

# POSITION STATEMENT

# **SEPTEMBER 2016**



Supporting commercially viable international air services at Western Sydney Airport



The Board of Airline Representatives of Australia (BARA) supports the development of a commercially viable airport in Western Sydney. Western Sydney Airport (WSA) has the potential to bring international air passenger and freight services to the region while also supporting the growth in demand for access to Sydney more broadly.

With a forecast population of nearly three million people by 2031, WSA can support Western Sydney's economic and social development. Given Kingsford Smith Airport's (KSA) airfield and operational capacity constraints, an unconstrained WSA will also contribute to Sydney's long-term aviation capacity needs.

WSA's economic and social success will be measured by the number and diversity of passenger and freight markets served by airlines and its willingness to operate in a balanced manner with the communities it serves. To achieve its potential, WSA must be capable of supporting commercially viable domestic and international air services.

#### Supporting commercially viable international air services

Airlines recognise that there is a significant demand for air transport services in Western Sydney and the WSA will provide ease of access for the region. The commercial viability of passenger and freight

services, however, will require that their cost of provision is less than the amount the people and businesses of Western Sydney are prepared to pay. BARA does not support an airport for Western Sydney that requires and relies on ongoing, long-term government financial support (and which drains funds from other services) as a result of its cost base and supporting infrastructure services which exceed commercially viable thresholds for airlines.

Combined, these outcomes will maximise airline operating efficiencies, minimise industry costs and deliver the best possible service outcomes for passengers and freight forwarders. They are critical to a commercially successful WSA that operates in a balanced manner with the community it serves. BARA's member airlines have identified four key infrastructure outcomes to support commercially viable international air services at WSA:

**Outcome 1:** Innovation in delivering airport services – achieving airline expectations for operational excellence for safety, on time performance, baggage and freight management, and the overall passenger experience

**Outcome 2:** A competitive and reliable supply of jet fuel – lowering the price of international aviation's largest cost item.

**Outcome 3:** Efficient and predictable safe aircraft operations – air navigation services and flight paths to reduce flight times, lower fuel burn and increase airline performance in safe aircraft operations

**Outcome 4:** Best practice aircraft noise mitigation – balancing aircraft operations and community expectations in allowing international airlines to make the most of available market opportunities



### Innovation in Delivering Airport Services

WSA's operator will need to offer a compelling and competitive proposition to attract international airlines and to grow passenger and freight volumes. Emphasising innovative and customer-focused outcomes will be critical to the airport's success.

For an international airline to establish and expand its presence in Australia, it is usually necessary for it to operate to/from KSA and Melbourne Airport as Australia's largest international gateways by passenger numbers. This necessity conveys market power to these airport operators in setting airport prices and delivering services. Recognising this market power, the Australian Government has directed the Australian Competition and Consumer Commission (ACCC) to monitor the prices, profits and service quality of KSA and Melbourne Airport.

WSA's market dynamics should be substantially different. Any decision by an international airline to serve WSA will likely be based on the potential to extend the range and frequency of services it offers in Australia, as opposed to necessity to establish a critical mass of operations. Such decisions will create a more commercially-balanced negotiating environment between WSA's operator and international airlines. Commercial negotiations with the airport operator will therefore have a stronger focus on what will be offered to airlines seeking to establish air routes into and out of Sydney's west.

#### Valued airport services

BARA's policy paper, *Timely and Reasonably Priced* <u>Airport Infrastructure</u>, establishes a framework for more productive engagement between international airlines and airport operators. A core aim is a 'service quality culture' at the airports, with innovation driving continuous improvements in airline operating efficiency. Substantial scope remains to lift the level of engagement and quality of commercial agreements in driving this continual improvement.

For WSA, ongoing consultation between the airport operator and airlines, especially during design phases, will be critical to ensure the capacity and standard of airport services align with passenger and freight market demands. A commercially-focused airport operator should be an active partner in ensuring airlines achieve expectations for operational excellence for safety, on time performance, baggage and freight management, and the overall customer experience. This will require active engagement with all participants at the airport, including airlines, ground handlers, fuel suppliers, security service and retail providers. Initiatives like airport collaborative decision making (A-CDM) will be critical in supporting efficient airline operations.

