



**Australian Government**  
**Productivity Commission**

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**PRODUCTIVITY COMMISSION**

**MR P LINDWALL, Commissioner**  
**MR K BAXTER, Commissioner**  
**MR S KING, Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT LEVEL 12, 530 COLLINS STREET, MELBOURNE**  
**ON FRIDAY, 30 NOVEMBER 2018 AT 9.55 AM**

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5           **COMMISSIONER LINDWALL:** Good morning. I don't expect too  
much turbulence today, but like always you should have your seatbelts  
fastened just in case. I am Paul Lindwall. Welcome to the public hearings  
for the Productivity Commission's inquiry into the economic regulation of  
airports. I'm the presiding Commissioner here. I've got Ken Baxter on  
10 my left and Stephen King on my right here, who are my fellow  
commissioners. The inquiry started with a reference from the Australian  
Government in June 2018. The purpose of the inquiry is to investigate  
whether the economic regulation of airport services promotes the efficient  
operation of airports and related industries. The Commission has been  
15 asked specifically to review competition in the market for jet fuel in  
Australian as part of its inquiry.

We've talked to representatives from the Australian state, territory  
governments, airports, airlines, representative bodies, and academics,  
20 researchers, and individuals with an interest in the inquiry. Starting with  
our issues paper on 9 July we've received, I think, 77 submissions since its  
release and more are obviously welcome and will be available on our  
website. We're grateful to all the organisations and individuals who have  
taken the time to prepare submissions and to appear at the focused  
25 hearings here on competition in jet fuel markets. We had a hearing in  
Sydney a couple of days ago. We're now working towards completing a  
draft report, having considered all of the evidence presented at the  
hearings and in submissions and in other discussions, and we're expecting  
to be releasing that in February 2019.

30 Public hearings regarding the broader inquiry will then be held in March  
to April 2019 following the release of the draft report. The final report  
will be submitted to the Australian Government in June 2019.  
Participants and those who have registered their interest in this inquiry  
will be advised of the final reports released by government, which may be  
35 up to 25 parliamentary sitting days after completion. That can be a long  
time. The purpose of these hearings is to provide participants with an  
opportunity to elaborate on their submissions and to discuss issues with  
the commissioners here. Any organisation or person can participate, but  
those who have an interest in the market for jet fuel have been encouraged  
40 to appear.

We like to conduct all hearings in a reasonably informal matter, but I  
remind you that a full transcript is being taken, and that's why questions  
45 from the floor can't be taken, but at the end of today's proceedings, if you  
want to come up and either correct what someone else has said or make

your own statement you'll be welcome to do so. You're not required to take an oath, but of course under our Act - the Productivity Commission Act 1998 - you're required to be truthful in your remarks. You're welcome to comment, as I said, on issues raised by other people or in submissions.

5 The transcript will be made available to - well, on our website at some stage. What, about a week I think it is? Something like that. Submissions are also, of course, on our website. For any media representatives attending today some general rules apply. Please see any one of our staff for a handout which explains the rules.

10 To comply with our - we're in the Commonwealth territory building office here - with occupational health and safety legislation you are advised that in the unlikely event of an emergency requiring the evacuation of the building, please listen to - for instructions over the PA system. Follow the

15 exit signs to the nearest stairwell - so it's back out that way and the stairwells are right there. Lifts are not to be used, and please follow instructions of the floor wardens. If you believe you're unable to walk down the stairs it's important that you advise the wardens, who will make alternative arrangements for you. You are invited - participants are

20 invited to make brief opening remarks, and I'd like to welcome Melbourne Airport, and if you could introduce yourself for the transcript, and make any initial comments you wish to.

**MR GANDY:** Certainly, I will do. Thank you, Commissioners, for

25 having us here today. We're both very pleased to be here. My name's Simon Gandy. I'm the Chief of Aviation for Melbourne Airport, and with me I have my colleague, Scott Elliott, who is the Executive for Strategy and Business Improvement. I thought it would be useful to start with a bit of a brief overview of the current arrangements for jet fuel at Melbourne

30 Airport before we get into any questions. We've got a keen interest on how the jet fuel market operates at Melbourne Airport. From our perspective we want Melbourne Airport to be competitive with other airports, which forms part of our offering to existing customer airlines, as well as attracting additional services and new airlines too.

35 There are two key aspects to a competitive offering when it comes to jet fuel, from our perspective. The first is to ensure that there's a resilient supply of jet fuel, and this has been an issue in the past for us, but we've put agreements now in place to remedy this situation at the airport. The

40 second is that Melbourne has competitive jet fuel pricing; so those are the two key aspects that we believe provides a competitive offering. These objectives are completely aligned with those of our airline customers as well, as what's best for them is best for us as an airport at the same time. However, the provision of jet fuel is ultimately a transaction between

individual airline and fuel companies, and so our ability to influence can at times be somewhat limited in this.

5 Where we can make the biggest difference is through the terms of the lease between Melbourne Airport and the JUHI joint venture at the airport. In November 2017 we signed a new 20 year agreement with the JUHI joint venture, which will result in better outcomes in the future, and I'll quickly over off on a couple of important features of the new agreement before going into a bit more detail. So, the first is really around  
10 improving the resilience of the jet fuel supply. There are new provisions in the agreement that require the JUHI to meet benchmarks for onsite storage capacity, input capacity into the JUHI, and a supply of hydrant infrastructure which is distributed throughout the whole airport precinct. So that's how we get fuel direct to aircraft on stands.

15 By introducing these requirements the agreement will ensure that not only is the JUHI facility suitable for today's needs, but actually it keeps pace with the growth of Melbourne Airport over the next 20 years, where we're going to be approaching between 65 and 70 million passengers by 2038. The new agreement requires that onsite storage capacity at the JUHI must  
20 meet the IATA guidelines for three days of operating supply. Currently we're well below this, with storage at about 1.2 times the average daily usage. To meet this requirement new storage facilities at the JUHI are currently being constructed, so this is already underway, and we're  
25 expecting that these will be operating in late 2019.

This is expected to add an additional 25 megalitres of storage capacity, which will more than triple the existing storage capability, and that supports the recovery of any unforeseen outages for a longer period of  
30 time at the airport, should they occur. The new agreement also requires that the input capacity to the JUHI will be maintained at least 110 per cent of the average peak day daily operating requirement. So that's making sure that we're able to get fuel into the JUHI facility at a sufficient rate. that supports fuel resilience with greater storage, allowing Melbourne  
35 Airport to recover from potential supply shocks should they occur in the supply chain, and in the past 12 months a third bridger, which is the - effectively the - it's the facility that enables trucking to offload at the JUHI. A third bridger has been delivered, and that investment has increased the input capacity of the JUHI, and there is also provisions in  
40 the agreement to enable a new pipeline to be constructed as well.

The agreement also ensures that Melbourne will have sufficient hydrant infrastructure over the life of the agreement, and this really is committing the JUHI joint venture to investing in hydrant infrastructure in line with  
45 our passenger growth. So in the past we haven't had that link, but it's

importantly linked now, and it's linked with the investments that are included within our Air Services Agreement that we have with our airlines. So there's a flow through from the demand for passenger growth and airline growth, through to the JUHI providing onsite facilities in terms of hydrant infrastructure. So they're the steps we've taken to improve resilience of the fuel supply at Melbourne. They are important measures, and they will provide great certainty for the airlines operating out of Melbourne in the future.

As I mentioned, we're also keen on ensuring that the price of jet fuel at Melbourne is competitive. This is particularly important for aviation growth as we compete for traffic with other airports, and given that fuel is one of the largest costs to our customer airlines this is a key consideration for airlines in reviewing the overall commerciality of a route to Melbourne. So while we have no direct involvement, it's very important for us that Melbourne is competitive, which is why the new agreement requires the Melbourne JUHI joint venture to provide for open access to the JUHI facility. We hope that this will promote competition in the jet fuel market, reduce resilient - reliance on a small number of providers, and give airlines the opportunity to introduce their own supply should they require it.

We understand that there's been significant interest in this from companies to access the Melbourne JUHI, so there are entrants that are potentially ready to enter the market. As I said, the agreement allows for an additional pipeline to the JUHI. This will be important for not only meeting future demand but also allowing access seekers greater choice in how they transport their jet fuel to the JUHI facility at Melbourne. So that's really a summary of the measures that we've put in place, into our new 20 year agreement. We think it will serve Melbourne Airport and its airlines well. However, ultimately the supply of jet fuel is based on commercial relationships between airlines and fuel companies, and the extent to which Melbourne Airport can influence the jet fuel market is limited beyond our agreement with the joint venture. The joint venture also doesn't address, obviously, the supply chain that leads into the airport as well, which is a key factor.

**COMMISSIONER LINDWALL:** Thank you very much for that.

**MR GANDY:** That concludes my opening statement, thank you.

**COMMISSIONER LINDWALL:** Thank you. I'll ask a couple of questions and then get my colleagues to ask questions, but could I ask, firstly, the - when you met with - the other day, BARA, and they said the

open access is not - Melbourne Airport and the new lease is not really open, what would you say to that comment?

5 **MR GANDY:** It's an interesting comment. The provisions in the agreement require that - the JUHI joint venture to provide for open access, and I think that has been tested. Our understanding from the JUHI is that they've had a number of companies apply for access. So we're very much leaving that for the JUHI to manage in that process. We're pretty clear from what's included within the agreement that open access should be  
10 being provided by the JUHI, and we'll keep, obviously, tabs on how well those access requests are going over time.

**COMMISSIONER LINDWALL:** But at this stage it's too early to tell, I guess, that?  
15

**MR GANDY:** Very much so, yes.

**COMMISSIONER LINDWALL:** Yes, and when you were negotiating the new lease agreement, compared to the previous one, the - you have  
20 incorporated this open access. What did you - how did you manage to get that in, I guess? That's quite a good addition, one would have thought, naturally.

**MR ELLIOTT:** Yes, yes. Well, the negotiation with JUHI was quite a  
25 long and complex one, because we were looking to solve a problem that we had at the time in Melbourne Airport, and I think the problem came about, and it's - potentially taking one step back to be able to give you the context - it came about because the existing lease that we had with the JUHI lacked, probably, the necessary provisions to ensure an orderly  
30 transition at the end of that lease, which meant that both parties probably had quite different views on how to go forward, but equally that gave us quite a lot of scope to talk about, if we were to partner for the next 20 years, what would that agreement need to look like? And we had some quite clear views, and Simon's already articulated those, that we needed to  
35 make sure we had the necessary investment in infrastructure but also the open access.

The JUHI had, I guess, realised the - if they did want to be able to enter into a long-term agreement with us there would need to be some  
40 flexibility on all of those points, and I must say they didn't accept our - exactly our position on all of these items, so there was quite an intense negotiation, but ultimately we were able to, as part of the package, include open access, and like Simon said, though it is at an early stage.

45 **COMMISSIONER LINDWALL:** Yes.

**MR ELLIOTT:** And the open access regime that is included within our agreement only covers on airport infrastructure.

5 **COMMISSIONER LINDWALL:** Yes.

**MR ELLIOTT:** It doesn't cover anything outside of that because we were negotiating with a set of owners.

10 **COMMISSIONER LINDWALL:** Yes.

**MR ELLIOTT:** And that set of owners isn't replicated throughout the supply chain.

15 **COMMISSIONER LINDWALL:** The terms and conditions for access under the open access, they're not public, I assume?

**MR GANDY:** No, they're not. They're part of the commercial agreement.

20 **COMMISSIONER LINDWALL:** Would that be better, to be transparent about that type of thing, so that a potential new entrant would know ex ante the types of terms and conditions that are needed to be agreed to reach the open access?

25 **MR GANDY:** Yes. Whilst the legal terms in the document are commercially, obviously, sensitive, there is a requirement on the JUHI to have, on their website, how you actually gain access, so what the conditions under the open access are and how you apply. We believe  
30 they're all in place, and certainly the feedback from some of the organisations that are currently applying for access, they've been able to navigate that and they've been able to apply, so - and there are companies going through that process right now. So we're not hearing, really, a lot of  
35 noise coming back saying we haven't got enough information to move forward.

**COMMISSIONER LINDWALL:** I will talk about some other issues, but maybe you want to start, Stephen.

40 **COMMISSIONER KING:** Yes. Just following up on what you said there, so can I take it from what you've said that there was an issue with a lack of investment because the end of lease terms and conditions weren't clear; is that what you were saying when you talk about an orderly  
45 transition?



**MR ELLIOTT:** That was one of the items. There was no sunset provision in the agreement that dealt with investment in the last three to four years, for example.

5 **COMMISSIONER KING:** Okay. Well, we note that there's different arrangements at different airports.

**MR ELLIOTT:** Yes.

10 **COMMISSIONER KING:** So, in your opinion, how important is a longer term lease arrangement with the JUHI? How important is that for investment?

15 **MR GANDY:** I'll answer that. I think the key thing here is the airport is going to be around for some time, and it's the front - it's a front door to the state and the city of Melbourne for this particular traffic. So, having a long-term agreement actually enables organisations to invest for an appropriate period of time in the necessary infrastructure to mark time with growth. The previous agreements didn't have any of that tie-in in terms of what our airline customers would need in the future to match the growth of the airport, and therefore the necessary investment in the JUHI. The new agreement has that, and the 20 years was considered to be an appropriate length of time to enable all organisations to succeed in that process.

25 **COMMISSIONER LINDWALL:** So, I think some of the fuel companies have said that the lack of investment that was apparent previously is partly due to the non-lease - the lease terms not being long-term. Would you agree with that, or?

30 **MR GANDY:** I think that might have been an argument at a moment in time that has now passed. So, I don't see that as being a problem.

35 **COMMISSIONER LINDWALL:** So, could I ask, you've currently got 1.2 times average daily supply?

**MR GANDY:** Yes.

40 **COMMISSIONER LINDWALL:** I think you mentioned three times as being increased with this 25 - - -

**MR GANDY:** Megalitres, yes.

45 **COMMISSIONER LINDWALL:** Megalitre storage. Does that mean it's 3.6 days, I guess? Is that - - -

**MR GANDY:** Yeah, I think it is. It's slightly over. Because of the size of the tanks it's not an exact science.

5 **COMMISSIONER LINDWALL:** Okay.

**MR GANDY:** So, it's a minimum - the IATA guideline is a minimum of three days.

10 **COMMISSIONER LINDWALL:** Yes.

**MR GANDY:** The fact that we might have slightly more than that is obviously a benefit, but - - -

15 **MR ELLIOTT:** Initially it will be (indistinct words).

**MR GANDY:** Yeah, they tend to build these in lumps of 10 megalitre tanks if they can, because it's more efficient to do, so.

20 **COMMISSIONER LINDWALL:** Of course. So, the issue you had in the past with black light traffic, what, a couple of years ago when it was - -  
-

**MR GANDY:** Yes.

25

**COMMISSIONER LINDWALL:** That is not likely, you don't think, to happen in the future?

30 **MR GANDY:** Well, I think the important thing here is that the length of time that we've got to recover from a potential incident - because what we're not doing is addressing any of the supply chain issues before the fuel actually gets to Melbourne.

**COMMISSIONER LINDWALL:** Of course, yes.

35

40 **MR GANDY:** So, I'd love to say I'm never going to have another - a change in traffic light. It's just my ability to respond to that, and therefore how quickly I might move through the traffic lights might vary. The one thing we have learnt is that communication is absolutely key. If there's something that's known upstream in the supply chain, to know that early and then to represent that in the form of a traffic light system really helps airlines and airports manage the whole process.

**COMMISSIONER LINDWALL:** So if you consider what happened in Auckland Airport, where pipeline was disrupted, perhaps, by a tractor or something.

5 **MR GANDY:** Yes.

**COMMISSIONER LINDWALL:** And it made quite a major change to operations for a while.

10 **MR GANDY:** Yes.

**COMMISSIONER LINDWALL:** What type of contingencies would happen at Melbourne if that were to happen?

15 **MR GANDY:** Yes.

**COMMISSIONER LINDWALL:** Because you've got the one pipeline coming in.

20 **MR GANDY:** Yes.

**COMMISSIONER LINDWALL:** And how much can you substitute with trucks, for example, for a period?

25 **MR GANDY:** Yes, that's why we've tended to include the provision to maintain both bridges and pipeline, but if we had an outage on the pipeline - that's a significant supply source to the airport - it would - having the additional tanks gives us more time to then adjust the operations and actually look at the fuel rationing, rather than having to do  
30 that in a day.

**COMMISSIONER LINDWALL:** Of course, yes.

35 **MR GANDY:** So you've actually built in a bit of time to be able to respond, but at the end of the day, if you've lost a pipeline, which is more than 50 per cent of our supply, then it's problematic.

**COMMISSIONER LINDWALL:** Exactly.

40 **COMMISSIONER KING:** Can I just follow up, just on that trucking? So you mentioned that there either is a potential for another bridge or it will go ahead.

45 **MR GANDY:** No, a third bridge has already gone in.

**COMMISSIONER KING:** Okay, excellent. It's been put to us quite stridently at some airports and by some participants that trucking fuel is simply uneconomic, that it can't compete against pipelines. Melbourne Airport appears to be an exception to that. Why? Is trucking in the fuel  
5 actually an economically viable substitute for the pipeline at Melbourne Airport, and why are we getting these different messages from other airports?

**MR ELLIOTT:** In terms of the economics, transporting jet fuel by  
10 pipeline is superior to trucking. The costs are higher. Despite that, we've still got suppliers that are more than happy to truck fuel and are able to make a profit. So, those that have access to a pipeline I'm sure enjoy using that pipeline, but it doesn't necessarily exclude people from the market if they have to truck. That's been the feedback that we have  
15 received.

**COMMISSIONER KING:** Is it partly, then, that the pipeline - or there's limited pipeline capacity coming into Melbourne Airport, so it's fairly constrained? Is that a difference, perhaps, compared to other airports  
20 where we find that the trucking isn't viable?

**MR ELLIOTT:** That would likely be the case.

**MR GANDY:** Yeah.  
25

**COMMISSIONER KING:** Okay.

**COMMISSIONER LINDWALL:** Ken.

**COMMISSIONER BAXTER:** Yeah. Are you people aware of the  
30 shareholding ownership in the Melbourne JUHI, compared to the shareholdings in the Sydney JUHI?

**MR ELLIOTT:** We are aware that there are differences, but to be  
35 perfectly honest we don't - we focus on the arrangement we've got in Melbourne. So we don't really have a lot of information about the way in which those shareholders interact and what the difference is.

**COMMISSIONER BAXTER:** But presumably with Sydney Airport, as  
40 with Melbourne, there is one pipeline that goes from the terminals which the oil is delivered from, presumably, either the (indistinct) store from Singapore.

**MR ELLIOTT:** Singapore, yes.  
45

5 **COMMISSIONER BAXTER:** What is the assurance that you've got that there's actually a competitive market in terms of that fuel being delivered? I mean, is there any evidence that, the shareholders probably being very much the same, that there's a neat collusive agreement between them as to what the prices are that's offered?

10 **MR ELLIOTT:** To be perfectly honest, I don't think we're best placed to comment on that, simply because we're not involved in the day to day negotiations between the airlines and the fuel suppliers, and we don't have the - probably the information required to be able to give you an answer for that.

15 **COMMISSIONER BAXTER:** But is that not - I mean, not suggested to you by the amount of fuel that might be drawn down by, let's say, Qantas or Virgin, compared to what might be drawn down by others from the JUHI in Melbourne? Do you have any sense of the volumes that go through the JUHI, or you're just the lessors?

20 **MR ELLIOTT:** We understand the overall volumes, but aside from that we don't have access to the information.

**COMMISSIONER BAXTER:** Right.

25 **MR GANDY:** The fuel companies have been fairly clear around their ability to share any of that commercial information with us.

**COMMISSIONER BAXTER:** That they won't.

30 **MR GANDY:** Yes, they won't.

**COMMISSIONER BAXTER:** Sorry, Stephen.

35 **COMMISSIONER KING:** Perhaps coming at the issue for a different direction though. Obviously the new lease has a range of investments in there to get a - to deal with the supply disruption potential, but it has also got the open access in there. Why? What drove the desire from your perspective to have open access in there, rather than just simply additional investment? What's - what do you see is the benefit of open access?

40 **MR GANDY:** Yes. So part of this is responding, also, to our customers. So, BARA and other airlines were clear that, actually, open access was a key requirement from their lens. So, part of this is championing our customers' view into the agreement that we had control of, and the second is, as I said right at the start, there's a commercial benefit for us to be  
45 competitive as a city, and competitive in terms of new routes and

additional routes, and existing routes. So, how well an airline performs in its existing state is absolutely key. Given that fuel is one of the biggest costs to them, then the more we can do to support that the better.

5 **COMMISSIONER KING:** So when you say competitive, do you mean the price of fuel?

**MR GANDY:** No - - -

10 **COMMISSIONER KING:** Do you mean that the airlines want open access because it's a pricing issue, or what - why do the airlines want open access?

15 **MR GANDY:** The airlines want open access for that ability to be able to get access to the cheapest fuel they possibly can, because it's a big proportion of their cost, and if we're - if Melbourne is seen to be more expensive than Sydney or Brisbane, if you're an international airline, they will look at those metrics when they're deciding where to place their new routes. So, internationally we are - as Australia, we will be competing  
20 with other major cities for additional services and existing services.

**COMMISSIONER BAXTER:** And presumably - sorry, can I just follow that - the airlines that stop at, say, Singapore, also balance as to how much fuel they put in a tank or an aircraft, say, leaving Melbourne or  
25 leaving Sydney, and how much they then top up when they get to Singapore or to, say, Hong Kong?

**MR GANDY:** Yeah. Yes.

30 **COMMISSIONER KING:** Did the airport - I mean, as part of the negotiations, obviously, the open access would have been something that would have taken time and effort to get in the agreement. So, did Melbourne Airport do, sort of, due diligence test to see if the prices of fuelling the plane were higher at Melbourne than, say, Sydney or  
35 Brisbane, or did you get information from the airlines to back up their concern that the prices were higher? I mean, what evidence did you have that the prices actually were higher at Melbourne, so that this fear that you had, of the internationals moving to other airports, was justified?

40 **MR ELLIOTT:** I am not sure how much - - -

**MR GANDY:** Yes.

45 **MR ELLIOTT:** Well, I'm not sure - we had feedback from different parties, but it's more anecdotal than anything else. People are not willing

to share, and most often aren't able to share, the specific information. So, in terms of having a view on relative fuel prices between destinations, we don't have that exact information, but based on the feedback that we were getting from the airlines we thought it was more than worthwhile to ensure that we had open access. There's no downside to including the open access.

**COMMISSIONER KING:** Yes.

**MR ELLIOTT:** As long we've got a competitive market we can't be doing anything more than that for our customers.

**COMMISSIONER LINDWALL:** Would you see a benefit in greater transparency in pricing and other terms and conditions?

**MR ELLIOTT:** Yes.

**COMMISSIONER LINDWALL:** The PC has powers under s.48 of our Act to obtain information necessary, if we wish to, should be exercise that power.

**MR GANDY:** That's an interesting question. I think the piece for me is, in terms of the airport and the airport's lens, are we providing what we think we need to locally to enable the best possible outcome for our customers? And for that we've looked at it in terms of, are we able to match the growth that airlines are saying that they want into Melbourne with the provision of infrastructure?

