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Mr Darrell Channing
Director
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
Canberra Act 2601
AUSTRALIA

Dear Sir,

VIRGIN BLUE GROUP AND AIR NEW ZEALAND - AUTHORISATIONS - A91227 & A91228

The following is a submission by Hamilton International Airport (HIA) on the application by Virgin Blue Group and Air New Zealand for a Trans-Tasman Alliance.

HIA is located in the central North Island of New Zealand and has been an international airport for fifteen years, with Air New Zealand's low cost carrier Freedom Air flying to Sydney and Brisbane. Air New Zealand stopped international flights to HIA in April 2009 and they were recommenced by Pacific Blue in September 2010.

Government Protection and Barriers to the Trans-Tasman Market

We are concerned that a one-sided airline perspective on the Trans-Tasman market may persuade the ACCC in their decision. In particular, we would question the conclusion that there are low barriers to entry on the Tasman and that there are a large number of international airlines on the route. Our reasoning is based on the following set of circumstances.

1. *Wide-Bodied Trans-Tasman Operations*

   Airlines using 5th freedom rights with long-haul aircraft have been operating on the Tasman for a number of years, with the most successful being Emirates. However, the route appears to be competitively difficult to be operated by airlines flying long-haul via Australia to New Zealand. This has been evident with a number of international long-haul airlines dropping the Trans-Tasman market over the last 6 years, with the most recent airline being Royal Brunei.

   Even Emirates latest reported[1] average monthly load factors on the Tasman were just 53% in February 2010 and 56% in March 2010. Again we believe that these low load factors could indicate that long-haul operations across the Tasman are marginal. This is possibly because of factors such as timing of the flights, full service offering, and the provisioning of the aircraft for long-haul flights.

[1] Department of Infrastructure, Transport, Regional Development and Local Government March 2010 and February 2010 statistical report on international airline activity.

Furthermore, according to the submission by the applicant the remaining South American long-haul operators compete on the Tasman because of operational limitations on existing aircraft. This may change in the future with new aircraft models such as the A350 and B787.

2. *International Airline Ownership Rules*

   The only narrow bodied aircraft operating on the Tasman are those operated by Qantas/Jetstar group, Pacific Blue and Air New Zealand. We suspect that other Australasian owned airlines are unlikely to enter onto the Tasman to compete with these large companies, which three out of four are government owned.

   New foreign owned narrow bodied operators are currently blocked from entering the Tasman because of the Australian government policy not allowing foreign owned airlines to operate internationally from Australia. The most recent example of a foreign owned airline blocked by this policy, but with narrow bodied aircraft that could operate effectively on the Tasman, is Tiger Australia.

   Note: the limited range of narrow bodied aircraft (A320 and B737 series) means that the likes of Tiger Airlines in Singapore are unable to use 5th freedom rights in the same manner as Emirates. This is because the flight time from Asia to the Australian cities on the east coast is either too long or for the likes of Cairns the flights would be weight restricted and so uneconomic.

Reduced Trans-Tasman Airline Competition

Given the barriers to entry on the Tasman we would question the conclusion in the applicant's submission that 'the removal of direct competition between Pacific Blue and Air New Zealand is unlikely to have a material adverse effect on competition across the market'. This conclusion was made on the following premise:

- The 'presence of strong competitors across the market', which as we discussed above is questionable.
- 'Low barriers to expansion and entry on the Tasman' exist, which as we state above is questionable given the effective protection on the Tasman market. This barrier to entry has been evident with no new competitors entering the Tasman in nearly 10 years.

Because only two New Zealand airports have runways long-enough for long-haul aircraft the effect of the alliance is likely to mean that only two organizations (Air Zealand/Virgin Blue and Jetstar/Qantas) will be controlling most of the Trans-Tasman destinations to New Zealand. We are concerned that with the decline in long-haul Trans-Tasman carriers that this dominance may increase resulting in a possible long-term duopoly.

Higher Trans-Tasman Airfares

We note that in the applicant's submission there is a claim of lower airfares which we would question. We note that the submission reaches this conclusion through the following logic:

- Firstly 'the provision of attractive connecting domestic sectors', which is not an argument for lower Tasman airfares but for discounting of connecting domestic sectors. This ablity is likely to be overstated given that although Air New Zealand lacks a domestic network in

Australia they fly Trans-Tasman to most of the large cities in Australia and so already will cover most of the Australian population with these direct Trans-Tasman flights; and

- The second argument is that 'higher load factors, lowering the cost per seat sold' will lower airfares. We would dispute this logic because to get the higher load factors the airlines would have to reduce capacity which typically would reduce the number of low priced seats for sale on the market.

Counter to the applicant's submission we suspect that with market dominance by two organizations would most likely result in rising airfares, and with seat capacity likely constrained in order to reduce costs and maximize return. Such an outcome would result in a reduction in New Zealand tourism numbers to Australia, which is largest tourism market, and increased costs to Australian businesses operating in New Zealand.

Conclusion

HIA remains unconvinced that the Trans-Tasman market has the low barriers to entry and the level of strong competitors (apart from Jetstar) as the applicant states in their submission. Consequently, we suspect that the alliance could severely reduce competition on the Tasman market, which would result in higher airfares, reduced Trans-Tasman tourism and increase Trans-Tasman business costs.

Yours sincerely

Andrew Toop

Andrew Toop
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