

SYDNEY AIRPORT DEMAND MANAGEMENT – DISCUSSION PAPER

A4ANZ SUBMISSION

OVERVIEW

Airlines for Australia and New Zealand (A4ANZ) welcomes the opportunity to provide a response to the *Sydney Airport Demand Management* Discussion Paper. Whilst A4ANZ is an industry group, from time to time there will be a divergence of views among our members. This is the case here and we encourage the Government to consider this input together with the submissions from our individual airline members.*

A4ANZ recognises that, following the conclusion of the Productivity Commission’s 2019 Inquiry into the Economic Regulation of Airports, a commitment was made by the Government to conduct a comprehensive review of Sydney Airport’s Demand Management scheme in 2020.

However, given the devastating and ongoing impact of the COVID-19 pandemic on both global and domestic air travel – which has resulted in slot use waivers being applied across the world – the appropriateness of the timing of this review has been brought into question. Accordingly, A4ANZ urges the Department, and the Government more broadly, to defer decisions that would result in any major slot reforms until airline capacity and air traffic levels resume to pre-COVID levels.

The impact of the COVID-19 pandemic on global air transport is without precedent. The International Air Transport Association (IATA) has estimated that the COVID-19 crisis will see global airline passenger revenues drop by over US\$314 billion in 2020, a 55% decline compared to 2019.¹ In Australia, COVID-19 has caused passenger volumes to plummet by 89% this year², resulting in airlines foregoing more than \$25 billion in revenue.³

It is widely acknowledged that the pace of the aviation industry’s recovery will be much slower than the downturn, due to the staggered reopening of international travel routes, the impacts of a broader economic downturn, and the collapse of both consumer and business confidence.^{4,5} In a recent global passenger survey, the lowest level of passenger confidence was noted in Australasia, with 50% of customers advising that they may wait at least six months before travelling via air.⁶

It has been estimated that air travel will not recover to pre-COVID levels until approximately 2024.⁷ Given the sector’s protracted recovery, we recognise that there are elements of the demand management scheme that will require decisions from Government prior to this time. As such, A4ANZ has focused this submission on the items relevant in the near term. These include offering comment and recommendations on three key issues:

- the independence of Sydney Airport’s slot coordination regime;
- slot utilisation (including the need for slot alleviation measures); and
- maintenance of the regional price cap and notification scheme.

ABOUT A4ANZ

A4ANZ is an industry group representing airlines based in Australia and New Zealand, including international, domestic, regional, full service and low-cost carriers. Established in 2017, A4ANZ’s members include Air New Zealand, Qantas, Virgin Australia, Regional Express (Rex), and Jetstar.

* It should be noted that the views expressed in this submission do not reflect those of Regional Express (Rex).

A4ANZ works collaboratively with Government and other stakeholders, representing the interests of members, their staff and customers, in relation to public policy issues.

In all policy areas, A4ANZ strives to provide evidence-based, cost-effective solutions to the Australian Government to ensure practical and efficient implementation of policy, together with the preservation and strengthening of access to air transport for all Australians.

SLOT COORDINATION

The Government has stated that the review of Sydney Airport's Demand Management scheme provides an opportunity to revisit existing policies and competing objectives, to ensure the regulatory framework remains fit for purpose to meet the needs of the aviation industry, the travelling public and the local community.

A4ANZ further notes that the aim of this review is to determine whether the objectives remain relevant and the scheme is fit-for-purpose, including through:

- providing for the efficient use of airport infrastructure, while managing the impacts of noise to maintain liveability for the Sydney community;
- encouraging competition and resilience within the industry; and
- facilitating recovery from the COVID-19 pandemic, such as through being responsive to changes and opportunities in the market.

A4ANZ believes it is important that these review objectives are not confused with there being a significant regulatory problem to solve, or that the scheme is not meeting its own objectives. No evidence has been presented to suggest this is the case, or that there is a need for major reform.

We therefore note with concern recent moves by Sydney Airport to make significant changes outside of, and well ahead of any recommendations to come from the Productivity Commission.

We note the Discussion Papers has questions regarding the implementation of a bespoke slot regime at Sydney Airport. What has been proposed by Sydney Airport – a separation of runway and gate slot coordination – would create issues of both a financial and operational nature. It would create a situation where Sydney was one of only a small number of airports in the world – and certainly the only one in the region – to separately control its on gate slots.⁸

Additionally, A4ANZ is aware of a further proposal by Sydney Airport that it be considered for appointment as its own slot coordinator.

Neither proposal aligns with the global guidelines⁹ and therefore A4ANZ does not support the proposed changes.

Integrated, independent slot coordination is, and should remain, a cornerstone of the regulatory framework. If any changes to Sydney Airport's slot coordination regime are required, it should simply be to update the regulations to allow flexibility to align with updated/current international guidelines.¹⁰

SLOT UTILISATION

Given the ongoing impact of the COVID-19 pandemic on international and domestic air traffic, the Worldwide Airport Slot Board (WASB) – comprising IATA, Airports Council International, and the World Wide Airport Coordinators Group – have released recommendations for airport slot alleviation measures for the 2021 Northern Summer Season.¹¹

The WASB recommendations note that for the 2021 Northern Summer Season *“all parties agree that the normal threshold (80:20) should be replaced by a lower threshold. Slot usage requirement threshold shall be set at 50:50.”*¹² Furthermore, the WASB has stated that *“the 80:20 ‘use it or lose it’ slot rules were never designed to cope with a prolonged industry collapse”*.¹³

Additionally, IATA has highlighted a number of important considerations regarding slots, including:¹⁴

- slot flexibility is key to rebuilding connectivity, competition, and schedules that reflect passenger demand – with no demand to satisfy current scheduling;
- if airlines lose their slots, global connectivity will crumble;
- international recovery is estimated to be at 25% of 2019 activity by mid-2021. With international flying expected to take two years longer to rebound than domestic travel; and
- decisions should be made now re: slot waiver for the coming 2021 Northern Summer Season (ie. 28 March 2021).