**COMMISSIONER LINDWALL:** Yes.

**MR GANDY:** We think we've covered that off, and are we enabling other fuel suppliers to enter the marketplace? How you then determine whether you need to look at prices or not is really, I would suggest, whether there's a need to explore more into the supply chain outside of the airport, more than anything else, and how that works.

**COMMISSIONER KING:** I just want clarification. Presumably the price negotiated with the airlines by the oil companies is a CIF price into tanks at airport, not an FOB price. What is it?

**MR GANDY:** I don't know. I don't know.

**COMMISSIONER LINDWALL:** I think they'd be with the airlines, yes. The Victorian Government, as far as I understand, promoted a consultative forum of a sort to - between the airlines, fuel companies, and

airport. Has that been successful, and would you like to see that continue? And I think the Department of - federal Department of Infrastructure thinks that a consultative forum would be quite helpful too.

5 **MR GANDY:** Yes. So - and you can say a bit more on this as well, Scott. I think the roundtable that was established actually demonstrated the importance from all players. So, federal government was at the roundtable, state government as at the roundtable, airport in terms of the infrastructure provision at the airport, and also airlines and fuel suppliers.  
10 So, you've got all of the important people on this subject in a room talking about what was effectively outside of the Melbourne Airport JUHI and starting to look at, "Right, so what do we see in the next 20 years as being enablers for great fuel supply at Melbourne Airport", and looking into that upstream supply piece. So, from our lens it was - we welcomed it and we supported it with our attendance, and it was great to see it supported by  
15 the industry in general.

**COMMISSIONER LINDWALL:** And is it likely to continue then?

20 **MR GANDY:** We hope so, yes.

**COMMISSIONER LINDWALL:** Yes. Does it require anything - I mean, do you think the PC should be recommending that type of - that forum be around the country, basically, along the same type of structure,  
25 with state, federal, airlines, airports, and fuel companies all participating?

**MR GANDY:** Yes. I think it's - it depends on the - what you're trying to solve at your particular airport. As I think we said at the start, all of the airport - - -  
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**COMMISSIONER LINDWALL:** Everything is different, yes.

**MR GANDY:** All of the airports are different. This was a great mechanism, and is a great mechanism, for dealing with the challenges we've got at Melbourne.  
35

**MR ELLIOTT:** Just generally on the forum, while there was no specific authoritative decision making capability of that forum, simply having the transparency and having all stakers - stakeholders involved in the discussion was extremely helpful in flushing out some of the issues we were dealing with and then ensuring that everyone was aligned in terms of how we were going to go about solving them, so.  
40

**COMMISSIONER LINDWALL:** Can I go back to the open access and ask another question, which is more of a theoretical question, that you've  
45



5 got a particular open access regime with fuel companies participating in the JUHI. How would you compare that to an alternative where there's a JUHI and fuel companies are not participants in the JUHI, and in fact some third party, or the airport itself for that matter, is the actual equity holder of fuel infrastructure, and then they have open access to fuel companies to bid for that?

10 **MR GANDY:** So, are you - can I just clarify my understanding? So are you saying that fuel companies would be enabled to - - -

**COMMISSIONER LINDWALL:** Would not be - not part of the JUHI.

15 **MR GANDY:** Would not be. Right. So they'd just be (indistinct words).

**COMMISSIONER LINDWALL:** It would be some third party operative independent agency, yes.

20 **MR GANDY:** Yes. Yes, we think that could work.

**COMMISSIONER LINDWALL:** I think Northern Territory, and we're going to hear from them, have that type of arrangement.

25 **MR GANDY:** Right, yep.

**COMMISSIONER LINDWALL:** Sorry, Stephen.

30 **COMMISSIONER KING:** When you were considering for renegotiation to lease did you consider alternative approaches? For example, did you consider Melbourne Airport taking back the JUHI infrastructure, and obviously that - you've decided not to do that. I'm interested in why, why have you decided not to go down that route.

35 **MR GANDY:** I think it comes back to core business that you're directly operating and that you have experience in, as opposed to enabling other core businesses to operate on your site in a way that still enables the ongoing growth and commerciality of our business, so - and we did look at a number of options, but came down to, probably from a risk-based approach, that actually the incumbents had a lot of knowledge around how to operate a good - at that time good relationships with the network of airlines that existed, and we were able to do an agreement with them. Ultimately, if we weren't able to do an agreement with them we might have chosen another way.

45 **COMMISSIONER KING:** Yes, yes. I guess that's a reasonable point.

**COMMISSIONER LINDWALL:** Are you able to run through what sort of - you mentioned "We considered some other options", but you discarded them. What sort of options were you looking at?

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**MR GANDY:** Oh, pretty much the ones that you spoke about, but these were high level reviews when we started the process, as to do we stay with current incumbents, do we look at doing it ourselves? We quickly got to a point of going "No, we're not a fuel supplier and we're not a fuel operator", and looking at third parties.

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**COMMISSIONER LINDWALL:** Okay. So I note BP, in its submission, mentioned that you embarked on an open tender process for fuel infrastructure as part of the lease process. Is that one of the options that you considered and moved down the table a bit further? Just a bit more background on that would be useful.

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**MR GANDY:** Do you want to talk about that piece, or?

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**MR ELLIOTT:** That was actually before my time at the airport. But that was one of the considerations, and there was a tender process run. It only made a certain way through that process where, as Simon said, once that was - the pros and cons of that tender process and continuing that as opposed to continuing down the path that we had with the JUHI.

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**COMMISSIONER KING:** Are you able to elaborate on - because that one seems to be, you know - it went past the sort of high level "Let's think about these. No, this is the way to go."

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**MR ELLIOTT:** Yes.

**COMMISSIONER KING:** I mean, if you actually got into the tender process.

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**MR ELLIOTT:** Yes.

**COMMISSIONER KING:** So, it would be useful to know what came out of that process that led the airport to say "Ah, this isn't the way to go. We'll renegotiate with the current owners."

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**MR ELLIOTT:** I'd have to take that on notice and come back to you with more information.

**COMMISSIONER LINDWALL:** The other day we heard from Bioenergy Australia, I think, and it was about biofuels and the trial they

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had in Brisbane, which had some problems, principally - and we'll ask Brisbane Airport later on, but about having to be tested, I think, five times I think it was testimony on Wednesday, and compared to only once for the fuel.

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**MR GANDY:** Right.

**COMMISSIONER LINDWALL:** What would be - well, (a), what do you think about biofuel - but from what I understand it's a more dense form or fuel and has fewer impurities - about entering the - your JUHI, and how would that work with your current open access, I guess?

**MR GANDY:** Yeah, it's interesting. I wouldn't know the details from a fuel specialist perspective. I don't think there's anything in our open access that precludes a biofuel being provided. There are standards that the fuel companies operate to, and they're specified as part of the open access regime, so whether it forms part of that or not I just don't know. It's just not an area of specialism that we have.

**COMMISSIONER LINDWALL:** Ken, have you - - -

**COMMISSIONER BAXTER:** No, I've got no - - -

**COMMISSIONER LINDWALL:** Did you have anything?

**COMMISSIONER KING:** Yes. Sorry, we're going to be jumping about a bit, a little bit.

**COMMISSIONER LINDWALL:** Yes.

**COMMISSIONER KING:** Just coming down to the open access regime, and understanding it's early days, and obviously you, the airlines, the suppliers, and ourselves will be very interested in how it goes. Is there a process in place to evaluate whether the open access regime is actually working? Is there a process by which the airport is involved, for example, if there's complaints about, you know - some of the parties come back and say "Oh well, yes, we tried to get open access but we found our fuel was being tested five times every time we tried to put it into the JUHI storage facility, so it - you know, it hasn't worked for us"? Is any of that mechanics built in to be able to check, "Yes, this is working", or "No, this needs further negotiation and a rethink? Is that part of the airport's strategy?"

**MR GANDY:** Yes. No, it's a good question. What we've established with the agreement that we've got with the JUHI is regular sessions to

review not just the progression of infrastructure and the operation, but also to do a once a year check and say "So, how are we going. We're going on the journey as intended in line with the agreements that we've got in place, and open access would be one of those that we'd revisit and look at and say "So, what's the reaction been", and the JUHI have in the past shared the names of organisations that have applied, and we've contacted them to say "So how's it going from your lens?" So, as we say, early days, but we'd see that continuing probably on an annual basis, just to keep tabs with the requirements in the agreements that we've got.

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10 **COMMISSIONER KING:** Okay, and presumably not - you mentioned the parties that you contacted.

**MR GANDY:** Yes.

15 **COMMISSIONER KING:** Presumably access seekers, but also would you be talking to the airline about whether they see any difference, any improvement, or - - -

20 **MR GANDY:** Generally we would, but again, we're not going to get into the - we couldn't be able to determine whether or not they've got a commercial price and agreed.

**COMMISSIONER KING:** No.

25 **MR GANDY:** So to that extent it's really how well they can negotiate with fuel companies. At the end of the day we'd be talking about the provisions we've got in the agreement and saying "Yeah, we think they're working, and we are keeping pace with growth, and we're enabling people to access the JUHI should they wish to.

30 **COMMISSIONER LINDWALL:** But presumably - you mention anecdotes from the airlines were an important input to the decision.

35 **MR GANDY:** Yes.

**COMMISSIONER LINDWALL:** So presumably you'll be looking for the anecdotes to change, if I can put it that way.

40 **MR GANDY:** Yes, but we'd kind of sense check in balance with all of the other things that we're seeing as part of the agreement, so, it's - the idea is we build relationship rather than we just get a contract out every time somebody writes to us.

**COMMISSIONER LINDWALL:** No, understood. So, when - of course you're about to embark on a parallel runway being constructed, which will change the tarmac area and the apron areas.

5 **MR GANDY:** Sure.

**COMMISSIONER LINDWALL:** Obviously I would - they would affect the fuel supply within the - that area. How will that be provisioned? Is it through this lease or separately?

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**MR GANDY:** No, it's through this agreement.

**COMMISSIONER LINDWALL:** Okay.

15 **MR GANDY:** And what we do is, we do a check every five years, which starts to look at "So, where's the next agreement going? What's that infrastructure requirement and how does that then link in with what the infrastructure requirement is in the JUHI and in the hydrant infrastructure. So the two start to move in parallel with each other.

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**COMMISSIONER LINDWALL:** Okay.

25 **COMMISSIONER BAXTER:** Can I just follow up on that? In the current arrangements is the JUHI pipeline operating at full capacity, or has it still got available capacity in it to - if one of the airlines decided to, say, shift taking on fuel from, say, Sydney to Melbourne? What's the capacity of the pipeline at the moment?

30 **MR GANDY:** Have we got the capacity?

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**MR ELLIOTT:** We don't have the exact numbers, but it's very close to capacity.

**MR GANDY:** Yes.

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**COMMISSIONER BAXTER:** Close to capacity. So if there was an increase in demand via Melbourne there would have to either be changes in the arrangements in terms of fuel delivery to Melbourne Airport.

40 **MR GANDY:** Yes, that's right. So, the - and the fuel providers would look at whether they're going through the pipeline or going through the bridger units.

45 **COMMISSIONER BAXTER:** As you were talking about a second pipeline earlier.

**MR GANDY:** Yes.

5 **COMMISSIONER BAXTER:** Yes. Okay. Do you have any more questions?

**COMMISSIONER KING:** No (indistinct words).

10 **COMMISSIONER LINDWALL:** I have to take this slight leftfield one here. In the Australian today it says:

*Luxury shopping strips within international airports are being blamed by BARA for distracting and confusing passengers to the point of causing flight delays.*

15 And it's - and it says Melbourne and Sydney and so on. Do you have anything to say to that?

20 **MR GANDY:** It's interesting, isn't it? Not in relation to fuel supply, no.

**COMMISSIONER KING:** We were wondering whether you should employ people with pitchforks to push the passengers down, but - - -

25 **MR GANDY:** Yes. No, that's not the way to load aircraft these days. It might have been at some point, but not today.

**COMMISSIONER LINDWALL:** Well I note, Simon, that you've been doing quite well with Movember.

30 **MR GANDY:** Thank you very much.

**COMMISSIONER LINDWALL:** I understand you're having to shave off this afternoon or this evening.

35 **MR GANDY:** Can't wait, yep.

**COMMISSIONER LINDWALL:** You can't wait. So, thank you both, Scott and Simon, for attending today.

40 **MR GANDY:** Thanks very much.

**MR ELLIOTT:** Thank you.

45 **COMMISSIONER LINDWALL:** Going to keep going, or you - - -

**UNIDENTIFIED SPEAKER:** More than happy to keep it going. I'm just stretching, so.

5 **COMMISSIONER LINDWALL:** Now, I just wanted to check if Ian is on the line from Northern Territory Airports.

**UNIDENTIFIED SPEAKER:** (Indistinct words.)

10 **COMMISSIONER LINDWALL:** (Indistinct words.) Just a five minute break then?

**UNIDENTIFIED SPEAKER:** We just had someone join the meeting.

15 **COMMISSIONER LINDWALL:** Hello, is that Ian? We might just - - -

**MR KEW:** Yes it is.

20 **COMMISSIONER LINDWALL:** Brilliant. Are you happy to continue?

**UNIDENTIFIED SPEAKER:** Yes.

25 **COMMISSIONER LINDWALL:** Hello. Is that Ian? Could you introduce yourself for the record, and perhaps make an initial statement, if you're right to continue?

30 **MR KEW:** Yes, I'm happy to do that. My name is Ian Kew and I'm the CEO of Northern Territory Airport, and thank you for the opportunity to attend, by phone, this hearing. Northern Territory Airport put a submission in to the Economic Regulation of Airports. We did touch on the issue about testing the supply. We support and agree with BARA's submission that there should be open access of JUHI joint venture facilities at Australian international airports, and indeed in 2017 Darwin International Airport secured open access for its JUHI facility. Previous, since the airport had been constructed in 1991, only two oil companies, Shell and BP, who constructed the facility at that time, had marketed fuel to airline customers at our airport.

40 So, at the end of the lease we negotiated an arrangement whereby we bought into the existing fuel infrastructure. We purchased 40 per cent of it, with an additional 20 per cent to be bought every three years until, at the end of 12 years, we would own all of the existing infrastructure. All new fuel infrastructure we will invest in ourselves, and we will - as a consequence of that we have organised (indistinct words) it is now an open access regime, and at Alice Springs we are attempting to do the same

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thing. The leases with the oil companies there, Shell and BP, have lapsed. Those facilities at Alice Springs are 50 years old, almost, and we are very keen to upgrade them and modernise them and provide appropriate facilities for the next decade or two.

5

We found, during the process of buying into the existing infrastructure, that there was some support from the - strong support from BARA and some of the airlines, but at least one airline was not supportive of airport investment in fuel infrastructure, and indeed was quite happy to have the status quo remain for the future. I think that is about all I'd like to say in our - my opening statement.

**COMMISSIONER LINDWALL:** Thank you very much, Ian. This is Paul Lindwall. I'll get my colleagues to introduce themselves when they ask you questions. When you considered going through this process, I mean, firstly could I ask, because you've got the initial 40 per cent and then 20 per cent acquired over the years before taking 12 years to acquire all of the existing infrastructure, do the fuel companies continue to have a say on their current shares for that period, until you actually acquire all of the share?

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**MR KEW:** Yes, of course they do.

**COMMISSIONER LINDWALL:** Yes, but they have to agree to that open access regime, as you say.

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**MR KEW:** They have agreed to that open access regime. We've put in place, as best we could understand, appropriate arrangements for that. There has yet to be another oil marketer, market fuel through the facility yet, but we are hopeful that will happen. Those open access regime requirements were embedded into the new leases that we provided to Shell and BP.

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**COMMISSIONER LINDWALL:** Okay, and since you've created this open access regime what have you observed, perhaps in prices and supply, by other companies apart from Shell or BP?

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**MR KEW:** Okay. Well as I mentioned, there has not been another company, and it's only less than 18 months or so since that happened.

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**COMMISSIONER LINDWALL:** Yes.

**MR KEW:** And we don't know what billing arrangements and contracts were in place, but we've had a lot of interest from other oil marketers who were very keen now that it is an open access regime, and we know that

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5 they're talking to the airlines. The other thing that we heard early on was that the - just the sort of increased competition reduced fuel prices, but we don't get to see what prices they charge. Fueltrac and other organisations like that do monitor jet fuel prices around airports in Australia, and that's the information that we had at that time.

10 **COMMISSIONER LINDWALL:** Okay, and as for the airline you mentioned that didn't like the change, and you may - I assume you're not going to tell us what the name of the airport - airline is. I suppose I could say that it might be Qantas, but who knows? What do you think is the reason for their reluctance to agree to that arrangement?

15 **MR KEW:** Well look, I can only speculate, but I would - if I did speculate I would have thought that if you'd have the most market power, and by that I mean purchasing power and supply chain power, especially if you're an importer yourself and you're one of the major fuel buyers in Australia, then why would you want a level playing field with your competitors?

20 **UNIDENTIFIED SPEAKER:** Correct, yes.

**COMMISSIONER LINDWALL:** Not knowing who the airline is.

25 **UNIDENTIFIED SPEAKER:** No, not at all, no.

**COMMISSIONER KING:** Ian, Stephen King here. You mention the prices of fuel and in your original submission you stated there were indications on a like for like basis Darwin jet fuel cost has reduced because the market is not contestable. I understand, of course, you're not privy to the exact contracts, but what's the basis for that? What is the basis for that remark and your comment here, that you think the potential for competition has pushed those prices down?

35 **MR KEW:** Well we were advised of that by some consultants that we were using at the time who regularly monitored jet fuel prices as published by Fueltrac around Australia. so, they - you know, Fueltrac monitors retail gasoline prices, diesel prices, and jet fuel prices, and the information they had at the time was that jet fuel prices at Darwin reduced after we made those new leasing arrangements.

40 **COMMISSIONER LINDWALL:** Okay. Any comments from the airlines themselves that you've heard, that they've seen the difference, or?

45 **MR KEW:** Oh, I think initially some said that their prices had gone up because the increased costs, but we believed, and we certainly still

believe, that that initial increase was quickly wiped away by the source of increased competition. So, other fuel marketers knocking on the airlines doors, I think - you know, I'm not privy to what happened there, but I can only assume that they - you know, that now that it is an open access regime they've been much more competitive in their pricing.

**COMMISSIONER LINDWALL:** Okay, and the terms - what would you say about the transparency of, now that you've got an open access, should there be greater transparency about the types of arrangements so that a potential supplier can look up very quickly and easily the types of terms that are available at - to have access to your network?

**MR KEW:** Yes. That transparency and the details about what are the arrangements for the open access regime are all embedded in the lease, so there is a requirement by BP and Shell to provide all of that information to any competent fuel marketer, and we know that that has happened because we've talked to fuel marketers who have looked at the arrangements, because they are very interested in being a supplier of jet fuel to Darwin Airport in the future.

**COMMISSIONER LINDWALL:** Would you describe your open access arrangement similar to the one in Hong Kong, which of course is a different airport by a long shot, but that's been put to us as - or by BARA, for a start, as an example of the gold standard for open access?

**MR KEW:** I don't know the details for Hong Kong open access regime. We work through here with not only the existing oil companies, BP and Shell, but we also went to other oil companies that were keen to market fuel, so that we road tested the open access regime that we embedded into the lease with other companies like Caltex and Exxon and those, to make sure that they were somewhat comfortable that the open access regime that we were proposing would work.

**COMMISSIONER LINDWALL:** Yes, yes. Now - sorry, Stephen.

**COMMISSIONER KING:** Sorry, just a fairly mechanical question, because not - just on the - you've got the JUHI facilities, the storage facilities. Presumably there's a pipeline that comes to the airport from the port of Darwin.

**MR KEW:** No, there isn't, but that's a project that we have proposed publicly, and we are seeking to do that. Of course, when we were not a participant in the facility before we had no way that we could, you know, organise or make happen the connection between that pipeline and the facility. Now the pipeline, if and when it is built, and we're certainly

5 proposing that, we will fund that ourselves. We will obviously want the oil companies to use that, but it will have to be priced competitively against road transport. We understand that, but there are some real economic, environmental, and safety advantages of delivering the fuel by pipeline compared to road transport.

**COMMISSIONER LINDWALL:** Yes, so just to be clear, at the moment is all the fuel at Darwin Airport trucked in to the airport?

10 **MR KEW:** That's right.

**COMMISSIONER BAXTER:** Okay, and sorry, on that trucked in, from the port of Darwin, or trucked in from Adelaide?

15 **MR KEW:** Yes. It's a long way from Adelaide.

**COMMISSIONER BAXTER:** I know, but there's still a lot of stuff (indistinct).

20 **MR KEW:** Three thousand kilometres to deliver 100,000 litres of fuel.

**COMMISSIONER BAXTER:** Yes.

25 **MR KEW:** No, it's trucked in in double road trains from the port of Darwin.

**COMMISSIONER LINDWALL:** Okay. Now, as a result of your purchase, I think you've introduced a fuel throughput levy. How has that levy been structured and set, and what consultation did you have with the participants, like the airlines, about the setting of that levy?

30 **MR KEW:** Okay. We've had that fuel throughput levy in place for probably ten to 15 years. So, we've continued the fuel throughput levy in the new lease, but it was payable under the old - we had the form of the old - one of the FAC (indistinct words) fuel throughput levy, and we did apply that.

**COMMISSIONER LINDWALL:** Okay.

40 **MR KEW:** So it's always been there, for a long, long time. Our rate is consistent because the way that it was determined at the time of introduction was that it had to be consistent with rates applicable elsewhere in Australia. So that's why they are all somewhat similar at the moment.

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**COMMISSIONER LINDWALL:** Yes.

5 **MR KEW:** And we would continue to charge the fuel throughput levy. We view the fuel throughput levy as part of the economic rent for all the site, and you know, that - charging of a levy like that or a reverse rebate was not inconsistent with what the oil companies did for getting access to blocks of dirt that delivers huge volumes of fuel, whether it be retail fuel, petrol to cars, or diesel to trucks. They quite often paid a site rent and then they paid a rate per litre as well.

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**COMMISSIONER LINDWALL:** Okay.

**MR KEW:** We see the fuel throughput levy as very consistent with what the oil companies have done outside of airports for the last 50 or 60 years.

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**COMMISSIONER LINDWALL:** Has the levy changed since you've moved to your new open access regime?

20 **MR KEW:** I think it just moves by CPI. So there was no change in the structure of it when we moved to the new lease and the new open access regime.

25 **COMMISSIONER LINDWALL:** Okay, and what was the catalyst for moving to the open access? Was it the leases for your - the existing JUHI with the fuel companies coming to the end, or was this something that you thought would - your customers, apart from one of them, were pushing for, or - it was something that you initiated yourself, obviously, but what was the process, if you could describe to us, of moving from the old arrangement to the new arrangement, and did you have to terminate any leases early?

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**MR KEW:** Sorry, I must go back and correct the statement about the fuel throughput levy.

35 **COMMISSIONER LINDWALL:** Oh, okay.

40 **MR KEW:** I was incorrect in saying that we charged it on the RPT Apron service of the JUHI. We charged it here on the general aviation facility only, not on the JUHI, and we also charged it on the JUHI facility at Alice Springs, but not at Darwin.

