



Cross-submission

Airports Information Disclosure amendments

To Commerce
Commission

3 May 2019

Introduction

1. This is the cross-submission of the Board of Airline Representatives New Zealand (BARNZ) to the Commerce Commission on submissions received on the consultation paper *Airports backward-looking profitability information disclosure amendments: Draft reasons paper*. We comment only on the submission made by the New Zealand Airports Association.
2. This cross-submission is made on behalf of the BARNZ member airlines, listed in the Appendix. Some members may make their own cross-submissions.
3. BARNZ's contact person for this submission is:

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Explanations of variances

4. The NZAA submission argues strongly that the additional variance explanations required by the draft decision are onerous and unnecessary.¹
5. BARNZ agrees in principle that explanations of variances should focus on material variances and we want to avoid unduly onerous disclosure requirements for airports – because these ultimately cost passengers money. However, we are not entirely convinced by NZAA's position. This is because:
 - a. Airports are subject to information disclosure regulation only, so the only control on monopoly behaviour is the disclosure information which means the disclosure requirements need to be comprehensive;
 - b. Airports' own previous disclosure statements have routinely contained as much or more explanations of variances (and other issues) than those proposed in the draft decision.² NZAA seems to be objecting to disclosure requirements that, in large part, reflect current practice by airports.
6. In paragraph 28 of its submission, NZAA argues that variance analysis should be required for schedule 1 only and only for period-to-date variances. We think this goes too far and would permit too much aggregation of numbers in which variances could be masked by changes in other values and so not explained to interested parties.
7. BARNZ would be comfortable with the following approach:

¹ NZAA submission, paragraphs 17-28.

² For example, see AIAL's FY18 disclosures pages 16-18 and 25-39; and CIAL's FY18 disclosures pages 7-15. These include discussions of variances between forecast and actuals for a wide range of disclosed values. Auckland Airport's FY18 disclosures included more than 90 pages of additional commentary before the mandated schedules began.

- a. Retain the disclosure of the variances themselves as proposed in the draft decision (it will be useful for interested parties to see the variance values even if some are not routinely explained).
 - b. Only require an explanation of the variances as they are disclosed in Schedules 1 and 6 (both current year and period-to-date). The items with disclosed variances in schedules 2 and 4 are either also disclosed in schedules 1 and 6 or will be an important input to items disclosed in those schedules. We appreciate that airports find the explanation of variances in schedule 6 to be challenging, but we find it very useful to understand the reasons for the variation in key expenditure items, both capex and opex.
8. We also understand the Commission's intention was not to require an explanation of variance in every line item where a variance is disclosed in Schedules 1, 2, 4 and 6, but to give airports a degree of judgement in deciding what variances are sufficiently important that they need explanation. It may be that this intention can be clarified more in the final decision.

Disclosure of monthly cash flows for commissioned assets

9. NZAA has queried whether disclosure of monthly cash flows for commissioned assets is necessary.³ We believe it is – the nature of airport investments means that in some months there will be very large lumpy assets commissioned and the timing of these investments could materially affect the airport's profitability in that year. We also do not see that it would be very onerous for an airport to explain an IRR variance that is driven by a major asset being commissioned in a particular month, because this will be a very obvious factor in the variance.

Definition of 'interruption'

10. The NZAA submission has proposed amending the definition of 'interruption' to exclude withdrawals of any specified airport service due to weather conditions.⁴ Currently only withdrawals of runway services due to weather conditions are excluded from the counts of interruptions to key airport infrastructure that are disclosed in schedule 11.
11. There is merit in this proposal, but excluding items from the count of interruptions must be done carefully to avoid creating loopholes:
- a. In principle it is reasonable to exclude runway, taxiway and contact and remote stand interruptions caused by adverse weather conditions (eg fog or high winds). However, there should be a clear definition of, or process for determining, what constitutes an adverse weather condition. For example, a properly constructed airbridge should be able to withstand a certain degree of wind, so we would want to ensure that only those interruptions caused by winds strong enough to create a genuine safety risk for a well-built airbridge are excluded.

³ NZAA submission, paragraphs 30-34.

⁴ NZAA submission, paragraphs 37-41.

- b. It is not clear what weather conditions could reasonably be expected to impact a baggage sortation system or baggage reclaim belt. If a terminal building was to leak during heavy rain and this caused the baggage system to fail, we do not think this should be excluded from the count of interruptions because this failure would be ultimately be caused by a flaw in the terminal design, construction or maintenance rather than by the weather conditions. As such, we consider that the weather conditions exclusion should relate only to airfield and contact stand services.
12. We suggest that the exclusion in clause (b) of the definition of interruption could be amended to something like: “the withdrawal of airfield services, contact stand services and remote stand services due to weather conditions that are sufficiently adverse such that a reasonable and prudent airport operator would withdraw the services”.

Appendix – List of BARNZ members

Airline members	
Air Calin	Air China
Air New Zealand	Air Tahiti Nui
Air Vanuatu	Airwork
American Airlines	Cathay Pacific Airways
China Airlines	China Eastern Airlines
China Southern Airlines	Emirates
Fiji Airways	Hainan Airlines
Hong Kong Airlines	Jetstar
Korean Air	LATAM Airlines
Malaysia Airlines	Philippine Airlines
Qantas Airways	Qatar Airways
Sichuan Airlines	Singapore Airlines
Tasman Cargo Airlines	Thai Airways International
Tianjin Airlines	United Airlines
Virgin Australia Airlines	
Non-airline members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport	Glidepath