



10 August, 2001

The Chairman
Commerce Commission
PO Box 2351
Wellington

Dear Sir,

DRAFT REPORT - PRICE CONTROL STUDY OF AIRFIELD ACTIVITIES AT AUCKLAND, WELLINGTON, AND CHRISTCHURCH INTERNATIONAL AIRPORTS.

This submission is made on behalf of the Members of the Port Company Reform Working Group¹.

The Draft Report - Price Control Study of Airfields has highlighted the difficulties of airline companies in negotiating with airports. The same difficulties are experienced with port companies by the shippers of low value high volume cargoes and shipping companies captive to a particular port because of the nature of their trade.

A sequence of events involving acquirers of port company services in dispute with port companies reveals evidence of abuse of monopoly powers. In two recent High Court cases Judges have described port attitudes to users as “draconian” and “dictatorial”. Yet the trapped port users have no alternative other than to use the port.

The acquirers of port services should receive from the supplier fair and reasonable prices without undue discrimination between users. Without access to valid information it is possible that charges made exceed stand-alone costs.

Most sea ports like major international airports are monopolies for some services. Unlike airports the corporatising legislation of port companies does not, amongst other things, regulate them to disclose information for the purposes of negotiation of prices.

¹ New Zealand Shipping Federation Inc, New Zealand Shippers Council Inc, New Zealand Association of Shipping Agents, Southern Cross Stevedores

Many ports like airports are now introducing ODV asset valuation methodologies that have the potential to further increase the already high return on assets, with scant regard for service provision or pricing on the traditional volume basis. Questions are being raised as to whether this emphasis on securing a high return on assets is inhibiting New Zealand shipping and sea freight activity.

Disputes that arise between acquirers of dedicated port services revolve around what is considered fair and reasonable pricing from the return on assets belonging to port companies and cost allocations.

The Draft Report into airport activities sets out the foundation to clarify the underlying principles of light handed regulation to the benefit of infrastructure industries generally, specifically in relation to:

- The identification of relevant markets
- Asset valuations
- Allocation of costs between markets, and
- Allocation of costs between buyers in individual markets

The Port Company Reform Working Group notes the Commerce Commissions suggested approach to asset valuations particularly the use of historical cost for valuing sunk assets and we support the Commission in that regard. The Commissions approach for historical valuation of sunk assets as opposed to ODV would greatly assist all port users.

Yours faithfully

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Secretary
Port Company Reform Working Group