

**INQUIRY INTO NATIONAL FREIGHT AND
SUPPLY CHAIN PRIORITIES**



australia

SUBMISSION BY VIRGIN AUSTRALIA

AUGUST 2017

The Virgin Australia Group of Airlines (Virgin Australia) welcomes the opportunity to provide a submission to the Inquiry into National Freight and Supply Chain Priorities (the Inquiry).

We note that the Inquiry is being undertaken in order to provide advice and evidence for the development of a *National Freight and Supply Chain Strategy* (the Strategy), following a recommendation in Infrastructure Australia's 2016 *Infrastructure Plan*. While we appreciate that the Inquiry will examine Australia's entire freight and supply chain infrastructure, our submission is largely focussed on opportunities to boost the efficiency and productivity of the air freight system, particularly in relation to key issues concerning regulatory arrangements, competition, infrastructure adequacy and data availability. Addressing these issues within the forthcoming Strategy has the potential to facilitate increased levels of trade and economic growth, given the critical role of air freight in Australia's overall freight system.

Background on Virgin Australia's cargo operation

As part of creating an integrated airline group with the ability to compete across key market segments, Virgin Australia launched a separate cargo division in October 2015 (VA Cargo). This significantly changed the competitive landscape of Australia's domestic air freight sector, which was previously only served with air transport capacity supplied by Qantas and Toll. Offering our own freight services has enabled us to access new revenue opportunities and is therefore important in supporting Virgin Australia to reach a position of sustainable profitability in the future.

VA Cargo provides services for major cargo distributors, corporate shippers and individuals, including the transportation of animals. We have access to specialist cargo handling terminals at all major airports across Australia, catering to a range of different customer requirements in the line-haul, airport-to-airport cargo market. Cargo carried includes time-critical/sensitive items (eg medical tissues, organs, perishables, seafood, critical spare parts for manufacturing industries and business documents), live animals and high value items (eg electronics and valuables).

Our freight services leverage the capabilities of around 3,700 passenger transport flights operated each week by Virgin Australia to 43 domestic and 15 international destinations, by utilising aircraft cargo hold space on these services. This is supplemented by our overnight dedicated freighter network, operated with a small fleet of wetleased B737-300F and BAe146-200QT aircraft. These aircraft allow us to uplift both containerised and loose cargo. Using Melbourne Airport as a hub, our dedicated freighter operations serve Sydney, Brisbane, Townsville, Cairns, Launceston, Adelaide and Perth (network map and timetable included as Attachment 1). This includes the operation of flights with BAe146-200QT aircraft during the curfew period at Sydney Airport.

From a commercial perspective, the success of VA Cargo depends on our ability to compete effectively with Qantas and Toll in order to secure either exclusive arrangements with, or a significant share of the business of, the large freight forwarders in Australia's domestic freight market. This market is highly concentrated, with the top four freight forwarders (Toll, Australia Post/StarTrack, TNT and DHL) accounting for almost 90% of all expenditure.

In March 2016, VA Cargo secured an exclusive five-year contract with TNT. This significant milestone has cemented VA Cargo's credibility in the domestic air freight market and provided us with the scale required to establish our dedicated overnight freighter operation. It has also given VA Cargo the ability to offer excess capacity on these services to other customers at a marginal cost.

Virgin Australia's priority outcomes

Our priority outcomes for the Inquiry, each of which is canvassed in further detail below, are listed below in order of importance to our business. Our desired time horizons for achieving these outcomes are noted in brackets.

VA Cargo would like to see the Government:

- a. ensure that no additional operational restrictions are introduced at curfew-restricted airports, and that all other Australian airports remain unencumbered by a curfew, including the new Western Sydney Airport (ongoing).
- b. amend the legislative framework governing curfew operations at Sydney Airport to allow us to secure an additional 10 aircraft movements each week for our dedicated freighter services (immediate).
- c. amend the relevant legislative framework and/or introduce a policy regarding the allocation and utilisation of slots for dedicated freighter services at curfew-restricted airports (immediate).
- d. amend the legislative framework governing curfew operations at Sydney Airport to permit operations during the curfew period with any type of low-noise dedicated freighter aircraft which complies with the maximum noise levels specified in Volume 1 of Annex 16 to the Chicago Convention (immediate).
- e. establish a common set of streamlined regulatory arrangements for all curfew-restricted airports, based on the maximum noise levels for low-noise dedicated freighter aircraft as specified in Volume 1 of Annex 16 to the Chicago Convention (medium term).
- f. amend the *Sydney Airport Curfew Act 1995* in order to ensure that low-noise dedicated freighter operations during Sydney Airport's curfew period may continue to be permitted notwithstanding that night time aircraft movements may be conducted at Western Sydney Airport (before Western Sydney Airport becomes operational).
- g. encourage Australia's major airports, through the airport master planning process, to ensure that their freight aprons are sufficiently large to cater for current and future air freight demand, provided that relevant infrastructure investment does not place a prohibitive cost burden on airlines (medium term).
- h. encourage Melbourne Airport to introduce a Runway Demand Management Scheme (short term).
- i. direct the Bureau of Infrastructure, Transport and Regional Economics (BITRE) to produce and publish additional information on the performance of the domestic air freight sector (short term).
- j. develop a national freight performance framework (short term).
- k. encourage compliance with the *National Airports Safeguarding Framework* (ongoing).

