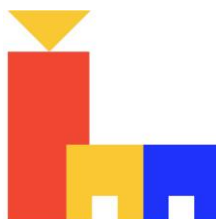




Submission by IATA:
Australian Productivity Commission
(PC) Draft Report – Economic
Regulation of Airports

25 March 2019





Preamble

The International Air Transport Association (IATA) is the trade association for the World's airlines, representing some 290 airlines or 82% of global air traffic. IATA member airlines include many that operate flights to Australia, including Australian carriers Qantas Airways and Virgin Australia Airlines. IATA supports many areas of aviation activity and help formulate industry policy on critical aviation issues to drive a safe, secure and sustainable environment for aviation to flourish.

IATA appreciates the opportunity given to provide our comments for consideration by the Productivity Commission (PC) pertaining to the Draft Report on economic regulation of airports, access arrangements at Sydney Airport and competition in markets for jet fuel. Our views are from an international perspective based on global best practices which are relevant and applicable to Australia.

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1.0 Executive Summary

A more balanced evidence-based review is warranted

Economic Regulation of Airports

While the PC rightly identifies that the monitored airports possess market power, IATA is surprised and concerned regarding the PC's draft conclusion that these airports have not systematically exercised market power and therefore the existing regulatory framework is sufficient:

- Firstly, in the draft report, IATA is unable to verify that the evidence presented in its submission, and by other stakeholders has been considered in a balanced manner with the counter evidence presented from airports.
- We are concerned that, in many cases, the conclusions seem to be driven by opinions rather than the facts and evidence presented.
- Finally, and most importantly, we identify shortfalls in the analysis and approach taken by the PC to reach its conclusion; specifically, there are areas where the PC should take a broader look at the performance of airports and be more transparent on the criteria used to determine whether airports have exercised market power.

Given that the purpose of the inquiry is *'to determine the effectiveness of the economic regulation of services provided by airports to airlines, passengers, and the people and businesses that access the terminal precinct'*, we respectfully encourage further assessment and for a more balanced accord of the evidence presented. Overall, we consider this matter too important for airlines, passengers, third party operators at airports, as well as for jobs, tourism and economic development within Australia.

This response to the draft report does not present again the detail already provided in previous submissions as we rely on the final report to revisit these areas or explain why they are not considered. Rather, we focus on areas where there should be some revision to the assessment methodology in order fulfil the purpose of the inquiry.

IATA recommends the PC to consider the following:

- Additional scrutiny on the costs of the monitored airports, particularly capital expenditure efficiency & return on capital; and reassess its conclusions on airports exercising their market power.
- A reassessment on whether scarcity rents exist at Sydney based on the information provided in this submission.
- Reconsider the much-needed creation of guidelines on the minimum information to be provided at consultations.
- Should the PC wish to continue with the path of additional information requirements, IATA requests that the ACCC is also given the opportunity to propose such requirements (after consultation with stakeholders).

The above should lead the PC to seriously consider the need for an efficient and effective dispute resolution system as a meaningful and credible regulatory threat. It is clear that the National Access Regime cannot meet this purpose and, based on our experience across the globe, we cannot support the PC's opinion that such a progressive improvement would be *'interventionist'* and or lead to perverse incentives not to reach agreement during the consultations. The PC is urged to investigate such implementations in other regions and to determine independent, fact-based conclusions.

SYD Regional Access Scheme and Slots

The Worldwide Slot Guidelines (WSG) provide the aviation industry with global best practice guidance in the allocation of scarce airport capacity. Core principles of neutrality, fairness and competition are central to the WSG, as is the need for the consistent adoption of the standard across airports. The result is a balance of flexibility and certainty that facilitates the needs of airlines and airports with those of the consumer.



The PC recognizes airports, airlines and coordinators are working together in the Strategic Review of the WSG, with the aim of ensuring key principles and processes remain optimal. This collaborative industry approach is generating good results and forms the basis of IATA's recommendations to the PC:

- IATA recognises the current slot allocation management scheme for Sydney Airport as a good example of industry best practice.
- IATA requests the PC to recognize the efforts made by industry experts through the WSG Strategic Review and therefore encourages the PC to acknowledge the need for consistent slot policy globally to ensure the economic and social benefits of aviation can be best realised.
- IATA requests the PC to limit any further review of the Sydney Airport Slots Management Scheme to remain aligned with industry best practice and the WSG enhancements collaboratively identified by industry experts.

IATA supports the observation of the PC that changes that increase the flexibility of the movement cap and that target noise outcomes more directly could improve the operational efficiency of Sydney Airport, while meeting the current noise objectives. We support the further consideration of alternatives and improvements to the current operating restrictions.

Jet Fuel Supply

In contrast to the approach taken for the economic regulation of airports, IATA commends the PC for its analysis of the jet fuel supply market in Australia and believes that the PC's conclusion is accurate. Conflicts of interest exist associated with ownership by incumbent suppliers of key jet fuel supply infrastructure on and off airport, and this characteristic of jet infrastructure ownership in Australia enables incumbent fuel suppliers to restrict competition in the jet fuel supply market leading to higher jet fuel prices. Furthermore:

- Additional data provided by airlines operating to Sydney, Melbourne, Brisbane and Perth airports reveals a significant price premium paid by airlines due to lack of effective jet fuel supply competition.
- Action to facilitate access to jet fuel infrastructure is warranted and IATA supports either one of the two options identified by the PC which the government could take to improve jet fuel supply competition, namely the National Access Regime and Industry-specific access regime. A transparent pricing mechanism needs to go hand in hand with any open access arrangement.
- Western Sydney Airport presents a unique opportunity to put in place open access arrangements across the supply chain off and on airport, and such opportunity should be fully exploited.
- A jet fuel supply coordination forum to be incorporated into the master planning process at each of the monitored airports will ensure that the right jet fuel infrastructure investment is made at the right time and in sync with the airport's traffic growth projections and other airport infrastructure capacity enhancements.
- Any unjustified Fuel Throughput Levy which is not directly related to the cost of providing services and is solely for the enhancement of the airport's revenue should be removed.

2.0 Economic Regulatory Regime

Exercise of Market Power Exists and Action is Needed

2.1 Exercise of Market Power by Airports

Needs broader, balanced investigation, including the need for a remedial solution

The PC concluded that, although the four monitored airports have market power and there is evidence pointing to the exercise of that power, the PC is of the opinion that the abuse is not systematic and therefore is no justification for a change in regulation. IATA finds this conclusion unjustified and contestable because the criteria for determining the PC's self-defined need for demonstration of the '*systematic exercise of market power*' are opaque and not consistent with the basic request to the PC from the Australian Government to assess the following:

- Promoting economically efficient operation of, and investment in, airports and related industries.
- Minimizing compliance costs.
- Facilitating commercial negotiation outcomes between airport operators and users.

IATA is concerned that the PC has not, at least within its draft report, presented a balanced review of the evidence provided across stakeholders and representative groups. The recommendations in the draft report have so far pushed aside observations by various stakeholders that the existing National Access Regime is not seen as a credible threat of regulation.

