

**SUBMISSION TO THE NEW ZEALAND PRODUCTIVITY COMMISSION ON THE
COMMISSION'S ISSUES PAPER –****INTERNATIONAL FREIGHT TRANSPORT SERVICES****31 AUGUST 2011****1. PRELIMINARY CONTEXT****1.1 Invitation**

It is important that the Commission fully understands the different roles played by the various stakeholders involved in the international air freight transport services industry and their relative areas of interest and influence.

Auckland International Airport Limited (“Auckland Airport”), as the owner and operator of Auckland International Airport (“Airport”), New Zealand’s largest airport, has a significant role to play. To assist the Commission to understand our role and how it relates to those of the other key stakeholders in the air freight industry, Auckland Airport has invited the Commission’s team to visit the Airport for a tour and briefing. We look forward to meeting your team in the near future.

1.2 Where Auckland Airport fits in

Auckland Airport has a significant impact on New Zealand’s economy. Responsible for the facilitation of 13.7% of the nation’s GDP, the Airport is New Zealand’s second largest port, by freight value, with an annual export freight capacity of approximately 200,000 tonnes. The Airport is New Zealand’s major air freight export gateway accounting for approximately 85% of all export volumes.

The Airport has the second largest international passenger volume in Australasia after Sydney airport. In FY11 there were approximately 8million international passenger movements. This is of particular significance to any consideration of international freight transport services because approximately 90% of the high value freight that passes through the Airport is carried to/from it in the belly-holds of passenger aircraft.

Auckland Airport has a vested interest in a successful Auckland and New Zealand air cargo sector. As owner and operator of the Airport, Auckland Airport plays a critical role in New Zealand’s air cargo logistics chain. Auckland Airport does not directly provide air-freight related services, other than in our capacity as a landlord, but is the custodian/lessor of airport facilities and specific air cargo infrastructure at the Airport used by other stakeholders in the value chain (including exporters/importers, freight forwarders, cargo terminal operators (“CTOs”), government departments, airlines and end customers).

Auckland Airport is committed to our Airport being a “Smart” airport. We are working closely with our stakeholders, including CTOs, airlines and border agencies, to apply LEAN methodology to processes and to use new technological solutions to, for example, significantly reducing passenger processing times. This approach, if applied specifically to freight services, would undoubtedly have positive implications for the costs in the logistics chain and consequently for the end consumer – e.g. smarter Biosecurity processes and Customs screening would logically lower costs.

Auckland Airport is committed to ensuring that the air cargo capacity at the Airport is sufficient to support a sustainable industry going forward. From our perspective there is no land holding constraint. We would welcome the opportunity to support the entry of further CTOs and other key stakeholders to a sustainable air freight market. If the future opportunities to develop the air freight sector are to be fully exploited, there needs to be investment in additional air capacity, ground infrastructure and a closer working relationship between all the stakeholders within the air cargo value chain and we look forward to engaging further to achieve this.

In our view the principal constraint on air cargo capacity is the limits New Zealand's current air service agreements policy places on the number of air services. Economic growth is being fettered because air markets and routes cannot be accessed. This is particularly evident on routes to Asia.

1.3 Importance of air service agreements

There is a fundamental and inextricable connection between the future of the passenger aircraft industry and the future of the international freight industry. It is vital the Commission appreciate the importance to New Zealand Inc of an appropriately formulated national policy on New Zealand's air service agreements, one that champions and holistically aligns with the all the other mechanisms or policies that can positively influence travel and trade, such as immigration and visa policy, border processing, and free trade agreements. An air-rights policy that is flexible and fully aligned with New Zealand tourism, trade and economic interests is crucial to achieving productivity and economic success for New Zealand's air freight transport services industry.

New Zealand's current air service policy's has a bias towards reciprocity and bilateral rights that is, in parts, out-dated and does not always promote efficient market economics. The current reciprocity bias is constraining economic growth, particularly in respect of the large source markets such as China, India, United States or Brazil (or the major air-traffic hubs such as Qatar, Hong Kong or Singapore) when the benefits of an open approach to a particular market outweigh such an approach.

A report by international aviation consultants, Intervistas, commissioned by Auckland Airport, forecasts that market access liberalisation will increase international traffic to and from New Zealand by 22% from 2009 levels, and ownership and control liberalisation will increase traffic by 26%.

Awareness of the criticality of a network of air transport agreements that reflects today's dynamic markets and aviation trends is growing. As the Commission will be aware, the Ministry of Transport ("MoT") is currently reviewing its air service policy (restated in 1998) ("Current Air Service Policy") and has recently been authorised to negotiate higher caps on the bilateral air service arrangements that are in place with China, India and Brazil and potentially with up to eight other markets.

1.4 Removal of "Road blocks" to growth

New Zealand policy makers need to focus on ensuring that we are a country that it is "easy" to visit and/or do business with and to reducing costs.

