

NEWCASTLE AIRPORT SUBMISSION

The Future of Australia's Aviation Sector
Issues Paper 2020



Newcastle
Airport

The Future of Australia's Aviation Sector Issues Paper 2020 states:

"The restoration of confidence will be at the core of the recovery of the aviation sector and the economy more broadly."

To assist the Commonwealth with this critical task, stakeholder feedback has been requested in the form of responses to a series of strategic questions.

In providing feedback, Newcastle Airport will specifically seek to respond to the following question:

PART B Do current Government Airport grants target key priorities for regional airports?



Response summary



In order to release billions of dollars in economic benefit, Newcastle Airport's runway requires an upgrade to Code E status, which will allow it to accommodate long-range, wide-bodied aircraft. This upgrade will directly connect the Hunter and Northern NSW to the rest of the world. In doing so, it will create an immediate and permanent stimulus to the visitor economy, generate a huge uplift in freight activity and deliver significant jobs and growth to Australia's largest regional economy.

This project is a **strategic aviation sector infrastructure investment**, funding a Commonwealth owned asset that will deliver benefits across multiple sectors of the economy and across a broad geographic area of regional NSW. It will trigger private sector investment and also provide growth and **confidence to the aviation sector and the broader economy**.

Importantly, this runway upgrade offers a return on investment that sets it apart from all other airport infrastructure projects, generating:

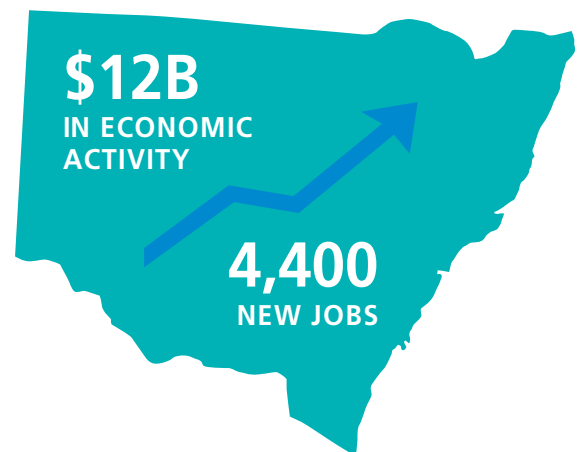
- **Over \$12B in new economic activity and 4,400 jobs.**
- **Benefit Cost Ratio (BCR) of >2.1.**

Despite its compelling business case and economic impact there is currently no grant/funding pool that is suitable to support this project under the current policy settings.

Only through strategic grant funding from the government, will this key piece of regional infrastructure be delivered. Direct benefits to Newcastle Airport are insufficient to raise debt to fund this vital project as the vast majority of these benefits will flow to the broader community.

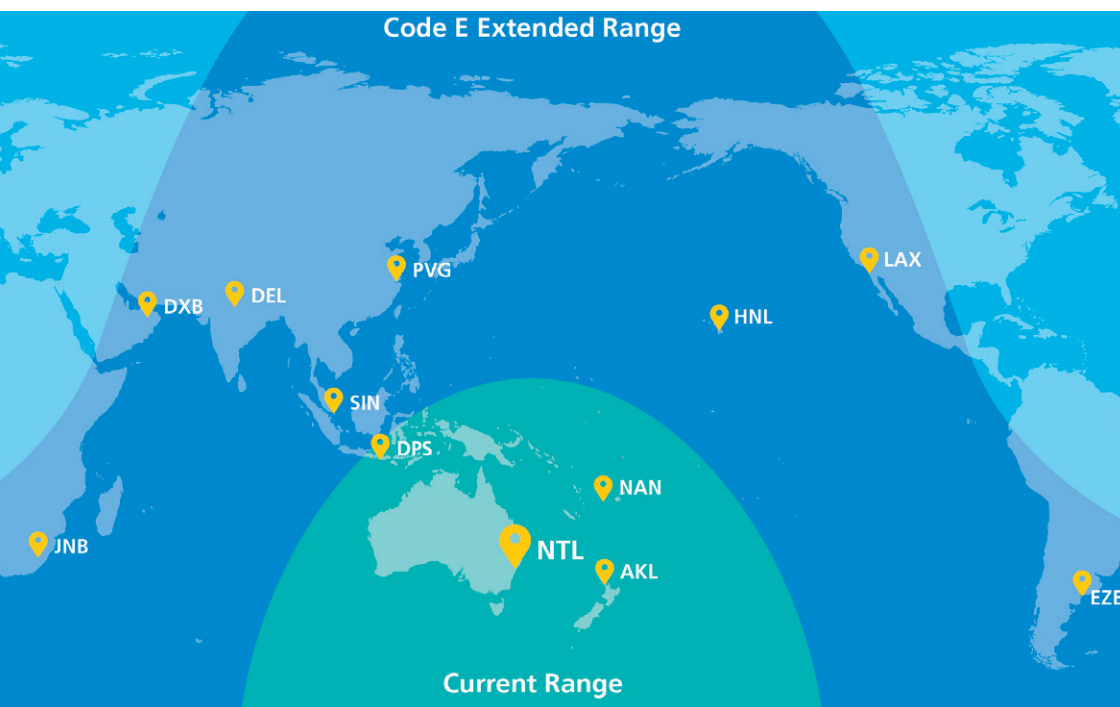
Newcastle Airport's arrangements with Defence means that a Federal Government investment to bring the runway to Code E status will result in increased passenger numbers throughout and thus increased revenues, resulting in increasing lease payments to the Commonwealth. For the Code E upgrade, this more than returns the government investment over the life of the asset. This arrangement has the character of an income contingent loan and could be a model for future government support to the aviation sector.

