SUBMISSION NO. 158

Sydney Airport

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON
TRANSPORT AND
REGIONAL SERVICES
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Secretary: ....

3rd October 2002

Mr Paul Neville MP
Member for Hinkler
Chairman,
Standing Committee on Transport
And Regional Services
Parliament House
Canberra ACT 2600

Attn: Committee Secretary Ian Dundas

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<u>Inquiry into commercial regional aviation services in Australia and transport links to major populated islands</u>

Dear Mr ~~Neville~~ Paul,

Please find attached Sydney Airports Corporation Limited's (SACL) submission to the Committee's Inquiry into Commercial Regional Aviation Services in Australia and transport links to major populated islands.

The submission has been prepared on SACL's behalf by the Centre for Asia Pacific Aviation. The Centre was commissioned to research airport charges facing regional airlines at Sydney Airport, and also at the major regional centres in NSW.

The reality is that charges at Sydney Airport are significantly below those of NSW regional airports. In addition, they have remained at these very low levels while charges for domestic and international operations have increased significantly.

This independent analysis by the Centre also confirms that regional airlines using Sydney Airport benefit from a protected access regime and significant pricing subsidies. Sydney Airport therefore offers a de facto community service to regional centres through these preferential access and enshrined pricing practices.

In addition to offering charges significantly below regional airports, SACL's own analysis shows that regional peak period prices have dropped sharply over the five-year period from 1997 to 2002.

At the same time, aeronautical charges affecting domestic or interstate operators have increased, while those for international operations have increased significantly, primarily as a result of the substantial adjustment to aeronautical charges approved by the Australian Competition and Consumer Commission in May 2001.

As a result of the ACCC-approved charges, regional charges for Dash 8 and Saab 340 aircraft were reduced by an average of 1.5%. By comparison, domestic and international charges rose by around 150% and 110% respectively.

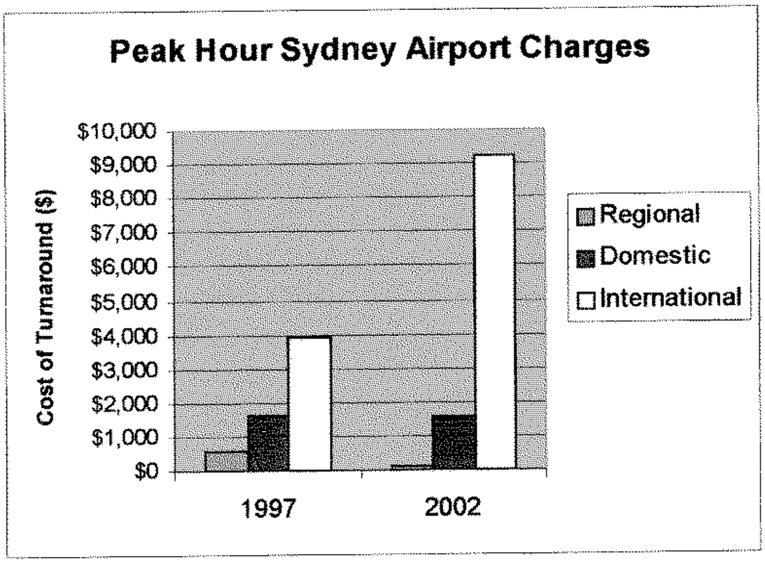
When examined over the five-year period from 1997 to 2002:

- The cost of landing and taking off at Sydney Airport in peak periods fell by over 80% for regionals.
- The cost of off-peak movements rose for regionals by only 20%.
- By comparison, domestic charges fell marginally for peak movements and international charges rose by 24%. For off-peak movements, domestic charges rose by 39% and international by 42%.

The relative percentage changes are illustrated in the following table.

Operation	Change 1997 to 1998		Change 1998 to 2002	Change 1997 to 2002	
	Peak	Off Peak		Peak	Off Peak
Regional	-83%	23% ave	-1.5% ave	-83% ave	21%
Domestic	-62%	-46%	156%	-4%	39%
International	14%	30%	107%	135%	169%

The following table shows the relative 'cost of turnaround' between regional, domestic and international operations in 1997 compared with 2002.



The Committee should also be aware that SACL has re-commissioned the former Ansett terminal and a multi-user terminal, T2, hosting the regional operations of QantasLink, as well as independent regional carriers Rex, Aeropelican and Horizon.

The successful re-commissioning of T2 was consistent with the pro-competition statement of principles as set out by SACL on 26 July which notes the vital economic and social role of regional airlines.

I have attached the relevant media releases for the Committee's consideration.

I would also wish to re-affirm SACL's open invitation to the Committee for a briefing and tour of Sydney Airport, and for the Committee to conduct its Sydney hearings at the airport.

I would appreciate your advice on the formal tabling of SACL's submission in order that I may circulate it more widely among government and industry stakeholders.

Yours sincerely,

CHRIS FALVEY
Director Corporate Affairs

Encl.

