

25 July 2025

Contains confidential & commercially sensitive information

Dr John Small
Chair
Commerce Commission
Wellington, New Zealand

via email: [REDACTED]

cc: [REDACTED]; [REDACTED]

Dear Dr Small,

Request for a Section 56G Inquiry into Airport Regulation

Thank you for your time last week. During our call, you asked Air NZ to provide further information on the consequences of leaving the current regulatory framework for airports unchanged, which we have set out in this letter. Air NZ does not believe the current Information Disclosure (ID) regime is achieving the Part 4 purpose. We share the Commission's view that changes to ID are unlikely to have a significant impact on outcomes. We note the suggestions around potential legislative solutions in your final report into Auckland International Airport Limited's (AIAL) PSE4 price-setting. Ministers and officials are clear however that legislative solutions will not be investigated until the Commission has exhausted the existing tools at its discretion.

While Air NZ would welcome the Commission's views on its available powers and their relative merits, we continue to believe that a section 56G inquiry into the economic regulation of specified airport services is the only option that will have a significant impact on outcomes for consumers. We understand that this would be a major undertaking for the Commission but the consequences for consumers of not doing so will be significant. Regulated airports are contemplating large and sustained uplift in future investment programmes, particularly at Auckland Airport. The need for and scale of this uplift remains debatable. There is likely to be significant public benefit in the Commission having a greater role in ensuring capital expenditure is appropriate and reflects what the public and the users need and can afford.

AIAL's masterplan alone is expected to cost ~\$19b over the next ~25 years. Modelling by Air NZ and Castalia suggests that under the current regime, AIAL's aeronautical revenues will increase from \$2.5b in PSE4 to more than \$10b in PSE7. On current projections, AIAL's domestic and regional passenger charges will increase by more than 600% over the period from 2019 to 2032. Air NZ expects regional prices in particular will continue to rise significantly beyond 2032 as AIAL delivers the new regional headhouse, additional domestic pier and second runway. These price increases will have material adverse effects on regional air connectivity in particular.

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Air NZ strongly believes there is enough accumulated evidence and concern to justify undertaking an inquiry. The potential benefits to consumers of avoiding inefficient investment at this scale are highly likely to outweigh the increased regulatory costs of doing so. The Commission can therefore have a reasonable expectation that an inquiry into the regulation of airport services, including potential changes from the current dual till methodology, would not have a pre-determined outcome in favour of continuing with the current approach.

We therefore request the Commission initiate a section 56G inquiry into whether a change in the regulation of airport services is required .

Our original request (February 2024)

In February 2024, Air New Zealand formally requested the Minister of Commerce and Consumer Affairs to initiate a section 56G inquiry. This request was grounded in: (i) our serious concerns about AIAL's significant, unilateral and inefficient capital expenditure programme for the 10 years to 2032; and (ii) the resulting impacts of this inefficient investment on the cost of, and demand for, air travel to and within New Zealand. We noted that ID was failing to promote the Part 4 purpose due to: (i) its inability to constrain inefficient major capital expenditure by regulated airports; and (ii) the lack of a credible threat of further regulation. We submitted that a section 56G inquiry was urgently required to consider the merits of moving to a more balanced form of regulation, before AIAL's proposed investment programme was significantly underway and the inefficiency permanently committed to its regulated asset base.

The Minister acknowledged the merits of our concerns but advised he would await the Commission's PSE4 review before deciding. No further direction has been provided to date.

What has happened since then

Since February 2024 numerous developments have made the case for an inquiry stronger:

- **The Commission's PSE4 Final Report (March 2025)** concluded that AIAL's targeted return was materially above what is reasonable, with estimated excess profits of \$150–\$226 million over five years. The Commission acknowledged the ID regime was not suited to regulation of major capital expenditure programmes as intervention ex-post is difficult, costly and comes too late to prevent harm. The Commission also acknowledged that there are limited options for change within the existing ID framework that are likely to have a significant effect on outcomes.
- **The Commission's May 2025 assessment of a domestic air transport study** highlighted the growing impact of cost pressures on regional aviation and market competitiveness.
- **Cost pressures are leading to suppressed demand for aviation across New Zealand** with