Fundamentally, the lack of resolve for a progressive reform also undermines the core objective to protect consumers. The conclusions from the PC should be for the benefit of the travelling public and facilitate corresponding economic prosperity. Our assessment determines that the continuation of the status quo will risk further negative impact to airlines, passengers and third-party operators at the monitored airports.

It is of concern that the PC has not accepted the merit of a simplified negotiate-arbitrate model, which is consistent with the proposal from IATA and other airline stakeholders. This solution is seen as an efficient and effective means to address current shortfalls and meet the request from the Australian Government.

Based on the evidence available, IATA requests the PC to extend its assessment to address the areas below as the cases of the monitored airport exercising market power are almost certainly more prevalent than the conclusions in the draft report represent.

2.2 Performance of Australian Airports

The PC should increase the level of scrutiny before reaching any final conclusions

Overall, IATA is concerned that the PC may be drawing conclusions in this chapter on the basis insufficient analysis. In addition, the report gives the impression that a monitored airport would need to be among the worst performers in any sample to be deemed exercising its market power. IATA cannot confirm this because the PC does not explain what thresholds (criteria) are used to determine '*green*', '*amber*' or '*red*' in their Summary of Airport Performance. Finally, it is also disappointing that those areas in which the PC has expressed concern are being dealt with additional information requirements to be reviewed in 5 years (while potentially allowing the abuse of market power to continue). This can only push the responsibility for addressing identified problems in the future while exacerbating their negative impact.



Our concerns in relation to the PC's assessment of the indicators of airports performance include:

Indicators	Shortfall
Profitability	The present analysis of profitability trends is not enough to define abuse. It is necessary to assess what a reasonable return is as well as an efficient asset base.
Operational efficiency	We have concerns about interpretation of the results of the KPI used (costs/pax) There is too much reliance on comparisons, while no major analysis on operational cost efficiency has been performed an airport level.
Aeronautical revenues and charges	The threshold to be considered a 're' appears to be high but there is no rationale provided. Recommendations on additional information requirements and their corresponding assessment in 5 years could prolong potential as well as extend market power abuse.

These views are further explained below:

Profitability

Probably one of the biggest issues that have been highlighted by various stakeholders is related to monitored airports' profitability. The PC's approach to analysing profitability has unfortunately been too 'light touch' in our view. This is because the PC deliberately avoids entering the debate of determining a reasonable return for the monitored airports because it considered the approach "highly contentious".

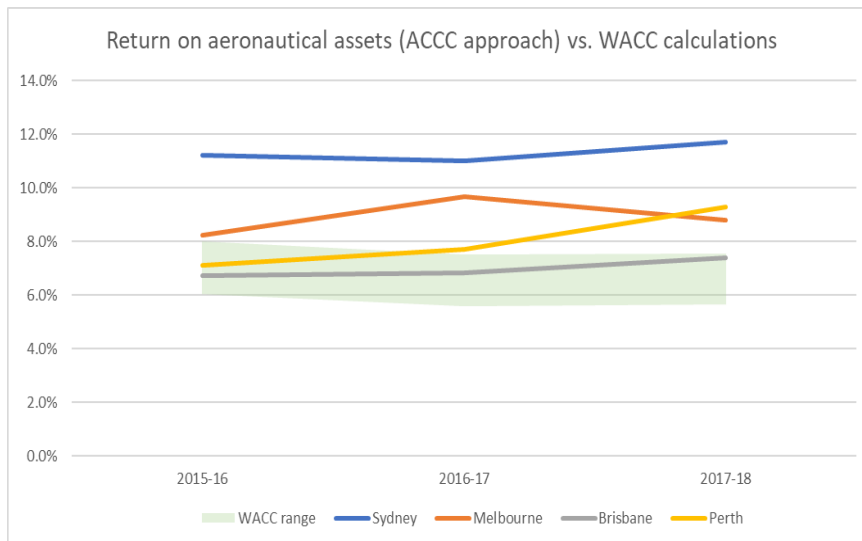
IATA believes this is a serious shortfall in the approach taken in the draft report. Instead, the assessment focuses whether the trend of the return on assets at the monitored airports is compatible with the trend of some Weight Average Cost of Capital (WACC) components (e.g. risk free rate). Such analysis is incomplete, as it does not assess whether the level of return itself is compatible with abuse of market power. For instance, a return could have decreased over time, but might always be consistently above a reasonable level.

Another matter that the PC avoids addressing also, which is as important as the WACC itself, is the determination of the Regulatory Asset Base (RAB), on the basis that following such an approach would incentivise the asset owners to overinvest. Instead the assessment just uses the company's reported assets based on a 'line in the sand' methodology. IATA finds it difficult to see why the current approach taken by the PC would negate the alleged perverse incentive they cite themselves trying to avoid. On the contrary, the current approach would only exacerbate such perverse incentive as airports know that the PC checks on profitability to satisfy certain trends, without really assessing the capital expenditure efficiency in the underlying reported asset base.

The calculation of the WACC based on the parameters of the Houston Kemp report already place Sydney above the upper level of the range. Moreover, once the parameters of this report are reviewed with more realistic assumptions¹, then most of the monitored airports would be situated on the top or above the upper end of a reasonable WACC range (as shown in the figure below). While this is not meant to be a thorough assessment it already suggests that exercise of power may exist and that there is a need for the PC independently verify a reasonable WACC level².

¹ Asset beta range of 0.4 to 0.6 (The range has been lowered compared to previous determinations because of the significant reduction on Sydney's asset beta over the period. In the study carried out by PWC for the UK CAA in 2017 it calculated that Sydney's asset beta was between 0.24 to 0.43 depending on the period/data frequency of the calculation. A conservative estimate of 0,4 was included in our calculations. We used the NZ CC asset beta). Risk free rate: 10-year AGS (yearly average). Debt yields as per RBA (Yearly average, 1/3 A-bonds, 2/3 BBB bonds), ERP between 5% (geometric average, Dimson Marsh Staunton data) and 6.6% (arithmetic average, DMS), imputation credits (0.585 as per Australian Energy regulator – rate of return instrument). It should be noted that the Houston Kemp reports uses assumptions that were made by the ACCC way back in 2001 and therefore should be reviewed.

² It should be noted that a change of 1% in WACC equates to around AUD 85 million a year (4 monitored airports combined), which again reinforces the need to independently determine a reasonable return.



In addition, the PC does identify that there could potentially be an issue at Sydney. However, the mitigating factors provided by the PC are a cause of concern. As a starter, the PC argues that the additional profitability is partly linked to a lack of investment opportunities (i.e. increasing traffic at the same level of charges and asset base lead to an increase in profits). In our view, this cannot be a reason for maintaining a level of artificially high charges particularly when dealing with an airport with market power. Moreover, the PC goes on to say that profitability may continue to rise due scarcity rents rather than the exercise of market power, which we believe is not the case. This item is addressed further below in our submission – section 2.3.

