

SUBMISSION

REVIEW OF CHRISTCHURCH INTERNATIONAL AIRPORT'S PRICING DECISIONS & EXPECTED PERFORMANCE (JULY 2017 – JUNE 2022)

OVERVIEW OF SUBMISSION

A4ANZ supports the Commerce Commission's review of Christchurch International Airport's pricing decisions and welcomes the opportunity to provide a submission to the Commission.

In response to the areas of focus outlined by the Commerce Commission, A4ANZ has undertaken to provide a submission with particular reference to the following focus areas and the associated findings outlined in the Commerce Commission's draft report: expected profitability and planned investments in infrastructure.

In addition to addressing the findings pertaining to the above focus areas – A4ANZ has also noted the importance of the Commerce Commission adopting a broader scope to review quality and innovation. Additionally, A4ANZ has also made brief commentary regarding the current regulatory environment and potential regulatory solutions.

ABOUT AIRLINES FOR AUSTRALIA & NEW ZEALAND

Airlines for Australia and New Zealand (A4ANZ) is an industry group, established in 2017 to represent airlines based in Australia and New Zealand. Member-funded and representing international, domestic, regional, full service and low-cost carriers, A4ANZ advocates on key public policy issues relevant to airline operations, including efficient access to domestic airport infrastructure.

The A4ANZ Board identified at the time of the organisation's formation that one of its highest priority issues was the regulatory frameworks for Australia and New Zealand's monopoly airports.

PERFORMANCE OF CHRISTCHURCH AIRPORT

Profitability

A4ANZ notes that the Commerce Commission considers that Christchurch Airport's target return over the PSE3 period on its 'priced services' (at 6.44%) is reasonable, and that these services include the use of airfield runways and taxiways, air-bridges and baggage handling services.

However, A4ANZ further notes that the Commission are not satisfied that Christchurch Airport's profits over PSE3 on its 'other regulated services' are not excessive and consider that Christchurch Airport has not sufficiently justified its expected returns (at 7.87%) on these other regulated services – which may include; facilities and services for the operation of customs, immigration, quarantine checks, security and police services, refueling of aircraft, and storage of freight.

Given the scope of the services covered, A4ANZ is not surprised to note that Christchurch may be targeting excessive returns on its 'other regulated services'. We are aware that other airports with

market power (such as those in Australia) opt not to apply the “pass through” principle to these necessary services, and instead may apply a margin, administration fees, and corporate recovery costs when charging airport users for these services.

A4ANZ acknowledges the Commission’s view that *“an airport’s ability to earn excessive profits on these services is moderated by the fact that these services represent a relatively small proportion of the RAB at any one time; any excessive profits on priced services are likely to represent greater harm to consumers over the long-term.”* While A4ANZ understands that ‘other regulated services’ only represent 15% of Christchurch Airport’s total RAB, A4ANZ believes that there is still a cost associated with Christchurch Airport targeting excessive returns on these services – costs that are ultimately felt by the consumer.

More broadly, A4ANZ agrees with the Commerce Commission, in that we believe that Christchurch Airport could and should have been more transparent about its intentions behind its charging structure, and the relevant impacts on different airport user groups in its PSE3 disclosure. This issue, coupled with the fact that other groups have raised concerns about the accuracy of CIAL’s passenger forecasts, supports a case for greater transparency by the airport.

QUALITY, EFFICIENCY & INNOVATION

As noted in our submission to the Commerce Commission’s review of Auckland International Airport, A4ANZ appreciates that the Commission has chosen to focus on the reasonableness of target returns, efficiency of investment, and efficiency of pricing. However, A4ANZ would like to reiterate its belief that the Commerce Commission should take a broader view of section 53B(2) requirements, to consider and report on quality, efficiency and innovation. These factors are inextricably linked to the economic performance of, and the prices charged by Christchurch International Airport.

Capital Expenditure

A4ANZ notes that the Commerce Commission has considered whether Christchurch Airport has incentives to invest appropriately, efficiently and at a quality standard that reflects consumer demands – with Christchurch Airport forecasting to spend \$82m in capital expenditure over PSE3.

Although the draft findings from the Commission indicate that Christchurch Airport’s forecast capital expenditure does not appear to be unreasonable, A4ANZ members have raised concerns regarding the proposed capital expenditure over the 2017 – 2022 pricing period.

In particular, Christchurch Airport plans to spend \$10.4m reconfiguring its integrated terminal – its single largest capital expenditure project. Although the airport has suggested that this investment will make better use of the potential flexibility and efficiencies captured in its integrated terminal – it has yet to provide sufficient details on the planned works to airport users – including A4ANZ airline members.

Whilst A4ANZ understands that Christchurch Airport’s approach to this project aims to leverage off existing efficiencies – which is preferable to incurring substantial capital expenditure in a specific area approaching capacity while other facilities remain underutilised, A4ANZ objects to the lack of transparency in the project planning, and the distinct lack of consultation with airlines and other airports users to ensure that the capital expenditure proposed by Christchurch Airport is appropriate.

It is well-recognised that airport charges are directly affected by infrastructure investment decisions. A4ANZ would like to reaffirm its belief that in order for the best outcomes to be achieved from this investment, it must be fit-for-purpose; aligned with the needs of passengers using the facilities and demand for air services. The best way to determine requirements and ensure this fit is through industry consultation – reducing the potential for overcapitalisation.

A4ANZ appreciates that the Commerce Commission has recognised the need for further exploration of the issues of quality, efficiency and innovation of airport services and operations and is pleased that this may be considered as a future part of the Commission’s workplan, as it is urgently needed.

REGULATORY ENVIRONMENT

There are several potential approaches to solving the problem with the current regulatory environment. However, A4ANZ believes that the most effective regulatory solution, and the one that is most likely to result in genuine commercial negotiations between airlines and airports and deliver fair outcomes for airport users – including New Zealand travellers is giving effect to the negotiate-arbitrate model.

Greater oversight by the regulator to encourage and, where required, force constructive, commercial engagement is needed to minimise the negative impact of the airports’ monopoly powers. The threat of regulation would result in a genuine commercial negotiation, greater investment by airlines and improved efficiency in the allocation of resources. A closer examination of airport charges is needed to protect and allow growth and innovation in air services within New Zealand. As such, the changes proposed by the Commerce Amendment Bill 2018 – including those providing increased scope for the Commerce Commission – are welcomed by A4ANZ.

CONCLUDING COMMENTS

A4ANZ believes that a vibrant aviation sector will drive efficiency and innovation, which in turn is good for both consumers and the economy. In order to comprehensively address the issue of airport monopolies and market power driving excessive charges, a multi-faceted approach involving genuine industry engagement and consultation will be required. Due consideration must be given to creating a policy and regulatory environment that encourages innovation and efficiency, to ensure that both the community needs of New Zealand and those of the broader economy are met.

A4ANZ members are committed to building, maintaining and improving positive, constructive commercial relationships with airports; with a view to seeing airports, and the whole aviation sector prosper. It is not only in the airlines’ interests, but also in their passengers’ interests, as well as the Government’s and New Zealand economy’s interests for this to occur. A4ANZ and its members look forward to working with all stakeholders to achieve this outcome.

A4ANZ would welcome the opportunity to further discuss the issues addressed in this submission with the Commerce Commission.

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