Auckland Airport has been instrumental in highlighting the criticality of ensuring that New Zealand's immigration, and other border processing and biosecurity requirements, (in comparison for example to those of Australia), do not unduly or unjustifiably deter potential visitors or businesses from coming to or doing business with New Zealand. Whilst significant progress has been made, for example recent improvements to visa

processing in China, there is much more that can be done. The New Zealand Government's stated position is that unnecessary regulation must be avoided and that regulation is not to be an unnecessary road block that would prevent innovation, investment and job creation. Auckland Airport endorses this stance and commitment. Regulatory uncertainty is a very real issue if the continued investment by New Zealand airport owners in infrastructure development is to be assured.

The add-on charges involved in the import/export of freight are significant. Government Agency charges form a significant proportion of these. Similarly, if new regional markets are to be opened and this initially requires the air freighting of smaller shipments to establish a foothold in the market, it may be necessary to consider whether lower government agency charges should be applied to prevent opportunities being unduly constrained because the add-on charges, of which these are a significant component, are too great.

1.5 Routes/Fleet Types

Because the majority of air freight is carried in the belly-holds of passenger aircraft, the decisions of airlines, as to routes to be flown, alliances to be forged and fleet type to be used, are all significant factors for the future of air freight services. For example, the current trend towards the use of narrowbody aircraft (particularly on the Tasman and Pacific island routes) at the expense of widebody services that have good freighter capacity needs to be recognised as a potentially significant issue for the international air freight transport industry. Narrowbody capacity is considered unsuitable for the carriage of the majority of air freight given their inability to accommodate standard and commonly used unit load devices ("ULDs"). The purpose of ULDs is to allow large quantities of cargo to be bundled into a single unit, which leads to fewer units to load with consequent time savings for ground crew. Given the dominance of the Australian market for New Zealand exports, currently over 50%, reduced widebody capacity will require replacement with freighter capacity if the market is not to be threatened.

1.6 Export Products

Consideration needs to be given to whether, as a country, we need to diversify exports. Research commissioned by Auckland Airport in 2010 identified that New Zealand's continuing focus on the export of primary produce is not helpful to our air freight industry. The relatively low value of these commodities in international markets creates downward pressure on air freight rates which in turn offers little incentive for air cargo carriers to grow capacity. Higher value export product will have a greater ability to sustain the higher freight cost component that air freight contributes.

2. ANSWERS TO QUESTIONS

Auckland Airport has addressed Questions **1, 2, 3, 4, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 47, 48, 61, 62, 66, 67, 68, 73, 77, 78 and 79.**

Q1. Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this?

Auckland Airport agrees with the concept that economic efficiency in the logistics supply chain should result in lower prices for imported goods and higher profits for exporting industries. We also agree that, provided these translate into lower prices for imported goods the New Zealand consumer buys, and better wages and opportunities for the employees of exporters, that the overall wellbeing of New Zealanders will be supported.

However, in our view there is a risk that, by concentrating on the economic efficiency of the logistics supply chain, more strategic issues that are relevant may be missed.

It is imperative that New Zealand develop a dynamic and holistic policy framework that drives and facilitates the primary goal of delivering the best long-term outcome for the New Zealand economy. In particular, the importance of the development of new air routes for the air freight services industry and the New Zealand economy generally must not be overlooked.

New Zealand's air freight markets (import and export) are significantly dependant on the passenger aircraft sector. Approximately 90% of New Zealand's air freight is carried in the belly-holds of passenger aircraft.

New Zealand's air-rights policy needs to be flexible and fully aligned with New Zealand tourism, trade and economic interests. Flexibility will enable policy to accommodate rapidly evolving global market dynamics. Policy settings need to be able to recognise when the benefits of reciprocal or bilateral rights are outweighed by the overall economic benefits to New Zealand.

The Current Air Service Policy of pursuing the most liberal reciprocal agreements possible was a positive approach that was based on sound rationale and has, by and large, served New Zealand interests well. However, in today's global environment we believe there will increasingly be unintended consequences or opportunity-costs in markets resulting from a policy setting that seeks to ensure New Zealand has balanced and reciprocal chances to compete and that such a policy setting has a potential to act as a constraint to national economic growth when the benefits of a less reciprocity-based approach to a particular market outweigh the benefits of ensuring reciprocal rights to that country.

This is particularly true of very large source markets such as China, India, United States or Brazil (or the major air-traffic hubs such as Qatar, Hong Kong or Singapore that are connected to those large source markets) for New Zealand tourism and trade, where their massive scale and wealth is such that it can lead to a significant demand imbalance. The policy goal of seeking a balanced opportunity may not be viable or preferred as the potential growth in one market (and the subsequent global demand to do business with that market) will vastly outweigh the potential growth in (and demand for) New Zealand.

For example, the size, scale and growth of the China market is such that they have a large number of carriers capable of flying long-haul routes, and they have a market of +1.3 billion people to attract inbound visitation from. The demand for outbound growth out of China dwarfs the demand for outbound growth out of New Zealand.

China is already New Zealand's 4th largest merchandise export market and the New Zealand China Free Trade Agreement will open up further opportunities for New Zealand exporters. For the twelve months to September 2009 air export volumes grew 64% ex Auckland. China is the most immediate market where the current air-right agreement is near an existing 'cap' and is presenting an impediment to future capacity growth.

