Christchurch International airport Limited

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

Submission on the Productivity Commission Issues Paper "International Freight Transport Services"

7 September 2011

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INTRODUCTION

1 Christchurch International Airport Ltd (**CIAL**) would like to thank the Productivity Commission for the opportunity to respond to its discussion document on international freight transport services.

2 We commend the Productivity Commission on selecting this area for investigation and producing a wide-ranging discussion document. International freight transport services are obviously critical to the well being and future prospects of a trading nation like New Zealand. We need all parts of the logistics chain to be as efficient and facilitative as possible.

3 Attached to this submission is a report prepared by BERL Economics.

4 CIAL's contact person in respect of this submission is:

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EXECUTIVE SUMMARY

1 CIAL is conscious of its role in delivering international freight transport infrastructure, facilities and services that best support New Zealand businesses. We are New Zealand's second largest international airport and the main gateway to the South Island for both air freight and international passengers. We are conscious of our responsibility to invest for the future capacity and service quality required by South Island businesses, and our recent, substantial investment in our new integrated terminal is a measure of how seriously we take that responsibility.

2 In this submission, CIAL identifies a gap between the volume of air freight that should be expected to pass through CIAL from South Island exporters and importers and the volume that actually occurs. This gap between actual volume and potential is significant, and we suggest it should be the subject of further investigation by the Productivity Commission.

3 The gap is worthy of attention because it represents two sub-optimal responses by South Island businesses. The first is that some of the volume is being transported domestically to Auckland and then air freighted internationally (or the reverse, in the case of imports). This is obviously a higher cost, less responsive option than air freight directly through CIAL, and it impacts on the competitiveness of South Island businesses.

4 The second response is that some of the potential business activity simply doesn't happen. This missing activity goes straight to the national bottom line.

5 Both responses are sub-optimal for New Zealand, and South Island businesses in particular. The obvious question is: Why is the market not responding to this demand for more air freight capacity out of the South Island? CIAL can make some general observations, and we encourage the Productivity Commission to investigate further.

6 A key dynamic is that airlines focus on passenger volume. From the perspective of an airline the ability to sell international air freight capacity – transporting freight in the belly of passenger jets – is a secondary revenue stream.

7 This means that airlines set their flight schedules, and consider the economics of routes, through the lens of the passenger business. If a flight does not have the correct passenger utilisation it will be dropped, regardless of the impact of that decision on the availability of air freight services. Equally, an additional flight to meet international air freight needs is unlikely to be added if this will dilute passenger load utilisation and route yields.

8 The picture is particularly acute in relation to the South Island. Airlines have trended to narrow body jets (with less freight capacity) in their focus on improving cost efficiency and route profitability, particularly for short haul tourism routes. And after the Christchurch earthquakes tourist volumes into the South Island are down, with some airlines reducing their flight schedules in response to reduced passenger volumes.

9 All this means that South Island businesses are under-serviced relative to the economic profile of the South Island. To give an indication, we calculate the capacity gap to be the equivalent of one B747 flight per day (although we recognise the volume will have a range of destinations). This has had and will continue to have a constraining effect on the growth of South Island businesses.

10 There are no easy fixes, but this is an important problem to grapple with. The gap could be closed by better co-ordination between the demand and supply sides of the capacity market. Exporters would make more investment commitments if they knew the direct air freight capacity would be available, and airlines may commit more flights if they had certainty as to volumes. It is not clear how this co-ordination can be achieved.

11 One way forward is to remove the existing artificial constraint on competition in international passenger and air freight capacity. CIAL suggests New Zealand should move to an open skies policy for air services. The increase in competition will maximise the prospect of the current unmet demand from South Island businesses being served. New entrants will expand capacity without worrying about "cannibalising" their existing services – a concern that is the luxury of a supplier in a constrained market.

12 We look forward to further discussing these important issues with the Productivity Commission.

UNMET DEMAND FOR DIRECT INTERNATIONAL AIR FREIGHT SERVICES

13 In this section we identify and described the current "gap" between the actual volume of international air freight passing directly through CIAL, and the potential volume.

14 CIAL previously commissioned *BERL Economics* (2010) (the BERL Report) to investigate missed opportunities with respect to air cargo shipments that are either bound for, or sourced from, the Christchurch Region and wider South Island catchment. The report estimated that between 5,000 and 8,500 tonnes per annum "leaked" from the natural export/import point of CIAL due to a lack of cargo capacity and was instead moved through Auckland Airport. The BERL Report is **attached** to this submission.

15 We are also aware that the Canterbury Development Corporation has commissioned a report from PwC on the potential for increased air freight services for South Island exporters and importers. This report should be finalised and available in mid to late September.

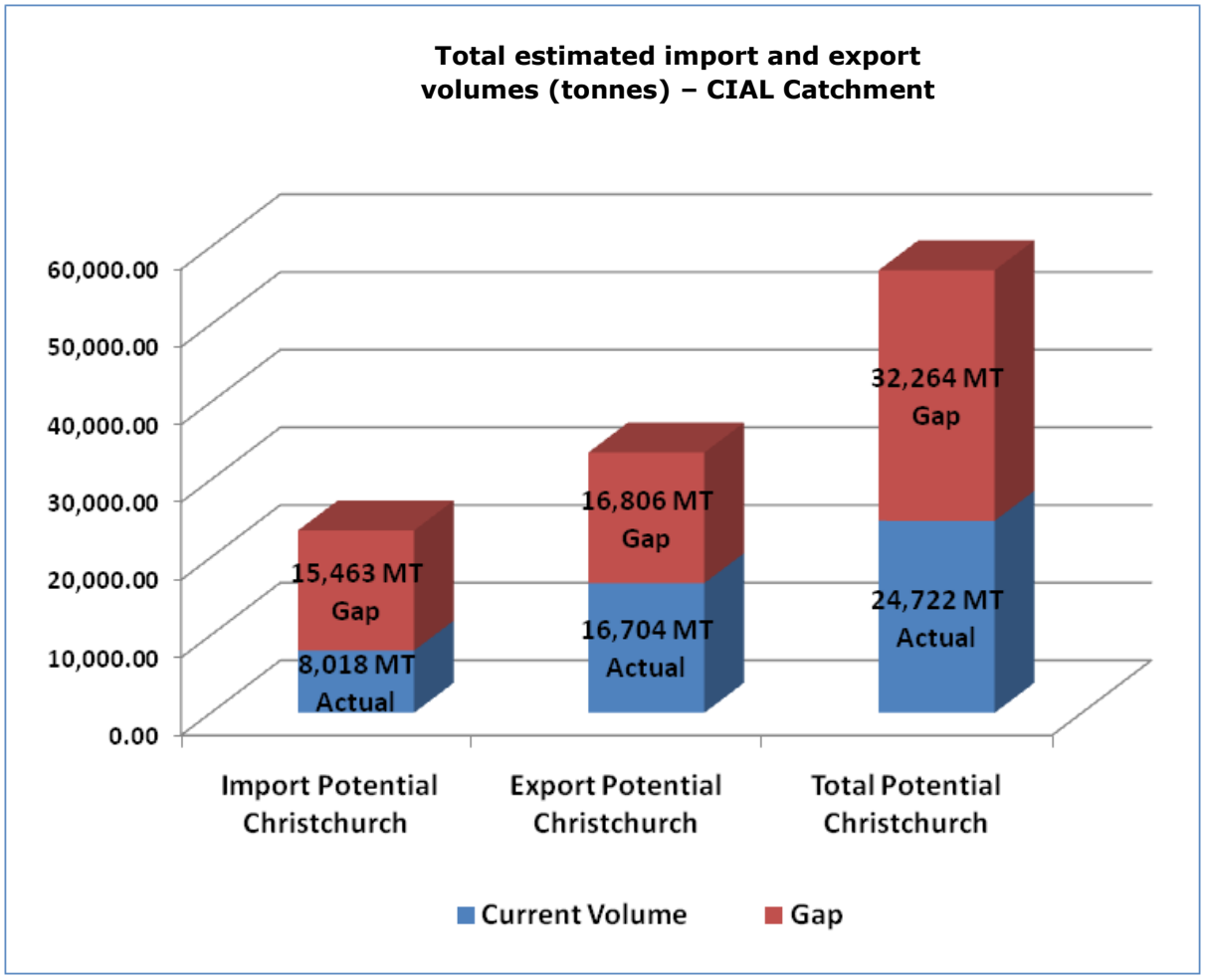
16 The data presented in this submission is based on a further model developed by *Corporate Logistics Ltd.* The Corporate Logistics analysis supports the BERL Report conclusions and the PwC analysis, and, from looking at a wider time period, suggests that the BERL analysis has under estimated the gap between actual and potential volume through CIAL.