AIRPORT CHARGES FOR
REGIONAL AIRLINES
AT SYDNEY AIRPORT

A SUBMISSION PREPARED FOR THE STANDING COMMITTEE
ON TRANSPORT AND REGIONAL SERVICES

INQUIRY INTO
COMMERCIAL REGIONAL AVIATION SERVICES IN
AUSTRALIA
AND TRANSPORT LINKS TO MAJOR POPULATED ISLANDS

Sydney Airports Corporation Ltd

Prepared by

**Centre for
Asia Pacific Aviation**

1 INTRODUCTION

Sydney Airport wishes to assist the Standing Committee in its deliberations, in particular to provide a factual basis for examining pricing levels and the effect of airport charges on regional airline services.

This submission has been prepared by the Centre for Asia Pacific Aviation on behalf of Sydney Airport Corporation Ltd.[1]

It addresses three general pricing questions:

First, are the charges commercially reasonable in terms of costs (including operating costs, consumption of capital, opportunity costs)? The answer to this first question is almost always contingent, although it is usually the focus of competition authorities.

Second, are the charges reasonable when benchmarked against other airports? Benchmarking is a short-cut to determining the reasonableness of charges in the absence of a definitive cost analysis. It is also used to review the efficiency and competitiveness of service delivery.

Third, do the charges impact adversely upon the economics of the sector? This addresses the issue of materiality; whether the level of charges justifies intervention to reduce them, either by the supplier or by a third party, in order to improve the economics of aviation services generally.

This submission addresses these questions with reference to Sydney Airport charges for regional airlines. The analysis is presented in four sections, dealing with:

1. The principles and practice of airport pricing;
2. Developments in the New South Wales regional aviation sector;
3. Benchmarking charges across the region's airports ;
4. The relativity between charges, airfares and airline revenue.

[1] The information in this report is presented in good faith using the best information available to us at the time of preparation on the basis that neither the Centre for Asia Pacific Aviation nor its employees, agents or associates are liable to any person or organisation for any damage or loss which may occur in relation to that person or organisation taking or not taking action (as the case may be) in respect of any statement, information or advice conveyed in this report.

2 THE AIRPORT PRICING REGIME

Basic Pricing Principles

Airport charges are constructed in various ways according to individual airport practice, but the basic elements of post-privatisation pricing are that each component of service provided is costed and charged appropriately. This seeks to avoid cross-subsidy and permits transparency in pricing procedures.

Charges at Sydney Airport are now allocated across a number of activities and facilities in the interests of ensuring fair allocation of cost. They include the following categories where aeronautical charges may (but not necessarily) be levied:

- Passenger service charge
- Runway charge
- Counter Terrorist First Response
- Security charge (surcharge)
- Passenger screening
- Apron parking

The basic criteria for perceived reasonableness of pricing are the valuation of the relevant facilities for which charges are made, a reasonable return on capital based on those valuations, and factors such as depreciation rates and direct operating expenses.

The regulatory regime is designed to provide a general framework in which the airport operator and airlines are encouraged to negotiate prices without government intervention. As outlined by the Minister for Transport and Regional Services in 2001, regulatory intervention will in future only be necessary "where it was apparent that airport behaviour was adversely impacting on consumers or competition between airlines through the exercise of a real or perceived monopoly power."

Background

Prior to establishment of Sydney Airport Corporation Limited (SACL), Sydney Airport was operated by the Federal Airports Corporation. Shortly before the transfer, in 1997, the ACCC approved increased aeronautical charges at Sydney and three other major airports.

There was a fundamental restructuring of charges in 1998. This did not increase airport income, but reallocated charges in a way which more accurately reflected the cost of providing service. Landing charges were nearly halved and international terminal charges were increased significantly. This restructuring was necessary because the previous pricing regime did not equitably allocate the cost of providing aeronautical facilities and services, relying instead on a higher proportionate revenue stream from non-aeronautical activities. Regional operators benefited both from a reduction in the basic landing charge for use of runways and taxiways, and from the removal of peak and shoulder period surcharges.

More recently, in 2001, a pricing structure was established based on a revised valuation of airport assets prior to privatisation. This involved significant increases for several categories, most notably landing charges. However, an important exception was made for regional airlines, whose landing charges were either not affected or only marginally so. Each of these changes was considered at length and, following extensive industry and public hearings, approved by the Australian Competition and Consumer Commission (ACCC).

Pricing oversight pursuant to this regime is carried out mainly by the ACCC, applying the Prices Surveillance Act, 1983 (PSA), the Airports Act, 1996 and Part IIIA and Part X of the Trade Practices Act, 1974.

Sydney Airport has been subject to price regulation under the PSA. Until October 2001, a range of services provided by Sydney Airport was subject to prices notification under the PSA, but, unlike the other core-regulated airports, was not subject to a price cap. Nonetheless, all relevant pricing changes required approval from the ACCC, which applied the same criteria as for other core-regulated airports.

Despite general price deregulation at other airports since 1 July 2002, , Sydney Airport remains subject to notification of prices for regional aeronautical services prices. As with the other major airports, it remains subject to price monitoring of aeronautical-related services. Sydney Airport was the only core regulated airport which did not increase its charges on July 1 when they were freed to do so by price deregulation. Under the current pricing supervisory scheme, applicable generally to major airports since 1 July, a form of "light handed' regulation by the ACCC applies, under which prices are monitored, but not controlled.

