



**Commerce Commission New Zealand**

Level 9  
44 The Terrace  
Wellington 6011  
New Zealand

31 January 2024

Email: [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz)

**IATA FEEDBACK ON PROPOSED REVIEW OF AUCKLAND AIRPORTS 2022-2027 PRICE SETTING EVENT**

IATA appreciates the consultation by the Commerce Commission in preparation for its pricing review of Auckland Airport's Price Setting Event 4 (PSE4). The approach outlined by the Commission in the Process and Issues Paper is sensible and addresses several key gaps raised by the airline community in our past submissions and discussions.

Our submission will focus on the key areas where we believe the Commission should apply greater scrutiny and possible areas for inclusion within the scope of the upcoming review. The following are additional recommendations from IATA based on best practices and our experience in similar discussions globally, for consideration by the Commission:

- **IATA supports the intention of the Commission to review both the priced and non-priced activities.** Under the dual till regime, the aviation community has had very limited transparency of unregulated/non-aeronautical airport activities. A comprehensive approach to reviewing the airport in its entirety is needed to provide the Commission with a holistic view, leading to a more informed/balanced decision e.g. ensuring that costs and revenues have been appropriately allocated. This will also aid the Commission in detecting market power behaviors and imbalances between supplementary non-aeronautical activities and core aeronautical services; in meeting the purpose of Part 4 of the Commerce Act – to promote the long-term benefit of consumers by promoting outcomes produced in competitive markets.
- **Greater granularity and transparency of financial information and detailed asset and cost allocations.** Due to the confidentiality requirement imposed by Auckland Airport, IATA has no visibility of how these are determined and whether they are justified. Feedback received from the airline community points to a consultation approach (or the lack of it) that is inadequate and ineffective. We also understand that the current non-disclosure requirement imposed by Auckland Airport is preventing the airline community from an appropriate consultation process that addresses the concerns directly with the Commission (to the level that is meaningful), unless the information has been disclosed by Auckland Airport.

As an example, Auckland Airport has increased quite substantially the allocations to the RAB<sup>1</sup>, particularly in relation to the International Terminal Building (ITB), citing the inclusion of aeronautical office spaces not previously allocated to the RAB in previous disclosure statements. IATA is not aware of any consultation leading to these adjustments in the opening RAB. As a best practice, the reasonableness of the allocations should be validated independently and would have received the endorsement of the airport Users i.e. the airline community.

---

<sup>1</sup> Auckland Airport 2023 Information Disclosure Section 4.2



It is imperative that the Commission is provided with access to data necessary to support a comprehensive assessment, in addition to the 2023 price setting disclosure by Auckland Airport. Key elements influencing the Weighted Average Cost of Capital (WACC) such as the asset beta are estimated based on the whole business of the entity, i.e., regardless of the till structure, and as such, warrants the need for transparency of the non-regulated till as well. The information should also be provided as part of the consultation process with stakeholders to support their analyses in the formulation of submissions/comments to the Commission.

- **Recovery of losses.** The assessment by the Commission should also pay specific attention to detecting attempts by Auckland Airport to recover past losses (whether intentionally or unintentionally), unsubstantiated cost escalations and revenue leakages (particularly those flowing towards the non-regulated activities).
- **Demand forecasts.** Have Traffic Forecasts been thoroughly consulted with Users? Do Users and especially airlines explicitly agree to them as a fundamental component underpinning the investment strategy? Future demand forecasts should be scrutinized in more detail by independent experts to validate both the airport and underlying airlines' assumptions regarding growth. The forecast is *the* critical element driving the scale and timing of the airport's development proposals, with facilities level requirements being based on peak hour demand derived from this data and its underlying assumptions. This is incredibly fundamental, yet we do not understand in sufficient detail the rationale and justification to trigger the new facilities with the forecasts presented. The agreement of Users in allocating the appropriate capacity required to meet demand is crucial, and that should result in a consensus agreement with airlines before proceeding.

Again, IATA has limited visibility of the details due to the non-disclosure requirement imposed by Auckland Airport. We request that the Commission seek direct feedback from airport Users on this aspect to support the upcoming review.

