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Economic Regulation of Airports Inquiry
Productivity Commission
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21 March 2019

Dear Commissioners,

Re: Inquiry into the Economic Regulation of Airports – Productivity Commission Draft Report

Archerfield Airport Corporation (AAC) notes the Commission has requested further information (section 8.1 of the Productivity Commission Draft Report – February 2019) regarding justification of the structure and size of the fuel throughput levies charged at some Australian airports. AAC is one of the federally leased airports across Australia that has exercised its right to charge a fuel throughput levy to fuel operators, and has done so since 2003.

Twelve months prior to privatisation of the airport in 1998, the Federal Airports Corporation (FAC) moved the existing fuel operators to a central location on the airport and signed up 20 year leases to the three major fuel suppliers (BP, Shell and Mobil). The leases all contained similar clauses permitting the Lessor to charge a Fuel Throughput fee for Avgas and Avtur, with avenues for the Lessees to dispute any unreasonable fees, and for normal CPI increases to otherwise apply. In accordance with the leases, the throughput fee could be adjusted every six years.

The total fuel throughput volume for the entire airport, from both Avgas and Avtur sales, has averaged around 9,000 litres <u>per day</u> over the past 20 years. This compares to Brisbane airport which averaged around 3 million litres <u>per day</u> in the year 2015-16.[1] The FAC, in their attempt to instil lower fuel prices through increased competition, has inadvertently caused the opposite to occur at Archerfield airport. The profits from the comparatively minute volumes of fuel sold have been spread across the three operators, each with their own infrastructure, staff, maintenance, vehicle and operational costs.

Archerfield airport fuel prices for the end consumer are significantly higher than at nearby airports such as Brisbane and Gold Coast. As such, it has been difficult for AAC to attract General Aviation (GA) operators from those locations, to increase fuel throughput volumes, decrease the operating costs per litre and lower fuel prices for Archerfield customers. Additionally, the increased truck operations that have occurred due to three suppliers all competing to refuel as little as 20 litres at a time, has had a detrimental impact on the airport's pavements.

Archerfield Airport has a rated pavement of only 5,700kgs with the majority of movements being from aircraft of King Air size and below. The typical into-plane delivery fuel trucks operating on the airport at the time of privatisation were in excess of 15,000 kgs. Much heavier fuel tankers of around 40,000kgs have also been brought onto the airport by each of the operators to replenish fuel

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[1] Deloitte, *Western Sydney Airport Aviation Fuel Supply Corridor Options Report,* 2017 p32

supplies as required. AAC introduced the Fuel Throughput fee in part to fund some of the damage that was occurring at the time, and that continues to occur today.

The Fuel Throughput fee when introduced in 2003 was $0.003 (0.3 cents per litre). At 9,000L per day, this amounts to around $10,000 per year spread across the three suppliers. This throughput fee remained unchanged until 2006. Since 2006 the Fuel Throughput fee has risen by CPI and now equates to 0.441 cents per litre, or approximately $14,500 per year.

The damage to taxiways and aprons over the past 20 years, primarily caused by overweight fuel trucks, has equated to hundreds of thousands of dollars in repair costs over and above those fees generated via Fuel Throughput fees.

The general rule of thumb that increased competition results in decreased fuel prices for the end consumer, does not apply to those airports where significantly lower fuel throughput volumes occur. Actually, the opposite occurs owing to significant increases in operating costs per litre sold. AAC is currently investigating options to lower the operating cost per litre, reduce the price per litre for the end consumer, attract more aircraft to the airport and to continue this cycle until ultimately Archerfield can compete with the price of fuel charged at nearby airports.

AAC is aware of the Archerfield Airport Chamber of Commerce Inc's (AACCI) initial submission to the Productivity Commission and the "Case Study" regarding Archerfield Airport. For the record, AAC would like to take this opportunity to reiterate once again, that the majority of issues and "facts" raised by AACCI have previously been proven to be inaccurate, misleading and/or incorrect in various different forums, including the Administrative Appeals Tribunal (AAT) more recently. Anyone seeking further information regarding anything of concern within AACCI's submission is invited to read the AAT's decision[2] and/or to contact AAC for clarification.

Once again, we thank the Commission for allowing us the opportunity to present our views and to correct some misrepresentations regarding the airport.

Yours sincerely,

Gavin Bird A.M.

Managing Director
Archerfield Airport Corporation

[2] AACCI and Minister for Infrastructure and Regional Development [2015] AATA 489 (8 July 2015); Deputy President PE Hack SC (http://www6.austlii.edu.au/cgi-bin/viewdoc/au/cases/cth/AATA/2015/489.html)