Mr Peter Achterstraat AM
Productivity Commissioner
NSW Productivity Commission

18 September 2020

Email:
ProductivityFeedback@treasury.nsw.gov.au

Dear Mr Achterstraat

Re: Productivity Commission Green Paper: *Continuing the productivity conversation*

Thank you for the opportunity to make a submission on the Productivity Commission's Green Paper: *Continuing the productivity conversation* (the Green Paper).

We commend the Productivity Commission for releasing the Green Paper and for actively engaging with the community and other stakeholders about the need to enhance productivity in NSW.

Sydney Airport's submission is shown at **Attachment A**.

Our comments respond to the recommendations made in section 7.5 of the Green Paper (Unlock the potential of our employment and industrial zones).

If you would like any further information or would like to discuss this submission, please feel free to contact me on [redacted]

Yours sincerely

[redacted]

[redacted]

Attachment A

Sydney Airport submission
Productivity Commission Green Paper: *Continuing the productivity conversation*

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1. Background

Sydney's Eastern Economic Corridor stretches from Macquarie Park in the north, through the Sydney CBD and on to Sydney's two nationally significant trade gateways – Sydney Airport and Port Botany – in the south. Described by the Greater Sydney Commission in the *Greater Sydney Region Plan* as NSW's greatest economic asset, the corridor contributed two-thirds of NSW's economic growth in the 2015-16 financial year.

In this context, international trade and air routes are vital to Australia's economic prosperity. Airports are therefore an essential part of the transport networks that all successful modern economies rely on and their ability to function efficiently and grow should therefore be supported through the planning system.

In addition to providing NSW residents with the opportunity to travel, Sydney Airport also:

- Delivers convenience for business visitors to Sydney, with the CBD just eight kilometres away
- Delivers convenience for tourists to Sydney, with major destinations within 10 kilometres of the airport
- Serves as a hub for travel between regional NSW, other cities and the world
- Provides an interchange between air, sea and land freight, enabling high value or time critical exports and imports
- Serves as an air freight hub for NSW

A 2018 study by Deloitte Access Economics measured Sydney Airport's economic and social benefits. It found that the airport generates or provides:

- **Jobs**. Direct and indirect employment of 338,500 jobs (equivalent to 10.1% of NSW employment), including around 33,000 direct jobs on the airport site
- **Economic activity**. Direct and indirect economic contribution of $38.0 billion (equivalent to 6.8% of the NSW economy and 2.2% of the Australian economy)
- **Household income**. Direct and indirect contribution of $19.9 billion.

The study also indicated that the airport's economic contribution will increase as the airport develops. It is forecast that the economic activity generated or facilitated by the airport will increase to over $52 billion and total employment to more than 414,000 jobs by 2039.

The study found that just one typical new daily international service to Sydney contributes an estimated $122 million a year to the economy and generates an estimated 1,300 direct and indirect jobs. A new daily service from China would generate around four times that benefit.

Air freight is also a vital economic activity that contributes significantly to global business and to the NSW and Australian economies. It is a critical component of the airline industry, part of a value chain that includes airports, related trucking and logistics services, manufacturing and consumer operations and other support industries.

Sydney Airport is the largest international and domestic air freight hub in Australia. The volume of freight is projected to double to around one million tonnes by 2039, with eCommerce-related freight being a major driver of that growth.

The value of airfreight to the NSW economy is considerable, as recognised by Infrastructure NSW in its State Infrastructure Strategy:

> *The value of goods moved by airfreight through Sydney Airport is the same as almost the entire agricultural production of Australia.*[1]

2. <u>Support for retaining and managing existing industrial and urban services land in the vicinity of Sydney Airport and Port Botany</u>

Draft recommendation 7.5 is not supported if its implementation would result in a reduction in the existing area of industrially zoned employment lands in the Eastern City District..

The Green Paper highlights that industrial and urban services play a role in supporting Sydney and the activities of its businesses and residents and correctly identifies that, over time, land supporting such uses has been subject to increasing pressure from encroachment of other uses, including residential and commercial uses.[2]

This has certainly been the case in the Eastern City District, which includes only 8% of Greater Sydney's industrial land.

