



27 November 2019

Mr Peter Achterstraat AM  
NSW Productivity Commissioner

Via email: [ProductivityFeedback@treasury.nsw.gov.au](mailto:ProductivityFeedback@treasury.nsw.gov.au)

Dear Mr Achterstraat,

**Sydney Airport submission - *Discussion Paper - Kickstarting the productivity conversation***

Thank you for the opportunity to review and comment on the NSW Productivity Commission's *Discussion Paper - Kickstarting the productivity conversation* (the discussion paper).

The Commonwealth and states successfully pursued a strong microeconomic reform, deregulatory and privatisation agenda throughout the 1980s, 1990s and into the 2000s. Often bipartisan, this unprecedented level of economic reform delivered not only record uninterrupted economic growth for the last 28 years, it resulted in significant productivity gains and enhanced living standards for millions of Australians. However, as the discussion paper correctly notes, since then, and more recently following the end of the mining boom, national productivity growth has remained weak.

The NSW Productivity Commission's focus on this vitally important issue is therefore timely, as is the recent outcome of the Council on Federal Financial Relations meeting on 11 October 2019, at which Commonwealth, state and territory treasurers agreed to a program of work to boost the nation's productivity. Recent observations by Reserve Bank Governor Philip Lowe also point to the fact that higher productivity is needed to underpin national prosperity.

Sydney Airport's comments on the discussion paper are shown in the **Attachment** to this letter.

As well as providing contextual information on the vital role Sydney Airport plays in the Australian and NSW economies (including information on the economic importance of air freight), we have responded to several of the discussion paper's specific questions. Our responses include practical recommendations that we believe the NSW Productivity Commission should consider as it prepares the NSW Productivity Green Paper, due for public release in 2020.

Our recommendations for matters to be addressed in the Green Paper are that the NSW Productivity Commission are as follows:

1. Recognise Sydney Airport's vitally important role in the NSW economy, with its economic contribution forecast to grow significantly as passenger numbers and the volume of airfreight continue to grow.
2. Sydney Airport's strong view is that there should be no change to the curfew and not a single additional flight than is currently allowed under existing legislation across the day. Rather, there should be more flexibility to allow the airport to better manage disruptive events such as weather and enhance airport efficiency.

Sydney Airport


We therefore recommend that the NSW Government advocate reform of Sydney Airport's movement cap to drive productivity growth and recommend to the Commonwealth that it conduct a review of the existing arrangements. Such a review should also examine how to improve current regional airline access arrangements and the slot management scheme at Sydney Airport and should include extensive engagement and consultation with the community and other stakeholders. There should be no change to the curfew.

3. Recommend that the NSW Government deliver improved public transport services to and from Sydney Airport. This would help alleviate congestion in and around the Sydney Airport - Port Botany precincts.

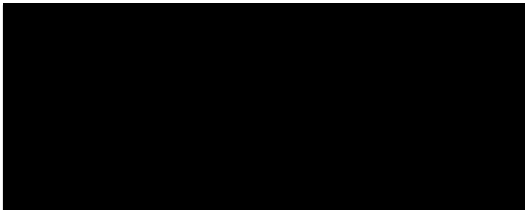
This could be achieved by:

- improvements in the frequency of train services on the T8 Airport & South line and other enhancements to the service that align with airport commuter needs
  - providing additional bus services; and
  - over the longer term, linking Sydney Airport to the new Sydney Metro network.
4. Recommend that more user-friendly train carriages (with space for luggage) be used on the T8 Airport & South line and remote check-in facilities in the Sydney CBD.
  5. Support the need to retain and protect existing industrially zoned employment lands in the vicinity of Sydney Airport and Port Botany.
  6. That any simplification of the NSW zoning system not unintentionally undermine the capacity of existing industrially zoned employment lands in the vicinity of Sydney Airport and Port Botany to support aviation, freight, logistics, and other port-related businesses and activities into the future.