2 Freight in Australia – are we competitive?

2.1 What is moving where, why and how?

Infrastructure

The primary infrastructure supporting the operation of VA Cargo's services is the major capital city airports. It is therefore critical that air freight infrastructure at these airports is adequate to meet current and future demand by all industry participants. Cargo sheds, parking bays, staging areas, runway slots and airport access are all key factors in this regard. The timely expansion of air freight infrastructure will ensure that air cargo processing is not unnecessarily constrained, enabling air operators to meet the expectations of their customers in a cost-efficient manner.

Of particular concern at present is the limited availability of freighter aircraft parking bays and lack of proximity to cargo terminal operators, with such challenges more pronounced at Sydney, Melbourne and Brisbane airports. Our freighter aircraft are often required to park in passenger aircraft bays due to lack of available dedicated freighter bays. This reduces ground cargo handling and processing efficiency, as passenger aircraft bays are located some distance away from the facilities of cargo terminal operators.

Melbourne Airport, as with all major airports, has a dedicated freighter apron. This apron can accommodate only five Code C aircraft (eg B737) or three Code E aircraft (eg B777) at any one time. Between Monday and Thursday, the capacity of the apron is inadequate to meet the combined overnight domestic air freight requirements of VA Cargo, Qantas and Toll. This challenge is so significant that the Melbourne Airport Coordination Centre plans for the operation of certain domestic freighter services to/from regular public transport (RPT) bays (on G and F fingerways). While this measure ensures that demand from freight operators can be met, it can also impose additional ground handling costs on air freight operators, given the need for labour and equipment at multiple locations. As a consequence, towing may be required for RPT aircraft that are unable to access a contact bay when parking overnight at the airport, which involves additional labour costs for RPT airlines.

We note that the current Melbourne Airport Master Plan states that a new freight apron will be developed and will provide up to 15 Code F aircraft (eg A380) parking positions. Timeframes for the new apron are unclear however, with the development proposed to occur within the 20-year Master Plan period.¹

The challenges outlined above for Melbourne Airport exist at all major airports. As a general comment, VA Cargo would like to see each of Australia's major airports ensure that its freight aprons are sufficiently large to cater for current and future air freight demand. We would also expect that airports consult with freight operators in relation to the development and pricing of such infrastructure, to ensure such investment does not place a prohibitive cost burden on airlines.

Airport runway congestion is also a common occurrence at the major airports. Brisbane Airport has implemented a Runway Demand Management Scheme to optimise the utilisation of its runway system. A similar system should be implemented at Melbourne Airport, as the key transshipment hub for the domestic air freight sector.

We wish to see our desired outcomes in relation to infrastructure at the major airports above addressed over the medium term, ideally within the next five years.

¹ Melbourne Airport Master Plan 2013, page 80.

The new Western Sydney Airport, as a greenfield project, presents an opportunity to design and establish a dedicated freight precinct capable of supporting demand from air freight operators over the medium to long term. This will ensure that the productivity and efficiency of freight processing at the new airport will be optimised, benefiting all participants in the freight industry as well as final consumers. In terms of key infrastructure requirements for freight at Western Sydney Airport, VA Cargo would like to see the airport remain curfew free, linked to a road network which provides efficient access to Sydney Airport and include:

- cargo sheds located in close proximity to both freighter and RPT aircraft parking and which allow for the throughput of freight to the airside precinct;
- sufficient parking bays for dedicated freighter operations; and
- an adequate area for storage of equipment (eg freighter containers, barrows, dollies, aircraft loaders, belts, ground power units, aircraft stairs, push back tugs and tow bars).