**COMMISSIONER LINDWALL:** Oh, okay.

45 **MR KEW:** So, I mentioned earlier that there were two forms of leases, one where you could charge for fuel throughput fees, and it was

determined independently, and that's why the rates are nearly all the same. We did that at Alice Springs and we have done that for ten years or more. We didn't do that at Darwin because the form of lease here could only - a fuel throughput fee could only be introduced if and when they became  
5 commonly due and paid around Australia. So, I was incorrect and I just wanted to correct that.

**COMMISSIONER LINDWALL:** Oh, thank you. No, that's all right. So, if - - -

10 **MR KEW:** Certainly I should also say that we did, now, introduce a fuel throughput levy with the new lease, so I want - I want that to be clear.

**COMMISSIONER LINDWALL:** So there is now one on the JUHI at  
15 Darwin?

**MR KEW:** YEs, there is.

**COMMISSIONER LINDWALL:** Ah, okay.

20 **MR KEW:** So, apologies for any - - -

**COMMISSIONER LINDWALL:** That's all right. No, I just want to - -  
-

25 **COMMISSIONER KING:** Sorry, just to follow up on that.

**MR KEW:** Yes.

30 **COMMISSIONER KING:** Is fuel throughput levy on the JUHI at Darwin - is it the same as, you know, just CPI adjusted from what the fuel - more limited throughput levy was before, or - - -

35 **MR KEW:** Yes it was. It was consistent with what we were charging at Alice Springs, and also at the - at the general aviation arrangements here in Darwin; it's a separate facility. It's not an underground hydrant facility. It's where they pump fuel to planes by tanker truck.

**COMMISSIONER KING:** Yes.

40 **COMMISSIONER LINDWALL:** Can I just ask, have you had - I know you don't know the actual contracts between the jet fuel suppliers and the airlines, but did you get feedback from the airlines when you introduced the more general throughput levy, and my reason for asking that is my  
45 reaction would be that if you put a throughput levy on the only thing that

happens is the fuel companies pass it through to the airlines. Any evidence that I'm either right or wrong in that conjecture? What did the airlines say to you? Were they - did they say anything? Were they upset by you putting the - or extending the levy? Just some thoughts on that.

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**MR KEW:** Well I think airlines have consistently not wanted to have a fuel throughput levy applied because the oil companies have written into their agreement that if one is applied that it will be passed through, and I would suggest that probably reflects the lack of competition for jet fuel supply on airports, that any costs that they incur, that they can just pass it through. You know, they'd incur lots of costs. Not all of them are passed through, and indeed many are in the - in the presence of a strongly contestable market with lots of competition, then that's just another charge. The fuel throughput levy really is a form of rent for the site, and, you know, we - we of course - we seek and recover return for that facility in a number of ways: a fuel throughput fee, a site rent, and also an infrastructure charge for the investment that we make there. So - and you know, we've obviously got costs associated with the infrastructure now we've bought into it, and also the maintenance for some of the structure.

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**COMMISSIONER LINDWALL:** Now, could I go back, Ian, to the question I was asking, which was about the process you moved to open access? Did you have to terminate any existing leases, or was this a new agreement really at the end of previous leases?

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**MR KEW:** We didn't have to terminate the existing lease because the lease expired.

**COMMISSIONER LINDWALL:** Okay.

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**MR KEW:** And we reached an agreement with them to enter into a new lease at that time.

**COMMISSIONER LINDWALL:** Okay.

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**MR KEW:** It wasn't easy to reach that agreement, but we did.

**COMMISSIONER LINDWALL:** And could I ask about, if we now move away a little bit, and we might come back to it, but about the security of supply to Darwin and Alice Springs, because that has been an issue, and obviously, as you say, they're currently trucked in. how much disruption are you - do you ever have any black light or red light events, traffic light events, and what contingencies do you have to ensure that you have sufficient fuel looking forward?

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5 **MR KEW:** Well indeed, that was probably one of the initial reasons why we looked at investing in fuel infrastructure here, because we believe that there - that we have only limited tankage jet fuel storage here, and we wanted to - that to be increased. The oil companies were somewhat reluctant to invest in it, and would only invest if they got a new lease - new long-term lease on the - on similar terms.

**COMMISSIONER LINDWALL:** All right.

10 **MR KEW:** So that's what got us, firstly, interested in it. So now we are preparing with the oil companies - and we'll talk with the airlines - a long-term investment program for updating the fuel infrastructure over - you know, in five year blocks. So that's what we're doing, and we will be investing in new extra tankage at Darwin Airport within the foreseeable  
15 future. So going back to the supply arrangements into Darwin, all of the fuel shipped into Darwin. It's stored in one facility that's owned by Vopak at the port, and all of the products move through that one facility, so - and because it's only 16 kilometres away we're probably at risk, because Vopak is undertanked in some ways, and that the civilian fuel facility here  
20 at Darwin Airport is undertanked.

So that does put us at risk if there is a supply chain hiccup, and indeed, on the other side of the airfield here is RAAF Base Darwin, and - and in August we had, you know, the largest military exercise in Australia,  
25 Exercise Pitch Black, and anecdotally we heard - I think it was raised in parliament - that there were restrictions on flying towards the end of that program because of limitations of jet fuel availability through the port facilities.

30 **COMMISSIONER LINDWALL:** Okay. So, what's the average daily margin you've got of the tanks currently at Darwin?

**MR KEW:** Well I think we've got about 1 million litres of storage, and the throughput on an annualised basis is about 130 million litres, so what,  
35 we've got three days storage or something like that.

**COMMISSIONER LINDWALL:** Okay, which is about what I think IATA says is about right. I mean, that's compared to Melbourne. They testified, I think it was, 1.2 days they had.  
40

**COMMISSIONER KING:** Yep. Can I just - I - - -

**MR KEW:** It depends on how much fuel you've got pushing up the supply chain into it, so - but yes.  
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**COMMISSIONER KING:** Sorry, and I just want to clarify something that you mentioned. So there are plans for more tankage at Darwin Airport I think you said, and you mentioned the importance of long-term - the long-term lease for the oil companies to invest. Is that investment in  
5 new tankage - the airport is investing in that, or funding it, or is it the oil company?

**MR KEW:** Yes.

10 **COMMISSIONER KING:** Okay.

**MR KEW:** So, to be quite clear here, we entered into a new 15 year lease with the two oil companies. We would own all of their infrastructure - existing infrastructure at the time of the commencement of  
15 the lease within 12 years.

**COMMISSIONER KING:** Yes.

**MR KEW:** So, 15 years down the track, or 14 or 13 years down the  
20 track, we will go to market for a new operator in a facility that we fully own and control ourselves at the end of it. Any new investment during that 15 years, like today, if we were investing today, will be funded by us. So the oil companies don't need to ask for a long-term lease because they're investing their own money; we're investing all the money. We  
25 invest, you know, \$50 million a year into aviation infrastructure here, runways, taxiways, aprons, terminals. There are only two things you need to make an airport operational: a runway and fuel. So we really - we're of the view, in our airport business, that it's an appropriate long-term investment for us, that we should market, plan and control, and invest in  
30 the fuel infrastructure on our airport.

**COMMISSIONER KING:** Okay. Who is the operator during the current lease? Is it Shell or BP, or who?

35 **MR KEW:** It's both of them together in a joint venture arrangement.

**COMMISSIONER KING:** Okay, so - okay, so they're jointly operating it. Just one of the things that - - -

40 **MR KEW:** BP are the operator. I should say, BP are the operator.

**COMMISSIONER KING:** Okay.

**MR KEW:** They both have leases, but - and they obviously choose who  
45 the operator will be.



**COMMISSIONER KING:** Yes.

**MR KEW:** And it might be different at different airports.

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**COMMISSIONER KING:** Yep.

**MR KEW:** But they're in it together, but BP are the - have the physical staff and do operate it themselves.

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**COMMISSIONER KING:** Okay, at Darwin. We've been - just coming back to the open access regime you've put in place, we're being informed by some other parties at other airports about, perhaps, the non-price barriers that can be put up to gaining access. Has the airport, or have you, put in any processes to be able to evaluate over time how successfully that open access is going? Is there a way, for example, that a fuel company that feels that it's actually not getting appropriate access - perhaps it appears that the conditions in the lease agreement are being met but there are many ways that an operator who has a vested interest could - could make it difficult for a new supplier. How are you dealing with those, or how do you intend to deal with those sort of issues over time?

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**MR KEW:** Okay. Well in the lease we tried - we attempted - Your Honour, hopefully we're successful. We put in some clauses there around the access regime, that there had to be non-discriminatory pricing for the - for the terminaling task. So, you know, the price that BP would charge, theoretically, Caltex should be the same price that they would charge themselves for the task of moving the fuel through to it. So it would be - for example, in this instance there would be Caltex putting their own fuel from a ship into the Vopak terminal tanks at East Arm. That would be tracked by a Caltex contractor to the site here, and the fuel would be managed through the site and into the plane by BP.

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BP's charges to do that to Caltex should be similar - similar to the prices that they would charge themselves. Now, whether that happens in reality or not time will tell. I guess we'll know that it's been successful if other oil marketers start selling fuel through the facility, and we're certainly in constant conversations with other oil marketers who are keen to do so.

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**COMMISSIONER KING:** Okay. Presumably the Vopak facility is a common user facility.

**MR KEW:** It is.

**COMMISSIONER KING:** Yeah, so do you know - presumably the fuel is tested and made sure that it's up to spec before it goes into the Vopak facility; is that correct?

5 **MR KEW:** As the fuel is taken off the ship it is tested and stored in Vopak. As it is taken out of the tank at Vopak it is tested as it goes into a truck.

**COMMISSIONER KING:** Yep.

10 **MR KEW:** As it is taken out of the truck and put into the tanks here at Darwin Airport it is tested again, and as the fuel is delivered and about to go into the plane it is tested along the way. So there are many testing processes along the way to make sure that the quality and the integrity of  
15 the jet fuel is correct.

**COMMISSIONER KING:** Okay, thanks.

**COMMISSIONER LINDWALL:** In your submission and what you just  
20 said today, Ian, you said that - in the wording in the submission it says

*There are indications on a like for like basis that Darwin jet fuel costs has reduced because the market's now contestable.*

25 Is that evidence based upon this Fueltrac monitors, or is there something else that you've got that would support that?

**MR KEW:** No, that's what we were told at the time based on the Fueltrac monitoring.

30 **COMMISSIONER LINDWALL:** Okay.

**MR KEW:** We have got no other evidence to support that claim.

35 **COMMISSIONER LINDWALL:** No, that's all right, and several stakeholders, including the Department - federal Department of Infrastructure and BARA have proposed a jet fuel planning coordination forum between airports, airlines, the jet fuel suppliers, the governments, could discuss incapacity and investment constraints and future demand  
40 forecasts. Do you think that would be a useful process for Darwin Airport and perhaps Alice Springs Airport too?

**MR KEW:** Personally not really, but that's - it sounds like a big group, but you know, there are lots of dynamics in all of that. My background to  
45 this, just so that the Commission is aware, was that I worked for Exxon

for two years and then Shell for 20 years, and one of my roles was Northern Australian Manager for Shell, running the distribution task and tank farms and everything else. So I have had a strong understanding of the supply chain and the marketing arrangements and how they work.

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**COMMISSIONER LINDWALL:** I would suggest that - please go on.

**MR KEW:** And, you know - and I was involved in forums in that role, you know, in a planning role with, for example, the RAAF around Australia in a partnering arrangement to - you know, to look at those things, jet fuel supply and everything else. I think a large group like that - I'm not going to say that it shouldn't be done, but I just can't see it adding much value in a place like Darwin.

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15 **COMMISSIONER LINDWALL:** Okay, okay. It may be different, obviously, in the larger airports like Melbourne or Brisbane or Sydney and Perth.

**MR KEW:** Yes, because there are different supply chains in there - road and pipelines that are owned by different people.

**COMMISSIONER LINDWALL:** Yes.

**MR KEW:** And you've got many more participants as well.

25  
**COMMISSIONER LINDWALL:** Do you think your long background in working for Exxon and Shell has helped you reach the conclusion that an open access regime which doesn't involve the fuel companies is an optimal system?

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**MR KEW:** Yes I do. I mean, really, from - just from my perspective, the JUHI arrangements around Australia are probably the last bastion of where the oil companies will have, you know, much - a much greater level of control over their market and their customers than any other retail fuel business. You know, it doesn't exist in the high street for gasoline retailing or a road transport terminal for diesel, or anything like that. So, you know, the fact that so few JUHI arrangements have changed over the last 40 years is a testament to the structures that were put in place at the time, for very good reasons, around refinery access and, you know, airports at that point in time didn't have the money and didn't want - didn't have the knowledge and expertise, and didn't want to invest in fuel infrastructure, but you know, in most other businesses, you know, you had company owned and company controlled service stations back in those days as well. You know, if the market today has to speed up and is much more competitive. Just it hasn't been the case on airports.

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5 **COMMISSIONER LINDWALL:** Okay, yes, and Ian, the - what do you think the minimum scale of an airport would be to justify a pipeline? You were mentioning that Darwin is - might consider building a pipeline at some stage in the not too distant future. What size of airport do you need to justify the major expense of a pipeline? Would you say Darwin's about that level, or anything a little bit smaller than Darwin?

10 **MR KEW:** No. Darwin's nowhere near that level.

**COMMISSIONER LINDWALL:** Okay.

15 **MR KEW:** The only justification for a pipeline here is to supply fuel to the military site, the RAAF Base Darwin.

**COMMISSIONER LINDWALL:** Oh, okay.

20 **MR KEW:** And what the pipeline does do, it won't be cheaper than road transport. With road transport in the Northern Territory, we can run double, triple, and quadruple road trains, you know, the most efficient way to move fuel on a road, but what pipeline can do is push up a lot more volume quicker than trucks could ever deliver it. So there are some strong strategic and from a supply chain resilience perspective, to have a pipeline delivering to their facility, and of course we can just T off on that to the  
25 civilian side.

**COMMISSIONER LINDWALL:** Yeah.

30 **MR KEW:** So, if you ask me what I would have thought you'd need, or the volume of fuel to go through a facility to justify a pipeline, I'd say it would be up around a billion litres.

**COMMISSIONER LINDWALL:** Okay.

35 **MR KEW:** Seven hundred to a billion litres a year. So, you know, seven or - six or seven times our volume at the moment.

**COMMISSIONER LINDWALL:** Yeah, okay.

40 **MR KEW:** So not many airports would require a pipeline, or could have a pipeline delivering economically, and of course that pipeline then, it's what's the cost to them and what's the cost to, you know, delivering it by road. There are lots of things in there, but I'd say, you know, getting  
45 towards a billion litres a year.

**COMMISSIONER LINDWALL:** Okay, that's great. You, Ken?

**COMMISSIONER BAXTER:** Yeah, I've got a question on pricing. Have you got many airlines based in either Indonesia, Malaysia, or Singapore that fly into Darwin and refuel and go back to any of the Indonesian ports or Asian ports? And if so, do they refuel in Darwin, or do they basically refuel in the port of origin?

**MR KEW:** Good question. Most of the aircraft that come to Darwin are narrow bodied aircraft, so aircraft types like Boeing 737s and Airbus 320s. In nearly every instance the flight times to Darwin are four hours or so - four hours plus - except flights from Bali, which are two and a half hours here, so - and four and a half hours is getting towards the range of a narrow bodied jet. Particularly if you're flying over water, you need to effectively carry or reserve more fuel. So, I don't know the answer to how much fuel would be picked up by the Bali-based carriers here. I would - I don't know what the price of fuel is in Indonesia, for example, but if it's anything like - I think there was subsidised gasoline over there, so if jet fuel is similarly priced the, you know, they would probably pick up as much fuel at that end of the trip rather than this end, but I don't know the answer to that. But there's not - they can't - they have to carry a fair bit because they're flying over water.

**COMMISSIONER LINDWALL:** Did you have any questions?

**COMMISSIONER KING:** Yeah. Just a slightly different tack. Just coming back to the approach that you've taken with moving from the lease to, essentially, a movement of the facilities over to ownership by the airport. So, there's in a sense the two models. There's the traditional lease arrangement which you had. There's the model you've gone to, which is where the airport will essentially own the relevant refuelling facilities, storage facilities and so on, and we're aware of other airports that have that approach. Did you consider any alternatives to those two approaches, and if so, what were they and why did you choose to go in the direction that you did?

**MR KEW:** Well, yes, before we had the traditional lease with two oil companies, the (indistinct words). The new arrangement is we're progressively buying the infrastructure. We still have the leases with the two oil companies, but we have the open access regime as well. At the end of this lease term, 15 years, we would envisage, whoever my successor is, that then we would just go to market and have someone come in and operate the terminal. So, we wouldn't necessarily have a split lease with Shell and BP. We would have - we would go to the market, get the most efficient, capable, and cost-effective terminaler to run

the facility, and then it will be a truly open access arrangement with, you know, not being controlled by one oil company, and they would be shorter term agreements and we would mark them to market, you know, probably a good five or seven years or eight years, or something like that.

5

So that would be the next iteration of the agreement that we would have. It was just a bridge too far to go to that in this instance, and that was predominantly around gaining an agreement for them to sell part of the infrastructure that we needed, the hydrant system. So, the next agreement

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**COMMISSIONER KING:** Okay. I guess the other part behind my question, and you wouldn't have heard this because they were on before you this morning, but Melbourne Airport similarly have just renegotiated a new agreement, but they made a conscious decision not to go down the airport ownership route, and rather to go to a long-term lease with the oil companies, but - the existing JUHI participants, but with an open access regime under that. Did you consider that alternative sort of arrangement that Melbourne Airport has gone down, and I was wondering your thoughts on that?

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**MR KEW:** No we didn't, because we wanted to invest the money and get a return on the capital ourselves, and Melbourne aren't doing that and won't get a return on the capital invested there for the next 20 years. Our business is about finding good investments where we can get, you know, good long-term returns, and there's nothing better than investing in runways and fuel infrastructure. So, that's - but every airport's circumstances are different, and the pressures and the timeframe at the end of their lease and what's happening is probably what dictates, you know, an - you know, their outcomes, but certainly we wanted to invest and we wanted to get a return on the investment.

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**COMMISSIONER LINDWALL:** Well, Ian, did you have any final points, because I think we've asked you all the questions that we would want to?

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**MR KEW:** No, nothing more than what I've said. It was a - it was, you know, quite difficult to put our arrangement in place, where we - we've gone a step of the way. We certainly hope that there will - this will encourage competition in jet fuel prices, because that's very important for airports to have - have that competition and that low cost base, so that we can, you know, have lower airfares for people coming to our airport. So - and we also saw that having control over - and some control over the destiny about the investment into that critical infrastructure was import for ourselves as well.

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**COMMISSIONER LINDWALL:** Okay. Well, thank you very much for speaking with us today.

5 **MR KEW:** Thank you for listening to me.

**COMMISSIONER LINDWALL:** Okay, bye.

**COMMISSIONER KING:** Thank you.

10

**COMMISSIONER LINDWALL:** Well, I think we can have a bit of a break for morning tea. We've got wonderful cake out there and instant coffee if you want, I think.

15 **COMMISSIONER KING:** Hopefully wonderful cake out there.

**COMMISSIONER LINDWALL:** But the Productivity Commission doesn't go beyond the instant coffee, much to my complaints.

20 **COMMISSIONER BAXTER:** But it's great with cake.

**COMMISSIONER LINDWALL:** So, shall we - we might - it's 11.45 officially, but do you mind if we start a bit earlier than that? Maybe 11.40 or something.

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**COMMISSIONER BAXTER:** Let's say 11.35.

**COMMISSIONER KING:** Yeah, we'll (indistinct), yep.

30 **COMMISSIONER LINDWALL:** Thanks very much everyone.

**SHORT ADJOURNMENT** [11.16 am]

35

**RESUMED** [11.36 am]

**COMMISSIONER LINDWALL:** Welcome. Mark, if you'd introduce yourself for the transcript, and then if you'd like to give an opening speech or statement.

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**MR WILLEY:** Okay. I was proposing to give an opening statement, and within that statement I'll introduce myself. Am I able to be heard? That's going well?

45

**COMMISSIONER LINDWALL:** The microphones are purely for the transcript.

5 **MR WILLEY:** Okay, so - and after that, happy to take questions and attempt to answer them.

**COMMISSIONER BAXTER:** Thank you.

10 **MR WILLEY:** So, Brisbane Airport Corporation Ltd, BAC - I'll refer to it as BAC from now on - is an unlisted public company that secured the long-term lease for Brisbane Airport, which commenced on 2 July 1997. That lease was secured through a successful offer to the competitive first  
15 tranche of airport privatisation bidding processes conducted by the Commonwealth Government, a process which eventually resulted in all Australian capital city airports, major regional airports, and major general aviation airports operating under privatised ownership regimes. So BAC is responsible for the operation, planning, and development of Brisbane Airport, which is currently processing around 24 million annual  
20 passengers, 210,000 annual aircraft movements, and has an on airport workforce of around 24,000.

As the Head of Airport Development within BAC's strategy - Strategic Planning and Development Department, I have lead responsibilities for  
25 Brisbane Airport's terminal development strategies, master planning, aviation capacity monitoring and growth, and the maintenance of industry relationships relating to those airport disciplines. Aircraft fuel services at Brisbane Airport are provided by the Joint User Hydrant Installation - JUHI partnership or joint venture - which is made up of the current  
30 participants, Air BP, ExxonMobil, Caltex Australia, and Viva Energy Australia, which is a recent partner, previously Shell. With the exception of ExxonMobil these participants provide inter aircraft operations, with each participant company having their own staff and vehicles to service the contractual arrangements they have established with airlines and  
35 aircraft operators.

The inter aircraft operations are a separate entity from the JUHI joint venture. JUHI hold long-term leases and licences for their main depot facility and the various fuel pipeline installations at Brisbane Airport. The  
40 JUHI facilities constitute a main depot site with large on airport fuel storage facilities and an administration building, an extensive and complex underground pipe network, an associated hydrant and valve put system, servicing both the international and domestic aircraft parking aprons. There is underground supply pipe connections to off airport  
45 regional bulk terminals that are under control of the supplying terminal,



and the mobile equipment required to service aircraft are supplied and operated by the inter aircraft operators.

5 JUHI manages the storage and hydrant pipeline facilities. The into aircraft operators provide the into fuel services by fuel tanker to aircraft on non-hydrant equipped apron stands, and by hydrant car to aircraft stands equipped with hydrant systems. The arrangement between BAC and the JUHI participants is such that BAC licenses to JUHI the right to operate the storage facilities and network. Fuel supply and aircraft delivery is managed by the into aircraft operators directly with the airlines. Airlines are able to contract with any of the fuel suppliers in respect of their fuel requirements, in a competitive environment between the suppliers.

15 BAC does not have any visibility on the arrangements that fuel suppliers have with the airlines for the provision of bulk supply from regional fuel terminals to the on airport storage facility, the service level arrangements for into aircraft services or fuel pricing arrangements. BAC understands that each fuel supplier sales department brokers contracts with those end users for those services. Efficient, reliable fuel services are an essential element for major airport function, with feedback on this issue specifically elicited from the major domestic carriers confirming that they are satisfied with the services provided by the JUHI partnership at Brisbane Airport.