Air-service agreements are one (significant) piece of the puzzle and need to be considered holistically with other mechanisms or policies that can positively influence travel and trade, such as immigration and visa policy, border processing, and free trade agreements. New Zealand must continue to work and invest collectively to overcome our relative disadvantages of scale, funding and end-of-line location. We are effectively in a global competition to become a preferred tourism and trade partner, and air-services are a key aspect of that global competition. The review of the Current Air Service Policy currently underway needs to redefine the policy setting with a view to focusing more clearly and definitively, as a primary principle, on maximising economic benefits to New Zealand and being able to adapt and align with dynamic market change to achieve that goal. We believe that this will, in most markets, likely require a greater degree of liberalisation. There is a need to focus on New Zealand's highest market priorities and to establish a clear alignment between MED, MoT, DOL, Tourism New Zealand, MFAT, NZTE and the private sector on the order and priority of market targets at a high level and to coordinate a long-term view about how to unlock the economic potential from each.

In our view, an immediate recognition of the importance of lifting the 'cap' on air-rights between New Zealand and China is vital to enable this critical market opportunity to be addressed by the aviation industry and as an inevitable consequence by the export industry. Auckland Airport fully supports Cabinet's recent move to authorise the MoT to negotiate higher caps on the bilateral agreements with China, India and Brazil and potentially with up to eight other markets.

New Zealand's air freight exports are currently dominated by perishable primary products including fresh vegetables and fruit, chilled meat and fish (estimated at approximately 80% of total exports). In addition to underlining that the availability of sustainable direct air routes to grow markets for these exports is critical, this statistic raises another consideration that merits consideration at a strategic level. That is New Zealand's continuing focus on the export of primary perishable produce. The relatively low value of these commodities in international markets creates downward pressure on air freight rates which in turn offers little incentive for air cargo carriers to grow capacity. A diversification of export commodities might well change this position.

Q2. Is the framework described in Section 3.2 appropriate for this inquiry? Are there any important issues that might be missed?

The framework described in Section 3.2 and illustrated in Figure 2 (and Figure 12) does not identify cargo terminal operators (CTOs) which are a critical component of the international air freight transport services system.

Within the air cargo exports logistic chain there are three primary stakeholder groups – freight forwarders, CTOs and air cargo carriers.

We agree that it is appropriate to look at the interface between the component parts of the international freight transport services framework. CTOs are effectively the equivalent of the stevedores in sea transport. The omission of CTOs from the framework for the air freight sector highlights that there is not a comprehensive understanding of the airfreight industry. Airports in New Zealand do not provide air-freight related services, other than in the capacity of landlord/licensor. Auckland Airport's role has been to make appropriate facilities available to other entities that do provide these services.

At our Airport there are two CTOs with significant cargo handling operations, Air New Zealand Cargo and Menzies. Both of these entities lease premises from Auckland Airport from which we derive revenue.

In addition, the role of general sales agents (“GSAs”), the parties that sell freight space on behalf of the air cargo carriers (the airlines), needs to be factored in to the Commission’s consideration of the air freight industry. It is our understanding that the existence of the GSAs may create a disconnect between the air cargo carriers (the airlines) and the freight forwarders who manage the movement of produce on behalf of the importers and exporters. The role of GSAs and their influence on the logistics chain needs to be fully understood.

The framework identifies an overlap between the domestic and international air freight markets. Auckland Airport is not aware that there is a significant overlap. Information regarding the interface of these markets would need to be sought from other parties involved in the air freight industry, such as the air cargo carriers.

Figure 1 in the Issues Paper identifies a simplified logistics chain. We agree with the links identified in this but consider the chain, to be more accurate should identify “Outbound handling” as coming after the first reference to “Land transport” and “Inbound handling” before the second reference to “Land transport”.

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?

Auckland Airport does not intend to comment at this stage on the efficiency or otherwise of the various component parts of the air freight system, save to say that we have no doubt that there are efficiencies to be achieved potentially within them all and at each interface.

Auckland Airport notes that the CTOs play a major role and, importantly, in addition to interfacing with both freight forwarders and air cargo carriers, also interface with airports. As pointed out above, there also needs to be greater understanding of the role that the relevant parts play, including that of the GSAs.

Given that about 90% of air freight travels in the bellyhold of passenger aircraft, the influence of air cargo carriers is crucial. The decisions of airlines and their alliance partners significantly influence the air freight industry.

The interface between the industry and the government agencies should also be closely examined to see whether there is potential for reduction in bureaucracy and red tape and the introduction of modern “smart” technological solutions which will increase efficiency and reduce costs.

Q4. What environmental considerations should fall within the scope of this inquiry? What issues are of particular importance?

The key environmental impact of air freight is related to aviation’s contribution to climate change. Currently this contribution is approximately 3% globally, forecast to rise to 5% by 2050.

International aviation currently sits outside the Kyoto Protocol, due to the complexity of apportioning responsibilities. This is due to change in 2012.

