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Our ref: LEG:VIR

24 September 2010

Mr Richard Chadwick  
General Manager, Adjudication  
Australian Competition and Consumer Commission  
PO Box 3131  
CANBERRA ACT 2601

Via fax: 6243 1211  
Via email: [adjudication@accc.gov.au](mailto:adjudication@accc.gov.au)

Dear Mr Channing

Canberra Airport supports the granting of the necessary authorisations for the proposed alliance between Virgin Blue Airlines and Air New Zealand as documented in the Australasian Airline Alliance Agreement, the associated Code Share Agreement and other related agreements.

Canberra Airport does not believe that this proposed alliance would substantially lessen competition in the Trans Tasman airline service market. Rather, Canberra Airport believes that the proposed alliance would in fact foster greater competition between the other airlines in the market and Virgin Blue/Air New Zealand.

However, even if this were not the case, Canberra Airport believes that the proposed alliance would, if authorised by the ACCC, result in significant public benefit which would outweigh any public detriment caused by any lessening of competition.

In the opinion of Canberra Airport, the proposed alliance would:

provide immediate benefits to consumers through the provision of enhanced services. For those consumers travelling on Virgin Blue/Air New Zealand flights the alliance would provide greater frequency of flights between ports; it would simplify bookings, ticketing and transfers between the airlines; and it would allow connectivity from international flights to domestic ports. Airline passengers would benefit from an immediate and significant improvement in their travel and airline experience, but this enhanced experience would only occur where Virgin Blue is able to access Air New Zealand Trans Tasman frequency and Air New Zealand is able to access Australian destinations through connectivity with Virgin Blue;

- actually stimulate the Trans Tasman market as there is little doubt that the proposed alliance would force a competitive response from the Qantas/Jetstar Group. In particular, with strong operators in the market the competitive responses from both parties would be expected to be lower prices coupled with more flights to more ports. In this regard, it needs to be remembered that under the *“Agreement between the Government of Australia and the Government of New Zealand relating to Air Services”* there is unrestricted access for airlines to use those airports which are not gateway airports (where the gateway airports are Sydney, Melbourne, Perth and Brisbane), significantly increasing the likelihood that direct services would commence between Wellington-Canberra (a capital city connection) and Auckland-Canberra (where Canberra passengers could hub through Auckland to American ports). These direct flights would be of enormous public benefit to the people of Canberra.

This stimulation in the market would also result in greater passenger numbers which would in itself counter any argument that either Virgin Blue or Air New Zealand would reduce capacity – why would an airline reduce capacity in a market for which it was facing increased loads?;

- provide the ability to better schedule spread; and
- will support growth in Australian tourism and economic activity through the expected increase in passengers numbers and the establishment of new direct services to new ports.

All of the above public benefits would appear to outweigh any public detriment that may result from the proposed alliance being authorised.

However, it is also worth noting the following:

- the proposed alliance between Virgin Blue and Air New Zealand is entirely consistent with the *“Agreement between the Government of Australia and the Government of New Zealand relating to Air Services”*;
- if the alliance was authorised, there are no economic regulatory barriers to new entrants entering the Trans Tasman market to compete with the proposed alliance (indeed over 30 countries currently have rights to commence direct Australia-New Zealand services), and there are no barriers for existing market participants to change their services to meet any competitive pressure which may arise from the proposed alliance;
- while it is true that the combined market share of the Virgin Blue/New Zealand alliance on Trans Tasman routes would be greater than 50%, on the main trunk routes of Sydney/Melbourne-Auckland, Sydney/Melbourne-Christchurch the market is evenly split between the Qantas/Jetstar Group and Virgin Blue/Air New Zealand;

if the proposed alliance is not approved we understand that there is a real risk that Virgin Blue will reduce or even exit the Trans Tasman routes. While this will obviously have the effect of reducing competition on those Trans Tasman routes, it would also postpone the introduction of international services at Canberra Airport by Virgin Blue – an outcome that would be to the public's detriment; and

- the Trans Tasman market is already highly competitive with Qantas, Virgin Blue, Emirates, Air New Zealand and Jetstar (amongst others) all offering flights between Australia and New Zealand. In addition:
  - Jetstar is significantly increasing its capacity ensuring that there is not only increased seat capacity in the market but there is also real price competition; and
  - Tiger Airways is expressing an interest in running Trans Tasman routes.

In reality, the proposed alliance would ensure that Air New Zealand and Virgin Blue were able to continue to compete in such a competitive environment.

In the opinion of Canberra Airport the proposed alliance would:

- foster strong competition on the Trans Tasman routes;
- provide clear and measurable benefits to the travelling public;
- result in the creation of new services between new Australian and New Zealand ports;
- not create an incentive for Virgin Blue or Air New Zealand to reduce capacity; and
- ensure that both Virgin and Air New Zealand remain active and strong participants in the already highly competitive Trans Tasman market.

Canberra Airport urges the ACCC to reconsider its position on the authorisation of this proposed alliance.

Please do not hesitate to contact me if you have any further queries.

Yours sincerely



Stephen Byron  
Managing Director