17 Figure 1 depicts an estimate of air freight volumes from the South Island based on a 3 year average showing both actual volumes for CIAL and the gap to potential volumes. It identifies for exports, imports and grand totals;

17.1 Expected air freight volumes to be processed by the South Island
17.2 Actual air freight volumes processed by CIAL
17.3 The cargo volume gap

18 Figure 1 summarizes total actual and estimated potential levels for import and export air freight volumes that are considered as being in the natural catchment of CIAL. Projections are that volumes associated with this catchment area will continue to grow, provided air cargo capacity is available to support the supply chains.

19 To calculate the total potential South Island import volumes, the proportion of imports is assumed to be correlated with regional population (as this closely tracks consumption patterns). To calculate the total potential South Island export volumes, the proportion of exports is assumed to be correlated to regional economic activity, as measured by GDP and employment statistics.

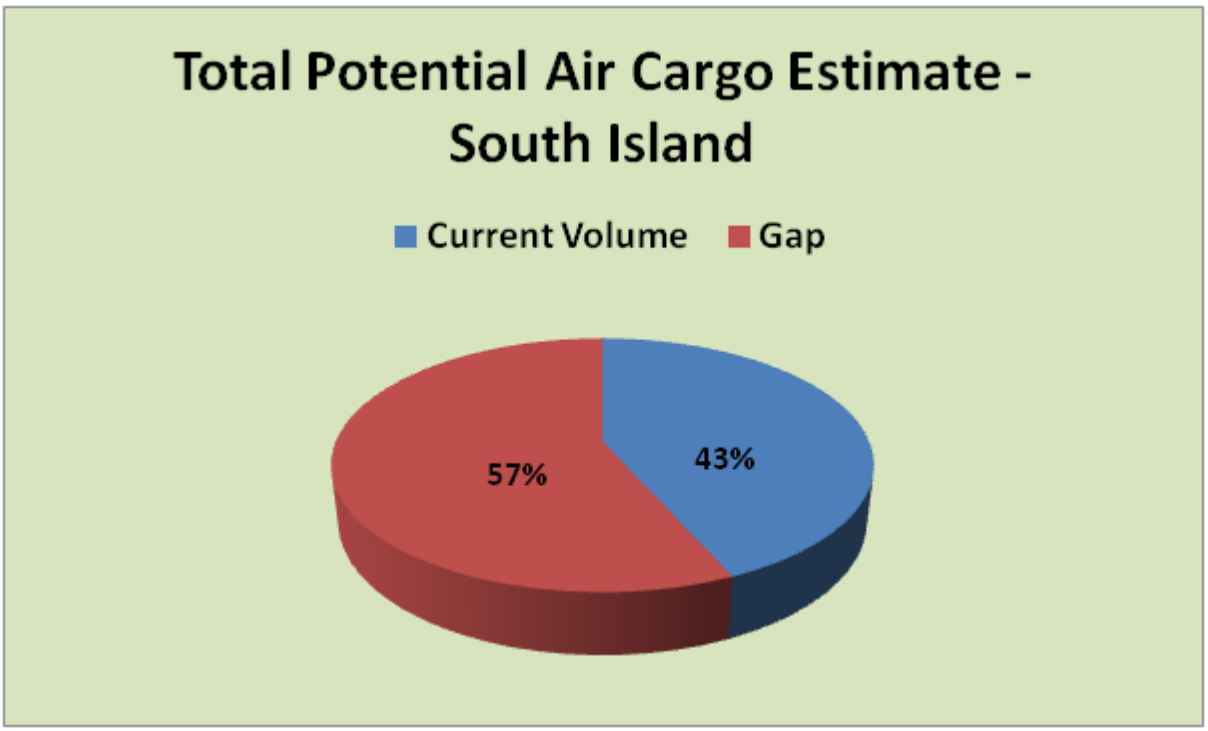


Source: Corporate Logistics Ltd – Logistics Database

Figure 1 Gap in air freight volume from Christchurch International Airport

20 New Zealand Statistics show CIAL processes on average around 24,700 tonnes of import and export air freight annually through its facilities. The Corporate Logistics catchment model data presented in Figure 1 indicates a further 32,200 tonnes of product is estimated to be transhipped either into, or away from, the wider region of the South Island given regional proportional consumption patterns (imports) and projected levels of outputs (exports).

21 Figure 2 presents the estimated shortfall of South Island export and import air freight. The Corporate Logistics Catchment model estimates that CIAL may be processing as little as 43 percent of its total potential regional air freight volume.

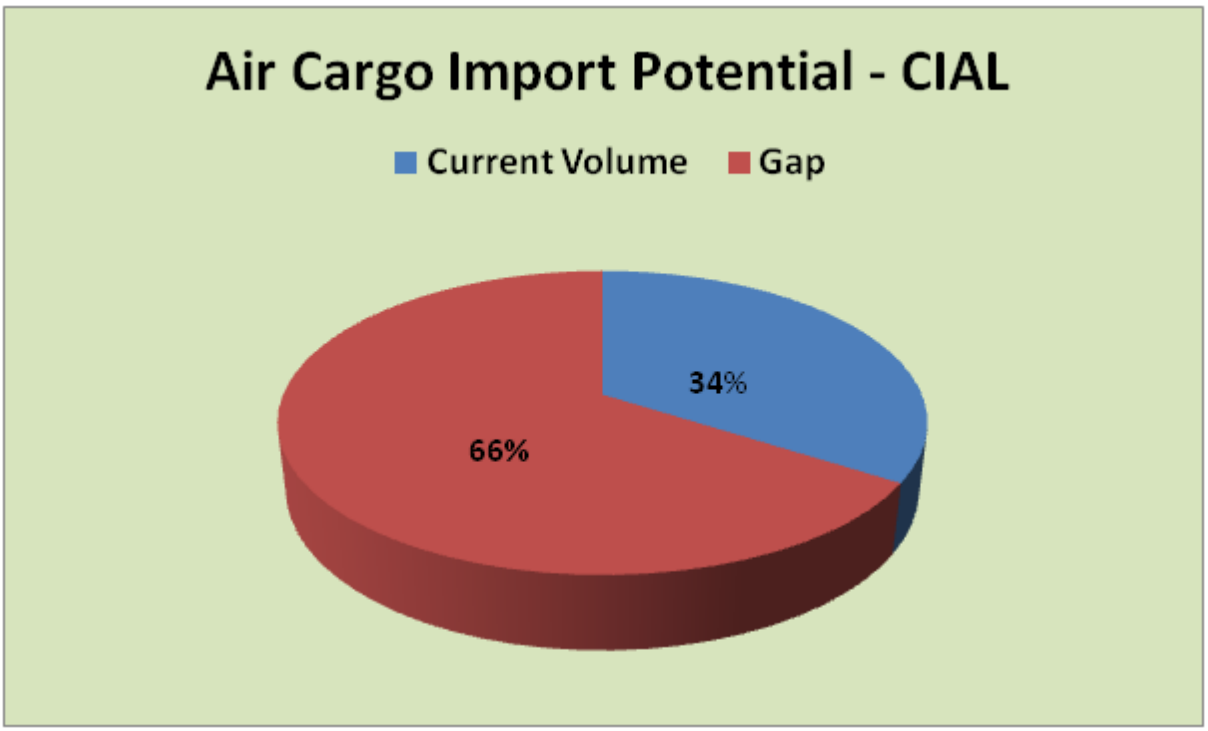


Source: Corporate Logistics Ltd – Logistics Database

Figure 2 calculated current and anticipated total air freight potential

Actual and Potential Import Air Cargo for the CIAL Logistics Catchment.

22 Statistics show CIAL is currently processing a little over 8,000 tonnes (average last three years) of imports annually. These are consumed both within the Christchurch region and the remainder of its natural South Island logistics catchment. Corporate Logistics estimates a further 15,400 tonnes of import freight bound for the South Island enters the country via Auckland Airport and has to be brought into the region, predominantly using road transport. This additional 15,400 tonnes of import air freight is estimated as the gap between volumes passing through CIAL and the total volumes required to meet predicted South Island domestic consumption patterns.