Thank you again for the opportunity to comment on the discussion paper. We would be more than happy to meet with you to discuss our recommendations in more detail.

If you would like any further information, please feel free to contact 

Yours sincerely,



**NSW Productivity Commission Discussion Paper - Kickstarting the productivity conversation**

**Sydney Airport comments**

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**1. Sydney Airport's significant economic contribution**

International trade and air routes are vital to Australia's continued economic prosperity. Airports are an essential part of the transport networks that all successful modern economies rely on. Their efficient operation helps drive productivity gains across many sectors of the economy.

Sydney Airport provides an extensive breadth of transport interconnectivity within the Sydney region.

In addition to providing NSW residents with the opportunity to travel, whether for business or leisure, the airport also:

- Connects Sydney to over 100 regional, national and international destinations;
- Delivers convenience for business visitors to Sydney, with the CBD just eight kilometres away;
- Delivers convenience for tourists to Sydney, with major tourist destinations within 10 kilometres of the airport;
- Serves as a hub for travel between regional NSW, other Australian cities and the world;
- Provides an interchange between air, sea and land freight, enabling high value and/or time critical exports and imports; and
- Serves as an air freight hub for NSW.

The success of business and tourism for Sydney, NSW, Australia and Sydney Airport are interdependent. Sydney Airport's location is a significant strategic advantage for Sydney and NSW when competing with other Australian and overseas cities.

A 2017 study by Deloitte Access Economics into the economic contribution of Sydney Airport quantified the benefits of the many activities undertaken at Sydney Airport every day by the around 800 on-airport businesses.

Key findings of the study were that Sydney Airport generates or facilitates (directly and indirectly):

- 338,500 jobs (equivalent to 10.1% of NSW employment), 32,700 of which are at the airport precinct itself;
- \$38 billion in economic activity, an increase of \$7.2 billion since 2014. This is equivalent to 6.8% of the NSW economy and 2.2% of the Australian economy; and
- Household income of \$19.9 billion, an increase of \$5.2 billion since 2014.

**NSW Productivity Commission Discussion Paper - Kickstarting the productivity conversation**

**Sydney Airport comments**

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- Household income of \$19.9 billion, an increase of \$5.2 billion since 2014.

Modelling used in the study also indicated that Sydney Airport's economic contribution will increase significantly as aviation activity at the airport continues to grow. Economic activity generated or facilitated by Sydney Airport is forecast to increase from \$38 billion in 2017 to over \$52.6 billion in 2039, with total employment forecast to increase from 338,500 jobs in 2017 to 414,600 in 2039.

Importantly, the economic contribution made by the adjacent Port Botany Container Terminal and Cooks River Intermodal Terminal - which are both operated by NSW Ports - is also significant. They contribute \$3.2 billion per year to the NSW economy and generate 21,000 jobs.

## 2. The importance of air freight

### a) About air freight

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% of the value of global freight<sup>1</sup>.

Around 80% of air freight is carried in the belly-hold of passenger aircraft, with the remainder on designated freight flights. Indeed, only 2.4% 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.

### b) Strong growth moving forward

The use of air freight is particularly well positioned for growth over the coming years, especially with the growth of e-Commerce. 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>2</sup>.

Colliers International also recently found that:

*The growth of e-Commerce in Australia is unstoppable, with online retail sales surging a massive 37 percent over the year to August 2018...<sup>3</sup>*

With consumers expecting delivery of their purchase in a timely manner, air freight the best positioned method of shipping to meet demand.

