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BIOENERGY AUSTRALIA SUBMISSION

Economic Regulation of Airports — Productivity Commission Issues Paper

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The purpose of this submission from Bioenergy Australia is to provide comment on competition of the market for jet fuel in Australia.

About Bioenergy Australia

Bioenergy Australia is the National Industry association, committed to accelerating Australia's bio economy.

Our mission is to foster the bioenergy sector to generate jobs, secure investment, maximise the value of local resources, minimise waste and environmental impact, and develop and promote national bioenergy expertise into international markets.

Bioenergy Australia's objectives are to:

Advocate - With our members, we anticipate and develop leading positions on issues of concern to the advancement and growth of bioenergy in Australia.

Campaign - We raise the profile of the industry within the media and broader community to achieve a greater level of understanding about bioenergy and the vital role it must play to achieve carbon neutrality by 2050.

Inform - We publish reports, webinars and articles to help our members keep ahead of industry trends and opportunities. We also manage the Biomass Producer website, an AgriFutures Australia resource showcasing Australian bioenergy projects, expertise, and identifying opportunities for primary producers.

Connect - We facilitate knowledge exchange and networking for members through task-specific meetings, our Annual Conference, and Webinars. We link investors with emerging businesses; researchers with technology developers; government with innovators. We also administer Australia's participation in IEA Bioenergy. Our Industry groups bring together specialists in specific fields.

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The Commission is seeking evidence on the extent of competition in the jet fuel market, the effects of the current level of competition on airlines, passengers, air freight users and other parties, and options for addressing any lack of competition in the market for jet fuel.

Background

As part of the global decarbonisation process, the international aviation industry has committed to reducing its greenhouse gas emissions. In 2009 the International Air Transport Association (IATA) set the following ambitious targets:

- A 1.5% annual fuel efficiency improvement between 2010 and 2020;
- Carbon neutral growth from 2020; and
- A 50% reduction in net emissions by 2050 compared to 2005 levels.

Being a technology constrained industry, aviation has no viable alternatives to liquid hydrocarbon fuels as an energy source. Unlike the land transport sector, airlines have limited options to materially reduce emissions other than through the use of aviation biofuels.

The momentum for sustainable aviation fuels is now unstoppable. From one flight in 2008, the threshold of 100,000 flights has been passed in 2017. A number of airlines, including Cathay Pacific, FedEx Express, JetBlue, Lufthansa, Qantas, and United, have made significant investments by forward-purchasing 1.5 billion gallons of SAF. Airports in Oslo, Stockholm, Brisbane and Los Angeles are already mixing SAF with the general fuel supply.

Towards the achievement of the IATA targets, a research conducted by the University of Sheffield has found that a 50:50 blend of jet A-1 and aviation biofuel has a 60% reduction in air pollution (particulate matter), improving local air quality. That said, the emission reduction is not the only reason why many airlines are pursuing the use of aviation biofuel. Data from Qantas' biofuel flights in 2012 showed that biofuel improves fuel efficiency by 1-2% and this is a consistent finding from over 2000 biofuel flights conducted around the world.

In addition, a 2018 report from the Parliamentary Joint Committee on Intelligence and Security (PJCIS) has revealed Australia now has the lowest fuel reserves in the world. Overall, the country has just 49.6 days of net coverage (and only 20 days for aviation), well below the 90 days supply Australia and other nations have agreed under the International Energy Agency. A biofuel industry will help diversify supply and secure domestic production of transport fuels, as well as provide new manufacturing jobs, investment in rural/regional areas, diversification and additional income for farmers, and new export opportunities.

Fuel demand and security

The demand for jet fuel is increasing annually in line with the international growth of the international aviation sector and consumer demand. Australia has consistently had to manage issues relating to aviation jet fuel supply and availability. As an example, in 2016 Melbourne airport experienced a severe jet fuel shortage following disruptions to jet fuel deliveries from a number of terminals across the city. Less than 2 million litres of aviation fuel was available at the country's second busiest airport, meaning that less than 10 A380 planes had enough fuel for a long-haul flight.

