

Airport Infrastructure Development : Future Outlook in a Changing Market

Russell Balding AO, Chief Executive Officer, Sydney Airport Corporation

Address to CEDA, Sydney, 10/04/07

Well, thanks very much again for that introduction and good afternoon, everyone, and welcome to what is obviously a very very important forum in respect for infrastructure and so, following on from [Bjorn's] opening comments, I doubt at a gathering such as this there's anyone in this room here today who would seriously question the benefits of infrastructure and, in particular, infrastructure in respect of transport development. So I'm delighted to be able to be part of today's presentation and discussion in respect of the importance of airport infrastructure and particularly the development of airport infrastructure at Sydney Airport. In other words, what are we doing at Sydney Airport to accommodate the future outlook for the aviation industry and, therefore, having regard to the infrastructure requirements.

So in this regard and given the time constraints, I'd like to briefly address two particular issues. The first one is in respect of aviation growth and also then look at how Sydney Airport is building a better airport to accommodate that growth, but before I address those issues, I think it's important to provide us with a bit of context or place some context around Sydney Airport. As Australia's premier airport, Sydney Airport is the national gateway and is of growing economic importance to the city of Sydney. It is a major driver of the New South Wales economy. It contributes 6 per cent to the growth State product, with some 62,000 full and part-time jobs in and around the airport, with a further 108,000 indirect full and part-time jobs. The airport contributes 6.6 billion to the State product and a further 13.6 billion as an indirect contribution.

So in respect of actual passenger numbers, to the 12 months ending of June this year Sydney Airport handled some 30 million passengers, which is more than double to what it was handling 20 years ago. Our current forecast by the 2023/24, the number of passengers will again more than double to 68 million and, of the 30 million passengers last financial year, around 10 million were international passengers, or just under half of Australia's international passengers serviced by some 38 international airlines. We had 20 million domestic passengers, which accounts for about a third of Australia's domestic passengers. So the economic importance of the airport continues to grow and in the last financial year the number of passengers increased by about 6.4 per cent.

Growth has been strong across both international and domestic passengers and particularly in respect of our T2, the domestic terminal. That's the common user terminal used by Jetstar and Virgin and the regional airlines. That terminal is now the busiest terminal of the three terminals at Sydney Airport. Those of you who are familiar with the history of that terminal and would have seen it in the last days

of Ansett and after the Ansett collapse would know the huge turnaround that's been in respect of that terminal since that Ansett collapse. Obviously this passenger growth has major economic benefits to Sydney, but that's provided that we in Sydney, as business leaders, adopt a proactive approach to ensure that we actually take advantage of that growth and we have a clear strategy not only to manage it, but to retain it and I'll talk about that a bit later on.

So in looking at the aviation industry itself, the growth that I've just outlined for Sydney is only part of a global trend. In 1985 airlines carried 896 million passengers. By 2005 this had more than doubled to 2 billion and the forecast from the United Nations International Civil Aviation Organisation is that by 2025 there will be 4.5 billion passengers annually. This growth has been driven by current economic development and growth around the world, as well as the ease of access to aviation as a form of transport and it should, therefore, be no surprise that there are now millions of first generation flyers, particularly in the markets of China and India.

It is equally obvious that this has the potential to be of enormous benefit to the Australian tourism industry and, as the gateway to Australia, it should also be of significant benefits to the city of Sydney. Currently Europe and Australia are the destinations of choice of the Chinese tourists. So it should be an economic priority of Australia to ensure that we not only cultivate that opportunity, we continue to grow it, that we position ourselves to take full advantage of that destination of choice and, as China urbanises, as its economy grows and as its middle class develops, the number of people who will fly internationally will increase. The number of tourists leaving China has risen by one million every year since 1998. These are very telling numbers. Chinese outbound tourism is the fastest growing tourism market in the world. In 2005 3.5 million Chinese tourists travelled beyond Asian. Forecasts by the World Tourism Organisation suggest that by 2020 there will be 100 million Chinese travelling overseas each year. I find that very hard to comprehend, but that is the way it is projected and there's already that that will be easily achieved and, indeed, China is Australia's fastest growing tourism market and it's forecast to grow by about 16 and a half per cent over the next decade, with the economic value from Chinese visitors to Australia is forecast to reach \$4.8 billion by 2016. So last financial year the numbers of visitors from China to Sydney Airport increased by 22 per cent over the previous year to almost 400,000 people.