Given the above, and the fact that Sydney Airport are represented on the WASB,¹⁵ it was particularly concerning to read that the airport's recent correspondence to the ACCC argued for changes that were completely at odds with the WASB recommendations.¹⁶ The 80:20 slot usage requirement, in normal conditions, is a globally accepted standard¹⁷, and thus any move to tighten the 80:20 slot usage requirement would not only put Australia out of step with the rest of the world but would be damaging to the sector's recovery.

With no genuine argument to demonstrate why a higher threshold is beneficial, or why Australia should not conform to the global standard, A4ANZ believes that the 80:20 slot usage requirement should be retained during the sector's recovery from COVID-19 and into the future.

Slot Alleviation Measures

Recent media articles have reported claims from Sydney Airport to the ACCC that Australia's domestic airlines are "hoarding" slots.¹⁸ The airport has been near empty, with slot waivers having been granted globally during COVID-19; for the important purpose of preventing uneconomic flying simply to protect slots.

As noted above, the WASB has provided recommendations for airport slot alleviation measures for the 2021 Northern Summer Season, which stop short of a blanket slot waiver.¹⁹ The goal of these measures is to provide certainty for airlines, airports, and passengers.

A4ANZ and its member airlines appreciate the decisive action that the Federal Government has taken in granting slot waivers by Ministerial Direction, and welcome the Deputy Prime Minister's decision to extend the existing slot waiver for Sydney Airport until 27 March 2021.²⁰

The inconsistent border requirements around Australia and restrictions associated with COVID-19 outbreaks have created a situation in which it is unlikely for Australia's domestic capacity to rebound to pre-COVID levels until later in 2021; with the Business Council of Australia estimating that Australia's domestic capacity in September this year was at 21% of 2019 levels.²¹ Additionally, as we have noted previously, it is estimated that global air travel will not recover to pre-COVID levels until 2024²², with international flying not expected from Australia until at least mid-2021.²³

The WASB has made a number of recommendations regarding slot alleviation measures for the 2021 Northern Summer Season. A4ANZ believes that domestic slot alleviation/a waiver is not necessary if force majeure provisions are bolstered, as the WASB has recommended. Strengthening force majeure provisions would allow for unutilised slots to be exempt from the 80:20 rule in the event of domestic borders closing again, or travel restrictions, quarantine requirements, or caps on passenger numbers were put in place. We are supportive of a process being developed with the Slot Manager to allow airlines to hand back slots pre-emptively and receive force majeure exemption, providing opportunities for those slots to be reallocated.

REGIONAL PRICE CAP & NOTIFICATION SCHEME

The Discussion Paper notes that the Declaration for the regional price cap and notification scheme is due to cease on 30 June 2022 and suggests that the next ACCC price monitoring determination may allow for the gap between regional and non-regional aeronautical charges to close over time.

The Discussion Paper correctly notes that this would involve regional aeronautical charges increasing at above inflation for a number of years and would need to be considered in the context of the impact of COVID-19 on the sector.

It has been recognised by the Government that the impact of COVID-19 has devastated Australia's airlines.²⁴

Additionally, both during and following the 2019 Productivity Commission Inquiry, the Government has been presented with clear examples of Australia's monopoly airport operators exercising their market power – through both exorbitant airport charges, and poor behaviour.²⁵ Furthermore, the Productivity Commission was presented with clear evidence and data that demonstrated the significant impact of Australian airport charges on airlines – with airport charges being the third largest cost for airlines in Australia, after fuel and staff.²⁶

Given that Australia has lost 19 (mostly regional) airlines over the past 20 years, it is hard to see a sound argument for the Government to consider removing the slight economic protection provided by the regional price cap and notification scheme.

Any relaxation to existing requirements would mean less transparency and higher potential of an airport exercising its market power. As such, A4ANZ rejects any moves to relax the regional price cap and notification scheme, and urges the Government to impose a new Declaration regarding the regional price cap and notification scheme ahead of the current Declaration's [*Competition and Consumer (Price Notifications—Aeronautical Services to NSW Regional Airlines) Declaration 2019*]²⁷ cessation on 30 June 2022.

Additionally, A4ANZ does note and support the Government's view that the gap between regional and non-regional aeronautical charges should be closed. However, given that Sydney Airport is one of the most profitable airports in the world²⁸ - with the highest aeronautical revenue per passenger of Australia's four major airports²⁹ - we believe that the narrowing of the gap should be facilitated by the lowering of non-regional aeronautical charges.

CONCLUSION

A4ANZ does not believe that there is a compelling case for change. There is a lack of evidence of systematic problems that would necessitate Australia moving away from global guidelines in relation to Sydney Airport's Demand Management scheme.

Moreover, the impact of COVID-19 on the aviation sector, and its likely protracted recovery, must be afforded priority in terms of the timing of the review and any subsequent recommendations, particularly in regard to the likely unintended consequences of change at such a critical time for Australia's aviation sector.

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