These two issues combined have fuelled the “air miles” debate that could potentially penalise long-haul airlines and destinations, such as New Zealand. However, it is important to remember that currently the majority of New Zealand’s high value airfreight (90%) is transported in the bellyhold of passenger aircraft. This creates an economy of scale, as the aircraft are flying anyway, It is far more efficient to transport products and passengers together rather than separately as this reduces the total number of flights.

The aviation sector is also very actively looking at ways of reducing its carbon foot print through the use of biofuels, more efficient flights, fuel efficient aircraft and other improved operational procedures.

In addition, many New Zealand exporters are light-weighting and using novel packaging materials to decrease weight, and thereby the climate change impacts, of their products life-cycle.

Consideration should be given to how efforts in these areas might be appropriately supported.

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?

Auckland Airport is the owner and operator of the Airport, Auckland Airport and plays an important role in New Zealand’s air cargo logistics chain as the custodian/lessor of airport facilities and specific air cargo infrastructure at the Airport used by other stakeholders in the value chain (including exporters/importers, freight forwarders, cargo terminal operators (CTOs), government departments, airlines and end customers).

Airports generally don’t, and Auckland Airport does not, provide air-freight related services as such.

Auckland Airport makes appropriate facilities available to a number of other entities that do provide these services. The facilities we provide range from core aeronautical infrastructure, (such as runway, aprons and terminal facilities), to office and warehousing premises used by relevant stakeholders, (such as CTOs, airlines, government border agencies) and similar premises which we lease to freight forwarders and other commercial third parties that support aviation activities.

Some of the facilities which Auckland Airport owns and leases to tenants (such as the landside warehousing and office facilities used by freight forwarders) are clearly subject to competitive pressures. Auckland Airport competes for tenants with the owners of similar facilities located in Auckland and in particular with those close to the Airport – for example in the well-developed industrial area known as “Airport Oaks”.

In relation to other infrastructure, where Auckland Airport might be considered to hold the position of a natural monopoly, curbs on any potential abuse of that market position also exist.

- Section 4B of the Airport Authorities Act 1966 (“AAA”) obliges Auckland Airport, as well as Wellington and Christchurch airports, as specified airport companies under the AAA, to consult on charges for “identified airport activities” (i.e. airfield activities, aircraft and freight activities and specified passenger terminal activities).
- Section 4C of the AAA also stipulates consultation obligations specified airport companies must comply with before approving significant capital expenditure that relates to identified airport activities.

- Auckland, Christchurch and Wellington airports are also subject to a regulation regime, in the form of information disclosure regulation under Part 4 of the Commerce Act 1986. Part 4, which in its current form came into effect on 1 April 2009, provides generally for the “regulation of the price and quality of goods or services in markets where there is little or no competition and little or no likelihood of a substantial increase in competition”. The purpose of Part 4 regulation is to promote the long-term benefit of consumers in the markets for regulated goods and services by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of those goods and services have, among other things, incentives to innovate and invest.
- In addition, there is the very real countervailing power airlines are able to exert to control any potential charging of monopoly rents by airports.

Auckland Airport has a vested interest in a successful Auckland and New Zealand air cargo sector. Actions that damage that sector would ultimately have a negative effect on Auckland Airport’s success. Auckland Airport does not take any steps that would be detrimental to the wellbeing exporters and importers. On the contrary, Auckland Airport wants a vibrant and successful aviation industry that will result in benefits for New Zealand Inc.

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?

The current ownership and governance arrangements of New Zealand’s international freight airports are neutral with respect to the supply of freight services.

Auckland Airport does not provide air-freight related services other than as a landlord. Auckland Airport makes appropriate facilities available to a number of other entities that do provide these services.

Auckland Airport’s decisions in relation to its long-term configuration and operation are not influenced by our ownership and governance structures, but by the commercial realities within which we operate and an appreciation of the fundamental role we play and will continue to play in growing New Zealand’s economy. Auckland Airport has a master plan for the development of the Airport which has been consulted on by Auckland Airport with its stakeholders. The master plan provides for the future development of air freight facilities in terms of the allocation of land.

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?

Equivalent and appropriate legislative requirements already exist in section 4 of the AAA which requires airport companies to be operated or managed as commercial entities. Auckland Airport is a successful commercial entity. Auckland Airport is a privately owned company that is listed on both the New Zealand and Australian stock exchanges.

Although Auckland Council is one of Auckland Airport’s shareholders, Auckland Airport is not “owned” or “controlled” by a local authority in the same way as Christchurch. Neither, for that matter, is Wellington International Airport.

Currently Auckland Council owns approximately 165,500,000 shares, held by Auckland Council Investments (AIAL) Limited) that is 12.51% of our total shareholding. This is not a controlling interest and having such a significant local authority as a shareholder, neither directly positively nor negatively impacts our long-term efficient configuration and operation.

That said, Auckland Airport places significant value and importance on its positive relationship with Auckland Council and shares its vision for a strong and vibrant Auckland economy which can only have positive benefits for New Zealand as a whole.

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?