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Domestic volumes through Wellington Airport have been particularly impacted by the current economic situation, with Wellington International Airport Limited (WIAL) FY25 financial report indicating that total domestic volumes were down 4% on FY24 in contrast to the 1.4% annual growth anticipated when setting pricing for PSE5 in March 2024. [REDACTED]

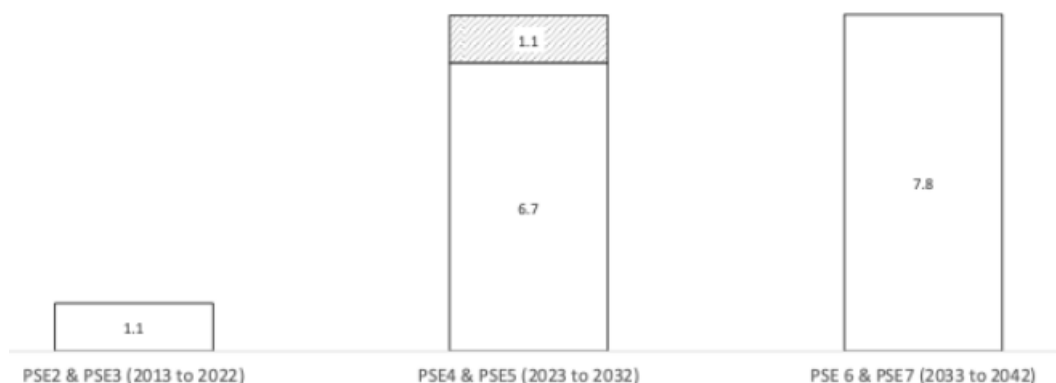
AIAL has also seen a significant decline in domestic volumes, reporting a 1% reduction in in FY25 in contrast to the 15% growth used in its PSE4 pricing decision. [REDACTED]

[REDACTED] AIAL released revised long term passenger forecasts with its 2025 Draft Master Plan which over PSE5 are 12% lower (16 million fewer journeys) than the PSE4 price setting forecasts released only two years earlier. Air NZ continues to believe that AIAL used unrealistically high forecasts in PSE4 to justify its excessive capital plan. This plan will now need to be funded across significantly reduced passenger numbers, ultimately leading to higher prices and even lower demand.

- **AIAL's Draft Master Plan (released June 2025)** sets out AIAL's plan to develop the airport precinct over the next 25 years. The scale and ambition of the 2025 Draft Master Plan are significant, and includes: the new integrated terminal and domestic pier; refurbishing the domestic terminal for turboprop operation; new regional terminal; demolition of the domestic terminal; expansion of the international terminal; additional domestic and international piers; a number of new stands and aprons; second runway; a new cargo facility; and relocation of the jet fuel facility. See Appendix for an overview of the scale of the AIAL 2025 Draft Master Plan.

The 2025 Draft Master Plan does not include any cost information. International engineering consultancy ARUP has however independently costed the ~50 component projects in the 2025 Draft Master Plan at ~\$19 billion (in 2025\$). We have summarised AIAL's regulatory capital expenditure by decade in Figure 1. This figure shows that the massive increase in AIAL's regulatory capital expenditure over PSE 4 & 5 will be sustained and likely exceeded in PSE 6 & 7.

Figure 1: AIAL Regulated Capex by decade (\$billion)



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- **OECD Report “Revamping Competition in New Zealand” (August 2024)** recommended the Commission investigate the feasibility of a hybrid till or the scope of activities covered by the regulated till. The OECD noted that a hybrid till could take the form of a well calibrated lump-sum subsidy between commercial and aeronautical airport activities, partially accounting for externalities while keeping the operation of the activities separate with their own incentives.
- **MBIE’s Review of Airport Regulation (May–July 2025)** investigated the effectiveness of the economic regulation of airport services under Part 4 of the Commerce Act 1986, including whether the regime provides sufficient oversight during times of major capital investment; whether the regime is sufficiently flexible to provide a targeted and timely response when changes in regulatory approach are required; and whether New Zealand should consider ‘hybrid till’ alternatives to the current dual till airport model.