This level of accountability and engagement from the outset will prove both a substantial opportunity and a challenge for WSA's operator. The operator's accountability will extend well beyond delivering and maintaining the infrastructure. It will extend to delivering outcomes that meet the need of passengers and freight forwarders in Western Sydney and beyond, who will ultimately fund all service providers at WSA.

The operations of all industry participants, including the airport operator, have the potential to be profitable through the delivery of value to passengers and freight forwarders. As in all competitive markets, profitability cannot be assumed or guaranteed and must be earned through delivering services that meet the needs of its airline customers.

#### A-CDM can underpin efficient airline operations



#### Third party charges

Delivering value and expanding commercially viable air services will drive profitability for all industry participants at WSA. If suppliers increase airline operating costs without delivering value, it will only diminish the airport's overall commercial viability.

Unfortunately, some airport operators in Australia currently boost their profits by effectively taxing the operations of third parties providing services to airlines, offering no value in return for these revenues. One prominent example is taxing the flow of jet fuel through the airport to aircraft through fuel throughput levies, increasing the cost of this essential input by millions of dollars each year.

Profitability for WSA's operator must be principally based on delivering value, not on taxing the operations of third party service providers, such as fuel suppliers. It will be critical for the airport operator to engender trust with the airlines in its scope and application of charges for services provided.

BARA also sees no merit in placing additional airline operating restrictions on KSA in seeking to 'force' passenger and freight services from KSA to WSA. This will only serve to reduce the industry's overall productivity and commercial viability, ultimately reducing the economic contribution of the aviation infrastructure of NSW and Australia's main trade and tourism gateway.

#### Transport links

BARA recognises the essential need for efficient transport options for passengers and freight forwarders in connecting the new airport to Sydney's suburbs, major centres and freight hubs. BARA supports the rigorous application of cost-benefit analysis in developing an integrated ground transport plan for WSA.

For comparison, forecast activity volumes at WSA in 2025 will be similar to current operations at Cairns and Gold Coast airports. These airports are served by a variety of road transport options, including buses and coach transfers. Brisbane and Perth airports respectively serve about 22 million and 14 million passengers annually. Brisbane Airport is served by train, while Perth Airport's current master plan includes rail options.

#### Funding of WSA

Some commentary from the Australian Government and private sector analysts indicates the WSA operator will require some form of initial financial assistance<sup>1</sup>, given the capital investment necessary to design and construct an airport.

BARA's Position Statement describes the infrastructure service requirements that will maximise the number and diversity of international air services (passenger and freight) available at WSA. Achieving these infrastructure efficiencies will maximise the airport's total value and are therefore critical to minimising any financial assistance that may be required by the airport operator.

If initial financial assistance is necessary, it should be funded directly from the Australian Government's consolidated revenue. BARA does not support any form of levy on airfares, either during WSA's construction phase or subsequent operations, which would effectively impose an additional tax on existing passengers. BARA also does not support cross-subsiding the costs of WSA through additional airline charges at KSA.

International airlines have underpinned the growth of passenger services into Australia through real airfare reductions of some 30% over the last decade. Placing an extra levy on otherwise commercially viable air routes, now or in the future, will only serve to reduce airfare affordability, which would damage inbound tourism and decrease the opportunities for Australians to holiday and visit family and friends overseas.

#### Increasing airfare affordability drives growth



Sources: BARA estimates derived from IATA PaxIS and ABS

<sup>&</sup>lt;sup>1</sup> See for example, Sydney Morning Herald, (28 October 2015) Badgerys Creek airport funding decision expected soon; and Sydney Morning Herald (8 July 2015) Second Sydney airport at Badgerys Creek could require \$1b in subsidies: Deutsche.



# A Competitive and Reliable Supply of Jet Fuel

Jet fuel generally represents about 40% of an international airline's total operating costs. A competitive and reliable supply of jet fuel is critical to maintaining and expanding commercially viable air services at WSA.

Establishing a more competitive supply of jet fuel at KSA is an essential precondition for creating a competitive supply at WSA. A jet fuel importer's ability to supply airlines serving both KSA and WSA will lead to more competitively-priced jet fuel. Without the ability to supply fuel to airlines at KSA, it is unlikely that prospective jet fuel importers will be able to generate the volume efficiencies necessary to compete at WSA.