25 BAC, as does other major airport operators, receives notifications from the NOC oceanic fuel supply summary services of risks to aviation fuel supply delivery systems to Brisbane Airport in the form of a traffic light notification. Warning notifications that Brisbane Airport receives generally relate to late supply by shipping to the regional fuel terminals. At times there's also been warning notifications for out of spec shipping delivery. Fuel volumes consumed at Brisbane Airport doubled from around 1.6 million litres daily in 1995 over the following 20 year period, and will be around 3.75 million litres daily by 2020. JUHI currently has three bulk storage tanks. The number of tanks were augmented around 2011/12, the current capacity of around 6.4 million litres, providing around 1.5 to two days fuel reserve at Brisbane Airport.

40 The JUHI on airport bulk storage tanks have two supply feed pipelines, one to the Pinkenba Terminal and the other to the Bulwer Island Terminal. So they're terminals off airport. They're the terminals that shipping provide to. JUHI is currently in the final project stages of commissioning a fourth large storage tank of around 6.4 million litres. So that tank in itself is the same size as the rest of the storage tanks that exist at Brisbane Airport. That will extend the fuel volumes available for Brisbane Airport, catering for the expected short-term growth in airline services and frequencies, while maintaining a reasonable redundancy cover by

extending the duration of fuel reserves. So that will extend out that one and a half to two days fuel reserve we currently have.

5 BAC meets regularly with JUHI on planning and development issues and has established agreements on project notification timelines, construction protocols, and cost allocation principles and responsibilities that guide the aviation fuelling response to aviation expansion projects and modification works to existing aircraft stands. It is expected that Brisbane Airport parallel runway system will reach peak hour operational saturation levels in the mid-2050s, at which time the aviation fuel demand is expected to be around 12 million litres daily. Aviation growth beyond that peak period saturation will occur with peak spreading into shoulder periods across the normal daily operating profiles, requiring even further daily fuel supply volumes. We're not sure how much that will be.

15 BAC will continue to engage with JUHI on planning and development strategies, and on the forecast level of aviation growth expected at Brisbane Airport, to ensure the development of a robust facility siting and staged expansion strategy fuel supply, fuel storage facilities and the into aircraft services. In consultation with the JUHI partners BAC is currently developing it's 2020 airport master plan, which will identify a medium to long-term strategy, 20 year, for locating the major airport fuel facilities and the facilitation of efficient aircraft servicing to a significantly expanded passenger terminal and aircraft stand footprint, including potentially completely new major terminal facilities.

25 **COMMISSIONER LINDWALL:** Thank you very much there, Mark. That new tank that you mentioned, which will double the capacity - because I think IATA says that three days' supply at tanks is about optimal, or more - at least three days. When is that likely to be in operation?

**MR WILLEY:** I believe within weeks or a month.

35 **COMMISSIONER LINDWALL:** Oh, okay.

**MR WILLEY:** It's a project that's been rolled out - been rolling out for some time.

40 **COMMISSIONER LINDWALL:** Okay, and you mentioned, of course, the strategic planning workshops you have with the JUHI, the joint venture - BAC does. I'm not sure if you're aware that the Department of Infrastructure and BARA, amongst others, have proposed a jet fuel planning consultative forum, and Melbourne has - was - operated

something like that through the Victorian Government. What would be BAC's view on that?

5 **MR WILLEY:** That we would probably have an interest in understanding the scope or the terms of reference for that group and whether - as an airport operating company, whether we could add value to that process, or whether we could extract value from that process. I'm unsure of that at this stage.

10 **COMMISSIONER LINDWALL:** Yes.

**MR WILLEY:** It's - from our perspective at Brisbane Airport, that's probably more of interest to the airlines than the airport, as we are not involved in the provision of those fuel services.

15 **COMMISSIONER LINDWALL:** Yes, so - but overall you're - from what you've been saying, you're satisfied about the security of supply and the redundancy if there's a supply disruption, or?

20 **MR WILLEY:** We have - as demand has built up since the last tank was put in in 2011/2012, yes, the duration of reserves has reduced. So we have been concerned about that, and through those consultative processes with JUHI we've encouraged the delivery of a new tank, and this is a very large tank. It is a big project for the partners. You know, it's probably in  
25 the vicinity of \$10 million dollars to install one of those tanks at an airport.

**COMMISSIONER LINDWALL:** Yes.

30 **MR WILLEY:** So it does take time, but it also takes time to get agreements among four equal responsible partners. So, we're positive about that, and obviously in securing that agreement JUHI also look forward to the length of tenure they have on that site, because they need to, you know, capitalise those costs over a certain number of years, and  
35 they - through the master planning process that we're going through at the moment JUHI have identified a pipeline, additional tanks, that would take us through to the 2050s, that - you know, that demand level I suggested of 12 million litres per day in the 2050s.

40 **COMMISSIONER LINDWALL:** Yes, yes.

**MR WILLEY:** So, there is an opportunity at Brisbane Airport if JUHI was to be successful in securing an even longer term lease, that they are able to address the demand at Brisbane Airport over that long period.

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**COMMISSIONER LINDWALL:** What do you think about - you - I think you were here for the Melbourne and Northern - Darwin testimony?

5 **MR WILLEY:** I heard the Darwin. I didn't hear much of the Melbourne.

10 **COMMISSIONER LINDWALL:** Okay. Melbourne's changed its scheme to an open access scheme, which they required when the renegotiated the leases with the joint venture fuel companies. Darwin of course has gone more to the purer open access. What do you think about those type of schemes, and is there any intention that BAC would go in that direction?

15 **MR WILLEY:** The commercial agreement with the JUHI partners is non-exclusive. The reality is that to deliver fuel to aircraft you need access to a very complex, a very costly in-ground hydrant system. Now, there is only one hydrant system. That is owned by the joint venture partners through a licence arrangement with that long lease term. It would be very - in reality it would be disruptive for another entity to come in, establish a new depot, and establish a new series of pipelines under our aircraft aprons.

**COMMISSIONER LINDWALL:** To duplicate, yes, no doubt.

25 **MR WILLEY:** Yes, to duplicate it.

**COMMISSIONER LINDWALL:** But to have a different way of operating so that it was more - other fuel companies could come in and enter the market more openly than what you've currently got.

30 **MR WILLEY:** Again, we don't have visibility of what the JUHI partnership would allow with new entrants to join that partnership or otherwise. We're not sure. That's something that we don't fully understand.

35 **COMMISSIONER LINDWALL:** Okay, yes.

40 **MR WILLEY:** Whether there's an opportunity for an - rather than four partners, to have six or eight partners, or - yeah, and deliver some different arrangements, or a - different competition outcomes through that process.

**COMMISSIONER LINDWALL:** Okay.

45 **MR WILLEY:** But it would be extremely difficult for a whole new entity to come in.

**COMMISSIONER LINDWALL:** Yes.

5 **MR WILLEY:** The JUHI depot at the moment is served to two off  
airport, and I know Ian Kew was talking about the Darwin situation,  
where they're just considering a pipeline. Well, Brisbane has two  
pipelines to two different bulk storage facilities - regional bulk storage  
facilities. So again, there's a - there's redundancy in that, and that reduces  
our risk.

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**COMMISSIONER LINDWALL:** Yes.

**MR WILLEY:** Because they're very large volumes we're talking about.

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**COMMISSIONER LINDWALL:** Yeah, I can see.

**COMMISSIONER BAXTER:** But I just - while you're on that, with the  
new runway going in at Brisbane Airport, will there be a pipeline  
extending on the existing pipelines for feed into aircraft that will be using  
20 that runway, or will it be from where the existing facilities are?

**MR WILLEY:** The runway is not delivering new terminal facilities. It  
will be delivering growth to Brisbane Airport and growth opportunities.

25

**COMMISSIONER BAXTER:** Right.

**MR WILLEY:** It basically doubles the capacity of Brisbane Airport.  
Now, it would be nice for BAC if the capacity doubled the day we open  
that runway, but it won't. It'll climb steadily at the typical industry 5 to 7  
30 per cent. So, working with JUHI on this master planning process, they're  
confident that their site is well positioned. At the moment it's a one way  
flow to each of the aprons. JUHI is basically in between the international  
facilities and the domestic facilities, and there's a pipeline going out from  
the depot both ways, very complex pipeline with low points and drain  
35 points and air valves and isolation valves and things like that. Part of the  
master planning process we're working up with JUHI is their ability to  
service terminal expansions at Brisbane Airport into the very long-term,  
and that may require that one directional flow that's heading towards the  
domestic terminal to be turned into a ring main, which travels around  
40 those new terminal footprints.

**COMMISSIONER BAXTER:** Yes.

**MR WILLEY:** And they're quite receptive to that.  
45

5 **COMMISSIONER KING:** Can I - just stepping back, really, a bit just on some of the mechanics that I may have missed. So, the lease contract that the airport has with the current JUHI, what's the length of that contract, when does it come up for renewal? Just those background contract mechanics.

**MR WILLEY:** Basically the end of the current contract - and there is renewal opportunities in the contract - is year 2032.

10 **COMMISSIONER KING:** Okay, so - and when you saw renewal opportunities, is it a renewal - automatic renewal that both sides agree, or?

**MR WILLEY:** No, it would be a negotiated renewal. There's actually - five years before 2032 there is a renewal option at JUHI's discretion.

15 **COMMISSIONER KING:** Okay. So, I mean, that's a fair way in the distance. Was the JUHI contract renegotiated in 2012 or something? I mean, presumably it wasn't a two year - - -

20 **MR WILLEY:** It was around about that time, yes.

**COMMISSIONER KING:** Okay, so around 2012. Do you know anything about the negotiations that took place at that time, around the 2012 period?

25 **MR WILLEY:** On some of the principles that were included in the contract I do, from a planning perspective, not from a commercial perspective. You know, things like Brisbane Airport was running with a fuel throughput levy previously. I think it was the first airport to introduce that, but that was abandoned and incorporated into the leasing commercial arrangements with JUHI. So we no longer have a fuel throughput levy.

30 **COMMISSIONER KING:** Okay. So - sorry, just I'd like to touch on - I'm sure we all want to touch on a couple of points there, but just again, just a clarification. So, you mentioned about potential new equity stakeholders in the JUHI at Brisbane Airport. Do you know if there is anything in the JUHI joint venture that allows for somebody else to buy in?

40 **MR WILLEY:** No I don't. No I don't.

**COMMISSIONER KING:** No, so - - -

**MR WILLEY:** I don't believe we have any - even our commercial departments don't have any visibility on that.

5 **COMMISSIONER KING:** Okay, so unlike Sydney Airport, where obviously Qantas was able to buy in, you've just got no - - -

**MR WILLEY:** No.

10 **COMMISSIONER KING:** No, okay.

**MR WILLEY:** So, the other change that occurred when this - the current lease term was negotiated, was be adjusted the site boundary on the lease side to allow future expansion.

15 **COMMISSIONER KING:** Okay.

**COMMISSIONER BAXTER:** So this is for additional tanks, if needed?

20 **MR WILLEY:** Yes.

**COMMISSIONER KING:** Yeah.

**COMMISSIONER BAXTER:** Sorry, keep going.

25 **COMMISSIONER KING:** Other things I'm happy to follow up.

**COMMISSIONER BAXTER:** No, you (indistinct). You've got a good brain.

30 **COMMISSIONER KING:** Yeah, do you - and again, this may be on the commercial side rather than the planning side. There's obviously been a number of JUHI renegotiations that we've already heard about this morning, with Darwin, with Melbourne Airport. Brisbane's renegotiation obviously preceded them. Do you have any knowledge of the options that  
35 the airport itself were thinking about at that stage? I mean, you're obviously aware of what they did in Darwin, where they took back ownership. Melbourne Airport negotiation led to a - quite a different 20 year agreement, but with quite explicit open access written into the contract, as I understand. Are you aware of whether Brisbane Airport  
40 considered any of those sort of options, or other options?

**MR WILLEY:** Yes, it was considered at that time, and certainly the provision of fuel services into aircraft was not seen as part of BAC's core business at that time. The - having a reliable high level of service that our  
45 main airline customers were satisfied with is part of our core business, and

we were aware that we did have that. so at that time, when that lease was renegotiated, no, there was no intention to change the arrangements, and it's particularly relevant given the extent of the hydrant systems, and also the off airport bulk storage facility connections. You know, you're talking  
5 many, many kilometres of pipeline to those off airport facilities. One of those feeds has only recently been renewed. Again, that is a - was a major project, to thrust bore under runway systems and taxiway and apron systems all that distance across airport. So no, we've seen that we're satisfied with what we've been provided with, but we don't have visibility  
10 on pricing.

**COMMISSIONER LINDWALL:** Does the - do your airline customers talk to you about concerns about the price?

15 **MR WILLEY:** No. No. No, and generally our relationship with airline customers is at that regional or local level. My understanding is many of these - the fuel supply contracts are negotiated in a fairly exclusive head office arrangement for the major airlines.

20 **COMMISSIONER LINDWALL:** So not even - I think Melbourne Airport noted that, whilst they obviously are unaware of exact prices, they had anecdotes - they were told by the airlines that the airlines were concerned about prices. Brisbane Airport hasn't similarly - - -

25 **MR WILLEY:** I have had no exposure to that in my role at Brisbane Airport. As I said, we specifically - we meet - again, we meet with JUHI monthly, and quarterly for more senior level meetings with JUHI. We also meet with the airlines on infrastructure development issues monthly. We specifically ask them their experience with provision of fuel services  
30 at Brisbane, and both the major carriers expressed a high level of satisfaction, and it's interesting because the trend with, particularly domestic airlines at the moment, is to continue to shrink turnaround times to get great aircraft utilisation.

35 **COMMISSIONER LINDWALL:** Yes, yes.

**MR WILLEY:** Now, that requires an even more efficient response from fuel handlers. So - and they express satisfaction.

40 **COMMISSIONER KING:** You mentioned the two domestics. Any feedback from the internationals? Are they part of these meetings or not?

**MR WILLEY:** Ah, well, Qantas and Virgin Australia have an international arm.  
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**COMMISSIONER KING:** Qantas obviously being - yeah. No, the other international airlines I was thinking.

5 **MR WILLEY:** No. No, I haven't had any discussions with BARA representing the other international carriers.

**COMMISSIONER KING:** Yep, okay.

10 **COMMISSIONER LINDWALL:** Now, there was a trial - Bioenergy Australia told us the other day that there was a trial of biofuel proposed in Brisbane.

15 **MR WILLEY:** Yes.

**COMMISSIONER LINDWALL:** Promoted by the Queensland Government, I understand. We were told that there were many more tests required by that fuel than there was for other types of fuel. We were also told that it's a more dense form of fuel with less impurities in it, and that  
20 the negotiation time had spun out to months and months and months - like, more than three months. Do you have much that you can say about that particular trial?

25 **MR WILLEY:** I have a very basic understanding of what transpired with that trial. So the trial was a small amount of biofuel generated aviation fuel. It was inserted in the Caltex regional storage system, so then it's mixed.

30 **COMMISSIONER LINDWALL:** Yes.

**MR WILLEY:** I think it was somewhere between 20,000 and 25,000 litres. So, when you're talking the volumes we go through every day it's pretty small.

35 **COMMISSIONER LINDWALL:** Yes, yes.

40 **MR WILLEY:** so then it was - it's piped across to the JUHI facilities and distributed out to aircraft. So, basically that fuel - a bit of that fuel went into all aircraft that was fuelled over that day, or the two days, depending on, you know, how it was mixed in the on airport tanks. The issues, apparently, were relating to the current accepted standards for testing that fuel, which were not fully promulgated at the time the trial rolled out. So that meant we had to be quite cautious for a 24 hour period that no military aircraft were fuelling at Brisbane Airport, because they have quite  
45 strict adherence standards for the testing regimes before that fuel goes into

their - any of their fleet. But I also understand that since that time, since that trial, which I think was in September, the standards have now been defined. It think it's a US-based standard.

5 **COMMISSIONER LINDWALL:** Yes, we were told, I think, that the military planes in America, they were up to 100 per cent biofuel. All right. Is there anything about - more about - I don't think there's any more questions about biofuel.

10 **COMMISSIONER KING:** Whilst you're thinking.

**COMMISSIONER LINDWALL:** Yes, please.

15 **COMMISSIONER KING:** Can I come back to the fuel throughput levy, which from memory goes back to the first day of privatisation of Brisbane Airport.

**COMMISSIONER LINDWALL:** Yes.

20 **MR WILLEY:** It may have been. It may have - I'm not sure. It was introduced quite soon after we took over the operational of Brisbane Airport.

25 **COMMISSIONER KING:** I think it was day one, because I was doing research on privatisation at the time and made some predictions, but I didn't pick the fuel throughput levy, I picked the taxi charge on the land side. So, it's now been eliminated, or just reduced?

30 **MR WILLEY:** No, no, there's no more fuel throughput levy.

**COMMISSIONER KING:** So it has been eliminated, yep.

**MR WILLEY:** Yeah.

35 **COMMISSIONER KING:** What was the logic behind that decision? Why did the airport decide not to have a fuel throughput levy?

40 **MR WILLEY:** I'm not sure. I can't answer that, but I - yeah. I suppose its introduction was a little bit contentious. It did operate for a number of years. I cannot give any definite answer on that. I don't understand, but all I know, it has been removed and there - the commercial agreement with the joint venture sort of incorporates, to some degree, the concept. I'm not sure.

45 **COMMISSIONER KING:** Okay.

**MR WILLEY:** Yeah.

**COMMISSIONER KING:** Okay.

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**MR WILLEY:** So whether it was a different rent rate, it's based on pipeline length, I'm not sure, but it's - was built into the new commercial agreements.

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**COMMISSIONER LINDWALL:** Okay. Do you think it would be better to have more transparency about the arrangements for the JV for potential new entrants and pricing, for example? Would there be a benefit there, because I would have thought that both the airport and the airlines have some mutual interest in that type of - there's a lot of things where airports and airlines have diverging interests, and we've seen that in some of the submissions we've received to this inquiry, and no doubt we'll hear about that in our later hearings, but in the case of fuel you would think that it's - you have a fairly common interest and that greater transparency might lead to better outcomes for your customers, and therefore improve your outcomes as well.

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**MR WILLEY:** It - from an airport development perspective it would be good to understand if fuel pricing at Brisbane was constraining growth.

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**COMMISSIONER LINDWALL:** Yes.

**MR WILLEY:** So that would be - yeah, that would be useful information to us.

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**COMMISSIONER LINDWALL:** Okay.

**MR WILLEY:** And it - certainly what would be useful was - if there were significant differentials to what was achievable at other ports, not just in Australia but overseas.

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**COMMISSIONER LINDWALL:** So as you say, you're not aware of any of that at this stage.

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**MR WILLEY:** Knowing the airlines I imagine that that's not the case, because I don't think they'd let that happen.

**COMMISSIONER LINDWALL:** You've got the JUHI with the four joint venture members and then the into plane service, I think, you had three; is that right?

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**MR WILLEY:** Three of the partners have into plane operations as well, and into plane equipment.

5 **COMMISSIONER LINDWALL:** So do you know why one of them - which one was it? Anyway, one of them is not a member of that into plane - - -

10 **MR WILLEY:** No, I don't know why, but apparently they also have arrangements with the other three partners to supply their services on their behalf.

**COMMISSIONER LINDWALL:** Okay, yes. Ken, did you have anything?

15 **COMMISSIONER BAXTER:** Not on that, but in your submission you talked about the land planning arrangements, and also that you're working with the Queensland Government on putting a third air train into Brisbane Airport.

20 **MR WILLEY:** Yeah, putting a train station.

**COMMISSIONER BAXTER:** Station is it?

25 **MR WILLEY:** Yes, just a station.

**COMMISSIONER BAXTER:** But no duplication of the line?

30 **MR WILLEY:** No, no. The air train line itself, it's a private entity, the air train operation. The line has secured volumetric lease allocations to allow duplication of the track in the long-term. Whether that's ever needed is probably questionable, but they do preserve the ability to grow into the future. The current discussions and the current focus is on securing the ability to deliver a third train station. So we've got one at each of the domestic/international terminals.

35 **COMMISSIONER BAXTER:** Yeah.

**MR WILLEY:** This is down more of the business part of the precinct.

40 **COMMISSIONER BAXTER:** Right.

**COMMISSIONER LINDWALL:** Anything else, Ken?

45 **COMMISSIONER BAXTER:** No, no, that was the only other one I had.

**COMMISSIONER LINDWALL:** Stephen?

5 **COMMISSIONER KING:** Yeah, just - the only other thing, so there's two separate pipelines actually coming into the - so, from the offsite storage into the on airport storage - fuel storage?

10 **MR WILLEY:** Yeah, the bulk supply. There's two bulk supply pipelines. As I said, one of them has only been recently renewed.

**COMMISSIONER KING:** Yep.

15 **MR WILLEY:** Because previously it was in a fairly poor legacy position that connected up with a former JUHI site for the old Brisbane Airport. So it's now come on a more direct route across to the new JUHI depot in between our two operating terminals, and there's another one across the Bulwer Island. So there's one from the Pinkenba area, there's one from the Bulwer Island area. So again, there's a bit of redundancy in that.

20 **COMMISSIONER KING:** Yeah. Now, those off - given the location of Brisbane Airport, those off airport storage facilities, they're actually in port terminals?

25 **MR WILLEY:** Yes, yep. Yep.

**COMMISSIONER KING:** Okay.

30 **COMMISSIONER LINDWALL:** So, getting back to that into plane services, if I'm - I've got a truck and I want to provide it to, you know, your plane, would I have to get approval from those three into plane service providers before I could do so?

35 **MR WILLEY:** A very good question. I'm not sure. I imagine if you want to get fuel from them you'll have to have some sort of agreement with them.

**COMMISSIONER LINDWALL:** Yes, yes, obviously, but if I had my own - - -

40 **MR WILLEY:** So whether you've got a tanker or a hydrant car, it's your - you're supplying their fuel into an aircraft.

**COMMISSIONER LINDWALL:** Yes, exactly.

**MR WILLEY:** Yeah, so - yeah, no. I'm not sure of the restrictions on that.

**COMMISSIONER LINDWALL:** Yeah, okay.

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**MR WILLEY:** Whether, you know, you can go out and purchase a truck and start operating it, presumably.

**COMMISSIONER LINDWALL:** No, I don't know either, but - so, you've got no more questions?

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**COMMISSIONER KING:** Only one other. Again, you mentioned that the agreement with the JUHI - I think you said a nonexclusive agreement.

**MR WILLEY:** Yes. If - it doesn't prevent another operator from coming in and establishing fuel services at Brisbane Airport.

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**COMMISSIONER KING:** But it would have to be - it would have to duplicate at least part of the actual (indistinct).

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**MR WILLEY:** Unless it was a tanker operation.

**COMMISSIONER LINDWALL:** Yes.

**COMMISSIONER KING:** Okay.

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**MR WILLEY:** Yeah, and that's quite likely, because we do still have general aviation activities and charter facilities, and fixed base operations that aren't hydrant serviced.

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**COMMISSIONER LINDWALL:** Okay, yep.