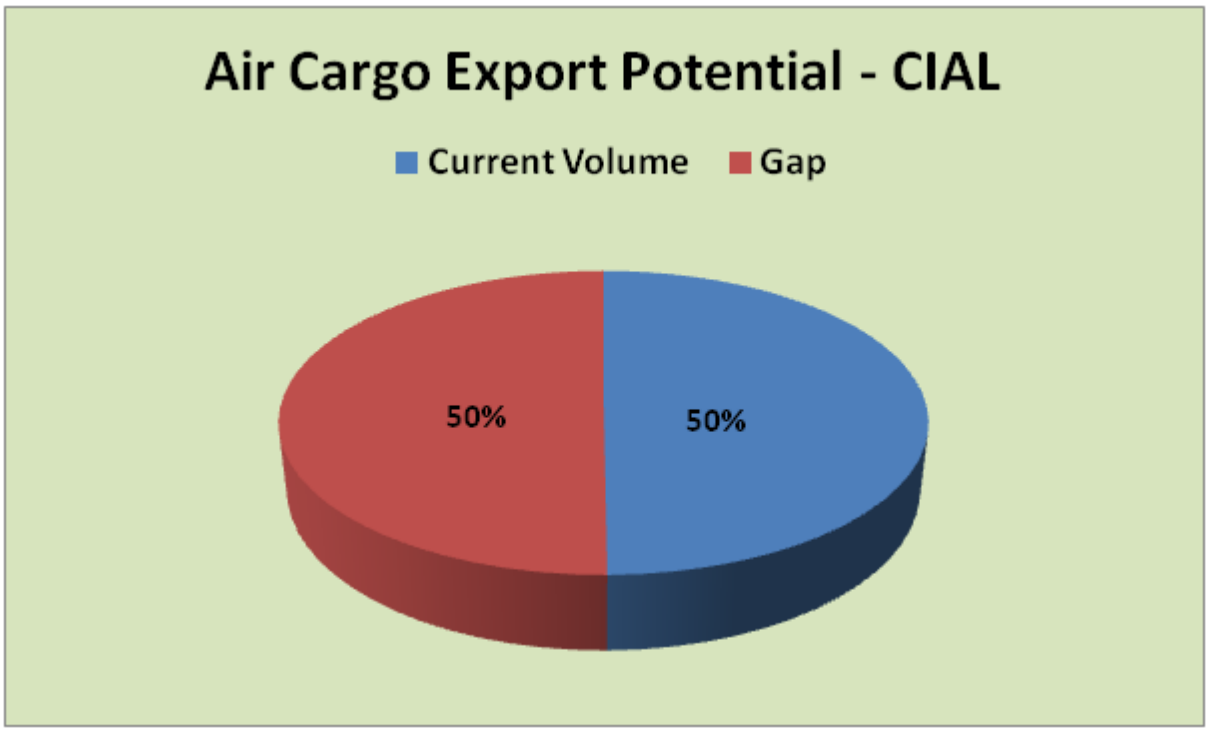
Source: Corporate Logistics Ltd – Logistics Database

Figure 3 calculated current and anticipated import freight potential

23 Total South Island import airfreight has been calculated at 23,400 tonnes (average last three years). The analysis presented in Figure 3 indicates CIAL is currently only processing approximately one third of the potential air cargo imports. The remaining two thirds is assumed by Corporate Logistics to arrive via Auckland Airport. This inevitably impacts on supply chain efficiencies.

Actual and Potential Export Air Cargo for the CIAL Logistics Catchment.

24 CIAL is processing around 16,700 tonnes (average last three years) of exports air cargo from its South Island logistics catchment. The Corporate Logistics model estimates a further 16,800 tonnes of export air freight generated within the South Island catchment is shipped domestically to the North Island prior to export.



Source: Corporate Logistics Ltd – Logistics Database

Figure 4 calculated current and anticipated export freight potential

25 Total South Island export production has been estimated by Corporate Logistics at 32,500 tonnes (average last three years) with Figure 4 suggesting CIAL is currently handling nearly half by volume of the potential exports. The remaining half of the potential volume is thought by Corporate Logistics to be road freighted north to be exported through Auckland Airport.

Ramifications of Estimated Export/Import Cargo Gap

26 The wider ramifications of this supply chain capacity gap and the South Island's apparent inability to export or import its full requirements of air cargo give rise to numerous flow-on issues. For example:-

26.1 Constraining South Island producers' ability to enter the export sector, or having to limit production for the domestic market consumption only.

26.2 Increasing capital needs as higher inventories of both raw materials and finished goods are required to be held.

26.3 Increased lead times to and from markets.

26.4 Additional internal transport costs and loss of overseas competitiveness.

26.5 Longer transit time to market means loss of product shelf life resulting in lower prices achieved by the South Island exporter, as the price the end customer is prepared to pay will reflect residual shelf life time.

26.6 Increased carbon emissions by the New Zealand land transport sector.

26.7 Increased Government roading upgrade investment and higher road maintenance requirements.

27 All of the above points constrain the government's goal of an "export led recovery". Quantifying this loss of potential GDP for the New Zealand economy is not possible in the context of this submission. However we urge the Productivity Commission to consider these economic impacts as part of its overall assessment of the impact that air transport services are having on the economy.

28 Based on the Corporate Logistics Ltd model we can make an indicative estimate of the size of the air freight capacity gap currently constraining South Island businesses. The table below identifies the gap is equivalent to one B747 flight per day into and out of the South Island. This estimate does not attempt to quantify the passenger potential nor the substantial additional costs of roading infrastructure investment and higher road maintenance requirements if the status quo remains.

CIAL Total Air Cargo Leakage per year (assume 5% growth p.a.)	**32,500,000 kg**
Conversion ratio – Cubic metres to Metric tonnes (CBM:MT)	**6:1**
CIAL Leakage per year in CBM	**200,000**
B-Train movements at 50BMs to move air cargo between CIAL and AIAL	**4000**
B747 capacity	**100MT**
Number of additional B747's required per year to satisfy capacity	**1/day***
***Under the above scenario CIAL would require 1 x B747 virtually every week day**	

DRIVERS OF AIR CARGO SERVICES AT CIAL

29 There are four drivers of air cargo services, namely;

29.1 Capacity Reliability – available space, frequency, and reliability of uplift.

29.2 Channel connectivity – onward carriage interconnections to major international hubs

29.3 Cost and Service – sensitivity of cargo to price at required service levels

29.4 Capability – the abilty of each supply chain member to meet requirements of the customer e.g. perishables facilties, pre-clearance, etc

The main issue of concern is that of access to adequate, reliable, aircargo capacity.

30 Of the 4 drivers of air cargo services identified in this submission it is the issue "Capacity" and associated uncertainty of cargo uplift that is the main productivity constraint at CIAL.

31 It is a particular problem for perishables exporters whose products have a very short shelf life with virtually no recoverable value should they be unable to export due to a lack of air cargo capacity.

32 As an example, the South Island perishables peak season coincides with the countercyclical northern hemisphere key consumption periods of Christmas, New Year, Chinese New Year and Easter. It is during these periods in particular that airlines do not provide adequate cargo capacity to CIAL. This requires that exports are trucked to Auckland adding extra time, cost and risk in the supply chain, and reducing the overall value proposition for the international purchaser who may receive a product with less shelf life and poorer quality than expected.

Aircraft Configuration Dictates Capacity

33 Aircraft configurations fall into 4 main categories:-

33.1 Narrow body – central aisle, window seats either side

33.2 Wide Body - 2 aisles and window seats. Carry Unit Loading Devices.

33.3 Freighters - Cargo only and wide body normally (perhaps a few seats - 10)

33.4 Combis and Quick Change – Rare - half freight half passenger or remove seats to take Unit Loading Devices (ULDs).

34 Air cargo capacity is dictated by the configuration of the aircraft chosen by the airline operators. At CIAL this is dominated by passenger aircraft on the international routes, and the choice of wide or narrow bodied aircraft also depends on the carriers business focus. Narrow bodied aircraft are generally hand-stack loaded and only have limited cargo capacity so are not conducive to freight operations, particularly when frequency and efficiency of aircraft turnaround is an imperative.

35 The wide bodied aircraft emerged in the 1970's with the B747. With this came the air cargo Unit Loading Devices (ULDs) and significant improvements in air cargo productivity as cargo was able to be consolidated to ULD's prior to shipment. The units move quickly on and off aircraft this greatly improving handling efficiency and overall productivity in the air cargo supply chain.

36 In the mid 1990's and 2000's the emergence of the "regional" and "discount" short haul (2750km) airlines moved to smaller, narrow bodied aircraft, more frequent flights, and little if any cargo capability. These airlines focus on passenger uplift and frequency, aiming at time critical business passengers or discount tourist travellers. In any case, the cargo capacity requirement is greatly diminished.