Since Sydney Airport's privatisation there has been no change to the aeronautical pricing regime, or to charges for regional carriers.

Throughout the reforms implemented to Sydney's aeronautical pricing system in recent years, stringent efforts have been made to ensure regional carriers are not penalised and that any increases are directed for the most part at operators of larger aircraft. This policy is consistent with the Federal Government's commitment to maintain access for the regionals to Sydney Airport and minimise the impact on them of necessary price adjustments.

Airport Regulation and User Charges

In addition to the general pricing framework, specific regulated impositions on Sydney Airport result in higher charges to users. These are the result of the special nature of the airport, as geographically small but extremely busy, with available access at peak times well below actual demand.

For example, unlike other Australian airports, Sydney Airport is subject to a night-time curfew (under the Sydney Airport Curfew Act, 1995), to a maximum number of aircraft movements per hour (under the Sydney Airport Demand Management Act, 1997) and to a system of runway usage designed to distribute aircraft noise equitably around Sydney (pursuant to the Long Term Operating Plan).

Each of these controls imposes inefficiencies on the airport and therefore a higher unit cost to end users. Some of these limits are applied to other world airports, but rarely, if ever, are all of them applied in combination.

Hidden Subsidies for Regional Airline Services

Two additional key constraints on pricing exist in relation to regional services, provide an effective, but invisible, subsidy to regional airlines:

(1) Peak period pricing is not applied

Although Sydney Airport may, under the new pricing regime, apply peak pricing, it has not introduced any surcharge for aircraft landing or taking off during periods of congestion since the 1998 restructuring of charges.

The commercial practice of pricing short-supply slots higher than off-peak slots, which many airports use to maximise efficiency, was prohibited to reduce charges on regional airlines. It was feared that such a peak pricing regime would deter regional airlines from operating in these valuable time slots.

This was a social policy decision, designed to support regional airlines, which characteristically seek to operate in busy periods as their passengers are predominantly business travellers. Shortly before Ansett collapsed, taking Hazelton Airlines and Kendell Airlines into administration, regional airlines accounted for some 19% of all peak hour slots at Sydney Airport.

(2) CPI price ceilings remain on regional airline movements

Despite the introduction of light handed regulation of aeronautical charges, one further important exception was made for regional airlines at Sydney Airport. Under this additional region-specific provision, charges for regional airlines are capped at the annual CPI increase (although, in fact, as noted, no increase has occurred).

(3) Regional airline slots are "ring-fenced"

Similarly, again pursuant to Commonwealth regulation, a proportion of available slots are "ring-fenced" for use by regional airlines only. As a result, ring-fenced peak slots are under-utilised in terms of potential, displacing operations by larger aircraft with more passengers and higher freight volumes.

The combination of these two factors is to embed a significant level of commercial inefficiency on the airport's operation, a price which must be borne by the airport operator and by airline users. Jointly, they represent a substantial "transfer" of value to the regional operators.

One measure of the resultant support given by Sydney Airport to regional operations is apparent from comparing average numbers of passengers per aircraft movement among international airports in the region. Sydney, despite its very scarce resource, has an average passenger loading of around half of some of the equivalent major airports in Asia. This is a direct effect of the much higher proportion of smaller aircraft using the airport - an effect which is most influential at peak times.

For example, in calendar year 2001, Sydney Airport had 292,191 aircraft movements for 24,303,024 passengers, an average per aircraft of 83 passengers. Bangkok Airport in the same year had 200,934 aircraft movements for 30,623,764 passengers, an average per aircraft of 152 passengers.

Consequently, Sydney Airport provides a community service in this way - despite the resulting reduced throughput.

3 NSW Regional Aviation

The NSW airline market is the largest in Australia, based on point-to-point services in and out of Sydney through Qantas subsidiary QantasLink and recently established Regional Express. In the latest figures, for fiscal 2001, the state accounted for 28% of the nation's 5 million regional passengers[2].

Sydney's importance to regional aviation is underlined by the fact that it serves 4 of the 10 regional city pairs with the highest passenger volumes in Australia. The busiest of these routes is Coffs Harbour, which services 3.5% of Australia's regional traffic and 10.8% of the NSW market. The others are Albury, Dubbo and Wagga Wagga. Between them, passengers carried on these four routes represented 10.6% of the nation's regional market.

The NSW market is highly concentrated. Sydney is the hub for nearly all regional traffic, other than a few passengers flying between regional centres.

As discussed above, the Federal Government's policy for air services reflects the need to provide regional operators with satisfactory access to Sydney Airport by ensuring take off and landing slots are available there. This is deemed critical, both from political and regional perspectives, despite the cost to the airport and the wider economy of resulting inefficiencies and opportunity costs.

At a state level, the NSW Government has a route licensing policy aimed at strengthening the viability of regional aviation. This recognises the fragile

[2] Bureau of Transport and Regional Economics, *Regional Airlines, Major Performance Indicators 1980/81 to 2000/01*. Note that Sydney-Canberra, while included in the published BTRE figures for regional airlines, has been excluded from the passenger statistics for the purpose of this submission because of its trunk route characteristics.

commercial environment for some operators. The policy precludes competition on intrastate air routes out of Sydney to markets with fewer than 20,000 passengers annually. At June, 2002, 19 of the 33 Sydney-based intrastate routes[3] fell into this category, indicating the typically thin passenger density on the majority of the state's regional sectors.

