.

Non-aeronautical services

I note that revenues from the 7 price monitored airports have grown strongly since 2001, and that on average over 55% of those revenues are generated from non-aeronautical services. A question is also raised in the Issues Paper "Price regulation of airport services, May 2006" of airports possibly limiting aeronautical price increases to pursue the competing incentive of boosting non-aeronautical revenues.

It is recognised that gateway airports worldwide generate substantial non-aeronautical revenues. However, for principal Australian airports there is no effective control of this activity, which allows them to pursue excessive non-aeronautical uses of airport land. As a result, state and territory governments have raised the issue at national forums such as COAG, the Australian Transport Council and the Planning Ministers Council.

The NSW Government has strongly objected to proposals for non-aeronautical uses of developable land at Sydney Airport, it being clear that in the context of a highly constrained airport the land would better be retained for aviation uses.

Other consequences flow from this type of development, including unfair commercial advantage over businesses trading external to the airport. This is because the airport legislation is administered so as to circumvent state and local government planning requirements and also avoids developer contributions for services needed in the airport environs, including surface transport access infrastructure.

These matters are also discussed in NSW Government submissions to the Sydney Airport Master Plan and to a consequent Major Development Plan for the airport.

A planning approval process remedy is needed, and it is unlikely that extending the price monitoring regime could assist in resolving this situation.

However, the Inquiry should note the gravity of the issue, including the potential to add to future aeronautical capacity and efficiency problems at Sydney Airport due to excessive non-aeronautical development occurring on-site, rather than off-site.

The NSW Government supports the continuation of Sydney airport's role as the pre-eminent gateway to Australia. The NSW Government will also support a pricing and service quality monitoring regime that encourages airport operators to invest in future aeronautical and aeronautical-related services.

Transport support services

Non-aeronautical services are outside the current price monitoring regime and include, for example, car parking and taxi rank services.

Questions are raised in the Issues Paper as to whether car parking and other transport concessionaire services should be added to the monitoring.

Taxi passengers now incur an airport access fee which, when proposed by the Sydney Airport Corporation, was to provide better access and facilities for taxi drivers and passengers. I am advised that this to all intents and purposes has not eventuated.

Sydney Airport is locked into a strategy of a minimum 95% car mode share in the long term, influenced by the non-aeronautical development, parking and taxi levy revenues.

Traffic congestion in the main road network surrounding the airport is increasing and will impact the costs of road based public transport providers and other road users.

The congestion also has multi billion dollar infrastructure implications for main road upgrading over 20 years.

Any further development of the airport precinct should take into account appropriate traffic management plans and encourage much greater public transport usage. These matters potentially impact on the airport's economically efficient operation, and are also detailed in the submissions by the NSW Government referred to above.

No mechanism exists to apply any revenue, generated from services such as airport car parking and taxi levies or from any other airport revenue, to contribute to the creation or improvement of road and public transport infrastructure external to the airport, but which serves the airport.

Current price monitoring (and price regulation in relation to regional airline access) applies only to aeronautical charges and aeronautical-related services, however the Productivity Commission has assessed Sydney Airport as having a 'high' overall degree of market power, which extends to non-aeronautical services as well.

The current price monitoring regime for Sydney Airport recognises the significant market power which it could potentially use to inefficiently raise prices for its services above those that would prevail in a more contestable market.

Further consideration needs to be given to price monitoring or price regulation of charges for non-aeronautical services to protect the interests of NSW residents and interstate and international visitors who pass through the Sydney Airport.

In relation to car parking and other transport concessionaire services, any price monitoring arrangement would need to form part of an overall travel demand management framework to achieve more efficient movement of people to and from the airport.

The Inquiry should note that a sustainable long term surface transport access strategy for Sydney Airport is yet to be identified and funded, and that such a strategy will be essential for the airport to operate productively and efficiently.

The airport operator should focus on its core role, of which this issue is a substantial part. Pricing should principally reflect the need for a sustainable long term revenue base, with revenue from ancillary activities contributing to infrastructure which supports these activities, including the external road and public transport networks.

