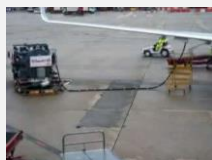




Airline Views

July 2015

1 Melbourne Airport's jet fuel infrastructure reform initiative



BARA welcomes Melbourne Airport's decision to issue an Expression of Interest (EOI) for its onsite storage and distribution jet fuel infrastructure.

Reform of the onsite storage and distribution facilities at the major international airports is critical for more competitive jet fuel markets to emerge.

Melbourne Airport's decision to issue an EOI and seek stakeholder input sets the stage for the emergence of a more dynamic and efficient jet fuel supply industry.

BARA has developed an industry reform plan, *A competitive supply of jet fuel at Australia's major international airports*, available at www.bara.org.au.

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2 New BARA members



BARA welcomes China Eastern Airlines and LATAM Airlines Group.

BARA's membership has expanded to 31, covering more than 90% of international passenger flights.

Member benefits include improved terms and conditions with suppliers, awareness of aviation policy, support implementing security arrangements, and industrial relations advice and representation.

BARA's vision for international aviation in Australia is 'High quality, adaptive and efficient'.

3 Competition policy review final report



The Review's final report confirms the need to reform the jet fuel supply chains and Airservices pricing structures.

BARA has lodged its submission to the Australian Treasury's consultation on the review recommendations.

BARA's submission notes that Airservices will likely be seeking to set its prices for a five-year period from 1 July 2016. Unless the necessary review and reforms occur shortly, there will either be a limited or no opportunity to improve upon the existing arrangements before Airservices lodges its pricing notification with the Australian Competition and Consumer Commission.

4 Flight priorities review



BARA and IATA have expressed concern over a proposal that would give corporate jets equal priority with passenger aircraft in congested airspace.

A draft proposal by the Department of Infrastructure and Regional Development would increase the chances of international aircraft needing to divert to alternative airports in congested airspace.

International airlines have argued that rather than increase the priority given to corporate jets, it is in the community's interest to give a higher priority to long-haul international flights to Australia.

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Melbourne Airport's jet fuel infrastructure reform initiative

BARA is greatly encouraged by Melbourne Airport's initiative to issue an expression of interest (EOI) for its jet fuel storage infrastructure and fuelling facilities. The EOI has provided a welcome opportunity for BARA to provide input on behalf of our members to Melbourne Airport.

Reforming Melbourne Airport's jet fuel infrastructure is critical for the long-term reliable and competitive supply of jet fuel. The changes will support future growth, and are in the interests of Melbourne Airport and the international airlines.

BARA does not support the existing oil company 'joint venture' model at Melbourne Airport, as it does not fit with promoting competitive jet fuel markets. The most cost-efficient way to support a reliable and competitive supply of jet fuel at the airport would be to have one integrated operator of both the existing facilities and any future expansions.

One competitive tender that promotes open access

BARA would prefer to promote efficient outcomes through one competitive tender for one operator that would cover all (existing and potential) storage and the hydrant network.

Having one operator will ensure clear accountability for delivering services to Melbourne Airport and the airlines. This approach will also avoid the need to deal with conflicts of interests and operational issues through various access arrangements and operating protocols associated with multiple providers of storage facilities.

The new arrangements must separate the investment in jet fuel infrastructure from its

pricing. Just as Melbourne Airport does not expect airlines to take an equity stake in the airport (which is restricted under the *Airports Act 1996* anyway), neither should fuel suppliers be expected to make significant investments in the jet fuel infrastructure for the right to supply airlines at the airport. Nor should any fuel supplier's investment in jet fuel infrastructure confer any competitive advantage to that supplier.

The new arrangements need to promote 'open access', where globally recognised fuel suppliers can import fuel to compete in Melbourne Airport's jet fuel market. This would not preclude arrangements where fuel suppliers and other stakeholders actively participate in developing and operating the airport's jet fuel infrastructure.

Pricing and new infrastructure

Non-discriminatory pricing to use the jet fuel infrastructure is the best way to support the long-term reliable and competitive supply of jet fuel at Melbourne Airport. BARA suggests this can be based on a published flat per litre price to recover the agreed costs of operating and maintaining the facilities, including a negotiated return on the investments made in the infrastructure.

The cost of any new infrastructure at the airport could be added to the flat per litre price.

Melbourne Airport's model for 'unplanned capital expenditure' to price new aeronautical assets could be modified to suit the provision of new jet fuel infrastructure. That is, a formula could be agreed for determining the additional revenue necessary to fund the new infrastructure, which would then be recouped from the per litre price.

Although Melbourne Airport's EOI is focused on the jet fuel infrastructure within the airport's boundary, ongoing investment in infrastructure outside the airport's boundary will also be necessary to support airlines' growing demand for jet fuel. There is not enough off-airport storage capacity to support greater volumes of imported fuel. In the longer term, given the projected volume of fuel that will need to be trucked to the



airport, it could be a good idea to build a new pipeline to transfer jet fuel efficiently to the airport.