Data availability

In relation to air freight data, VA Cargo is the view that both government and industry would benefit from the production and publication of additional information on the performance of the domestic air freight sector. Relative to information published by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) for passenger services, there is very little data available for the domestic air freight sector.

We note that aggregate data on domestic cargo movements at the top five cargo airports is provided in the BITRE's monthly and annual domestic aviation activity publications. VA Cargo would like to see such reporting expanded to include each of the following:

- total domestic market uplift;
- uplift by air freight operators in each state/territory; and
- uplift by air freight operators for each route.

At a practical level, this additional reporting would require each air freight operator to submit monthly uplift data, similar to the process followed by airlines for passengers travelling on RPT services. BITRE already receives a large proportion of freight uplift information from airlines, which could form the basis of the development and publication of additional reporting. We would also be interested to understand what data is currently submitted to BITRE on freight uplift by the major freight forwarders.

For industry, this additional data would enable air freight operators to analyse and assess market opportunities and assist airports with forecasting demand for infrastructure utilisation. For Government, such data has the potential to reveal emerging trends in the air freight sector and assist to ensure policy and regulation is aligned with market developments. Overall, the additional data will provide the scope to facilitate growth within, and improve the competitiveness of, the domestic air freight market as a whole.

We wish to see our desired outcomes in relation to additional data for the domestic cargo market addressed over the short term, ideally within the next 12 months.

2.2 Competitiveness in the Australian freight sector

In our view, one of the key factors inhibiting the international competitiveness of Australia's freight system is the inadequacy of airport infrastructure, as detailed above. As air freight often involves the transport of time-critical items, operational efficiency is vital. Regulatory

restrictions on the ability to operate low-noise dedicated freighter aircraft during curfew periods are also relevant, as outlined further below.

Key indicators for assessing competitiveness include Australia's freight volumes and growth trends, the number of freight forwarding businesses operating in Australia and the financial performance of Australia's air freight operators. A competitive system will facilitate growth in freight movements, encourage new market entrants in the freight forwarding sector and support the commercial sustainability of air freight operators. For VA Cargo, as a recent entrant to the air freight market, improving the competitiveness of Australia's freight sector will be important in facilitating our growth and supporting the sustainability of our operations.

The prices applicable to airlines for the use of freight infrastructure at airports are also relevant to the competitiveness and efficiency of the overall freight system. As an example, Canberra Airport's charges are so prohibitive that we have determined it is not commercially viable for us to include it in our freight network. In developing the Strategy, it may be beneficial to critically examine the impact of airport charges on the productivity of air freight services.

Airport curfews and air freight operations

Curfew restrictions in effect at Adelaide, Gold Coast and Sydney airports reduce the efficiency of overnight freighter operations. VA Cargo does, however, appreciate the need to strike a balance between community expectations regarding aircraft noise during night time hours and air freight operations at these airports.

As a general comment, it is our strong preference that no additional operational restrictions are introduced at curfew-restricted airports, and that all other Australian airports remain unencumbered by a curfew, including the new Western Sydney Airport. This is of critical importance to the productivity of Australia's freight system and is necessary to facilitate the anticipated growth in demand for the transport of goods over the next 20 years and beyond. It will also ensure that the value of investment in airport freight infrastructure is maximised, delivering efficiency benefits for the industry and supporting broader economic growth.

Limits on the number of dedicated freighter aircraft movements permitted during curfew periods are imposed by the relevant legislative frameworks in effect at Adelaide, Gold Coast and Sydney airports. There is limited visibility of the utilisation of such aircraft movements by air freight operators and the relevant legislative frameworks in effect at curfew-restricted airports do not encompass a mechanism to allocate, assess and report on the utilisation of slots during the curfew. VA Cargo has a strong desire for the Government to amend the relevant legislative framework and/or introduce a policy regarding the allocation and utilisation of slots. Ideally, this would include:

- principles governing the allocation of slots;
- a requirement for air cargo operators to regularly report on utilisation of slot allocations;
- a requirement for the Government to report on utilisation of slot allocations; and
- a mechanism which enables the Government to reallocate unutilised slots.

For VA Cargo, this is particularly critical for Sydney Airport given its importance in our dedicated freighter network. Maximising the utilisation of slots will deliver benefits for the industry, boosting productivity and optimising air freight supply chains.

We wish to see our desired outcomes in relation to utilisation of slots during the curfew period addressed as soon as practicable.

