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

Dear Mr Channing,

### **AIR NEW ZEALAND - VIRGIN BLUE ALLIANCE APPLICATION**

1. The following is a second submission by Hamilton International Airport (HIA) on the application by the Virgin Blue Group and Air New Zealand for a Trans-Tasman Alliance.
2. Since the draft ACCC ruling, Air New Zealand and Virgin Blue have proposed conditions on any Alliance to mitigate the issue of unilaterally raising airfares on routes identified by the ACCC. We see this process of the Alliance seeking to mitigate risks through a commitment on capacity as a positive step. However, HIA is concerned that a number of factors were missed in determining which routes would be susceptible to competition effects from the Alliance.
3. Additional Alliance competition effects on the Hamilton to Brisbane route includes the following:
  - a. Air New Zealand competes on the Hamilton to Brisbane route directly with Pacific Blue through offering Hamilton to Brisbane flights via Auckland Airport. Airfares offered by Air New Zealand via Auckland have often been the lowest in the market.
  - b. The small geographical distances in New Zealand, compared to Australia, means that international airport catchments often overlap because passengers can drive between the airports. For Hamilton this will mean that airlines often see both Auckland and Hamilton airports serving the same market.
4. If the Alliance is approved Pacific Blue and Air New Zealand will go through a capacity review / rationalization process. This would involve looking all aspects of their Trans-Tasman services to identify areas where capacity can be placed and cut to increase load factors and yields. Our concern is that ring-fencing some routes on the basis of a limited evaluation will leave other routes exposed.
5. Furthermore, HIA's contention is that the key negative competition impacts will be on the smaller New Zealand regional airports rather than the three main centers. We basis this contention on the following:
  - a. The three main centers having multiple competing Trans-Tasman airlines apart from the Applicants. In particular, Christchurch and Auckland Airport's have Trans-Tasmand competition from Emirates and have the runway infrastructure to enable future 5th Freedom competition from long-haul airlines; and

- b. Jetstar's current expansion has targeted the main three New Zealand airports plus Queenstown.
6. We note that in the draft ACCC determination (paragraph 5.240) it stated that "While the ACC acknowledges entry into Trans-Tasman is possible ... such entry is more likely on some city pair routes than others" and then concluded that this would be taken into account in examining competitive constraints. We believe that the ACCC is correct in reaching this conclusion and that the city pairs that face higher barriers to entry are those from secondary international airports. This is because of the following factors:
- a. Internationally own ultra-low cost airlines, such as Tiger Airways, are likely to target lower cost secondary international airports (this has been evident with Ryanair in Europe). These airlines are currently blocked by government restrictions;
  - b. Existing competition is from established airlines that have committed to the main centers and are, therefore, less likely to target secondary international airports; and
  - c. Long-haul airlines that can use 5th freedom rights are limited to Christchurch and Auckland Airport's, which are the only airports in New Zealand with runways long enough to accommodate long-haul aircraft.
7. Australian residents comprise 45% of passengers on the Brisbane to Hamilton Pacific Blue flights. Furthermore, for most of the last 15 years Hamilton has been New Zealand's fourth largest international airport. This is evident that the direct flights to Hamilton are valued by the Australian public and need to be considered by the ACCC in any determination on the Alliance.
8. Therefore, HIA would request that the ACCC act to consider competitive constraints in making any determination to approve the Alliance. Specifically, HIA would request that if individual routes are to be protected as a condition of any ACCC approval then these routes be on those to New Zealand's and Australia's secondary international airports, as well as those airports identified as being at risks of airfare rises.

## **Conclusion**

9. HIA is supportive of the proposed Alliance if capacity guarantees are also applied to maintaining existing capacity on those ports exposed to reduced competition. These routes can be expected to be from New Zealand's existing regional airports, with HIA's Hamilton to Brisbane route being one of those routes.
10. HIA requests that the nominated routes in Annexure R of the Applicants 'Submission in Response to Draft Determination' is amended. HIA proposes that the nominated routes need to include to Hamilton to Brisbane given the competitive constraint on this route.

Yours sincerely



Andrew Toop  
**Manager, Commercial and Growth  
Hamilton International Airport**