The State allows unlimited competition for a three-year renewable period on the other 14 routes. In practice, however, not all of those routes support competition. QantasLink and Regional Express, for example, compete directly on only the 5 most flown NSW regional routes.

As in other states, most regional services are characterised by low aircraft load factors, a strong reliance on business-related traffic and on-carriage links with trunk operators. The demanding economics of the regional market have resulted in a number of airline failures in recent years, and the withdrawal of services to some marginal destinations.

Regional Airline Industry Developments - a prolonged decline, with recent extreme turbulence

The NSW regional market has been subject to a prolonged decline which began well before the events of September 11, 2001 and the massive industry upheaval caused by the collapse of Ansett and its regional subsidiaries.

Smaller operators, in particular, have been under pressure from a combination of factors which have only been partially addressed. These include:

- Soft regional economies;
- The impact on costs of adverse exchange rates and rising Avgas prices;
- Federal tax changes in 1999, which imposed the corporate tax rate on profits from the sale of aircraft; and
- Higher safety compliance costs.

The unsustainable levels of fare discounting initiated by Impulse Airlines and Virgin Blue on the trunk routes in 2000-2001 impacted negatively on regional sectors. Impulse extended pricing pressure into the regional market by offering highly competitive through rates for regional services connecting with its trunk flights out of Sydney. Additionally, regional operators had to counteract the transfer of traffic to the heavily-discounted trunk routes.

This unstable market inevitably exposed vulnerable carriers. Yanda Airlines stopped flying from Sydney to Coonabarabran, Gunnedah, Maitland, Scone and Singleton in January 2001, while Country Connection Airlines withdrew

[3] NSW Government Transport NSW, Passenger Statistics for NSW Air Routes to and from Kingsford Smith for the year ended 30 June 2002.

from services between Sydney and Forbes, West Wyalong, Cowra, Young and Cootamundra in May.

Rationalisation among larger operators was also taking place. Ansett sought to strengthen its position by acquiring Hazelton Airlines early in 2001. Impulse Airlines was then absorbed into Qantas in May and ceased operating to Kempsey (this service has since been reinstated).

Of the 17 airlines that were operating on NSW regional routes five years ago[4], three (Hazelton, Kendell and Impulse) have since amalgamated with other groups and seven are no longer flying. This high attrition rate is typical of regional aviation trends across Australia in the past ten years, and underscores the volatile conditions in non-metropolitan markets.

As a result of continual industry changes, the number of regional towns and cities in NSW with direct or indirect air links to Sydney shrank from 53 in 1997[5] to 33 at the end of June 2002.

The Implications of Ansett's Collapse

NSW was affected more than any other state by Ansett's collapse as the airline held a 62% share of the market through Hazelton Airlines, Kendell Airlines and the Sydney-Newcastle operation Aeropelican. Its failure prompted a necessarily broad-ranging reconstruction of services within the state - still under way - and at Qantas, which brought its five regional subsidiaries under a single brand, QantasLink.

Federal and state government grants and loans enabled Ansett's regional subsidiaries to resume limited services within weeks of the grounding on September 14. Sydney Airports Corporation also provided special assistance by allowing Hazelton, Aeropelican and former Ansett affiliate, Air Link, to operate out of the Domestic Express Terminal at reduced rental rates. As a result, Hazelton and Air Link were able to resume services to Dubbo, Broken Hill and Orange within days of the Ansett collapse and Aeropelican later restarted three times daily flights between Sydney and Newcastle's Belmont Airport.

QantasLink also commenced services on 22 of Ansett's 32 monopoly routes nationally. By introducing Boeing 717s on secondary trunk routes and 50-seat Dash 8-300s on links to the larger regional centres, Qantas lifted regional capacity across its network by 11% in the 12 months to June 2002[6].

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[4] "Regional Aviation Competitiveness", *Working Paper*, Bureau of Transport Economics, 2000.

[5] As above.

[6] *Preliminary Final Report* Qantas Airways, 2001-2002.

QantasLink broadened its network and increased services on the high volume Coffs Harbour, Wagga, Albury, Dubbo and Ballina sectors and scaled Sydney to Canberra frequencies. It benefited further from the addition of corporate and government travel business formerly held by Ansett.

Despite efforts by QantasLink to restore services, the disruption linked with Ansett's withdrawal and the domestic impact of a sharp fall in international visitors in the domestic market severely affected traffic. Passenger numbers dropped by 27.8% to 1 million[7] on intrastate routes to and from Sydney over fiscal year 2002, more than three times the decline experienced nationally on domestic routes. Traffic fell significantly on all of the top 10 routes, which account for 73% of NSW's regional traffic (Figure 1). Passenger volumes on these routes fell by 26.6% to 739,260 passengers. While the 2001 figures were inflated by the impact of the Sydney Olympic Games, this is still a large enough fall to undermine the already fragile profitability of the market.