Overseas demand for Australian fresh produce also continues to grow, reinforced by the growth of the Asian middle class and supported by free trade agreements between Australia and key markets, such as China. According to Austrade, the food and beverage market in China had an average annual growth rate of 35.4% from 2011 to 2014, with a particular focus on produce such as seafood, chilled meat, fresh fruits and milk powders.<sup>4</sup>

<sup>1</sup> <http://www.iata.org/whatwedo/cargo/Pages/index.aspx>

<sup>2</sup> <http://www.afr.com/business/retail/online-retail-sales-top-20-billion-20160803-gqjv0r>

<sup>3</sup> See Colliers International, *Industrial Research and Forecast Report (Second Half 2018)*, p. 7

<sup>4</sup> <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/China/Industries/Food-and-beverage>

The Comprehensive and Progress Agreement for Trans-Pacific Partnership (TPP), which came into effect on 30th December 2018, will further enhance access for Australian exporters of seafood, with Vietnam, Canada and Peru to eliminate seafood tariffs immediately following commencement of the TPP, with Japan and Mexico set to eliminate tariffs within 15 years of it commencing. 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 air-transport will support the growth of air freight into the future.

The World Trade Organisation's 2013 Bali Agreement is another important driver supporting the growth of air freight. This Agreement, which came into effect in February 2017, has a particular focus on improving trade facilitation, with one of its key articles being 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% for bulk sea shipments of coal, but a significantly larger 15% saving for air shipments of fresh vegetables<sup>5</sup>.

### c) Growth of freight at Sydney Airport

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 around 45 million passengers a year, Sydney Airport handles more than 600,000 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>6</sup> As Sydney Airport's *Master Plan 2039* indicates, airfreight through Sydney Airport is forecast to grow to more than one million tonnes in 2039, an increase of 58%.

It is anticipated that, from late 2026, air freight will undoubtedly be an important and growing part of the Western Sydney Airport's operations. However, Sydney Airport will nevertheless continue to experience strong growth in air freight well into the future. This point was recognised in the *Joint study on aviation capacity in the Sydney region*, which specifically pointed out that Sydney Airport "will continue to be the major focus for international and domestic airlines operating to Sydney, both for passenger and freight services."<sup>7</sup>

Recommendation 1: That the NSW Productivity Commission recognise Sydney Airport is playing a vitally important role in the NSW economy, with its economic contribution forecast to grow significantly as passenger numbers and the volume of airfreight continue to grow.

<sup>5</sup> <https://www.iata.org/whatwedo/Documents/economics/bali-impact-march14.pdf>

<sup>6</sup> <http://logistics.bcr.com.au/blog/20-striking-facts-about-air-freight-sydney-and-the-sydney-airport>

<sup>7</sup> [http://westernsydneyairport.gov.au/sydney\\_av\\_cap/index.aspx](http://westernsydneyairport.gov.au/sydney_av_cap/index.aspx) at p13

### 3. Chapter 6 - Smart ways to get more from our infrastructure

The discussion paper correctly states that economic infrastructure such as roads, rail, water and energy underpin services that support production and enable consumption. Airports and seaports should be added to that list.

Over the last several years, the NSW Government has pursued an unprecedented program of infrastructure delivery, funded in part by asset recycling. With expenditure budgeted in 2019-20 alone at \$27.7 billion and \$93 billion over the next four years to 2022-23, the NSW Government is to be congratulated for this commitment. The many major projects already completed, underway or at the planning stage will enhance productivity across many sectors of the NSW economy and deliver higher living standards.

The discussion paper also notes that the private sector plays an important role in public infrastructure, with Sydney Airport and Port Botany - which the NSW Greater Sydney Commission (NSWGSC) has identified as Greater Sydney's two nationally significant trade gateways - being two good examples.

Importantly, using *existing* infrastructure, including airports, as efficiently as possible also plays a vitally important role in delivering productivity gains. In its *State Infrastructure Strategy 2018-2038*<sup>8</sup>, Infrastructure NSW (INSW) recognised this by identifying six cross-sectorial strategic directions, each designed to do 'more with less'.

One such direction is to optimise the management, performance and use of existing assets. The linkage to productivity, as noted in the discussion paper, is that:

*Building new assets to meet demand is not always feasible, making it important to make the most of existing assets to help alleviate infrastructure pressures.*<sup>9</sup>

We believe there are ways to ensure Sydney Airport operates more efficiently, and in a way that does not result in unacceptable environmental impacts in surrounding areas.