37 As a gateway to the South Island for tourism and with Australia as the major source of travellers CIAL's users are predominantly regional or discount airlines, using the smaller aircraft. This change in aircraft configuration has removed much of the cargo capacity that might have been available with the use of less frequent flights in larger aircraft such as B767 services.

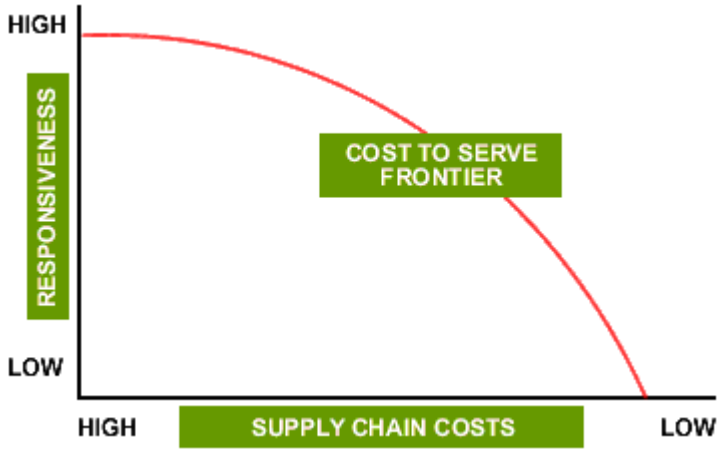
38 Long haul international operators such as Emirates and Singapore Airlines that use wide bodied aircraft provide invaluable services to South Island exporters requiring direct cargo uplift from CIAL. But with capacity shortages and the only other option to truck export product north, freight rates are able to remain at a premium.

39 CIAL is of the view that a new approach to air services, which has a greater focus on airlines in new and fast growing markets of Asia, Latin America and the Middle East, is required. By creating a truly open skies arrangement, New Zealand can become more relevant in the fleet and route planning undertaken by airlines, and thus allow new services to commence, that in turn contributes to meeting the demand for air cargo capacity.

COMMERCIAL CONTEXT FOR THE AIR FREIGHT SERVICES GAP

40 Unreliable supply chains create numerous inefficiencies, added costs and productivity reductions, generally increasing the exporter/importers' "Cost to Serve" model. Common problems arising from this are extended supply lead times, higher transport costs, and problems with excessive inventory holding levels, increased capital costs and unreliability within the supply chains. Accordingly, businesses with strategies around customer service and high responsiveness to customers are extremely concerned about any potential loss of product shelf life in transit due to added transport phases, poor handling or storage. They are also trying to optimise productivity and minimise resource consumption in order to run a least cost business model where possible.

41 It is critical therefore that companies know where they sit relative to their "Cost to Serve Frontiers" and most exporters should certainly be aware of this. The "cost to serve frontier" represents a variety of combinations of responsiveness and cost.



Source: The Logistics Training Group – www.LTG.co.nz

42 The position that represents high responsiveness at high cost is located at the top left hand part of the frontier. The position of low responsiveness provided at low cost is shown in the bottom right hand part of the frontier.

Companies that use air cargo services rely heavily on being responsive to customers' requirements and endure high supply chain costs to do this. The notion of paying a premium for a highly responsive supply chain then finding that the product has been held up due to trucking to another destination prior to exporting, adding days to the customers' lead time, is simply not acceptable for a New Zealand company operating within today's global supply chains.

The Profile of Air Cargo

43 The profile of products carried by air varies widely but as a general rule of thumb the product is likely to be more time or temperature sensitive relative to other traded goods and will require express service levels and special handling associated with the delivery. This cargo returns a higher value and additional profit margin to its owner, which in the case of exporters directly aids the nation's financial recovery.

44 The price premuim for the required air cargo service(s) is reflected in the value of:

44.1 Speed priority to the client (e.g. transfer of live crayfish to an overseas markets)

44.2 Service Frequency of the user (e.g. daily airmail and courier shipments vs one-off shipment)

44.3 Cargo capacity availability on services at any point in time. (e.g. daily shipments of perishable products vs an ambient stable piece of electronic equipment).

44.4 Destination and on-shipping capability (e.g. perishable product heading to the UK has to compete for space over premium high value electronics good from Asia)

44.5 Security (transfer of precious stones, jewels, art work etc)

Capacity gap

45 The focus on passengers by the majority of airlines servicing CIAL directly impacts the residual air freight capacity available to South Island exporters and importers. Corporate Logistics has identified substantial shortfalls and constraints in downstream logistics capability with respect to cargo uplift, especially the inability for carriers to move time-critical export perishables shipments ex-CIAL during peak production seasons. In the case of a perishables exporter who cannot secure air cargo space ex CIAL, the product is moved to Auckland International Airport Ltd (AIAL), usually by refrigerated truck, sometimes domestic air service. Trucking costs will vary depending on whether the product is chilled, frozen or ambient, and if the truck is on a main-haul or back-haul function. In peak season however AIAL has its own capacity constraints.

46 This problem will continue to grow substantially in the next two decades. Importantly, while options are in place to provide a contingent transport service by road to Auckland, the additional costs incurred are often non-recoverable as customers are not prepared to pay extra so the exporter/importer must absorb them.

The by-passing of CIAL due to a lack of aircargo uplift capacity is a gap which amounts to tens of thousands of tonnes per year for combined import and export products. This leakage gap adds significant <u>non recoverable</u> cost to cargo movements and directly detracts from New Zealand's GDP growth.

47 A detrimental side-effect of leakage for perishables exporters means that risk can quickly reach a level where the exporter (or potential exporter) is no longer prepared to export at all. Such is the case with fresh chilled or live seafood, where the speed to market, handling, and product quality maintenance are absolutely critical.

48 Moreover, New Zealand's main seafood market is Australia, a short haul flight distance. In recent years the Trans-Tasman airline fleet configurations have changed significantly to the smaller B737/A320 with little or no cargo capacity, thus creating problems for exporters. While the QANTAS 767F freighter service to CIAL is helpful, it reduces its call frequency in peak season placing more pressure on capacity demand.

Road Transport Premiums

49 There is a well known industry road transport premium on North-South runs (Auckland/Tauranga to Christchurch) with return freight capacity (South-North) often at approximately 50% discount.

50 In addition to domestically manufactured goods, this imbalance is augmented by the volume of imported goods arriving by air into AIAL and sea into Auckland and Tauranga, and their requirement to be transported south – predominantly by truck. This phenomenon will be exacerbated by recent shipping companies' decisions to limit their ports of call in the same manner as airlines restrict available capacity at certain airports.

51 Further, while using the returning trucks adds to the profits of the North Island trucking companies, it also increases the carbon foot print of New Zealand. Logistically, imported goods should be delivered directly to their nearest major port using the most cost effective form of transport (i.e. direct sea or air services).

52 Conversely refrigerated transport often holds a premium when running from South to North due to the domestic and export demand for temperature controlled perishables capacity moving northwards. This is another example of South Island producers paying a non recoverable premium to get to both domestic and export markets. Moreover, as the largest movement of perishable export air cargo from the South Island to AIAL is likely to be seafood product on a tight export schedule with a limited profit margin, it is likely that the exporter will need to absorb the domestic freight cost as the international buyer almost certainly will not.

53 The reverse also occurs with imported product where goods arrive via AIAL, then move south by truck. Unless it is a courier or mailed product, the importer is likely to have to pay the domestic freight component, thus adding both shipping and lead time costs.

Carbon emissions

54 The New Zealand government is committed to addressing climate change. As previously mentioned, there is a growing trend of importing and exporting from an AIAL, Ports of Auckland and Ports of Tauranga base, then using road networks to deliver goods to the rest of the country. The volume of truck movements to the South Island required to support these shipping companies is significant. The result is likely to be additional carbon emission costs and a substantial increase in road repairs and maintenance costs.

55 Currently it is estimated 20% of New Zealand carbon emissions originate from the transportation sector. The government has set goals to halve the amount of emissions by 2040 through transport system efficiency improvements. To do this will require importers, exporters, freight forwarders, shipping companies and the respective port authorities to adopt a cohesive and structured approach to transform the way New Zealand domestic freight is moved internally.

56 Fundamental to addressing these national issues is the ability of the total New Zealand supply chain to transport goods closer to its source of consumption or production.

The current requirement of potentially more than 32,500 tonnes of combined air freight having to be largely trucked into the South Island is one facet of the inefficiency in the current system that if either solved or reduced would aid in the reduction of unnecessary atmospheric carbon production.

