Qantas Airways Limited
ABN 16 009 661 901
Procurement,
Fuel and Aviation Charges
Building QCD/G
Qantas Centre
16 Bourke Road
Mascot NSW 2020
Australia
Telephone (61 2) 9691 4963
Facsimile (61 2) 9691 5897

Ruth Nichols
Senior Legal Counsel
Regulation Branch
Commerce Commission
44 The Terrace
PO Box 2351
Wellington 6140
New Zealand

31 May 2013

Dear Ruth,

Thank you for the opportunity to provide feedback on the Commerce Commission's Draft Report on Auckland Airport on behalf of Qantas Airlines and Jetstar Airways (Qantas Group).

We believe the 24 October 2012 letter we sent you highlights our concerns that Auckland Airport are continuing to charge excessive prices for passengers passing through Domestic & International terminals and the continued subsidisation of the Regional and General Aviation networks. I therefore refer you to this letter and the Groups original submission to Auckland Airport for substantiation of our arguments.

Instead I would like to raise your teams attention to some new information regarding timely capital spend and associated implications on promoting efficient investment, pricing efficiency, and limiting the extraction of excessive profits.

Qantas has become aware that Auckland Airport proposes to delay projects associated with the new terminal as it negotiated with Airlines the most appropriate solution. It is also reviewing bringing some projects earlier. Unfortunately we don't have details as the Group has had limited updates from Auckland Airport re the status of key projects since the new pricing was implemented.

Our concerns with respect to how Capital is priced are material. Auckland Airport's pricing is calculated based on the timing of the capital spend. Should the project be delayed the industry wears all the risk as the pricing includes an allocation of depreciation and return on assets that may not exist for many years. At the end of the pricing period airlines are further impacted as the asset base is inflated. That is the new asset has a higher value in the opening asset base as it was not depreciated for as many years as planned resulting in a higher return in future pricing periods.

In the Domestic terminal, deprecation of the $28m of capital is excessively high as Auckland Airport have based depreciation on a 5 year life of the asset. Any delay in Domestic Projects will result in a substantial windfall for Auckland Airport.

In the worst possible case airlines may prefund capital through the PSE, which never materialises and Auckland Airport pockets the funds as profit.

The result is Aviation industry is hit in cost and productivity while the Airport pockets the revenue without risk;

- Aviation double pays Depreciation and return on assets;
- Industry suffers from productivity losses due to the capital not being built and passenger suffer from lower customer experience.

The Group urges the Commerce Commission to discuss a mechanism with Auckland Airport that resets the price if Auckland spends less than 20% of planned Capex in any one year or 10% over three years. Also an adjustment needs to be made to the closing asset value for the depreciation already recovered from industry for delayed assets.

We believe a mechanism similar to this will promote pricing efficiency and encourage airports to invest for the benefit of airline airport and the wider community.

Kind Regards

Fiona Leishman
Manager Category and Supplier Relationship – Airports & Air Traffic Management (ATM)
Qantas Airways Ltd.

Qantas Airways Limited ABN 16 009 661 901
203 Coward Street Mascot NSW 2020 Australia
Telephone 61 (2) 9691 3636 Facsimile 61 (2) 9691 3339

qantas.com