



Airline Views

March 2016

1 The opportunity to compete and bring innovation and efficiencies



Australia's international aviation industry continues to forego the benefits of a more competitive and reliable supply of jet fuel.

Potential new jet fuel suppliers have made it clear to BARA that the key market entry barrier remains access to the on-airport jet fuel storage and distribution facilities on reasonable terms. Europe recognises the benefits of increased competition in fuel supply and has directives requiring open access and non-discretionary pricing of on-airport jet fuel storage and distribution facilities.

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2 Continued strong growth



Total international passenger numbers increased by 5.8% in the first half of 2015–16 compared to the same period in 2014–15.

Australia's international aviation continues to grow strongly, supported by real airfare reductions, totalling some 30% over the last decade.

Ongoing improvements in productivity and airline operating efficiencies remain critical to supporting ongoing airfare affordability and passenger growth.

3 The importance of improved airline operating efficiencies



It costs about \$7,000–10,000 an hour to operate a long haul international aircraft in flight.

Reducing international flight times by an average of just one minute could cut annual fuel use by over 20 million litres and generate some \$25 million in operating efficiencies.

There are many opportunities to improve the efficiency of Australia's international aviation. The industry's goal should be for airlines to fly safely, with greater efficiency and more predictability.

4 Aviation rescue and firefighting services at regional airports



BARA supports risk-based assessments and careful evaluation of all potential mitigators and responses to aviation incidents.

The Department of Infrastructure and Regional Development is reviewing aviation rescue and firefighting services (ARFF services) in Australia, with a focus on establishment/disestablishment criteria.

BARA supports the Consultative Paper's basic proposition to set a higher passenger threshold combined with formal risk assessments. BARA also supports clarifying ARFF service roles and responsibilities, and updating the current prescriptive regulations to make them more outcome-focused.

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The opportunity to compete and bring innovation and efficiencies

Australia used to be a global leader in competition policy and economic reform. For jet fuel, unfortunately, we now lag some 20 years behind Europe and are yet to establish the basic conditions necessary to enable a more competitive supply of jet fuel.

Status quo outcomes likely only to generate 'poor' outcomes

Jet fuel is international aviation's largest cost item, often representing over 40% of operating costs. An uncompetitive and unreliable supply of jet fuel unnecessarily increases industry costs and constrains industry growth.

BARA's internal working group assessed the competitive conditions for jet fuel at Australia's major international airports in late 2014. At Sydney, Melbourne and Perth airports the competitive conditions were rated as 'poor' to 'very poor'. International airlines can readily benchmark competitive conditions across Australian and overseas airports through their ongoing jet fuel tendering processes.

These outcomes demonstrate the pressing need to make it possible for new importers of jet fuel to enter and compete on merit at the major international airports. BARA recognises competitive conditions can and do alter through time, based on supply and demand dynamics at each airport. That said, BARA considers that new importers must be able to actively market to airlines to generate sustained improvements in competitive conditions.

Substantial industry benefits

There are substantial short-, medium- and long-term gains from creating more competitive jet fuel markets in Australia:

Short term: Immediate competitive tension (even the potential threat of entry) and 'low hanging fruit' efficiency gains in the jet fuel infrastructure supply chains.

Medium term: Investment and improvement in the efficiency and reliability of the infrastructure supply chain between the port and airport. This would likely involve direct or facilitated investment in new transfer capacity infrastructure.

Long term: More diversified supply routes and increased competitive sourcing of jet fuel from available overseas sources, further lowering industry costs and improving reliability of supply.

Analysis of competitive conditions (supply to wing tip)

	Sydney (Sept 2011)	Sydney (current)	Melbourne (current)	Brisbane (current)	Perth (current)
Number of effective suppliers	2	2	2	3	1
Rating	Poor	Poor	Very poor	Satisfactory	Very poor

Source: BARA's Jet Fuel Working Group.



Open access in Europe

European Union (EU) Council Directive 96/97 (October 1996) opened up numerous services at airports to competition between suppliers, including access to the on-airport jet fuel storage and distribution facilities to jet fuel importers.

Jet fuel importers have informed BARA the arrangements for jet fuel under the EU Directive work well, allowing them to enter and compete on merit at Europe's major airports. Nearly 20 years after the EU Directive, Australia has still not established similar competitive market conditions.