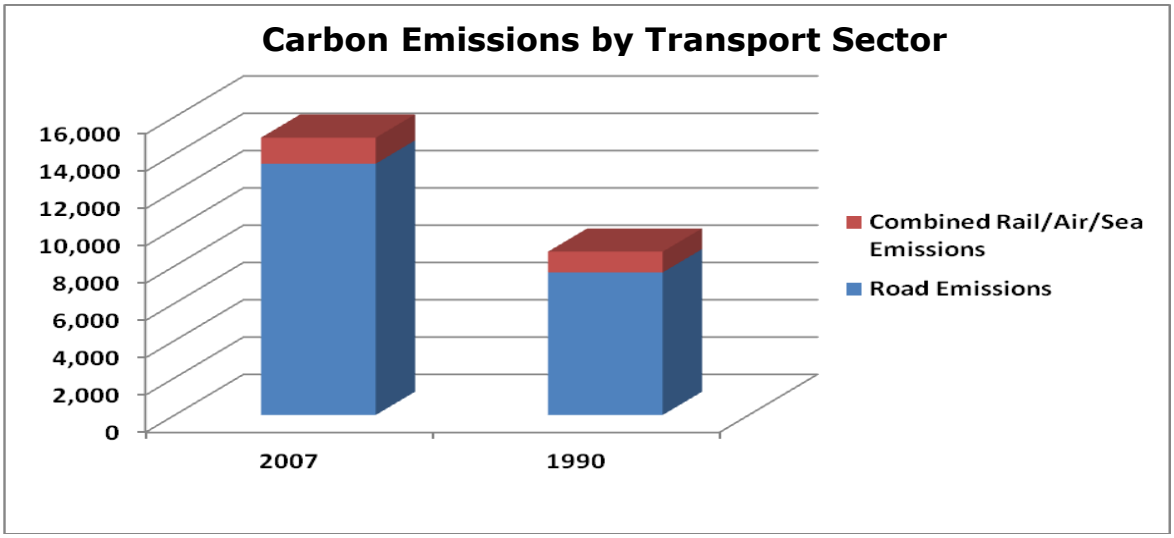
57 It is well documented that the New Zealand Road Transport sector has grown in its proportion and total of carbon emissions. The Transport sector's emissions have dominated the release of atmospheric carbon from road transport since the initial comparative estimates were first released in 1990. Figure 5 highlights the impact of the roading industry on total transport carbon emissions since 1990.

58 Figure 5 compares Road and combined Rail/Air/Sea emissions from 1990 to 2007. Emissions levels for the roading sector have near doubled from 1990 to 2007 with combined rail, air and sea emission levels undergoing a far slower rate of growth over the same time period.

59 The rapid growth in roading emissions correlates in part to the:

59.1 Change in international aircraft configurations and route changes in the earlier 1990's.

59.2 The emerging trend of increased sea and air freight hub development in the Upper North Island with the subsequent required increased in long haul trucking.



Source: Corporate Logistics Ltd – Logistics Database

Figure 5 Individual Transportation Sector Carbon Emissions Growth 1990 vs 2007 (Measured in Gg CO_2-e)

60 The analysis highlights the most effective way to reduce New Zealand freight sector emissions is to target roading emissions, as its contribution has rapidly grown in comparison to other modes of transport since 1990.

PROPOSAL FOR REFORM

An open skies policy

61 We are conscious that the capacity gap problem identified in the submission is not an easy one to solve. For the reasons outlined below, CIAL believes the Government should establish an open skies policy, whereby any registered international airline can fly to a New Zealand international airport, subject only to the usual safety and security standards.

62 The purpose of this would be to generate interest from international carriers who currently do not fly here. For example, communication with a number of international carriers leads us to believe there is interest in launching new routes to Christchurch from both China and Eastern Asia, but that such routes are not currently possible under existing Air Services Agreements (ASAs).

63 An open skies arrangement offers an innovative way of encouraging new carriers to entice more visitors here in the short to medium term. The creation of new air routes on the basis of the visitor economy demand, is a precursor to providing the means for business, air freight and other commercial activities, which has greater benefit to the New Zealand economy. CIAL expects that the increased competition and volumes would initially be generated in the tourism sector. However where this leads to enhanced flight schedules, this will have an important positive spill over effect on the available capacity for air freight, and therefore the growth prospects of New Zealand exporters.

64 There is considerable evidence that liberalisation of international air services benefits the wider economy. It results in increased competition, lower fares and increased capacity. The global trend is towards further liberalisation and in New Zealand it is likely that the Ministry of Transport's review of air transport policy currently underway will hear arguments in favour of more liberalisation from all of the major airports.

65 New Zealand has open skies bilateral agreements with eight of our top 20 destination markets. But there remains a number of major markets (plus a large number of smaller markets) with bilaterals which restrict capacity, pricing, flight numbers or airports they can fly to. These include China, India, Indonesia and Hong Kong.

66 CIAL sees an open skies policy as a potential circuit breaker, using competition to stimulate increased international services for both New Zealand exporters and travellers. We encourage the Productivity Commission to consider the merits of this policy, and whether the vested interests and regulatory hurdles on the path to an open skies policy can be overcome.

REGULATION OF AIRPORTS

Introduction

67 The Productivity Commission has asked whether international airports exercise market power, and whether current regulation of international airports is sufficient. In this section we address those questions.

The international airports do not exercise market power

68 The Auckland, Wellington and Christchurch international airports do not exercise market power to the detriment of exporters and importers.

69 The international airports are constrained by their market and regulatory environment. Key constraints on international airports are:

69.1 competition between airports;

69.2 the need to make very large, chunky, long-lived investments, and the commercial incentives on airports to grow volumes;

69.3 the countervailing power exercised by airlines;

69.4 the rigorous consultation process under the Airport Authorities Act 1966 (the AAA), including significant information disclosure to the airlines on a confidential basis; and

69.5 the detailed information disclosure required under Part 4 of the Commerce Act.

70 The market evidence is consistent with the international airports operating in a robustly competitive market and not exercising market power. The international airports have continued to make large, risky investments for future growth, and price changes have been sporadic (and hard fought by the airlines).

The airlines are an effective constraint

71 International airports sell their services to a small number of airline customers. The airlines exercise considerable countervailing market power. The airlines are well resourced and assertive customers, and have a very real and credible commercial threat in their ability to adjust their schedules to use particular airports to greater or lesser degrees. Airlines are fully aware that airports must recover their large investment in infrastructure over a lengthy period, and that the airports need the volume of flights from airlines in order to do so.

72 The influence of the airlines is strengthened by their consultation rights in relation to charges set, and major capital expenditures planned, by the international airports. These consultations rights are afforded under the AAA and the airlines are active and forceful participants in the consultation process. The airlines will also be armed with the detailed information disclosure now required by the Commerce Commission under Part 4 of the Commerce Act. The AAA and the Part 4 regime are discussed further below.

Airports continue to invest for future growth

73 The international airports have invested substantially in new terminal facilities. These investments are a significant commitment of capital and required the airports to take on significant commercial risk, as the investments will not be recovered for a lengthy period.

74 The new infrastructure has been configured for future volume growth. The new facilities deliver a material improvement in airport efficiency and service quality.

75 New Zealand exporters and importers directly benefit from these improved facilities and increased capacity.

76 This commitment to large, risky investment that is delivering a higher quality of service and providing for future volume growth is consistent with the outcomes to be expected in robust, competitive markets. Certainly international airports have not been looking to reduce volume or reduce quality (which is what might be expected from a firm with market power). If anything, the history of the sector is one where the airlines have attempted to constrain capacity, not the airports.

77 In CIAL's case, we are in the process of completing the development of a new terminal and integrated check-in facility that delivers a step change in quality and traveller experience. Overall, our investment in the new infrastructure costs in the order of $200m. The terminal is configured for growth, and our incentives are aligned with our airlines customers to grow passenger numbers (the recovery of our investment within an appropriate time depends on it).

Airport pricing

78 Pricing of airport services is also consistent with a lack of market power. Prices are set only infrequently. In CIAL's case the last time airfield prices were changed was 2009, and terminal prices were last set in 2001.

79 Further, airports regularly offer support to airlines to develop new routes, and assist with market development initiatives.

80 CIAL has signalled that it must now revisit its prices in order to pay for the new integrated terminal. Consultation on a new price structure will begin in the near future. However this simply reflects the fact that our prices have been low for many years and the new terminal has not been "pre funded". Instead, CIAL will now discuss with its customers how the new facility should be paid for over time.

81 This pricing behaviour – price stability for lengthy periods, pricing incentives to grow volume, and price changes demonstrably linked to investment – is consistent with robust commercial outcomes in a competitive market, not the exercise of market power.