Unfortunately, globally-recognised importers of jet fuel have, to date, seen their efforts to bring competition and lower-priced fuel to airlines, including at KSA, frustrated. It would be a considerable impediment to the success of the new airport if the situation at KSA were replicated at WSA.

#### The competitive reform path

BARA's policy paper, <u>A Competitive Supply of Jet</u> <u>Fuel at Australia's Major International Airports</u>, details the reforms necessary to foster the increased competition and innovation that will deliver more reliable and lower-priced jet fuel.

Supplying jet fuel to Australia's airports is a complex and costly business. For a jet fuel importer, the supply chain entails transporting jet fuel from overseas refineries to Australian seaports, then subsequently to the airports and finally into the aircraft. Once the tanker ship reaches Australia, the jet fuel is generally first stored off-airport, then transported to storage facilities at the airport (by either pipeline or truck) and finally into aircraft via pipes and hydrants or refuelling trucks.

Prospective jet fuel importers have made it clear to BARA that access to KSA's jet fuel storage and distribution facilities on reasonable terms remains the principal barrier to market entry. Allowing new jet fuel importers reasonable access to these facilities is central to fostering competition at WSA. Mechanisms for providing open access to the jet fuel storage and distribution facilities at KSA and WSA include government directives, as have applied in Europe for some 20 years. Alternatively, the lease arrangements for the operators of the jet fuel facilities at KSA and WSA should be based on open, competitive access arrangements.

#### Jet fuel transport

In its initial years of operation, the most economically-efficient option for transferring jet fuel to WSA will likely be road tanker. As traffic and fuel volumes grow, a jet fuel pipeline to WSA will be required. Road tankers would then only provide supporting volumes during busy periods (eg school holidays) or to mitigate the impact of a supply disruption.

This necessitates the preservation of a corridor to allow the development of the future jet fuel pipeline infrastructure into WSA, as included in Infrastructure Australia's *Infrastructure Priority List*. Importantly, open access arrangements for this pipeline should be available to any prospective jet fuel importer.

Airlines need a competitive supply of jet fuel at WSA, not the status quo at the major airports

	No. of effective suppliers	Rating
<b>Sydney</b> (Sept/2011)	2	Poor
<b>Sydney</b> (current)	2	Poor
Melbourne (current)	2	Very Poor
Melbourne (current) Brisbane (current)	2	Very Poor Satisfactory

Source: BARA's Jet Fuel Working Group



## Efficient and Predictable Safe Aircraft Operations

The future quality of Airservices Australia's air navigation services will directly influence the efficiency of safe aircraft operations into WSA. International airlines need to make the best use of the technology available in their aircraft to achieve maximum operating efficiency.

International airline operations will extend from WSA, across the airspace of other countries and oceans, to overseas international airports. With a cost of up to \$10,000 an hour to operate a long-haul international aircraft in flight, modest changes to flight times for aircraft operating into WSA will materially affect costs faced by international airlines.

A new airport in Western Sydney offers a unique 'greenfield' opportunity from day one for service providers to increase the efficiency of safe aircraft operations via improved air navigation services. The planned WSA also offers an opportunity to review the airspace design for all flight paths along the east coast of Australia in supporting an efficient aviation industry.

For WSA, the efficiency of airspace, arrival and departure profiles can all be improved through performance-based navigation capabilities. Service providers must plan to include these capabilities at the new airport from the commencement of operations.

#### Future air navigation services

BARA's policy paper, <u>Safe and Efficient Air</u> <u>Navigation Services</u>, calls for continuous improvement in air navigation services. As well as matching the movement of aircraft to available airport infrastructure, future services provided by Airservices Australia must deliver:

- 'on the day' optimised flight trajectories
- all weather operations, subject to aircraft capabilities, with no reduction in capacity
- constant runway acceptance rates

The best technological solutions for achieving these outcomes for WSA will continually evolve until the airport's expected opening in the mid-2020s. Accordingly, planning for the airport must have a long time horizon to 'future proof' the delivery of enhanced air navigation services.

