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Freight and Supply Chain Inquiry  
Department of Infrastructure and Regional Development  
GPO Box 594  
Canberra City ACT 2601

**Via email:** [freightstrategy@infrastructure.gov.au](mailto:freightstrategy@infrastructure.gov.au)

Dear Sir/ Madam

**Re: Inquiry into National Freight and Supply Chain Priorities**

Thank you for the opportunity to comment on the Inquiry into National Freight and Supply Chain Priorities discussion paper.

Sydney Airport is Australia's premier airport and international gateway, serving as a key hub for freight as well as passenger movements. In addition to serving more than 42 million passengers a year, Sydney Airport handles more than 482,000 tonnes of air freight worth around \$36 billion each year. This represents approximately 47% of Australia's international air freight, and has been estimated to contribute an additional \$16.5 billion to Gross State Product to the NSW economy each year<sup>1</sup>.

Air freight plays a crucial role in the overall freight network, carrying high value items where delivery is time critical, including items such as medical supplies, seafood, cut flowers, jewellery and consumer electronics. The International Air Transport Association (IATA) estimates that while air freight comprises only around one percent of global freight by volume, it represents 35 percent of the value of global freight<sup>2</sup>.

Importantly, around 80 percent of air freight is carried in the belly-hold of passenger aircraft, with the remainder on designated freight flights. Indeed, only 2.4 percent of flights to and from Sydney Airport are dedicated freight aircraft, and only one of the top five freight routes to or from Sydney is operated by a designated freighter. This has the important implication that freight plays a crucial role in route planning by airlines, and indeed makes a major contribution to the profitability of certain routes, currently generating approximately nine percent of airline revenue.

In the year up to February 2017, the volume of air freight through Sydney Airport grew by 17.2 percent to domestic ports and 7.9 percent to international ports. It is anticipated that this strong growth in freight activities will continue into the future. This submission highlights the issues that require consideration to ensure that the benefits of freight activity at Sydney Airport are maximised.

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<sup>1</sup> <http://logistics.bcr.com.au/blog/20-striking-facts-about-air-freight-sydney-and-the-sydney-airport>

<sup>2</sup> <http://www.iata.org/whatwedo/cargo/Pages/index.aspx>

## Growing Markets

### *Additional Capacity*

There are significant prospects for the growth of freight through Sydney Airport, with a 2014 BITRE report forecasting that international shipping would grow by 250 percent from 2010 to 2030<sup>3</sup>. These prospects are based on increased capacity for freight, together with the removal of barriers to trade and economic drivers in Australia and overseas. This submission will briefly outline these below.

In 2002, approximately 250,000 aircraft movements took place at Sydney Airport. This figure grew to nearly 350,000 movements in 2016, representing an increase of around 100,000 additional commercial aircraft movements, with larger aircraft regularly being used to meet growing passenger demand. With 80 percent of freight being transported in the belly-hold of passenger aircraft, each of these additional movements and the larger aircraft in use represents additional capacity to carry freight by air. In 2016, the number of passenger movements grew by 8.9 percent for international travel, and 5.6 percent overall, with further strong growth in demand forecast for the future. As that demand translates into additional passenger flights, each new flight will bring additional capacity for air freight. When new passenger routes come online, so too is freight access enabled to those markets.

To meet the expected growth in freight activities, Sydney Airport has planned for the growth of freight services and facilities into the future. In the *Sydney Airport Master Plan 2033*, provision is made for the development of supplementary freight handling facilities on airport land to the north of the Alexandra Canal, with possible additional development areas in the airport's South South-East Sector for freight handling and transport facilities. These plans are designed to support the efficient, effective and productive operations of airside freight terminals, locating freight handling facilities and airside logistics areas with good access to aircraft locations.