The Airport Authorities Act

82 The Airport Authorities Act 1966 (the AAA) imposes constraints on the management and operation of international airports. Key features include:

82.1 airports operated or managed by an airport authority must be operated or managed as a commercial undertaking;

82.2 airport companies must consult with airlines when:

(a) setting charges, including landing fees; and

(b) proposing major capital expenditure,

requiring the disclosure of significant amounts of commercial information to the airlines; and

82.3 airport companies must consult with airlines no later than 5 years after last setting or altering a charge.

83 These consultation processes are the platform for rigorous commercial engagement between the airports and their airline customers. The airlines are well-resourced, sophisticated, hard-nosed participants in these discussions. A lot of information is exchanged, and the result is pricing and investment outcomes that are informed by the commercial outlook of both airports and airlines.

The decision to bring Airports into Part 4 of the Commerce Act

84 To supplement the AAA consultation requirements, in 2008 the government brought the international airports under Part 4 of the Commerce Act 1986 and subjected them to an information disclosure regime.

85 The complete range of regulatory options available under Part 4 of the Commerce Act are (and were):

85.1 information disclosure regulation;

85.2 negotiate/arbitrate regulation;

85.3 default/customised price control; or

85.4 individual price control.

86 The government's choice of the least restrictive regulatory option recognised the existing commercial and regulatory context in which airports operate, including:

86.1 a long history of increasing demand for airport services and investment by airports to meet that demand;

86.2 competition between airports;

86.3 the need to make very large, chunky, long-lived investments, and the commercial incentives on airports to grow volumes;

86.4 the countervailing power exercised by airlines; and

86.5 the rigorous consultation process under the AAA, including significant information disclosure to the airlines on a confidential basis.

87 In essence, it was accepted that international airports are not classic monopolies and do not require intrusive regulation. International airports are subject to commercial pressures to price appropriately, maintain quality and grow volume, and have a track

record of establishing commercial relationships with airlines that inform price and investment levels over time. Further, aviation markets are very unpredictable and the risk of regulatory error is high.

Guidance can be taken from the Australian airports price monitoring regime

88 The regulatory balance that was struck in 2008 in New Zealand is consistent with the policy decisions that have been made in Australia, regarding the regulation of airport markets.

89 The Australian regime can usefully be tracked from 1997, when price caps were in place for certain airports, to 2011, when the Australian productivity Commission has again endorsed a policy of price monitoring.

Price monitoring preferable to price control

90 The Australian Productivity Commission, in three times considering whether to recommend direct price control or price monitoring (akin to information disclosure), preferred price monitoring, because it:

90.1 requires lower levels of regulatory intervention in price setting, and hence reduced opportunity for regulatory error and consequent distortions in production and investment;

90.2 provides scope for commercial relationships to develop and therefore a greater chance of achieving efficient long-term provision of airport services; and

90.3 imposes lower compliance costs on affected airports.[1]

Price caps are not appropriate

91 The Commission identified two reasons why price caps were not appropriate:

91.1 the ever present risk of regulatory failure, given the severe information problems confronting any regulator. For example, the Commission stated that:

(a) setting price caps inevitably entails detailed regulatory assessment of, and involvement in, airport operations and investment decisions. Price caps should therefore be used only where the potential efficiency costs of abuse of market power are significant;

(b) even where the potential efficiency costs of abuse of market power are significant there is a risk that regulation will cause its own distortions to production and investment decisions; and

(c) the risk of regulatory failure has been amplified by the uncertainty that currently pervades global aviation markets; and

91.2 the "problem" to be addressed did not warrant such a heavy handed regulatory regime, as:

(a) even though the four largest airports (Sydney, Melbourne, Brisbane, and Perth) had considerable market power, the prospect of them using that

[1] Australian Productivity Commission "Price Regulation of Airport Services", 13 January 2002, p 323.

power in a way that would generate significant costs to the economy or community was supported neither by the evidence nor the analysis; and

(b) there were strong commercial incentives pulling in the other direction, including scope for increased profits in non-aeronautical activities from increasing passenger volumes, and incentives to discriminate and differentiate in pricing.

Price monitoring provides more appropriate regulation

92 In the Australian Productivity Commission's view (three times now), price monitoring provides a greater chance of achieving the ultimate objective (to ensure efficient long-term provision of airport services) by providing a better balance between regulatory constraint and promotion of commercial relationships.

93 The Australian Productivity Commission was satisfied that the level of generality embodied in the price monitoring regime being rolled out in Australia would assist in determining whether market power was being abused, while still promoting informed commercial relationships and achieving the correct overall balance.

Price monitoring would promote commercial relationships

94 The Australian Productivity Commission found that price monitoring would encourage airports and airlines to negotiate commercial agreements. In response to doubts as to whether commercial negotiations are feasible in the industry, the Commission noted that airlines deal directly with numerous unregulated smaller airports, both privately and publicly owned, and some unregulated larger ones (e.g. Cairns). Relations may not always be smooth, but there seemed to be considerable scope for reasonable commercial interaction between airports and users, provided there is some ultimate constraint on abuse of any market power (which price monitoring provides, in addition to the Trade Practices Act 1974).

Price monitoring would also constrain ineffective outcomes

95 The Commission recommended that any tendency for airports to increase their charges beyond efficient levels should be constrained by providing a credible threat that price controls could be reintroduced, enunciating principles of efficient pricing to guide airport behaviour, and imposing disclosure requirements.

Other considerations

96 The Commission was firmly of the view that the uncertain outlook and uncertainty in the aviation industry called for more, not less, flexibility, and it saw the Australian government as recognising this need by its decision to discontinue price caps for Phase 2 airports. If airport operators themselves cannot predict what will happen over the next few months or years, regulators were unlikely to be able to fix price caps that can deal efficiently with future market conditions.

97 It also considered that the full benefits of privatisation of airports are unlikely to be realised if commercial relationships between airports and airlines continue to be heavily conditioned by intrusive price regulation. The ongoing need for substantial investments at major airports requires a more commercial and cooperative approach. The potential for regulation to unduly constrain prices poses a real risk and one that could impose significant costs on consumers in the future.

Australian Productivity Commission August 2011 Draft Report

98 The most recent analysis of the Australian Productivity Commission is the draft report released last month *Economic Regulation of Airport Services*. In that draft report the Australian Productivity Commission reaffirms the policy choice of price monitoring (and not price control, or compulsory arbitration) as the appropriate regulation for airport services markets.

99 The first "key points" in the draft report set the scene:[2]

- "Under light-handed regulation, airports have continued to invest to meet the growth in air travel, without the bottlenecks that have beset other infrastructure areas:
  - There has been a marked increase in aeronautical investment since the removal of price-caps, with an additional $9 billion projected over the next decade
  - Aeronautical charges do not indicate misuse of market power and quality outcomes are generally 'satisfactory', although airlines have, on occasion rated two airports as 'poor'
  - Australian airports' aeronautical charges, revenues, costs, profits and investment look reasonable compares with outcomes at overseas airports.
- Commercial agreements with airlines are becoming more sophisticated and now can often include: service level obligations, price paths subject to variation in agreed circumstances; consultation on capital investment; and dispute resolution.
- Airlines, however, consider that airports adopt a 'take it or leave it' stance, transfer risk to airlines, fail to provide information and manipulate investment parameters.
  - But, airports and their customers retain a strong desire to continue with commercial negotiation – no party sought a return to regulatory price setting."

The Productivity Commission's reasoning is relevant in the New Zealand context

100 In CIAL's view, these are all considerations relevant to the choice made in New Zealand to opt for an alternative to price control for specified airport services.

101 A clear choice was made to supplement the AAA framework with information disclosure regulations under Part 4 rather than impose direct price control. This makes sense – airports are not the classic natural monopoly and the case for heavy handed price control has not been made out.

102 Price regulation risks undermining the competitive tension between airports, undermining the balance of power between airports and airlines, and undermining the

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[2] *Economic Regulation of Airport Services (Draft Report, August 2011)*, Australian Productivity Commission, page XX.

business case for the large, long term investments that New Zealand would like the airport companies to make.

The Part 4 information disclosure regime is rigorous, and not yet fully implemented

103 The information disclosure that is required under the new Part 4 regime is much more rigorous than any previous disclosure requirements. The information disclosure accounts to be produced by international airports must be consistent with the Commerce Commission's input methodologies, which prescribe a consistent methodology across airports and a high degree of detail. Airlines and the public will receive much more information on airport performance than they have had in the past.

104 The Commerce Commission and the industry have invested a significant amount of time and intellectual capital in this new regulation. Consultation and engagement has been continuous during 2009 and 2010.