Currently Australia imports ~93% of its commercial jet fuel and we hold approximately 20 days of fuel in store. This should be considered a significant concern for the security, reliability and operations of our airport, industries, tourism and international image.

Even with these substantial issues and challenges, there has not been an increase in the number of major competitors for jet fuel supply in Australia, and when challenges to the incumbent system have sought to enter the market it has proved virtually impossible to supply alternative fuel to the system.

An ideal solution to deal with our fuel security, supply and access would be the development of a local production of sustainable jet fuel, however before any developer or investor will move ahead with a biojet production facility in Australia the security of offtake agreements will be required. For this to happen a fundamental shift in the governing structure of fuel at Australia's airports is required.

Bioenergy Australia believes that a rework of the management structure, and governance controls of fuel infrastructure at Australia's airports is required for airlines to access sustainable and alternative fuels and to improve competitiveness at Australia's airports.

Access to Infrastructure

Access to existing infrastructure currently managed by the JUHI is virtually impossible, and there has been no investment in creating new infrastructure that supports the inclusion or welcoming of new players to the airport system.

Also, no new infrastructure has been built because it would facilitate the competition. Therefore, there is a huge barrier to entry for new fuel suppliers and this barrier is even higher for a biofuel company because the biofuel also needs to be blended with standard fuel and all the jet fuel companies need to be convinced to accept the biofuel. Challenge for a bio/standard fuel company: there is no guarantee that it can bring the fuel into the airport.

A current pilot project at Brisbane airport has thrown up some major flaws in the transparency, operations and governance of the current operators of the JUHI. In this situation it made clear that the JUHI structure created the opportunity for competitors to determine whether to provide access for biofuel. Through this trial it was clear that there were unreasonable levels of fuel testing. The JUHI did not communicate or justify delays and was unwilling to communicate on solutions because the trial was being sought by an airline and that was not a party to the JUHI. The current system basically means that if you are not a member of the JUHI, your fuel supply can be blocked regardless of any legitimate concerns around that fuel (commercial/safety) and there is no body for oversight to seek mediation or intervention. This creates a situation where biofuel companies will be concerned about investment in new capacity for biofuel production if they cannot be assured that their product can actually get into the fuel infrastructure at airports cost effectively.

Bioenergy Australia proposes that there should be a process implemented where an oversight body such as the ACCC is able to intervene when unreasonable blocking is taking place. This will substantially improve access, governance and transparency.

In addition to creating an environment that allows sustainable biofuels to access the fuel network, any existing JUHI member or fuel supplier should be permitted to supply blended fuels into the fuel network without unreasonable blocking of the fuel. If the fuel meets the internationally accepted fuel standards, there should be no reason for any delay in the fuel being provided to airlines.

Fuel standards

There is no Australian Government regulated or adopted aviation fuel standard and as such, fuel companies are able to adopt within their contracts and agreements that they will meet either DEF STAN 91-91 in the UK or the American Society for Testing and Materials in the USA. It should be that Australian fuel companies adopt the universally accepted, well-resourced and proactive ASTM and agree to adopt that standard (along with Def Stan 91-91) , which is the universally accepted approval body for all fuel pathways used in international aviation.

In 2011 Subcommittee D02.J0 on Aviation Fuels in ASTM International Committee D02 on Petroleum Products and Lubricants officially approved the addition of the jet fuel annex to the alternative fuel specification D7566 titled “Standard Specification for Aviation Turbine Fuel Containing Synthesized Hydrocarbons”, which allows up to a 50/50 blend of bio-based components with conventional Jet-A fuel.

Australian fuel companies should not be permitted to adopt the use of out of date fuel standards in order to exclude sustainable fuels being supplied to airlines at Australian airports.

Airlines operating at Commercial airports

Australian airports are all able to supply safe, reliable and within standard alternative fuels to airlines. It has been identified that individual policies within Government departments may be out of line with international aviation fuel standards and as such if they do not make amendments they will no longer be able to access fuel from Australia’s commercial airports.

Thank you for the opportunity to provide this submission.

Yours sincerely

CEO Bioenergy Australia