The figures for India are also impressive. Last financial year Sydney Airport recorded an 11 per cent increase in the number of visitors from India and by 2020 it is estimated that there will be 6.7 million Indian outbound tourists world wide and in 2005 68,000 Indian visitors came to Australia. It is forecast by 2015 this will have increased to 327,000. So the potential is clearly there and it is essential that Australia and, in particular, Sydney continues to market investing China and India and to secure the long term benefits of incoming tourism that arises because of the economic developments taking place in those countries, but it's also equally important that we continue to concentrate on our traditional tourism markets, that is, the UK, New Zealand, Japan and the US, which leads me to the issue of the significant extent of aircraft and airport infrastructure that will be required for these millions of additional passengers.

The forecast from Boeing is that over the next 20 years airlines will need 27,200 new aircraft, with a total market value of 2.6 US trillion dollars. This equates to a net increase in the world wide fleet of 17,600 aircraft, after allowing for retired aircraft. The largest forecast market is the Asia-Pacific area, out part of the region, but in forecast it is that Asia-Pacific will take about 36 per cent of that 2.6 trillion US dollar spend. Airbus, the other major aircraft builder has a similar forecast, which predicts that the Asia-Pacific region, the fleet alone for Asia-Pacific, will increase from 2781 aircraft in 2005 to 7 and a half thousand aircraft by 2025. That is nearly a threefold increase. Airbus' market analysts emphasise that Asia will move from being the world's producer to the world's consumer and, as economic growth continues, there will be millions more middle class consumers in Asia and, like middle consumers in Australia, Europe and America, they will want to fly.

Our international carrier, Qantas, is part of this growth story, with a multi billion dollar fleet development strategy in place. The Boeing 787 Dreamliner has been selected as the cornerstone of the fleet renewal program, where we read the Qantas group is to acquire up to 115 of the aircraft and they have also ordered some 20 of the Airbus A380 super jumbos, with options for four more and, of course, these aircraft obviously need somewhere to take off and land and that is the implications of the infrastructure development that face airports all around the world today. By 2025 airports in the Asia-Pacific region alone will be handling three times the number of aircraft movements that they handled last year.

Growth and expansion of this scale obviously has major implications for this region. New facilities and infrastructure will be needed right across the travel and tourism sectors. The investment required to deliver this infrastructure will be counted in multi billions. Tourism flow-ons will be massive. The skilled workforces to operate and manage all these services will need to be recruited and trained, not to mention the additional pilots, engineers and flight crews to operate the additional aircraft.

So to give you some idea of the scale of what is under way, China intends to build 48 new airports over the next five years. It's building on an unprecedented scale. The Airports Council International estimates that in the five years between 2005 and 2010 airports will be investing 250 billion US dollars in new facilities, with the largest investment in the Asia-Pacific region and in Sydney we have a number of initiatives already underway to position ourselves to not only take advantage of these opportunities in terms of economic growth and obviously the contribution to our way of life, but also to ensure that Sydney Airport remains a world class airport. In fact we are building a better airport. We've planned some one and a half billion dollars of growth capital expenditure over the next 10 years. Now this is in addition to \$850 million of capital expenditure that has been made at the airport since it was privatised back in July 2002. I think it's worth making the point that this post privatisation investment program has required no call or risk at all to the Australian taxpayer dollar. Investment in privatised airports does not call or compete against infrastructure spending on schools, hospitals, roads. So no taxpayers' dollars have been involved.

Some of the key projects include, obviously in the first one, is making Sydney Airport ready to accommodate the new generation aircraft. You're most probably aware that the world's first passenger flight of the new A380 will be made between Singapore and Sydney on 25 October, this month. This will be a major milestone in global aviation, where some 470 passengers will arrive at Sydney Airport on the flight and that's about 100 extra passengers on a typical 747. Therefore, the significance of the A380 is that obviously it can carry many more passengers than current aircraft today, meaning fewer flights to bring the same number of passengers in.

