

POLICY POSITION

Fuel Throughput Levies

Position The current fuel throughput levies imposed by some airport operators should be abandoned immediately. Should those airport operators seek to continue to impose fuel throughput levies simply because they have the legal right to do so, there is a clear case for any arbitration process to determine a levy that generates minimal (less than \$1,000 per year) revenues.

Rationale and Background With the move to ‘dual till’ pricing by airports, the fuel throughput levies imposed by some airport operators represent a monopoly rent stream above that necessary to justify their investment in aeronautical assets. Fuel throughput levies are inconsistent with the Commonwealth Government’s stated pricing principles for price deregulated airports. By continuing to insist on the imposition of such levies, some airport operators are undermining the Government’s policy on airport pricing.

In examining relevant comparable throughput fees, an analysis of overseas countries' pricing practices reveals the following findings:

- for airports with single till pricing arrangements, the imposition or increase in a fuel throughput levies results in reductions in other aeronautical charges; and
- for airports with ‘dual till’ pricing, charges for refuelling activities are directly linked to actual costs incurred by the airport company in the provision of the service.

Current Australian fuel throughput levies were determined through arbitration. That arbitration makes reference to levies imposed at overseas airports.

Aeronautical pricing arrangements

Since Brisbane Airport (BACL) first imposed a fuel throughput levy in 1997, the Commonwealth Government has implemented changes to the pricing regime applied to aeronautical assets. For the first five years after privatisation, aeronautical price regulation of Phase I and II airports comprised of a five year CPI-X annual cap. Cost pass-through provisions for ‘necessary new investment’ and government-mandated security services complemented the cap.

On 13 May 2002, the Commonwealth Government accepted the recommendations of a Productivity Commission review that direct aeronautical price controls be removed from Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra and Darwin airports and be

replaced by prices monitoring for a five year period. Therefore, airport companies can now set aeronautical charges as they see fit, subject to the 'light-handed' economic regulation of prices monitoring and the threat or the possibility of re-regulation.

Post price de-regulation, airport operators implemented new pricing regimes designed to generate returns on aeronautical assets at levels they consider are consistent with the Government's stated pricing principles. From the day of de-regulation BACL, for example, increased aeronautical charges by about 50%. Further, BACL's current Draft Master Plan predicts average volume growth of more than 5% per year over the next ten years. These new prices and forecast volumes will generate substantial increases in aeronautical revenues for BACL over the period 2002-03 to 2006-07.

Comparisons with overseas airports

The current fuel throughput levies applied in Australia were determined by comparison with other levies imposed by airports in overseas countries. There are significant problems with such an approach if the levy is considered in isolation to the overall aeronautical pricing regime. At overseas airports the pricing arrangements are as follows.

UK airports

In the UK, the Civil Aviation Authority (CAA) regulates airport pricing. The CAA adopts a 'single till' approach to setting aeronautical charges. This means that profits from the 'commercial' side of the airport's activities, including fuel throughput levies, are used to reduce aeronautical charges. As a consequence, increases in fuel throughput levies translate into correspondingly lower aeronautical charges through the single till pricing methodology. This is not the case in Australia, where aeronautical charges are set independently of fuel throughput levies.

It is, therefore, inappropriate to compare the level of fuel throughput charges at UK airports with their 'single till' pricing arrangements with those at Australian airports where 'dual till' pricing applies.

Asian airports

Pricing arrangements at Asian airports are usually not characterised by the same formal arrangements associated with airports in countries such as Australia and Western Europe. Instead, current prices often reflect historical practices and are adjusted on an ad-hoc basis in response to changes in demand or investment requirements. For example, a number of Asian airports initiated significant aeronautical price decreases in response to the severe acute respiratory syndrome (SARS) virus.

Experience tends to suggest that charges at these airports are set in the context of overall (aeronautical and non-aeronautical) costs and revenues, though financial data from the airports is often not available to airlines. As such, the level of any fuel throughput levies at Asian airports must be considered in the context of overall charging structures and issues specific to each airport.

Given the lack of regulation and visibility over financial accounts, it is considered inappropriate to use Asian airports as suitable comparators with Australian airports.

New Zealand airports

In New Zealand, Auckland International Airport Limited (AIAL) and Wellington International Airport Limited (WIAL) have similar aeronautical pricing arrangements as those in Australia. AIAL and WIAL are free to set charges subject to consultation arrangements with airlines and the threat of review and re-regulation by the Government under a 'light-handed' regulatory regime.

AIAL includes a fuel throughput levy as part of its overall terminal charging structure. In contrast to the Australian situation, AIAL provides refuelling infrastructure as well as airport land. The levy is set to earn a specified rate of return on the assets owned by AIAL.

WIAL has moved in a different direction from the Australian situation, re-negotiating with oil companies to introduce a fixed rent charge and to reduce the existing fuel throughput charge. As with AIAL, this represents a move towards 'fee for service' consistent with the dual till pricing regime applying to aeronautical assets.

Evidence therefore indicates that for those airports that set aeronautical charges on a dual till basis, charges linked to aircraft refuelling activities are set on the basis of actual costs incurred by the airport company.