



Shell Aviation

Professor Richard Snape
Presiding Commissioner
Inquiry into Price Regulation of Airport Services
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

SHELL RESPONSE TO DRAFT REPORT INTO PRICE REGULATION OF AIRPORT SERVICES

Dear Professor Snape

Thank you for giving Shell Australia the opportunity to respond to the Inquiry into *Price Regulation of Airport Services*.

Shell believes airport operators have substantial market power in the provision of refuelling services. Therefore these services should be included in extended price cap regulations.

Implementation of the Commission's recommendations would leave oil companies vulnerable to abuse of market power (that the Commission, ACCC and airport operators have stated exists). This would inevitably lead to higher costs for travellers and would place unacceptable risks on companies such as Shell. The attached briefly outlines the reasons why.

If you have any questions or would like further information, please contact Peter Harris on (03) 9666 5069.

Yours sincerely

A handwritten signature in black ink that reads "F. R. Funnell". The signature is written in a cursive style with a large, sweeping flourish at the end.

Fred Funnell
Aviation Operations Manager, Shell Australia
19 October 2001

cc. Sebastian Roberts, ACCC



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Shell believes:

1. That all operators of capital city airports, and some larger regional airports have a significant degree of market power.
2. Therefore price cap controls for refuelling services are appropriate.
3. This will avoid unacceptable risks being placed on Shell and avoid excessive price increases to consumers.

The following outlines support for Shell's arguments from the ACCC, some practical examples of evidence of market power in refuelling services and Shell's recommendations for price regulation of these services.

Findings of the ACCC

Shell agrees with the findings of the ACCC that large airport operators have market power in the market for refuelling services.

The ACCC monitoring report into the implementation of fuel throughput levies concluded:

There is a strong case that by introducing fuel throughput levies airport operators have taken advantage of market power that they have in the provision of aircraft refuelling services.

The report also concluded that: When considered together with the monopoly nature of the market for land for refuelling facilities, the lack of alternatives to refuelling at all major airports reinforces the airports' market power.

The ACCC recommended stricter forms of prices oversight should be considered in relation to aircraft refuelling services. In addition, the ACCC recommended that refuelling services should be included within price cap regulation (that is, a CPI-X price cap). Shell fully supports these recommendations.

Shell's recent experience with charges and airport leases

To back up the findings of the ACCC, the following outlines some recent experiences Shell has had with both refuelling service charges (predominantly lease payments for the use of airport land) and introduction of fuel throughput levies.

These practical examples highlight the market power that can be exercised by airport operators over refuelling services.

Fuel throughput levies

On top of refuelling charges (consisting mainly of lease payments), some Australian airports have chosen to apply an additional fuel throughput levy.

Shell would be prepared to pay increased fuel throughput levies, if refuelling service charges fell by a similar amount, as this would reflect usage. However, increasing both refuelling service charges and applying fuel throughput charges is an example of abuse of market power.

As the ACCC found:

When considered in light of the lack of any cost related justification for the levies, or offsetting reduction in charges, there is a strong case that the imposition of a fuel throughput levy is taking advantage of market power.

Take the fuel throughput levy applied at Perth Airport. An expert determination of the claim found:

... a throughput fee in the order of 0.08 cents per litre would be justified if it was levied in lieu of rent or licence fees. Since WAC are not however proposing to reduce or remove rent or licence fees, no fee is reasonably justified.

The reality was a fuel throughput levy of 0.35 cpl was introduced and refuelling service charges also increased.

Nadi Airport

Another example of uncapped pricing regime is Nadi Airport in Fiji.

Given the recent coup in Fiji and the associated decline in air travel to Fiji, Nadi Airport revenue declined significantly. Their solution, abuse market power and "tax the last man standing". As revenue from airlines was drying up, the airport has increased fuel throughput charges from 1.02 to 2.188 Fijian cents a litre over the last ten months.

This is a good example of how market power can be used to generate additional income from "captive sources" where revenues from other sources have declined.

Shell's experience with lease negotiations at Sydney Airport

Shell has been seeking to extend our JUHI lease and is currently in negotiations with Sydney Airport. Sydney Airport Corporation Limited has delayed negotiations waiting on an outcome from the sale of the airport. Clearly this is to allow a bidder who may pay more than the expected

revenue stream from current charges, to then simply increase charges where they have the market power to do so.

Sydney Airport also has the capacity to apply a fuel throughput levy where there has previously not been a levy, is evidence of market power. If a levy applied at Sydney was a similar level to that applied in Brisbane (0.4 cpl), this would add \$8.8 million a year to the cost of travel.

The way forward

The Commission was asked to quantify the benefits of its recommendations, and prove they would provide more efficient outcomes for the Australian travelling public. Instead the Commission has identified market power in refuelling services, and then recommends changes that would accentuate this power to the detriment of oil companies and consumers.

Therefore Shell recommends the Commission reconsider its recommendations in light of the need to continue a sustainable local aviation industry and include refuelling services in extended price cap regulations.