Given that approximately 90% of New Zealand's air freight is carried in the bellyholds of passenger aircraft, a significant amount of the investment that Auckland Airport has made and continues to make at the Airport, that may on the face of it seem to relate specifically to passenger services, is also of real relevance to the air freight industry. By attracting new and increased services to Auckland and pushing for a more liberal approach to air service agreements, Auckland Airport is supporting increased accessibility to air freight opportunities for New Zealand importers and exporters.

Specifically relevant to international freight services, our recent research indicates that adequate air cargo capacity and infrastructure exists today at the Airport.

Investment in airport infrastructure involves a significant financial commitment. Auckland Airport's decision whether to invest in further/other infrastructure, such as air cargo facilitation capacity and ground infrastructure, to support the air freight industry will continue to be led by whether there is a sustainable demand for this.

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 previously stated, Auckland Airport is the owner and operator of the Airport, Auckland Airport and plays an important role in New Zealand's air cargo logistics chain as the custodian/lessor of airport facilities and specific air cargo infrastructure at the Airport used by other stakeholders in the value chain (including exporters/importers, freight forwarders, cargo terminal operators (CTOs), government departments, airlines and end customers).

Airports generally don't, and Auckland Airport does not, provide air-freight related services nor directly stimulate or control New Zealand's air freight services.

Given that 90% of our high value international air freight is carried in the bellyhold of passenger planes, it is the size and shape of the air services market that is of significance. The opening of new air freight markets or the expansion of air freight markets both have the potential to be alternatively strangled or nurtured depending on how air service agreements are managed going forward.

In our experience, airlines make their decisions based predominantly on commercial drivers and market dynamics, not on policy or regulatory frameworks. That said, policy or regulatory frameworks should not be allowed to inappropriately hinder the playing out of market forces.

Q.32 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?

Auckland, Christchurch and Wellington airports are all subject to a regulation regime, in the form of information disclosure regulation under Part 4 of the Commerce Act 1986. Part 4 provides generally for the “regulation of the price and quality of goods or services in markets where there is little or no competition”.

The purpose of Part 4 regulation is to promote the long-term benefit of consumers in the markets for regulated goods and services by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of those goods and services have, among other things, incentives to innovate and invest.

The information disclosed may be useful to assist “interested parties” in assessing the performance of Auckland Airport, including in relation to international air freight activities, albeit this assessment will need to be made at a somewhat high level given that the volume of freight being carried by an airline is not currently a specific driver of the level of charges levied by airports as airports have no visibility of the freight volumes being carried.

In relation to the processing of air freight there are a number of potentially relevant measures that might provide useful background information as to performance.

- Statistics New Zealand provides information in respect of volumes of freight.
- The CTOs (ground handlers) have industry standards against which they and the air cargo carriers can measure performance in processing air freight. These industry standards include the following time measures, relating to the time taken, from the landing of the aircraft, to off load and ready for distribution:
 - a) 90 minutes for express products and courier parcels; and
 - b) 180 minutes for general freight.
- The throughput of tonnes on per sqm basis.
For example, our Airport’s imports and exports are estimated to be approximately 200,000 tonnes per annum with a throughput of 10.1sqm based on existing cargo infrastructure of 19,900sqm. This compares with Sydney airport whose imports and exports are estimated at 470,000 tonnes per annum with a throughput of 10 tonnes per sqm based on cargo infrastructure of 46,950 sqm.
- A comparison between airports of the numbers of CTOs, air cargo carriers etc. in relation to the aircraft movements, tonnage of export capacity available/utilised etc.

Q.33 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?

Auckland Airport would welcome the entry into the market in a sustainable fashion of further CTOs and other entities involved in the air freight services industry, such as cargo handlers and other customer service providers. We believe that a more liberal air service agreements policy will trigger increased capacity in the international air freight services market, providing the potential for more airport services companies, who provide a range of relevant services to work at the Airport. This increase will in turn increase competition and should reduce costs and provide more efficient services.

Q.34 Is the existing and planned regulation of airports sufficient to restrain monopoly pricing and induce an efficient level of investment? If not, what should change?

Auckland Airport does not provide air-freight related services other than as a landlord. As the owner and operator of the Airport, we play an important role in New Zealand's air cargo logistics chain as the custodian/lessor of airport facilities and specific air cargo infrastructure at the Airport used by other stakeholders.

In relation to our non-regulated assets (such as the warehousing and facilities managed by our investment property division and leased to freight forwarders) we, like our competitors that provide similar commercial property in the vicinity of the Airport, are subject to market pressures. As a commercial entity, in order to succeed we need to ensure that we appropriately invest in relevant infrastructure to meet the requirements of the market and we need to price that infrastructure competitively in order to capture business that will otherwise be lost to our competitors.

As far as our regulated asset base and the pricing of our charges to airlines that fly to the Airport, in addition to the consultation obligations under the AAA, Auckland Airport, and likewise Christchurch and Wellington airports, is subject to a regulation regime, in the form of information disclosure regulation under Part 4 of the Commerce Act 1986.