It is also worth noting that based on the EU Directive, the European Court of Justice, in its Decision of 16 October 2003, precluded charging market access fees for opening up commercial opportunities at airports.

Open access to on-airport storage and distribution facilities

Access to the on-airport jet fuel storage and distribution infrastructure remains the key market barrier to greater competition and improved industry performance. These facilities are effectively 'natural monopolies', for which there are no alternative options.

BARA is confident that, if reasonable access to the on-airport storage and distribution facilities can be established, then new jet fuel importers will begin the work necessary to compete at the major international airports. This may take some time given the need to secure access to the rest of the jet fuel supply chain and win supply contracts with airlines. But the quicker new importers of jet fuel can get started, the sooner the industry will enjoy the benefits of more competitive jet fuel markets.

To achieve the best possible industry outcomes, BARA will continue to work with the operators of the major international airports in seeking to establish the competitive arrangements already set up in Europe some 20 years ago.

Aviation rescue and firefighting services at regional airports

The review into aviation rescue and firefighting services (ARFF services) in Australia could stem the ongoing rapid growth in the overall cost of those services. But it's a missed opportunity for a long-term solution to efficient service provision as it only partly addresses the overall issues.

ARFF services review welcomed

BARA welcomes a review into the provision of aviation rescue and firefighting services (ARFF services) in Australia. BARA is unaware of evidence that demonstrates the requirement for ARFF services at regional airports represents either net benefit to the industry or the highest valued investment in aviation safety.

ARFF services at regional airports in Australia are characterised by relatively modest passenger volumes. While international aviation makes little use, if any, of such services, nonetheless it is expected to fund a large proportion of them through the current 'category six' uniform pricing of ARFF services across major international and regional airports.

BARA supports the basic proposition to set a higher passenger threshold combined with formal risk assessments. BARA also supports clarifying ARFF service roles and responsibilities and updating the current prescriptive regulations to make them more outcome-focused.

The domestic airlines that operate to regional airports are better placed than BARA to suggest when the passenger thresholds (establishment and disestablishment) should trigger a risk assessment.



That said, any risk assessment should explicitly address whether an ARFF service is 'likely to make any material difference for persons in response to an aviation incident'. After all, modern jet aircraft have extensive fire protection systems and are designed to evacuate the passengers from aircraft as quickly and safely as possible in the event of an accident. These capabilities may provide adequate firefighting and evacuation services to passengers at regional airports with relatively few aircraft movements. Such capabilities can also build on the potential availability of local firefighters, and the ability of pilots to give the airfield advance warning of a possible incident.

Airports in US, Canada and NZ provide less costly ARFF services

Based on data from Airservices Australia, about \$5.5 million of funding is required each year for it to provide a category six ARFF service at a regional airport. For an airport with 200,000 passengers a year, this translates into an average charge of about \$28 a departing and arriving passenger. This exceeds the total aeronautical charge for an international passenger at most of Australia's major international airports.

BARA has examined financial data for regional airports in the US, Canada and New Zealand and found the total aeronautical revenues they recover for all services, including airfield, terminal and ARFF services, are about half the cost incurred by Airservices in providing just the ARFF service in Australia. The airports in these countries can provide ARFF services at a fraction of the costs incurred by Airservices.

BARA's analysis suggests these countries have taken a different approach to how they deliver ARFF services. It may well be that more modest, cost-effective ARFF services are being provided compared with the elaborate and expensive ones in Australia.

It's important for a risk assessment to directly consider whether the provision of an ARFF service can be expected to materially alter the outcome for passengers should an incident occur at the airport. Some level of accident risk is inevitable but is likely to be very difficult or problematic to quantify: there hasn't been an aviation fatality involving high capacity regular passenger transport aircraft in Australia in almost 40 years. This could well mean more qualitative approaches are applied, which will likely always find some possible risk, ultimately 'justifying' an ARFF service at the airport.

A long term solution

BARA notes the review does not cover the underlying service delivery and cost issues for ARFF services but instead seeks to contain the growth in the number of excessively expensive ARFF stations. As such, this may stem the ongoing rapid growth in the overall cost of ARFF services but will not provide a long-term solution to efficient service provision that can direct available funding to other aviation safety technologies and procedures.

As such, while BARA welcomes the review of the establishment/disestablishment criteria, it only partly addresses the overall issues and misses the opportunity to maximise the net safety benefits to passengers and the industry from a given level of funding.