The new operator of the jet fuel infrastructure could also become the catalyst that encourages investment in the supply chain to the airport to support the operations of new fuel suppliers.

Consultation about services

Little consultation occurs between the existing jet fuel infrastructure operator and the airlines over the ongoing delivery, operation and pricing of services. This is not conducive to promoting efficient and timely investment in jet fuel infrastructure at the airport.

The new arrangements should be underpinned by formal and effective industry consultation to support the ongoing operation, planning and pricing of the jet fuel infrastructure. The new operator must be open to, and actively seek to engage with, users and stakeholders in providing jet fuel infrastructure services at the airport.

A good start would be if the new operator were to develop a 'Jet Fuel Plan' for consultation with stakeholders. Such a plan would include:

- current and forecast demand (total and peak)
- current infrastructure storage and distribution capacity
- planned investments to facilitate forecast demand
- possible investments to facilitate safe and efficient airline operations at the airport based on soundly applied cost-benefit analysis.

Through effective consultation and developing a plan that is consistent with Melbourne Airport's own capital investment plan, the new operator can help bring about a more efficient and competitive aviation industry at the airport. And that is an outcome that will deliver long-term benefits to Melbourne Airport, international airlines and the Victorian economy.

Flight priorities review

Australia's international aviation already faces challenges due to capacity shortages in peak periods. This situation will be exacerbated by the AIP flight priorities review's proposed changes that will give the same priority to private business aircraft as regular passenger flights.

The provision of safe and affordable air travel is a key driver of Australia's inbound international tourism industry. Over the last decade, the number of short-term visitors to Australia has increased each year by about 3% and is now 6.7 million a year. Sustained improvement in the aviation industry's productivity has delivered real reductions in airfares, making travel to Australia increasingly affordable for overseas visitors.

The benefits of this growth to Australia are substantial. International experience indicates about 1,000 local jobs are generated for every million airline passengers. International tourism contributes about \$25 billion a year to the economy. Over one-fifth of Australia's trade is carried by international aviation, worth over \$100 billion each year. These statistics show how important international aviation is to the Australian economy and job creation.

The frameworks and regulations that underpin Australia's aviation industry should fit with boosting the industry's net benefits to the community. Based on a national interest objective, BARA is concerned the AIP review overly emphasises the business jet sector's needs at the expense of the overall net benefit to the Australian community.



Diversity of operations

The size of operations of BARA's member airlines in Australia varies greatly. Some airlines offer multiple daily services from a number of airports, while others operate one flight daily to and from a particular airport. Flight times also vary greatly, with flights from the United States, United Arab Emirates and Canada taking up to 14 hours.

Many international flights to Australia have reduced flexibility to respond to unforeseen circumstances because of the distance they travel. In particular, such flights cannot hold for extended periods and instead may have to divert to another airport.

IATA's submission to the AIP review also reveals a major oversight: when it comes to diverting heavy aircraft such as the A380, B744, A340 and B777s, there is a lack of available, nearby alternative airfields to accommodate these large jets. Indeed, as IATA notes, 'the number of viable [alternative] airfields for large jet operators is significantly less than the number available for "smaller scale commercial operators"'.

Potential consequences for productivity and efficiency

The overwhelming success of Australia's international aviation industry does not come without challenges as it seeks to maintain productivity and grow into the future. In short, the industry has largely used up its available airport and air navigation infrastructure capacity, especially in peak periods at the major international airports.

The review's efficiency assessment needs to include some insight into how international airlines operate for it to appreciate how any proposed changes would affect the industry's ability to efficiently provide passenger and freight services. For example, it needs to consider the potential change in the number of diversions of regular passenger transport (RPT) aircraft and

the potential impact on the efficient use and investment in airport infrastructure.

Indeed, IATA's submission notes the review 'appears to focus disproportionately on Australian domestic and non-RPT operations', and does not 'specifically' consider international RPT operations, 'particularly international long and ultra-long haul arrivals'.

Potential consequences

The review needs to assess how any proposed changes would affect international aviation, particularly given the existing shortage in capacity at peak periods.

Diversions do occur and when they happen they are managed safely and professionally, however, where practicable, avoiding the need to divert is a far better outcome.

What the review needs to address

If the review gave international flights adequate consideration, it would be apparent that when long haul international flights are diverted it:

- provides a poor international visitor experience, especially for a journey that has already taken up to 14 hours
- reflects poorly on Australia and its tourism industry (often high-profile events)
- is very expensive for international airlines operating to Australia, potentially costing some \$100k for each diversion.

Australia's flight priorities need to recognise and take these factors into account. They also need to understand how unnecessary diversions impose significant costs on Australia's tourism industry and international airlines.

BARA considers it is more important to Australia's aviation and tourism industry to address these matters than the priority afforded to other aviation segments, including the business jet sector.