Auckland Airport is satisfied that, not only is the current regulation of airports sufficient to restrain monopoly pricing and induce an efficient level of investment, but that the new Part 4 information disclosure regime was not needed to assure the attainment of these objectives.

In Auckland Airport's opinion, the inclusion of airports in Part 4 was not due to any identified problem with their pricing and investment decision-making. Rather, Parliament was concerned that the existing information disclosure regime was not robust, and required improvement.

The AAA allows airports and airlines to reach pragmatic pricing and investment outcomes to accommodate specific market challenges they face at the time. We believe that our Airport is an illustration of how that has appropriately played out in practice. In introducing the "light-handed regulation" that Part 4 places on airports, Parliament was clear that it did not intend for the regulator (the Commerce Commission) to interfere with those outcomes. Importantly, the Australian Productivity Commission recently found such a light handed approach to the regulation of airports to be working well.

Auckland Airport is already delivering the outcomes sought by the Part 4 purpose statement. Investing in capacity to provide a world class international gateway that promotes vigorous competition between airlines to drive passenger volume growth is critical to the tourism industry and broader economy, and therefore all New Zealanders. Auckland Airport is delivering on all counts. While investing is important, Auckland Airport has no commercial incentives to overinvest and there is no evidence of imprudent investing by us in the past.

Benchmarking demonstrates that Auckland Airport's landing charges are in the middle of the pack for comparable airports, at the same time as being rated as the best airport in the Australia/Pacific region and one of the ten best in the World. Further, Auckland Airport has had a track record of investing in capacity on a timely basis.

Further regulation will not "induce" an efficient level of investment. That already exists. Our own research identifies that currently our air freight infrastructure meets the requirements of stakeholders within the air cargo chain. The AAA, combined with the market dynamics discussed above, does impose substantive constraints on aeronautical pricing and investment decisions.

It encourages airports and airlines to reach common ground on investment and pricing and is effective at promoting the long-term benefits of passengers and shippers. It has produced outcomes that are consistent with those produced in competitive markets.

Q.35 To what extent is the international air freight industry competitive?

To the best of Auckland Airport's knowledge the international air freight market is competitive, given the degree of globalization and the emergence of global supply chains.

The industry, as recognised by the Commission, is comprised of a number of components. Our understanding is that, not surprisingly, there are different levels of competitiveness in the different stakeholder groups. For example there are a significant number of freight forwarding firms operating through our Airport, but a duopoly of CTOs – Air New Zealand Cargo and Menzies (although we are not aware of any suggestion that any advantage is taken of this position by these parties).

Our recent research indicates that the dominance of air cargo carriers is perceived to relate to their relative network strength. With carriers operating on high air freight demand routes with minimal competition enjoying a privileged position with an ability to extract premium freight rates and to command loyalty from customers year round else risk a loss of capacity during seasonal peak periods.

Given that that 90% of our high value international air freight is carried in the bellyhold of passenger planes, the size and shape of the air services market is of significance. As the number of routes, and capacity availability on these, increase it is likely, in our view, that the amount of leverage that carriers may be able to exert will reduce with a corresponding reduction in costs for the services they provide. In looking at this, the role of GSAs should be considered. We have no visibility of what that role is.

Q.36 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?

Approximately 90% of New Zealand's air freight is carried in the bellyholds of passenger aircraft. This means that air freight routes are effectively the same as air passenger routes. There are lower levels of competition on those routes where there are fewer airlines flying and/or fewer flights being flown. Our current air service agreements policy constrains air services that can be flown and inevitably air cargo capacity. We are not aware of evidence of over pricing.

Q.37 How do bilateral air services agreements affect the accessibility and efficiency of air freight services available to New Zealand exporters and importers?

In today's global environment we believe that continuing to adhere to a policy of seeking reciprocal or bilateral rights, that seeks to ensure New Zealand has balanced and reciprocal chances to compete, has a potential to act as a constraint to national economic growth when the benefits of a less reciprocity-based approach to a particular market outweigh the benefits of ensuring reciprocal rights to that country.

International air-services are absolutely critical to global connectivity, tourism and helping to drive the New Zealand government's wider economic growth agenda. New Zealand's air freight markets (import and export) are significantly dependant on the passenger aircraft sector. Approximately 90% of New Zealand's air freight is carried in the bellyholds of passenger aircraft.

There needs to be a national focus at a high level to focus on New Zealand's highest market priorities, to establish a clear alignment between MED, MoT, DOL, Tourism New Zealand, MFAT, NZTE and the private sector on the order and priority of market targets and to coordinate a long-term view about how to unlock the economic potential from each.

It is unrealistic to expect to achieve a balanced opportunity with very large source markets such as China, India, United States or Brazil. New Zealand simply cannot match the size and wealth of such countries.

China is the most immediate market where the current air-right agreement is near an existing 'cap' and is presenting an impediment to future capacity growth. China, already New Zealand's 4th largest merchandise export market, has a large number of carriers capable of flying long-haul routes, and a market of +1.3 billion people to attract inbound visitation from. The demand for outbound growth out of China dwarfs the demand for outbound growth out of New Zealand. An approach based on reciprocity is not appropriate. Auckland Airport fully support Cabinet's recent move to authorise the MoT to negotiate higher caps on the bilateral agreements with China (as well as India and Brazil and potentially with up to eight other markets).

