

**Christchurch International  
Airport Limited**

**Cross Submission to Commerce  
Commission in Relation to  
Submissions by Applicants**

**18 July 2003**

- 1 This is the third submission filed by CIAL in relation to the applications by Qantas and Air New Zealand. The first was dated 14 February 2003. The second was dated 20 June 2003 and responded to the Commission's draft determination. This third submission is intended to respond to the submission by the Applicants responding to the draft determination.
- 2 The purpose of this submission is to support the Applicants' position in relation to their proposed counterfactual. It was anticipated that the Applicants' submissions in relation to the draft determination would set out considerable detail on this topic and CIAL intended to deal with this issue as a cross submission rather than directly in response to the draft determination. As it happens, there is not a great deal in the Applicants' submissions to which CIAL can respond. Chapter 5, mainly representing the views of Qantas, can only be followed intermittently because of the editing for confidentiality. Chapter 6, Air New Zealand's submissions on the counterfactual, are entirely confidential. It must be assumed, however, that the picture painted by Air New Zealand in its confidential submission is somewhat bleak. That, at least, is a reasonable conclusion from the claiming of confidentiality.
- 3 The Commission might think it surprising that CIAL would support the Applicants' views on the counterfactual. The relationship between CIAL and Air New Zealand has had its fair share of difficulties, mainly arising from the consultation round for setting landing charges and the Commission's inquiry that ran in parallel with that. The Commission will know that during that process CIAL expressed its concerns at the substantial market power that Air New Zealand enjoyed as a result of being such a substantial user of CIAL facilities.
- 4 The Commission will have noticed, from CIAL's submission dated 14 February 2003, that, while it supported the Applicants' counterfactual, it raised a number of other matters contrary to the interests of the applications. CIAL mentions this to emphasise that its agreement with the claimed counterfactual is not simply partisan support for Air New Zealand. Rather, CIAL firmly believes that the counterfactual is soundly based and that the Commission's dismissal of it is highly risky.
- 5 It is obvious that setting the level of the counterfactual will effectively determine the outcome of the applications. It is never an easy task to establish a counterfactual. It requires parties to look into the future and to make assumptions. It is always a problem in competition law analysis. Here, though, the odds are higher than most. One of the Applicants has said that if the authorisations sought are not given, it will fail. Most applications to the Commission do not express themselves so bluntly. The risk, in these circumstances, of the Commission getting it wrong is very high. If the Commission maintains its current approach, but Air New Zealand is ultimately proved right, the Commission's error will be very costly for both Air New Zealand and New Zealand itself.
- 6 CIAL wishes to give a broader picture of the public benefits that it believes would accrue from authorising the two applications. As the Commission knows,

from the earlier inquiry into landing charges, CIAL (via its local government ownership) sees itself as a gateway to the South Island. That is, it is a conduit for in- and out-bound tourism; it provides a substantial engineering facility; it provides a substantial export freight conduit. These factors are enhanced by having a network airline such as Air New Zealand.

- 7 The South Island economy is strongly dependent upon tourism. It does not have the commercial focus of Auckland (and it is not a hub like Auckland); neither does it have the political traffic generated by Wellington. Some South Island based tourism is domestic in origin but much of it is generated overseas. CIAL believes that the New Zealand focus of a network airline such as Air New Zealand is very important to the financial welfare of the South Island.
- 8 CIAL acknowledges it can be argued that in the absence of Air New Zealand other networks might develop. Origin Pacific already has a substantial domestic network. But it lacks the international feeder services that Air New Zealand has and usefully exploits. At the moment, Origin Pacific is reliant on Qantas for this feeder service. Equally, it might be argued that Qantas could scale up its operation and provide a network service equivalent to Air New Zealand's. That, too, is probably unrealistic. It is difficult to see that Qantas would ever treat New Zealand as other than "*Tasmania II*". In particular, CIAL does not believe the South Island would be serviced to the extent currently undertaken by Air New Zealand.
- 9 It is very difficult to predict the future. Ten years ago, the current scale and success of VBA entry could not have been predicted. In the medium term, at least, this success is likely to continue. It will continue to put intense pressure on FSAs and watered-down versions of FSAs. Yet, in a geographically diverse country such as New Zealand, we should not underestimate the public benefits of maintaining the Air New Zealand network. Intense VBA competition on the main city-pairs (assuming it eventuates) is all very well, but tells a limited story. With other transport infrastructure under pressure (rail and road) in New Zealand at the moment, great care needs to be taken not to underestimate the benefits of maintaining the Air New Zealand network.
- 10 In its submission dated 20 June 2003 CIAL was rather dismissive of entry by Virgin Blue and Emirates. So far as Emirates are concerned, that submission has considerably underestimated that airline's intentions. Emirates is plainly about to enter. CIAL accepts that Virgin Blue is likely to enter, but believes it would be unwise to make any assumptions as to the scale and timing of that entry.
- 11 CIAL has facilities available for new entrants. It has retained some counter space in its domestic terminal and there is also space in its international terminal. VIP lounge space may be problematic, if it is required, but VBA entry suggests that such a requirement is unlikely. CIAL owns the air bridges in the Qantas terminal and controls them. Air New Zealand owns the air bridges in its domestic terminal but does not do so exclusively. It is the preferred user. If necessary, CIAL could make these air bridges available to a new entrant. CIAL owns the air bridges in the international terminal.

- 12 While the ultimate availability of facilities depends upon the nature of entry and subsequent scheduling decisions, CIAL does not believe that access for facilities is a barrier to entry. At this stage, all CIAL can do is signal the availability of facilities generally.
- 13 As CIAL assesses it, Air New Zealand's ultimate problem is the need to obtain (whether by lease or otherwise) new aircraft. It is purchasing A 320s and the first of these should be available later this year. That will assist it domestically and on the Tasman routes. The greater efficiency of these aeroplanes will be beneficial. CIAL understands that the Tasman routes have been loss-making up until now. More efficient aircraft may turn that around. These new aircraft, however, do not assist on the long haul routes which are so important to Air New Zealand. For example, it is CIAL's experience that the Japanese feeder routes provide very important domestic traffic for Air New Zealand. Yet, there are no immediate plans to place new aircraft on these routes. Asian airlines such as Singapore and Malaysian are acquiring the latest aircraft which are more comfortable, faster and quieter. More importantly, from the airlines' point of view, they are cheaper to run. Over the next five years, Air New Zealand will come under intense competitive pressure to do something about its aging fleets. Huge costs will be incurred. CIAL does not believe it is a reasonable strategy for Air New Zealand to scale back its operation simply to the Tasman and domestically. That would lose the huge advantage of the international feeder routes. And, moreover, there would be large contraction costs (redundancy etc) with such a move.
- 14 For the reasons set out above, CIAL believes that the counterfactual is realistic. It does not believe that the level of competition between Air New Zealand and Qantas needs to be particularly intense to lead to such an outcome. That is because Qantas, with relatively minimal effort, could place enhanced competitive pressure here and there, and then simply wait for Air New Zealand's aging fleet to reduce its remaining competitiveness. Qantas would slowly pick up the pieces and, over the medium term, Air New Zealand would cease to exist in its current form. CIAL believes the risk of this is so high that it prefers to support the applications, albeit subject to the imposition of appropriate conditions.

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