The Market Outlook - in transition

Qantas's rebuilding programme on regional links and the entry of Virgin Blue onto the Sydney-Coffs Harbour sector have eased the substantial capacity shortfall left by Ansett's demise. Former Ansett subsidiaries, Aeropelican, Hazelton and Kendell, are also operating again under new ownership and should progressively replenish capacity across much of NSW.

The August launch of Regional Express (Rex) through the merger of the Hazelton and Kendell brands will provide some competition for Qantas/QantasLink. Rex is operating 21 Saab 340s and 7 Metro 23s to 15 regional destinations state-wide, 40% of which have under 20,000 passengers annually and are therefore designated monopoly routes.

Rex, however, is at a considerable commercial disadvantage. Unlike vertically-integrated Qantas, it does not have the capacity to cross-subsidise services on more marginal regional routes through its international and trunk route operations, or to leverage off such operations for on-carriage of passengers.

About 20% of regional aircraft loads, on average, are generated from linking flights within the group or through interline partners[8]. This enhances the airline's marketing capability, broadens the potential market base and enables it to offer more competitive fares on a "through rate" basis.

QantasLink's selling power is further enhanced by participation in the Qantas frequent flyer program and involvement in corporate travel account structures negotiated by Qantas. It can also achieve economies through access to the

[7] Passenger statistics for NSW Air Routes for the year to June 30, 2002, published by the NSW Government.

[8] Working Paper on "Regional Aviation Competitiveness", Bureau of Transport Economics, 2000.

Qantas' infrastructure, including the distributions system, ground handling services and terminal facilities, and purchases of fuel, insurance and spare parts and maintenance provision.

A number of former Ansett regional subsidiaries and affiliates, including Aeropelican, its sister airline Horizon and Air Link, have been able to secure alternative arrangements with Qantas, largely because they operate on non-competing routes. These involve being hosted in the Qantas reservations system, linked into the Qantas Frequent Flyer program and gaining the use of dedicated gates in the Qantas domestic terminal at Sydney. In this way their commercial positions have strengthened and longer term viability prospects enhanced considerably.

Kendell and Hazelton enjoyed similar benefits while they were part of Ansett. Operating now as Regional Express, they will have to compete without the financial comfort provided by a larger airline group unless, or until a partnership arrangement can be reached with another carrier.

Regional Express, though, has been a beneficiary of the redevelopment of the former Ansett domestic terminal, now known as T2, as a multi-user operation. The airline was one of the first to secure access arrangements to T2, which provides it with sophisticated check-in, baggage and passenger processing facilities, as well as the ability to conveniently connect services with the mainline trunk operators.

T2 is a critical element of the airport's strategy to ensure that regional operators and any new entrants can operate on a level playing field with their competitors in terms of ground facilities. Previously, the major airlines held a significant advantage by having control of their own terminals. Non-aligned regional operators had either to sub-lease space from them or, as Impulse did operate out of more limited facilities elsewhere at the airport (prior to expanding into the interstate jet market).

Qantas also has capitalised on T2 by taking up six of the 18 gates for its QantasLink regional services. The group's diverse and flexible product base, with a range of one-class, two-class and leisure or business focused services, will make it increasingly difficult for other operators on both trunk and regional sectors. In a regional context, the options are fewer and passengers traditionally more conservative.

Qantas' diverse and flexible product base, with a range of one-class, two-class and leisure or business focused services, will make it increasingly difficult for other operators on both trunk and regional sectors. In a regional context, the options are fewer and passengers traditionally more conservative.

Realistically then, the outlook for growth in the NSW market will be determined in the medium term by Qantas' strategy of targeting profitable sectors and selectively increasing frequency and capacity where the demand warrants it.

Qantas is unlikely to continue to cross-subsidise non profitable regional sectors as it has done since Ansett's collapse. In future, these thinner routes will be flown - if at all - by affiliates with smaller aircraft better suited to the particular market size.

The only way that regional services abandoned in NSW in the past 18 months will be reinstated is if significant direct subsidies can be supplied by the state or federal governments.

The changes which have occurred in the past year are not likely to be aberrations from an otherwise steady progression. Rather, they are more likely to signal a very different future, in which the emphasis is on sustainable long term operation.

4 AIRPORT CHARGES

We have collected airport charges data for airports throughout Australia. Current rates for runway usage and passenger handling (including terminal charges, security and screening charges) have been applied for a combination of take offs and landings for two aircraft configurations:

Parameter:	Unit:	SAAB 340	Dash 8-200
Parking Time	Minutes	30	30
MTOW	Tonnes	13	16.5
Seats	Number	36	36
Load factor	%	65%	65%
Passengers Carried	Number	23	23

The Sydney Airport Regional Aeronautical Charges (GST inclusive), effective from 1 July 2002 were as follows:

- Passenger Services Charge (per passenger arrival and departure): $1.92
- Passenger Screening Charge (per passenger departure) $1.97
- Runway Charge (per Minimum Take Off Weight), arrival and departure $3.80, subject to a minimum charge of $50 for aircraft over 10 tonne
- Apron Parking Charge, $38.50 per 15 minutes

Applying these charges to the representative aircraft parameters provides the following per-aircraft turnaround (arrival and departure) charges:

		SAAB	Dash 8-200
Aircraft Charges	Runway	$100	$125
	Parking	$77	$77
	Total	$177	$205
Passenger Charges	Arrival	$44	$44
	Departure	$89	$89
	Total	$134	$134
Total Turnaround Charges		**$311**	**$336**
Per Passenger Carried		$14	$15

These Sydney Airport charges can be compared with the charges for regional airports (Table 1). At regional airports, parking is either not charged or is incorporated into runway charges and, while Table 1 is based on published charges, actual charges may vary according to commercial arrangements between individual airlines and airports.

