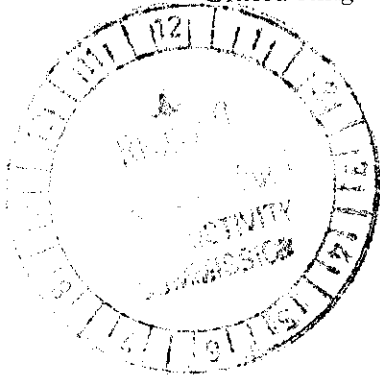




International Air Transport Association

Central House, Lampton Road
Hounslow, Middlesex TW3 1HY
United Kingdom



Fuel Services London

Please reply to :

Field House
Heathlands Road
Wokingham
Berkshire RG40 3AW
England

tel : +44 (0) 118 977 0504

fax : +44 (0) 118 977 0933

mobile : +44 (0) 7767 641181

e-mail carterk@iata.org

Ms Margo Hone
Airports Inquiry
Productivity Commission
LB2, Collins St East
Melbourne, Victoria 8003
Australia

25 June 2001

Dear Ms Hone

FUEL THROUGHPUT LEVIES AT AUSTRALIAN AIRPORTS

IATA has already made a submission to the Airports Inquiry, on 15 March 2001, which covered general airport pricing principles in some detail. We ask the Commission to accept this letter as a supplementary submission, to draw attention to an issue of particular concern to airlines and fuel companies, namely Fuel Throughput Levies at Australian Airports.

The issue was extensively canvassed at the Fuel Trade Meeting, held in Beijing from 8 to 10 May 2001. This forum represents the interests of the vast majority of players in the Jet Fuel industry, including the world's major airlines and oil companies, which are all members of the IATA Registered Suppliers Programme.

The organisations represented at the Fuel Trade Meeting believe it important to restate deep industry concerns regarding existing Fuel Throughput Levies at Brisbane and Perth, and, more particularly, possible extension of the fees.

We are aware that a condition of the oil companies' storage lease arrangements at Sydney Airport could give rise to introduction of a levy at Sydney, should the practice spread to a majority of Australian airports.

IATA recognises that airports should cover costs associated with the provision of fuel facilities, but would strongly argue that any fees collected should be strictly limited to specific recovery of these costs, through charges levied on the oil companies in leases and rentals. The supply of Jet Fuel is a vital part of the operational infrastructure of an airport. Airport owners or operators should not be permitted to exploit a monopoly position to generate excessive commercial revenue from this function.

In earlier correspondence with the Office of the Deputy Prime Minister and Minister for Transport and Regional Services, IATA was advised that the "current level of fees were introduced under commercial contracts and were set at a level agreed through commercial arbitration. Moreover, they are subject to a contractual CPI price cap for five years, which precludes any real price increase over this period."

The ACCC Report on the Fuel Throughput Levy, of December 1998, however, suggests that oil company acceptance of provisions in their leases with the then Federal Airports Corporation (FAC) to allow the charging of a fuel throughput levy, in addition to lease and licence charges, was more the result of *force majeure* than a normal commercial negotiation.

In the body of its Report (page 16), the ACCC includes elements of submissions made to the Inquiry by oil companies, including the following words by BP in respect of its dealings with the FAC on Perth Airport.

"On March 11, 1997 advice was received from the FAC that unless leases containing throughput levy provisions were signed by 20 March 1997, then the privatisation of Perth Airport would proceed *without the oil companies having secure tenure with respect to their assets on the international terminal*" (our emphasis).

Not surprisingly, the oil companies signed, and thus provided the basis for post-privatisation owners to apply a levy at their discretion.

The subsequent Brisbane levy of 0.4 cents per litre on all fuel and the Perth 0.5 cents per litre levy on international terminal fuel are seemingly arbitrary figures. Indeed, the ACCC report (page 26) is clear that neither airport operator attempted to justify their respective levies as a means to cover either increased costs or to offset decreases in other charges. The rationale was simply possession of a "contractual right" to impose the levy.

The ACCC concludes that "there is a strong case that airport operators have taken advantage of market power that they have in the provision of aircraft refuelling services" (Page 37).

The stated intent of the airport operators is to increase the levy fully in line with CPI increases, and not to apply the CPI – x price cap formula which covers aeronautical charges at Brisbane and Melbourne airports over the first five years of their privatised lives. The levy at Brisbane has already been increased to 0.403 cents per litre following application of a CPI adjustment.

The ACCC certainly believes that the price cap should apply, and states “The Commission recommends that refuelling services are included within a CPI – x price cap” (page 11).

Members of IATA are particularly sensitive to the fuel throughput levy issue, as the oil companies have passed the levy onto our member airlines in full, by way of higher refuelling charges.

It is our strong view that where fuel levies exist or are introduced revenue from this source should be taken into account when setting other aeronautical charges. IATA exhorts the Productivity Commission to consider this approach, notwithstanding the recent Direction to the ACCC from the Australian Minister for Financial Services and Regulation, which endorses a dual till approach.

IATA looks forward to the Commission’s Report on Airport Pricing in due course.

Yours sincerely,



Keith Carter
Assistant Director Fuel Services

Cc : Ron Taylor / IATA Fuel Panel Director for Asia/Pacific Region
Qantas Fuel Department
Ansett Fuel Department
IATA Director User Charges