Sydney Airport has long argued the importance of protecting industrially zoned employment lands in the vicinity of the airport.

Sydney Airport's *Master Plan 2039* shows that, over the next 20-years and beyond, the number of airline passengers, aircraft movements and the volume of airfreight passing through Sydney Airport is forecast to grow considerably.[3]

Such growth in aviation activity will in turn drive increased demand for a range of airport and aviation support-related land uses, including (but not limited to): airfreight and logistics centres and warehousing; maintenance facilities; flight training facilities; flight catering facilities; and car rental facilities.

While many of these facilities and land uses can and will in future be accommodated on the Sydney Airport site, it is inevitable that some will need to be located in areas outside of and in close proximity to the airport. This is especially relevant given Sydney Airport itself is only 907 hectares in area. This relatively small area can be compared to larger Australian airports such as Brisbane Airport (2,700 hectares), Melbourne Airport (2,633 hectares), Perth Airport (2,105 hectares) and the proposed Western Sydney Airport (1,780 hectares).

In terms of the future demand for land outside the airport boundary on which airfreight and logistics centres and warehousing will need to be located, one of the key demand drivers for such land is eCommerce-related airfreight. The volume of this high value airfreight passing through Sydney Airport – and it does so 24-hours a day – has grown considerably in just the last several years and is expected to continue to grow strongly.

Indeed, as Colliers International recently found:

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[1] See State Infrastructure Strategy 2018.
[2] See Green Paper, p. 243.
[3] Master Plan 2039 was prepared and approved by the Australian Government before COVID-19.

The growth of eCommerce in Australia is unstoppable, with online retail sales surging a massive 37 percent over the year to August 2018…Unsurprisingly, eCommerce retailers have been amongst the largest takers of industrial space over the past few years…Anecdotal evidence globally suggest that eCommerce operators require significantly more space (approximately three times) than traditional warehouses …[4].

Importantly, the land available to accommodate these eCommerce operators needs to be located close to the airfreight's arrival or departure point *and* in an area conveniently accessible to its consumer base, in this case Sydney Airport and the densely populated areas of eastern and southern Sydney respectively.

As Colliers International also found:

Consumers are more demanding than ever before with the emphasis now placed on faster delivery time at minimised or no delivery costs. This has driven increased pressure for last mile logistics networks of smaller fulfilment centres strategically located within infill markets supported by larger regional distribution centres on peripheral locations.[5]

These findings predate the COVID-19 global pandemic, which has led to significant growth in the volume of airfreight being moved throughout 2020.

As Australia Post has said:

2020 has been a year like no other for eCommerce. The latest statistics show that growth was up over 80 percent year on year (YOY) in the 8 weeks since the COVID-19 pandemic was declared by the WHO, making it clear that the industry has not only kicked up a gear, it has gone into overdrive.[6]

Growth in cross-border (including international) eCommerce – which is particularly relevant to airfreight – has been a significant driver, with Australia Post estimating that the global online goods market will grow from 1.97T USD in 2019 to 3.64T USD by 2024, representing YOY growth of 21.5 percent.

Given this forecast substantial growth in airfreight, it is vital there be sufficient areas of appropriately zoned employment lands close to Sydney Airport to allow trade-related airfreight and other aviation support facilities to be located and function into the future.

Sydney Airport therefore supports the 'retain and manage' policy, as put forward by the Greater Sydney Commission (GSC). We are concerned that draft recommendation 7.5 has the potential to dilute this policy and accelerate the loss of industrially zoned employment lands in the Eastern City District.