### *Trade Agreements*

As air traffic to Sydney Airport has grown, many of the trade barriers to air freight have been removed. The World Trade Organisation's 2013 Bali Agreement came into effect in February 2017, with a focus on improving trade facilitation. One of its key articles is a provision enabling paperless customs administration with quicker release and clearance of goods. The treaty includes special treatment protocols for perishable goods, whereby Customs will prioritise the examination and release of these items. With perishable goods generally better transported by air freight over other modes of transport, air freight is particularly well positioned to benefit from the implementation of the Bali Agreement. Indeed, an IATA fact sheet estimates that the savings benefit from this agreement will be approximately 1.5 percent for bulk sea shipments of coal, but a significantly larger 15 percent saving for air shipments of fresh vegetables<sup>4</sup>. Furthermore, the OECD has estimated that full implementation of the agreement could reduce the costs of trading across borders by more than 10 per cent for developed economies, and globally by between 12.5 per cent and 17.5 per cent<sup>5</sup>.

The negotiation and ratification of free trade agreements between Australia and key markets such as China also represents an opportunity for the growth of air freight. According to Austrade, the food and beverage market in China had an average annual growth rate of 35.4

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<sup>3</sup> [http://www.aph.gov.au/~media/Committees/rrat\\_ctte/estimates/bud\\_1415/infra/Freightline.pdf](http://www.aph.gov.au/~media/Committees/rrat_ctte/estimates/bud_1415/infra/Freightline.pdf)

<sup>4</sup> <https://www.iata.org/whatwedo/Documents/economics/bali-impact-march14.pdf>

<sup>5</sup> <http://dfat.gov.au/international-relations/international-organisations/wto/Pages/wto-agreement-on-trade-facilitation.aspx>



Austrade, the food and beverage market in China had an average annual growth rate of 35.4 percent from 2011 to 2014, with a particular focus on produce such as seafood, chilled meat, fresh fruits and milk powders<sup>6</sup>. The growth of the middle class in China and throughout Asia more generally has led to strong growth in demand for quality produce, with confidence in the integrity of the product, freshness and variety. Australia is ideally placed to meet that demand.

Other free trade agreements have also been negotiated with key Asian markets such as Japan, Korea, Malaysia, Thailand and the ASEAN bloc of nations. The removal of barriers to trade with each of these markets, combined with the strong growth in demand for goods that are best suited to transport by air will support the growth of air freight into the future.

The negotiation of the China Australia Free Trade Agreement (ChAFTA) was followed in December 2016 by the negotiation of an unrestricted Air Services Agreement, the first such agreement that China has entered into, which removed all limitations on aviation capacity or frequencies between Australia's gateway airports (including Sydney) and Chinese airports. This agreement will ensure that the future growth of trade to the rapidly growing China market will remain uninhibited by barriers to additional flights between Australia and China.

### *Changing Patterns of Spending*

One further factor driving the growth of air freight, is the changing nature of the economy. The growth of online shopping, combined with increasingly global supply chains and consumer demand for quick delivery of e-commerce items has already driven increased demand for air freight, and will ensure the ongoing growth of air freight over coming years. For example, where once an Australian consumer would have purchased their goods in person at a shop, now they are able to search a wider variety of products and obtain the cheapest price online, including overseas distributors that ship to Australia. Categories of goods such as jewellery, small electronic goods, sporting equipment and cosmetics are now commonly purchased online, and it is estimated that online retail sales have been growing five times faster than traditional retail spending<sup>7</sup>. This growth in online shopping has also been reflected in Australia Post reporting a 16 percent growth in parcels in 2016. With consumers expecting delivery of their purchase in a timely manner, air freight is once again the best positioned method of shipping to meet demand.

## **Planning and Infrastructure**

### *Retaining an adequate supply of employment lands close to airports and ports*

Land use planning is a critical issue to ensure the efficiency and ongoing growth of freight activities at Sydney Airport. Maintaining an adequate supply of appropriately zoned employment lands is essential to provide for economic growth, productivity gains and increased competitiveness. This is particularly so near nationally significant economic infrastructure such as Australia's capital city airports and ports. In such areas, state and local governments have jurisdiction and are responsible for determining land use planning policies.