All of the above is focused on profitability analysis of the aeronautical services only. This again is a fundamental shortfall in the assessment. The PC's assessment is to determine whether the airport is '*exercising market power to the detriment to the community*' and for this total airport revenues need to be considered if the assessment is to duly consider the overall impacts on airlines, passengers and third-party operators at the airport. Furthermore, any split of costs between aeronautical and non-aeronautical services would need to be scrutinized to ensure a fair sharing of asset allocation and costs, including a sharing for key infrastructure and operations which are linked to both.

If the profitability analysis extended to the full operations of the airport, the level of excessive profitability will become even more evident and this is what impacts the airlines, the passengers and the communities the airport serves. Such analysis was provided by IATA and in more detail by A4ANZ in its supplementary submission.

Finally, and while a focus on return on capital to assess market power abuse is correct, the fact that asset bases were subject to revaluations in the past and the fact that no capex efficiency scrutiny has been carried out, it is important to cross check other profitability measures. This is why there has been so much insistence on behalf of airlines to also focus on EBITDA margins. IATA notes that the PC attempts to dismiss the usage of this measure by highlighting a worked example in which EBITDA margins could significantly change depending on the investment cycle of the airport. Following on this argument, we should be seeing how EBITDA margins vary over time at these airports as well as their ranking compared to other airports. In this regard, we would like to stress that EBITDA margins at Australian airports have been amongst the top 18 airports of in the Leigh Fisher reports (formerly Jacobs) since 2004³. IATA strongly encourages the PC to reconsider its approach towards EBITDA margins.

Operational efficiency

This is another section in which IATA believes the PC needs to increase scrutiny in order to be able to make adequate conclusions.

As a starting point, the PC uses operating and total costs per passenger as the baseline for its assessments and determines that issues would arise solely for those airports in which this measure substantially increases over time. Unfortunately, such an approach is flawed since it assumes that costs (total or operating) are perfectly correlated (i.e. with elasticity of 1) when in fact economies of scale are expected to be achieved. As such, even "moderate" increases (as noted by the PC for three of the monitored airports), should already be a matter of concern and for further scrutiny. The expectation of a reduction on a

³ Sydney (Top 2 airports), Melbourne (top 6), Brisbane (top 7) & Perth (top 18)

per passenger basis is even stronger when the figures of Table 5.1 in PC's Draft Report are considered (since they are meant to show how utilization rates have improved over the past 8-year period).

IATA is also concerned that the PC is dismissing some of the evidence and arguments being presented by the airlines. For instance, the PC addresses concerns raised on security costs by citing the Australian Airports Association (AAA) submission which refers to certain expenses being made (but without inquiring on the costs of the cited investments and by how much these could have affected charges). Similarly, it appears that the PC is satisfied with the explanation that cost increases have been driven by changes in the international and domestic passengers mix without inquiring on the extent of the influence of this driver over the cost increases registered. Once again, it is extremely important that additional scrutiny is carried out.

The PC should further investigate airline concerns on airport services not being delivered to a reasonable standard, which is a consequence of airports reducing their measured operating costs but at the expense of higher operating costs for airlines. Examples include poorly provided airside bussing, baggage systems and airfield services at Sydney Airport. Ongoing investment in people, processes and systems by the airports are needed to deliver acceptable airport services outcomes, with the majority of such costs ongoing annual operating.

Aeronautical revenues and charges

The PC has classified as 'green' (i.e. non-exercise of market power) for international charges at Melbourne and Perth and 'red' (i.e. could be consistent with exercise of market power) for Sydney and Brisbane. This is because Melbourne and Perth ranked high on the PC's turnaround cost benchmark whereas the latter were above the average. This raises the question on why being above the average has been considered as adequate. Once again, the thresholds for 'green', 'amber' or 'red' are not explained yet alone justified.

IATA sees that at least the PC has identified issues on international charges at two of the airports but the stops short of taking a more decisive action because of a lack of available information to help it further validate (or dismiss) the issue. Instead it recommends that more information is provided which it would then review in – only in 5 years' time. Needless to say, this is a long time to wait especially if a market power abuse is occurring.

In summary, the PC repeatedly states that there has to be a credible threat of more stringent regulation if an airport exercised their market power. For such threat to remain credible, IATA urges the PC to increase the level of scrutiny in its assessment, particularly in the areas of concern that have been raised by users.

2.3 Scarcity Rents

"High profitability at Sydney Airport may reflect scarcity rents" - a flawed observation

In the draft report dated February 2019, the PC expressed the view that airports with scarce capacity may have incentive to ration services by increasing prices to reflect consumers' willingness to pay above the cost to deliver the service. In such cases, airports generate scarcity rents. Commenting on the high rate of return on aeronautical assets for Sydney Airport, the PC stated:

"Sydney Airport's Return on Aeronautical Assets (ROAA) would be expected to continue to increase if current regulatory constraints remain in place and demand for Sydney Airport's aeronautical services continues to grow. With scarce capacity, the airport may have an incentive to efficiently ration services by increasing prices. This would not be caused by an exercise of market power by the airport (or airlines), but by 'scarcity rents' that are created by regulations, to the detriment of passengers."

The subject of scarcity rents was raised in the context of Sydney Airport only.

The PC presented no empirical evidence to assess whether high charges and profitability at Sydney Airport may be the result of scarcity rents. In order to empirically assess the presence and the extent of any scarcity rents, one would need to compare the current level of aeronautical charges with the level of charges that would prevail in an efficient equilibrium (i.e. efficient level of pricing). There are inherent complexities associated with the evaluation of an efficient level of airport charges. In fact, the PC acknowledges in the draft report that its preferred benchmark for efficient pricing of infrastructure services – long-run average cost – is only a conceptual benchmark. It is impossible to calculate it in practice, as each airport has unique cost structures and drivers and provides a different mix of aeronautical and non-aeronautical services and facilities.



IATA believes that the absence of conclusive evidence leaves the question of scarcity rents open to further consideration. IATA takes the position that the high level of international charges and returns on investment at Sydney Airport reflect the airport's exercise of market power. Our reasoning is outlined below.

[A distinction between monopoly and scarcity rents](#)

Two forms of rent that may be present at airports are scarcity and monopoly rents. Scarcity rents are present because users would be prepared to pay a premium for preferred locations for economic activity – users would be bidding up the prices and the supplier acts as a price taker. Central to the notion of scarcity rents is limited space or land at preferred location. Monopoly rents come about through the use of market power, where the supplier has discretion over price. Scarcity rents are consistent with efficient pricing, while monopoly rents are not because they arise as a result of the supplier setting price above an efficient level.

In practice, it is not always easy to distinguish between the two sources of rent. It is often difficult to determine the opportunity cost of airport land and facilities (e.g. terminal space).

The ACCC noted the distinction between scarcity and monopoly rents in application to the provision of parking services on airport premises. The ACCC remarked that in assessing the level of charges for car parking services at an airport, a distinction between locational (scarcity) and monopoly rents should be made.

