



A Submission to the

Fijian Competition and Consumer Commission

on

the FCCC (Control of Prices for Aeronautical Services)

Order 2016

11 April 2019

1.0 Role of Consumer Council of Fiji

The Council has statutory obligations under *the Consumer Council of Fiji Act (Cap 235)* to “***to do all such acts ad things which it may necessary or expedient to ensure that the interests of consumers of goods and services are promoted and protected.***” The Council is also obliged to advise and make recommendations to the Minister responsible for consumer affairs in Fiji or any other Minister on issues affecting the interests of consumers. The Council is a key stakeholder in the formulation of policies, legislations and standards in the country. The Council being the frontline or first point of contact for consumer grievances has a strong mandate from consumers to express their viewpoints on issues affecting them.

The Council welcomes the Fijian Competition and Consumer Commission’s (FCCC) request for our submission in the Review of Commerce (Control of Prices for Aeronautical Services) Order 2016. The Council sincerely hopes that the issues it raises here are given due consideration which are in the interest of consumer justice and fairness.

1.1 Aeronautical Services in Fiji

Aeronautical Services has a long history in Fiji’s growth and development, with Fiji’s aviation facilities being an essential component as a competitor in the tourism industry. Fiji Airports, formerly known as Airports Fiji Limited (AFL) – which is commercial company fully-owned by the government dating back to 12 April 1999 under the Public Enterprise Act 1996 – has provided this service through the years.

Fiji Airports is responsible for 15 airports in Fiji, including Nadi and Nausori International airports and 13 other domestic airports around Fiji. It also provides Air Traffic Management (ATM) services within the Nadi Flight Information Region (Nadi FIR). Despite being sovereign air spaces, Tuvalu, New Caledonia, Vanuatu and Kiribati are also included under the Nadi FIR.

Aeronautical services contributes to nation’s economic development and is vital not only to consumers (airport users) but to tourism, the retail industry, manufacturing, public service providers, industrial sector and entertainment. Any changes in air fares affect end-users the most. An increase in the *Aeronautical Fees and Charges* means an increase in the air fares of various airlines. Therefore, it is important to consider the repercussions of any increase in fees and charges particularly with decrease in global fuel prices.

1.2 Regulations to be aligned with Government’s policy objectives

Before attempting any changes to *Aeronautical Fees and Charges*, Fijian Government’s vision for cost-effective air transport services set by the Transport and Planning unit of the Ministry of Infrastructure and Transport must be considered. When establishing regulations for Fiji Airports, the need for growth as indicated by the government’s objectives, such as the creation of new value in the economy and growing capital markets, achievable through partial and responsible divestments of certain government assets like Fiji Airports Limited, should be further noted.

2.0 Review of Commerce (Control of Prices for Aeronautical Services) Order 2016

The Consumer Council of Fiji recommends the extension of the Commerce (Control of Prices for Aeronautical Services) Order 2016 (hereafter referred to as “the Order”) for a preferable indefinite period until such event or time that:

- International Aeronautical Fees and Charges increase drastically.
- Fiji Airports loses a significant percentage of Air Navigation Revenue if they are unable to provide reasonable remittance to the Pacific Island countries whose Upper Airspace they manage.

The Honorable Attorney-General and Minister for Economy, Public, Enterprises, Civil Service and Communications stated in the 2016 National budget speech, that “*The divestiture of government shares in Airports Fiji Limited will set the stage for modernizing airports and developing Fiji into a regional aviation hub. Competition of the Nadi Airport Terminal Modernization Project is expected to improve services and generate greater returns, and Government expects investors to take notice.*” The implication here is that there is a greater need to extend the Order.

To support its argument for an extension of the Order as well as additional regulatory actions to be noted by FCCC, the Council would like to direct attention to the following.

2.1 Fiji Airports’ Powers

Owing to natural circumstances such as being the primary aviation body and provider of aeronautical services in Fiji, Fiji Airports Limited, is able to fully but unfairly monopolize its environment in terms of business conduct, specifically unregulated fees and charges stemming from output decisions that aim to maximize profits.

If left unregulated, Fiji Airports can potentially misuse its power in the market; offer services that fall below expectation due to profit maximization goals; and neglect maintenance of national infrastructure. Therefore, it is important to enforce a defined level of regulation to avoid this.

2.2 SWOT Analysis of Fijian Aeronautical Services Industry

Strengths

- Fiji Airports owns and operates all the major airports in Fiji and Rotuma, thus, enjoys natural monopoly.
- Fiji Airports’ Nadi International Airport has the capacity to handle 97% of international visitors to Fiji annually (85% are tourists). Currently, it also handles 38 international and more than 60 domestic flights a day which equates to more than 75,000 aircraft movements annually.