**MR WILLEY:** So, you know, you could come in and start a tanker service to some of those.

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**COMMISSIONER BAXTER:** So that'd be fairly small scale by comparison, yes.

**COMMISSIONER KING:** Yeah, okay. I see.

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**COMMISSIONER LINDWALL:** Yep, that's - - -

**COMMISSIONER BAXTER:** No, I'm fine.

**COMMISSIONER LINDWALL:** Well, I just wanted to ask you something. There's an article in today's Australian and it talks about BARA Managing Director, Barry Abrams, saying that Sydney, Melbourne, Brisbane, and Perth airports were

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*Luxury shopping strips within international airports are being blamed by BARA for distracting and confusing passengers to the point of causing flight delays.*

10 Do you have anything that BAC could - - -?

**MR WILLEY:** I am not aware of that occurring at Brisbane. Yes, we do have good retail offerings in our terminals. I think it is an expectation now for passengers flying that they - part of the experience is using food and beverage outlets, and retail outlets.

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**COMMISSIONER LINDWALL:** Yes, yes.

**MR WILLEY:** So it's a positive experience for them. I'm not aware that it's - - -

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**COMMISSIONER LINDWALL:** Causing flight delays.

**MR WILLEY:** - - - causing flight delays. No, there's other issues causing flight delays, not passenger shopping.

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**COMMISSIONER LINDWALL:** Yes, okay. Okay. Well, thank you very much, Mark, for appearing today.

**MR WILLEY:** My pleasure.

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**COMMISSIONER BAXTER:** Thanks Mark.

**COMMISSIONER LINDWALL:** So, did you want to go straight on now? Are you happy to do so? Yep, good. All right. Are you happy to continue straight on?

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**COMMISSIONER KING:** Yeah, I'm more than happy, yep.

**COMMISSIONER LINDWALL:** Yep. Well, Leonie, if you could just introduce yourself, and then if you want to give an opening statement that would be fantastic.

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**MS HORROCKS:** Thank you. Thank you. So, good morning to the Commissioners and thank you for the opportunity to be here today. My

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name is Leonie Horrocks. I'm General Manager Airports in the Department of Infrastructure, so the Commonwealth department. My role in that - in the Department is to regulate the 21 operational federally leased airports. Obviously there's another airport coming, but it is not under my jurisdiction at this point in time. So, Western Sydney Airport is still under construction. So, in our role as regulator of the federally leased airports, and the primary basis of our submission, was to convey what we feel is the importance of adequate jet fuel infrastructure at and into airports, and that is to support the growth - the predicted growth and the long-term growth of the aviation industry.

As part of that we see that appropriate long-term planning by airport lessee companies and jet fuel providers should really take into account the broader national interests in that planning scenario, and the other issue that we're focused on is in the rare situations of fuel shortages, particularly when bulk allocations are made, that the impact on the industry is taken as a measure in how that is allocated, and particularly focused on the differences of the impact between domestic and international operators. So, we're interested to see that the investment in on-airport and off-airport infrastructure proceeds appropriately, and obviously the Department has a very strong interest in that, but also understands that in that we have very little scope to actually do much about that.

**COMMISSIONER LINDWALL:** Yes.

**MS HORROCKS:** So, we can influence, certainly, the airport operators. We have no particular direct influence with fuel contractors and providers, so that leaves us with an idea that we can't really understand the intricacies of the details between those commercial negotiations, between the fuel suppliers and the airlines, and indeed between the airports and the fuel JHIs as well. So we would see opportunities for increased transparency would be beneficial, noting of course the commercial confidentiality of the situation. We would need to take that into account. The other issue that we have been focused on over the last couple of years is the traffic light notification system.

We're particularly concerned that the way that the current system works - it's a monitoring system run by the industry, and there is planned and then there's unplanned interruptions, but - however, the - once that traffic light is issued it's primarily the airports which are impacted in their reputational outcomes from those notifications. So, we feel that perhaps there is a better way of looking at that and dealing with that as well. So, the other issue that we found is the understanding of the arrangements at each federally leased airport for onsite storage and planning going forward



could perhaps be enhanced, with a bit more detail and a bit more transparency.

5 We would see an opportunity perhaps for that to occur in the airport Master Plan process. Some airports are already doing that, but the detail that is provided through the Master Plan process is not necessarily consistent across all of the airports. So we could look at some way of promoting that type of information provision and transparency as well. So, that's basically it.

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**COMMISSIONER LINDWALL:** Thank you, Leonie. Could I go back to the master planning process?

**MS HORROCKS:** Sure.

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**COMMISSIONER LINDWALL:** How much as the Department, or - and the minister can change that through the rules of the master planning, and perhaps insert new requirements for greater detail, or the consistency of that.

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**MS HORROCKS:** I think there are two opportunities, and not wishing to pre-empt the minister's decision or anything.

**COMMISSIONER LINDWALL:** Yes.

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**MS HORROCKS:** But firstly there may be the opportunity that the minister would express his expectation that in the master planning process there could be details provided in the plan. The other opportunity of course for government would be through legislative change into the Airports Act.

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**COMMISSIONER LINDWALL:** Okay, yes.

**MS HORROCKS:** We have a light-handed regime.

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**COMMISSIONER LINDWALL:** Yes.

**MS HORROCKS:** So legislation changes are, you know, last resort.

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**COMMISSIONER LINDWALL:** Of course, but ministers' expectations in the past, have they been generally adopted?

**MS HORROCKS:** Certainly.

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**COMMISSIONER LINDWALL:** Okay.

**MS HORROCKS:** Yep, yep.

**COMMISSIONER LINDWALL:** So it's quite a powerful tool in a way.

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**MS HORROCKS:** Yes. Yes, it is.

**COMMISSIONER LINDWALL:** Okay, and does this link up with the Department's view about having a - consultative forums at the various airports?

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**MS HORROCKS:** We were very appreciative of participating in the Victorian process, and I think it was a very useful process for the Department to have that on the ground exposure to the JUHI operators and how their process works, and what their industry - how their industry operates. I personally was not aware of that in detail and it was definitely a learning opportunity for myself, which I appreciated. So I think it is useful. I do take on board the points that were made earlier, that there needs to be an issue to be focussed on.

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**COMMISSIONER LINDWALL:** Yes, yes, yes.

**MS HORROCKS:** You have to have an objective, you have to have an outcome that you're seeking.

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**COMMISSIONER LINDWALL:** Yes.

**MS HORROCKS:** And I do note that the time and the place for each of the federally leased airports, where they are in the negotiations, is different. So I'm not sure that a national forum would work under those circumstances.

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**COMMISSIONER LINDWALL:** Yes.

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**MS HORROCKS:** Perhaps a jurisdictional forum might be of some value.

**COMMISSIONER LINDWALL:** So you found, in the way - the case - which I understand the Victorian Government catalysed that.

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**MS HORROCKS:** Yes.

**COMMISSIONER LINDWALL:** That having the Victorian Government involved was quite helpful then.

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**MS HORROCKS:** Absolutely. Absolutely. We've created, in my personal view, some very productive relationships and interactions which are still ongoing.

5 **COMMISSIONER LINDWALL:** So perhaps it might be something useful for, in initial terms, the four major airports.

**MS HORROCKS:** Agreed. Agreed.

10 **COMMISSIONER LINDWALL:** Say, with Western Australian Government and so forth.

**MS HORROCKS:** Yep. Yep, yep.

15 **COMMISSIONER LINDWALL:** Okay, and would that be part of the master planning process itself, or not? Or are they separate?

**MS HORROCKS:** I think it would be separate, but - however, the master planning process does require consultation with state and other  
20 authorities.

**COMMISSIONER LINDWALL:** Okay.

**MS HORROCKS:** So that's already mandated.

25 **COMMISSIONER LINDWALL:** Yes.

**MS HORROCKS:** So it could form part of that. There's an opportunity there, yeah.

30 **COMMISSIONER LINDWALL:** And - - -

**MS HORROCKS:** I think the forum was also useful, if I could venture an opinion - - -

35 **COMMISSIONER LINDWALL:** Please.

**MS HORROCKS:** Is that the - having the state and the Commonwealth very vocal at the meetings conveyed to the industry - the fuel industry -  
40 the importance with which both governments were focused on this particular measure.

**COMMISSIONER LINDWALL:** Okay.

**MS HORROCKS:** And I think it also conveyed the understanding of the impact of interruptions to fuel on the economy, which of course is a bigger national interest that perhaps the fuel industry may not have been as focused on.

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**COMMISSIONER LINDWALL:** Yes, exactly. Now, sorry, if you don't mind me, a couple more.

**COMMISSIONER KING:** No. Well, just a slight (indistinct) from that one.

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**COMMISSIONER LINDWALL:** Yeah, please.

**COMMISSIONER KING:** We've heard this morning about the fact that the Melbourne Airport - the new lease arrangements are adding significant capacity. Do you feel that the consultative arrangements were at least - can take part of the credit for that? Is that one of the benefits of those consultative arrangements?

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**MS HORROCKS:** I think so. I think so, because - well, I think there are a number factors that - the factor, obviously, that the existing lease was, you know, ending. I think that the competency of the airport to look strategically as to going forward, so the new runways coming on, the third and the fourth - eventually the fourth. So that was a factor which of course is driven by the master plan process, and the major development plan process. So I'm thinking all these things, you know, sort of built on each other, and then I think the forum coming in on the top of that and them seeing just the importance that the government - both governments were placing on having this matter settled, and then I think another factor to that was the actual interruptions to supply that happened in Melbourne as well.

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**COMMISSIONER KING:** Yes.

**MS HORROCKS:** All of that kind of, you know, perfect storm at that particular time. So I think yeah, it all came together. Yeah.

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**COMMISSIONER LINDWALL:** So, the NOC process, I think you said it could be improved in some fashion.

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**MS HORROCKS:** Certainly.

**COMMISSIONER KING:** How would you do that? Through the master planning, or some other process?

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5 **MS HORROCKS:** The NOC is run by the Department of the Environment and Energy. So not wishing to speak out of turn, but I – the actual process for deciding what colour traffic light is applied is not terribly well known. The timeframes through which the traffic lights are applied seem to be, even if it's a planned outage, the notifications seem to come through maybe 24 hours ahead.

10 So I wonder at the – if that lead in span could be lengthened so that airports and airlines could be more well informed, and perhaps better plan for any impact of that.

And supply interruptions obviously, domestically, for domestic operators, is not as catastrophic as it is for internationals.

15 **COMMISSIONER KING:** Exactly.

20 **MS HORROCKS:** Yes. My department has had representations from the Melbourne supply outage from an international aircraft saying that that cost them significantly more, because they didn't have a fuel contract with an alternative airport, but with the outage they had to fill up because they're international. So that was a significant impost on them.

25 So I wonder if the NOC had earlier notification, whether that could have, in some ways, mitigated the impact, the financial impact on that particular international operator.

**COMMISSIONER LINDWALL:** Well, I heard, and in since it was confidential, let's call it airport A.

30 **MS HORROCKS:** Yes.

35 **COMMISSIONER LINDWALL:** Airport A had an issue where the airport operator, the owner, knew something was a problem with some of the software at particular storage facilities, and it took hours to get notification through to the NOCs system, because it had to come from a fuel company apparently. So do you think that that's something that could be improved about - - -

40 **MS HORROCKS:** Well, I do wonder at the efficacy of having fuel companies making these notifications. I understand the NOC was originally chaired by an independent member.

**COMMISSIONER LINDWALL:** Yes.

45 **MS HORROCKS:** That, as I understand it, is no longer the case.

**COMMISSIONER LINDWALL:** It's no longer the case?

5 **MS HORROCKS:** So it's a monitoring process which is a notification to the NOC, and then the NOC just disseminates that notification. So I'm wondering at the governance, I guess, not wishing to put any aspersions on that. But I'm just wondering whether that governance could be enhanced in some way.

10 **COMMISSIONER LINDWALL:** Okay. Yes.

**MS HORROCKS:** Yes, and the timeliness, I think.

15 **COMMISSIONER LINDWALL:** Now, I think as IATA has minimum requirement – recommended of three days - - -

**MS HORROCKS:** Correct.

20 **COMMISSIONER LINDWALL:** - - - of supply at that storage facility. Do you concur with that, or do you have some other view as a Department?

25 **MS HORROCKS:** We don't actually have a view, but we are aware of that as a benchmark, and I'm aware that, apart from currently Brisbane and Melbourne, the federally leased airports meet that benchmark.

I guess one concern for us sort of going forward in a general matter is the impact on communities and the environment of increased trucking on the roads to keep the supplies topped up. So I think there are sort of some ancillary issues about that process.

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And, of course, they're – you know, with roadworks and things like this, whether the reliability of that particular methodology is, you know, going to carry the day.

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**COMMISSIONER LINDWALL:** So you heard the testimony from Darwin about the minimum type of scale to have to justify a pipeline. Does that sound about right to you?

40 **MS HORROCKS:** It sounds about right to me, yes. And obviously, they're in that specific position with regard to the defence base on the other side.

45 **COMMISSIONER LINDWALL:** Exactly.

**MS HORROCKS:** Yes.

5 **COMMISSIONER LINDWALL:** And as for Australia, compared to overseas countries in terms of security of supply for jet fuel, and redundancies, and built-in, would you say that we're okay in Australia? Or not so good, or ahead of the pack, or whatever?

10 **MS HORROCKS:** I think, generally speaking, we're okay. When you take into account the size of the market, and the throughput generally, I think we're okay.

15 I'm personally a little concerned about the projected forecasts, and how we're going to meet that going forward. Because as, obviously, we see the masterplans coming through, and the numbers are, you know, very impressive.

**COMMISSIONER LINDWALL:** Quite large, yes.

20 **MS HORROCKS:** And we hope they all come out, but yes, I think – I'm worried about the future, to be honest. I think the current structure was put in place so long ago, and there have been seemingly very few opportunities for that situation to evolve. So I'm interested to see how it goes.

25 **COMMISSIONER LINDWALL:** So, and when you compare the different arrangements, now I think you were here for Melbourne airport with their new open access arrangement for 20 years, and Darwin a more pure one.

30 **MS HORROCKS:** Yes.

35 **COMMISSIONER LINDWALL:** And, of course, Brisbane, do you, as a Department, or your own view, have a superiority of one system over another? Or one arrangement over another?

**MS HORROCKS:** I think it's important that the arrangements reflect the local conditions, and obviously they're commercial arrangements, so we don't have – the Department doesn't have input into those.

40 But I do see there would be an advantage if we could share best practice, noting again the differences in the timeframes for each of the lease arrangements. I would see that there would be an advantage in some degree of transparency over best practice outcomes and options, I think.

**COMMISSIONER LINDWALL:** Would you prefer open access more than a restricted of entry?

5 **MS HORROCKS:** I guess, on a personal view, I can't see – I would see that open access actually provides the opportunity for more competition, just as principle. So, yes.

10 **COMMISSIONER LINDWALL:** And I must ask about Western Sydney, but I know that it will ultimately come into your domain.

**MS HORROCKS:** It will, yes.

**COMMISSIONER LINDWALL:** Now, it's going to have to have - - -

15 **MS HORROCKS:** Agreed.

**COMMISSIONER LINDWALL:** It will start a – maybe a pipeline, but initially, it will be trucking, I presume.

20 **MS HORROCKS:** Yes.

25 **COMMISSIONER LINDWALL:** That gives an opportunity for the government who's building it to set up a proper open access arrangement for it (indistinct) do you see that as – has that been thought of? Or you're not aware of that?

30 **MS HORROCKS:** So, there is a specific unit in the Department that deals just with Western Sydney unit, Western Sydney airport, and I'm – we have relationships in regard to how things work in the Airports Act, and they can be applied. So I have sort of peripheral knowledge of them.

As to the arrangements for the jet fuel for that airport, I really don't have the detail, so I'll probably – I can take it on notice.

35 **COMMISSIONER LINDWALL:** Yes, all right. Yes.

40 **COMMISSIONER BAXTER:** While you're on that, I notice there's a mention in the document about the Western Sydney airport, and also there's a mention about the regional access schemes.

**MS HORROCKS:** Yes.

45 **COMMISSIONER BAXTER:** Is your view there would be any likely reason for changes, existing regional flights with the implementation and the operation of Western Sydney?



5 **MS HORROCKS:** No. I don't believe there'll be any changes to them, and that's because the government has basically said that. But also, there are arrangements, agreements between Sydney Airport and the government, and – as to which guarantees regional access to Kingsford Smith. Kingsford Smith Airport.

**COMMISSIONER BAXTER:** (Indistinct)

10 **COMMISSIONER KING:** So, just we had a brief discussion on open access and competition, and I note in the submission from the Department, you state, "Local differentials for Australian airports are typically higher than other major international airports around the world."

15 Now, the submission goes on to partly explain that by, you know, points out that further away from trading hubs like Singapore, or economies of scale.

20 **MS HORROCKS:** Yes.

**COMMISSIONER KING:** I guess, what was the information that you were using to judge that? So did you actually have - - -

25 **MS HORROCKS:** Certainly.

**COMMISSIONER KING:** Or did the Department actually have comparative pricing information, or a comparative information rates of return, or any – what does it – yes. What's the reason for that?

30 **MS HORROCKS:** Certainly. So, originally, Western Sydney unit commissioned a report from a company to look at the overall status, and off the back of that, I commissioned a specific report and we looked at the ranges for federally leased airports, and what were the impacts and the outcomes from that.

35 And then, obviously, as part of the Victorian round table, there was a further report commissioned which was quite in depth as well. So a combination of information from all of those three reports is what we used as a reference point for the points made in our submission.

40 **COMMISSIONER KING:** Okay. Were these reports public, or?

**MS HORROCKS:** No. No.

45 **COMMISSIONER KING:** Your shaking your heads at the back.

**MS HORROCKS:** I'm just liaising with my colleagues.

5 **COMMISSIONER KING:** I suspect somebody from team will be chatting with you later.

**COMMISSIONER LINDWALL:** Well, could I say that obviously we'd prefer public, that the information – so could you take that on notice?

10 **MS HORROCKS:** I will take that on notice to see what I can provide. Yes.

15 **COMMISSIONER KING:** Realising, obviously, that given they're confidential, you're limited in what you can say, are there any particular airports around Australia that, in a competition and pricing sense, give the Department more reason for concern than others?

20 **MS HORROCKS:** I don't think so. I think, just generally speaking, we're focused on the national interests, and making sure that the travelling public and, you know, business public have access to the services that they require, and we really see that one of those key support issues is steady supply of jet fuel.

25 Obviously, in respect to the Melbourne situation, we were aware through the forum of a number of international airlines indicating that they were having trouble getting fuel contracts. If that is magnified across other international airports, then I see that as an issue.

30 **COMMISSIONER KING:** That's on the reliability side. What about on the pricing, or the price differential side?

**MS HORROCKS:** Both of those issues were mentioned during the – as part of the Melbourne forum.

35 **COMMISSIONER KING:** Okay.

**MS HORROCKS:** Yes.

40 **COMMISSIONER KING:** Do any airlines come to the Department with complaints relating the pricing of fuel at particular airports?

45 **MS HORROCKS:** None that come to mind. I'm obviously aware that a major airline is a partner of the JUHI in Sydney. So, you know, we're aware that that airline obviously has more readily available access than other airlines.

So I think if there was going to be a specific representation, it might come from that particular airline. But given their situation, perhaps that's the reason that they haven't come forward. Don't know. Yes.

5

**COMMISSIONER LINDWALL:** Do you think there's a prima facie case for JUHIs, or to be independent of fuel companies, and perhaps also, independent of airlines?

10 **MS HORROCKS:** I would hazard my personal view, not the Department's.

**COMMISSIONER LINDWALL:** That's fine. Yes.

15 **MS HORROCKS:** So I would see that that would be of value, and I understand that that is a situation which occurs in a lot of other countries.

**COMMISSIONER LINDWALL:** Yes, yes.

20 **MS HORROCKS:** And has proven very successful because they are independent and they are, you know, separate from both of those parties. Yes, I personally think that that would be a good outcome.

25 **COMMISSIONER LINDWALL:** Is there anything you think that the government could do about that, or is that purely something for individual airports to – when they are renegotiating their leases?

30 **MS HORROCKS:** I think it's the commercial negotiation, because obviously the JUHI operators would want some degree of commercial compensation for moving out of the scene.

**COMMISSIONER LINDWALL:** Yes, yes.

35 **MS HORROCKS:** And whether or not that could be facilitated by particular airports would be a commercial matter.

40 **COMMISSIONER BAXTER:** Can I just take a slightly different tack on that? In the planning for Western Sydney, and whatever arrangements might be made over JUHI, presumably at some stage there'll have to be conjoint Commonwealth, State negotiations about (indistinct) access of the pipeline, and who controls that and how it's controlled. Do you see it as a role for Commonwealth involvement in that discussion?

45 **MS HORROCKS:** I can't really hazard an opinion of that, given my distance from the particular area. But, obviously, the Commonwealth and

the State are – have been negotiating on the whole project itself. Of course, there is a company, Western Sydney airport company, which is running the job. So that's been established to do that project.

5 So I imagine that that – you know, there would be a role in that respect as well, but I wouldn't want to answer on their behalf at all. I could take it on notice, if you - - -

10 **COMMISSIONER BAXTER:** I think it would be worth taking on notice.

**MS HORROCKS:** Yes. Absolutely.

15 **COMMISSIONER BAXTER:** I mean, it is inevitable, knowing the state of feeling about a lot of this stuff.

**MS HORROCKS:** Sure.

20 **COMMISSIONER BAXTER:** Because the pipeline's going to travel relatively long distance, presumably, from somewhere on Sydney Harbour to – out to - - -

**COMMISSIONER LINDWALL:** Botany.

25 **MS HORROCKS:** Yes, yes.

**COMMISSIONER BAXTER:** Or St Mary's, that there will be the normal groups who will fear that they've got an exposure running underneath them, or about to run underneath them.

30 **MS HORROCKS:** Yes.

35 **COMMISSIONER BAXTER:** And secondly, the comment you make about, I think in document, about the regional access arrangements being improved with the introduction of Western Sydney, would you see in your planning for the future any likely changes in the current regional slot arrangements for Sydney, vis-a-vis Western Sydney. I mean, will there be thought given to that, and how it might be managed?

40 **MS HORROCKS:** So the government has said that there will be no curfew and no slot arrangements to Western Sydney airport. The government's made that statement.

In regard to Kingsford Smith Airport, the slot arrangements there are – there is what's called regional ring fenced slots, which are specifically dedicated to regionals.

5 The curfew arrangements already exist, and the government has said that clearly – it is willing to consider amendments to improve efficiency for the airport overall, but it needs bipartisan support because it will require legislative change.

10 And the other thing that needs to be balanced, of course, is amenity to the local community in that circumstance, if there's any changes to the current protection arrangements.

**COMMISSIONER LINDWALL:** And I've heard of threats, again I won't name any airports, but where if it is moved to an open access system, that the pipeline would be filled with concrete.

**MS HORROCKS:** I've heard that as well.

20 **COMMISSIONER LINDWALL:** Okay. Now, that would be, arguably, something that would be very difficult for an airport wanting to do something to negotiate. Maybe that is something the government should be trying to stop happening, I suppose?