"There are two types of economic rents that airport operators can incorporate when setting prices for car parking: locational rents and monopoly rents. Airports charge customers different rates to account for factors such as length of stay and the type of car parking used. To some degree, these prices reflect value of the land; that is, the convenience of parking within a short walk from airport terminals and the willingness to pay for that convenience. Of course, another reason for the different prices between different car parks is the need for airports to manage growing demand for space near the terminal entrances. These are referred to as locational factors."⁴

IATA agrees with this and encourages the PC to develop a clear evidence-based position.

[The high level of charges and profitability at Sydney Airport is reflective of monopoly rather than scarcity rents](#)

A central notion in determining whether economic rents are scarcity rents (as opposed to monopoly rents) is the question of whether the prices of supplied services reflect the value of land and facilities used to produce the services in question. With respect to the provision of aeronautical services by Sydney Airport, one would need to assess whether the level of aeronautical charges reflects the value of the airport land and the physical assets located on that land.

There is a well-established principle that the value of airport land and its physical assets can be assessed on the basis of its opportunity cost. The opportunity cost could be high if the airport land/facilities could be converted to another productive use which generates high value. If the airport land/facilities could be converted to another high-value use – for example, building a central business district which generates high value – then the present charges would reflect the opportunity cost of that land/facilities and thus could be a scarcity rent.

This approach was adopted by the PC during previous reviews of economic regulation of airport services in Australia. The PC essentially linked the setting of aeronautical prices to the value of airport land/facilities in alternative use, meaning that the prices for aeronautical services should, in an efficient equilibrium, be no less than the price that factors the value of land in alternative use. Such alternative use could be for residential or light industrial development.

The PC endorsed the approach of using the principle of opportunity cost for the valuation of land during the 2001 review, at which time the PC stated that there is a congestion problem at Sydney Airport and argued for the adoption of congestion pricing to ration the provision of aeronautical services. The PC advocated using the valuation of the land used by Sydney Airport at its opportunity cost for determining the level of congestion pricing⁵.

The approach of using the value of airport lands/facilities, in its alternative use, to determine the efficient level of aeronautical charges is problematic for several reasons.

⁴ Australian Competition and Consumer Commission, "Productivity Commission, Inquiry into the Economic Regulation of Airports: ACCC submission in response to the Issues Paper", September 2018, p. 43-44.

⁵ Australian Productivity Commission, "Price Regulation of Airport Services", Draft Report, August 2001.

First, restrictions are typically placed on the use of the airport land, limiting the potential for its alternative use. Airport lease transactions typically have restrictions, outlined in the lease/sale documents or established by other means, on the use of the land. Alternate uses of the land may not be possible, and this affects the valuation of the land. This lack of alternate use of the land presents an issue for evaluating land value using the opportunity cost principle. If a parcel of land has no alternative use, then economists may be inclined to view it as having a zero value. In the case of airports, zoning regulations and/or lease conditions established by the owner of land or other factors may prohibit any alternative use. This position is endorsed by the airline industry, including IATA and the Board of Airline Representatives of Australia (BARA).

- In Australia, airports were transferred to private for-profit companies via long-term leases from the federal government. The airport lands return to the federal government if they are not used as an airport. Effectively, the operator of Sydney airport has a 99-year lease on the airport which expires in 2097 (the lease agreement is until 2048 with the option to renew the lease for another 49 years). At the end of the lease period, the airport will revert to the federal government, unless by mutual agreement this happens earlier.
- In Australia, the Airports Act confines all use of federally leased airport lands to only airport related activities.⁶ The Airports Act specifically states that the operator of an airport must not carry on non-airport business.⁷ The legal restriction on the alternative use of airport lands applies to Sydney Airport.
- Further, the 2002 lease agreement between the Government of Australia and the operator of Sydney Airport permits the use of land only for the purpose of operating an airport. The parties to the agreement acknowledged that the lease agreement is an airport lease, meaning that the use of the land should be consistent with its use as an airport.⁸
- Following the opportunity cost approach, the opportunity cost of Sydney Airport land and its facilities would be zero. Because there is no possible alternative use of the Sydney Airport land, the pure economic answer is the opportunity cost of that airport land has a value of zero. Because the airport lands are restricted only to use for airport purposes, the land/facilities of Sydney Airport have a value of zero.

Second, notwithstanding the issue of restricted use of land at Sydney Airport, several other factors would diminish the value of land in alternative use.

- The value of land is typically assessed on the basis of market price at which parcels of land are bought and sold in a given area. In the context of an airport, for example, one might observe periodic transactions of small parcels of land located near an airport, reflecting the price/valuation outcome of a supply and demand for small parcels of land at this location. But these transactions should not be used to establish the value of sale of a large parcel of land used to operate an airport.
- The value of land could be reduced if the airport were sold as a whole, particularly if the sale takes place in one transaction. Thus, the value of small parcels of land bought and sold in the proximity of the airport are not a reliable indicator in determining the value of an airport. In the unlikely event that a commercial airport was to be closed and the entire land parcel put up for sale for alternative non-airport uses, the magnitude of the supply of land would generally outweigh demand. Consequently, land values would drop relative to the values observed from sales of small plots of land near the airport while it was operating as an airport.
- Even if the restrictions on the use of land did not apply and the land could be converted to alternative use, which is not the case with Sydney Airport, there would be a cost of reclaiming airport land. The cost of reclaiming and remediating the airport land would come at a substantial cost and must also be considered. The cost of remediation would further diminish the value of land.

Sydney airport has strong market power in the provision of international and domestic aeronautical services, as established by the PC. It generally faces no effective competition from other airports or modes of transport for air service on international or domestic routes. Sydney is also a unique differentiated destination market for tourists, and the airport is the gateway to Sydney which further reinforces its monopolistic position. The PC's examination of Sydney's financial indicators reveals that

⁶ *Airports Act 1996*, Part 2, Division 5, sections 31-32.

⁷ *Airports Act 1996*, Part 2, Division 5, section 32:

"(1) An airport operator company for an airport (other than a joint user airport) must not carry on substantial trading or financial activities other than:

- (a) activities relating to the operation and/or development of the airport; or
- (b) activities incidental to the operation and/or development of the airport; or
- (c) activities that, under the regulations, are treated as activities incidental to the operation and/or development of the airport; or
- (d) activities that are consistent with the airport lease for the airport and the final master plan for the airport."

⁸ The 2002 Lease Agreement between the Government of Australia and Sydney Airports Corporation Limited, sections 3.1 and 3.2.



the airport has been consistently over-recovering profits. The airport has charges on international routes that could be consistent with the exercise of market power.

Given the above, it is IATA's position that excessive returns and charges at Sydney Airport reflect monopoly pricing. The airport is earning monopoly rents, owing to the lack of effective competition from other airports and the absence of an effective mechanism to constrain an increase in airport charges. For reasons outlined in section 2.4, even if scarcity rents were present, their level would likely be low and would not explain the current excessive level of charges and profitability at the airport.