The figures in Table 1 deal with total charges per aircraft on the basis of a 65% load factor (23 passengers) in each case. The comparison indicates that charges at Sydney are significantly below those of NSW regional airports.

The parking penalty and landing and take-off charges incurred at Sydney are more than offset by substantially higher terminal charges at the regional airports.

The differential between Sydney and Canberra Airports and the regional airports is not altogether surprising. The larger airports have the advantage of spreading costs over a proportionately larger traffic base. Nevertheless, the very high fixed costs of an international airport, the depth of capital to be served, and the fact that regional services already receive favoured treatment at Sydney all mean that initiatives to enhance the economic sustainability of regional aviation may be best addressed at the efficiency of the network generally, rather than focused simply on airport charges.

(Note: the Sydney-Canberra route is not considered a regional service in this or most other statistical analysis. As a high frequency and high yielding airline route, it is not comparable with those connecting Sydney with NSW regional centres.)

Table 1: Representative Regional Aircraft Turnaround Charges, NSW, 2002

	SAAB 340					Dash 8-200			
	Aircraft Charges		Passenger Charges			Aircraft Charges		Passenger Charge	
	Runway	Parking	Arrival	Departure	Total	Runway	Parking	Arrival	Departu
Narrandera	$0	$0	$164	$164	$329	$0	$0	$164	$
Parkes	$0	$0	$169	$169	$338	$0	$0	$169	$
Griffith	$0	$0	$173	$173	$345	$0	$0	$173	$
Moruya	$0	$0	$175	$175	$350	$0	$0	$175	$
Merimbula	$0	$0	$202	$202	$405	$0	$0	$202	$
Wagga Wagga	$0	$0	$228	$228	$455	$0	$0	$228	$
Ballina	$57	$0	$202	$202	$462	$73	$0	$202	$
Lismore	$0	$0	$236	$236	$472	$0	$0	$236	$
Newcastle	$72	$0	$210	$210	$491	$91	$0	$210	$
Albury	$0	$0	$253	$253	$506	$0	$0	$253	$
Broken Hill	$0	$0	$253	$253	$506	$0	$0	$253	$
Coffs Harbour	$72	$0	$228	$228	$527	$91	$0	$228	$
Taree	$0	$0	$266	$266	$531	$0	$0	$266	$
Bathurst	$0	$0	$276	$276	$552	$0	$0	$276	$
Dubbo	$104	$0	$230	$230	$564	$132	$0	$230	$
Cooma	$0	$0	$288	$288	$575	$0	$0	$288	$
Tamworth	$0	$0	$299	$299	$598	$0	$0	$299	$
Grafton	$0	$0	$304	$304	$607	$0	$0	$304	$
Armidale	$72	$0	$278	$278	$628	$91	$0	$278	$
Narrabri	$0	$0	$316	$316	$633	$0	$0	$316	$
Moree	$114	$0	$304	$304	$722	$145	$0	$304	$
Orange	$117	$0	$322	$322	$760	$149	$0	$322	$
Sydney	$100	$77	$44	$89	$311	$125	$77	$44	

5 THE ECONOMIC SIGNIFICANCE OF AIRPORT CHARGES

Fully flexible and discount airfares available during the week beginning 2 September 2002 were obtained from the web sites of Qantas and Regional Express. QantasLink uses predominantly Dash 8-200 aircraft and Regional Express Saab 340. The fares were converted to revenue per round trip operation on the basis of the assumed passenger loadings used to estimate airport charges over fourteen regional origins and (in the case of Qantas, Mildura). This was done assuming either all discount or all flexible fares (Table 2). In reality, achieved revenue will fall between the resulting figures depending on yield management on the day.

The share of both estimates of revenue attributable to airport charges was estimated. This is also the equivalent to the share of the individual fare attributable to airport charges. Sydney's share of total airport charges is also included in Table 2.

The implications of this analysis are that:

1. Airport charges are less than 10% of revenue on virtually all services considered, based on achieving high yields (Fully Flexible Fares), but may reach as high as 18% on discount fares; and
2. Sydney's share of joint airport charges incurred on a round trip is generally well below 50%.

Airport charges are clearly significant, but there is limited capacity to change the fragile economics of regional air services by reducing them. Even substantial reductions effected at Sydney would have a minor effect on the total cost of travel for most destinations at full fare rates.

Based on the site fares published on the Regional Express web site, the Sydney Airport charge amounts to between 2% (for Ballina and Lismore) and 2.9% (for Orange) of the standard fare and 3.5% at (Griffith) and 6.1% (Bathurst) of the discount fare. Under these circumstances, a 25% reduction in Sydney Airport charges - if it were achievable - would give rise to between just 0.5% and 0.8% saving on the standard fare and between 0.9% and 1.8% on the discount fare.