#### Efficient flight operations into WSA

Different approaches can be used in designing arrival and departure routes at an airport. Designing suitable routes requires balancing capacity, complexity and constraints with operating efficiency and pilot and controller workload, while always ensuring the highest standards in safety.

BARA considers the best terminal airspace design should incorporate 'Closed Standard Terminal Arrival Routes' (Closed STARs), supported by strategic and tactical air traffic flow management (sequencing) that could intervene several hours before an aircraft's estimated time of arrival.

A Closed STAR, used at Melbourne, Brisbane and Perth airports, is effectively a fixed route that aircraft follow in landing at the airport. This allows airborne aircraft to best leverage on-board flight management systems (FMS) to minimise fuel burn and provide predictability to flight crews in approaching and landing safely at an airport.

As noted in the Western Sydney Airport Draft Environmental Impact Statement, the formal flight paths for WSA will be designed much closer to the commencement of operations. BARA welcomes an open and transparent assessment of different flight path options in supporting efficient operations into Western Sydney.

#### Closed STAR maximises the aircraft's FMS





### Best Practice Aircraft Noise Mitigation

BARA supports 24-hour operations at WSA, offering international airlines wider and more flexible market opportunities. A balanced and measured approach to mitigating aircraft noise will best promote positive responses from communities in Sydney's west.

The long-term commercial viability of WSA will be best supported by 24-hour operations. Brisbane and Melbourne airports serve significant international traffic volumes during KSA's curfew period and this commercial opportunity for WSA, and the flow-on economic potential for Western Sydney, must not be lost.

Across the world, the amount and distribution of aircraft noise is a significant issue for impacted communities. BARA supports the application of best practice approaches to mitigating the impact of aircraft noise.

#### A balanced approach

The International Civil Aviation Organization (ICAO) endorses applying a balanced approach to aircraft noise management based on the following four pillars:

- reduction of noise at source
- land-use planning and management
- noise abatement operational procedures
- operating restrictions on aircraft

International airlines are increasing the number of quieter, 'new generation' aircraft they operate into Australia, contributing to better outcomes for communities. ICAO's latest 'Chapter 14' aircraft engine noise standard provides for further reductions in aircraft engine noise and will apply to newly designed high-weight aircraft entering service from 2017. BARA expects these quieter aircraft will form a significant proportion of the aircraft operating international air services to/ from WSA.

#### Aircraft noise mitigation at Australian airports

BARA sees merit in the Australian Government reviewing its approach to aircraft noise mitigation in Australia. A national initiative focused on improving aircraft noise management across all of Australia's existing major international airports will lead to the best outcomes for WSA. BARA supports the position in the *Joint Study* on Aviation Capacity in the Sydney Region, which recommends considering alternative noise mitigation strategies, such as 'noise budgets', with operating limits based on noise intensity and frequency of operation during noise sensitive hours.

Initially, one option may include trialling new approaches at airports outside Sydney, given the legislated operational restrictions in effect at KSA. Proven options could then be introduced for KSA and WSA.

#### Embracing technology for community benefit

The more precisely the positions of aircraft are known, the greater the opportunity to create flight paths that could reduce total aircraft noise and support equitable noise sharing. Precision flying, such as 'required navigation performance' (RNP), also supports excellent safety outcomes. These technologies must be factored in to WSA's design and planned operations.

BARA considers the sound application of ICAO's balanced approach, underpinned by quieter, new generation aircraft and modern air navigation technologies, can best mitigate the impact of aircraft noise and allow WSA to operate in a manner which enjoys broad community support.

#### Precision flying to support noise mitigation





# **BARA'S Members**

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The Board of Airline Representatives of Australia (BARA) is the industry body that supports the safe and efficient operations of international airlines serving Australia for the benefit of consumers, businesses and tourism. BARA has 32 members that link Australia to the world. BARA's members include many of the world's largest airlines, providing 90% of Australia's international passenger flights and most freight exports and imports.

The Australian Competition and Consumer Commission (ACCC) has authorised BARA to negotiate on behalf of its members with major international airports, Airservices Australia and other providers of essential aviation-related services to improve the experience, efficiency and safety outcomes for international passengers.

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