25 **MS HORROCKS:** Obviously, that would be something we would want – avoid that at all costs. What mechanisms the government would have to intervene in that situation, I'm not clear on. Because, obviously, the scenario that you presented is in relation to off airport infrastructure.

30 **COMMISSIONER LINDWALL:** Yes, exactly.

**MS HORROCKS:** So I think there would be a lot of complex issues to work around. Legal, commercial, jurisdictional, that would need to be reviewed.

35 **COMMISSIONER LINDWALL:** Exactly.

**MS HORROCKS:** Yes.

40 **COMMISSIONER LINDWALL:** I'm sorry, Stephen.

**COMMISSIONER KING:** Yes. Just coming back to investments, and the Department's potential concerns. Sydney Airport, it's known that, publicly known, that there's concerns from the JUHI members about the

uncertainty with regards to ongoing lease conditions there. But, in a sense, it's on a short – they're on a short period of time.

5 It's been suggested that that's affecting investment at Sydney Airport. Does the Department have any view on that, or any concerns about that situation at Sydney?

10 **MS HORROCKS:** As I understand it, the lease negotiations for the JUHI are underway at the moment. So, I'm not quite sure what terms are being offered. Obviously, I don't have oversight of that, but certainly with two pipelines into Sydney Airport, there's opportunities for redundancy, opportunities for new entrants, and capacity there.

15 So I'm not quite sure – I mean, obviously the term of the airport site, the overall site, there's no change to that, so I'm not quite sure what terms they're concerned about, whether it's the sublease of their site on the airport, which would be a matter of what's currently under negotiation.

20 **COMMISSIONER KING:** Okay.

**MS HORROCKS:** Yes.

25 **COMMISSIONER KING:** You heard our conversation earlier about biofuels.

**MS HORROCKS:** Yes.

**COMMISSIONER KING:** Do you have anything to say about that?

30 **MS HORROCKS:** I think it's important that - obviously, safety is a huge issue and that needs to come first, and I am – not being a technician in the fuel space, I think that the benchmark should be that safety comes first.

35 **COMMISSIONER KING:** Of course.

**MS HORROCKS:** And if that requires, you know, one test or five tests, whatever the efficiency is in that, I think that should be applied.

40 **COMMISSIONER KING:** Okay, yes. Yes.

**MS HORROCKS:** Yes.

45 **COMMISSIONER LINDWALL:** Do you have any other questions?

**COMMISSIONER KING:** No.

5 **COMMISSIONER BAXTER:** The only other one is I notice your observation in the documents about negotiate and arbitrate proposal, and knowing that that's likely to be, if it does occur, and extended process. Has the Department got a view about (a), whether that's the most appropriate way to deal with what could well be a problem, and do they want to see another process introduced which extends into another set of negotiations.

10

**COMMISSIONER LINDWALL:** Slightly beyond our fuel terms.

**COMMISSIONER BAXTER:** Yes, I know.

15 **MS HORROCKS:** He's just having the opportunity.

**COMMISSIONER BAXTER:** I was in there.

20 **COMMISSIONER LINDWALL:** You don't have to answer that, but you can if you wish.

25 **MS HORROCKS:** Personally, over the – I've been in this role for seven years now, and the negotiations, the air service negotiations between airports and the airlines have been challenging through that whole time. They have been – they're very complex. There's a lot of moving parts, but in the end, they've always seemed to be worked out, and I think the evidence is the level of investment that has occurred between the airports, and over the period since privatisation, and since the removal of price capping.

30

Really, you know, you've got runways Brisbane, Melbourne, Perth, you've got significant terminals. You know, there's been a really significant investment which has occurred, all of which was predicated on successful conclusion of air service agreements.

35

40 Personally, I'm not convinced that it's completely broken. I think there may be opportunity for, perhaps, some degree of rules of engagement, for want of a better term, in those negotiations to perhaps increase the efficiency and the timeliness of it, but I've yet to be convinced that it's completely broken.

45 **COMMISSIONER LINDWALL:** Well, I think you've exhausted our questions, definitely on jet fuel. Thank you. I'm sure we'll have an opportunity in our hearings next year, if you care to come to talk about more general issues. So thank you very much.

**MS HORROCKS:** Thank you very much.

5 **COMMISSIONER LINDWALL:** Now, officially, that's it until lunch, isn't it? It's a bit early.

**COMMISSIONER LINDWALL:** We're a half hour ahead of time. Is it possible to get Perth a half an hour early, perhaps, and still have a - - -

10 **COMMISSIONER LINDWALL:** If not, we'll start at 1.45. If so, we'll start at 1.15. If we can get 1.15, if we can start again, that would be good. We can all get away a bit earlier then. All right. We may as well go out and have a quick lunch now, if you're all happy. Thank you very much for that.

15

**LUNCHEON ADJOURNMENT**



**RESUMED**

**[1.17 pm]**

5 **COMMISSIONER LINDWALL:** So welcome to our Perth Airport colleagues. If you could identify yourself. I'm Paul Lindwall, the presiding Commissioner. I've got Ken Baxter on my left.

10 **COMMISSIONER BAXTER:** Hi guys.

**COMMISSIONER LINDWALL:** It doesn't matter, left or right. And Stephen King is the other Commissioner. So just say hello.

15 **COMMISSIONER KING:** Hello folks.

**COMMISSIONER LINDWALL:** And if you could just say who you are and give us an introductory statement, if you wish to.

20 **MR PEREIRA:** Sure. Yes, so there's three of us here from Perth Airport. Brian Pereira CFO Perth Airport.

**COMMISSIONER LINDWALL:** Hi Brian.

25 **MR MASON:** And Allan MASON, Chief Project and Development Officer.

**COMMISSIONER LINDWALL:** Hello Allan.

30 **MS BLASKETT:** And Deb Blaskett, Chief Corporate Services Officer.

**COMMISSIONER LINDWALL:** Hi Deb.

**MS BLASKETT:** Hi.

35 **COMMISSIONER LINDWALL:** Okay. Did you want to say an opening statement?

40 **MR PEREIRA:** Sure. I guess our position we've outlined very much in the confidential submission to PC I guess we're – we've got several objectives that we're trying to achieve as part of a renegotiation of the jet fuel arrangements here at Perth Airport.

45 We have a current lease with a JUHI that ends in March 2022, and for us, the timing has just started in terms of our notice period under that lease, to commence our negotiation that we outlined in the submission to mission

our objectives, about trying not to, I guess, provide security supply and make sure that we've got adequate security and redundancy of supply.

5 And also to, ultimately, try and see if we can actually achieve a open access arrangement currently here at Perth Airport, as we recognise, or we've had feedback from airline customers that there may not be enough choice in terms of competition in being able to procure jet fuel supply at Perth Airport.

10 But I think that's one thing, the negotiations are just about to commence. We've our first meeting on 7 December to kick off what should be a six month process under the lease provisions negotiations, before we head into a (indistinct) we can't find an outcome with the current operators.

15 I guess that summarises it. We're happy to take questions on anything in particular in our submission, or any other questions.

**COMMISSIONER LINDWALL:** Thank you very much for that. We appreciate the – letting us know that the negotiations are about to start.  
20 That's a fascinating time where you have the opportunity to observe what other airports have done, for example, Melbourne Airport, and Darwin.

25 So, perhaps it might be good initial state – question is, how would you compare what Darwin has done, which is a much smaller airport, of course, but it's basically the airport operator is owning the asset, and it's the fuel companies then have open access to it, but they don't actually operate the JUHI.

30 And then, to Melbourne, where they've got a new 20 year contract where the fuel companies have the equity position, but it is open access.

**MR PEREIRA:** Yes. So, I think, and Allan might jump in here as well. I guess we have looked at different operating models around the country, and obviously the two you've mentioned are ones we're familiar with.  
35

We've also looked abroad, and we've looked at an operating model at – in Hong Kong, which is held up as being a best in class type operating model, and I guess, in terms of the negotiations that we're approaching with, the JUHI, that's something that's very much in our minds how we might, I guess, open up the process by perhaps the airport owning the infrastructure.  
40

I think for us, one of the barriers of entry for new operators into the JUHI has been the equity type model that the JUHI has operated under, whereby new operators are required to buy in to the asset, and if anyone (indistinct)  
45

we don't have the (indistinct) what the repercussions are, but I can imagine there were barriers of entry, they would be around the price of entry might preclude competition.

5 So, for us, one option is, and similar to the Hong Kong option, is for perhaps the airport to own the infrastructure, and to then make it relatively easy for new operators to come into (indistinct) for the infrastructure.

**COMMISSIONER LINDWALL:** And – sorry, you go.

10

**COMMISSIONER BAXTER:** No, no. You go.

**COMMISSIONER LINDWALL:** I was going to say, who are the current fuel companies that operate at Perth in the JUHI?

15

**MR PEREIRA:** BP and Viva.

**COMMISSIONER LINDWALL:** Yes.

20 **MR PEREIRA:** So BP and Viva own the JUHI, which own the hydrants under the apron and the storage facility at the airport. The majority of the infrastructure, including the leasehold arrangement of the land on which the (indistinct) and the pipeline into – out of that – outside airport facility for storage, and the pipeline all the way to the refinery, including the  
25 refinery, is BP owned.

**COMMISSIONER LINDWALL:** Yes, and are all of your airlines customers supportive of you negotiating to get a more open access to your field supply?

30

**MR PEREIRA:** In the conversations we've had with, I guess, the two main domestic carriers, and with BARA, they are supportive of the overall objectives that we're trying to achieve.

35 However, the conversation does keep coming back to, tell us what cost it might have on the airline, especially if it's going to involve Perth Airport owning the infrastructure. Obviously, the returns on that infrastructure would have to be recouped somehow through aeronautical type agreements.

40

I think the conversation has got to that point. They're supportive of the objectives. One key objective that we are also trying to achieve over this process is to physically move the current (indistinct) airport storage facility, which are, for a couple of reasons, one port (indistinct)  
45 opportunity for the airport terminal (indistinct) reason.

We'd like to relocate that asset, so that potentially might add some legal costs and it's why the airlines are interested in – or what, ultimately, the cost is. So we're working on the (indistinct).

5

**COMMISSIONER LINDWALL:** But you're, aside from the cost of moving storage facilities, your prior would be that having a more open arrangement would lead to lower fuel prices for your customers?

10 **MR PEREIRA:** I guess, from a simple economics point of view, yes. We've got not visibility on – that the – what prices are charged, if we're not a party to those agreements between the JUHI and the airline.

15 However, our expectation is if we grow, we can encourage competition into those facilities, and we're – we're only going to – there should be a reduction in price.

20 **COMMISSIONER KING:** Can I just follow up on that last point? What evidence have you been able to get, I guess, to back that up? Have the airlines been discussing with the airport that they feel the prices are higher than they would otherwise expect? Has the airport done any of its own analysis? Is it aware of any third party analysis?

25 We've obviously heard different situations at different airports, some where the airlines don't seem to raise the issue with the airport, others where they do. What's the situation at Perth? Why have you reached this decision, that there is room for prices to move?

30 **MR PEREIRA:** So, I think our position is (indistinct) Perth, airlines haven't been open enough with us about the price of fuel at Perth versus other airports, or what price differential they may need from the attraction of competition.

35 I think they point to commercial-in-confidence agreements they've got, which I think they protect, and they are wary of sharing with other airlines, or somehow other airlines finding out what the arrangements are.

40 However, we're led to believe in high-level competition with (indistinct) and the airlines that potentially there could be a one a two cent premium per litre of fuel, and to the airport, in terms of prices.

**COMMISSIONER KING:** Okay. But no direct empirical evidence? Just simply that - - -

45 **MR PEREIRA:** (Indistinct) raise the group levies (indistinct).

5 **COMMISSIONER KING:** Okay. Just to come back to the existing arrangements, you mentioned that there is the possibility of access at the moment, but equity access, and you noted a couple of potential problems with that. Are you aware of any parties that have sought equity access to the Perth JUHI?

10 **MR MASON:** I'm trying to work out where I've heard it, but I think we are aware of, I think, one or two who have attempted to buy into the JUHI in recent years, but have been frustrated by the timing – the time to actually negotiate now (indistinct) and price. I'm trying to work out where I heard that from now.

15 We've had a consultant (indistinct) work, and I think that's to do their network's (indistinct) provider as that information, how factually correct it is. I guess we can't determine.

20 The point with regard to that is the attendance, and we understand that the deals that are done are done on a kind of three year basis, three to five years, and we, our lease, the JUHI lease, expires in 2022, and so with the equity deal and a combination of that with our JUHI, (indistinct) expiry as well as the shortish contract to provide fuel makes it very difficulty for equity to be thrown into the pot, from that perspective.

25 **COMMISSIONER KING:** Okay.

30 **MR PEREIRA:** So just to add to Allan's point, I think from the product potential entrant point of view, having to buy in a third share, for example, in the current JUHI, might cost them quite a bit of money, and if they've only got a back-to-back three year contract with an airline, it makes it hard to get a return on that capital, all in (indistinct), and overlaying that is obviously the fact that our lease with the JUHI and (indistinct).

35 But I think there are some elements around that certainty which have added a barrier for their tender.

40 **COMMISSIONER LINDWALL:** May I ask that, and you may not be able to tell us, but I'll ask anyway. The leases end in, you said March 2022, what happens to the infrastructure if there's no agreement?

**MR MASON:** Yes, so the lease, I guess, talks to – makes good arrangement that the current – the current JUHI would have to make good. So, that varies in terms of what that means. Everything from the high (indistinct) under the apron to the actual storage facility, they would have

to make good that, so that obviously would be quite impractical, to remove hydrants from underneath the apron.

5 So, I guess, one aspect that we would be considering should the JUHI currently (indistinct) continues for us to have to purchase that off the JUHI.

**COMMISSIONER LINDWALL:** Yes, it's an – sorry, go on.

10 **COMMISSIONER BAXTER:** No.

**COMMISSIONER LINDWALL:** I was going to say, that has an interesting dynamics, both for the owner of the infrastructure, as it is, and you, of course, as an airport, because the make good would be quite  
15 expensive for the oil companies, and they perhaps might be willing to sell it for a fairly low price, perhaps. I don't know, otherwise.

**MR PEREIRA:** Yes, I think from their point of view, that they would argue it would be quite expensive for them to move, but they would be  
20 willing to do it, as they're not short of capital. So they do have a very funny negotiating condition, as well (indistinct).

**COMMISSIONER LINDWALL:** I'm sure. I'm sure. Now, what's the type of supply to Perth in terms of the reliability and the redundancy and  
25 the capacity should there be disruption?

**MR MASON:** So, there's a single source of supply (indistinct) the pipeline, a major pipeline, to Kewdale, which is an off airport fuel storage facility. That has, we understand, 11 days of (indistinct) of field supply  
30 for the airport, which runs in a further pipeline, which we understand to be slightly constrained in terms of its capacity to pump fuel to the on-airport storage, the site.

But there are plans to upgrade that, and so then it flows onto the pipe into  
35 our on-site storage facility, which we understand to have about two to three days of storage capacity. I do know that that storage capacity on-site does not meet the IATA guidelines, and I believe that it's similar at other airports.

40 So there's no – so the big issue for us, then, with regard to security of supply, there's no alternative method of getting fuel to the airport. So we are very keen, in negotiations that we are about to commence, that there be – to get a road bridge in – capability into the airport, such that should any of the infrastructure that supplies fuel to the airports go down, that we  
45 have an alternative in place.

**COMMISSIONER KING:** Yes. So just to be crystal clear, so at the moment, it would not be possible to truck jet fuel into the airport?

5 **MR MASON:** No, there is an ability to take some element of trucking, a trucking redundancy element, into the current storage facility. However, it would be limited, as it is at the moment, and part of the reason why we won't move the facility to a different site is also in issue, which is really around, yes, we can take trucks, but to – that the sheer logging of traffic  
10 would be competing with normal airport traffic along the arterial roads into the terminal precinct.

So, it can take it, but it's certainly not a (indistinct), and I just need to add that the other issue is the ability of supply redundancy, so there's security  
15 of supply that make the supply chain efficient from that perspective. So we would like to see a road bridging facility at either the current or at a different site. At a different site.

**COMMISSIONER LINDWALL:** In terms – sorry, did you?

20

**COMMISSIONER KING:** No, no.

**COMMISSIONER LINDWALL:** In terms of your, you know, you said that the storage on airport of two to three days doesn't meet IATA  
25 standards, and given that the leases are expiring in March 2022, that period from now to then would seem to be a period where your airport will probably grow in traffic, so the actual - - -

**MR PEREIRA:** Grow in traffic.

30

**COMMISSIONER LINDWALL:** Can you hear me?

**MR PEREIRA:** Yes, yes.

35 **COMMISSIONER LINDWALL:** So I was going to say that it could get worse, and yet there'll be very little incentive for the current leaseholders to invest, given the termination of the lease, and the renegotiations in 2022. So, I guess, what are your contingencies for that?

40 **MR PEREIRA:** So, we're not expecting – I guess, if you think about traffic at Perth Airport, we're at – volume wise, we're actually down from where we were about four years ago, and so if we look forward three years, even on a pretty optimistic growth profile, we're not expecting the storage issue (indistinct) being a limitation in the next three years.

45

You're right, in terms of the longer term, hence, it's part of this negotiation which we're having for new facilities, we'll be looking at outside storage for that new facility.

5 **COMMISSIONER LINDWALL:** Okay. Yes. Now, the Department of Infrastructure and BARA have proposed a – that there be a sort of a consultative forum set up involving the state government and the federal government, and so forth, and the airport operator and fuel companies and airlines.

10 What do you think about that? There was something – this was done in Melbourne Airport, we heard earlier. What do you think about the prospects?

15 **MR PEREIRA:** So there's a little bit of feedback from the last (indistinct) I think the concept that involves the stakeholders - - -

20 **COMMISSIONER LINDWALL:** Could we stop there for a second, and see if we can regenerate this, or. So, if someone has dialled on, could you put yourself on mute? Hello.

**COMMISSIONER KING:** So long as everybody as except Perth Airport's on mute, please. All right. Let's try again.

25 **COMMISSIONER LINDWALL:** Try again. Yes, please.

**COMMISSIONER KING:** Hello Perth, welcome back.

30 **COMMISSIONER LINDWALL:** Hello Perth, again. I think we can hear you a bit clearer now. Did you hear my question about consultation, the forum, and how Melbourne had a forum set up?

35 **MR MASON:** Yes, yes. We did. So, I think we would support that. I think, for us, that consultative forum which involved all the key stakeholders and interested parties would be a valuable, sensible thing to do, as long as didn't impact the commercial (indistinct) negotiations. For me, that would be between ourselves and the JUHI.

40 **COMMISSIONER LINDWALL:** Yes.

**MR MASON:** But adding into the process would be (indistinct).

**COMMISSIONER LINDWALL:** Okay. Sorry, you can ask now.

45 **COMMISSIONER KING:** I was going to shift directions. Can I - - -



**COMMISSIONER LINDWALL:** Completed this. There's nothing more – anything more on consultation?

5 **COMMISSIONER KING:** No.

**COMMISSIONER BAXTER:** No.

10 **COMMISSIONER LINDWALL:** No, I think that's probably – I just wanted to see that you would generally support it, basically.

**COMMISSIONER KING:** What I'd like to do, you'd be aware that Sydney Airport, five, six years ago now, there was an application for declaration under part 3A, for their JUHI facilities.

15 Now that was unsuccessful, but obviously, Perth is not Sydney, and things change over time. Are you aware of any interest in going down that path in Perth, to the degree that there's issues with getting access to the JUHI. In particular, has Perth Airport itself actually considered whether it should go down that direction?

20 **MR PEREIRA:** We're not aware of anyone going down that path, or interested in going down that path. That would be an aggression, and in terms of the second part of the question, no. No, we haven't considered going down that path either. I guess we're in good faith negotiations at the moment. We don't believe we've gone down that path far enough to even have a view on that just yet.

25 But we think we can find the outcomes privately in commercial negotiations. If we can't, then we've also put out an expression of interest recently to see if there are interested parties in working with us on a preferred model.

30 **COMMISSIONER LINDWALL:** I think you said in the submission, or somewhere, that somewhere, that you don't have a formal avenue for the airport to have input into the management of the infrastructure of fuel. Does the current lease of – does that prevent you from requiring infrastructure owners to modify the infrastructure?

35 **MR PEREIRA:** It does require – we can't really talk too much about the lease, because we're just about to enter into negotiations.

**COMMISSIONER LINDWALL:** Yes.

5 **MR PEREIRA:** But certainly, it does the require the JUHI to undertake the works, and I guess without – we do find the process a little bit cumbersome, in terms of getting the (indistinct) in terms of our planning, the ability to expand our network as required. Don't get caught up in those negotiations with the JUHI.

10 **COMMISSIONER LINDWALL:** Okay, yes. What type of – once you come to the new arrangements of an open access setup, which is what your objective is, would you see that being a 20 year contract? Or how do you determine the duration of your contracts?

15 **MR PEREIRA:** It would have to be long term in nature to support the investment, but the term we'd be flexible on. It could be anywhere between 10 and 30 years, to allow that (indistinct) negotiate – negotiation (indistinct).

**COMMISSIONER LINDWALL:** I see, yes. Ken, you wanted to say something, by the looks of it?

20 **COMMISSIONER BAXTER:** Mine was only a technical question about the state of the pipeline, and you mentioned that you're concerned there's a lack of transparency over the current conditions. I'm wondering whether that's advanced at all, and what's your real concerns about that?

25 **MR PEREIRA:** Yes. So our understanding is that the main pipeline that connects the refinery to BP's off airport storage facilities, which are just next to airport estate are some years old, and I guess we've been seeking assurances on the state, or the reliability of that infrastructure, and what would be their undertaking to keep that pipeline in adequate operating  
30 condition.

35 So we have been struggling on – in getting that information. However, we recently had a productive conversation with the AirBP CEO. They've given us the assurance that they will make that part of that information available so we can get – we can satisfy ourselves as to the reliability of that pipeline.

40 **MR MASON:** Can I maybe add to that? One of the Metronet rail projects opened a portion of their (indistinct) the rail reserve, and there's a road expansion project about to commence, and the pipeline needs to move, and I guess our other concern was what – what assurances do we have when the pipeline is moved, and connected and reconnected that we (indistinct) caught short.

Again, with the meetings of the three of us, senior members of the (indistinct) they will provide us that – assurance that three should be no issue with that. But I think that just heightens the, you know, our visibility and our concerns around (indistinct).

5

So we can certainly (indistinct) we've got the submission in, but a lot of work to do to get back being able to share that information, or we have not (indistinct).

10 **COMMISSIONER KING:** A slightly different direction. Does Perth have a fuel throughput levy?

**MR PEREIRA:** No.

15 **COMMISSIONER KING:** No. Any reason for that? I mean, obviously, there are different practices around the country, and it would be good from our perspective to understand why different airports pursue these different practices. Why did Perth decide not to have such a levy?

20 **MR PEREIRA:** I think, I guess, we don't have one for a couple of reasons, and it's primarily around the fact that we are quite a remote airport, and face competition and making sure that the – that the costs of operating Perth Airport are as low as possible makes sense.

25 For us, that's something that we wouldn't change, unless the throughput levy was (indistinct) some sort of recovery of infrastructure that we had invested in, we don't see a need to do that, and in fact, we're all about trying to make sure there is increased reliabilities and securities that (indistinct) of fuel, so that it allows us to be more competitive to attract  
30 new airlines to Perth.

