

**SUBMISSION TO THE NEW ZEALAND COMMERCE COMMISSION**

18 February 2003

**AIR NEW ZEALAND / QANTAS ALLIANCE**

Hamilton Aero Maintenance Ltd owns and operates an aircraft maintenance and ground handling company on Hamilton International Airport. We provide ground-handling services to all commercial airlines operating into this airport and also complete all maintenance on Freedom Air International's aircraft up to "A" check level. The company currently employs 38 full and part-time employees to handle this workload.

The company is privately owned with all shareholders being local people and we believe that the company and its staff are held in high regard by the airlines that we service.

**Issues**

**Air New Zealand**

We support the arguments that there is a vital need for Air New Zealand to survive this current situation. We are not convinced that the proposed arrangement is the best option available to ensure this outcome. We believe that competition both domestically and internationally is very desirable from this country's point of view. Past experience has shown that a monopoly is always self-serving and never in the best interests of the customers or of the country. There is too much of this country's economy that is totally dependent on a strong and cost effective airline service, for this to be handed off without very strict safeguards.

The Australians have shown in the past that they look after themselves first and anything that is not in their interests gets pushed aside, CER notwithstanding. The recent announcement of the withdrawal of United Airlines service to New Zealand should also indicate the way such companies think when the going gets tough.

In light of United Airlines' imminent withdrawal of services to this country the proposed arrangement for Air NZ and Qantas will give them a very strong hand in both the domestic and international arena. Lack of competition will allow them to manage the available capacity and fares to ensure their own goals are met. There would need to be a strong regulatory environment in place to control this behaviour with such a lack of competition. We would recommend that the Commission require an outcome that ensures the presence of a strong competitor on the Trans Tasman and international routes. So far the information presented by Air NZ and Qantas does not show how this competition can be ensured. It would be difficult to see a Government agency being able to enforce compliance with such undertakings or regulating the commercial decisions of the merged entity.

## **Hamilton Airport**

The survival of Air NZ is critically important to this airport and to all other regional airports in New Zealand. Air NZ is the major airline operating to this airport and provides substantial domestic services to other airports in New Zealand. Freedom Air provides the total international services from Hamilton. Any change of ownership of this company could see Hamilton, Palmerston North and Dunedin all lose their international services and the strong infrastructure that has been built up around these. New competitors tend to operate where the major markets are and compete in these areas leaving the smaller regional and perhaps less profitable areas to fend for themselves. If these regional services are allowed to wither it will be next to impossible to recreate them at some time in the future.

We are strongly of the opinion that Air NZ should not be forced to sell off Freedom Air to Virgin Blue, but rather Virgin Blue be encouraged to operate across the Tasman in their own right. This will provide competition in the "no frills" area which will also keep Freedom Air honest. Again competition would tend to polarise around the three major New Zealand ports to the detriment of the smaller regional centres. In recent talks this company has had with Virgin Blue they indicated that if they were to operate into New Zealand they would dispense with getting maintenance done here and would take this work to Australia. This would result in the loss of jobs here in NZ to bolster the Australian economy. We know that we are very competitive in pricing and ability to provide the services required and that Freedom Air very much appreciate our service but this would not be the case with Virgin Blue.

## **Outcomes**

In considering these issues the Commission should ensure that sustainable competition is possible on both the domestic, Trans Tasman and international routes. In order for this to occur the merged entity must comply with rules constraining its ability to dominate these routes and deny entry to competitors.

Air NZ should not be required to sell off Freedom Air as again this will give this country some input into the services provided and these not be at the whim of an overseas company with profit as their major motive. Virgin Blue should be encouraged to compete on the Trans Tasman routes with services being provided to them in this country, as they are now by Air NZ to Qantas, for ground handling and engineering services at the major airports.

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