Newcastle Airport's efforts during the last three years to secure funding provides a compelling case study of how **current aviation grant funding fails to unlock the significant economic potential of a mid-tier regional airport**.



The project

Upgrading the runway to Code E status will connect the Hunter Region and Northern NSW to the rest of the world, reinvigorating the visitor economy, stimulating new export industries and delivering jobs and growth to Australia's largest regional economy. It will also ensure NSW has three international airports by the end of the decade, to take full advantage of the globalised economy post the COVID-19 Pandemic, both in respect of trade and visitor economy.



A project representing outstanding value:

- As a stand-alone project a Code E upgrade would cost a minimum of \$200M.
- However, Defence is currently spending circa \$117M for required runway maintenance remediation to be commenced in mid-2021.
- A simultaneous Code E upgrade of the runway will leverage this programmed Defence spend, **resulting in an incremental cost of only \$56M.**
- **The next opportunity to significantly upgrade the airport's capability and unlock billions of dollars in economic potential will not occur again until the next runway maintenance remediation project, circa 2040.**
- Newcastle Airport has already committed \$2.4M to design works to keep the potential of a simultaneous upgrade alive.
- The airfield funding will also trigger the requirement to upgrade the terminal promoting a further investment in the order of \$54M.
- To ensure the success of the project, Newcastle Airport will contribute an additional \$10M in airline attraction and promotion.

Costs are estimates based on best understanding and information provided by Defence Project Management. Costs will be updated as available. Newcastle Airport contribution subject to Airport Board approval.



**Strengthened
runway**



**Upgrades to
airfield lighting**



**Wider runway,
an additional
7.5m either side
of the shoulders**



**Upgrades to the
terminal and
aprons**

**This is a once
in a generation
opportunity that
will be lost if a
funding decision
is not made by
March 2021.**

Economic and financial analysis

To support the business case for this project, extensive financial and economic modelling has been undertaken. All studies are appended to this report and are summarised below:



MODEL 1		Economic Impact Assessment of Newcastle Airport Runway strengthening Synergies Economic Consulting August 2018. Undertaken to determine the regional economic benefit.
MODEL 2		Newcastle Airport International Air Freight Demand forecasts and Economic Impact Assessment, Morrison Low January 2019. Used to determine the likely freight benefits.
MODEL 3		Newcastle Airport Upgrade Cost Benefit Analysis, Ernst & Young November 2019. Assessed the Benefit Cost Ratio. Same methodology used to assess validity of Western Sydney Airport investment.
MODEL 4		Newcastle Airport Forecast Air Service Review, Ailevon Pacific Aviation Consulting October 2019. Used to independently verify passenger forecasts used as drivers in the other modelling.
MODEL 5		Discounted cashflow modelling , that would be used to support loan applications. Shows returns are adequate to maintain and support the asset, but insufficient to raise debt with a conventional lender.
MODEL 6	 Australian Government	Modelling of financial return to Commonwealth as a result of increased economic activity . Newcastle Airport pays lease payments to the Commonwealth for the use of the RAAF runway, as a proportion of turnover. In effect this takes the form of an income contingent loan, with the exception that the repayment continues in perpetuity.