Overnight dedicated freighter operations at Sydney Airport

The regulatory arrangements for overnight dedicated freighter operations at Sydney Airport are significantly more restrictive and complex compared to those in effect at Adelaide and Gold Coast airports. As a general comment, we would like to see a common set of regulatory arrangements based on the maximum noise levels for low-noise dedicated freighter aircraft, as specified in Volume 1 of Annex 16 to the Chicago Convention, applied across all curfew-restricted airports in the future, streamlining the requirements for air freight operators.

The *Sydney Airport Curfew Act 1995* permits up to 74 take-offs and landings per week for freight services with BAe-146 aircraft, subject to certain operational restrictions. As per the *Sydney Airport Curfew Regulations 1995*, since October 2016 VA Cargo is entitled to operate up to 18 of the 74 slots available each week. We now require access to an additional allocation of 10 slots to meet the time-sensitive cargo delivery requirements of our key client TNT. Accordingly, we would like to see the legislative framework amended as soon as possible to permit at least 10 additional dedicated freighter aircraft movements per week.

Another option which may assist to increase our freight uplift capability during the curfew period at Sydney Airport, and therefore potentially reduce our need to access additional slots, is to amend the legislative framework to remove the specific requirement for operations to be conducted with BAe-146 aircraft. At present, VA Cargo is not able to meet demand for uplift of cargo during the curfew period, as we are limited to carrying a maximum of 9,500 kilograms of freight on our BAe-146 services on each of the key sectors of Melbourne-Sydney, Sydney-Brisbane and Sydney-Melbourne. Permitting operations during the curfew period with any type of low-noise dedicated freighter aircraft which complies with the maximum noise levels specified in Volume 1 of Annex 16 to the Chicago Convention would enable us to serve Sydney Airport with a higher capacity and quieter aircraft type.

As well as providing air freight operators with increased flexibility, this proposal has the potential to reduce the night time noise exposure for communities surrounding Sydney Airport, as there are other types of dedicated freighter aircraft in operation with lower noise profiles than the BAe-146 aircraft. It would also be consistent with the legislative frameworks in place for Adelaide and Gold Coast airports, which do not specify the type of dedicated freighter aircraft that may be used during curfew periods.

Section 17 of the *Sydney Airport Curfew Act 1995* provides, *inter alia*, that the ability to conduct dedicated freighter operations at Sydney Airport during the curfew period will no longer apply on or after the date on which Western Sydney Airport is able to be used for night time aircraft movements.

While Virgin Australia expects to serve Western Sydney Airport, it is expected that Sydney Airport will always remain a key airport for us from both a passenger and cargo perspective. As noted above, the VA Cargo operation relies on both the cargo hold space on Virgin Australia's passenger services as well as a network of dedicated freighter services. Eliminating the ability to link the freight capabilities of our extensive network of passenger services to/from Sydney Airport and our dedicated freighter operations is expected to have a significant detrimental impact on the efficiency and productivity on our cargo business, as well as the entire overnight freighter network. Air freight is a critical element of the integrated supply chains of many businesses and any loss of efficiency in the transport of goods across the country is likely to impede overall economic growth and productivity.

From a community perspective, it would also seem inequitable that only the residents of Western Sydney should be exposed to low-noise freighter aircraft during night time hours once Western Sydney Airport becomes operational.

VA Cargo would like to see the *Sydney Airport Curfew Act 1995* amended in order to ensure that low-noise dedicated freighter operations during Sydney Airport's curfew period will continue to be permitted notwithstanding that night time aircraft movements may be able to be conducted at Western Sydney Airport.

3 National critical issues and emerging trends

3.1 Urban growth pressures

Urbanisation around airports has led to the imposition of night time curfews and aircraft operating restrictions, impacting both passenger and freight transport operators. These curfews, while appropriate from the perspective of ensuring communities receive respite from aircraft noise, severely limit air cargo transport capabilities.

In relation to airports without a curfew, we have seen that increased urbanisation continues to lead to calls by some sections of the community for a curfew to be introduced. For example, such pressures led to the former Labor Government conducting a review of the need to introduce a curfew at Brisbane Airport in 2013, which was subsequently ruled out by the current Government in 2014.

Further to our comments above, improving the productivity and efficiency of air freight operations will require that no additional operational restrictions are introduced at curfew-restricted airports, and that all other Australian airports remain unencumbered by a curfew, including the new Western Sydney Airport. This is particularly important in light of the ongoing rise in demand for package delivery driven by increasing levels of online shopping, which is expected to continue in the long term.

In the context of Australia's urban networks, it is important that road links to airports are capable of facilitating the efficient collection and despatch of items by freight forwarders to air cargo operators, and ultimately the on-time delivery to consignees.