- **Depreciation approach.** If asset life is shortened, has this been agreed upon with airport Users? How will the difference be treated/offset by the airport operator? It is the operator's responsibility to ensure there is a master plan and phasing strategy for the airport that maximizes the land use potential of the airport and is flexible and compatible enough to enable the efficient and integrated development of the airport over time. IATA and ICAO have both recommended regular reviews of the master plan as part of the regular planning cycle, which is required to avoid incompatible land use and exactly the situation the airport finds itself in to write off assets before the end of their useful life based on new developments. This is avoidable, and as a result, there is no reasonable rationale for the airport to pass on the costs of poor planning and inefficiency to Users. Closer scrutiny of this aspect is warranted.
- **Carry forward mechanism – demand/revenue wash up.** IATA has not been privy to the development of the mechanism and any agreement reached as such. It is essential for the Commission to understand its genesis and discussions leading to the final scheme e.g. the  $\pm 15\%$  range, including engagements and endorsements with airport Users. The Commission should establish that the scheme will deliver fair and equitable outcomes for all parties involved in an optimal manner that is linked to achieving the target efficiency level.

We would expect that any (downside) demand/revenue risk would have been priced in within the airport's target return. If any, the upside risk (over-collection) should be recognized as a refund/offset to Users, as the airport would have been (more than fairly) compensated through the allowance provided in the target return.



- **Investment in assets and scale of the capital investment plan.** Insufficient details have been shared to enable an assessment of the various options, their associated costs (capex, opex, lifecycle) and the Business Case justifying the investments. Linked closely to traffic growth and levels of service, airport expansion projects should not result in an increase in user charges, as passenger growth should ensure the optimization of cost per passenger or bag, etc. offsets investment or any potential cost escalations. The detailed business cases for investments and assessment, including validations by airport Users, e.g., airline community, must be made available.

The airline community is being mandated to fund the proposed investments yet has not been consulted adequately with sufficient details to enable informed feedback regarding Users' requirements or the assurance the most efficient or cost-effective option is being selected. A number of basic questions remain unanswered (in addition to the Traffic Forecasts point made) that are fundamental to ensure Users' needs are met, including the affordability of proposed investments. This is critical information given the airport's market power – the scheme should not progress until there is effective consultation and consensus agreement with airlines and other users to avoid potentially unnecessary or inefficient investments that may not meet Users' needs. On this point, we request the Commission open a review of the options being proposed. Questions include:

- What design and development process has been applied to deliver the required capacity, service levels and operational efficiencies at the lowest cost? In other words, how has the optimum solution been identified, taking Users' views and costs into account?
  - How have Users' functional requirements been taken into account throughout this process?
  - Where is the Business Case demonstrating a return on investment for Users expected to fund these investments?
  - How does the phasing strategy balance capacity and demand, taking into account traffic forecasts, capex costs, and their impact on aeronautical charges?
  - What phasing strategy is being applied to balance user construction delivery, maintaining airport and Users level of service and costs.
  - Have operating and lifecycle costs been taken into account, including Users' operating costs?
  - What procurement and contracting strategy is being applied to deliver best value (including Users requirements?)
  - How is the airport demonstrating capital efficiency in terms of cost benchmarking, risk and optimal design?
  - How has the airport balanced economic, social, and environmental factors in its decision-making?
- Has the Commission independently assessed the design and capital efficiency of the proposed investments? If not, we would suggest this is required, especially given the lack of effective and meaningful consultation with Users to date.

Reference capital investment efficiency, IATA has developed a high-level global airport benchmarking cost tool to constructively assess airport proposals. The database currently has datasets of more than 30 global airports.



**IATA would welcome the opportunity to assist the Commission in its assessment of the infrastructure capital investment efficiency of Auckland Airport against global benchmarks.**

- **Timely delivery of capacity.** As the airport manager/operator, Auckland Airport has painted a misleading narrative that the airline community has been against investment over the years. On the contrary, submissions made during the PSE3 review have provided clear evidence of the airline community calling for investments to be made by Auckland Airport. It is important to recognize that the underinvestment by Auckland Airport existed prior to the COVID-19 pandemic, rather than accepting the misguided notion that it was only due to the pandemic and that the airline community agreed to delay the investment program. In summary, Auckland Airport has underinvested and now is investing (significantly) at the height of the regulated return. A well-planned and long-term development strategy executed correctly (e.g., a phasing strategy that balances capacity with demand, endorsed by Users) will provide the necessary capacity that meets user requirements in an affordable manner. This is clearly missing in the case of Auckland Airport.