There are several important implications of the analysis presented by IATA:

- First, the current regulatory framework does not adequately protect airlines and consumers from the exercise of market power by the four monitored airports, including Sydney airport. There is a pressing need for a significant review of the current form of light-handed regulation of aeronautical services at the four monitored airports.
- Second, the price monitoring framework should be, at a minimum, strengthened to enable airlines to access binding arbitration in a time-effective and unimpeded manner, should commercial negotiations fail. In the September 2018 submission to the PC, IATA proposed an alternative regulatory model – Consultation, Agreement and Regulatory Appeal ("CARA") – which will foster a more balanced and productive working environment between airports and airlines. There are ways to strengthen the arbitration model without increasing the cost burden on the state or the parties involved.

Commercial negotiations between airports and airlines would be enhanced by ensuring the effectiveness of the light-handed regime through the implementation of a credible threat. This means creating an efficient and effective pathway for the resolution of disputes, such as through a negotiate-arbitrate scheme, as the ACCC and others have suggested.

2.4 Airport Investment Planning

Need to give airlines a stronger hand in commercial negotiations

In response to airline comments that regulation should go further to help airlines to discover whether airports proposals are reasonable, the PC interprets *'reasonable'* as related to the airports' return on assets. This ignores airline comments regarding a lack of airport capital investment transparency, and the need for regulation to require airports to provide information on the need for investment.

Determining whether investments are required through a process of meaningful consultation with the airline community is fundamental to identify capital investments that deliver efficient solutions which users and consumers need and are prepared to pay for – yet this is largely ignored by the PC.

The PC references a lack of evidence that *'does not support the argument that airports have exploited their bargaining power in a way that has had significant efficiency effects'*. This statement does not reflect reality or take into account that the evidence does not exist, because airports simply refuse to consult and disclose the necessary details. On the very rare occasion when they do attempt to do so, very limited information is shared. It is an understatement for the PC to state *'the airlines have suggested that airports do not always provide adequate information on their investment plans'* – in fact they almost never do.

BARA has raised concerns on behalf of its members that investment proposals were not justified in improving service outcomes. A basic issue is the complete lack of a business case to link project benefits to service quality, passenger experience and operational efficiencies. Without recognizing this connection, and engaging in an airline community consultation process to identify the optimal project solutions to maximize the benefits from project investments, airports are second guessing user and consumer needs and ignoring the fact that airlines are airport customers.

The PC makes another fundamental mistake in assuming airlines are unwilling to engage with airports on a community wide basis to discuss passenger and operational needs. In fact, just the opposite is true. While airlines are in tough competition with one another and will naturally try and differentiate their service propositions, the airline community recognizes the benefit



of working collaboratively with airports towards consensus, in order to ensure a consistently good passenger experience and baseline is delivered across the airport campus. All airline operations and service propositions are affected by airport levels of service and their associated costs, whether terminal or airfield based, and so there is value for airlines to constructively engage with airports to define common standards, in return for airport charges they pay. This can be achieved through a regular, structured dialogues that is well established at numerous airports, with the added benefit for airports the airlines will speak with “one voice” in the majority of cases.

The PC demonstrates its inexperience in airport and project planning by seeming to accept airports do not need to consult on investment plans as they are *‘based on expectations of an uncertain future. Such plans will sometimes go awry.’* These comments are misinformed, and do not reflect the reality of common airport planning practices that forecast traffic demand, and develop appropriate phasing strategies and demand triggers linked to traffic to deliver the required capacity, and facilities to meet passengers and airlines users’ need. The lack of any meaningful scenario analysis, where the airport operator considers what actions they would take in response to either higher or lower traffic volumes, almost ensures its plans will go awry.

It is genuinely perplexing the PC can come to its conclusions without thoroughly investigating the root cause of the issues, that points to a disregard of its duties in the consumer’s interest and willingness to reward airports failures. The PC seems unwilling to take airlines and their associations comments seriously. That is extremely disappointing considering the significant issues airlines face when trying to engage meaningfully with airports.

IATA urges the PC to thoroughly investigate the highlighted concerns by airlines, to support informed decision making, cost efficiency, and to ensure facilities and functionality is developed in users and passengers’ interests.

2.5 Airport Performance Reporting

Needed but not a solution by itself

Although the recommendation to require airports to report revenues and costs to airlines is a step in the right direction, it is necessary to recognize that availability of data alone will not address the proven inherent risk of airports exercising their market power. Hence, a substantive reform is necessary to protect airport users and deliver a balanced environment for aviation to flourish for the greater good of Australia and its people. As previously mentioned, IATA believes that the PC should reconsider its conclusions on airports exercising their market power to then review its draft remedies.

Without prejudice to the above, the proposed information requirements will aid towards better understanding the financials of the monitored airports. However, IATA believes that the PC should also give the ACCC the opportunity to decide, in consultation with stakeholders, any additional information requirements (beyond those proposed by the PC) that would aid it to fulfil its responsibilities. Since the PC is already asking the ACCC to propose a series of service quality measures to be included for monitoring, we see no reason why this could not be extended to other information requirements.

Moreover, the ACCC has already mentioned that it cannot consider recommending a price inquiry since it does not have the adequate information to make such an assessment. As such, it would be prudent for the PC to allow the ACCC to propose information requirements that would allow it to make an informed decision on whether recommending a price inquiry is necessary or not.

IATA is also concerned that the PC is explicitly not allowing the ACCC to define a cost allocation methodology. There is a significant possibility that airports could use a wide set of methodologies that would not allow the ACCC (or any other stakeholder) to make appropriate comparisons.



2.6 Anti-competitive Clauses

Clearly define the criteria

In general, clauses that are deemed anticompetitive and unfair contract terms should be removed from any agreements between airport and users. A process should be mapped out clearly to ensure consultation with all parties concerned pertaining to such clauses with the ACCC (or a suitable agency) accorded the necessary authority to make the final determination.

2.7 Quality of Service Monitoring

Understanding service outcomes required to meet user expectations

IATA looks forward to providing the ACCC with our inputs in developing quantitative service quality metrics to measure the performance of airport services and facilities in return for aeronautical charges users pay. There is a direct cost relatedness between the services and facilities airports provide and airport charges, that is an important principle to recognise when considering service quality measures. The purpose of a service quality framework is to provide airports with a clear understanding of the level of service and outcomes required in order to meet user expectations, in return for the airport charges they pay.

In IATA's experience of developing service quality metrics on a global basis, the most effective frameworks are developed jointly and in partnership between airline user and airports, recognising the customer – provider relationship. This requires:

- an approach based on openness, transparency and collaboration.
- meaningful consultation to understand the existing baseline, identify service and operational KPIs taking the trade-off between airport performance and costs into account.
- identification of an effective and independent, automated measurement and monitoring mechanism. On average the process takes between 6-12 months to develop on an airport specific basis to develop.

The unfortunate reality at present is there is no mechanism to objectively identify and effectively monitor and hold airports to account for the services they provide to airlines and passengers, and similarly no link between capital investment planning and service quality indicators – IATA would therefore very much welcome support to incentivise airports to engage in meaningful and transparent discussions, in the consumers interest.

2.8 Scope for Next Review

First, the current review needs revisiting

The scope for the next review appears to be acceptable. However, IATA is hopeful for correction of the draft conclusions to better meet the scope of this present enquiry and suggest the government provides the PC with enough power to require any necessary information to fulfil its duties in a balanced evidence-based manner.

