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Final Authorisation

Aeronautical Fees and Charges

Airports Fiji Limited ("AFL")

Effective Date: 1 February, 2015

Date Issue: 31 January 2015

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"To promote Competition in the Fijian Markets"

1.0 Introduction

- 1.1 The transport infrastructure and management, particularly the aviation facilities are crucial for Fiji's competitiveness as a tourist destination and other trading activities. The aviation sector comprising the airlines together with the airports, air navigation and other essential ground services make up the air transport infrastructure.
- 1.2 Air transport contributes to sustainable development by facilitating tourism and trade. It generates economic growth, provides jobs, increases revenues from taxes and fosters the conservation of protected areas. It also facilitates the delivery of emergency and humanitarian aid relief anywhere on earth, and ensures the swift delivery of medical supplies and organs for transplantation.
- 1.3 There is a need to ensure that the aviation industry generally and airports specifically continue to provide access to national and international services and infrastructure that meet the broad range of industry needs and expectations.
- 1.4 An airport enjoys a legislated or natural monopoly and therefore can charge a monopoly price for the relevant services. To minimize the potential misuse by airports of their market power, the capacity for airports to provide services below community expectations or to neglect the maintenance of essential national infrastructure, a degree of regulation is required.
- 1.5 Strong, robust and independent economic regulation is needed to protect airlines and their passengers from monopoly abuse.
- 1.6 Airports are, for the most part, natural monopolies. As such, they need to be subject to additional supervision to ensure that in the absence of sufficient competition, prices to airlines and passengers are cost efficient and that service quality improves.
- 1.7 An appropriate economic regulatory framework is required for airports to prevent abuse of market power. A commitment to striking a balance between the needs for effective oversight, transparency for all airport users and incentives to invest is essential.
- 1.8 Due to the monopolist features of the aeronautical services industry, the role of a regulatory body in promoting competitive forces in the industry is of importance. The absence of sufficient competition in the market leads to inefficiency in resource allocation and utilization. It also goes against consumer interest.
- 1.9 The Commission is empowered under the *Commerce (Control of Prices for Aeronautical Services) Order 2013* to control and /or regulate the aeronautical services charges in Fiji.

- 1.10 It is essential for the Fiji Commerce Commission to examine Airports Fiji Limited's ("AFL") role and pricing of the services given its strategic and monopoly position in the supply of aeronautical services in the Fijian market.
- 1.11 The quality of regulation within the sector is key to the investment climate. It determines the rules for investment finance and private participation. Effective regulation mobilizes investment finance at minimum cost and ensures good performance, the benefits of which can be passed on to consumers.
- 1.12 In making its assessment, the Commission has to give regard that prices should allow a return on appropriately defined and valued assets commensurate with the regulatory and commercial risks involved, the quality of service outcomes to be consistent with user's reasonable expectations, consultation mechanisms to be established with stakeholders to facilitate the two way provision of information on airport operations and requirements and given that it is expected that airports primarily operate under commercial agreements and in a commercial manner, arrangements for access to airport services are negotiated.
- 1.13 In Fiji, AFL's Aeronautical charges are reviewed by the Commission. To facilitate the review for the calendar year 2015, the Commission on 8 October 2014 called for submissions on the review of AFL fees and charges.
- 1.14 Following the receipt of the submissions from AFL, the Commission notified the airlines and the other industry stakeholders on the proposal from AFL and sought their comments and suggestions.
- 1.15 Based on the submissions from the service provider and the service users, Commission's independent research, benchmarking and computations, the Commission has made this authorisation to be effective from 1 February, 2015.

2.0 Legal Framework

- 2.1 Section 39 (1) of the Commerce Commission Decree 2010 provides that the Minister on the recommendation of the Commission, by Order declare that the prices for goods and services specified in the order are controlled.
- 2.2 Section 39 (2) requires that the Commission be satisfied that the goods or services to which recommendation relates are or will be supplied or acquired in a market in which competition is limited or is likely to be lessened; and it is necessary or desirable for the prices of those goods or services to be controlled in the interests of users, consumers or suppliers.

