Freightways

NZPost

22 January 2024

Submission to:	Commerce Commission New Zealand
About:	Auckland Airport's 2022 – 2027 price setting event
Project no:	PRJ0046831
From:	Freightways Limited and NZ Post Limited

Introduction

Freightways (FRW) has been operating in New Zealand since 1964, and in Australia since 2007. It is listed on the NZX and ASX, with an enterprise value of approximately NZ$1.8 billion.

FRW comprises of a range of operating businesses that specialise in mail and courier services, information management, clinical waste disposal, refrigerated transportation and recycling services.

Our brands include New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Kiwi Express, Security Express, TIMG, DX Mail, Dataprint, Fieldair, Produce Pronto and Big Chill Distribution in New Zealand; and Allied Express, TIMG and Shred-X in Australia.

NZ Post Limited (NZP) is a State-Owned Enterprise (100% owned by the NZ Government) and a purpose driven organisation, with over 180 years of history. Delivering over 300 million items a year, to over 2 million delivery points, NZ Post is committed to providing accessible services to New Zealand communities through nationwide outlets.

FRW and NZP are customers of Auckland International Airport Limited (AIAL) having relationships with them on multiple levels:

1. FRW is a joint venture partner in Parcelair. Parcelair is a 50/50 joint venture between FRW and Airwork Holdings Limited. Parcelair operates 3 x 737-400 freighter aircraft which operate domestically between the Auckland, Palmerston North and Christchurch Airports.
2. As customers of Parcelair. Parcelair has two customers, NZP and FRW who equally share the space and costs charged by Parcelair for the domestic airfreight services which they operate. As customers, NZP and FRW pick up 50% each of the landing and parking fees being proposed by AIAL.

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3. As customers of Texel Air Limited. Texel Air operate 1 x 737-800 freighter aircraft which operates between Auckland and Christchurch Airports.

4. As tenants of AIAL. FRW operates an aviation and general engineering business under the Fieldair brand. Fieldair leases Hanger 4 off AIAL. NZP operates an airside freight-handling facility for the staging and presentation of NZP and FRW product for the Parcelair and Texel Air operations. NZP leases a facility adjacent to Hangar 1 off AIAL.

Feedback From FRW and NZP Around Key Focus Areas

For ease of review the FRW & NZP submission references the key focus areas highlighted in the Commerce Commission New Zealand paper dated 30 November 2023.

19.1 The reasonableness of its (AIAL) cost and target returns

FRW & NZP note that the Commission have recently released its final input methodologies (IM) report outlining new inputs for the regulatory WACC to be used by Airports which would seem to address a key aspect of this question already. Our overall opinion is that the developments being proposed by AIAL are largely targeted to benefit passengers through the development of the new domestic terminal, domestic airfield expansion and new regional passenger solution. As a result of these new passenger developments some of the airside facilities that our operations utilise will be displaced and hence the only solution being offered to FRW is to relocate to the new cargo precinct at considerable additional cost for no tangible benefit to our operations.

19.2 The reasonableness of other inputs into its pricing model

FRW and NZP have real concerns around the proposed parking charges and are of the opinion that AIAL have massively understated the revenue that these new charges will generate.

By way of background collectively Parcelair and Texel Air operate 22 return dedicated FRW and NZP flights per week between the hours of 7pm and 4am Monday to Friday.

Accordingly, our aircraft are parked for up for between 13 to 16 hours per day and 67 hours during the weekend. It is not possible for FRW and NZP to operate flights outside of current hours because New Zealand businesses demand freight operations that allow them to manufacture or load out orders all day typically for pick up around 5pm which allows for delivery nationwide the next day (and to businesses by 9am). Our respective networks are based around this operating model and therefore there is no way for FRW and NZP to avoid the proposed parking charges.

