

5 April 2019

Airport Regulation Inquiry  
Productivity Commission  
Locked Bag 2  
Collins St East, VIC, 8003

Submitted via online portal

To whom it may concern,

**Re: Caltex Australia Limited comments in response to the Productivity Commission Draft Report into the Economic Regulation of Airports.**

Caltex Australia Limited ('Caltex') welcomes the opportunity to provide the Productivity Commission with additional comments in response to the *Draft Report into the Economic Regulation of Airports* (*the Draft Report*).

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

As the largest Australian transport fuel and convenience company listed on the Australian Securities Exchange, Caltex is responsible for the supply of one third of all 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.

We are joint venture ('JV') participants in Joint User Hydrant Installations ('JUHI') at 5 major airports, and are either the sole owner, or JV partner, in two key jet supply pipelines in Sydney and Brisbane.

Given our significant role in the supply of jet fuel to Australian airports, and the participation, utilisation and/or operation of airport fuel infrastructure, Caltex provides the following comments to assist the Productivity Commission in their review of the effectiveness and efficiency of current regulatory arrangements relating to Australian airports.

In reviewing the Draft Report released by the Productivity Commission, and participating in the public hearings held in November 2018, Caltex rejects the Productivity Commission's Draft Finding 8.1 that on the basis of current conditions that there has effectively been a restriction in competition in supply of jet fuel to airports, lack of open access, and that has resulted in higher fuel prices.

Mindful of this, Caltex does in principle support the draft recommendation 8.1 and 8.2 made by the Productivity Commission regarding the establishment of an Open Access JUHI at Western Sydney Airport, and Introducing a Jet Fuel Supply Coordination Forum.

This is acknowledging that any new JUHI infrastructure should be established in a manner which still recognises the significant capital outlay required and allows for a suitable return on investment to be

generated by whichever party develops it regardless of whether that is the industry, the airport, or an alternative provider.

Furthermore, any Coordination Forum established should be designed in a clear manner to protect commercial sensitivities and have a demonstrable value to the ongoing operation and development of airports as a whole.

We note, that in responding to the information requests included by the Productivity Commission in their Draft Report, that several airport JUHI Operator's, of which Caltex is a member, have decided to provide submissions to the Productivity Commission to address some of the questions raised.

As the JUHI Operators are the relevant parties to address matters concerning access, return on investments and other matters in relation to the JUHI's we support the JUHI Operator's in their submissions.

Caltex would welcome the opportunity to discuss these further with the Productivity Commission, please feel free to contact me on 02 9250 5000,

Kind Regards

Rohan Dangerfield  
General Manager Supply Operations

### **Clarity regarding Caltex Australia's role in the supply chain, and the role of JUHI's**

As has been previously mentioned, Caltex Australia is a long-standing participant in all, or some, of the supply chain to all major airports in Australia either as a direct participant, or as a JV partner in some key infrastructure developments, or service providers.

Our involvement includes the production, or importation of jet fuel, supply via tanker or pipeline to JUHI's, operation of supply infrastructure, either as a direct or JV participant, and as a supplier and marketer of jet fuel at all major airports.

It is important to note this, as while there are connections between our role as a participant in infrastructure, and marketing fuels, these are largely separate operations, especially when concerning JV developments.

Furthermore, JUHI's do not play a role in the marketing and supply of jet fuel to airline, or in to plane (ITP) service providers.

The role of the JUHI is to serve as an infrastructure provider, and operator, with fuel companies then supplying jet fuel to airlines, utilising the JUHI infrastructure, and paying a fee for the use of the infrastructure.

### **Jet Fuel Pricing**

It is Caltex's view that pricing for jet fuel in the Australian market continues to be competitive, given the presence of multiple suppliers, and adequately reflect market conditions, including input costs related to the import and delivery of jet fuel to the Australian market.

Given Australia is a net importer of fuels we are beholden to international movements in the price of fuel, and increased delivery costs associated with the procurement and transportation of fuels to Australian ports.

In addition, given the current structure, and number of market participants, Caltex is of the opinion that there remains and a strong competitive jet fuel market in Australia. This is evidenced through the ability for airlines to openly tender for new supply agreements, and the track record present in the market of airlines switching between market participants.

This ability for airlines, and other ancillary customers, to switch suppliers encourages the market to ensure they remain competitive through the management of all costs which suppliers maintain control over in the supply of jet fuel to airport facilities.

Caltex is constrained through commercial sensitivities, which prevent us from providing additional public details, however we would be happy to discuss this further with the Productivity Commission if requested.

### **Return on Investments for Infrastructure**

Caltex notes that the matters raised in regard to Return on Investment for JUHI Infrastructure have been addressed in the submissions made to the Productivity Commission by the various JUHI Operators

With regards to infrastructure upstream of Airports and owned, in part or in whole, by Caltex Australia the calculated Return on Investment varies significantly based on the scale of the infrastructure, average usage and regular life expectancy.