Weaknesses

- Fiji Airports is facing difficulty in retaining its highly trained and skilled human resources due to poor pay structure in Fiji.
- High employee turnover leads to additional costs of recruitment and selection, training and development and other human resources function which makes an employee ‘fit’ for the job.

- Apart from Nadi International Airport, other airports do not attract nor have the capacity to handle as many visitors which leads to an imbalance of revenue generation and operational services within Fiji. Development of these places will result to an increase in operations, thus greater revenue within Fiji's aviation sector.

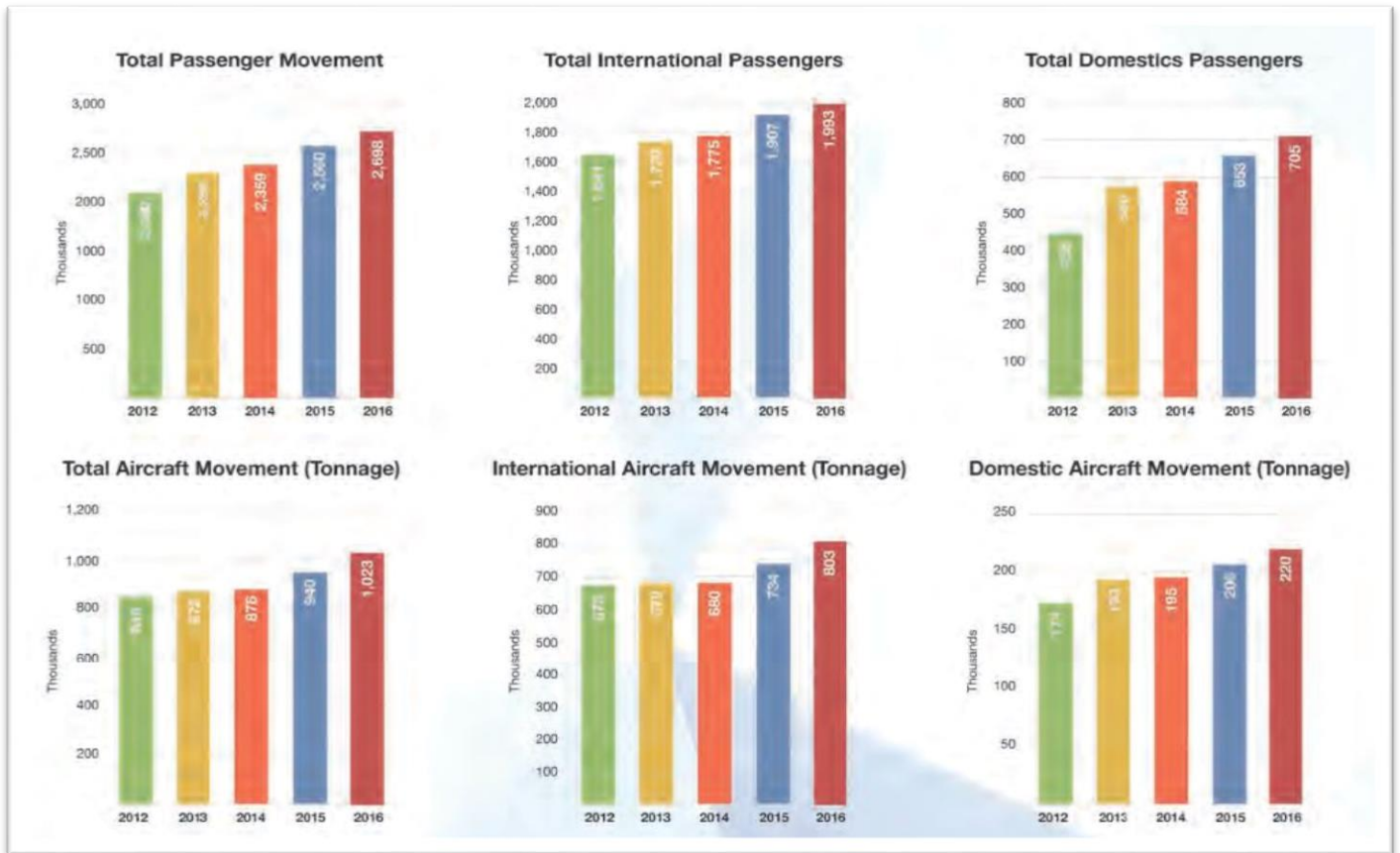
Opportunities

- Huge opportunities to build sufficient capacity to sustain future growth, in terms of number of flights, visitor arrivals, once the following projects are completed. This will generate more profit for Fiji Airports and other relevant industries.
 - a) Nadi International terminal
 - b) Nadi domestic terminal
 - c) Nausori Domestic terminal
 - d) Nausori International terminal
 - e) Air Navigation Systems
 - f) Outer Island 13 aerodromes
 - g) Nadi runway layover
 - h) Nadi Apron and jet parking
 - i) Nadi airport FIJI AIRPORTS compound satellite city
 - j) Cargo building and commercial offices in terminal at Nadi
 - k) Hanger sites Nadi and Nausori
- The completion of major projects of Fiji Airports will have a direct impact on tourism industry. The tourism sector will further strengthen and promote Fiji and Fijian made products to the world.

Threats

- A global economic downturn negatively affects leisure, optional travel as well as business travel;
- Spike in fuel prices which is regarded as the biggest cost for many airlines, might lead to restrictions placed by airlines on their routes to balance costs which will hinder the normal operations of Fiji Airports Limited; and
- Fiji Airports is also prone to plague and terrorist attacks which can have a negative impact on air travels.

Figure 1: Passenger and Aircraft Movements (2012-2016)



Source: Airports Fiji Limited – Annual Report 2016

2.3 Consumer Complaints

The conduct of Fiji Airports in the provision and retail of Aeronautical services in Fiji is generally reflected in the number and nature of complaints received at the Council.

Figure 2: Registered Complaints