In addition, there could be a merit for the Commission to consider any evidence of Auckland Airport constraining capacity, leading to adverse consumer outcomes, e.g., scarcity rent or profit/margin maximization.

- **Leading airports and regulators globally utilize the [IATA Level of Service \(LoS\)](#)** as best practice guidance to inform capacity and demand studies and the quality of the services taking into account both space per passenger and waiting times for key processor elements, as part of the end to end, on airport passenger journey to identify the "Optimum" level of service. The Commission should be provided with the relevant information to aid its assessment e.g., planning and design level vs actual performance, including measurement/monitoring protocol employed by Auckland Airport. Importantly, this is based on objective, quantitative metrics fundamental to delivering the required passenger experience as the basis for efficient airport planning.
- **Service quality.** Auckland Airport's approach in employing the Airport Council International (ACI) Airport Service Quality (ASQ) survey alone is insufficient given the subjectiveness of the responses. Global best practice calls for an objective measurement of the performance of airport services i.e. ongoing monitoring or sampling of performance data that will deliver greater transparency of the actual service quality of the airport operator. The targets, measurement methodology and monitoring mechanism should be discussed and endorsed by airport Users. We request that the Commission review this aspect and include the information in the Draft Report for consultation such as the availability of targeted service quality metrics and the actual performance of the airport, which should be objectively assessed and independently validated on an ongoing basis.
- **Pricing efficiency assessment.** When we compared the pricing evolution of airports against those of airlines, the stark difference between the (opposing) trajectories cannot be ignored. One fundamental question is how airports that are increasing in size due to traffic growth are not able to contain their costs to the level that will drive a (higher) reduction in per-passenger costs. One of the conclusions is that delivering pricing efficiency in a monopoly market is not naturally a top priority for airport operators, particularly those under private ownership or management. Achieving a greater profit margin for a private airport operator is key, however this can be at the expense of growth and system efficiency.



The Commission should consider and include an efficiency analysis (supported by external consultants where necessary) to establish the reference pricing level/range that reflects the efficiency and outcomes expected in a competitive market.

- **Innovation.** With global air traffic expected to double by 2040, the implementation of innovation should be supported by a business case that will drive the optimization of capacity, increase efficiency, and improve service levels etc. Underlying this is the engagement and consultative approach with Users, such as the airline community, as innovation should not be implemented in isolation. We encourage the Commission to request Auckland Airport to provide additional information on the business case and support from stakeholders for each project where innovation has been cited, including visibility of the innovation roadmap, and where each project fits. Asset replacement or associated upgrades by themselves should not be viewed as innovation. Similarly, any investment underpinned by sustainability reasonings should undergo the same detailed assessment (a litmus test approach is not acceptable).

Based on our observations over the years, supported by what the Commission concluded in its review of PSE3 particularly with the airport targeting excessive returns, IATA is not convinced that Auckland Airport PSE4's trajectory satisfies the purpose of Part 4A. It is imperative for the Commission to anchor its assessment of Auckland Airport under the scenario where it is operating in a competitive market e.g., level of returns, business and investment decisions, efficiency, funding arrangement, service level etc.

Although not within the scope of this review by the Commission, it has become increasingly evident that the current Information Disclosure (ID) regime is no longer fit for purpose or appropriate. We request that the Commission considers the merit of opening an inquiry to assess this aspect and explore alternatives that would best deliver the envisaged outcomes.

IATA is looking forward to the Commission applying our recommendations highlighted above. This will help to facilitate the required level of transparency and strengthen the outcomes of the upcoming review to better meet the purpose of the Act. We remain available to provide further clarifications to the Commission, as necessary.

Yours sincerely,