Air NZ submitted to MBIE that the current regulatory regime is no longer fit for purpose and proposed four reforms aimed at aligning investment incentives with consumer interests: (1) adopting a hybrid till to ensure commercial revenues support aeronautical costs,¹ (2) enhancing regulatory flexibility to enable targeted interventions, (3) requiring independent scrutiny of major capex before implementation, and (4) introducing binding dispute resolution mechanisms.


Air NZ’s submission was accompanied independent analysis prepared by infrastructure advisors Castalia which estimated that higher aeronautical charges, combined with rising agency fees and levies, will result in 3.9 million fewer passengers travelling through Auckland Airport in the five years to 2032. Alternative regulatory models would significantly ameliorate the projected demand suppression, with hybrid till regulation the most effective resulting in 1.1-1.8 million more passenger journeys through AIAL over the 5 years to 2032 compared to the current regime.

While we have not received MBIE’s final report, MBIE has requested that the Commission explore steps it could take to increase and expand its scrutiny during times of major capital investment before further considering legislative change. MBIE appears to believe that the Commission can do this through additional ID requirement. For the reasons set out below, Air NZ agrees with the Commission’s view - further ID will not solve the significant problems facing domestic aviation.

Why Information Disclosure Is Not Working

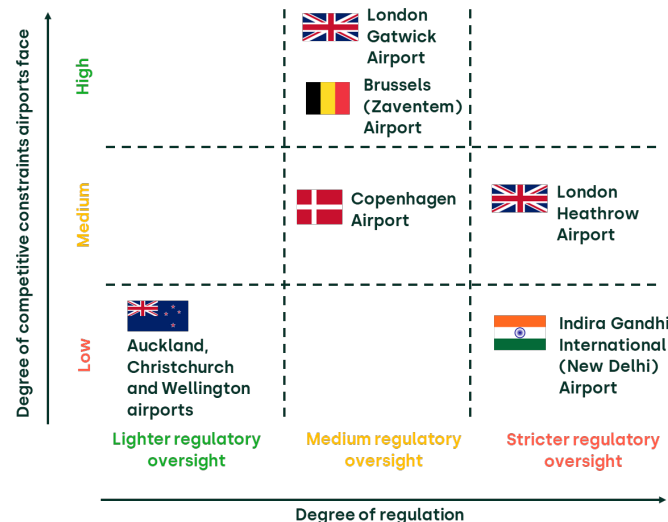
The current ID regime was designed to constrain airport market power through transparency and the threat of further regulation. However, this model is no longer working in practice. It fails on four fronts:

¹ As set out in Air NZ’s MBIE submission, a hybrid till better replicates outcomes in a workable competitive market, reflecting that non-aeronautical revenue - like retail and parking - depends on passengers using aeronautical services. An airport facing competition would have no option but to factor its earning from non-aeronautical services into its aeronautical charges.

1. **Timing:** The ex-post nature of ID means that by the time the Commission can assess the efficiency or reasonableness of major investments, the costs are already committed or spent and locked into the regulated asset base. It is too late to influence decisions meaningfully. Furthermore the process is incapable of properly assessing investment programmes spanning multiple price setting periods.
2. **Scope:** As the Commission itself has acknowledged, ID regulation is limited in scope. There is no requirement under ID to subject major capital investments to independent cost-benefit analysis or formal scrutiny. Airports can proceed with large-scale developments despite strong and consistent opposition from their substantial customers. In Air NZ's view, many other airport activities either fall through the cracks or avoid scrutiny altogether under ID regulation. Examples include:
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 - Commercial activities: Roads, utilities, maintenance services, and management overheads typically support both sides of the airport business. Under the current framework, costs can be disproportionately allocated to the aeronautical till, while commercial activities benefit. This encourages investment in commercial ventures at the expense of essential aviation infrastructure. The Mānawa Bay case study in our MBIE submission illustrates how this distorts investment priorities and misallocates shared infrastructure costs while also negatively impacting the consumer experience.
3. **Ineffective deterrence:** to be effective, light-handed regulation relies on a credible threat of escalation to stronger forms of regulation. This threat has proven hollow in relation to ID under Part 4. No airport has ever been moved from ID to another regime, and what was designed to be a relatively simple inquiry process has been described by the Commission as a "very significant undertaking", further empowering the airports.
4. **No dispute resolution mechanism:** The burden of testing investment assumptions, commissioning economic analysis, and participating in Commission reviews falls entirely on users. These costs are high and recurring, yet users have no decision rights and very limited influence on outcomes. Air NZ has spent millions of dollars on responding to airport consultation with stakeholders, but has found the process largely performative, with AIAL not required to take onboard the comments of interested parties. As the Commission itself noted, agreement between AIAL and its stakeholders on the appropriate level of service for the integrated terminal may have resolved some of the issues with the integrated terminal development.