This is because, as growth in aviation activity occurs, a sufficient supply of appropriately zoned land near the airport must be maintained (and where necessary created) to allow airport and aviation support-related land uses to be developed on land near the airport. This is particularly

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<sup>6</sup> <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/China/Industries/Food-and-beverage>

<sup>7</sup> <http://www.afr.com/business/retail/online-retail-sales-top-20-billion-20160803-ggqv0r>

important for freight related activities at the airport, including freight centres, logistics centres and warehousing, along with appropriate vehicle storage/ processing and road access.

As well as the requirement for an adequate supply of appropriately zoned employment lands, Sydney Airport has an interest in off-airport planning developments that may impact upon the airport's ability to operate safely and efficiently. The Commonwealth and NSW Government's National Airports Safeguarding Framework (the Framework) sets out guidance on these planning issues, including for example:

- ensuring that developments don't compromise the airport's protected airspace;
- avoiding any potential risks to aircraft created by building-induced turbulence or windshear or by increasing the risk of wildlife strike to aircraft;
- managing any lighting issues that may affect or distract pilots; and
- ensuring that inappropriate development does not occur in areas significantly affected by aircraft noise.

While we recognise the high demand for new residential areas throughout Sydney and the importance of meeting that demand, new residential developments need to be carefully considered strategically alongside their potential impact on Sydney Airport's safe and efficient operations.

The need to protect industrial employment lands around airports was also recognised in 2016 by the Australian Government in its *Smart Cities Plan*, which states:

*Urban development pressures around airports, seaports and intermodal facilities need to be carefully managed to prevent these important economic hubs and corridors from being constrained and to reduce their impacts on surrounding communities.*

We therefore recommend that one of the priorities for the National Freight and Supply Chain Strategy should be for the Commonwealth to work closely with the states and territories – perhaps through the Council of Australian Governments or other appropriate ministerial committee – to ensure an adequate supply of off-airport employment lands is maintained in areas near major airports and ports.

#### *Landside Transport*

With the growth in vehicle traffic around Sydney Airport – Port Botany precinct in recent years, enhanced ground transport infrastructure is vital to the efficient accommodation of a growing freight task.

Already, a \$500 million program of road upgrades is underway, being jointly undertaken by Sydney Airport and the NSW Government. When complete, this program will see the widening of Marsh St between Sydney Airport and the M5-East, the conversion of Robey and O'Riordan Streets to a one-way pair around the Stamford Hotel, the extension of Wentworth Ave to reach General Holmes Drive, and the widening of O'Riordan St, Joyce Drive and Qantas Drive in addition to improvements to roads within the domestic and international terminal precincts on the airport site.

The duplication of the Port Botany rail line between the port and the Cooks River is a project that promises to improve the efficiency of the freight network around Sydney, by easing the pressure on roads in the port and airport precinct. This project was listed as a 'high priority initiative' by Infrastructure Australia in its February 2016 priority list, and \$75 million was



committed to the project in the 2016-17 Commonwealth Budget<sup>8</sup>, but it is imperative that it progresses beyond the planning phase to construction.

The development of WestConnex is another initiative that will help the effort to relieve road congestion throughout Sydney. To ensure that its benefit reaches the Sydney Airport and Port Botany precinct, the development of the Sydney Gateway connecting the precinct to WestConnex will be vital. While the Sydney Gateway is still in the planning phase, decisions around the project specifications must be made to ensure a quick and efficient connection between the airport and port precinct and the rest of Sydney's motorway network, in order to ensure that freight transport is able to quickly move around Sydney. Sydney Airport continues to engage with the NSW Government around this project.

Over the longer term, other measures that take both freight and passenger vehicles off roads around the airport and port precinct, or allow for quicker travel across the network will continue to be important. Improvements to rail access to Sydney Airport will reduce the need to travel to the airport by vehicle, in turn improving traffic outcomes for all airport users. Some improvements that could occur to drive increased use of rail access to the airport include the removal of the station access fee, additional train frequencies, and linking Sydney Airport to the new Metro rail system being constructed around Sydney.