Direct economic benefits

Over the next 20 years the Code E upgrade will deliver:



The business case

Comprehensive costs benefit analysis by EY demonstrates the projects significant scale and benefit relative to the modest cost.

Benefit Cost Ratio of **>2.1** Up to **\$701Bn** of net incremental value created over the life of the project.

Investment returned overtime

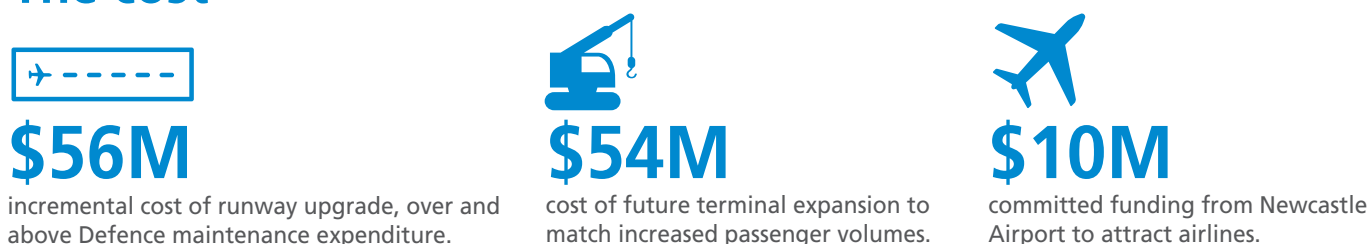
The Airport's lease arrangements with the Commonwealth include turnover rent payments to Defence. This means that the higher the Airport's revenues are, the greater the rent paid to the Commonwealth.

It is without question that Federal Government investment in this project now will be more than returned via this mechanism over the life of the runway.



Based on forecast Code E passenger traffic to 2075, representing the Airport's Head Lease with the Commonwealth. Based on conservative assumptions such as existing revenue per passenger, plus duty free income when Code E reaches scale.

The cost



“

“Ailevon Pacific Aviation Consulting (“APAC”) has reviewed the market overviews and forecasts provided by Newcastle Airport and considers the methodology and approach taken as sound.

With a significant stimulation such as that being proposed by Newcastle Airport it is highly credible that wide-body (aircraft) activity could be significantly accelerated.”

Oliver Lamb – Ailevon Pacific Aviation Consulting

“

“We foresee significant growth across all quality grades of accommodation services should international flights arrive directly in Newcastle.”

Will Creedon – Managing Director – Alloggio

“

“We’re waiting to see what happens...before we push the button on a second hotel.

We need confidence that Newcastle will attract international routes from quality airlines.

There’s so much opportunity here. Newcastle is a great market for us now.

But, with better air capacity it could be a brilliant market.”

Patrick Lonergan – Director of Hotels – Doma Group



What makes this project unique?



Proximate Transport Infrastructure

A deep water seaport, the M1, Pacific and New England Highways and potential to connect to Inland Rail all sit within a **25km radius of the Airport.**



Stronger Commercial Partner

A profitable civilian airport already operates on the site with the **ability to sustain and drive** the benefits of the project.



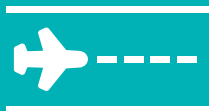
Existing Federal Government Investment

The ability to leverage off **existing committed expenditure.**



PFAS Solution

Expediting transformation from contaminated rural land to **high value industrial/commercial hub.**



Defence Benefits

An upgraded runway **provides improved functionality for RAAF Base Williamtown.**



Transition and Resilience

This project is a unique low-cost opportunity to **provide economic diversification, and resilience.**