In our view, in order to maximise economic benefit to New Zealand, whether that be by making routes more accessible to carriers or more efficient for them and their alliance partners to fly, the air services arrangements in most markets are likely to require a greater degree of liberalisation.

Q.38 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?

Auckland Airport is committed to ensuring that the air travel market remains competitive, accessible and viable for all stakeholders (particularly where our Airport is involved). Travel, tourism and trade are, for the reasons covered earlier in this submission inextricably linked.

Auckland Airport is not clear why international air freight agreements should be treated differently to other commercial arrangements and fall within the jurisdiction of the MoT rather than the Commerce Commission.

The Commission will be aware that when the application for authorisation was made to the MoT in relation to the recent Air New Zealand and Virgin Blue Group alliance, there was considerable debate as to the validity of the Minister of Transport's jurisdiction to authorise the proposed alliance. The Commerce Commission has a jurisdiction to authorise commercial agreements under Part 5 of the Commerce Act 1986 which is not confined in the same way as the Minister's jurisdiction under Part 9 of the Civil Aviation Act 1990 ("CAA"). Even if one considers that the Minister of Transport is able to validly authorise such applications for authorisation under the CAA, other aspects of such arrangements might still be properly the subject of investigation by the Commission under Part 2 of the Commerce Act.

Given the Commerce Commission's recent experience in considering airline alliances of this type and the fact that in Australia such proposals fall within the jurisdiction of the Australian Competition and Consumer Commission ("ACCC") in Australia under legislation analogous to the Commerce Act, it might be more appropriate if such contracts, arrangements, or understandings relating to international carriage by air were dealt with by the Commerce Commission rather than the Minister of Transport.

Q.39 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?

For the reasons given in our previous answer, our view is that the regulatory functions in Part 9 of the CAA should fall within the remit of the Commerce Commission rather than that of the Minister of Transport.

There is insufficient clarity around exactly what types of agreement the Minister of Transport can appropriately authorise under the CAA. In today's world arrangements between entities are often complex and wide-ranging and go beyond the (either direct or indirect) fixing of tariffs or capacity.

Q.47 Do New Zealand's customs and biosecurity systems deliver the required outcomes efficiently? What initiatives might improve efficiency and effectiveness?

Auckland Airport's view is that there are unlikely to be any systems relating the international air freight cargo industry (or indeed any other industry) that could not benefit from some improvement.

Auckland Airport is committed to working with all key stakeholders involved in this aspect of the aviation industry, including CTOs, airlines and border agencies, to achieve improvements, efficiencies and cost savings. The application of LEAN methodologies to processes and the use of new technological solutions have already delivered positive results for passenger facilitation and more are underway. We are convinced that similar initiatives applied to freight services would have similar results and that cost savings would be achieved by the various links in the logistics chain with inevitable benefits for the end consumer. Auckland Airport is keen to work with the relevant stakeholders to identify and implement appropriate initiatives.

Q.48 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?

Although Auckland Airport is neither an importer nor an exporter, as a general observation, in terms of air freight, the existing export value chain is fragmented and there is lack of strategic thinking to drive growth end to end. Any streamlining of the export value chain should result in improved efficiency across the value chain providing quicker turnaround times reduce operating costs, improved profits.

Investment in technology needs to be considered, such as that in "e – freight" which is an IATA launched project to eliminate the need for to produce and transport paper documents for air cargo shipments by moving to a more simple, industry wide, electronic paper free environment. The benefits would include:

- Lower costs.
- Faster supply chain transit times.
- Greater accuracy.
- Regulatory compliance
- Better for the environment

Auckland Airport is firmly of the view that New Zealand, without jeopardising the safety and security of our country, needs to exert a real and very determined focus on ensuring that we become a country that it is “easy” to visit and/or do business with. Bureaucracy, heavy regulation and costs all make us less attractive.

Q.49 Are there any measures that New Zealand could undertake to reduce the security related costs imposed on exporters and importers?

Auckland Airport does not have significant direct knowledge of what these costs are. We are aware that the difficulty is often that the requirements, we may perceive to be “excessive”, are mandated by another overseas authority and applied on a “blanket” basis.

We wholeheartedly endorse continuing the efforts to seek exemptions for New Zealand where appropriate and to identifying alternative processing procedures that may lead to time and cost savings, for example the consideration of data during a flight and prior to arrival might in many cases save time where the freight is being exported from or imported into New Zealand. Auckland Airport is keen to work with the relevant stakeholders to identify and implement appropriate initiatives.

Q.61 Are the time costs associated with international air freight incorporated into current road infrastructure planning? To what extent should they be?

The ability to efficiently transport freight to airports by road is significant. If the time costs associated are not already incorporated into current road infrastructure planning then they certainly should be.

Most international freight is transported by road to our Airport rather than by domestic airfreight.