Media Release

www.sydneyairportmedia.com

11 May 2001

Sydney Airports Corporation welcomes ACCC's acceptance of dual-till approach to aeronautical pricing

Sydney Airports Corporation has welcomed today's Australian Competition and Consumer Commission (ACCC) announcement of the Commission's final decision on the airport's aeronautical pricing proposal.

After a seventeen-month period of deliberation and industry consultation, the ACCC has announced it will not object to Sydney Airports Corporation Limited (SACL) increasing its aeronautical charges for the aviation services it provides airline customers. The ACCC's determination also confirms the "dual-till" approach to pricing, which it views as having considerable merit.

"The ACCC decision, and in particular the acceptance of the dual-till approach, recognises that we must price our services in a way that allows us to maintain a viable aviation business with incentives for appropriate levels of maintenance and, as importantly, for future investment," said Sydney Airports Corporation CEO Mr Tony Stuart.

"The decision also recognises that SACL has an obligation to provide a fair return on its shareholder's investment," said Mr Stuart.

The new price regime will see base annual revenue derived from Sydney Airport's aviation services increase from around $93 million to around $183 million, representing a return on the airport's aeronautical assets of about 6.4%.

The impact on airfares is likely to be minimal. The ACCC has stated in its final decision that the impact of the increase in airport charges, if passed on, would be approximately $1.50 per passenger on a domestic flight from Sydney, and around $7 for an international flight.

Additionally, the proposal will have minimal impact on regional air services, consistent with the Commonwealth Government's policy of guaranteeing continued access to Sydney Airport for regional operators. SACL has confirmed that the current minimum charging arrangements and rebates for the operators of small and medium regional aircraft will remain in place.

Today's decision marks the end of an extensive period of consultation and debate within the airline sector and related industries. The overall program of consultation has included a formal submission process involving a number of draft versions, a public forum to discuss the technical details of SACL's position, as well as ongoing and extensive discussions with airlines and other industry representative bodies.

According to SACL the review process has been comprehensive and transparent, and has created a high level of awareness within the airline sector, both domestically and overseas.

"We have worked with our airline customers to communicate our position and have argued consistently that it is in the sector's long-term interest to have an aeronautical pricing structure that encourages the continued provision of high quality services and new investment - when required".

"From the outset, it was always our intention to maintain a strong value proposition to our aviation customers providing access to world class facilities and services, at rates competitive with international airports," said Mr Stuart.

SACL has confirmed that the new prices will take effect immediately as airline customers were formally advised of the maximum potential increase in early March 2001, and have been aware of the proposal to increase charges since December 1999.

SACL said that the new ACCC approved pricing structure is equitable and easily understood by airline customers, and its administration will also be relatively simple.

Issued by Sydney Airports Corporation Limited Public Affairs

Further information: Bill Kemmery 02 9667 9978, 0409 395 860
Release No. 110501

*** copies of the ACCC final determination are available at the ACCC website www.accc.gov.au**

Media Release

www.sydneyairportmedia.com

Sydney Airport

11 May 2001

New airport charges will have minimal impact on regional air travellers in NSW

Changes to aeronautical charges for aircraft using Sydney Airport announced today will have minimal impact on regional NSW travellers.

Sydney Airports Corporation Limited (SACL) today received approval from the Australian Competition and Consumer Commission (ACCC) to increase landing charges and infrastructure usage charges for airlines using Sydney Airport.

Special protection has been built in for regional airlines by SACL, and the ACCC's final determination means most regional travellers will be unaffected.

The impact on airfares overall is likely to be minimal. The ACCC has stated in its final decision that the impact of the increase in airport charges, if passed on, would be approximately $1.50 per passenger on a domestic flight from Sydney, and around $7 for an international flight.

"The ACCC decision, and in particular the acceptance of the dual-till approach, recognises that we must price our services in a way that allows us to maintain a viable aviation business with incentives for appropriate levels of maintenance and, as importantly, for future investment," said Sydney Airports Corporation CEO Mr Tony Stuart.

The new price regime will see base annual revenue derived from Sydney Airport's aviation services increase from around $93 million to around $183 million, representing a return on the airport's aeronautical assets of about 6.4%.

"Sydney Airport remains one of the most competitive airports in the world, and the increase in charges will not affect the capacity for regional airlines to use Sydney Airport as regional airlines will receive special protection through reduced minimum charges," Mr Stuart said.

"We have worked with our airline customers to communicate our position and have argued consistently that it is in the sector's long-term interest to have an aeronautical pricing structure that encourages the continued provision of high quality services and new investment - when required".

SACL said that the new ACCC approved pricing structure is equitable and easily understood by airline customers, and its administration will also be relatively simple.

Issued by Sydney Airports Corporation Limited Public Affairs
Further information: Bill Kemmery 02 9667 9978, 0409 395 860
Release No. **110501 -2**

** copies of the ACCC final determination are available at the ACCC website* *www.accc.gov.au*

Sydney Airport

Media Release

www.sydneyairportmedia.com

26 July 2002

Sydney Airports Corporation Limited Statement

The Board of Sydney Airports Corporation Limited (SACL) met today and considered, among other agenda items, the recommissioning of the former Ansett domestic terminal.