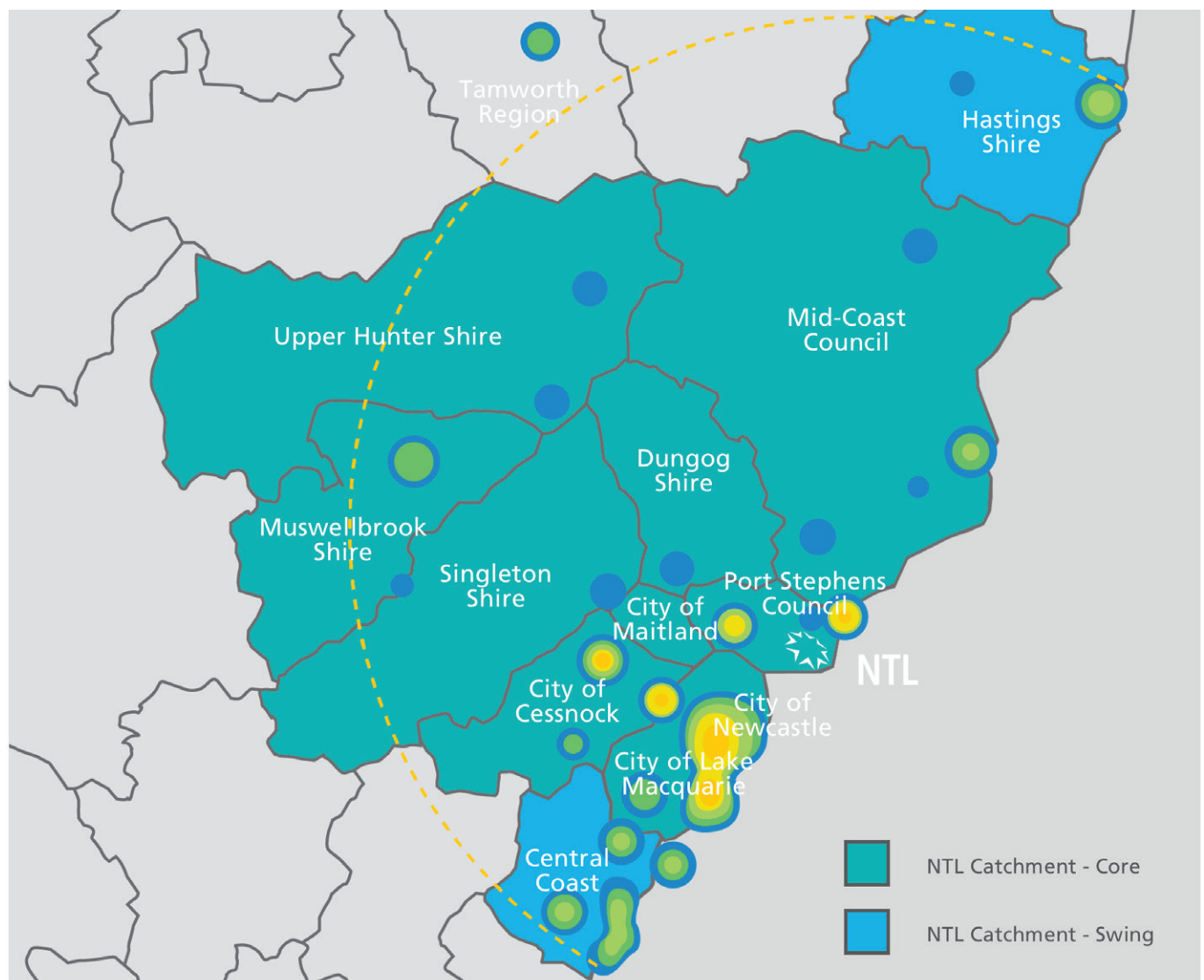
Market failure of Government airport grants

In response to the the COVID-19 Pandemic, Government aviation funding and grants have been focused on keeping regional and rural airfields open. This is vital in order to keep remote communities connected.

However, as a large regional airport, Newcastle has a much bigger role to play in COVID-19 recovery. **This project is about nation building, not just survival.**

Mapping users of Newcastle Airport shows it is truly the airport of Northern NSW. Our passenger catchment boasts a large population of 1.1M, a diverse and highly skilled workforce, a globally ranked university with 40,000 students, a diverse manufacturing base including advanced manufacturing, a significant defence presence, a fertile and productive agricultural hinterland and coastal fisheries.

These elements place the region in an enviable position, but with no grant funding pool available to support a Code E upgrade, it will fall very short of its potential. The importance of **optimising this potential has been significantly heightened as a result of COVID-19** and its impact on the national economy. With strategic investment in this project now, the Hunter Region and Northern NSW will be one of the economic engine rooms of the nation in a post-COVID world.