If roads in Auckland could be freed up by removing/reducing the number of commuters on them, thereby allowing freight to be transported more easily/quickly this would be beneficial for New Zealand.

There needs to be an investment in roads/alternative public transport system to provide for a more efficient transportation of freight.

Auckland Airport is deeply engaged, both through its master planning processes and engagement with local roading and transport authorities, in ensuring that efficient road and transport networks are achieved.

Q.62 Do domestic air links work as an effective feeder for international air freight services? What could be improved?

To the best of our knowledge there is not any significant link between domestic air freight and international air freight. Normally, domestic freight is transported by local roads or rail which is more cost effective than transporting by air. We believe that NZ Post is the dominant player in transporting domestic freight by air and other international airlines such as Qantas/Jetstar do not participate in the domestic market.

Q.66 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?

New Zealand's air freight markets (import and export) are significantly dependant on the passenger aircraft sector. Approximately 90% of New Zealand's air freight is carried in the belly-holds of passenger aircraft.

International air-services are absolutely critical to global connectivity, tourism and helping to drive the New Zealand government's wider economic growth agenda.

Where informal or formal alliances result in reduced capacity flying a route then an inevitable consequence will be that the available belly hold capacity for freight will be reduced. Similarly the change to aircraft types flying a route that may result from such alliances may have potential detrimental impact on international air freight if there is not adequate freighter capacity substituted for the capacity lost.

It is our understanding that the air freight value of a route does not determine the decisions of passenger airlines and is more likely to be considered a "nice to have".

As indicated previously Auckland Airport's view is that there needs to be a national focus at a high level to focus on New Zealand's highest market priorities, to establish a clear alignment between MED, MoT, DOL, Tourism New Zealand, MFAT, NZTE and the private sector on the order and priority of market targets and to coordinate a long-term view about how to unlock the economic potential from each.

Q.67 What measures might improve the overall system of efficiency of the logistics chain for international freight?

A strong emphasis on the investment of technology is important to create efficiencies within the freight logistic chain such as e – freight, which is an IATA launched project to eliminate the need for to produce and transport paper documents for air cargo shipments by moving to a more simple, industry wide, electronic paper free environment. The benefits of this would include:

- Lower costs.
- Faster supply chain transit times.
- Greater accuracy.
- Regulatory compliance.
- Better for the environment.

Q.68 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?

A lack of coordination between stakeholders in the development of export markets is a constraint on growth. Independent and fragmented efforts to develop markets have largely proven unsuccessful or failed due to the lack of engagement and/or commitment, pooling of stakeholders with common interest.

While it was recognised that wholesale air freight rates did relate to the distance from export markets, concern existed amongst stakeholders that add – on charges had increased significantly in recent years making New Zealand sourced product uncompetitive in some markets. An example was cited where air waybill fees including documentation charges, fuel surcharges, and government agency charges increased the total Free on Board (FOB) shipment cost by approximately 30%.

These charges typically impacted most significantly on smaller shipments due to the existence of minimum charges. Consequently these charges were seen as constraining opportunities to enter into new markets where smaller shipments were required at least initially.

Q.73 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?

Auckland Airport, as a major infrastructure provider, is very familiar with the challenges that accompany the making of large lumpy and interdependent investments. Getting the timing and solution right to solve for a demand driven requirement that we cannot directly control is par for the course for the airport business. Key to successfully solving for such challenges is having a truly coordinated and balanced commitment by all the key players and stakeholders to deliver the best long term outcome; one that will meet their commercial imperatives. Auckland Airport will continue to work with the relevant stakeholders to this end.

Q.77 Are you able to contribute data that would assist the Commission?

Auckland Airport can provide high level data on aircraft movements by route, both domestic and international. This data would include dedicated freighters and passenger aircrafts.

Other sources of information relating to the movement of freight can be obtained from Statics New Zealand and IATA and, of course, those directly involved in the air freight industry.

Q.78 Has this issues paper covered the key issues? What other questions need to be asked?

Auckland Airport trusts that this submission, and the suggested tour and briefing, will further inform the Commission about the role airports have in the international air freight transport services industry. This may slightly refocus the issues identified in this paper.

Q.79 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 industry?

As previously stated, and to summarise, our view is that the most important issues are:

- The fundamental importance of the connection between the future of the passenger aircraft industry and the international freight industry and recognition that in New Zealand, tourism is a direct driver of trade.
- The importance an appropriately formulated policy on New Zealand's air service agreements. One that recognises that a reciprocity bias constrains economic growth when the benefits of an open approach to a particular market will outweigh it.
- That it is imperative that New Zealand develops a dynamic and holistic policy framework that drives and facilitates the primary goal of delivering the best long-term outcome for the New Zealand economy. A network of air transport agreements that reflects today's dynamic markets and aviation trends and that is aligned with other mechanisms or policies that can positively influence travel and trade, such as immigration and visa policy, border processing, and free trade agreements is crucial to economic success.
- The need to continue to minimise regulation and remove unnecessary impediments to growth. We need to follow up on the good work that has resulted in recent improvements to visa processing in China with more of the same across the board.