The Board has requested SACL management to progress negotiations with potential users of the terminal at the earliest possible opportunity next week, with a proposal that:

(i) provides terminal capacity to meet the growth needs of the existing domestic airlines;
(ii) accommodates regional airlines, noting the vital economic and social role of such operators; and
(iii) provides commercial and operational arrangements that provide fair access to third parties and possible new entrants.

Since taking over the terminal three weeks ago, SACL has been preparing the facility for commercial operations.

The terminal rectification and compliance program remains on track and at this stage SACL is targeting the terminal to be ready for commercial operations by 2 September 2002.

SACL will be making no further public statement pending the resumption of discussions.

Issued by Sydney Airports Corporation Limited Public Affairs
Contact: Peter Gibbs 02 9667 6470, 0418 451357
Bill Kemmery 02 9667 9978 , 0409 395 860
Release No. 270702

Sydney Airport

Media Release

www.sydneyairportmedia.com

24 Sept 2002

Competition on the ground becomes a reality as Terminal 2 comes "alive" with four airlines

Sydney Airport's Terminal 2 (the former Ansett Terminal) opened its doors to four domestic and regional airlines today, reducing congestion and providing passengers with access to one of the most modern airport terminals in Australia.

SACL's CEO, Tony Stuart, said having the terminal alive with passengers and aircraft was great news for the travelling public and Australia's tourism industry.

"Not only will it reduce congestion in the domestic precinct, but it provides welcome additional terminal capacity to all comers."

"This major increase in terminal supply provides competition on the ground to enhance competition in the air."

Major carrier, Qantas will operate the QantasLink fleet to regional and holiday destinations from T2. All Qantas flights designated QF 1600 and above will use T2 - with the exception of Canberra and Coolangatta flights, which will continue to use the Qantas Domestic Terminal T3.

Regional Express, Horizon and Aeropelican Airlines will use the full terminal facilities of T2 from today.

Clear overhead signage on approach roads to the domestic precinct indentify which terminals to use. Check-in desks are clearly branded with airlines using them and both Qantas and Rex had dedicated, branded gate lounges for passenger convenience.

It is expected that some 1,300 aircraft movements carrying over 62,000 passengers will initially use T2 each week.

The re-opening of T2 as a multi-user facility represents a new phase in positioning Sydney Airport for domestic growth.

Since taking ownership of T2 on 1 July, Sydney Airport has upgraded key IT security systems, building safety systems and aircraft aprons to manage the operational requirements of multiple airline users.

Retail
T2's retail area also came alive today, with selected food and beverage, currency exchange and service outlets providing essential passenger services.

"There will be a gradual role-out of additional retail offerings in coming weeks, said Head of Retail, Bob McFadyen. "We have had tremendous support from both existing and potential retailers, all of whom are looking forward to making T2 a success.

"Our day one trading exceeded expectations, buoyed by a good mix of leisure and regional travellers."

" You can expect to see additional food and beverage outlets, pharmacy, and specialty shops shortly, together with a reopening of the major rental car company desks."

Mr McFadyen said valet parking is also available to T2 travellers.

Terminal Numbering
As part of a strategy to make airport wayfinding easier, Sydney Airports Corporation has introduced a numbering system for the major terminals.

Passengers simply need to check their airline and flight number, to locate the correct terminal.

Terminal 1 International Terminal	International passengers and QF flights 001-399
Terminal 2 Domestic Terminal	QF flights 1600 and above plus Regional Express, Aeropelican and Horizon
Terminal 3 Qantas Terminal	QF flights 400-1599

Sydney Airport Terminal 2 is a full service facility with 18 aircraft gate capacity. Its large, spacious areas can handle up to 30,000 passengers per day or 10 million passengers a year in comfort.

More Accurate Arrival times
Improving on its already world-class efficiency, Sydney Airport has introduced a new Flight Information Display System or FIDS which more accurately presents the Estimated Time of Arrival (ETA) of an aircraft.

Previously the FIDS displayed the estimated landing times. Taxiing time and other delays on the ground could add up to 25 minutes before an aircraft was at the terminal.

Using new technology and the experience of International Terminal operations, the T2 FIDS will now display the estimated arrival at the terminal gate, allowing passengers and guests to more accurately plan for arriving aircraft.

...ends

Issued by SACL Corporate Affairs.
For further information contact: Peter Gibbs, 02 9667 6470, 0418 451357
Ref 010902

Attachment:

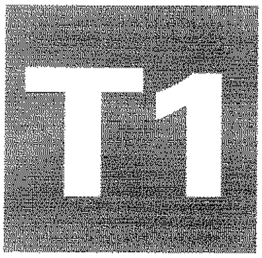
Sydney Airport Terminal signage

T1.jpg T2.jpg T3.jpg

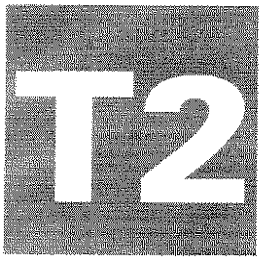
"Competition on the ground becomes a reality as Terminal 2 comes 'alive' with four airlines"

<u>ATTACHMENT</u>: jpg files

T1.jpg



T2.jpg



T3.jpg