105 The new regulatory regime is still being implemented. Initial disclosure of prices is required this year, and the first full information disclosure accounts are required to be published in 2012. The Commerce Commission is also required to report on the efficacy of the new regulation in 2012.

106 Against that background, it is much too early to meaningfully assess whether the new regulation will have the desired market outcomes. The performance of international airports, and the regulation of airports, can only be assessed over a period of many years. What is known, however, is that the new information disclosure requirements will introduce a step-change in transparency, and in the quantity and quality of information available to airlines when negotiating with airports.

107 The success of the Australian information disclosure regulation in restraining monopoly pricing and inducing airport investment provides further support for continuing with our new regime.

APPENDIX

QUESTIONS ASKED IN THE ISSUES PAPER

Q1 Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this inquiry?
An economic efficiency perspective is appropriate. The key to the success of the inquiry will be identifying all relevant constraints and spill over effects that impact on national welfare.
Q2 Is the framework described in Section 3.2 appropriate for this inquiry? Are there any important issues that might be missed?
Q3 Which components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement in the overall efficiency of the freight system?
Components and component interfaces warranting greater attention: • As discussed in this submission, a significant volume of South Island air freight goods travel to Auckland Airport via road/sea/rail, despite the extra (and significant) freight costs incurred. South Island exporters are reacting to capacity constraints out of CIAL. This happens because the airlines principally focus on the passenger market, instead of potential freight volumes. So, for example, CIAL is now less capable of meeting South Island air export volumes because of the airlines' reduced services to the city, following the February earthquake. If CIAL was used by South Island exporters, this would result in a 10% reduction in transport costs, leading to a 1-2% increase in trade. Recommended changes to improve overall efficiency of the freight system: • An open skies policy would enable airports to promote more competition for airfreight service, and encourage growth of freight air services, both through the increase in dedicated freight capacity and through increases that result from increased services in the key passenger market. • a more liberal approach to air services would enable greater international connectivity to the airport market. • Enable airport companies to have direct access to freight forwarders and exporters. For CIAL in particular, this would make it more of an international hub, expanding trade and export opportunities.
Q4 What environmental considerations should fall within the scope of this inquiry? What issues are of particular importance?
The negative climate change impacts resulting from unnecessary freighting should be considered. As mentioned, unnecessary freighting occurs when, for example: • South Island export goods respond to capacity constraints by transporting domestically via road/train/sea, to reach AIAL, with an increased carbon footprint and cost; and

• ports are located far away from freight forwarders.
Q5 Does the origin/destination of the item exported/imported reflect where it was actually produced? Rather than where it was exported/imported? Table 7 reflects a port of exit/entry, not necessarily an initial/final point.
Q6 What are the most appropriate and reliable data available to measure port performance and productivity in container handling?
Q7 What are the most appropriate and reliable data available to measure port efficiency and productivity in handling bulk cargo?
Q8 Which overseas ports are appropriate comparators for New Zealand port performance? On what basis should this selection be made?
Q9 Did port productivity improve during the 1990s? What were the drivers of those improvements?
Q10 Did the rate of productivity improvements flatten during the 2000s? Why? What might reinvigorate performance improvement?
Q11 What is the most appropriate way to measure port profitability? What is an appropriate rate of return on assets and equity?
Q12 Is there evidence of a systemic problem of low port profitability? Or conversely, excessive profitability?
Q13 What levels of investment have ports undertaken in recent years? Are they consistent with accessible and efficient services to exporters and importers? Is there an over- or under-investment problem in ports?
Q14 Does New Zealand have too many ports for a small country? If so, what barriers are inhibiting rationalisation?
Q15 Has local-authority ownership of majority stakes in New Zealand's commercial ports inhibited, enhanced or been neutral for the development of a more efficient and productive port sector?
Q16 What changes in governance, regulations or ownership would offer the best means to improve port performance for exporters and importers?

Q17 How much variation in the efficiency and productivity performance of ports is explained by the way that within-port activities are organised? Do 'contracting out' and 'landlord' models offer a way to increase competition for the benefit of exporters and importers?
Q18 To what extent do inflexible labour practices and difficulties in employer union relationships remain an obstacle to lifting efficiency and productivity at New Zealand ports?
Q19 From the perspective of New Zealand importers and exporters, to what extent is the international shipping industry competitive?
Q20 To what extent have collaboration agreements between international sea carriers been helpful or harmful to the interests of New Zealand importers and exporters?
Q21 What is the basis for the different regulatory treatment of imports and exports under the Commerce Act and Shipping Act? Is this differential treatment justified?
Q22 Have any actions (foreshadowed or actual) been undertaken under the Shipping Act 1987? Does the Act deter unfair practices?
Q23 Would the Commerce Commission be better placed than the Minister of Transport to oversee the regulation of international shipping services?
Q24 To what extent do the current regulatory and competition regimes that affect international sea freight transport services work well or not for New Zealand exporters and importers?
Q25 How do international shipping conferences permitted under the Shipping Act 1987 affect the accessibility and efficiency of sea freight services available to New Zealand exporters and importers? How strong or weak is the case for the exemption of conferences from the competition provisions of the Commerce Act?
Q26 What lessons can New Zealand learn from the different ways that competition law and regulators in other jurisdictions deal with international sea freight services?
Q27 Are Auckland, Christchurch and Wellington airports subject to competitive pressure for the air-freight related services they provide? Do they exert market power to the detriment of New Zealand exporters and importers?
As discussed in this submission, international airports are subject to robust commercial and competitive pressure for the air-freight related services they provide. They do not exert their market power to the detriment of New Zealand exporters and importers. This is because

international airports are constrained by their market and regulatory environment. Key constraints on the airports are:

- the need to make very large, chunky, long-lived investments and the commercial incentives to grow volume;
- the countervailing power exercised by airlines;
- as the role of the airports are predominantly as landlord, they face competition from "off campus" developers;
- the rigorous consultation process under the AAA, including significant information disclosure to the airlines on a confidential basis;
- the detailed transparency of airport performance required by the Commerce Commission under Part 4 of the Commerce Act; and
- Airports compete for aircraft services, from a finite number of airlines, serving Australasia, or with the potential to serve Australasia, which is further restricted by air service agreements with some nations.

Q28 Do current ownership and governance arrangements of New Zealand's international freight airports have any significant positive or negative effects on their long-term efficient configuration and operation, with respect to the supply of freight services?

Current ownership and governance arrangements have significant positive effects on the long-term efficient configuration and operation of the airports, with respect to the supply of freight services. Current owners are able to take a long term view of the appropriate levels of infrastructure, and the appropriate pay back periods. This encourages investment in facilities that ensure the provision of efficient services to consumers.

Q29 The objective of a port company under the Port Companies Act is to 'operate as a successful business'. Should airport companies owned by local authorities have the same single objective rather than the multiple objectives specified in the Local Government Act?

The Airport Authorities Act requires international airports to act as a commercial undertaking. This statutory obligation gives the airport companies the clear commercial focus that the productivity Commission is referring to. In CIAL's experience this delivers the clarity in governance and performance that the New Zealand public expects. CIAL often benchmarks itself against other successful airport company's, both owned by private investors, and publically listed.

Q30 What levels of investment have Auckland and Christchurch airports undertaken in international freight, and are they consistent with accessible and efficient services for New Zealand exporters and importers?

The level of investment made and to be made e.g. a dedicated freight and Logistics precinct (Dakota Park) are designed to facilitate increase in freight services. The location for such facilities is designed to ensure handling of import/export product is as efficient as can be with the level of progress being dependent on demand and availability of aircraft capacity.