This issue was considered as part of the recent Commonwealth Productivity Commission Inquiry into the economic regulation of airports.<sup>10</sup> While we stress that existing curfew arrangements are supported by Sydney Airport, our submission to the Commission's draft report suggested a way to reform the existing aircraft movement cap.<sup>11</sup>

Sydney Airport's submission noted that the movement cap is a blunt and inflexible instrument which does not always achieve its desired objective of reducing noise. It also unnecessarily and artificially constrains the ability of Sydney Airport, particularly during the peak, consequently impeding growth in productivity in those sectors of the economy reliant on the airport or on aviation services more broadly.

Reform of the movement cap will have minimal noise impacts but will enable Sydney Airport to attract new aviation services to Sydney. Our reform proposal would not allow one additional flight than is currently allowed under existing legislation across a day. Rather, there should be more flexibility to allow the airport to better manage disruptive events such as weather and enhance airport efficiency. The flow on benefits will be significant for Sydney and NSW because, as the 2017 study by Deloitte Access Economics referred to above highlighted, a relatively small development at Sydney Airport can have a potentially large economic impact on both the NSW and Australian economies.

<sup>8</sup> <http://www.infrastructure.nsw.gov.au/sis-2018> at pp6-7.

<sup>9</sup> See p 78.

<sup>10</sup> <https://www.pc.gov.au/inquiries/completed/airports-2019#report>

<sup>11</sup> <https://www.pc.gov.au/inquiries/completed/airports-2019/submissions> at p 20.

For example, a typical new daily international service contributes an estimated \$122 million a year to the NSW economy and generates an estimated 1,300 direct and indirect jobs in the state. This is even greater for each new daily A380 service from China, which is estimated to generate more than 5,200 direct and indirect jobs and contributes an average of \$470 million a year to the Australian economy.

The Commission itself noted that:

*“Changes to the movement cap that enable greater flexibility in the scheduling of movements may allow for the more efficient use of existing airport infrastructure and aircraft.”<sup>12</sup>*

While reform of Sydney Airport’s movement cap is a matter for the Australian Government, we believe the NSW Government can and should advocate reform and should recommend to the Commonwealth that it review existing arrangements. The NSW Government’s interest is in ensuring major gateway infrastructure within NSW, like Sydney Airport, operates as efficiently as possible and in a way that helps drive productivity growth in the NSW economy.

After reviewing existing access arrangement for regional airlines at Sydney Airport, the Commission also noted that:

*“[t]he current arrangements facilitate access for airlines operating regional flights into Sydney Airport but should be improved.”<sup>13</sup>*

The Commission also noted that:

*Sydney Airport’s slot management scheme can restrict competition between airlines, which could affect airfares and the airport’s operational efficiency, to the detriment of passengers and the broader community. The Australian Government should commission a public review of the scheme. The review should also consider the need to implement or revise slot management at other major Australian airports.<sup>14</sup>*

Both these issues would usefully form part of the recommended review into existing arrangements.

It will also be important to ensure that any review includes extensive engagement and consultation with the community and other stakeholders.

Recommendation 2: Sydney Airport’s strong view is that there should be no change to the curfew and not a single additional flight than is currently allowed under existing legislation across the day. Rather, there should be more flexibility to allow the airport to better manage disruptive events such as weather and enhance airport efficiency.

We therefore recommend that the NSW Government advocate reform of Sydney Airport’s movement cap to drive productivity growth and recommend to the Commonwealth that it conduct a review of the existing arrangements. Such a review should also examine how to improve current regional airline access arrangements and the slot management scheme at Sydney Airport and should include extensive engagement and consultation with the community and other stakeholders. There should be no change to the curfew.

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<sup>12</sup> See Productivity Commission final report of the Inquiry the Economic regulation of airports, p 247.

<sup>13</sup> As above, pp 221 and 222.

<sup>14</sup> As above, pp 221 and 255.



