



17 June 2021

Mr Andy Burgess
Head of Energy, Airports, and Dairy Regulation
Commerce Commission New Zealand

Via email: regulation.branch@comcom.govt.nz

Dear Mr Burgess, *Andy,*

RE: OPEN LETTER ON REGULATORY PRIORITIES FOR ENERGY NETWORKS AND AIRPORTS

The Qantas Group welcomes the Commerce Commission's engagement with stakeholders on the emerging issues for electricity and gas networks and airports in advance of its substantive review. While the open letter primarily relates to the Commerce Commission's regulation of energy networks, we provide the following preliminary feedback in relation to priorities for the airport sector with a view to ensuring the regulation is fit for purpose.

As natural monopolies, New Zealand airports have the ability to unilaterally increase airport charges. Under the existing regulatory regime this has been done with impunity by the major New Zealand airports with prices that are designed to target large profits but are not in the long term interests of consumers. In 2018, the Commission's review of pricing decisions and expected performance at Auckland Airport found that the airport had set prices that were not in the long term interests of consumers and were targeting excessive profits, affirming the serious concerns raised by airport users that they were being over charged.

Analysis prepared by Frontier Economics at the time found that New Zealand airports were earning far higher margins than comparable airports, with Auckland Airport having one of the highest margins in the world, and Auckland and Wellington Airports having EBIT margins more than double the international average. This demonstrates not only the ability of New Zealand airports to use their monopoly position to extract super profits, but suggest a regulatory framework that is not fit for purpose, with an attendant cost for the New Zealand community.

The light handed regulatory regime is intended to constrain monopoly pricing through the threat of re-regulation but requires little to satisfy information disclosure requirements and contains nothing to prevent airports from setting charges as they see fit.

The review could not come at a more critical time. The coronavirus pandemic and the border and quarantine restrictions imposed by governments globally have had an unprecedented effect on the aviation industry. The International Air Transport Association forecasts that it will be at least 2024 by the time global passenger traffic recovers to pre-pandemic levels¹. International travel remains

¹ International Air Transport Association media release 'Recovery delayed as international travel remains locked down,' 28 July 2020. Available: <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>



extremely constrained, with inbound passenger numbers a fraction of their pre-COVID levels and the number of airlines serving the New Zealand market sharply reduced.

The Qantas Group is expecting to post a statutory loss of more than \$2 billion for FY21, on top of the \$2.7 billion loss last year. By the end of FY21, the Group will have lost at least \$16 billion in revenue since the pandemic began. Domestic travel has rebounded in Australia and New Zealand but demand remains unpredictable as a result of low consumer confidence and airline losses will keep growing until international travel returns. The ongoing nature of the crisis has necessitated significant restructuring of Qantas' business, including ongoing cost reduction measures, raising capital and the permanent loss of nearly a third of our workforce.

The focus on costs will be unrelenting in the years ahead as the industry looks to recover and find a sustainable path forward. This is not a time for monopoly infrastructure providers to seek to recoup the losses they have incurred. We are concerned that the lobbying of the major airports for the retention of section 4A of the *Aviation Act* allowing them to price "as they see fit" is a salutary warning. With airport charges forming a significant part of the cost base for airlines, resetting the regulatory framework so that airports are subject to a negotiate-arbitrate regime will remove the existing imbalance of power, improve negotiations and deliver fairer outcomes to airlines and consumers.

The requirement under Part 4 of the *Commerce Act 1986* for Auckland, Wellington and Christchurch international airports to consult with substantial customers on charges and major capital expenditure is a critical feature of the existing regulatory framework. However, this consultation must be meaningful to ensure that proposed capital works meet industry and passenger requirements, provide value for money and achieve operational efficiency. Pricing shocks driven by inefficient development and a desire to recoup losses pose a macroeconomic risk to the New Zealand economy. Airport price rises can ultimately trigger increased airfares, reducing demand and the limiting the economic multiplier effects of air travel.

Achieving fair and reasonable pricing and cost-effective capital expenditure for New Zealand's airports will underpin the post-pandemic recovery and are a key determinant of airlines' ability to sustainably restore air links. A negotiate-arbitrate regime is the most effective method to achieve this objective in a manner that delivers better outcomes for the community and the economy. Neither airlines nor airports want pricing decisions taken out of their hands and the risk of an arbitrated outcome is more likely to ensure disputes are resolved by providing a 'circuit breaker', delivering fairer and faster clarity and price outcomes.

While an inadequate substitute for the shift to a negotiate-arbitrate model, we note that improved, increased and timely information disclosure would be beneficial, ideally with a focus on capital expenditure and operational expenditure being assessed for efficiency to ensure investment does not result in material damage to the New Zealand economy. This requirement, along with all others, should extend to 'second-tier' airports, such as Queenstown and Dunedin.

Decarbonisation

We are pleased that the Commission proposes to ask about decarbonisation in the context of this review. Qantas continues to demonstrate its commitment to global leadership in aviation sustainability and has already taken significant steps to minimise the impact of emissions from its operations on the environment. Qantas was an early adopter of the CORSIA emissions scheme and was one of the first airlines to announce a net zero emissions target for 2050. In 2019 Qantas committed \$50 million over the next ten years to the development of a Sustainable Aviation Fuel (SAF) industry in Australia and is committed to working with Government and stakeholders across

the industry to develop and implement the policy and investment frameworks that will make this possible.

We trust these comments assist the Commission's planning for the upcoming review. We would be pleased to discuss further with you or respond to any questions and look forward to participating in the formal consultation process.

Yours sincerely,



Andrew Parker
Group Executive, Government, Industry, International, Sustainability