Wifi heat map with shaded circles show passenger origins and density - demonstrating the wide regional catchment of NTL Airport services.

Why government can have confidence in this project

The government needs to have confidence that investment in this project will deliver the benefits outlined in the modelling. This is supported by:

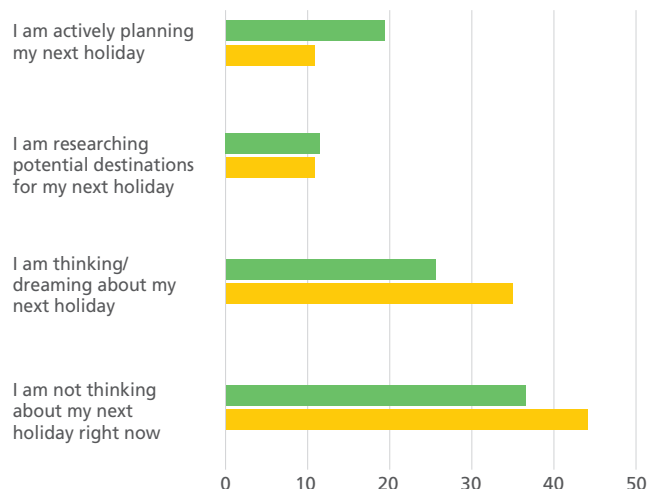
1. A catchment that is ready and excited to fly domestically and internationally.
2. 2 of the top 3 leading tourism destinations in NSW.
3. Latent freight and export industry potential waiting to be unlocked.
4. Existing NSW Government investment in Williamstown which can be leveraged.
5. The establishment of an international airport at Newcastle will complement existing NSW aviation infrastructure.

1. Our Catchment loves to travel

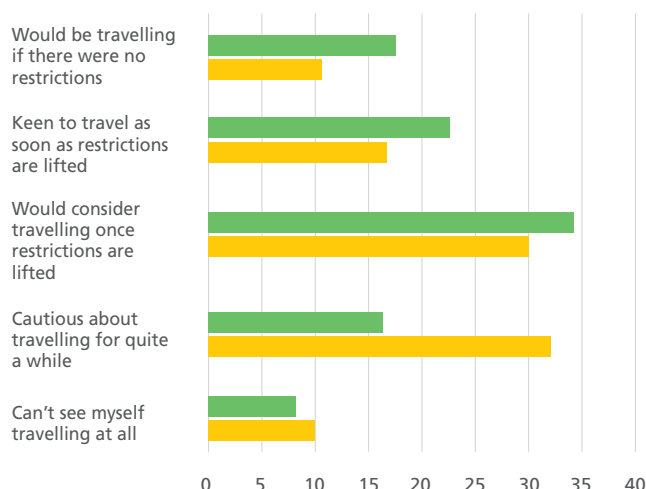
Recent Reachtel polling of Hunter residents demonstrate that Newcastle Airport's catchment are more likely to fly than the rest of the nation.

Newcastle's catchment is significantly over-indexing in terms of propensity to travel.

Which of the following best describes your thinking around your next holiday?



Which of the following statements best describes how you feel about future leisure travel within Australia.



■ **Hunter** - Reachtel polling 1,038 Hunter residents 9 October 2020

■ **Australia** - Toursim Australia polling 1,009 national residents 26 September 2020

Our catchment has proven they will fly internationally from our Airport.

Case study - Auckland - Newcastle Service - with Virgin Australia.

- In its inaugural 13-week season, over 6,300 passengers travelled on the NTL-AKL service.
- This represented a 430% increase in previous traffic between the two regions. The service grew another 13% YoY in 2019/20.