3.2 Port corridor pressures – protecting land, sea and air connections

Further to our comments above, the continuing urbanisation and higher residential density around airports as a result of population growth is likely to lead to increased pressure for additional aircraft noise management measures to be introduced. It is therefore of vital importance that land use planning around airports conforms to the principles contained in the *National Airports Safeguarding Framework*, to ensure that the productivity of the air cargo sector is not constrained by the introduction of new curfews or aircraft operational restrictions.

The adequacy of airport infrastructure, as outlined in detail above, is also relevant in ensuring air cargo operators do not face operational bottlenecks.

3.3 End-to-end supply chain integration and regulation

VA Cargo's ability to support the supply chain requirements of our clients is heavily dependent on the capabilities of cargo terminal operators, which vary across the airport network. The transport of non-containerised cargo requires individual receipt, transfer and loading onto and unloading from the aircraft by cargo terminal operators, which is a very labour-intensive and manual process. If cargo is containerised, the loading and unloading process is safer and quicker, reducing workplace health and safety risks as well as labour costs. Further to our comments above, amendments to the relevant legislative framework to enable air freight operators to deploy any type of low-noise dedicated freighter aircraft during the curfew period at Sydney Airport would potentially allow operators to increase their

containerised cargo uplift (eg, while the BAe-146 aircraft can accommodate a maximum of seven containers, the B737-700F can accommodate a maximum of ten), boosting efficiency and productivity.

Air cargo operators must comply with a wide range of regulations, including those covering safety, security and operations during the airport curfew periods. As outlined in detail above, we have a strong interest in seeing the regulations governing operations during curfew periods amended, particularly those applicable to Sydney Airport. Such amendments have the potential to significantly boost competition in the industry and lift the productivity of the entire freight system.

3.4 The air freight market

Capital city airports have freight precincts within their land footprints to facilitate the transfer of freight between air and road. Airports are integrated into surrounding freight networks through road infrastructure. As noted above, the efficiency of road links to airports impacts the efficiency of air cargo operations.

Memphis and Louisville airports in the United States, although much larger in scale than any of Australia's capital city airports, are key examples where large investments have been made in airport infrastructure to support the growth of air freight operations.

At present, less than 30% of the cargo hold space available on Virgin Australia's RPT services is utilised for air freight. To a large extent, this low utilisation derives from the fact that air cargo transport activities typically peak overnight while RPT operations are low.

Mode mix and modal shift opportunities, where freight forwarders offer a combination of air/sea, air/road or air/rail options, provide opportunities to increase freight capacity utilisation. VA Cargo has a 'road-to-air' arrangement with TNT, under which excess road cargo volumes may be transported on Virgin Australia's RPT flights at competitive rates.

3.5 Changing technology

Advances in mobile, wireless, GPS and scanning technologies will present new opportunities to streamline processes in the freight sector. VA Cargo continually assesses emerging technologies and their associated benefits, in seeking new ways to lift the productivity of our operations and provide our clients with innovative solutions to support their businesses. Key considerations in conducting such assessments include the maturity of the particular technology and the associated returns on investment that it would deliver for our business.

As an example, VA Cargo is the first air freight operator in Australia with a cloud-based cargo booking system (iCargo system), offering the benefits of reduced processing time and increased accessibility to information. Compatible with mobile devices, the iCargo system enables drivers to make bookings while on the road. This minimises the need for trips to and from the VA Cargo depot, with consequential reductions in time, fuel and other resources. The iCargo system is fully automated and links directly to cargo terminal operators, facilitating the urgent delivery of high value and time-critical cargo, including live organs for transplant surgeries and components required for urgent medical equipment repairs.

The use of unmanned aerial vehicles, or drones, is expected to dramatically transform the freight sector in coming years. It will be important that an appropriate regulatory framework is in place to ensure that the increased operation of drones does not interfere with the safety or efficiency of aircraft operations.

4 Next steps

4.1 Capacity forecasting

VA Cargo would be willing to consider any requests to provide data to assist with the Inquiry's assessment of capacity at key airports, to ensure that appropriate measures are taken to accommodate air freight demand over the next 20 years.