Regional Airline Access

The Issues Paper raises questions in relation to the effect on the pricing regime at Sydney Airport of the price notification and ring fencing for regional airlines and whether the ring fencing will add to airport capacity problems in future.

The NSW Government encourages regional economic development based on sustainable private sector investment and recognises that regional airlines are an important contributor to the development of regional economies.

Air service access to Sydney Airport is vital to development opportunities in regional and rural NSW. Creating a positive business climate is critical to the future of regional economies and a central part of the NSW Government's regional development strategy.

Equally, service providers locating in Sydney require daily access to the regions. There is also a genuine community need for adequate access to medical and other services only available in the city.

As well as being crucial to regional wellbeing, access to Sydney Airport is essential because there is no viable alternative. In that regard, Bankstown Airport as an overflow for regional services was ruled out in a 2003 Airservices Australia study, because the proposal was shown to conflict with the efficient operation of Sydney Airport airspace.

Currently 33 NSW regional and rural airports, and hundreds of other surrounding country communities, have regular public transport air links to Sydney Airport. The number of regional airports so linked to Sydney is substantially less than it was prior to the collapse of regional airlines in 2001, when 15 NSW airports lost their air links.

Although the airline industry generally has recovered from the 2001 collapse, the smaller end of the regional market has not, and only 2 of the 15 air links lost at the time have since been restored. Consequently, the demand for regional airlines slots at Sydney Airport is considerably less now than it was approximately 5 years ago.

Also, the NSW regional airline network operates efficiently, with about half the routes transiting through intermediate regional airports, thus concentrating passenger loads and reducing aircraft movements and demands on Sydney Airport slots.

I note that the current Sydney Airport 20 Year Master Plan makes continued provision for future regional aircraft movements, consistent with current levels. From an economy-wide view and with regard to what is best for the community as a whole, that should be the minimum position in balancing the needs of the regional airline network with the expected growth in interstate and international aviation.

Also, the price notification and ring fencing arrangements for regional airlines at Sydney Airport are, on the arguments provided, as relevant now as when the airport was privatised. The NSW Government supports a pricing and service quality monitoring regime that allows regional airlines in this State continued and reasonably priced access to aeronautical services at Sydney airport.

Inquiry focus

The Issues Paper indicates the terms of reference could potentially encompass all airports, but the major focus is likely to be on the 7 price monitored airports. Smaller airports are said to ostensibly lie outside the Inquiry's main focus because they have little market power in their dealings with regional airlines.

It is true that many smaller airports have little market power. I am advised this is demonstrated by them sometimes waiving their fees, either to achieve lower airfares or to mitigate the risk of airlines reducing service levels or withdrawing altogether.

However, the same may not be true of major regional airports. Regional airlines are concerned that some larger regional airports charge excessively for airport services, beyond what is required to recover costs.

The balance of market power may rest with the airports in these cases, by virtue of their relatively high passenger volumes, which regional airlines need to tap to sustain their commercial viability. The Inquiry should consider this issue and seek further information from the relevant parties.

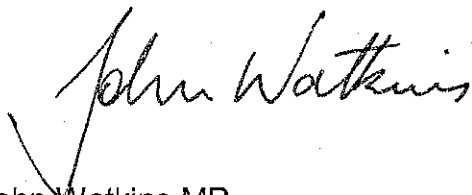
The key question for the Inquiry is what opportunities exist to streamline or replace current monitoring arrangements, without compromising effectiveness.

From a NSW Government perspective this remains an open question generally, subject to the specific issues raised and the views expressed above.

The NSW Government may wish to comment further following the proposed release of the Inquiry's draft report later this year.

I wish to thank the Inquiry for providing this opportunity to comment.

Yours sincerely,

A handwritten signature in black ink, reading "John Watkins". The signature is written in a cursive style with a large, sweeping initial 'J'.

John Watkins MP
Deputy Premier
Minister for Transport