2.9 Potential consequences

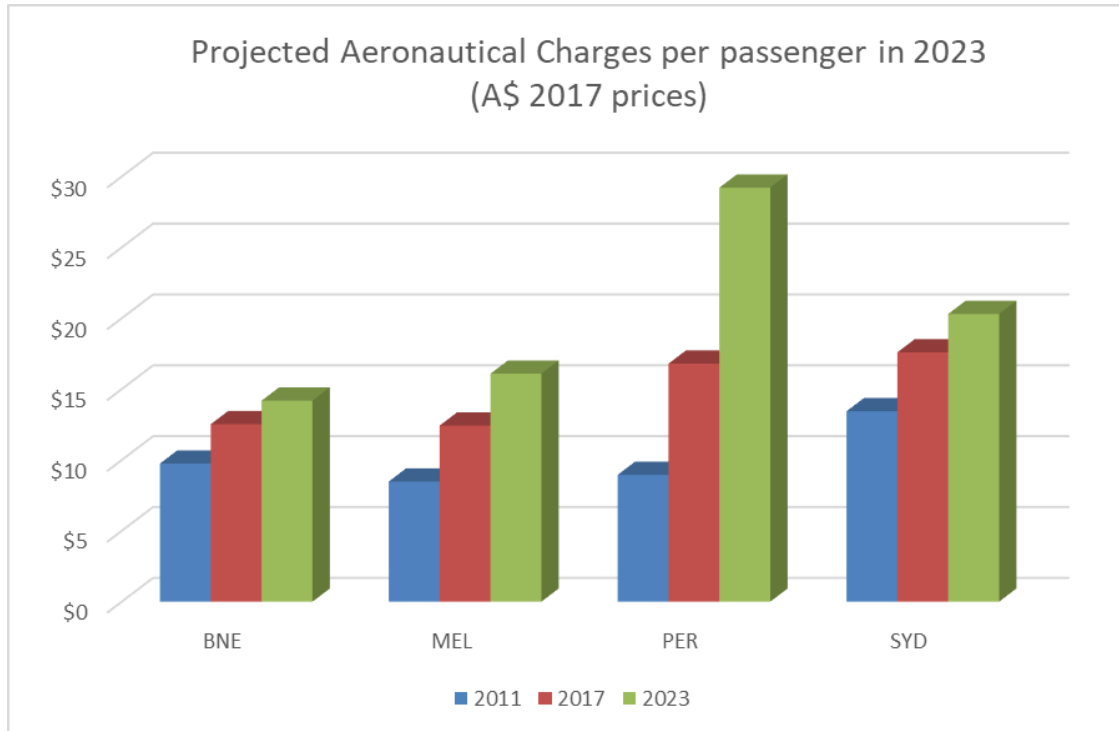
Do nothing is not an option

IATA is concerned about the continued use of the monitoring model for the four key Australian airports with market power, and specifically so given the trends that have already been established and could continue if the current light handed regulatory regime is allowed to continue without a more effective arbitration recourse mechanism.

Total charges at each of the four key Australian airports have increased over recent years, rising between 2% and 10% per year, on average, in real terms, between the last PC review in 2011 and the most recent data available in 2017. As a minimum, IATA would have expected broadly constant total charges per passenger, as airports are largely fixed cost businesses, and increasing passenger numbers should lead to economies of scale and a reduction in total charges per passenger, rather than an increase.

If these trends continue at the same pace seen between 2011 and 2017, then in 5 years' time, Perth and Sydney airports could be charging over AUD 20 per passenger (2017 prices), with Perth approaching AUD 30 per passenger. While Melbourne and Brisbane charge levels are lower, the trends are similar.

Projected aeronautical charges per passenger in 2023:



Sources: 2011: Leigh Fisher; 2017: airport annual reports; IATA analysis.

If trends continue, the total aeronautical charges recovered in excess of current charge levels could amount up to AUD 1.5 billion over the next 5 years⁹. Therefore, IATA is concerned about the cost to the industry and Australian economy from continuing the monitoring model without further changes. It is timely for the Government of Australia to recognize the need to address the deficiencies in the present price monitoring framework and bring about the necessary changes to better safeguard consumers interest and the economic prosperity of Australia.

⁹ Calculated by projecting aeronautical charge increases from 2011 to 2017, onto the next 5 years period between 2019 and 2023, multiplied by 2017 passenger figures, in 2017 prices. This is a conservative figure as it does not forecast passenger growth, which could result in even higher excess aeronautical charges. Passenger Movement Charge (PMC) excluded.

3.0 Access Arrangements at Sydney Airport and Slots

Consistent implementation of the Worldwide Slot Guidelines is critical to efficiently managing scarce airport capacity

3.1 Regional Access at Sydney Airport

Careful consideration must be given to intervening in the market.

The protection of airport slots for the benefit of permanent regional service series (PRSS) can be important for economic, social and strategic reasons. The Australian Government must have clear objectives for their regional connectivity strategy and assess the impacts of continuing to intervene in the aviation market by safeguarding slots. At congested airports, the protection of slots means their use may not be balanced across all forms of demand. This may impact the fairness and efficiency of airport slot allocations.

3.2 Reviewing Sydney Airport's Slot Management Scheme

Aviation is a global industry that requires a global approach to airport slot coordination

The Worldwide Slot Guidelines (WSG) are regularly updated to ensure the efficient use of capacity at constrained airports. Central to the guidelines are principles that promote access, competition and connectivity. Low cost carriers have entered congested airports with the WSG in place, and have grown and competed with incumbents, thus driving benefits for consumers and economies alike. But importantly this is balanced with the need to promote stability and certainty in schedules to promote growth in routes and networks which brings connectivity.

Slots are not the problem; the lack of airport infrastructure is. In the absence of sufficient infrastructure airlines are restricted from offering more services. We see no evidence of WSG principles restricting competition, instead we see a balancing of demand in a fair and competitive way, within available infrastructure. Nevertheless, the industry is committed to ensuring the WSG remains the best long-term solution to managing scarce capacity.

In 2017, the International Air Transport Association (IATA), Airports Council International (ACI) and the Worldwide Airport Coordinators Group (WWACG) jointly began an industry-wide Strategic Review of the Worldwide Slot Guidelines (WSG). This is a collaborative review run by the key industry stakeholder groups. It is not an IATA-only review, which is suggested by the draft recommendation.

Four task forces were created involving more than 80 aviation professionals representing different regions and business models from around the world. They comprise 25 airlines, including low cost, leisure, and cargo carriers, 16 airports, and 17 slot coordination organizations. Australia has been well represented:

1. Sydney Airport's former Head of Aviation Services was the Strategic Review Management Group's Mentor to the HDTF for the first 18 months of the review. He was replaced by Sydney Airport's Vice President of Aviation Development, who decided to step down soon after being appointed.
2. The Chief Executive Officer of Airport Coordination Australia, and Chair of the Asia Pacific Airport Coordinators Association is a member of the Airport Levels Task Force.