As part of its MBIE submission, Air NZ commissioned a report from economic consultants Oxera . Oxera found that New Zealand’s ID regime is the least interventionist among comparable international regulatory frameworks, despite the significant market power of New Zealand’s regulated airports. This divergence makes New Zealand’s regime an outlier, raising concerns about its adequacy in protecting consumers and promoting efficient outcomes.

Figure 2: Oxera comparison of regulatory regimes



Likely consequences of inaction

If the Commission does not take action, the implications are clear and compounding:

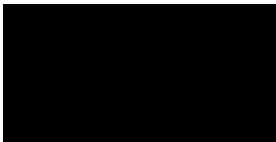
- AIAL’s masterplan is expected to cost ~\$19b over the next ~25 years. Modelling by Air NZ and Castalia suggests that as a result of this capital expenditure AIAL’s aeronautical revenues under the current regime will increase from \$2.5b in PSE4 to more than \$10b in PSE7.
- On current projections, AIAL’s domestic and regional passenger charges will increase by more than 600% over the period from 2019 to 2032. Air NZ expects AIAL regional charges in particular will continue to rise significantly beyond 2032 as AIAL delivers the new regional headhouse, additional domestic pier and second runway.
- Price increases at AIAL will have material adverse effects on air connectivity, particularly in regional markets where passengers are highly price sensitive and fare increases are most damaging.
- At the same time, domestic aviation is being hit by a wave of increased government agency-imposed charges, including levies for security, safety, and biosecurity services. These regulatory charges are rising by \$6.66 per domestic passenger trip and \$32.95 for international passengers

- Independent analysis prepared by infrastructure advisors Castalia estimates that higher aeronautical charges, combined with rising agency fees and levies, will result in 3.9 million fewer passengers travelling through Auckland Airport in the five years to 2032.
- This reduction in demand is already manifesting and will continue, placing further strain on the viability of routes and services essential to national and regional connectivity. We are already seeing smaller regional carriers exit routes as costs surge.²
- This is not a risk limited to Auckland. Other major New Zealand airports are also progressing significant infrastructure investment programmes, with additional plans underway at several regional airports. The costs of these projects will be passed through to passengers without any requirement to test efficiency, affordability, or alignment with actual demand.
- These cost increases represent a systemic threat to the accessibility and sustainability of air travel in New Zealand.

Without regulatory reform, New Zealand faces a future of higher fares, reduced demand, and diminished connectivity—outcomes fundamentally misaligned with the long-term interests of consumers and the economy.

The section 56G framework was created precisely for circumstances like these, where real-world outcomes signal that light-handed regulation is no longer working as intended. We urge the Commission to act decisively and initiate a review.

Yours sincerely,



Greg Foran
Chief Executive Officer

Attachments:

1. Request to Minister of Commerce and Consumer Affairs for section 56 inquiry (Feb 2024)
2. Air NZ's submission to MBIE's review of the effectiveness of the economic regulation of airport services under Part 4 of the Commerce Act 1986, including supporting reports by Castalia and Oxera (May 2025)

² [Sounds Air cut flying routes as costs surge | RNZ News.](#)

Appendix AIAL Draft 2025 Masterplan AIAL – FY2025



AIAL – FY2047



Source: AIAL Draft 2025 Masterplan, April 2025

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