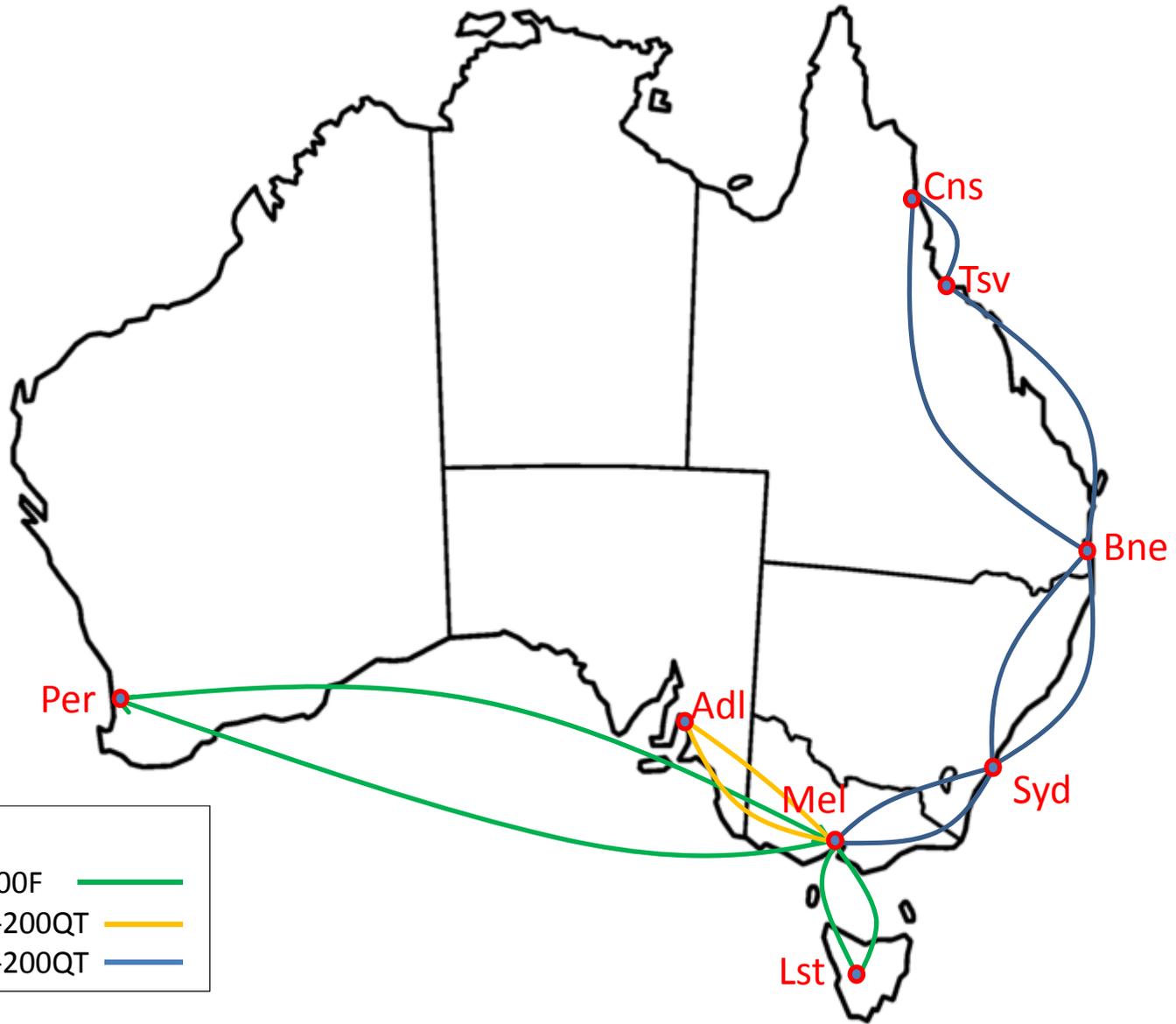
4.2 Key drivers of change for use in scenario planning

VA Cargo would welcome the consideration of our suggested improvements to airport freight infrastructure and desired changes to regulations governing air freight operations during curfew periods, most notably at Sydney Airport, to be taken into account in scenario planning.

4.3 A national freight performance framework

VA Cargo strongly supports the proposal to develop a national freight performance framework. Ideally, such a framework would include key performance indicators for air freight and a consultation regime which allows stakeholders to provide their views on, and suggest improvements to, the framework. We believe our proposal above in relation to the production and publication by BITRE of additional information on the performance of Australia's domestic air freight operations is relevant in this regard. VA Cargo would welcome the opportunity to engage with Government as part of the process of developing this framework.

Current VAC Night Freight Network



Legend:

- Airwork B737-300F — Green line
- Pionair BAe146-200QT — Yellow line
- Pionair BAe146-200QT — Blue line