



Mrs. Charlotte Reed  
Input Methodologies Manager,  
New Zealand Commerce Commission  
Input Methodologies Review 2023  
PO Box 2351 Wellington 6140  
New Zealand

Date: 19 July 2023

By e-mail: [IM.Review@comcom.govt.nz](mailto:IM.Review@comcom.govt.nz)

Dear Mrs. Reed,

**INPUT METHODOLOGIES (IM) REVIEW - IATA COMMENTS ON THE DRAFT DECISIONS AND AMENDMENTS RELEVANT TO SPECIFIED AIRPORT SERVICES**

The International Air Transport Association (IATA) is the global trade association for the World's airlines, representing some 300 airlines or 83% of global air traffic. IATA member airlines include, Air New Zealand and most foreign carriers operating international services to New Zealand. We support many areas of aviation activity, helping in the formulation of industry policies on critical aviation issues and establishing standards that allow airlines to operate safely, securely, efficiently, and economically.

IATA appreciates the opportunity to present our comments for consideration by the Commission on the proposed amendments to the IM, continuing our unwavering commitment to supporting the Commission with views from an international perspective based on global best practices that are relevant and applicable to New Zealand.

We commend the Commission on the IM Review 2023 exercise as we are generally in agreement with the proposed amendments to the Airport Services Input Methodologies, Amendment Determination Act as it will further enhance the effectiveness of the IM and close a number of regulatory gaps. The following are additional comments and recommendations for further consideration by the Commission:

**1. Cost of capital**

We note that the major change proposed by the Commission is in relation to the asset beta and therefore our comments focus on it:

- We support the usage of a narrower sample of airports with characteristics/business risks closer to that of NZ airports.
- We broadly agree with the sample chosen by the CC. However, we are not convinced that Beijing Capital Airport should be included in the mix. This is due the fact that the regulatory framework is substantially different than that of remaining airports in the sample (in certain exceptions, all airports in China apply the same level of charges).
- We prefer Option 2 in setting the asset beta as we believe that the pandemic was not a systematic event but understand what is highlighted in paragraph 4.56 that further data is necessary in order to confirm that COVID is not to be treated a systematic event. In this regard, and until more information becomes available, it is acceptable to apply the Commission's proposal to use a pre-COVID beta with a small premium.
- We note that the premium applied on the assumption that the pandemic-like events occur between 20 to 50 years. In work commissioned by IATA/LHR AOC in the context of the LHR charges determination ([link](#)), CEPA reviewed historical information and determined that a pandemic-like event would occur between 30 to 60 years. Consequently, it calculated a premium of 0.01 to 0.02.



- Downwards adjustment:
  - We would appreciate that the Commission reconsiders its proposal to eliminate the downwards adjustment. This is due to the fact that airports included in the sample all have activities that could increase their business risk that should not be included in the calculation of the beta for NZ airports. For example:
    - AENA, FRA ZRH, and AdPs betas are affected by operating airports concessions at developing countries, which exposes them to risks that are not borne by airports in mature/developed markets such as NZ airports (e.g. AENA, in Brazil, FRA in Peru, ZRH in India, AdP in Chile, etc).
    - FRA operates a large ground handling business (low margins and exposed to competitive constraints). This affects its business risk relative to NZ airports and should not be replicated in the beta calculation for the latter.
  - We also find it difficult to accept that the non-aeronautical side of the business faces the same business risk. Commercial income is more dependent on the evolution of the number of passengers, whereas aeronautical income is a combination of aircraft movements and passengers. Since the variability in movements is lower (vis a vis passengers), it could be expected commercial income to be more volatile. This would as well be affected by the fact that commercial income would be more affected by changes in passengers' income.

## 2. Asset and cost allocation

We support the approach by the Commission to clarify the allocation mechanism and expectations. Given that the main airports in New Zealand are regulated under a dual till arrangement, it is necessary that we get the allocation ratios correct to drive a fair and equitable outcome. In alignment with regulatory best practices elsewhere, the allocation approach and splits between aeronautical and non-aeronautical activities should be discussed and reviewed with airport users. An independent assessment would further validate or challenge the assumed/proposed ratios, which will help the Commission to form its own decision on the appropriate ratios to be used for its assessment of the pricing by the airport operators. This is particularly important for newly commissioned assets where the ratio would have been determined and preferably agreed to in the planning stage.

While the Airport Authorities Act currently has provisions for consultation concerning charges and capital expenditure plans (Part 4A and 4B), the allocation approach has not been discussed at the required level of granularity in the past. Consultations by airport operators are generally not meaningful and lack the regulatory impetus to deliver the desired behaviours and required outcomes.

We request that the Commission takes the opportunity of this IM review to impose more specific/effective requirements on consultation and validation with substantial customers i.e. airlines by the regulated airport operators on, but not limited to, the allocation methodology and ratios used prior to the review by the Commission. This would help enhance the effectiveness of the regulatory regime.

## 3. Revaluation

It is IATA's position that revaluation has no basis for assets marked/designated for a specific purpose, not transferable or allowed to be repurposed for alternative usage e.g. lands utilized for runway, apron, terminal building etc. Market value (re)valuation does not apply in this case as there isn't really a "market" for such assets, unlike regular commercial assets. Moreover, if there was any automatic revaluation through inflation indexation, then the cost of capital should only be expressed on a real basis (i.e. without inflation), in order to avoid any double counting of inflation.

Indexing the value of non-pricing land to the CPI and recovering the returns based on the inflated value for assets that have been locked in to deliver aeronautical services is similarly not acceptable. The returns should be based on the initial cost with a fixed value based on the acquisition or agreed investment cost. In the event that there is a change in the ownership/airport operator, the initial cost should be used for the calculation of returns and not to recognize the (likely) inflated purchase cost of the new investor/operator for these existing assets. Any premiums paid by the new owner/investor should not be recoverable from airport users as this should have been priced in and considered as part of their long-term asset holding.



Revaluation resulting in capital appreciation is only acceptable at the stage when the asset has been redesignated for non-aeronautical purpose and have permission to be disposed of/sold off to another party. The airport operator will (very likely) reap a financial benefit from the capital appreciation of their investments at this point; shouldn't be allowed prior to that i.e. while assets are still used to deliver aeronautical services.

**4. Exclusion to operating costs**

IATA supports the exclusion of some legal costs and pecuniary penalties as proposed by the Commission. We commend the Commission for rectifying the gaps by specifying them in the proposed Amendments Act.

In addition, we encourage the Commission to consider other costs that can be added to the exclusions list as there are clear justifications that they should not be recovered from airport users as these have no direct links to the provision of the specified airport services i.e. should be funded by airport operators:

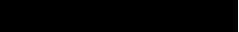
- Investor relations activities
- Shareholding transactions, management, and associated costs
- Promotional costs related to branding which benefit the share price rather than market development
- Corporate Social Responsibility (CSR) activities/funding, donations?
- Revaluation cost? (e.g. prior to sale)
- Bonuses for staff as this is typically a discretionary item, unless specified within the contract. Dividends are issued for shares out of profits... a similar approach should be applicable?

We trust that our comments and recommendations are helpful to the Commission in evaluating the necessary improvements to the IM regime to drive the required regulatory outcomes for the specified airport services. We will be happy to provide further clarification if needed.

Yours Sincerely



Matteo Zanarini  
IATA Area Manager South West Pacific



cc: Richard Tan, Regional Manager Operations, Safety and Security, Asia-Pacific