



Submission to
The Australian Competition and Consumer Commission
on the
Air New Zealand / Virgin Tasman Alliance
from the
Wellington Regional Chamber of Commerce
June 2010

Introduction

The Wellington Regional Chamber of Commerce is pleased to be able to make this submission to the Australian Competition and Consumer Commission (ACCC) on the application for authorisation of an alliance between Virgin Blue Group and Air New Zealand Ltd (the airlines).

The Chamber has membership of 1,000 businesses in Wellington city and represents a regional hub of Chambers of Commerce with a further 4,500 businesses as members. While most of our members are in the Small to Medium Enterprise category we also have as members 15 of the largest 20 companies in New Zealand.

The Chamber promotes policies that reflect the interests of the region's business community and the development of the Wellington economy.

In this regard we are a strong advocate of improved international transportation links which are crucial to the growth of Wellington. Not only are international passenger links important for Wellington as a tourist destination, it is essential that local businesses have sufficient choice and access to cost effective international flights. We believe that competition on air routes is the best way to deliver cost effective customer services and is also ultimately in the best interests of the airlines.

For these reasons we have a strong interest in the proposed alliance and want to ensure competition is maintained.

It is also important to note that Wellington has strong business and social relationships with all parts of Australia. A number of regional offices of Australian businesses are based here. As the capital city of New Zealand, there are strong government to government links. Wellington is also an increasingly popular tourist destination for Australians. All of this necessitates affordable and convenient trans-Tasman travel.

Submission

The Chamber does not support the proposed alliance and expects the ACCC to refuse the authorisation of the application.

Benefits are speculative

It is important to note that many of claimed benefits of the alliance around frequency and fares are speculative only. We are concerned that the alliance is being sold to the public and regulators with "expectations" of increased frequency and lower fares. While we acknowledge it is difficult to give commitments here, no good evidence that they are likely to eventuate has been provided.

We encourage the ACCC to carefully test the claims made by the airlines with regard to fares, frequency and capacity.

Fares, frequency and capacity

We have assessed the proposal and are not convinced that the alliance would deliver cheaper airfares and increased frequency as claimed by the airlines. On the contrary, we think the proposal is likely to substantially lessen competition in the trans-Tasman market and potentially result in higher fares and reduced opportunities to fly between New Zealand and Australia.

This has been the experience in the past where reduced competition has led to reduced capacity and increases in the lowest available fares.

For example, Pacific Blue has been introduced to the Wellington – Sydney route on two occasions causing significant growth in passenger numbers both times. When the services were discontinued the first time after a 15 month period passenger numbers returned to their previous level.

A similar story has played out with airfares. When Pacific Blue services were introduced on the Wellington-Sydney route the first time in March 2004, average fares for the following 12 months were around 20% lower than the preceding 12 months. When those services were discontinued in June 2005 average fares for the following 12 months were 15% higher.

Most of the increases occurred at the lower/leisure end of the market rather than the business end but this is still relevant to business travellers who look for competitively priced fares.

The combining of the operations of Air New Zealand and Pacific Blue, as is proposed by the alliance, is effectively a reduction in the number of competing airlines operating on the Tasman and most likely a reduction in flights and passenger numbers.

The airlines claim the alliance will provide increased frequency and additional capacity by combining service offerings but passengers already have the ability to fly with either airline so this does not constitute an increase from the passenger point of view. We think a more likely scenario would be a gradual reduction in aggregate frequency and capacity by the airlines with increased load factors the aim.

While higher load factors have the potential to reduce fares there would be less incentive to pass on the lower costs under the less-competitive environment brought

about by the alliance. We think that a competitive environment (as we have currently) is best able to provide a spur to lower fares.

Additional products and services

We acknowledge the airline's stated benefits in the form of onward connectivity, better connections, expanded lounge access and loyalty scheme reciprocity but we think these benefits are overstated relative to the likely impact of diminished competition, higher fares and reduced flights. Furthermore, these features are not significant drivers for increased travel as implied by the airlines and they are certainly not sufficient to outweigh the aforementioned costs.

Alliance should be considered 'route by route'

While we are opposed to the alliance as a whole, we are particularly concerned about the Wellington trans-Tasman market. Not only is Wellington where our membership is based, the Wellington market has fewer operators than other New Zealand centres and so is something of a special case.

Currently there are only three competitors operating scheduled trans-Tasman services to Wellington. Three on the Wellington-Sydney route, two on the Wellington-Melbourne route and two on the Wellington-Brisbane route. The alliance would leave these at two, two and one respectively resulting in an effective duopoly in the first two and a monopoly on the latter¹.

If there is a case for the alliance from a national perspective, and we do not think there is, this does not apply to all routes and we think, at the very least, Wellington and other routes where competition is diminished considerably should be excluded from the Alliance.

In this regard it is important to note that the trans-Tasman passenger market is not a single market. Accordingly, the effect of the alliance on individual routes needs to be considered.

In travelling the three-hour flight from Sydney to Wellington, say, going via Melbourne or Auckland is not usually an option due to the doubling of the time taken (unless there are no seats offered directly on the preferred day at the required price) and so the number of *direct* flights from centre to centre is the relevant metric – not the number of trans-Tasman flights generally.

Concluding Remarks

Thank you for the opportunity to make this submission. We are happy to elaborate further on any point.

We will also be making a submission to the New Zealand Minister of Transport (who is the relevant decision maker under the Civil Aviation Act) where we will be recommending that the application be referred to the Commerce Commission for scrutiny which is the regulatory body on this side of the Tasman with the necessary expertise to assess competition impacts of the proposal.

¹ Brisbane–Dunedin and Cairns–Auckland would also be reduced to a monopoly under the alliance and four other routes would become duopolies.

Summary of Recommendations

1. The Wellington Regional Chamber of Commerce recommends the ACCC:
 - carefully consider the airline's claims that the alliance will result in reduced fares and increased passenger numbers and note that recent history would suggest that this is unlikely.
 - considers the effect of the alliance on individual routes and not treat the Tasman as a single market.
2. Having considered the application, we expect the outcome should be that either:
 - authorisation for the applications be declined due to the public costs of the proposal exceeding the benefits, or
 - routes with significantly reduced competition (being resultant duopolies or monopolies) be excluded from the alliance.
3. If the alliance is authorised:
 - checks should be carried out to ensure that the improved services are delivered and the approval should be withdrawn if they do not eventuate, and
 - rigorous conditions be set to ensure that the negative implications of the alliance are ameliorated.
3. We will be recommending to the New Zealand Minister of Transport (which is considering the application on this side of the Tasman) that the application be referred to the Commerce Commission for scrutiny as this body is better placed to consider the implications of a loss of competition.