29 May 2018

Ms Jo Perry
Chief Advisor, Compliance and Performance Analysis
Regulation Branch
Commerce Commission

Email: Regulation.branch@comcom.govt.nz

Dear Ms Perry,

Qantas Group's Response to Draft Report on Auckland Airport's PSE3 Pricing Decision

Qantas Airways and Jetstar Airways (collectively, the 'Qantas Group') appreciate the opportunity to provide a response to the Commerce Commission's *Review of Auckland International Airport's pricing decisions and expected performance (July 2017 – June 2022)*, dated 26 April 2018.

Target Profitability

The Qantas Group supports the Commission's view that Auckland Airport has not justified its proposed deviation from the Commission's mid-point WACC positon, and therefore is attempting to charge airport users an additional $65 million. If, as we expect, the airport is unable to justify the need for its targeted returns to the Commission, we believe it should reduce its charges immediately following the Commission's final determination, and return all excess funds collected since 1 July 2017 to customers.

Runway Land Charge

The Qantas Group continues to oppose the proposed Runway Land Charge (RLC) at Auckland Airport, and urges the Commission to take a stronger stance over this blatant attempt at charging for infrastructure ahead of requirement or demand. While it has been made clear that the RLC will be NPV-neutral, most airlines, including through their representatives, BARNZ and A4ANZ, continue to oppose this charge. Auckland Airport states the charge will "provide a tool that can be used to help provide a sustainable price path for the second runway development over time"[1]. Respectfully, the Qantas Group believe that it is not for Auckland airport to decide what is financially sustainable for airlines. Therefore, the need for such a charge is simply redundant, particularly as airlines have been made aware of the potential impact of a second runway on charges, and still oppose the RLC.

The Qantas Group also supports the Commission's conclusion that Auckland Airport should have considered the potential efficiency benefits of decreasing charges on non-peak users relative to peak users (which could spread the demand for runway usage). As the only low fares airlines operating domestically at the airport, Jetstar's operations are underpinned by low-cost pricing principles, including differentiated pricing based on time of service. The Qantas Group submits that this mechanism will be far more successful in altering behaviour and spreading peak demand than the counter-productive RLC.

[1] Auckland International Airport Limited, Final Pricing Decision for Standard Charges, Reasons Paper, QANTAS GROUP VERSION, 8 June 2017, p. 8

Conclusion

The Qantas Group's position on the Target Return and the introduction of the RLC at Auckland has not altered since the commencement of consultation in 2016. Indeed, our position has strengthened considering new, independent economic research commissioned by A4ANZ, of which the Qantas Group is a member, which shows that among a cohort of similar airports, Auckland Airport had the second highest margin (EBITDA) in the world – second only to Sydney Airport.

The Qantas Group will continue to push for fair and reasonable charges being set at New Zealand's major airports. We appreciate the Commission's approach to consultation, and support the Commission's position to undertake a deeper review on not only pricing inputs (i.e. WACC), but also efficiency of airport expenditure, quality of service and levels of innovation. Should you have any questions about this submission, Mr. Sam Henderson (Samuel.Henderson@jetstar.com) is the appropriate Qantas Group contact.

Yours sincerely,

Andrew Parker
Group Executive
Government, Industry, International and Environment