Q31 Should the future size and shape of New Zealand air freight services be left to market forces and individual airport owners, or do lumpiness and interdependence (including with investments in connecting parts of the overall supply chain) call for a more deliberately

coordinated approach?
As discussed in this submission, South Island exporters currently face significant constraints in air freight capacity out of the South Island. Current market arrangements do not address this capacity gap and as such results in less efficient economic value contribution to the South Island.
Q32 What are the most appropriate measures of airport performance in international air freight? Can you assist the Commission by providing data that compares New Zealand airports against others?
Airport performance could be measured in terms of the volume of international air freight moving through the airports compared to the potential volume having regard to the local economy. CIAL does not have access to the data required and this impedes the ability to make further efficiency improvements owing to the lack of relevant information.
Q33 Are there opportunities to introduce or increase competition in the provision of air freight-related services at airports? Would such competition lead to better outcomes?
As discussed in this submission, CIAL suggests New Zealand adopts an open skies policy. This should increase airline competition with the result of more capacity available to New Zealand businesses. Airports promote their own regions but the level of freight traffic through it needing to be two way e.g. to and from the United States, requires other parties to be involved and relies particularly on the Airlines receiving /promoting available service in international destinations Competition between security/border control services would encourage better service standards and innovation in border clearances.
Q34 Is the existing and planned Commerce Commission regulation of airports sufficient to restrain monopoly pricing and induce an efficient level of investment? If not, what should change?
As discussed in this submission, current regulation and market conditions provide a robust constraint on international airports. The pricing and investment outcomes in the relevant airport services markets are consistent with airports delivering competitive outcomes and investing for the future, not the exercise of market power.
Q35 To what extent is the international air freight industry competitive?
Q36 Are there specific air freight routes to or from New Zealand with low levels of competition? Is there evidence of overpricing or poor service levels on these routes?
CIAL considers that its catchment area is presently underserviced in terms of freight capacity e.g. Christchurch – North America, where there is a severe lack of capacity on this market and thereby limits options available for access to import and export markets. Low levels of competition also exist on other markets from New Zealand airports, where insufficient wide-body or passenger services presently do not exist.
Q37 How do bilateral air services agreements affect the accessibility and efficiency of air freight services available to New Zealand exporters and importers?
Bilateral air services agreements significantly affect the accessibility and efficiency of air freight services available to exporters and importers. This is because bilateral agreements regulate which airlines fly in and out of New Zealand. Approximately 80% of the world's air freight is transported in the belly-hold of aircraft, so bilateral agreements have the effect of restricting air freight services and reducing the availability and choice of air freight services available.

CIAL is particularly disadvantaged in securing or having access to quality air services from carriers because it is not specifically named in some air service agreements.
Q38 What explanations exist for the different treatment of international air freight in the Civil Aviation Act compared with the normal competition requirements of the Commerce Act? Do the objectives of the current regulatory treatment continue to be justified?
Q39 Should the regulatory functions in Part 9 of the Civil Aviation Act be the responsibility of the Commerce Commission rather than the Minister of Transport?
Q40 Does the Cargo Agents' Commission Regime perform an active and useful function in international air freight services? Who does it benefit? Is the exemption from the Commerce Act required to achieve that function?
Q41 Has S.90 of the Civil Aviation Act been used in practice? What are the arguments for retention of the ability of the Minister to issue a tariff?
Q42 To what extent are the current regulatory arrangements adequate to deal with the investigation and prosecution of collusive behaviour in international air freight services?
Q43 Do the current regulatory and competition regimes that affect international air freight transport services work well, or not, for New Zealand exporters and importers?
The regulatory and competition regimes generally work well for exporters and importers. However, regulatory and border processes do extend the time it takes for items to be processed across the border. Processes and systems should be implemented to enhance and reduce process times.
Q44 Is there a case for the different regulatory treatment of air freight services vs. sea freight services?
Q45 What lessons can New Zealand learn from the different ways that competition law and regulators in other countries deal with international air freight services?
Q46 What are the typical customs and biosecurity costs faced by exporters and importers? How are those costs broken down? Is there scope to reduce them?
Q47 Do New Zealand's customs and biosecurity systems deliver the required outcomes efficiently? What initiatives might improve efficiency and effectiveness?
Q48 Does the World Bank's analysis fit with the experience of importers and exporters? What opportunities are there to eliminate and/or streamline documents? Would this make a material difference in the total cost or speed of the logistics chain?
All documentation should now be electronic (mandatory) to reduce costs. This would require

alignment between the various border control authorities.
Q49 Are there any measures that New Zealand could undertake to reduce the security-related costs imposed on exporters and importers?
CIAL is unaware of these but is willing to work with cross border agencies to improves such processes. The trans-Tasman review between Australia and New Zealand to improve such services is one example of such cooperation.
Q50 What transaction costs are associated with import tariffs? Are there administrative or other changes that could improve the efficiency of tariff collection?
Q51 What changes in domestic transport institutions, policies and regulations might lead to the greatest improvements in the economic efficiency of the international logistics chain?
Q52 How competitive is the freight forwarding industry that serves New Zealand exporters and importers? Do the recent Commerce Commission investigations of a number of firms indicate that there are systemic problems, or that the regulatory and competition regime is working well?
Q53 What are the costs of transit time to importers and exporters?
Q54 What sources of delay contribute to transit time? How might those delays be efficiently reduced?
The lack of air freight capacity from CIAL causes a significant amount of cost and delay to South Island exporters, because they have to transport goods to Auckland. To reduce these delays a detailed market analysis should be undertaken, identifying the potential volume that should be air freighted from CIAL and the seasonality of these exports. This analysis could open the way to introduce dedicated air freighters from CIAL.
Q55 Are there potential efficiency gains from vertical integration in New Zealand's international sea freight services? What are the disadvantages? What might need to change in order to allow or encourage greater vertical integration?
Q56 Are there potential efficiency gains from the vertical unbundling of specific components or activities in New Zealand's international sea freight services? What are the disadvantages?
Q57 Should decisions on investments in ports and in the associated infrastructure links to ports be left to the judgements of the individual suppliers of the separate components? Or would some sort of overall strategic plan provide useful guidance and some assurance that complementary investments will happen?
Q58 What is the scope for greater consolidation of ports, greater vertical integration of ports with domestic transport operators, or more use of long-term agreements between shippers

and port companies, as possible means to overcome coordination problems and achieve more efficient international supply chains?
Q59 Are there barriers to the negotiation of efficient agreements between ports and shipping lines?
Q60 Is there an asymmetry of bargaining power between ports and shipping lines? If so, what is the impact of this asymmetry? Are there any regulatory measures that might reduce the asymmetry?
Q61 Are the time costs associated with international air freight incorporated into current road infrastructure planning? To what extent should they be?
More efficient roading to airports would enable a more efficient transport of goods from road to air.
Q62 Do domestic air links work as an effective feeder for international air freight services? What could be improved?
Domestic air links are an effective feeder for international air freight services when no other direct alternative exists. Efficiencies should be explored to enhance domestic air links. However, on some services, a lack of available space to key markets, inhibits direct access for shipment by air (i.e., smaller jets don't have all the necessary capacity to feed larger airport hubs) However, enabling international direct access to markets would be a better way of achieving outcomes that enhance New Zealand's export and import markets.
Q63 Where in the logistics chain are time delays occurring, and how might they be addressed?
Q64 Does the imbalance of container use create significant costs? What practical measures might efficiently reduce these costs?
Q65 What are the potential benefits and risks for New Zealand from a move to hub-and-spoke configurations for international shipping? Are there actions New Zealand can take to increase the likelihood of benefits or to manage the risks?
Q66 To what extent do formal and informal alliances between airlines improve or detract from the efficiency of international air freight services? Are there opportunities to improve outcomes?
These alliances, either formal or informal, have the potential to detract from the efficiency of international air freight services. This is because the airlines have a mutual interest in keeping air freight rates up and capacity constrained, rather than actively compete for business.
Q67 What measures might improve the overall system efficiency of the logistics chain for international air freight?

Q68 Are import and export opportunities excluded or constrained by the lack of access to international freight transport services? Are there changes in institutions, policies or regulations that could lead to better outcomes?
Yes. A good example of this constraint is how, due to CIAL's limited air freight capacity, the cost to South Island exporters is increased (because they have to transport their goods to Auckland Airport).
Q69 Is there scope for increased sharing of operational data between transport firms to achieve improved coordination and efficiency? How might this be achieved?
Q70 Do the restrictive trade practices provisions of the Commerce Act deter the efficient sharing of operational data?
Q71 Is there a role for government to require the disclosure of performance measures in specific components, and to collate and publish that data?
Q72 Given likely future trends in trading patterns and transport technology, will the reliability, speed and efficiency of international logistics services be adequate for New Zealand's interests? If not, what can be done to leverage opportunities and mitigate risks?
Q73 What is the best way to achieve efficient decisions and coordination for the large, lumpy and interdependent investments that typically occur along international freight supply chains?
Q74 What factors would favour the choice of decentralised vs. centralised strategic planning?
Q75 What costs exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?
Q76 What productivity levels exist in the various components of the international freight transport supply chain and how have they been changing over time? How do these figures compare with those for other relevant comparator countries?
Q77 Are you able to contribute data that would assist the Commission?
Q78 Has this issues paper covered the key issues? What other questions need to be asked?
Q79 What are the most important issues for the Commission to focus on to achieve the greatest improvements in the efficiency and productivity of New Zealand's international freight transport services?

The significant disadvantage South Island exporters face in terms of air freight service efficiency due to the lack of freight capacity out of CIAL.