## **Regulatory Issues**

### *Operating Restrictions on Freight Flights*

Sydney Airport operates in a unique regulatory environment, and indeed is one of the most heavily regulated airports in the world. There is a cap on hourly runway movements and slots (administered every 15 minutes), together with a curfew that operates from 11pm to 6am, with limited movements allowed under strict conditions, the 'regional ring-fence' protecting access for regional flights and noise sharing regulations as set out in the Sydney Airport Long Term Operating Plan (LTOP).

While the relaxation of these regulations generally would support increased air access to Sydney Airport, particular consideration should be given to reforming the regulations governing freight flights to and from Sydney during the curfew. Under Part 3 of the *Sydney Airport Curfew Act 1995* (Cth), certain prescribed aircraft are able to land during the curfew on the basis that they are smaller and quieter and on the condition that all take-offs and landings occur over Botany Bay. However, by prescribing specific aircraft rather than an objective noise standard, newer and quieter aircraft are unable to operate during the curfew, while older and noisier aircraft continue to operate. The prescription of specific aircraft types has also created an inefficiency in the domestic air freight network, where (for example) a Boeing 737 is able to operate overnight freight flights to other airports such as Melbourne, Perth, Brisbane and Canberra, but not to Sydney. This means that an entire payload would have to be unloaded and re-loaded on to a different aircraft to reach Sydney on an overnight flight, using a smaller and less efficient aircraft.

These regulations should be updated to include an objective noise measure, that allowed all aircraft below the noise threshold to operate during the curfew. Such a move would improve the efficiency of the overnight air freight network around Australia, benefiting airline operators

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<sup>8</sup> See [http://minister.infrastructure.gov.au/chester/releases/2017/may/budget-infra\\_02-2017.aspx](http://minister.infrastructure.gov.au/chester/releases/2017/may/budget-infra_02-2017.aspx)

and their customers, while also achieving positive outcomes for the community near to the airport.

At the very least, the existing list of prescribed aircraft should be continually updated to reflect the latest aircraft types used by freight operators, and in particular, quieter and larger freight carriers. This list should be finalised in consultation with freight and other operators.

#### *Air Service Agreements*

Unlike other trade agreements where free trade exists unless governments impose restrictions (such as protection tariffs or trade quotas), international air routes are restricted by default until two governments make arrangements to allow access.

Air Services Agreements (ASAs) are bilateral treaties between two countries (or markets, in cases such as Hong Kong, Dubai and Abu Dhabi, for example) to allow air traffic including seat capacity, measured in seats or frequencies of aircraft per week, codeshare rights, on-rights, (e.g. the right to carry passengers beyond the second country party to the treaty), and air cargo access between and beyond the two jurisdictions party to the agreement. At present, Australia has ASAs with approximately 100 markets around the world.

The continued negotiation of new and expanded ASAs is vitally important in allowing for the ongoing growth of air freight, and remains an important priority for Sydney Airport. Despite the constraints of the global bilateral framework, and the potential resistance of some foreign governments to enter into or expand their agreements with Australia, the Department of Infrastructure and Regional Development (DIRD) are to be commended for their stated policy of liberalising ASAs, and their recent negotiation of expanded capacity in various markets or new agreements where no existing arrangement is in place.

#### **Conclusion and next steps**

Thank you once again for the opportunity to comment on National Freight and Supply Chain Priorities discussion paper. Air freight remains an important part of the Australian freight network, with strong opportunities for growth in the future. However, to ensure that these opportunities are realised, it is important that the planning and regulatory frameworks are reformed, and the enhancement of ground transport infrastructure around the Sydney Airport and Port Botany precinct remains a priority.

We would welcome the opportunity to discuss the issues contained in this submission. For further information, please contact Robin Schuck, Manager Government Relations and Major Projects at Sydney Airport on (02) 9667 9288 or [robin.schuck@syd.com.au](mailto:robin.schuck@syd.com.au).

Yours sincerely



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