

18 June 2013

Ruth Nichols
Senior Legal Counsel
Commerce Commission
PO Box 2351
Wellington 6140

Dear Ruth

Re: Cross Submission related to the CIAL Conference May 24th 2013

Relevant question:

How do you expect demand to change as a result of the new prices and pricing structure?

Response:

CIAL's proposed charges will increase the cost of airfreight services provided by express package companies (such as the Freightways' brands of New Zealand Couriers and Post Haste Couriers) to achieve overnight delivery between the North and South Islands of NZ.

Freightways experience is that as prices go up customers consider cheaper supply chain options. This may mean moving volume from premium priced airfreight services (overnight inter-island) to lower priced road freight services (two day inter-island) and/or increasing stock holdings and supplying in bulk rather than just-in-time.

Following the Global Financial Crisis there has been a heightened focus by customers on their supply chains which has resulted in a global re-weighting of express package volume from higher priced service options including airfreight to lower priced options such as road freight. This trend is obvious in Freightways' own domestic volumes. While for the movement of some items the cost is less relevant (e.g. essentials such as perishables and some medical supplies), for the vast majority of freight some service flexibility exists. Recent comments from and about Fedex:

From: Fedex third quarter earnings result. MEMPHIS, Tenn., March 20, 2013

<http://investors.fedex.com/phoenix.zhtml?c=73289&p=irol-newsarticle&ID=1797886>

"The third quarter was very challenging due to continued weakness in international air freight markets, pressure on yields due to industry overcapacity and customers selecting less expensive and slower-transit services," said Frederick W. Smith, FedEx Corp. chairman, president and chief executive officer. "In response, beginning April 1, FedEx Express will decrease capacity to and from Asia and will aggressively manage traffic flows to place low yielding traffic in lower-cost networks. We are currently assessing how these actions may allow FedEx Express to retire more of its older, less-efficient aircraft. We remain focused on our strategic cost reduction programs, which are ramping up and on track."

From: Cargonews Asia April 2013.

<http://www.cargonewsasia.com/secured/article.aspx?article=30841>

Like a number of airlines, FedEx is cutting back on international freighter activities. The integrator has announced that it is going to trim its capacity on routes to and from Asia in response to decline in its international premium express business. The continuing weakness in the global economy has been hurting express carriers' premium services, as shippers seek to curb costs by going for less expensive options wherever possible.

Across the board, logistics providers have reported a shift to economy services – from air freight to ocean transportation, from truckload to intermodal rail-truck alternatives, and from express to deferred services. According to Seabury Group, air freight has lost as much as 10 percent of its volume to maritime competition since 2000.

In recent years cost increases related to airfreight have been far greater than CPI for; fuel, landing fees, airways charges and CAA fees. Express freight operators attempt to pass these increases on to customers; however, it must be noted that it is extremely difficult to achieve price increases in excess of the prevailing CPI. The proposed CIAL increase for Freightways is 94% for the pricing period under review (this follows a 66% increase for the prior three year period).

Based on its own experience and based on benchmarking global trends, it is Freightways' belief that CIAL's proposed new prices will contribute to accelerating a reduction in demand for airfreight services such as those provided by express package operators. This will inevitably lead to either reduced usage of the airports or at the very least that premium priced airfreight services will not grow at the same rate as lower priced road freight services.

If you require any further information please contact me at;

Mark.trougear@freightways.co.nz

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mark Troghear', with a stylized flourish at the end.

Mark Troghear
General Manager