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Committee Secretary
Senate Select Committee on Commonwealth Bilateral Services Agreements
PO Box 6100
Parliament House
CANBERRA ACT 2600

Via email: cbasa.sen@aph.gov.au

Dear Committee Secretary,

Inquiry into Commonwealth Bilateral Air Services Agreements

Sydney Airport welcomes the opportunity to provide the Select Committee on Commonwealth Bilateral Air Service Agreements (**the Committee**) with a submission pertaining to its upcoming Inquiry.

Sydney Airport continues to be a firm advocate for the further liberalisation of Bilateral Air Service Agreements (**ASAs**) to ensure that Australia is in the best possible position as a nation to capitalise on key economic opportunities when it comes to tourism and trade with other countries.

Sydney Airport is of the view, however, that Bilateral Air Service Agreements should be considered as a component of a broader aviation system that has not seen any meaningful regulatory modernisation for the better part of two decades. An outdated legal and regulatory framework has contributed to a system that is clogged up, perpetuates anti-competitive behaviour, and means that Bilateral Air Service Agreements and other components are no longer fit-for-purpose.

The time is right to modernise existing regulations and shepherd in a new era - one that drives efficiency, productivity and competitiveness.

International aviation

International aviation delivers a significant contribution to the Australian economy. Unfortunately, the existing Bilateral ASA framework, and other regulatory inefficiencies, constrain capacity and effectively limit the economic return derived from international aviation.

As the Committee may be aware, international aviation generates around \$100 billion in export revenue and supports around 515,000 jobs annually across Australia. The two largest contributors to these figures are education, generating \$40.3 billion and supporting around 248,000 jobs, and freight, generating \$34.5 billion and supporting 129,000 jobs. International holiday makers each spend approximately \$3,300 in Australia, generating approximately 75,000 jobs and \$13.3 billion in export revenue annually.

Prior to the pandemic, Sydney Airport alone welcomed 44.4 million passengers, generated more than \$42 billion in economic activity (equivalent to nearly 7% of NSW's Gross State Product), and directly and indirectly supported 336,000 jobs. Just one typical daily international service at Sydney Airport contributes \$130 million in value to the NSW economy and approximately 1,200 FTE jobs.

Modernisation of the aviation sector and access to Sydney Airport

Australia's aviation sector has not seen meaningful regulatory modernisation for close to twenty years, yet aviation has materially changed over that time. As a result, the system has become clogged up, anti-competitive behaviour has been incentivised and vital components of the aviation framework, such as Bilateral Air Service Agreements, are outdated and no longer fit-for-purpose. Inevitably, it is the travelling public that suffers the consequences of these inefficiencies.



It is worth noting that even if the Bilateral ASA process were without fault, a lack of access to slots at Sydney Airport and other regulatory reforms means that the delivery of tangible benefits to the economy and consumer is not guaranteed.

As the Committee may be aware, Sydney Airport has been advocating for reform to the slot and demand management schemes since 2017. Issues with the regime have been highlighted since that time by the Productivity Commission in 2019, the ensuing independent *Review of Sydney Airport Demand Management Scheme (the Review)* by Mr. Peter Harris AO in 2021, the Australian Competition and Consumer Commission (**ACCC**) and a variety of industry stakeholders.

The results of the Review are much anticipated and hopefully will make recommendations for meaningful reform. In particular, Sydney Airport hopes to see recommendations from the Review relating to improved access for airlines, enhanced compliance and penalties for the misuse of slots.

Fundamentally, the way the current rules are written incentivises incumbent airlines to perpetually over-file and hold too many slots. Slot filing data demonstrates that this has been allowed to go untempered for many years, and unless there's a change to the rules, we do not see a scenario where behaviours will change or competition can increase.

Bilateral ASA negotiations and limitations

With specific regard to Bilateral ASAs, Sydney Airport is of the view that, short of adopting open skies agreements, ASAs must deliver expanded capacity ahead of demand to deliver the maximum value to Australia at the earliest possible opportunity. The existing Bilateral ASAs process is often lengthy, sometimes inefficient, and where agreed to, tends to follow an increase in demand for capacity, rather than creating appropriate supply ahead of time. As a result, Australia often stands to miss out on key economic opportunities as airlines choose to fly elsewhere in a world that is full of opportunities.

Bilateral ASAs should provide no less than five years of growth to afford airlines ongoing certainty around future opportunities to operate services to Australia. 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 full capacity under existing air service agreements and face significant limitations for growth due to the nature of the Bilateral process. Making sure that supply can always exceed demand will provide customers with more choice, putting downward pressure on airfares and generating competition in Australia's international aviation sector.

Open skies

Sydney Airport believes that Australia stands to benefit from further liberalisation of Bilateral ASAs and would go so far as to advocate for facilitating additional open skies agreements. Increased unrestricted air rights capacity agreements whereby market dynamics determine potential routes for foreign carriers with no restrictions on services to and from Australian capital cities would deliver considerable improvements and efficiencies in international aviation. For context, the United States has open skies agreements with 130 nations and Singapore has more than 60. Australia has only seven.

A contemporary example of inefficiencies in the Bilateral process is currently playing out in relation to the Middle East market. The Bilateral to the United Arab Emirates permits 168 flights per week, in comparison to Qatar's 28. At present, airlines flying to and from the UAE are only operating 84 of the 168 flights they are permitted, while Qatar is utilising all of their permitted 28 flights and is operating at capacity (plus an extra 7 flying to Adelaide via Melbourne, which is permitted under the ASA).

At Sydney Airport, we are currently seeing a 25% shortfall in recovery on the Middle East market when compared to pre-COVID. With 50% of weekly permitted flights from the UAE not being utilised, while Qatar is prevented from increasing their capacity, consumers are paying the price with less choice and ultimately higher airfares.



Airlines require the ability to make their own decisions as to which routes are commercially viable, needing 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 destinations that are more commercially attractive. Should foreign airlines fail to secure more access to Australia, and vice versa, carriers will deploy the additional capacity on other overseas markets, which would not be in Australia's national interest. This will result in higher costs for travellers and significantly lower economic benefits for the entire Australian economy.

A relatively recent example of benefits derived from open skies arrangements is the 2016 agreement between Australia and China. Following this arrangement, passengers doubled to around 160,000 per month, or 1.4 million annually, and incoming tourists each spent \$9,200 on average, contributing over \$12 billion to the national economy. Airfares also decreased by 35% between 2015 and 2019, dropping by 15% in the first year of open skies alone.

Conclusion

Inefficiencies pertaining to the Bilateral ASA process are just one symptom of an aviation sector that is in need of modernisation. Sydney Airport is of the view that air rights should be considered as a component of a broader system that requires reform in order to deliver maximum economic return to the nation and a consumer experience that the travelling public deserves.

Sydney Airport looks forward to the Government's response to the Review of the Sydney Airport Demand Management Scheme and remains available to all levels of government and industry stakeholders to work together on a new era of efficiency, productivity and competitiveness in the aviation sector.

I trust this information is of assistance to the Committee.

Yours sincerely,

 **Geoff Culbert**
Chief Executive Officer