

Sonya van de Geer
Principal Adviser, Economic Regulation
Ministry of Transport
Wellington
Via email at s.vandeger@transport.govt.nz and aircservices@transport.govt.nz

1 February 2024

Tēnā koe Sonya

SUBMISSION ON APPLICATION FOR AUTHORISATION OF PARTNERSHIP BETWEEN AIR NEW ZEALAND AND VIRGIN AUSTRALIA

- 1 Christchurch International Airport Limited (*CIAL*) welcomes the opportunity to submit to the Ministry of Transport (MoT) on the application by Air New Zealand Limited (*Air NZ*) and Virgin Australia (*VA*), (together, the *Airlines*) of their proposed arrangement.
- 2 *CIAL* recognises that from time to time there will be market conditions that necessitate the authorisation by the Minister of Transport of coordination between airlines. *CIAL* adopts a principled position that where the appropriate conditions exist it is broadly supportive of coordination which, following a rigorous evaluation by MoT and key industry stakeholders, can demonstrate the public benefits outweigh any public detriment. Of particular interest to *CIAL* will always be the potential for real capacity growth demonstrated by the alliance and its regional distribution within New Zealand.

Key points

- 3 The trans-Tasman aviation travel market is important to New Zealand travellers and the New Zealand economy. That market is currently dominated by Air NZ and Qantas Group with 87% of capacity between them. *CIAL* views Virgin Australia as the only third entrant that has the sales and marketing strength, fleet and experience to be able to create dynamic competition in that market.
- 4 The effect of the proposed arrangement will be to reduce the commercial motivation for Virgin Australia to fly its own services on trans-Tasman routes. The arrangement is therefore likely to protect the existing market dynamics.
- 5 The benefits of the arrangement are minor and accrue predominantly to Virgin Australia Velocity members.
- 6 *CIAL* does not see that the benefits of this arrangement can outweigh the detriments it creates by perpetuating existing market dynamics. In addition, the proposed arrangement will not promote capacity growth or greater regional distribution. *CIAL* does not support the application.
- 7 *CIAL* takes a balanced view on coordination between airlines. Given changes to the Civil Aviation Act it is timely for the Ministry of Transport to consider if the policy intent of s88 Civil Aviation Act 1990, and the future provisions of the Civil Aviation Act 2023,

will be met if New Zealand's national carrier can have arrangements in place with all major Australian airlines at the same time.

The trans-Tasman aviation market is critically important to New Zealand

- 8 The trans-Tasman aviation market is New Zealand's most important international aviation market. There were 1.1 million visitor arrivals from Australia last year, equating to 51% of all non-resident visitor arrivals. Sydney, Brisbane and Melbourne are the top three overseas ports of embarkation for travel to New Zealand.
- 9 In addition, trans-Tasman services are critical for exports of time-sensitive goods to Australia. There is over \$25 billion of bilateral trade between Australia and New Zealand. The eastern seaboard of Australia is also critical for New Zealand travellers and goods to access hubs that provide diversity of on-bound travel options.
- 10 The good-functioning of the trans-Tasman aviation market is critically important to the New Zealand tourism industry, our wider economy, our exporters and travellers.
- 11 The current operation of the trans-Tasman aviation market is less dynamic than before COVID-19. In the case of Christchurch Airport There is 15% less overall capacity on trans-Tasman routes than there was in 2019, fewer routes and fewer participating airlines. As a result, the market share of the two major incumbent airlines and average load factors are higher than there were before COVID-19.
- 12 The market is both less dynamic and less competitive than it was. This is reflected in rapid increases in air fares between the two countries. Australia to New Zealand fares have increased by about US\$100 per sector between 2019 and 2023 (data is taken from IATA's AirportIS product). Similar increases are recorded on average Australia to Christchurch fares and average Sydney to Christchurch fares.