- 2.3 In 2006, the Commission made a recommendation to the Minister that a declaratory order controlling prices for Aeronautical Services be made. On 22 June 2006, the Minister declared price control on prices for Aeronautical Services in Fiji.
- 2.4 As a consequence of the Order published in the Gazette, the Prices for Aeronautical Services became subject to Section 41 (1), which prohibits the supply of controlled goods or services unless a price for those goods or services has been authorized by the Commission and the goods and services supplied are in accordance with the authorization.
- 2.5 The Commerce (Control of Prices for Aeronautical Services) (Amendment) Order was reviewed and extended on 20th June, 2013 for another three years. The Order expires on 21 June, 2016 unless this Order is varied, extended or earlier revoked.
- 2.6 The Commission is empowered under the **Commerce (Control of Prices for Aeronautical Services) Order 2013** to control and /or regulate the aeronautical services in all grades and classes in Fiji.
- 2.7 For the purpose of the **Commerce (Control of Prices for Aeronautical Services) Order, aeronautical services “ is defined as:**
- 2-(1) (a) air navigational aided services;
(b) air traffic control services;
(c) landing and parking services for aircrafts;
(d) air side activities like incinerator services and aerobridge services; and
(e) Other services relating to aircraft movements.
- (2) The definition of aeronautical services is not limited to subsection (1).
- 2.8 Section 41 of CCD2010 stipulated that ***controlled goods or services not to be supplied except in accordance with authorised price***. Any person who acts or aids and abets another person to act in contravention of this section is guilty of an offence with a maximum fine of \$50,000.
- 2.9 This authorisation is made within the ambit of this legal framework.

3.0 Commission's Process

- 3.1 In performing its functions and exercising its powers, the Commission ensured procedural fairness by observing the following –
- (a) acting transparently and fairly;
(b) consulting in good faith any person who is or is likely to be affected by any action or decision including any Ministry, department, other government entity or any commercial, industrial, consumer and standards body; and

(c) giving all such persons the opportunity to make submissions and be heard.

3.3 In recognising the spirit and intention of CCD2010, the Commission on 8 October, 2014 wrote to AFL advising the company that the current authorisation of the aeronautical changes expires on 31 December and for AFL to make a detailed submission to the Commission for the review and authorisation of charges for the year 2015.

3.4 Following the receipt of the submissions from AFL, the Commission notified the airlines and the other industry stakeholders on the proposal by AFL and sought their comments and suggestions.

3.5 Ministry of Industry, Trade and Tourism and Civil Aviation was also consulted as part of the review process.

4.0 AFL's Submission

4.1 AFL in its submission to the Commission provided the following as the basis to support its request for an increase in the aeronautical fees and charges:

4.1.1 Aeronautical Fees and Charges in Fiji are low in comparison to the international aeronautical charges in the Asia Pacific region;

4.1.2 Major future plans including but limited to the following capital expenditures from 2015:

- a) Nadi International Terminal – currently sitting at \$105 million. \$65 million in 2015 with the completion date being May 2016.
- b) Nadi Domestic Terminal - \$7 million.
- c) Nausori runways and new terminal - \$90 million.
- d) Air Navigation Systems / ADSB - \$10 million.
- e) Outer Island 13 aerodromes - \$40 million.
- f) Nadi runway layover - \$40 million.
- g) Nadi Apron and jet parking - \$12 million.
- h) Nadi Airport 100 rooms hotel site - \$45 million.
- i) Nadi Airport AFL Compound satellite City - \$300 million upwards.
- j) Cargo building and commercial offices in terminal at Nadi - \$10 million.
- k) Hangar Sites Nadi and Nausori - \$5 million

4.1.3 Loss of staff due to poor pay structure in Fiji;

4.1.4 To build sufficient capacity to sustain future growth; and

4.1.5 To provide the return required to shareholders as per the guidelines of Public Enterprise Act.

5.0 Benchmarking

5.1 Overview

- 5.1.1 As part of its assessment, the Commission carried out benchmarking to evaluate international comparable aeronautical charges in the Asia Pacific Region. The purpose of the benchmarking was to evaluate the current and proposed AFL charges with the aeronautical charges for other airports in the Asia Pacific Region.
- 5.1.2 The main source of benchmarking used by the Commission for the purpose of assessing the submission by AFL is the Leigh Fisher Report ("LFR") dated 11 April, 2013.
- 5.1.3 The LFR contains assessment of samples of airports categorised into main samples and the regional airports to calculate the turnaround costs.
- 5.1.4 The charges taken into account are landing charges, aircraft parking charges, any passenger-related charges and terminal navigation charges.
- 5.1.5 The relevant benchmarking statistics for the purpose of the assessment of AFL's submission and the making of this authorisation is summarized below.

5.2 Passenger Throughputs

- 5.2.1 Passenger throughputs measures the number of passengers travelling via the airports for a given year. It is a measure of the scale of international and total operations at the airports.
- 5.2.2 Summary of the sample selected by the Commission for the purpose of making of this authorisation is as per Table 1.

Table 1: Passenger throughput -2011

Passengers 2011	International	Total	Int'l as % of total
Auckland	7,048,728	14,019,751	50.3%
Christchurch	1,422,015	5,592,529	25.4%
Nadi	1,601,625	1,866,638	85.8%
Papeete	511,706	1,169,819	43.7%
Port Vila	228,646	354,068	64.6%
Rarotonga	250,614	320,043	78.3%
Nuku'alofa	153,082	203,658	75.2%

Source: Leigh Fisher Report 2013

5.2.3 The selection of the above airports for comparison purposes makes sense in light of similar scale of international operations in terms of passenger throughputs.

5.2.4 The selected airports international passenger numbers as a percentage of total passengers ranges from 25.4% to 85.8%, with Nadi having the highest percentage reflecting that the scale of operations at Nadi International Airport is comparable to the other international airports selected in the sample.

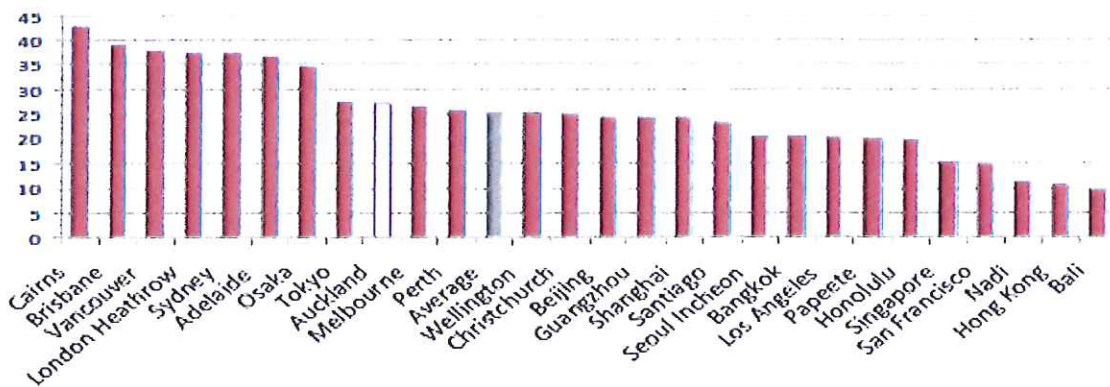
5.2.5 Annexure 1 provides a comparison of the features between Nadi International Airport and Papeete Airport. The pictures resemble similarities between the characteristics of the two airports.

5.3 Per Passenger Charges

5.3.1 For the purpose of making this authorisation, the Commission also benchmarked per passenger costs at various airports in comparison to the Fijian Airports.

5.3.2 For the main sample from the LFR, the per passenger costs for all types of aircrafts in New Zealand Dollars (NZ\$) is as per Figure 1.

Figure 1: Charges per Passenger (each way)-All aircraft types-(NZ\$)



Source: Figure 9 -Leigh Fisher Report 2013

5.3.3 Figure 1 clearly demonstrates that Nadi is currently the third cheapest from the sample of twenty- eight (28) airports selected. Auckland is approximately 125% expensive than Nadi and Papeete is approximately 67% expensive than Nadi.

5.3.4 The average charges per passenger as per Figure 1 is (NZ\$25). In comparison charges for Nadi is approximately (NZ\$12). The current charges per passenger at Nadi International Airport is approximately 108% lower than the International average as per Figure 1 of the Leigh Fisher 2013 report.

5.3.5 With the proposed increase in aeronautical charges by seventy percent (70%), the new charges for Nadi when compared to the selected airports will be as per Table 2 and Figure 2.

Table 2: Charges per Passenger (each way)-All aircraft types-(NZ\$) with 70% Increase for Nadi

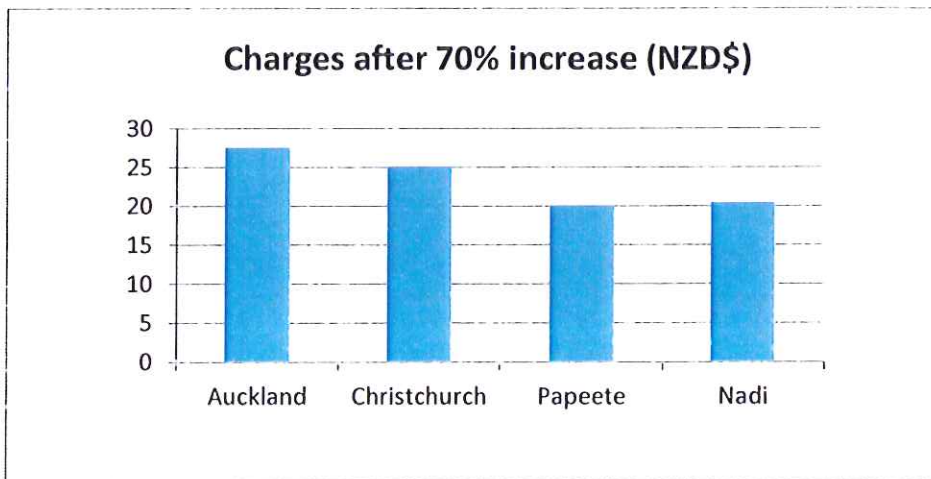
Airport	Charges (NZ\$)	Charges after 70% increase	Variance Compared to Nadi
Auckland	27.5	27.5	+7.10
Christchurch	25	25	+4.60
Papeete	20	20	-0.40
Nadi	12	20.4	

5.3.4 Table 2 clearly demonstrates that even after the 70% increase in aeronautical charges by AFL, Fiji will remain internationally competitive and one of the cheapest in the Asia Pacific Region.

5.3.5 In light of the 70% increase in the aeronautical charges, Nadi International Airport (approximately NZ\$20.4) will still be around 18% lower than the International average (NZ\$25).

5.3.5 Aeronautical charges for Nadi compared to the comparable as per Table 2 is demonstrated by Figure 2.

Figure 2: Nadi compared to other Airports after 70% Increase



5.3.6 With the seventy percent (70%) increase, Nausori International Airport (NZ\$27.20) will still be cheaper than airports such as Raratonga (NZ\$38.00) and Noumea (NZ\$29.00) as per Figure 25 of the Leigh Fisher Report.

6.0 Commission's Assessment and Authorisation

6.1 Commission's Assessment

6.1.1 The Commission notes the following from the submissions made by AFL, stakeholders and its independent assessment and benchmarking:

- a. AFL's commitment to huge capital projects with the objective of modernization of the airports in Fiji;
- b. The new aeronautical charges will allow Airports Fiji Limited to undertake relevant, critical and important capital investments and compete internationally;
- c. The proposed increases will lay the foundation for the much needed capital investment to support the Fijians desire to have world class facilities and grow to international standards;
- d. The current aeronautical charge in Fiji are substantially lower than the International rates and averages;
- e. The average charges per passenger as per the Leigh Fisher 2013 report is (NZ\$25) .In comparison charge for Nadi is approximately (NZ\$12). The current charges per passenger at Nadi International Airport is approximately 108% lower than the International average as per the Leigh Fisher 2013 report;
- f. Even with the 70% increases in the aeronautical charges, Nadi International Airport (approximately NZ\$20.4) will still be around 18% lower than the International average (NZ\$25); and
- g. Even with seventy percent (70%), Nausori International Airport (NZ\$27.20) will still be cheaper than airports such as Raratonga (NZ\$38.00) and Noumea (NZ\$29.00) as per Figure 25 of the Leigh Fisher Report.

6.2 Commission's Authorisation

6.2.1 In view of the assessment by the Commission as per 6.1 above, the Commission makes the following authorisation to be effective from 1 February, 2015.

6.2.2 Air Navigation Charges

The air navigation charge is also called En-route charge which is applied to all aircrafts flying in Nadi Flight information Region (FIR), whether landing or not.

Table 3: Air Navigation Charges

Description	Current Tariff	Authorized Tariff
Enroute Service Unit fee	(VEP)	(VEP)
Domestic	\$3.45	\$3.45
International	3.45	\$5.87

6.2.3 Terminal Navigation Fee

A Terminal Navigation Fee is paid for a flight in a terminal control area, control zone or flight information zone of an aerodrome and using air traffic control services and or flight information service.

Table 4: Terminal Navigation Fee

Description	Current Tariff	Authorized Tariff
Cost per MCTOW	(VEP)	(VEP)
Domestic	\$4.02	\$4.02
International	\$4.02	\$6.83

Note: MCTOW: Maximum Certified Take-off Weight

6.2.4 Airfield Charges - Domestic Landing Fee

Domestic Landing fee is the landing charges, which is based on the weight formula for domestic flights, using the Maximum Certificated Take-off Weight (MCTOW) as indicated in the certificate of airworthiness.

Table 5: Airfield Charges - Domestic Landing Fee

Description	Current Tariff	Authorized Tariff
Tonnage	(VEP)	(VEP)
Cost per		
MCTOW		
< 15	\$2.53	\$2.53
15 < 25	\$4.12	\$4.12
25 < 50	\$6.00	\$6.00
50 <	\$13.00	\$13.00

6.2.5 Airfield Charges - International Landing Fee

International Landing fee is the landing charges, which is based on the weight formula for international flights, using the Maximum Certificated Take-off Weight (MCTOW) as indicated in the certificate of airworthiness.

Table 6: Airfield Charges - International Landing Fee

Description	Current Tariff		Authorized Tariff
	Tonnage	(VEP)	(VEP)
Cost per MCTOW	< 15	\$3.25	\$5.53
	15 < 25	\$5.27	\$8.96
	25 < 50	\$7.80	\$13.26
	50 <	\$16.46	\$27.98

6.2.6 Incinerator Fees

Incineration fees is levied on aircrafts for the safe removal and disposal of excrement, refuse, water, waste, unused and condemned food and other dangerous materials to health.

Table 7: Incinerator Fees

Aircraft Capacity	Current Rate	Authorised Rates	
	(VEP)	Domestic (VEP)	International (VEP)
For aircraft carrying passengers up to 100	\$20.00	\$20.00	\$40.00
For aircraft carrying passengers up to 101 to 200	\$37.00	\$37.00	\$74.00
For aircraft carrying passengers from 201 to 300	\$52.00	\$52.00	\$104.00
For aircraft carrying passengers over 300	\$75.00	\$75.00	\$150.00

6.2.7 International and Domestic Parking Fees

International and Domestic Parking Fees refer to the charges payable in respect to the aircraft parked at the airport.

Table 8: Domestic Parking Fees

Description	Current Tariff		Authorized Tariff		
	(VEP)		(VEP)		
Cost per MCTOW	Tonnage	First three hours free of charge		First three hours free of charge	
		Not in excess of six hours	In excess of six hours	Not in excess of six hours	In excess of six hours
MCTOW	< 9	Nil	\$1.00	Nil	\$1.00
	9 < 50	\$15.00	\$5.00	\$15.00	\$5.00
	50 < 100	\$30.00	\$10.00	\$30.00	\$10.00
	100 <	\$60.00	\$20.00	\$60.00	\$20.00

Table 9: International Parking Fees

Description		Current Tariff		Authorized Tariff	
		(VEP)		(VEP)	
Cost per	Tonnage	First three hours free of charge		First three hours free of charge	
		Not in excess of six hours	In excess of six hours	Not in excess of six hours	In excess of six hours
MCTOW	< 9	Nil	\$1.00	0.70	\$1.70
	9 < 50	\$15.00	\$5.00	\$25.50	\$8.50
	50 < 100	\$30.00	\$10.00	\$51.00	\$17.00
	100 <	\$60.00	\$20.00	\$102.00	\$34.00

6.2.8 Airport Development Charge and Airport Security Charge

The airport development fee is used to pay for the terminal building development and maintenance which is allocated to the Non-Contestable Terminal (NCT) business unit, where passengers are processed on departure and arrival.

The airport security fee is levied on departing passengers to recoup the security expense incurred by AFL.

Table 10: Airport Development Charge and Airport Security Charge

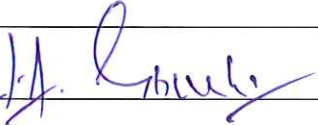
	Current Rate	Commission's
	(VEP)	Authorized Rate (VEP)
Airport Development Charge	\$5.00	\$8.50
Airport Security Charge	\$5.00	\$8.50

The above or any other charges by Airports Fiji Limited will remain the same and no new charges will be introduced unless authorised by the Commission.

6.2.9 The above authorised aeronautical fees and charges are subject to the following conditions:

- i. The fees and charge authorised may be revoked or varied by the Commission in the event of any material change in government tariff, efficiency levels or economic policy;
- ii. The fees and charges authorised by the Commission may be revoked or varied in the event that AFL failed to make material disclosure to the Commission;
- iii. The fees and charges authorised by the Commission may be revoked or varied in the event that the Commission considers upon a review that changed circumstance warrant a revocation or variation;

- iv. The fees and charge authorised may be revoked or varied by the Commission in the event AFL fails to carry out the capital projects as scheduled;
- v. AFL is required to furnish to the Commission Certificate of Completion of the projects completed from and other supporting documentation for its capital investment work in progress as per section 4.1.2 of this authorization.
- vi. Airports Fiji Limited (AFL) must not introduce any new charges of vary any authorised charges without the Commission's approval.
- vii. Airports Fiji Limited (AFL) must provide to the Commission the final corporate plan.


Mr. Firoz Ghazali
Acting Chair
31 January 2015

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Annexure 1: Comparison -Nadi International Airport and Papeete Airport

Nadi

Papeete