3. The Senior Manager Network Scheduling at Qantas is a member of the Airport Levels Task Force and a member of the Strategic Review Management Group.

The Strategic Review considers the same topics raised by the draft recommendation:

1. The Historic Determination Task Force (HDTF) has been analysing the utilization of airport capacity, the complexity of planning factors, how to remain aligned with consumer demand and the levels of flexibility that lead to the most efficient use of available capacity. The HDTF is reviewing the principles of historic precedence to ensure the required levels of certainty exist that enable airlines to invest in new and existing services at Sydney Airport.
2. The Access to Congested Airports Task Force (ACATF) has been reviewing the allocation principles that enable access and fair competition between new entrant and incumbent airlines. 50% of available capacity is currently made available to new entrants. IATA expects the new entrant definition to be reinforced through an enhanced definition providing greater ability to enter and grow, and therefore compete.
3. The Slot Performance Monitoring Task Force (SPMTF) is considering best practice guidance to promote and reinforce slot performance monitoring in the WSG. It is expected to propose a range of WSG enhancements for publication later this year.

Stakeholder groups of the Strategic Review recognised and endorsed the principles the global aviation industry requires to ensure optimal consumer benefits, through consistent global processes that achieve efficient use of scarce airport capacity. Initial success of this industry collaboration is evident in the publication of WSG edition 9, published in January 2019. Further updates are expected later this year and early next year.

It is the intention of the industry stakeholder groups to continue working together as partners in the development of the WSG, beyond the period of the Strategic Review. IATA requests the PC to recognize the efforts made by industry experts through the Strategic Review and to acknowledge that airports should not operate in isolation of other airports.

The consistent implementation of a global standard is essential for the efficient development of the aviation industry. We recommend the principles of airport slot coordination at Sydney Airport remain aligned with the WSG, and other congested airports globally. We see no benefit to the Australian Government carrying out a further review of the Sydney Airport Slots Management Scheme beyond an alignment with industry-led updates.

3.3 Aircraft noise management

[More flexibility in noise management measures to improve efficiency, while meeting noise objectives](#)

IATA is strongly committed to ensuring aviation continues to improve its noise performance and mitigates its noise impacts. Since 2009, airlines have invested a trillion US dollars in newer fleet. As a result of technological improvements, the noise footprint of new aircraft is at least 15% smaller than that of the aircraft they replace.

IATA supports the observation of the PC that changes that increase the flexibility of the movement cap and that target noise outcomes more directly could improve the operational efficiency of Sydney Airport, while meeting the current noise objectives. Communities are sensitive to aircraft noise, and airlines recognize the need to demonstrate how any proposed changes will deliver an improvement to them in addition to greater productivity in aviation.

Movements caps are a relatively blunt measure to address noise impacts from aircraft as they do not take into account improvements in noise at source and actual noise performance of aircraft. IATA would therefore support the consideration of alternatives which would recognize efforts by airlines to improve the noise performance of their fleet, including a potential noise quota count scheme.

IATA also believes that, in line with ICAO's policies on noise management and specifically ICAO Assembly Resolution A39-1, operating restrictions should be based on the noise performance of aircraft, as determined by the certification procedure conducted consistent with Annex 16, Volume I. Therefore, we would support that further consideration be given to replacing the current prescribed list of aircraft types allowed to operate during the night period with criteria based on the certified noise levels of aircraft.

IATA would like to stress that any decisions to amend existing operating restrictions and the consideration of new noise-related measures should be taken in accordance with the ICAO Balanced Approach. One of the building blocks is the provision for consultation with stakeholders, including community representatives, at different stages from assessment



through implementation. Consultation with stakeholders is essential as it will help in identifying alternative solutions, discussing any technical, operational or safety concerns, and facilitating the dialogue between all parties. The ICAO Balanced Approach also calls for a full assessment of available measures and of the benefits to be gained from other elements.

4.0 Jet Fuel Supply

Open access of fuel infrastructure is critical for improving jet fuel supply competition

4.1 Jet Fuel Infrastructure Access

Effective competition is compromised by conflicts of interest in infrastructure ownership

IATA commends the PC for its analysis of the jet fuel supply market in Australia. We believe that the PC's conclusion outlined in Draft Finding 8.1 is accurate. Conflicts of interest exist associated with ownership by incumbent suppliers of key jet fuel supply infrastructure on and off airport, and this characteristic of jet infrastructure ownership in Australia enables incumbent fuel suppliers to restrict competition in the jet fuel supply market leading to higher jet fuel prices.

The PC expressed its desire to receive specific publishable information for it to expand its assessment in its final report. Under Information Request 8.1, the PC sought to receive information from airlines on the prices paid for jet fuel at each of the four capital city airports - Sydney Airport (SYD), Melbourne Airport (MEL), Brisbane Airport (BNE) and Perth Airport (PER) - as well as other types of information including the airlines' tender experiences at these airports. For that purpose, IATA reached out to its member airlines operating to these four airports to seek such information on a confidential basis.

A summary of the information received from over 10 airlines is provided in Table 1 below. Pricing information has been de-sensitized to protect commercial confidentiality but is nevertheless revealing.

Table 1 Summary of airline submissions

DATA DESCRIPTION	Capital City Airport in Australia			
	SYD	MEL	BNE	PER
Average add-on or differential in the current supply contract* (SYD = Index 100)**	100	172	101	171
In the most recent tender exercise conducted by the airline: (i) Number of suppliers that bid (range from lowest to highest number) (ii) Average number of suppliers that bid	(i) 3 - 5 (ii) 3.9	(i) 2 - 4 (ii) 3.1	(i) 2 - 4 (ii) 2.9	(i) 1 - 3 (ii) 1.9
In a typical tender exercise 3-5 years ago conducted by the airline: (i) Number of suppliers that bid (range from lowest to highest number) (ii) Average number of suppliers that bid	(i) 2 - 5 (ii) 3.6	(i) 2 - 4 (ii) 3.3	(i) 2 - 4 (ii) 2.8	(i) 1 - 2 (ii) 1.8
Average of estimated premium paid by airlines at the airport due to a lack of fuel supply competition (in US cents per litre)	0.8	1.8	1.1	2.2
What percentage of your flights to this Australian airport tankers fuel to minimize fuel uplift at the airport?	No tankering	No tankering	No tankering	No tankering

Source: Airlines

* Contract basis is Mean of Platts Singapore + Add-on + Airport fuel throughput levy (if any).

** At SYD, the fuel throughput levy is 0.5 AU cent per litre but it is not included in the index.



Jet Fuel Prices and Tender Experience

Interpreting this information in the context of the current jet fuel supply market conditions pertaining to each airport, the significant price difference between SYD/BNE and MEL/PER is attributed in a large part, directly or indirectly, to the different degrees of effectiveness in jet fuel supply competition that has its root cause in the jet fuel infrastructure ownership model.