Year	No. of registered complaints
2014	1
2015	0
2016	1
2017	1
2018	4
2019	0
TOTAL	7

Source: Primary Study – Consumer Council of Fiji, 2019

As shown in Figure 2, the complaints registered at the Council are generally related to poor customer service, particularly compensation sought for missing luggage, being charged more than the time spent in parking lot, scales in airport had expired calibration, and absence of flight information services at the Nausori airport at the time. From 2014, seven complaints were lodged at the Council against Fiji Airports Limited.

2.4 Fiji Airports' Profit Levels

Fiji Airports' profitability has enjoyed continuous improvements over the last seven-year period from 2010 to 2016. A significant leap took place from 2010 to 2011, where Fiji Airports' net profit increased from \$8.76m to \$12.48m. Total revenue increased again in 2014 in comparison to 2011, totaling at \$64.37m, which is impressive when considering Fiji Airports' loss of 75% commercial duty-free space in international departures. However, the biggest increase was in 2015, with total revenue almost doubling to \$92.55m. 2016 saw a greater improvement by 12% at \$118.05m.

Respectable performance recorded from 2010 to 2014 resulted in Fiji Airports' employees receiving bonus payments, with \$377,734 arranged for 2010, \$530,000 arranged for 2014, and \$600,000 for 2015. Fiji Airports also transacted a \$15 dividend payment to the government in 2015.

The key takeaway from these figures is that Fiji Airports is a vital component of Fiji that is constantly growing towards a noticeable positive direction.

Figure 3: Fiji Airports' Net Profit (2007-2016)

Year	\$ million
2007	\$0.71
2008	\$4.59
2009	\$5.67
2010	\$8.76
2011	\$12.48
2012	\$11.28
2013	\$12.91
2014	\$14.69
2015	\$25.11
2016	\$49.47

Source: Airports Fiji Limited – Annual Report 2010-2016

2.5 Assessment of Aeronautical Fees and Charges

Between 2015 and 2016, the primary change that took place under regards to fees and charges was the Air Navigation Service Fee. As shown in the table below, in 2015 the Tariff was \$3.45 for both domestic and international flights, with the Authorized Tariff on international flights at \$5.87. In 2016, while domestic Tariff remained at the same price, international Tariff successfully increased to the previously authorized amount of \$5.87.