Attached as Appendix One please find a summary of the impact of the proposed parking charges on Parcelair. The table highlights that the proposed parking model will result in a $4.97m total parking cost to Parcelair, in total, over the next three financial years. The new parking charges are effective from July 2024 and will result in an average increase in annual parking costs of $1.17m per annum between FY25 and FY27. This represents an average increase in cost of 139% per annum for the next three years with this cost being borne in equal shares by FRW and NZP.

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This level of increase is in stark contrast to the parking revenue made public by AIAL which shows total parking revenue increasing from $15.4m to 16.4m, a 15% increase during the same FY25 period. Effectively this means that either Parcelair are the only customer who will be paying more for airport parking, or the modelling undertaken has seriously underestimated the impact of the proposed parking charges. Given the magnitude of the increases proposed this is a key issue for us and FRW and NZP are of the opinion that the input model is incorrect and as a result AIAL will generate returns above what the model currently proposes and therefore the model requires revision. Management have attempted to engage with AIAL around parking charges but to date this has resulted in no revision of the proposed pricing model.

19.3 The impact of any risk sharing arrangements, including consideration of the use or lack of any opening or closing carry forward adjustments.

FRW and NZP are unable to provide feedback around this question as management have not been provided access to the building block model used to develop pricing by AIAL. We find this disappointing as in all our recent airport charging discussions with Palmerston North and Christchurch their building block models were shared openly, and this assisted with the parties understanding and reaching a resolution around the aeronautical charge.

20 Whether the airport is investing in its assets appropriately

As discussed in point 19.1 FRW and NZP consider that the vast majority of the $5.534 billon PSE4 and PSE5 capital works program is targeted to benefit passengers.

Existing FRW operations for Fieldair and Parceline are based out of Charlie 1 at AIAL which is the perfect location for domestic freight operations because it is remote from other airport activities. The proposal is to move these businesses to the new Cargo Precinct however FRW consider this unnecessary expenditure and if anything, detrimental to our operations.

Similarly, NZP simply requires a slither of airside access to stage and present domestic airfreight to the Parcelair and Texel Air operations.

The new Cargo Precinct will be a common use area mixing domestic and international freight operations which will simply add traffic congestion for our domestic operations. There is no benefit in co-locating domestic and international freight operations because of regulatory requirements and the different airfreight containers (ULD's) used domestically vs internationally. Reading the publicly released AIAL Capital Investment Programme dated 17 August 2023 we can see that $284.6m capital is being spent on the development of the Cargo Precinct. However, given AIAL will not share their detailed building block model we are not privy to how this expenditure is being recovered across customers, but our view is that this expenditure is completely unnecessary.

21 How efficient the capital and operational expenditure estimates are for PSE4

Refer the comments provided in response to question 20 above.
FRW and NZP are happy to discuss any aspects of our submission if required.

Yours sincerely

[redacted]

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Appendix One - Forecast AIAL parking charges from FY24 to FY 27

	FY24-(Jul 23 to Jun 24)	FY25-(Jul 24 to June 25)	FY26- Jul 25 to Jun 26)	FY27- (Jul 26 to Jun 27)
1 * 800 Texel	$ 45,968.00	$ 206,060.40	$ 216,363.42	$ 227,185.92
1 *400 PAL	$ 51,861.33	$ 233,597.00	$ 245,276.85	$ 257,545.60
1*400 PAL	$ 146,744.00	$ 349,003.20	$ 366,453.36	$ 384,783.36
1*400 PAL - Domicile in CCH				
	$ 244,573.33	$ 788,660.60	$ 828,093.63	$ 869,514.88
YOY Increase		222%	5%	5%
Parking rate 50% each	$ 136.00	$ 142.80	$ 149.84	$ 157.44
Total Parking Cost	$ 489,146.67	$ 1,577,321.20	$ 1,656,187.26	$ 1,739,029.76

***** Assumption - 4 aircraft network . Texel 800 parking over the weekend, 2 PAL planes also parking with no hanger space and 1 PAL plane domicile in CCH***

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