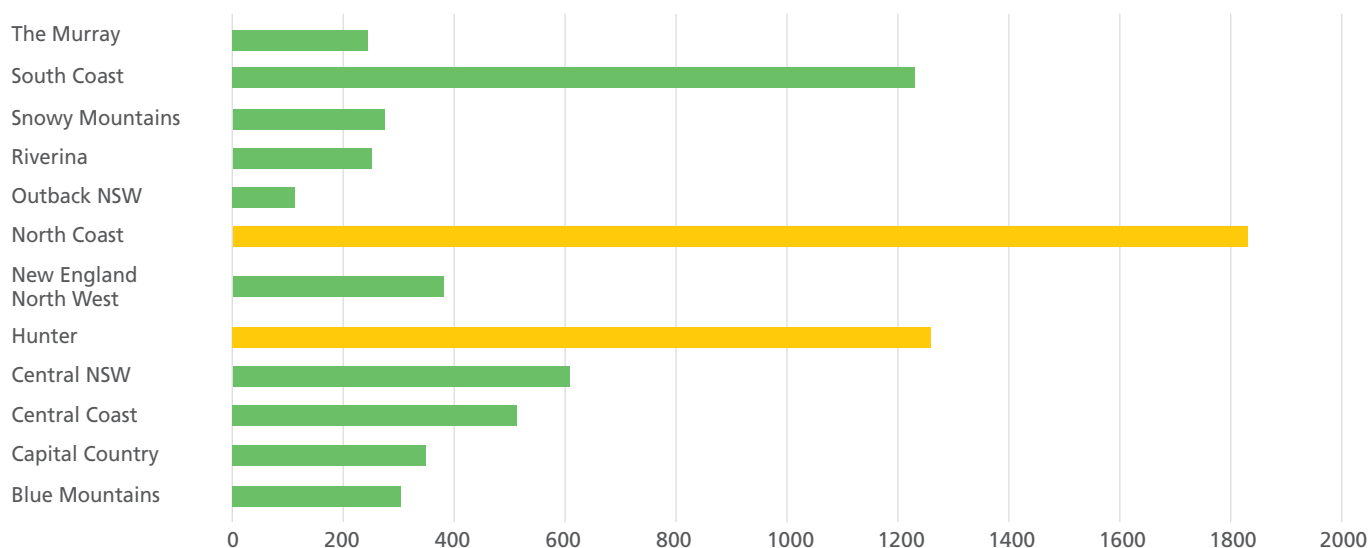
2. Stimulating investment in tourism visitor economy

The North Coast of NSW is the most visited region of NSW outside of Sydney, with the Hunter second. The Hunter is also the second largest contributor to the tourism economy of NSW outside of Sydney.

However, it is clear from the governments data that the Hunter is underrepresented in international visitation. Direct inbound access would significantly increase the economic value of tourism and provide a much-needed post COVID-19 boost to both the region NSW and Australia.

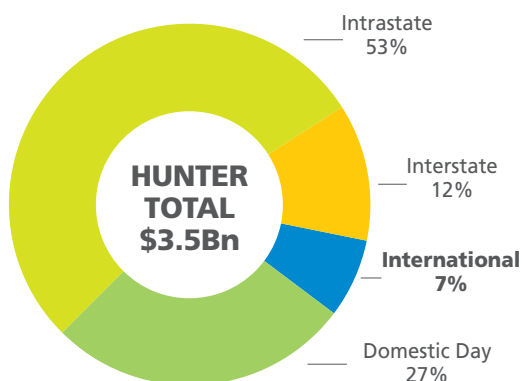
Direct Tourism Contribution - Gross Regional Product (\$M)

Regional NSW Total: **7939**

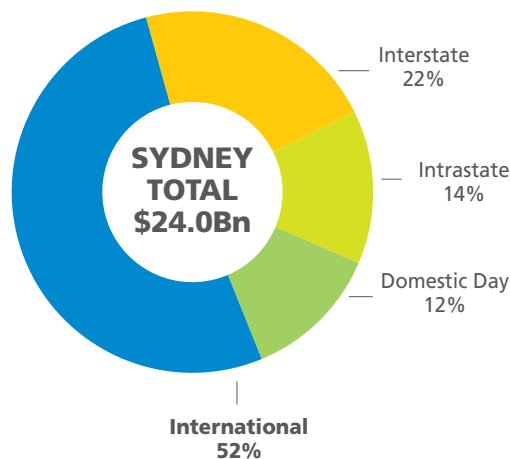


Source: Regional Tourism Satellite Account 2018-2019, Toursim Research Australia.

Hunter Tourism Consumption by Visitor Type



Sydney Tourism Consumption by Visitor Type



Source: www.destinationnsw.com.au/tourism/facts-and-figures/economic-value

3. Unlocking Freight Potential

A March 2019 report by Deakin University, Centre for Supply Chain and Logistics, further solidifies the size and scope of the freight opportunity that a Code E airport would unlock. This joint study with the Port of Newcastle assesses the economic benefits that a collaborative approach between the organisations would unlock for the region and beyond. Deakin's investigation into current and potential future freight industries provides compelling evidence that an upgraded runway would without doubt transform Newcastle Airport into a global export gateway, expanding current industries and opening an impressive range of new industries.

Industry examples include:



Aquaculture



Meat



Dairy



Cut Flowers



Native Foods



Industrial
Supplies



Defence Manufacturing
and Technology

Funding for this project from the Federal Government will provide the impetus and certainty key industries require.

4. Complementing NSW Government investment in Williamtown



Direct international access provided by a Code E runway will be a significant enabler for the burgeoning advanced manufacturing and Defence support industries at Williamtown.

The NSW Government has already announced the creation of a Special Activation Precinct (SAP) centred around the RAAF Base and the Astra Aerolab estate.

Clarity on logistic supply lines will further support investor confidence in Astra Aerolab and the Hunter more broadly, providing an uplift to both economic and aviation recovery confidence.



"The NSW Government has granted more than \$11M to initiate the development of Astra Aerolab..."

The unambiguous intent of this investment is to attract further defence capability and sustainment contracts to Williamtown."

The Hon. John Barilaro MP, Deputy Premier NSW

5. Complements other Sydney Basin Airports

Complementing Mascot and Western Sydney Airports, the development of a third international airport in Australia's most populous state will ensure regional residents across NSW will have access to international connectivity and markets. In much the same way that three international airports in close proximity in South East Queensland have stimulated overall demand for travel, so too will an expanded Newcastle Airport.



"I strongly support an airport upgrade for Newcastle. The lack of air freight capacity is a brake on our aspirations for growth. Having flights to Asia from Williamtown would give us more confidence to invest in expansion to meet the market demand. It would open new markets and increase demand for our products. At the Co-Op, we would grow. Our members would also scale-up to take advantage of the opportunities that an efficient local air freight system offers."

Robert Gauta – CEO – Newcastle Commercial Fishermen's Co-Operative



"We need to plan for an upgrade to our airport facilities to ensure that the Hunter is not left behind. The ability to rapidly move people and products from Williamtown will mean the difference between growing our regional economy or becoming a commuter satellite of Sydney. Cargo loads, utilise a far reaching catchment area for people and freight to benefit not only our region, but the greater inland and North Coast areas without adding to growing state road and rail congestion. Transport operators not only in the Hunter but across the state would benefit from significant growth if international flights with air cargo loads call Newcastle Airport home.

It would also be a catalyst to attract new business and bring increased economic activity and jobs into regional NSW."

Leigh Bryant – Principal – Scorpion International

Mandate from Regional NSW

There is an unprecedented show of solidarity behind what the region understands to be its single most important economic lever.

The following businesses were signatories to a letter sent to the Prime Minister supporting the project.



Not only do businesses understand the project to be the regions single most important economic lever but this is also understood by the people of the Hunter. An October 2019 CT survey of the Hunter uncovered the following key insights:

- **85% of residents were net supporters of the project going forward.**
- **92% agree the project will stimulate jobs and the local economy.**
- **39% were either 'definitely' (21%) or 'somewhat' (18%) more likely to change vote based on this issue.**



Conclusion

Newcastle Airport agrees with the government that restoring confidence in the aviation sector is critical to stimulate investment and employment in the sector. We also understand that a strong aviation industry will be vital to seeing a broader nationwide economic recovery in 2021 and beyond.

Unfortunately, current aviation policy setting, particularly grant arrangements, fail to unlock the significant economic potential of mid-tier regional airports, of which, Newcastle is an obvious example. Current Newcastle Airport lease arrangements are already in the form of an income contingent loan which facilitates long term recycling of capital and may be a pathway for future aviation sector funding.

With this in mind, we strongly urge the government not to wait on policy reviews but recognise the time criticality of this project and act immediately to take advantage of the once in a generation opportunity to upgrade the Defence owned runway at Newcastle Airport. This upgrade will allow the Airport to deliver on its key objectives of being the airport the region deserves. Providing significant short and long-term benefits to the industry, the region and the nation.

This upgrade is supported by Defence, key industries and other tiers of government. It also has an incredibly strong mandate from its region which extends far beyond the boundaries of the Hunter. Timing is critical and, as we have demonstrated, the business case is compelling.



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