In addition, the new generation aircraft, both the A380 and the 787 Dreamliner, are achieving significantly reduced noise and emission levels. New generation engines, combined with advances in design, means that the A380 and the Dreamliner are taking huge steps forward in environmental terms. Importantly carriers, such as Qantas, Emirates and Singapore Airlines, which have major presence at Sydney Airport, are among the airlines that will be introducing both the A380 and the Dreamliner into their fleets over the next couple of years and, indeed, British Airways just recently announced that they also will be purchasing the A380.

So in order to be ready for the next generation of aircraft, Sydney Airport has invested more than \$100 million. The main runway and taxiways have been strengthened and widened. New aero bridges have been built to accommodate these new generation air. Other major infrastructure projects include the fact that we're about to embark upon a major expansion and refurbishment of our T1 international terminal, where we will be spending around about \$500 million on the expansion and the upgrade. Now this will be the first significant expansion and upgrade of that terminal since Sydney hosted the

2000 Olympics. Components of that major upgrade include that the international terminal will be expanded by more than 7000 square metres, providing centralised security, screening and passenger processing for Australian government agencies, along with world class passenger facilities on the departure level. There will be a new outward bound baggage system. There will be an expansion of our arrivals baggage system, again in order to meet the extra peak passengers that will arrive when A380s start landing in Sydney Airport.

We've recently commence the construction of a \$65 million eight-story multi-story carpark at the international terminal. The carpark will provide around 3000 undercover parking spaces when it is complete late next year. The international terminal is currently served by about 1800 car parking spaces, none of which are under cover. So when the new carpark is completed there will be about 4000 car parking spaces available, again to help meet this huge demand that is coming down the road in respect of the use of the demand for infrastructure facilities at Sydney Airport.

We've recently completed a \$20 million redevelopment of to T2 terminal, with a new food court and expanded retail component. The feedback from the passengers has been very very positive to date and as part of our continued security enhancement measure there is now 100 per cent check bag screening operating at the T2 domestic terminal. The new screening system required a \$37 million, which allows for x-ray screening of checked-in baggage and transfer passenger baggage in order to identify and prevent explosive being put into the hulls of aircraft. The move to 100 per cent check bag screening has been a very very complex operation. It involved more than the construction of 1.2 kilometres of conveyor belts and the installation of in-line x-ray machines, with a capacity to screen 3600 bags an hour. 100-check bag screening at T1 was introduced a few years earlier, so the total cost to introduce 100 per cent check bag screening, both on the international terminal and the T2 terminal, was around about \$90 million. These are just some of the infrastructure projects we are undertaking to make Sydney Airport a better airport.

So let me finish up by concluding a couple of points. First of all, airports are a crucial part of Australia's transport infrastructure. They bring huge economic benefits to the country and connect us with all the economic opportunities provided by the global aviation network. The capital investment needed to secure these economic advantages is massive, but the fact that airports are operated by the private sector again, as I said, means that this investment is made without calling on a contribution from taxpayer funded dollars.

Sydney Airport is looked upon in economic terms as being the most important singular piece of infrastructure in Australia and we have an extensive investment program in place and under way to secure the opportunities that I've outlined, brought by the growth, the expected growth, in aviation travel. At Sydney Airport we're widely recognised as one of the top airports in the world and we're working and investing to ensure that we remain such. However, although we operate under a light-handed, regulatory environment, we must be allowed to operate in a manner that enables the appropriate level of capital investment to meet the growth requirements and also to meet the expanded aviation requirements of the Australian aviation industry.

In this regard we all need to work together, as you and the same, governments; the community, airlines, all stakeholders, to ensure that we achieve mutually beneficial outcomes. Thank you.

End of transcript

Copyright: This transcription is copyright CEDA 2007

Disclaimer: This is a transcript of the speakers and discussion sessions at a CEDA event. Opinions and statements included in the transcript are solely those of the individual persons or participants at the event, and are not necessarily adopted or endorsed or verified as accurate by CEDA. The transcript may have been edited. CEDA does not warrant that this transcript is free of errors and omissions.

Terms of use: Any use of substantial excerpts from this transcript must acknowledge the speaker and CEDA as the source of the material.