The arrangement will reduce Virgin Australia's motivation to enter the trans-Tasman aviation market

- 13 Prior to COVID-19, Virgin Australia flew approximately 20% of seats on trans-Tasman routes and has sales and marketing presence in both Australia and New Zealand. Virgin Australia flew approximately 100 trans-Tasman flights a week and this frequency gave them the ability to compete effectively across market segments.
- 14 Prior to COVID-19 the trans-Tasman aviation market was competitive. Travellers benefited from this competition by way of price and service. In 2019 the average air fare between Australia and New Zealand was US\$183 per one way sector. In 2023 the same average air fare is US\$288, according to the IATA BSP product.
- 15 Airlines are now returning overall capacity toward pre-Covid levels. In the absence of Virgin Australia flying the majority of trans-Tasman routes the competitive dynamic has not returned to that market. Qantas Group, with a predominantly Australian customer base and Air New Zealand, with predominantly New Zealand customers, share 87% of the market. This share is set to increase in 2024.
- 16 Markets with three viable participants are more competitive and dynamic than markets that are dominated by two participants. Virgin Australia is the airline that is most likely

to be able to re-enter to the trans-Tasman market with sufficient frequency and presence to disrupt the incumbent carriers. Fifth freedom carriers with single percentage points of market share cannot be expected to change the existing competitive dynamic. All fifth freedom carriers on the Australia to NZ country-pair markets together generate 11% market share. The loss of Air Asia X will reduce this share by three percentage points in 2024.

- 17 The proposed arrangement reduces Virgin Australia's need to enter the trans-Tasman market. The proposed arrangements allow Virgin Australia to access Air New Zealand's network, offer frequent flyer points to its members on those services, access Air New Zealand lounges and coordinate in relation to business customers. This gives Virgin Australia a ready-made offering for its business and corporate travellers. Under existing arrangements, passengers can already avail themselves to these services if they choose to purchase an interline fare in business class.
- 18 In return, there are no obvious benefits in the proposed arrangement for Air New Zealand. It currently operates high load factors on trans-Tasman routes and has capacity constraints exacerbated by current engine issues that will run through to 2025. The obvious conclusion is that deterring the entry of Virgin Australia to the trans-Tasman market is a sufficient motivation for Air New Zealand to seek the proposed conduct.
- 19 The detriments of the proposed arrangement will be felt by travellers in the form of the ability of incumbent airline to maintain high airfares and in the form of less capacity, choice and frequency.

The benefits of the conduct are minor

- 20 The benefits of the proposed conduct do not outweigh the detriments caused by the competition effects.
- 21 The benefits of the proposed conduct accrue to Virgin Australia top tier Velocity members and Australian corporate customers who will be able to access Air New Zealand services on the same terms and customer offering as if they were Virgin Services. This benefit is minor and could be arranged by Virgin Australia without the need for authorised conduct.
- 22 The arrangement does not lend itself to capacity growth, greater regional distribution or meaningfully higher visitor numbers to New Zealand. With existing capacity constraints, exacerbated by aircraft availability and engine maintenance issues, the arrangements will not lead to an increase in Air New Zealand capacity. It will not provide Virgin Australia with enough seats to de-risk the establishment of future services or routes and it will not stimulate traveller demand through lower prices.

The effects of authorisation 'in the round' need to be considered

- 23 New Zealand's International Air Carriage Competition regime will move from Part 9 of the Civil Aviation Act 1990 to Part 6 of the Civil Aviation Act 2023 in 2025. The tests outlined in s199 (2) of the 2023 Act provide the policy purpose of the new regime.
- 24 As we come to the end of the operation of the 1990 Act, Air New Zealand has authorisations in place with Cathay Pacific (OneWorld), Air China and a pending

reauthorisation with Singapore Airlines. It has a perpetual arrangement with United Airlines and a code-share with Qantas that has not undergone regulatory approval. If an arrangement is approved with Virgin Australia, Air New Zealand would have arrangements in place with airlines in two of the three global alliance groups, all major Australian airlines and with every current airline that has shown a historic willingness to enter the New Zealand domestic aviation market. Air New Zealand has code-share arrangements with eight airlines on the SYD-CHC service.

- 25 It is timely for the Ministry of Transport to reflect if this level of authorisation is likely to achieve the purposes of the Civil Aviation Act 2023 as indicated in s199(2).

If there are any questions about this submission, please contact Gordon Bevan, General Manager Aeronautical Development, [REDACTED]

Yours sincerely

Gordon Bevan
General Manager, Aeronautical Development
Christchurch International Airport Limited