The Green Paper highlights an extract from the Urban Taskforce's submission which recommends that:

The GSC should reverse its 'review and manage' or 'protect and manage' approach to industrial and urban services land and instead adopt a site-by-site approach to the

[4] See Colliers *International, Industrial Research and Forecast Report (Second Half 2018)*, p. 7
[5] As above.
[6] See Australia Post's *Inside Australian Online Shopping 2020 eCommerce Industry Report*, p5. The report can be accessed at: https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

> *proposed rezoning of industrial land to higher order uses such as residential and mixed use development (particularly where job numbers can be enhanced.*[7]

This Urban Taskforce recommendation is strongly opposed and, if formally adopted by government, would have serious, negative and permanent ramifications for Sydney Airport. What the Urban Taskforce is suggesting is arguably exactly what has been informally occurring for several decades now, the result being that the area of industrially zoned land in the Eastern City District has dwindled to historically low levels. It is precisely this trend that now needs to be halted and, as such, the Urban Taskforce recommendation should be opposed.

Individual planning proposals, when looked at in isolation, may seem relatively insignificant in that they may each result in the loss of only a relatively small area of industrially zoned employment land. However, when looked at cumulatively over decades, the situation is far more serious, and one which, in the vicinity of the airport and port, now needs to be urgently addressed.

Indeed, as research prepared for the Greater Sydney Commission shows, the supply of employment land near the port and airport has dwindled to a point where it is now well below the accepted benchmark.[8]

Unsurprisingly, the increasing scarcity of employment land has also pushed up the value of what remains, making it more expensive now than ever before. This is supported by Colliers International, which has said:

> *A dwindling supply of industrial land – coupled with demand from industrial users close to Sydney's transport gateways (i.e. Sydney Airport and Port Botany) – has pushed industrial land values up to record rates.*[9]

More recently, Colliers International has said:

> *Limited land supply continues to drive a solid increase in land values across all industrial precincts in Sydney. The South precinct [in which Sydney Airport and Port Botany are located] has recorded the strongest land values growth of 29 per cent YOY to September, remaining as the most sought after location for industrial operators, developers and investors willing to pay an average of $2,750/sqm.*[10]

Without corrective action, the GSC has said the situation will deteriorate even further by 2036. This proposed loss of employment lands and the consequent much-reduced potential for job generation can and should be avoided. The 'retain and manage' policy is the way to achieve this outcome.

Importantly, it is not just Sydney Airport or the GSC saying that existing industrial and urban services land needs to be safeguarded and protected from, in particular, residential and mixed use zones. Local government, several Commonwealth and NSW Government agencies, policies, strategies or inquiries have also recently highlighted the need to protect employment lands in the vicinity of the port and airport. These include:

a) National Freight and Supply Chain Strategy
b) NSW Freight and Ports Plan 2018-2023

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[7] Green Paper, p. 244.
[8] See the Greater Sydney Commission's Eastern City District Plan, p91.
[9] See Colliers International, *The Last 'Half Hour' Delivery: Spotlight on South Sydney* (September 2017)
[10] See Colliers International, Industrial Research and Forecast Report (Second Half 2019), p6.

c) Infrastructure Australia
d) Infrastructure NSW
e) Bayside, Inner West and City of Sydney Councils
f) NSW Beyond Tourism 2020

In Sydney Airport's view, these Commonwealth, NSW and local plans, policies and strategies demonstrate a clear and consistent policy theme. They each present compelling arguments to prevent any further loss of employment lands in the vicinity of the airport and port and protect what remains. Given the impact the COVID-19 global pandemic has had on jobs and our economy more broadly, this has never been more important.

3. Consolidation of employment zones

Sydney Airport notes draft recommendation 7.3, which seeks to rationalise the number of business and employment zones and broaden the range of permissible activities within such zones to ensure prescriptions are reserved for genuinely incompatible land uses.

While simplification of land zoning is of course supported, it is important to ensure that such simplification does not broaden permissible land uses in such a way as to create the very problem identified above in section 2 of this submission.

For example, a number of uses currently permissible in business zones would be considered inappropriate as permissible uses in an industrial zone. Also, permitting such business-related land uses may simply result in industrial-related land uses being squeezed out. Merging the two zones could therefore be problematic. Caution is therefore recommended with respect to any consolidation of employment zones.