

**Freightways Limited**

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4 April 2013

Ruth Nichols  
Senior Legal Counsel  
Commerce Commission  
Po Box 2351  
Wellington 6140

Dear Ruth,

**Freightways Limited Submission to the Commerce Commission, Commerce Act 1986, Part 4, Section 56G Review: Christchurch International Airport**

We welcome the opportunity to contribute to the Commerce Commissions report.

**Background on Freightways Limited**

Freightways Limited (FRE) is a publicly-listed New Zealand company that operates in the express package, business mail and information management markets. FRE is the parent company of Fieldair Holdings Limited who's subsidiary, Air Freight NZ Limited (AFNZ), is an airfreight operator that owns and operates freighter aircraft utilising Christchurch Airport. The services that AFNZ provide enable other FRE businesses, such as New Zealand Couriers Limited, to be able to offer an overnight nationwide service to its customers.

As the Commission will be aware, Fieldair Holdings Limited and AFNZ are both members of BARNZ, as set out in the submission filed by BARNZ dated 22 March 2013.

Christchurch is a critical airfreight hub for FRE (and the express package industry). The Christchurch airfreight hub facilitates the distribution of freight both from and into the South Island, e.g. an item originating in Gore and destined for Kaitaia may be picked up at 5pm on any week night, transported by road to Christchurch airport, packed into one of AFNZ's aircraft and flown to Auckland where the item is again placed on road linehaul to Kaitaia for final delivery by 9.00 a.m. the next morning.

Customers of FRE (and the express package industry) rely on this overnight service to be able to operate Just-in-Time supply chain models that promote efficiency. Other customers utilise services for urgent supply that may include the urgent delivery of medical instruments to meet surgery timetables, mechanical parts to repair broken machinery or simply an urgent delivery of a product to effect another sale.

Key points relating to AFNZ's utilisation of Christchurch Airport include:

- AFNZ leases an airside building from Christchurch International Airport Limited (CIAL).
- AFNZ does not itself utilise any other facilities of CIAL's, in particular its passenger terminals.
- AFNZ operates during non-peak periods on the airport, being in the evening and early hours of the morning.

- AFNZ is totally reliant on CIAL to be able to fulfil its service demands and those of FRE's South Island customers. No other South Island airport has the infrastructure capacity to accommodate AFNZ's requirements while still enabling its service offer to be achieved.
- The location of CIAL within the biggest South Island market ensures that this market is appropriately serviced.
- Road linehaul connections from other South Island locations can be achieved within legal driving hours. Operating from an airfreight hub anywhere other than in Christchurch would result in significant disruption to express package and business mail South Island businesses and consumers.
- FRE has spoken publicly of the gradual improvement it has seen in New Zealand's economy over the last 12-18 months. It still however views the New Zealand economy as fragile. FRE has been particularly prudent with any price increases to its customers to ensure it is doing its bit to support its customers through these still challenging times.
- FRE has also spoken publicly of the current cost increase issues it is experiencing through higher operating costs in Christchurch following the earthquakes. FRE has not been able to pass on the full extent of these cost increases to its Christchurch customers. It also does not view it as being appropriate to try and pass Christchurch-specific costs to other customers around New Zealand. That would in effect be asking those customers to subsidise Christchurch customers.

### **Recent pricing history**

- In 2010 FRE was surprised by a price increase levied by CIAL that saw AFNZ's landing fees increase by 66% over the following three years.
- The current proposal from CIAL is that AFNZ landing fees increase progressively to 2017 by a total of 94%!
- CIAL has also advised that we can expect further (we assume similar) price increases in the future as represented by a suggested 25% increase in 2018!

### **Issues**

The BARNZ submission dated 22 March 2013 is supported and adopted by FRE and this submission does not repeat the points set out in that submission. However, for the avoidance of doubt, FRE's position is that CIAL's use of a post-tax WACC of 9.76% is excessive and out of step with a cost of capital necessary for it to earn a reasonable rate of return.

This submission from FRE is provided to elaborate on the unique features of FRE's operations, which in summary are:

- FRE operates outside peak hours. As such, it does not put pressure on daytime use of the airport. It is not clear what pricing benefit from CIAL FRE derives from utilising what would otherwise be a very under-utilised airport during the hours we operate in.
- FRE does not directly utilise any CIAL facilities (in particular, passenger terminals) and it is unclear in CIAL's proposal whether FRE is being expected to pay some contribution to the return on these terminals. It certainly appears to us that FRE is being asked to effectively subsidise CIAL's development programme from which it gains no benefit.
- FRE is totally reliant on CIAL as a hub to service its South Island customers. In this regard, it views CIAL as having very substantial market power as it operates a monopoly business which faces little or no competition. By seeking to impose the proposed price increases, CIAL is using this market power to achieve an outcome that would simply not be possible in a competitive market. In those circumstances, FRE considers that Commerce Commission intervention is required to ensure that CIAL does not extract excessive profits to the detriment of consumers.

- FRE and its customers are not in a position to accept the proposed CIAL price increases without an impact on the cost of these services to its customers, who simply are not in a position to be able to accept these cost increases or in turn, able to pass these cost increases on to their customers.

### **Conclusion**

We request Commerce Commission intervention in respect to the pricing of CIAL's services. FRE would also like the opportunity to participate briefly in any conference prior to the Commission preparing any draft report.

Yours sincerely



**Dean Bracewell**  
Managing Director