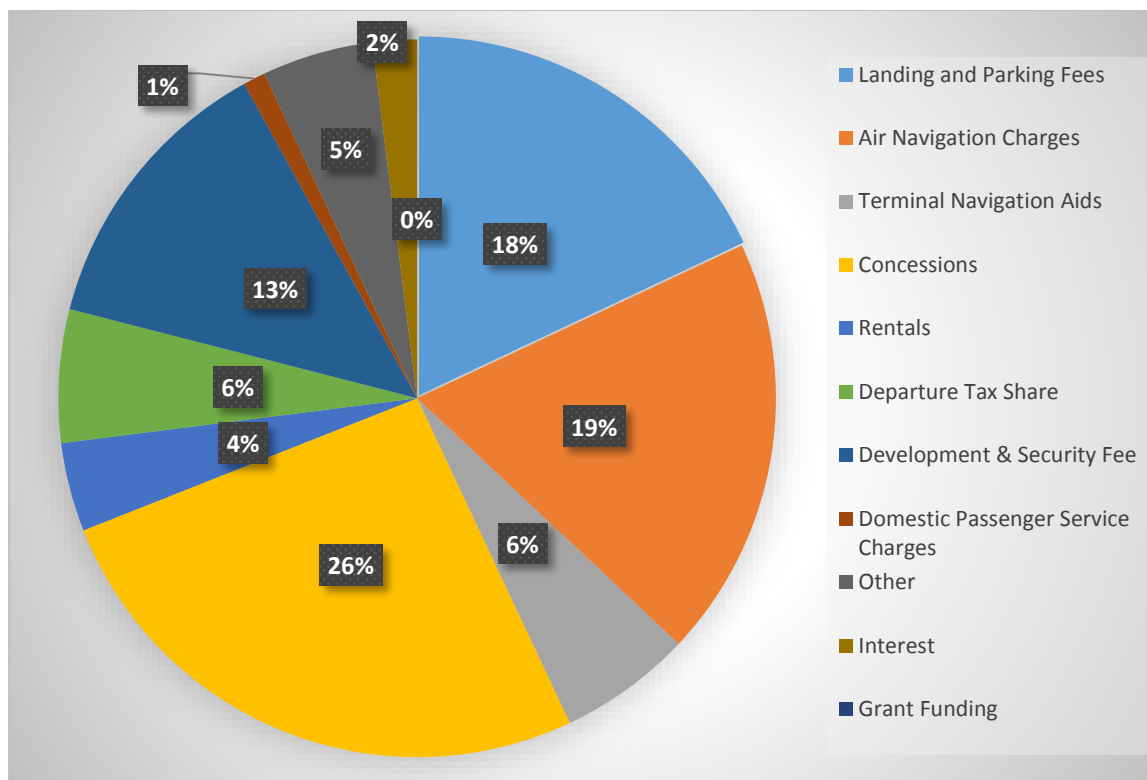
However, the Authorized Tariff for international flights is at \$9.51, which is arguably high. This is an increase of almost \$4 compared to \$2 from the previous year, and end-users will certainly be affected by its accumulative repercussions.

Figure 4: Final Authorization on Aeronautical Fees and Charges

Year	Description	Current Tariff (VEP)	Authorized Tariff (VEP)
2015	Domestic	\$3.45	\$3.45
	International	\$3.45	\$5.87
2016	Domestic	\$3.45	\$3.45
	International	\$5.87	\$9.51

Source: Fiji Commerce Commission, 2015-2016

Figure 5: 2016 Revenue Composition



Source: Airports Fiji Limited – Annual Report 2016

Figure 6: Key Performance Indicators of Fiji Airports Limited

Key Performance Indicators					
Year	2012	2013	2014	2015	2016
Operating Revenue (\$m)	62.7	63.6	64.0	91.5	116.1
Operating Expenses (Including depreciation) (\$m)	48.4	47.7	46.3	45.9	50.8
EBIT (\$m)	14.3	15.9	17.6	45.7	65.3
Cash from Operations (\$m)	19.4	20.0	26.7	42.8	68.5
Return on Assets (%)	5.7	6.5	7.1	9.9	16.4
Return on Equity (%)	7.3	7.7	8.5	13.7	24.4
Debt/Equity ratio (%)	4.9	0.9	4.1	25.3	31.6
Current Ratio (Times)	2.3	5.3	3.9	6.4	4.2
Interest Cover (Times)	30.9	226.4	1326.2	72.9	48.3
Total Int'l Passengers (million)	1.7	1.7	1.8	1.9	2.0
Capital Investment (\$m)	5.8	7.5	8.4	66.6	46.8
Dividends (\$m)	5.0	5.0	10.0	15.0	30.0

Source: Airports Fiji Limited – Annual Report 2016

2.6 Comparison of Fiji Airports' Prices to International Market

Arguably, two of the primary competitors in the market of Fiji Airports are New Zealand and Australia. Both countries target similar consumers, specifically passengers travelling to the Oceanic region, and offer additional services to other regions of the Pacific as well.

2.6.1 New Zealand

There are two central bodies in New Zealand that regulate aeronautical prices: the New Zealand Airports Association and Airways Corporation of New Zealand Limited (hereafter referred to as "Airways"). However, service fees and charges could only be obtained from Airways, represented in the table below. During the period from 2016-2017 domestic air navigation/ en-route charges is at a minimum of \$6.37 NZD, which amounts to \$9.18 FJD. In the same period, oceanic and international charges are \$19.11 NZD, which amounts to \$27.55 FJD.

