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VOICE OF THE AIRLINE INDUSTRY

Commerce Commission New Zealand
Level 9, 44 The Terrace
Wellington 6011
Via email: im.review@comcom.govt.nz

11 July 2022

RE: Commerce Commission 2023 Input Methodologies Review

1. BARNZ welcomes this opportunity to provide comment on the Commerce Commission's 2023 review of Input Methodologies, and the draft framework paper "Part 4 Input Methodologies Review 2023". This paper is provided on behalf of our airline members, as outlined in the appendix of this document, excluding Air New Zealand and the Qantas Group, who represent themselves on this matter.
2. We provide with this submission a report commissioned by BARNZ from TDB Advisory, which outlines some important issues in relation to airports that are expected to come up during the IM review. We believe these matters warrant careful consideration when the Commission undertakes its review of the Input Methodologies (IMs).
3. A key point of consideration is whether the risk has materially increased for airports as a result of the covid pandemic. We submit that airports have already been compensated for this risk, as it has already been factored into the risk parameters of the Weighted Average Cost of Capital (WACC) over at least the last three price setting events. These have been paid for upfront in the aeronautical pricing that airlines are charged by airports under the IM approach. It is clear that pandemics have been a known risk for airports (as shown in the report) and that they have been built into airport returns.
4. As the TDB report highlights, the Commerce Commission has been consistent in maintaining that it would not factor in adjustments to WACC for unsystematic or asymmetric risks throughout its management of the IM approach. We agree this approach needs to be maintained, and that the covid pandemic does not provide a sound reason for departing from it. Investors without the appetite can diversify away from these risks as they are already identified and noted in prospectuses in some cases.
5. We also agree that airports should not be allowed to seek recovery of previous lost returns, and that the Commission maintains its intended focus on *ex ante* market returns rather than looking back at adjusting the cost of equity to compensate for losses due to shocks such as Covid. As highlighted, the Australian Competition and Consumer Commission considers that aeronautical pricing principles do not allow airports to include unrecovered costs into their asset bases for future recovery.
6. We note the contrast between airline and airport financial performance during the pandemic, which illustrates how airlines were significantly more harmed by the collapse of air travel. While some airports reported moderate losses during FY21, the four tier 1 airports in New Zealand are already signalling a return to profitability in FY22. In contrast, many airlines continue to struggle to return to profitability, globally they have lost over

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$200b in the pandemic according to IATA, a number are in bankruptcy proceedings and our own national carrier has forecast a loss of less than $750m for FY22.

7. This shows a clear disparity between the ability of airports and airlines to weather systemic shocks, with many airports having diversified commercial revenue streams they can rely on when demand falls for air travel. This underscores the importance of the IM approach appropriately reflecting the risk share between airports and more sensitive airlines, and weighing a fair rate of return under WACC for the best interests of end consumers.
8. A number of other issues are raised by the report. BARNZ agrees that there is no justification for New Zealand airports to charge beyond the 50th percentile. The rapid return of New Zealand airports to profitability in FY22 suggests that if anything there is a strong case for WACC to be below the mid-point. We agree with the outlined approach to TAMPR rounding to sharpen the impact on aeronautical charges.
9. The report also underscores the importance of a basket of comparator airports that closely reflect the conditions faced by airports in New Zealand. We agree it is better to have a smaller sample of more comparable airports than a larger basket of airports which include operators with significantly different scale and complexity to New Zealand ports.
10. BARNZ can see some merit in reducing to four years the IM review process to better reflect the fast-changing macro-economic environment. However we agree with the points raised by TDB that consistency and lower transaction costs are benefits of keeping it at the current 5 years.
11. We look forward to further engaging in the cross-submissions process and throughout the extended IM review process.
12. BARNZ's contact person for this submission is:

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APPENDIX – LIST OF BARNZ MEMBERS

Airline Members	
Air Calin	Air Chathams
Air China	Air New Zealand
Air Tahiti Nui	Air Vanuatu
Airwork	American Airlines
Cathay Pacific Airways	China Airlines
China Eastern Airlines	China Southern Airlines
Emirates	Fiji Airways
Jetstar	Korean Air
LATAM Airlines	Malaysia Airlines
Philippine Airlines	Qantas Airways
Qatar Airways	Singapore Airlines
Tasman Cargo Airlines	Thai Airways International
United Airlines	Virgin Australia Airlines

Non-Airline Members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport	