

To: Andy Burgess

By email: regulation.branch@comcom.govt.nz

31 May 2021

Commerce Commission open letter on fit for purpose regulation for airports

Dear Andy

This letter is to provide the BARNZ response on behalf of our airline members to the recent open letter from the Commerce Commission “Ensuring our energy and airports regulation is fit for purpose”. BARNZ represents 26 airlines with New Zealand operations. We represent member airlines in price setting events with Auckland, Wellington and Christchurch airports under the current information disclosure regulatory regime. As such we are strongly interested in effective regulation of monopoly airports in New Zealand.

New Zealand aviation during the pandemic

New Zealand’s aviation sector has been hit extremely hard by the Covid-19 pandemic. The closure of our border to all but New Zealand nationals in March 2020 saw inbound international passenger numbers drop by a staggering 98%. Even with the recent start of the Tasman Bubble, inbound passenger numbers remain down by approximately 80%. Airlines flying passengers into New Zealand have dropped from 30 to approximately 12, and direct international connections have fallen from 44 to 17 cities.

This reduction in passenger numbers places airlines, airports, border agencies and navigation service providers under extreme difficulty to cover fixed operational costs. Airports in particular are reliant on aircraft landing charges (international aircraft movements are down by 90%) and passenger fees for using the terminals. While New Zealand’s domestic network has recovered well (estimated at between 80-90% of pre-covid levels) it is not enough to adequately offset international demand reductions at our larger international airports.

BARNZ considers that the current industry environment of record low international passenger demand coupled with high uncertainty in recovery timeframes do call into question how fit for purpose our current airport regulatory settings are. The current

settings are reliant on having robust forecast estimates for future passenger demand for a five-year period. This framework seeks to provide airport investors the certainty needed to invest in long term infrastructure and airlines certainty that there is the required capacity to grow. However currently it is unclear when exactly New Zealand border restrictions will start to ease, and consequently when and how quickly international demand will grow back.

Airport regulatory settings

The upcoming IM review is a natural opportunity to explore how fit for purpose current airport regulatory settings are. The pandemic makes price setting for airports extremely challenging. Airlines need infrastructure such as additional terminal space for passengers and aircraft gates and apron space for aircraft to turn up “just in time”. Too early and airlines are paying for expensive, underutilised facilities, too late and airlines can’t grow flights at peak times. At the same time airlines recognise the difficulty for airports to invest in timely assets which requires significant up-front investment. This dynamic is being tested to breaking point as airlines and airports endure record losses globally and hugely reduced cash flows and revenues.

The impact of this on the current regulatory settings for airports is unclear, but the risk of distorted outcomes during this period of heightened uncertainty is higher. In recent reviews of regulatory settings BARNZ has maintained that a more level playing field is needed for monopoly airport – airline pricing discussions. We have called for a move to a negotiate / arbitrate model so that commercial negotiation can take place rather than just consultation as is currently required.

In times of uncertainty true commercial negotiation becomes all the more critical, so that efficient outcomes for both parties can be found. Striking the balance between the natural tension of expensive, long term 40-50 year assets and the ability of airline customers to pay for them as they grow requires airports and airlines to work closely together. Moving to a negotiate / arbitrate model would assist ensuring outcomes that work to the long-term benefit of consumers, the travellers. New Zealand airports and airlines have worked closely together throughout the Covid-19 pandemic, and we are optimistic this would continue well under a negotiate / arbitrate model.

De-carbonisation efforts

BARNZ supports the Commission's exploring of how the transition to a low carbon economy will impact New Zealand's aviation sector. We are part of aviation industry efforts to create the capability and settings needed to enable this transition, principally laying the groundwork needed for a shift in energy usage for aircraft from carbon-burning fuel to other means such as Sustainable Air Fuel, hydrogen and possibly hybrid electric engines. We welcome being part of discussions as to how regulation can play its part in assisting this transition over time.

Future engagement

BARNZ would welcome the opportunity to meet with the Commerce Commission to discuss the work programme reviewing airport regulations as fit for purpose. We would be happy to step through how Covid19 has impacted the airline sector, along with the challenges currently faced, and explore how these could be best addressed by airport regulatory settings.

Yours sincerely



Justin Tighe-Umbers
Executive Director
Board of Airline Representatives New Zealand