**a) Reducing congestion and meeting peak public transport demand**

Discussion Questions: What further options should the NSW Government consider to alleviate congestion?

What measures could we explore to reduce pressure on rail infrastructure during peak periods?

Between the passengers who use the airport, staff travelling to the airport, and additional people travelling to the airport to meet and greet friends and family, around 160,000 people already travel to or from Sydney Airport each day. This is equivalent in number to the crowd of two National Rugby League grand finals every day of the year. This number will grow significantly over time, as passenger numbers continue to grow.

Further, with the growth in non-airport related vehicle traffic around the Sydney Airport - Port Botany precinct in recent years (much of which has been driven by large new high density residential development areas in Wolli Creek, Mascot and Green Square), enhanced ground transport infrastructure is vital if Sydney Airport is to efficiently accommodate growth in aviation activity.

A \$500 million program of road upgrades in and around the Sydney Airport precinct is nearing completion, which was jointly undertaken by Sydney Airport and the NSW Government (and in part funded by the Australian Government). This program has already seen a number of important on- and off-airport road projects completed, all of which have already improved ground transport access and measurably reduced congestion. We also welcome the NSW Government's commitment to deliver Sydney Gateway - which will connect Sydney Airport to Sydney's motorway network - and duplicate the Port Botany freight rail line. Both these projects will further already significant improvements in ground transport access and help reduce congestion.

However, 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 and should be considered by the NSW Government.

For example, 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 to the airport include:

- Improvements in the frequency of train services on the T8 Airport & South line;
- additional bus routes and services; and
- linking Sydney Airport to the new Metro network being constructed around Sydney.

In its response to the NSW Legislative Council's 2014 Inquiry into the station access fee, the NSW Government also committed to providing additional bus services to Sydney Airport. These are yet to be delivered. These additional bus services would help to alleviate congestion because, as the discussion paper notes, a bus passenger takes up 0.8 square metres of road space per occupant compared with 9.7 square metres for an average car.<sup>15</sup>

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<sup>15</sup> See p 83.

Expanding public transport access to the airport, by both rail and bus, would reduce the numbers of cars on the road and further alleviate congestion. This in turn would ensure Sydney Airport operates more efficiently and productively.

Recommendation 3: That, to help alleviate congestion in and around the Sydney Airport - Port Botany precincts, the NSW Productivity Commission recommend in its 2020 Green Paper that the NSW Government deliver improved public transport services to and from Sydney Airport.

This could be achieved by:

- improvements in the frequency of train services on the T8 Airport and South line and other enhancements to the service that align with airport commuter needs
- providing additional bus services; and
- over the longer term, linking Sydney Airport to the new Sydney Metro network.

At least in so far as the T8 Airport & South line is concerned (which includes the Domestic and International Terminal Stations), measures to reduce pressure on existing rail infrastructure during peak periods could also include the provision of rolling stock (train carriages) that are more user-friendly for airline passengers with luggage. The existing double deck train carriages exacerbate overcrowding on trains, particularly during the peak, as passengers congregate around the carriage doorways. This also increases the dwell time at stations as passengers take longer to board or alight from trains.

Remote check-in facilities in the Sydney CBD should also be examined. Such facilities are increasingly being provided in other major cities.

Recommendation 4: That the NSW Productivity Commission recommend in its 2020 Green Paper that more user-friendly train carriages (with space for luggage) be used on the T8 Airport & South line and remote check-in facilities in the Sydney CBD.

## **b) Planning for growth that gets the most out of our investments**

Discussion Question: How can we improve strategic land use planning and coordination with major infrastructure delivery?

With respect to strategic land use planning, Sydney Airport has long argued the importance of protecting industrially zoned employment lands in the vicinity of the airport. We are aware that NSW Ports has also advocated the need to protect such lands.

Strategic land use planning should be improved and coordinated with major infrastructure like Sydney Airport and Port Botany, by ensuring these employment lands are protected in the future.