IATA did not ask airlines to submit the prices or volumes offered on individual bids by fuel suppliers. It can be the case that when an airline receives multiple bids, these bids include ones where only partial volume is offered or where the pricing is very high in reflection of the high cost that the supplier might need to incur to meet the airline's fuel requirement. Partial bids and high bids that are uneconomic, when included in the total number of bids received, can overstate the effective level of competition between suppliers. Given this, IATA has sought to provide further context to the empirical data, as discussed below.

Sydney Airport

At SYD, airlines report some positive market dynamics in recent years that have brought down prices. It shows how an improvement in the level of competition can bring immediate and substantial reductions in jet fuel prices. That said, IATA considers that the nature of the JUHI set-up which restricts market participants to its shareholders means that:

- i. further price moderation would still be possible if potential new suppliers could get unfettered and fair access to key jet fuel infrastructure necessary for them to compete on a level playing field; and
- ii. the positive market dynamics is considered fragile especially since the number of active market participants would be unlikely to increase in the face of changing market conditions such as a rise in demand at the airport.

IATA notes that fuel prices at SYD are artificially inflated by the airport's fuel throughput levy. There would be an immediate reduction in the overall fuel price to airlines in dealing with this blatant exercise in market power by Sydney Airport.

Melbourne Airport

The upward price movement at MEL was exacerbated by supply capacity bottlenecks arising from lack of timely infrastructure investment under conditions where market supply tightness would actually be beneficial to the infrastructure owners because of their vested interest as fuel suppliers. IATA understands that at least one airline based in China could not obtain fuel for its additional flights to MEL over the December 2017-January 2018 peak period which highlights the supply constraints occurring at the airport at that time.

While the new JUHI lease agreement at MEL has been touted as a breakthrough in providing open access to airport fuel infrastructure, scepticism about its effectiveness remains if measured by the lack of transparency in pricing and the extended time taken to process access applications.

Brisbane Airport

At BNE, competitive supply conditions are generally considered more satisfactory given the number of competitively placed bids by suppliers and in context of the total fuel demand. Access to the two pipelines into the airport (one owned by BP and the second jointly owned by Caltex and Viva) enable these three members of BNE JUHI to compete more effectively with one another. But again, the restrictive nature of infrastructure access confines the number of effective market participants and growth in fuel demand over the coming years could alter the market situation. Fuel supply arrangements at BNE will be able to benefit from an opening of the infrastructure that can permit additional participants to enter the market in line with the commercial opportunities.

Perth Airport

For meaningful contract negotiations to take place, submission from three bidders to supply fuel to an airline is normally considered a minimum. At PER, airlines typically receive up to two bids which reflects a dearth of active market participants. The requirement for new market entrants to take equity in JUHI to be able to access fuel infrastructure at the airport as well as difficulty to access the single proprietary pipeline into the airport have proven to be effective barriers to market entry. This is all reflected in the high jet fuel prices paid by airlines.



Fuel Tankering

Regarding the point that airlines are able to choose where they refuel their aircraft based on lowest price, data from the airlines confirm that the option to carry out tankering for international flights to the four capital city airports is not feasible especially for long-haul or medium-haul operations. Tankering is an airline practice of uplifting extra fuel from the origin airport in order to minimize fuel uplift at the destination airport because of jet fuel price differences.

Premium due to Lack of Effective Competition

A number of airlines have provided their estimate of the premium in fuel price paid at the four capital city airports due to a lack of effective fuel supply competition. On average, the premium ranges from 0.8 US cent per litre at SYD to 2.2 US cents per litre at PER.

Based on the overall annual jet fuel consumption (domestic and international flights) in 2017/2018 of 9312.8 million litres (Australian Petroleum Statistics, Commonwealth of Australia December 2018) and on the assumption that these average premiums also exist at all other airports in Australia, the additional cost to the aviation industry because of lack of effective supply competition would fall between USD70 million and USD200 million a year.

4.2 Improving Conditions for Competition

Action to improve supply competition is warranted

The cost to the aviation industry and to its end-users as a consequence of lack of effective jet fuel supply competition is significant. The situation warrants that changes be made to the current state of jet fuel infrastructure access to remove barriers to entry faced by potential market participants in jet fuel supply in Australia.

Recent developments at MEL and DRW (Darwin Airport) where conditions for open access were inserted in the JUHI lease agreements indicate that the industry has taken a positive step forward but there is still no reported success of entry of a new supplier in those markets to date. Judging by the length of time for access applications to be processed and the unwillingness of MEL JUHI to make access fees public (as would be best practice in open access arrangements in other parts of the world), there is reason to be sceptical that voluntary action by existing infrastructure owners to grant infrastructure access would produce favourable and fair terms of access that promote competition on a level playing field.

Government action to facilitate access to jet fuel infrastructure would be warranted if a purported open access arrangement fails to deliver a new market entrant within a reasonable timeframe or if feedback about difficulty to access the market persists. Either one of the two options identified by the PC which the government could take to improve jet fuel supply competition, namely the National Access Regime and Industry-specific access regime, would be a positive development for the industry provided it comes with transparency in the pricing mechanism. Transparency in pricing of infrastructure is imperative to ensure that the benefit derived from more effective competition in the fuel supply area due to open access is not negated or overwhelmed by over-pricing on the infrastructure side. The infrastructure providers could make their terms and conditions for access publicly available, which would permit due consideration of the arrangements they have in place and identify the need for regulatory intervention, if any.

Western Sydney Airport presents a unique opportunity to put in place open access arrangements across the supply chain off and on airport, and such opportunity should be fully exploited. For access to fuel infrastructure at the airport, IATA supports the PC's Draft Recommendation 8.1 but suggests that the word Joint User Hydrant Installation or JUHI be replaced with Common Use Fuel Infrastructure since the term JUHI is typically used in the industry to refer to infrastructure owned by a joint venture or consortium of fuel suppliers.



4.3 Jet Fuel Infrastructure Investment

Platform for stakeholder consultation ensures fit for purpose and timely investment

IATA fully supports the PC's Draft Recommendation 8.2 for a jet fuel supply coordination forum to be incorporated into the master planning process at each of the monitored airports. This will ensure that the right jet fuel infrastructure investment is made at the right time and in sync with the airport's traffic growth projections and other airport infrastructure capacity enhancements. For Western Sydney Airport, it would be beneficial to have a similar forum set up to consult on the jet fuel infrastructure needs when the airport opens and the ownership/operating model that would ensure a true open access regime. Once the airport opens, the forum can continue on to address future jet fuel infrastructure investments.

4.4 Fuel Throughput Levies

Fuel throughput levy is not associated with any cost of provision of service by the airport

It is understood that for jet fuel activities, Sydney Airport is already collecting market-based rent for the airport land occupied by SYD JUHI as well as licence fees for the underground hydrant network. There is no other provision of services by the airport related to fuel that warrants the imposition of a fuel throughput levy. Additionally, the revenue collected from the Fuel Throughput Levy is not included as an offset for determining airport charges at SYD. The fuel throughput levy is one example of the airport exercising its monopoly power to extract economic rent and is solely for the unjustified enhancement of the airport's revenue. On those grounds, it should be removed.