Compared to aeronautical service prices by Airways, Fiji Airports' prices are considerably more affordable for the dollar value. Fiji Airports' domestic charges as of 2016 are \$3.45 FJD, which is significantly lower than that of Airways' when converted to FJD (coming to \$9.18). The difference is more evident in non-domestic charges where Fiji Airports' authorized charge as of 2016 is \$9.51 FJD, while Airways' charge when converted is \$27.55. Therefore, despite the jump in Fiji Airports' international service fee from \$5.87 to \$9.51, its prices will still be more reasonable for consumers.

Figure 7: Aeronautical Fees and Charges, New Zealand

For the period 1 July 2016 - 30 June 2017

Area	Minimum Price	Base Rate	Weight Rate >5 tonnes
Domestic En-route	\$ 6.37	\$ 6.35	\$ 2.46

For the period 1 July 2016 - 30 June 2017

Area	Minimum Price	Base Rate	Weight Rate >5 tonnes
Oceanic En-route	\$ 19.11	\$ 6.35	\$ 0.64

Source: Airways Corporation of New Zealand Limited – Standard Terms and Conditions 2017

2.6.2 Australia

Australia’s central body is Air services Australia (hereafter referred to as “AA”). As the table below shows, only statistics on AA’s domestic charges could be obtained. Nonetheless, in the period of 2016 AA charges \$4.18 AUD for air navigation/ en-route fee on domestic flights, which converted to FJD is \$6.33.

On the one hand, AA’s fee is still slightly higher compared to Fiji Airports (doubling from the current \$3.45 to the converted cost from AA), but also still more affordable than Airways New Zealand.

Figure 8: Aeronautical Fees and Charges, Australia

Price Tables

Current	Service Price (inc GST)	1 Oct 2011	1 Jul 2012	1 Jul 2013	1 Jul 2014	1 Jul 2015
Enroute						
\$4.18	20 tonnes or more	\$4.10	\$4.07	\$4.04	\$4.03	\$4.03
\$0.93	Up to 20 tonnes	\$0.92	\$0.91	\$0.90	\$0.90	\$0.90

Source: Airways Corporation of New Zealand Limited – Standard Terms and Conditions 2017

Dollar Value

When compared side by side, the results are represented in the table below. The prices charged by Fiji Airports are drastically cheaper than the services provided by its counterparts Australia and New Zealand. AA’s fees are still higher than Fiji Airports but lower than Airways, which does have the highest fees. From the three aeronautical service providers, Fiji Airports’ prices are reasonable, but within the country, the increase in international tariff from \$3.45 to \$5.87 is sizable nonetheless and may deter consumers.

Figure 9: Comparison of Aeronautical Fees and Charges

Air Navigation Charges	Domestic	Domestic in FJD	International	International in FJD
Fiji (FIJI AIRPORTS)	\$3.45	\$3.45	\$5.87	\$5.87
Australia (AA)	\$4.18	\$6.33	-	-
New Zealand (Airways)	\$6.37	\$9.18	\$19.11	\$27.55

Source: Airways Corporation of New Zealand Limited – Standard Terms and Conditions 2017

3.0 Recommendation and Future of Commerce (Control of Prices for Aeronautical Services) Order 2016

The Consumer Council recommends that the Commerce (Control of Prices for Aeronautical Services) Order 2016 be extended based on the following:

- Fiji Airports’ profitability has been very positive from 2010 onwards and has made an unprecedented dividend payment of \$45 million to the government in late July 2018 that is indicative of the fact that price regulation is not detrimental to its business.
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- Fiji Airports enjoys economies of scale as it is the only entity providing aeronautical services in Fiji, thus, exists as a monopoly in the marketplace.
- Fiji Airports’ current and future projects will attract large number of tourists from all over the world. This in turn increases Fiji Airports’ operations and profitability (return on investment).
- Fiji Airports’ current fees and charges were revised in 2016 and is somewhat in line with overseas airports, therefore, an extension is justified.

The Council further submits that FCCC monitors:

- Fiji Airports’ performance – as it needs to continue improving aeronautical services provided to passengers and airlines and must continue to be up to par to international standards and compete globally.
- The Council further recommends FCCC to monitor and evaluate all the plans of Fiji Airports (subject to review) which were incorporated in their submission(s) prior to the changes of Aeronautical Fees and Charges 2016.