Together, the airport and port - which the NSWGSC identifies as Sydney's two nationally significant trade gateways - facilitate nearly one in every ten dollars of NSW Gross State Product, as well as generating hundreds of thousands of jobs, the majority of which benefit people living in areas close to the airport.

However, for many years now, successive governments have permitted employment lands around the airport and port to be progressively rezoned to permit higher value mixed land uses, including residential, commercial and retail or to change industrial zones in a way that excluded permissible airport and port-related land uses.

In Sydney Airport's case, such land-uses would include at least the following: Administration; Freight Centres; Logistics centres and warehousing; Maintenance Facilities; Flight Training Facilities; Catering Facilities; Car Rental Facilities; and Hotels and Convention Facilities. Other industrial or related land uses are also required to support the around 800 businesses currently operating on the Sydney Airport site.

Individual planning proposals to rezone industrially zoned land, 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 employment land. However, when looked at cumulatively over decades, the situation is far more serious, and one which in the vicinity of airport and port now needs to be urgently addressed.

Indeed, as research prepared for the NSWGSC shows, the supply of employment land near the port and airport has now dwindled to a point where it is now well below the accepted benchmark.<sup>16</sup>

Importantly, it is not just Sydney Airport and NSW Ports arguing that employment lands near the airport and port need to be protected. 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:

- National Freight and Supply Chain Strategy<sup>17</sup>
- Infrastructure Australia's 2019 Infrastructure Priority List<sup>18</sup>
- NSW Greater Sydney Commission<sup>19</sup>
- Infrastructure NSW<sup>20</sup>
- NSW Freight and Ports Plan 2018-2038<sup>21</sup>
- NSW Beyond Tourism 2020<sup>22</sup>

Local councils in the vicinity of Sydney Airport - including Bayside, Inner West, City of Sydney and Randwick City - are currently reviewing their local environmental plans (LEPs) with a view to ensuring consistency with the NSWGSC strategic plans. This presents an ideal opportunity to ensure existing employment lands are retained. There are positive signs that local government appreciates and accepts the need to ensure remaining employment lands are protected in their new LEPs.

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<sup>16</sup> See Greater Sydney Region Plan 2018, p 131.

<sup>17</sup> *Final report of the Inquiry into National Freight and Supply Chain Priorities* (March 2018), p 38 and recommendation 3.4 on p 12.

<sup>18</sup> See *2019 Infrastructure Priority List*, (February 2019), pp 12 and 47.

<sup>19</sup> See NSWGSC *Greater Sydney Regional Plan 2018*, Objective 16, p 96 and *Eastern City District Plan 2018*, p 70.

<sup>20</sup> See *State Infrastructure Strategy 2018-2038*, recommendation 59, p 140.

<sup>21</sup> See *NSW Freight and Ports Plan 2018-2038*, Goal 4, pp 66, 67

<sup>22</sup> See *Beyond Tourism 2020: Final Report*, p. 14.

Recommendation 5: That the NSW Productivity Commission in its 2020 Green paper support the need to retain and protect existing industrially zoned employment lands in the vicinity of Sydney Airport and Port Botany.

**4. Chapter 8 - Planning for the housing we want and the jobs we need**

**a) Unlocking the potential of employment zones**

Discussion Question: How could the NSW zoning system be simplified and improved to encourage business innovation and competition?

Sydney Airport does not object to simplifying and improving the NSW zoning system. However, for the reasons outlined above in relation to Recommendation 5, any such simplification should not unintentionally undermine the strategic planning imperative to retain industrially zoned employment lands in the vicinity of Sydney Airport and Port Botany. The supply of such land is essential to enable future aviation support, freight, logistics, and other port-related businesses and activities to be located in the vicinity of these trade gateways.

Recommendation 6: That any simplification of the NSW zoning system not unintentionally undermine the capacity of existing industrially zoned employment lands in the vicinity of Sydney Airport and Port Botany to support aviation support and port-related businesses and activities in the future.