Given the significant lead time required for significant investments, along with the capital-intensive nature of these developments, generating an adequate return within a reasonable allocation of time allows businesses to continually review the utilisation of assets and continually make investments as required.

Again, Caltex is constrained through commercial sensitivities, which prevent us from providing additional public details, however we would be happy to discuss this further with the Productivity Commission if requested.

## **Access**

Noting the submissions provided by various JUHI Operator's, Caltex believes that they have adequately addressed the queries raised by the Productivity Commission in providing clear advice on access requirements for parties seeking to join JUHI JV's, and in providing supporting evidence around applications which have been received by JUHI's from time to time.

As has been noted within the JUHI's submissions there have been a number of applications to join JUHI's in the past which have not proceeded for a variety of reasons, including their view that existing lease tenures, for access and use of airport property, were insufficient to ensure that the investment would generate a suitable return on investment.

While joining a JUHI JV provides an avenue for supply to airport Caltex would reiterate that there is no mechanism stopping alternative, third-party operators, from approaching an existing market participant to request throughput arrangements under commercial terms.

Caltex has several examples of this as access to the Caltex Sydney Jet Pipeline is regularly put out for public tender to allow for open access to third parties under a commercial arrangement, Caltex has only recently completed the latest tender process and has entered into a new agreement for a third party to access the pipeline.

Furthermore, ITP services on airports are regularly engaged by market participants who are not directly involved in their ownership/operation, again under commercial terms, as service providers to provide throughput of product from JUHI infrastructure to airlines.

The recent Biojet trial in Brisbane, which was undertaken by Caltex in partnership with Virgin Airlines, reinforces this position, whereby supply to airlines could be arranged through commercial partnerships.

While this is an example of an alternative arrangement model, it would still be a requirement on suppliers to meet stringent product quality requirements, before their product would be allowed into airport supply infrastructure.

Caltex does note that there is an increasing trend towards including open access regimes in new JUHI agreements, such as that developed in the new lease agreement for Melbourne Airport. Caltex welcomes competition and is supportive of mechanism which allow for open access, under suitable regimes which recognise the significant investment in infrastructure undertaken by the JUHI JV participants and allows for a return on investment to be gained.

To that point, Caltex supports the productivity commission in their recommendation that any developments for JUHI infrastructure at Western Sydney Airport be undertaken to allow for open access.

## **Biojet**

Caltex notes that through submissions, and evidence, provided to the Productivity Commission by Bioenergy Australia there have been a number of claims made against existing fuel companies, and JUHI JV participants, with regards to the biojet trials which has been undertaken in Brisbane by Caltex and Virgin Airlines.

Caltex is concerned by the nature of these claims which we believe are somewhat misleading in their representations made regarding the trial.

These claims have been largely addressed within the submission provided by the Brisbane JUHI, however as the fuel company directly involved in the delivery of the trial Caltex would like to make the following points clear.

- At all points during the trial, from the point at which Caltex were selected as the fuel supply partner, to the point in which the trial was successfully delivered, all direct participants were kept informed of the status of the trial and delays which were encountered. This included Virgin Australia, relevant QLD Government representatives and JUHI participants.

- The delay encountered during the trial related to the Biojet supplied to Caltex not yet being included within the relevant standard DEFSTAN 91-91. While this biojet pathway was being assessed for inclusion at the time it had still not been approved at the time of trial.
- Caltex, as a JUHI JV partner, worked with other JUHI JV Participants to secure a resolution to allow for the Biojet to be accepted into the JUHI facility noting that the Biojet did comply with an alternative international standard.
- With the granting of the resolution the initial trial was able to be undertaken.
- Since the initial trial, DEFSTAN 91-91 has been updated to include this particular Biojet pathway and subsequent deliveries as part of the trial program have proceeded without issue.

Standards are utilised to ensure product quality, which is of paramount importance in all areas of our business, but especially so in dealing with aviation fuels. The biojet trial with Virgin Airlines was a successful proof of concept to demonstrate the opportunity which exists for advanced biofuels to be utilised within the existing supply chain where they comply with the relevant standards.

While there is occasionally a disconnect, or delay, in alternative standards being updated these can be addressed, as they were, in a reasonable manner which still maintains product integrity and does so within contractual arrangements.

Further, this trial is an example of how parties can gain access to airport refuelling infrastructure through alternative means, as opposed to becoming participants in JUHI's.

### **Conclusion**

In conclusion, Caltex is of the view that existing arrangements with regards to the supply of jet fuel into the varying markets within Australia are competitive, and Australian fuel marketers continue to operate within the market dynamics which exist.

Caltex is supportive of several of the draft recommendations provided by the Productivity Commission, in the Draft Report, regarding the development of open access JUHI infrastructure at Western Sydney Airport, and the establishment of a Jet Fuel Supply Coordination Forum provided both initiatives have clearly defined objectives and demonstrable benefits.

However, reject Draft Finding 8.1 of the Productivity Commission and believe that no rationale exists to support the interventionist policy proposal canvassed by the Productivity Commission to have the supply chain declared under the National Access Regime.