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### **Section 56G Review of Christchurch Airport – Cross-submission**

Air New Zealand (Air NZ) has reviewed the submissions made by various parties in response to the Commerce Commission's "Process and Issues" paper in respect of the section 56G review of Christchurch Airport.

Air NZ has also been party to the cross-submission from BARNZ on the submissions made in respect of Christchurch Airport and fully supports the views expressed in that cross-submission.

The submissions highlight the main areas for attention by the Commission, as expressed in the Air NZ and BARNZ initial submissions, namely:

- The level of return targeted by Christchurch Airport; and
- Application of a pre-tax WACC to the asset base to calculate the pre-tax return on capital and then applying tax to all revenue including that attributable to revaluation gains when those revaluation gains are not subject to tax.

Air NZ considers that its concerns with Christchurch Airport's approach in respect of these two issues has been fully addressed in the Air NZ and BARNZ original submissions, and the BARNZ cross-submission, and does not intend to repeat its views at this time.

Air NZ is however disappointed at the airports' continued attempts to restrict the Commission's efforts to complete these s 56G reviews, with their continuing claims that the Commission is being unbalanced in its approach.

NZ Airports submits that "a negative finding in relation to profitability should not be given more weight and prominence than positive findings regarding innovation and quality."

Air NZ agrees that airport performance in the areas of innovation, investment and quality have historically and are now generally not an issue. This

however is not an outcome of information disclosure. The three airports generally performed well in this respect prior to the implementation of information disclosure. If anything, airline concerns, particularly in respect of investment and quality, have been that airports tend to over-perform – which is a direct consequence of excessive pricing. The Commission, in its 8 February 2013 Final Report on Wellington Airport, correctly highlights the importance of pricing outcomes in the airports sector:

“Although each of the three airports have been subject to information disclosure regulation under the Airports Authorities Act 1966 (AAA) for many years, airports only became subject to information disclosure regulation under Part 4 of the Commerce Act on 14 October 2008, with the passing of the Commerce Amendment Act 2008. The Regulatory Impact Statement to the Commerce Amendment Bill 2008 indicated that the main area of concern with the information disclosure regime under the AAA was that it failed to constrain the exercise of substantial market power in setting airport charges. A key objective of the Part 4 information disclosure regime was to address this.”

Air NZ agrees with the Commission's conclusions as to the importance of pricing outcomes in considering the effectiveness of information disclosure regulation.

Air NZ looks forward to participating in the Commission's conference on Christchurch Airport, as the next step in this review process.

Yours sincerely



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