**COMMISSIONER KING:** Okay.

35 **MR PEREIRA:** Again, we're effectively the landlords for all of the infrastructure owned, operated and maintained. So there's no – we don't believe there's any good reason for us to be seeking any sort of levy yet.

**COMMISSIONER KING:** Yes.

40 **MR PEREIRA:** It's not in the best interest for the airline.

**COMMISSIONER LINDWALL:** Obviously, if you moved to say a Darwin type of arrangement where you actually own the infrastructure, you'll have to think about the types of mechanisms to recover the cost of  
45 that infrastructure over time.

5 **MR PEREIRA:** Yes, and – yes. But I think in that particular situation I don't think we would link it to volume. It would simply a return on that infrastructure that might be linked to the aeronautical price for airlines operating, not a throughput levy.

10 **COMMISSIONER KING:** Okay. You're quite adamant there not to use a volume based charge. We've certainly heard from other airports that they consider that a volume based charge, together with some sort of fixed charge, is just standard, what you'd expect in a rental agreement for facilities like the JUHI. So, I'm interested in how strongly you're pushing back against that?

15 **MR PEREIRA:** I think that's our preferred option. I'm not ruling out that we would go down – go down that path. But from our viewpoint, it makes more sense to simply - similar to the building block approach in how we determine prices for (indistinct) price for passenger landing rates. Our charges would need to do that, rather than a throughput levy based on volume of fuel. We see that (indistinct) a return on capital investment.

20 **COMMISSIONER KING:** Okay.

25 **COMMISSIONER LINDWALL:** What's the process for approving into plane services providers. If an entrant has a refuelling truck and customers, would they be able to supply fuel at the airport, if they're not part of your JUHI members?

30 **MR PEREIRA:** We probably can't – I can't comment on that, because we don't have that (indistinct) very much into the JUHI and other fuel operators and with the airlines (indistinct).

35 **COMMISSIONER LINDWALL:** Okay. Now, I'm sure you're aware the NOC system for notification, where there's a traffic light system about warnings for supply disruptions and so forth.

**MR PEREIRA:** Yes.

40 **COMMISSIONER LINDWALL:** What do you think about how it's worked for Perth Airport and what – if you have any problems, what would you change in it?

45 **MS BLASKETT:** Probably we're not the right people to comment on that. I mean, I've had some experience with NOC during the MH370 crisis. You know, when they identified the likely resting place of MH370, (indistinct) in terms of – and I can't remember that their system is, it either

goes to black or red, whatever the system is in terms of identifying when we're at a critical stage in terms of shortage of fuel, but our chief operating officer is the person who gets those notifications, so we're probably not best placed to respond to that.

5

But I can certainly follow up and we can get some information back to you on that question.

**COMMISSIONER LINDWALL:** Okay. Thank you. That would be appreciated.

**MS BLASKETT:** I'm sorry, I should actually get you to remind of just one thing, just on NOCs, and the issue of compliance with the IATA requirements and the amount of storage off-site and on-site. Obviously, there's an issue around security and failure of supply, but we did, during – in March 2014 when MH370 was identified as being likely to be found in the Southern Ocean, and then we had a number of search and rescue teams from around the world, and all the media came to Perth Airport, and that went on for two or three weeks.

20

We did actually get that critical notification from NOCs about fuel supplies running out at Perth Airport, and there had to be alternative arrangements put in place due to the that.

So I think there's issues there around – so we get that (indistinct) I anticipate that – and also, on the flipside, that issue of failure, but that might something to follow up with NOCs. I can't remember the detail around that.

I do remember, however, that that went (indistinct) to the joint agency coordination centre for MH370, and that was something that had to be dealt with at the time.

**COMMISSIONER LINDWALL:** I remember going to Perth during the middle of the global – sorry, the mining investment boom, where it was – not much space for passengers to sit down, and it was very, very busy, and 747s were flying from Melbourne and Sydney to Perth. What was the fuel supply system situation back then?

**MS BLASKETT:** Again, I'd need to get that information from the operations chain, but we will get back to you (indistinct) around that question around NOCs fuel supply. Yes.

**COMMISSIONER LINDWALL:** Okay. Thanks. Ken, did you have anything?

45

**COMMISSIONER BAXTER:** No, I haven't got anything further.

**COMMISSIONER LINDWALL:** Do you have anything?

5

**COMMISSIONER KING:** I think that's about it, except for one thing that's slightly left of field that I asked the other airports. That, in today's Australian, there was an article where BARA, Barry Abrams, said that – out to Perth and Sydney and Melbourne and Brisbane, that luxury shopping strips within international airports are being blamed for distracting and confusing passengers to the point of causing flight delays. Is that something that you'd like to comment upon?

10

**MS BLASKETT:** Yes, absolutely, we'd like to comment upon it. So we're looking to any sort of, you know, investment in our departure lounges or, in fact, in our terminal, we obviously consult with the airlines. The international airlines, in particular, their commercial teams and also at the AOC level, they need to (indistinct) of the bid, for example, and the timing of the bid, but we had a situation here at Perth Airport, we really wanted to improve the FIDS at Perth Airport, particularly departures, and in terms of getting those videowalls up, they are actually very, very expensive, and we negotiated with the local airline operating committee around – in terms of the price, the cost of the FIDS system, and the videowall, and what price they were prepared to pay, and what proportion of the FIDS system. Therefore, the cost would be offset through that sort of retail aspect.

20

25

And that was an agreement with the airlines, because the bigger the videowall, the more expensive, and they were only prepared to pay a certain amount, so the cost is offset through that retail advertising.

30

The other point I'd make about the retail, particularly in the air side areas, which is what we're talking about, the departure lounge, you know, there is a – we've got an interest in getting passengers – passengers through those processing points. So, check-in and security screening as quickly as possible so that they're in that air side area, so that we don't have delays.

35

And one of the ways in which we do that is to have a good retail offering in the air side area, because every time, what happens with passengers, either come to the airport late, because there is nothing to actually entice them, I guess, to go through the security screening process into air side, or they (indistinct) and they think land side, for an extended period of time before they go into the air side area.

40

So, we just don't think that there is anything in that, and at Perth Airport, for example, we consistently have the highest on time performance rate across Australia to the aircraft departure and arrival. So I don't actually think there's much in that assertion.

5

**COMMISSIONER LINDWALL:** I think you've answered that very well. But could I just clarify for the transcript, when you called, I think you said "FIDS". Is that a flight information display system, or something?

10

**MS BLASKETT:** Yes. Yes, that's right.

**COMMISSIONER LINDWALL:** Okay. It's handy for the transcript. Well, unless we've got any more question, thank you very much Brian, Allan, and Deb.

15

**MR PEREIRA:** Thank you.

**MR MASON:** Thank you.

20

**MS BLASKETT:** Thank you.

**COMMISSIONER LINDWALL:** Have a good day. Bye.

25

**UNIDENTIFIED SPEAKER:** So Caltex will be appearing a few minutes after 2 o'clock.

**COMMISSIONER LINDWALL:** Okay.

30

**UNIDENTIFIED SPEAKER:** So if you want grab a coffee or tea. They're appearing half an hour before schedule, which is - - -

**COMMISSIONER LINDWALL:** Excellent. Well, I might quickly go and get our taxi changed to 3 o'clock then.

35

**UNIDENTIFIED SPEAKER:** They should be there a minute or two after 2 o'clock.

**COMMISSIONER LINDWALL:** Sounds good. I'll be back in a sec.

40

**SHORT ADJOURNMENT**

45

**COMMISSIONER LINDWALL:** Hello, is that Philip?

**MR SKINNER:** Yes, this is Philip and Rohan Dangerfield from Caltex.

5 **COMMISSIONER LINDWALL:** All right. Hello Philip and hello Rohan. I'm Paul Lindwall, the presiding Commissioner. I'll get my colleagues to say hello so you can hear their voice.

**COMMISSIONER BAXTER:** Hi, I'm Ken Baxter.

10 **COMMISSIONER KING:** Hi Philip and Rohan, I'm Stephen King.

**COMMISSIONER LINDWALL:** And if you wouldn't mind just saying your name so that our transcript gentleman can identify who's speaking, and also, if you want to give an opening statement, that would be  
15 fantastic.

**MR DANGERFIELD:** Okay. My name's Rohan Dangerfield. I'm the General Manager of Supply Operations at Caltex Australia.

20 **MR SKINNER:** And I'm Philip Skinner. I'm the Adviser for Government and Industry Affairs at Caltex Australia.

**COMMISSIONER LINDWALL:** Welcome.

25 **MR DANGERFIELD:** Have you seen it?

**COMMISSIONER LINDWALL:** Yes, please.

**MR DANGERFIELD:** So, good afternoon, everyone. I'd like to thank  
30 the Productivity Commission for allowing the opportunity for Caltex Australia to discuss our submission and take questions on the Australian jet fuel market.

Caltex has been operating in Australia since 1900 through various  
35 antecedent firms, and has developed a strong reputation for the safe and reliable supply of liquid transport fuels.

It's the largest Australian transport, fuel, and convenience company which  
40 is on the Australian Securities Exchange. Caltex is responsible for the supply of one third of the liquid transport fuels supplied in Australia to consumers from defence to maritime customers, and aviation partners to motoring enthusiasts.



Caltex is also a strong and longstanding participant in the supply of jet fuel to Australian airports, and the design, construction, operation and maintenance of key supply infrastructure for jet and other fuel types.

5 Caltex markets jet fuel at nine airports in Australia, we're joint venture participants in the Joint User Hydrant Installations, or JUHIs, of five major airports, and are the sole owner, or JV partner in two key jet supply, pipelines in Sydney and Brisbane.

10 Caltex Australia firmly believes that the jet fuel supply market in Australia operates in an effective and competitive manner through the presence of multiple supply participants competing for volume and through various established supply infrastructure routes, which provide efficient, cost-effective, and competitive methods of delivery.

15 Furthermore, the presence of multiple supply competitors in the jet fuel market, coupled with the ability for airlines to tender for new supply partners on a regular basis, provides continual competitive pressures to ensure that fuel suppliers provide attractive offers.

20 We also don't believe that there are barriers to prevent new market entrants, as has been claimed by some parties in their public submissions.

25 It should be noted, though, that under existing market structures, mechanisms exist for new market participants to enter the various supply chains throughout Australia in a number of capacities, not least of all as equity partners in existing infrastructure networks, such as JUHI's, contracting through the supply chain, or through tendering access to existing infrastructure networks.

30 An example of this exists in Sydney at Kingsford Smith Airport where Qantas operates as an equity partner in the Sydney Joint User Hydrant Installation, and imports their own supply with a fuel partner.

35 Another example of opportunities for access is that Caltex has been undertaking a tender process for parties looking to utilise excess capacity within our pipeline network.

40 These are regular occurrences which demonstrate the opportunities which do exist within the current market for new entrants.

When looking at comparative fuel prices at an international level, it's important to note that as a net importer of liquid transport fuels in Australia, we are beholden to international factors which impact cost, at

which jet fuel, and indeed all transport fuels, can be supplied to the Australian market.

5 Given the costs associated with sourcing product, coupled with the cost of transport to Australia, storage and distribution of product, supply prices for jet fuel in Australia reflect reasonable cost associated with supplying product to market.

10 This has been looked at in the past, not least of all by the National Competition Council, when they were investigating the jet fuel supply infrastructure in Sydney, who found the argument that jet fuel differentials did not point to excessive pricing or abuse of market power was compelling.

15 In closing, Caltex Australia welcomes the opportunity to discuss this matter with the Productivity Commission. However, we do note, that given its commercial sensitivities, there may be some areas of questioning which we will not be able to respond to in a public forum.

20 We will, however, note that two members of the Australian Institute of Petroleum have supplied the Productivity Commission with comprehensive public submissions, seeking to address the items raised by the inquiry. Caltex Australia has reviewed both of these submissions, and believe they present an accurate reflection of the jet fuel supply market in  
25 Australia.

I welcome your questions.

**COMMISSIONER LINDWALL:** Well, thank you very much, Rohan  
30 and Philip. Maybe I might start on security of supply, since that's been a bit of a topic, and that's about your views of how the NOCs system of reporting the traffic light system is working. Should it be improved? How do you find – well, there were some black light issues in Melbourne, and what would you say are the biggest issues that lead to that type of  
35 risk, and what are the best ways of ameliorating that?

Now, I understand that, as a bit of background, that the IATA guidelines say that there should be a supply of about three days or more in storage at each airport. So perhaps you could comment on that type of topic.  
40

**MR DANGERFIELD:** It's a very broad ranging question.

**COMMISSIONER LINDWALL:** Yes.

5 **MR DANGERFIELD:** I might just check in my IATA guidelines. I'm familiar with the IATA guidance on airport fuel storage capacity. My read of the guidance is that it does not specify a number of days. It rather sets out a methodology where people should review the supply chain infrastructure to an airport, and use that to make an assessment of what is the right level of storage in a market. It does not give a specific answer.

10 So that's the first point on the IATA guidelines. So, if some people refer to that three days coverage number. It's not actually in the IATA guidelines.

**COMMISSIONER LINDWALL:** Okay.

15 **MR DANGERFIELD:** So there's that point, and then back, you were asking about the NOC process?

**COMMISSIONER LINDWALL:** Yes.

20 **MR SKINNER:** I think, from our point of view, the NOCs process does provide a reasonable mechanism for observing the current situation at major airports around Australia and New Zealand. I note that over the last, well, few months, they had – sorry, last year, they had a consultation to bolt that into the NOSEC as well, to ensure that both within companies and industry participants that there are the appropriate supply personnel who would be linked, and receiving information.

25 So I think that we would be advising that that's currently an effective system of monitoring occurrences, and think just to touch on the Melbourne Airport situation, that's probably a good indication of how a situation can occur when there isn't certainty of tenure to allow for suitable infrastructure developments to occur.

30 That's something which since the new agreement the industry has been taking steps to increase storage capacities, and other facilities at Melbourne Airport.

35 **COMMISSIONER LINDWALL:** Okay. Overall, in Australia, you've spoken about Melbourne, are there other airports you've been – you're involved with where you would have more concerns about lack of redundancy of supply? Or risk to supply?

40 **MR DANGERFIELD:** Each situation carries its unique risks, but I don't – I think probably the industry would have acknowledged Melbourne was one of the tightest. There's been significant investment in Melbourne by ourselves and other off-airport in recent years, and Philip referred to some  
45 of the current works that are underway.

At Melbourne JUHI at the moment, I think, Melbourne Airport, in their discussions this morning, commented on some of those as well.

5 **COMMISSIONER LINDWALL:** Okay. Any more on supply, do you think?

**COMMISSIONER KING:** No.

10 **COMMISSIONER LINDWALL:** No, I think we might move on from that, unless Ken, you've got something on supply?

**COMMISSIONER BAXTER:** No, no. Only just to ask the question, I presume that Caltex, these days, brings its aviation fuel out of somewhere like Singapore, or it does it refine it in existing Australian refineries?

15 **MR DANGERFIELD:** So yes, we've got a refinery in Brisbane at Lytton, where we produce jet fuel. We also have import orders of jet fuel into Australia from a range of locations around Asia and further afield. We also buy jet fuel at a wholesale level in country as well.

**COMMISSIONER BAXTER:** Okay.

25 **COMMISSIONER LINDWALL:** Now, perhaps you could comment on what you as a company feel about entering a market which is in different structures? So Darwin, for example, is moving to a more pure, open access scheme. Melbourne has a JUHI which has open access as part of it. Brisbane has a more traditional setup.

30 So of those three, I mean, if you're providing fuel, does it – how do you view each of those options?

**MR DANGERFIELD:** So, in any – in any market, we would choose to use whatever facilities were available.

35 **COMMISSIONER LINDWALL:** Yes.

**MR DANGERFIELD:** Or set up our own in parallel, if we thought we could do so more efficiently.

40 **COMMISSIONER LINDWALL:** Okay.

**COMMISSIONER KING:** Well, just on that, I note that you said – sorry, please continue.

45

**MR DANGERFIELD:** I'm not quite sure if that answers your question, but - - -

5 **COMMISSIONER LINDWALL:** Well, I mean, I think it does, in the main. But effectively, you're neutral. I mean, obviously, if you're a JUHI participant and you have a contract, then you run the JUHI and its investment according to the other operators in that joint venture.

10 But if you're going to Darwin, you would compete with other fuel providers to provide fuel to customers in Darwin just as easily, I guess. So the only difference is that in one you've got an equity ownership.

15 **MR DANGERFIELD:** Just to be clear, the JUHI structure is a joint venture arrangement for the owning of infrastructure, and we have some access rights by nature of our equity participation. But the fuel supply and marketing is done by ourselves. The JUHIs have no role in marketing.

20 **COMMISSIONER KING:** No. No, I understand that. Can I just go into a bit more detail on that? So, from your opening remarks, I think you said that Caltex is a joint venture member in five JUHIs, or JUHIs of five airports, but you're supplying at nine airports. So, is that correct?

**MR DANGERFIELD:** That's correct.

25 **COMMISSIONER KING:** Yes. So the four airports where you're not – or you're not in the JV, the JUHI JV, how are you supplying at those airports?

30 **MR DANGERFIELD:** So, one airport we own the fuel facility ourselves, outright and lease land off the airport. Another location we've chosen to not invest in the new facility in the airport, so we're contracting through the owner of the infrastructure of that airport.

35 Another one, it's owned by an independent company. We operate that facility for them, and - - -

**COMMISSIONER KING:** The fourth one.

40 **MR DANGERFIELD:** I've covered them all.

**COMMISSIONER LINDWALL:** I think there was one more.

45 **COMMISSIONER KING:** So there's one facility that you own, one you operate.

**MR DANGERFIELD:** There's another airport where we're a joint venture member of the fuel storage facility on site, and we contract with another company for into plane service.

5 **COMMISSIONER LINDWALL:** Okay.

**COMMISSIONER KING:** Okay. So, just the one where you're contracting with the owner of the infrastructure, are you able to say which airport that is?

10

**MR DANGERFIELD:** That would be Canberra.

**COMMISSIONER KING:** Okay. So Canberra. Every fuel supplier there would be on an equal footing, because as I understand it, the Canberra Airport owns the JUHI.

15

**MR DANGERFIELD:** No. So Canberra Airport don't own the fuel facility. The fuel facility's owned by a company called Southern Aviation.

20 **COMMISSIONER KING:** Okay. And who owns Southern Aviation?

**COMMISSIONER LINDWALL:** Ask him, if you wish.

**COMMISSIONER KING:** Well, who's the ultimate owner in Southern Aviation?

25

**MR DANGERFIELD:** I'm not sure.

**MR SKINNER:** I think you'd have to look at that company to get that information.

30

**COMMISSIONER KING:** Okay. So, none of those airports where there is a JUHI – well actually, no. I'll just check. The last one where you said you are joint owners of the storage; do you then access a JUHI that's owned by a joint venture? Again, I guess I could ask first off, are you able to say which airport it is?

35

**MR DANGERFIELD:** I don't quite understand the question.

**COMMISSIONER KING:** Sorry. The last one that you mentioned, you said you had – you were a participant in a joint owned storage facility, but you didn't have any interest in the actual hydrant facilities.

40

**MR DANGERFIELD:** No, that airport doesn't have a hydrant facility.

45

**COMMISSIONER KING:** Okay.

**MR DANGERFIELD:** It's all tanker refuelling.

5 **COMMISSIONER KING:** Okay. Apologies. I misheard that. Okay.  
So, that leaves us in a situation where you've said that you believe that  
there's competition, and that with the JUHIs, or where there are joint  
venture JUHIs, you use the same example that everyone uses, which is  
10 Qantas was able to get equity access to a JUHI in Sydney. A nice, simple,  
interesting example, but I get very worried about examples of effective  
regimes where you can only come up with the one example, and everyone  
comes up with the same example.

15 What other evidence can we take from you that the equity access approach  
for JUHIs is actually efficient, rather than just simply being a closed shop,  
leading to a small group, an oligopoly of fuel – of fuel suppliers  
controlling the critical infrastructure?

20 **MR DANGERFIELD:** So, at a range of airports, where other parties  
have expressed interest in joining, but have chosen not to, I guess we do  
note that around the country, I think we referred to a couple of examples,  
there's a variety of models starting to exist.

25 Melbourne Airport, for example, you referred to, and they covered it in  
their submission this morning, and Darwin Airport's making changes as  
well.

30 **COMMISSIONER KING:** So those changes appear to have been  
driven, at least in part, by the relevant airports being dissatisfied with the  
traditional JUHI approach. So we see people dissatisfied with that JUHI  
approach. We see only one example, historically, of anyone being able to  
gain access there, and that's the Qantas equity access, and that all paints a  
picture for us that the traditional JUHI approach is, at best, flawed, and at  
35 worst, not working.

40 **MR DANGERFIELD:** I think it comes to the point of the what JUHI  
arrangements are, and it's to provide an efficient model for owning  
infrastructure on airports that it makes sense to have joint users rather than  
people owning infrastructure in parallel, and that helps reduce investment  
costs, provide efficiency, and I think that was shown in the feedback to the  
NCC investigation into infrastructure. I think that what's it found, that  
indeed it was delivering on that.

45 **COMMISSIONER LINDWALL:** I certainly agree that a joint venture  
can produce efficiencies and that by not duplicating infrastructure. But,

5 you know, if you look at the Telstra example, where it was both the infrastructure supplier as well as the supplier to customers, a vertical integration problem there. Wouldn't it be true to say that a joint venture which doesn't have fuel companies in it is likely to be more competitive than one that does?

10 **MR DANGERFIELD:** So I think the point of the joint ventures are infrastructure, ownership, and operation arrangements. They're not marketing entities, or where fuel suppliers make their own marketing arrangements quite independently of each other, and I think that's our observation, it's a very competitive market.

**COMMISSIONER LINDWALL:** Okay.

15 **MR DANGERFIELD:** I think we'd also note, after some feedback from our customers and potential customers, that across locations we see evidence of other companies contracting their way through the supply chain with various infrastructure and asset owners and fuel suppliers to gain access in a different part of the supply chain from international supplier, right through to the airplane wing.

20 **COMMISSIONER LINDWALL:** Could I ask, if you've got – just to tell the mechanics of this – if you're in a JV JUHI with, say, four members, three other members, plus Caltex, and you're supplying, I don't know, let's say 25 per cent of the fuel at that airport, and then you reach a new agreement with an airline to – and it now means that you're 40 per cent of the fuel supplied in the airport, do you then arrange to get a larger percentage of the JUHI joint venture, or do you continue with your original 25 per cent?

30 **MR DANGERFIELD:** As an equity participant, equity percentage is not directly relevant to the throughput percentage.

35 **COMMISSIONER LINDWALL:** Okay. Yes, I thought that was the case. So it doesn't adjust.

40 **MR DANGERFIELD:** So there's an equity ownership share, and your percentage of throughput somewhere from 25 to 40 per cent, and that's quite separate.

**COMMISSIONER LINDWALL:** Okay.

45 **COMMISSIONER KING:** So, just on the – well, so first off, the joint ventures that run the JUHI, are they for profit, or not for profit, in the sense of, do they own – is there a formal part of the arrangement in the



joint venture that they only recover cost, or they are priced to make a profit?

5 **MR DANGERFIELD:** So, the standard arrangement for JUHIs in Australia is they're unincorporated joint ventures, and so the operator adjusts apportioned costs between the equity owners and the throughputters. There's no profit and loss within the entity.

10 **COMMISSIONER KING:** Okay.

**MR DANGERFIELD:** It's just a cost-sharing arrangement.

**COMMISSIONER KING:** I have heard that – sorry, go on.

15 **MR DANGERFIELD:** Yes, so if there's a capital investment made equity, participants contribute. So equity investments in capital items, and then there's a cost-sharing for operations.

20 **COMMISSIONER KING:** And new investment, obviously.

**MR DANGERFIELD:** There's no profit or loss within the JUHI structure itself.

25 **COMMISSIONER KING:** Although, if Caltex, just to pick up on Paul's example, if Caltex was supplying more fuel through the JUHI, there would be a charge from the JUHI to Caltex for the increased fuel that Caltex put through, which – so the JUHI members would only be liable for any difference between the fees collected and costs, presumably.

30 **MR DANGERFIELD:** So, the arrangement is slightly different between locations. But as a general principle, some costs are shared by equity, and some costs are shared by throughput.

35 **COMMISSIONER LINDWALL:** Okay.

**COMMISSIONER KING:** Okay.

40 **MR DANGERFIELD:** So as a larger throughputter you would pay a larger share of the costs.

**COMMISSIONER KING:** Yes, okay.

45 **COMMISSIONER BAXTER:** And is that a fixed arrangement across all the JUHIs in Australia, or is it just a case by case?

**COMMISSIONER LINDWALL:** It's different, by the sound of it.

**COMMISSIONER BAXTER:** Yes.

5 **COMMISSIONER KING:** It sounds like they're different.

**MR DANGERFIELD:** Case by case, these joint ventures are established, or change over time, their discussion between joint venture partners on how they wish to structure their joint venture arrangement.

10 **COMMISSIONER LINDWALL:** Now, I mean, has Caltex ever tried to enter an existing JUHI which you're not a member of? For example, I don't think you're a member of Adelaide's JUHI. I mean, have you ever attempted that?

15 **MR DANGERFIELD:** Yes, we have.

**COMMISSIONER LINDWALL:** And you've been successful?

20 **MR DANGERFIELD:** We've chosen not to proceed.

**COMMISSIONER LINDWALL:** I understand that one of the issue about entry into an existing JUHI is that the prices charged for the new entry is based upon the current valuation, and then the returns that they receive as a member are based upon the historic cost, and that generally would mean that it's – the returns are not really worth investing in. Would you care to comment on that?

30 **MR DANGERFIELD:** Any particular arrangement is unique to the location.

**COMMISSIONER LINDWALL:** Okay. Fair enough. Yes. Could I now move onto something that we had a testimony a couple of days ago from Bioenergy Australia, and they were talking about a biofuel trial in Brisbane, which I understand, and they said that Caltex was involved in, and they said that it took an inordinate amount of testing, well above what – and I'm not an expert, I'm just telling you what they told us.

40 That the fuel apparently, there's less impurities, it's a higher energy content, or thermal content, more dense, in other words, and that it was tested many more times than other fuel, and that the process took many, many months. That's what I pretty much (indistinct).

45 So do you have any comment on that, since I understand they worked through you to provide the mixing of that biofuel with the normal Avgas?

**MR DANGERFIELD:** Yes. So I'd better comment on that. So yes, we worked with one of our customers, being Virgin, in Brisbane to help facilitate a trial of putting Biojet through the supply chain in Brisbane. So we worked with Virgin on that. We had it added to our supply chain back at our Lytton refinery, and transitioned that through the supply chain to Brisbane Airport.

We worked with our various infrastructure partners, and both on and off airport, then with the JUHIs to facilitate that, and that was done quite successfully. There was a public function run between the state government, the airport, and Virgin and ourselves, to announce that when that happened.

With regards to the quality checking through the supply chain, I think it's an area that's been developing in the industry. I think we worked with Virgin, as I said, and also the other joint venture members in the JUHI, and that was done successfully, and that would (indistinct) successfully achieved.

I should also note that since that trial, it was done under trial conditions, so there was sort of extra focus on making sure it could be done safely and reliably, that some of the industry standards they could continue to evolve in that space to document how those things should be done all around the world.

**MR SKINNER:** If I could just add to that. It completely derives from it being a jet fuel. Jet, by its very nature, is tested far more stringently than gasoline or diesel utilised for road transport purposes, and there's very specific rationale behind that. Effectively, you do have to take greater safety precautions with a jet aircraft, and with the specific fuel.

On the Virgin Biojet trial, this was our first trial of utilising established infrastructures, including our pipeline to the airport, and the Joint User Hydrant facility for a Biojet, that at the time, was still going through the process of being assessed for inclusion in international fuel standards for jets.

So, with it being the first trial of its kind in that nature, there was, I believe, one or two additional test undertaken, but the remainder of the tests were actually in line with similar tests that we undertake to supply standard jet fuel to airports all around Australia.

**COMMISSIONER LINDWALL:** Okay. I think – sorry.

5 **MR SKINNER:** Sorry, I would also note, if I could just add to that, that since then, that particular Biojet created through that technical pathway has now been approved for use under both the ASTM and DEFSTAN. So that means that for future trials, and I believe we are going through the process of undertaking a second shipment currently. It will be a lot easier in that process in terms of other processes we did have to go through at the time to allow for it to be supplied through the JUHI system.

10 **COMMISSIONER LINDWALL:** Okay. Now, one of the things that's come out from a number of participants is that the whole nature of the JUHIs, and the entry conditions, and the prices, costs, and profits, are very opaque and not – well, they're opaque. They're not transparent.

15 Why is that so? And I also note that most of the fuel companies that have participated with us have tended to provide confidential submissions, rather than public ones. Why is that the case, and why should that be the case?

20 **MR DANGERFIELD:** I think it's the case because they're privately owned assets, and there's arrangements between different private companies. Then there's still many elements to the supply chain, both petrol, jet fuel and diesel, and jet fuel sales to customers that are individually negotiated, and they're confidential between ourselves and them.

25 **COMMISSIONER LINDWALL:** If you want to add anything to that?

30 **COMMISSIONER KING:** Well, whilst I understand why parts of the supply chain confidentiality would be important, if the JUHIs are just being run on a cost recovery basis, it does strike me as being – the degree of confidentiality does seem slightly odd. I can't see what would be the problem, if it really is cost recovery, what would be the problem with the details of that cost recovery being public.

35 **MR DANGERFIELD:** So, I guess it I would – so some JUHIs, the through putters, the (indistinct) they have poor visibility on the costs, and can ensure things are done efficiently. Through various parts of the supply chain, we contracted others and pay a throughput fee that's individually negotiated and doesn't – you know, is (indistinct) its own right. It's obvious that some of those other locations where we contract  
40 with others.

**COMMISSIONER KING:** Okay. So, for example, you've got pipelines at Sydney and Brisbane, but so you would charge a throughput levy for

those pipelines, presumably? Well, sorry, throughput charge. I shouldn't call it throughput levy.

5 **MR DANGERFIELD:** So, in Sydney, when a – it's going back maybe (indistinct) eight years now, so it's making significant investment in the order of tens of millions of dollars in our pipeline on Sydney Airport. Probably now coming up to 15 years, we contracted with other parties for access to our pipeline. They've taken a number of different – they've been structured a number of different ways over the – over that time.

10 At the moment, we periodically run a tender for access to our pipeline in Sydney and many fuel suppliers would get involved in the fuel supply chain have participated in having a contract with a number of parties for pipeline access.

15 **COMMISSIONER KING:** So when you say many fuel suppliers.

20 **MR DANGERFIELD:** Sydney, Brisbane. Sorry, I'll just say, in Brisbane we – the pipeline to the airport, we had a joint venture with another fuel company on that. We only supply ourselves through that line.

25 **COMMISSIONER KING:** Okay. So, in the case of Sydney, for capacity to the airport, presumably the only parties who could track for that are the JUHI participants? And Qantas, I guess, would be the other one, because – sorry, it is a JUHI participant.

30 So, I mean, does anybody other than the JUHI participants tender for pipeline capacity to Sydney Airport?

**MR DANGERFIELD:** Over the years, we've received tender submissions from a wide variety of companies beyond the JUHI participants.

35 **COMMISSIONER LINDWALL:** Have they been successful?

**COMMISSIONER KING:** You can ask that.

40 **COMMISSIONER LINDWALL:** Have any of them been successful?

**MR DANGERFIELD:** Yes.

**COMMISSIONER LINDWALL:** Okay.

**COMMISSIONER KING:** Are you able to tell us what they were doing with the fuel at the other end? Were they then on-selling to one of the JUHI participants, or?

5 **MR DANGERFIELD:** We don't have direct knowledge of their arrangements.

**COMMISSIONER KING:** Okay. No, no. That's fair enough.

10 **COMMISSIONER LINDWALL:** Could I ask, to what – you know, there's been some testimony about the use of trucks versus pipelines, and obviously sometimes concerns about environmental safety factors in regard to trucks. Also congestion factors around Perth, for example, was said today.

15 To what extent do you think trucking fuel is a substitute to the pipeline, and where do you see the industry developing in respect to trucking versus pipeline development?

20 **MR DANGERFIELD:** Yes. I think our observation would be trucking is a very efficient way of moving transport fuels, even jet fuel. Smaller airports tend to be exclusively truck fed. So airports at places like that would be Cairns, Townsville, Gold Coast, Canberra. You know, those sorts of locations are exclusively truck fed.

25 Major airports, I think Brisbane, Sydney, Melbourne, Perth, tend to be pipeline fed. Some of those larger airport have both pipeline and truck. Some airports have multiple pipelines.

30 I think the high capital intensity of pipelines tends to mean that you need large volume flows to make that efficient, and to be cost competitive with trucking. Trucking, by its nature, more trucks can be, usually at lower capital cost, and more flexibility sort of added or taken off the task and were used elsewhere within the supply chain, whereas pipelines tend to be  
35 very dedicated for one product, from one location to another.

**COMMISSIONER LINDWALL:** Okay. Yes. But I don't know if you can reflect on what happened in Auckland, where the pipeline was disrupted, and I'm not sure how long it took to repair that pipeline. But  
40 obviously, they had to substitute in a number of ways. I think that Wellington Airport grew in capacity for a little bit and took up some of the load, and obviously they had a lot more trucks going into Auckland. How quickly they got that on line, I'm not sure.

5 **MR DANGERFIELD:** Yes, so I think we would usually observe that having more than one supply route to an airport would be important for reliability. Both pipeline and truck, or more than one pipeline. I should also note that trucking, typically by its – you know, trucks can go by different routes.

**COMMISSIONER LINDWALL:** Exactly.

10 **MR DANGERFIELD:** And usually in location, they're portable. Trucks on the tar, so if one road is blocked or one company's truck or trucks is out of action, usually there's others that provide redundancy reserves. Yes, usually multiple methods is best to provide some redundancy.

15 And, obviously, on airport capacity, storage capacity is an important factor in that. How much extra capacity, if that's used by the different pipeline or trucking routes, is available, and the amount of storage and the like upstream, they're all important factors.

20 **COMMISSIONER LINDWALL:** Okay. Yes, yes.

**MR SKINNER:** I might add that if there's a significant incident like in New Zealand, where a pipeline is out for a significant period of time, that's not a surprise there is some disruptions to supply to an airport.

25 **COMMISSIONER LINDWALL:** Do the arrangements for taking – approving plane service providers, vary by airport, I presume? And if you wanted to be a new entrant, and buy a refuelling truck and supply fuel at the airport, would that vary, is there some common practices for that type of thing?

30 **MR DANGERFIELD:** So, on airport, there's a variety in into-plane arrangements. So when we talk about each plane, it's usually the trucks on the airports that sort of do the last bit of connection, either a tanker truck driving to the plane, or a hydrant dispenser connecting from they hydrant system to the plane.

35 They're both joint venture arrangements for those around the country. There's a lot of companies own their operations individually. Where companies own them individually, quite commonly, they contract that service out to others for a fee, and we also note, there's very low barriers to entry to enter into that space, given that the capital cost for purchasing refuelling trucks is better for it, and where joint ventures exist, usually there are provisions for people to join a joint venture also.

**COMMISSIONER LINDWALL:** Okay. I mean, we heard that current into plane providers have been unwilling supply fuel for potential entrants. Do you agree with that?

5 **MR DANGERFIELD:** Could you just repeat the question? It sort of dropped out a little bit there.

**COMMISSIONER LINDWALL:** Sorry, current into plane providers have been unwilling to supply fuel for potential entrants.

10 **MR DANGERFIELD:** So, usually an into plane provider wouldn't supply fuel. They would provide an into plane service. Our observation, we contract both the – we contract with others both to do into plane for us, and we do into plane for other locations. So I'm surprised to hear that.

15 **COMMISSIONER LINDWALL:** Okay. What about various jet fuel throughput levies, that some airports levy, or charge, and others don't? Do you have any views on that?

20 **MR DANGERFIELD:** Yes. So there's a few different ranges – few different arrangements. I guess we – our overarching comment is really that Caltex firmly supports the ICAO principle there, what charges should be related to the cost of providing airport facilities and services.

25 **COMMISSIONER LINDWALL:** Okay. Yes, all right. Now, another thing that happened is that the Victorian government promoted a consultative forum in Melbourne Airport, which involved the state government, the federal government, I think, and airports and air – the airport and fuel companies, and airlines. Was Caltex part of that, and if so, what did you – how did find it? Helpful, or useful, or valuable?

30 **MR DANGERFIELD:** I think we were part of that process. There's been a number of forums like that that have come and gone over time. I think it's all a bit specific at each of the locations, the state of the supply chain, noting in some markets fuel supplies, infrastructure providers, and the like tend to self-organise individually, or jointly make an investment without those types of arrangements, and you know, they (indistinct) competitive infrastructure is usually built by multiple parties, you know, to provide multiple means of getting fuel to market.

40 But perhaps they can be – some of those forums can be useful at times, to address specific issues of concern. But in general, our observation is they wouldn't be – wouldn't be necessary, but usually if they exist, we would choose to participate.

45



5 **COMMISSIONER LINDWALL:** Okay. I've also heard from AIP that the reason – well, the claim is that the underinvestment in jet fuel infrastructure in Melbourne Airport was due to a lack of lease tenure, and you alluded to that earlier when you said that the new contract has been brought to provide some scope for additional investment, and building up capacity.

10 What type of lease tenure do you think is optimal? I mean, I think that's a 20 year one. Is there a minimum period that you would consider viable? Or is 10 years too short, for example?

15 **MR DANGERFIELD:** It's a little bit dependent on the location, the historic investment, what future investment, for example, might be required. Where significant investment's required, for assets that have a life of 20, 30, 40 plus years, usually, we would expect that the tenure would be roughly in line with the asset life. So, the use of the asset can be achieved over the tenure of the lease. If you get 20 years into that 30 year period, (indistinct).

20 **COMMISSIONER LINDWALL:** Sorry, it's breaking up a little bit.

**MR DANGERFIELD:** So then (indistinct)

25 **COMMISSIONER LINDWALL:** Hello. We're missing a number of that, and I don't think we got the last minute or so. I don't know if someone else has come on and put the microphone on. Could you try again, sorry?

30 **MR DANGERFIELD:** Yes, I can say it again. So, investments in sort of steel and concrete to the tanks and pipelines would tend to be 20, 30, 40 year plus life.

35 **COMMISSIONER LINDWALL:** Yes.

40 **MR DANGERFIELD:** So, having tenures in line with the life of the assets would generally make sense. I guess we note that when you're partway through a tenure period, or as you approach the end of it, well then it's the remaining tenure that's the important piece, rather than overall term.

45 My other observation would be that the JUHI participants are usually very proactive. Say, five years out from a lease coming to a conclusion, to engage with the airports to talk about the next term.

**COMMISSIONER LINDWALL:** Okay. Thanks.

**MR DANGERFIELD:** Provide (indistinct) for everyone.

5 **COMMISSIONER LINDWALL:** Did you have any - - -

**COMMISSIONER KING:** I've only got one other set of questions which, really coming back to a problem that we have. So, hopefully, you'll be able to help us out.

10

We're in the situation where we've heard a lot about complaints from airlines about the prices that they pay for jet fuel. Claims that our – for prices airlines pay in Australia are out of line with the rest of the world.

15 As you'd be aware from the public submissions, BARA's put in essentially an updated of the IATA data that they provided to the NCC for the Sydney declaration.

20 You'd be aware that the NCC said, well, unfortunately that data, by itself, doesn't give a great deal, or has very little value, because it doesn't provide any explanation for price differentials around the world, and you're probably also aware that a report was put in by RBB to the NCC, which apparently, although the – there's only a public version, which is redacted, available through the NCC.

25

But that, apparently, was an attempt to show that any price differentials in Australia could be explained by differences in transport costs, fuel – taxes, and so on. Obviously, we don't have access to that report at the moment.

30 That puts us in a bit of a quandary. We've got a lot of anecdotal material put to us saying that the prices are high, but we have very little hard evidence to say that the prices are high.

35 So, I guess my question really is, given that you're one side of these contracts, are you able to provide us with better information that we can use to evaluate whether the jet fuel prices in Australia are, or are not, out of line with what you would expect in comparison to other airports around the world.

40 **MR DANGERFIELD:** Yes. So, Caltex Australia only markets jet fuel within Australia, but I will make some – a couple of observations, and I can't just think which submission it was in, but I can talk generally to it.

45 Someone had a chart showing differentials above the MOPS jet price, doing a comparison of Australia versus other locations, including

Singapore. I think it's important to understand how pricing around the world, and particularly in this case in Australia, work.

5 So, commonly in Australia, fuel suppliers price all fuels at an import parity basis into Australia, given Australia is a net importer of finished product, and that's certainly true in the case of jet fuel.

10 In Asia, the commonly traded jet fuel market is Singapore and Platts quotes a – daily quotes a MOPS Singapore price for what is traded in Singapore.

15 And so usually Australia trades at a high price that's reflective for the cost to get it here, because as you remarked, a comment of what is imported into Australia would be Singapore into Australia, and so freights, shipping freight in Australia is a significant part of that.

20 I guess our observation would also be, in respect to airlines, the common structure is that pricing would be offered to an airline at the fixed differential, and that differential takes into account all other costs, which covers product freight into Australia, to get import parity basis, and we would note that that's in the order of multiple dollars per barrel, commonly, and it would also cover wharfage fees and a port storage fee for a terminal, trucking or pipeline type, on airport storage charges into plane working capital charges, things like that. That's usually offered to  
25 an airline as a big fixed number above the Singapore price.

30 So what that means is the fuel supplies typically take the risk on a fall of the other pricing element, and the airlines take the risk just on the MOPS Singapore price, which then they know who that different airlines, usually with that difference in a hedging strategies.

But I think, in line, like a lot of the difference between (indistinct)

35 **COMMISSIONER KING:** I guess that still leaves us – here we go again.

**COMMISSIONER KING:** Hello. Is this - - -

40 **COMMISSIONER LINDWALL:** If there's a person joined the call by the name of - - -

**COMMISSIONER KING:** Malvyn Tan.

45 **COMMISSIONER LINDWALL:** Please go on mute. He's left the meeting. Very good. Perth, are you still there? Sorry, Caltex. Are you still there?

**MR DANGERFIELD:** Caltex still here.

5 **COMMISSIONER KING:** Yes, sorry. I'm happy to accept all of that, but from our perspective, we have two alternative stories, if I can put it that way. One is running through what you've just said to us, which is that it's cost based, the differential on mops, just simply reflects the cost.

10 The other is the parties who have put to us that, not saying that it's not reflective of cost, but that there's a bit of extra added in there, maybe only one or two cents a litre, which is profit to the fuel companies.

15 Have you got any suggestions as to how we can differentiate between those, and can you provide us with information to help us differentiate between those different views?

20 **MR DANGERFIELD:** I think, largely, we would probably have a number of commercial concerns with supplying information of that nature, especially at a company specific level. Yes, I'm not sure whether we would be in a position to provide the Productivity Commission with information that could assist directly with that, at least not at a Caltex level.

25 **COMMISSIONER KING:** Well, but perhaps you can take it on notice and consult your – AIPs as well, and see if there's more at an industry level, rather than company specific level data that might be illustrative that it's not - - -

30 **MR DANGERFIELD:** No, certainly I think (indistinct) Yes, I think, happy to have that discussion with AIP. But I think, obviously, the other thing to note there is that each individual airport, or more importantly, port, would have differences again. It would change from market to market.

35 **COMMISSIONER KING:** Of course. Of course.

**COMMISSIONER LINDWALL:** We understand that.

40 **MR DANGERFIELD:** Yes.

**COMMISSIONER LINDWALL:** Well, I think that - - -

45 **COMMISSIONER KING:** But even the equivalent for an airport like Sydney, which the documents, the analysis provided to the NCC, an updated version of that would be invaluable to us.

5                   **COMMISSIONER LINDWALL:** I mean, even if it was provided to us on a confidential basis for us to make an assessment, with the understanding that the actual figures was not published.

**COMMISSIONER KING:** Along the lines of the NCC submission.

10                   **COMMISSIONER LINDWALL:** Yes. Anyway, could we leave you to reflect on that, and I think we've got no more questions. So we appreciate your time today, Rohan and Philip. Thank you very much.

**MR DANGERFIELD:** No, thank you.

15                   **MR SKINNER:** Thank you.

**COMMISSIONER KING:** Thanks.

**COMMISSIONER LINDWALL:** Have a good afternoon.

20                   **COMMISSIONER LINDWALL:** All right. Well, that's the last of the formal ones. Does anyone else want to have a say now? You're most welcome to. Anyone?

**COMMISSIONER KING:** No.

25                   **COMMISSIONER LINDWALL:** No.

**MR SCOFIELD:** Just with the class - - -

30                   **COMMISSIONER LINDWALL:** Sorry. Yes. Formally, you have to come up and – so that it can be on the transcript.

**COMMISSIONER KING:** And then you've got to give your name and say what you want. It can be 30 seconds, a minute, doesn't matter.

35                   Whatever you want to say.

**MR SCOFIELD:** So, Ben Scofield from Freight Victoria. So I was just thinking, with that last – those last comments about Caltex, one would assume there is some formula, though, by which they calculate any profits

40                   that they're about to achieve.

                  I mean, you know, you're going to get differential rates for ports and airports, and whatever. But there must be some basis on which they can calculate their own pricing.

45

**COMMISSIONER LINDWALL:** Yes. Okay. No, that's a good point.

**COMMISSIONER KING:** Yes.

5 **COMMISSIONER LINDWALL:** Anyone else? All right. Well, thank  
you very much. I think we'll adjourn these hearings. They will resume  
next year at a time to be specified, when they will be general hearings  
about every aspect of this enquiry, and we thank you all for being here,  
and good bye.

10 **MR SCOFIELD:** Thank you.

**COMMISSIONER LINDWALL:** And Happy Christmas.

15 **COMMISSIONER KING:** Indeed.

**MATTER ADJOURNED AT 2.54 PM**