

Submission to the Commerce Commission

Air New Zealand – Qantas Alliance

The Commerce Commission issued a draft determination on the proposed alliance between Air New Zealand and Qantas, on 10 April 2003, that reached the preliminary view that it could not be satisfied that the public benefits of the proposed arrangement were likely to outweigh the competitive detriments. In response to the Commission seeking further submissions from interested parties, the Dunedin City Council has prepared this submission. Of the 66 questions for further discussion raised by the Commerce Commission in the draft determination, there are 12 that relate to the concerns of the Dunedin City Council. These questions fall into three areas:

1. The impact of the proposed alliance on competition within New Zealand and its impact on airfares (both on the main trunk and provincial routes) – *Questions 23, 27, 39, 57, 58, 65*
2. The impact of the alliance on access to the Tasman market – *Questions 28, 30, 65*
3. The impact of the alliance on the freight market both in capacity and price – *Questions 35, 36, 37, 60*

In preparing this submission the Dunedin City Council has consulted with a number of organisations that have a particular interest in this issue to ensure that the comments contained herein accurately represent the mood of the City. These organisations are:

- Otago Chamber of Commerce
- Otago/Southland Employers Association
- Tourism Dunedin
- Dunedin International Airport Limited
- University of Otago
- Otago Polytechnic
- Dunedin College of Education

There is some sympathy within Dunedin for Air New Zealand's position that it cannot survive without forming a strategic alliance with another airline. The current international environment for the airline business is extremely volatile and competitive. And there are important commercial considerations in maintaining a viable national airline.

Air New Zealand has responded positively to Dunedin's air travel needs in the last two years and is currently providing a satisfactory service to the city. Flight schedules and capacity are above what they were when there were two airlines flying into Dunedin and airfares are significantly cheaper at present. But it is critical to the City's economy that these gains are not lost. The damage to Dunedin's business community, educational institutions, tourism and general travelling public could be significant if the proposed alliance proceeded with no safeguards against anti-competitive behaviour by either Air New Zealand or Qantas.

Therefore, the Dunedin City Council wishes to submit that it is not necessarily opposed to the proposed alliance as long as the issues raised below are addressed adequately and as long as the

Commerce Commission can provide some guarantee that the safeguards and concessions discussed are enshrined long-term. Discussion of the areas of particular concern follows:

1. The impact of the proposed alliance on competition within New Zealand, and its impact on airfares, schedules and capacity (both on the main trunk and provincial routes) – Questions 23, 27, 39, 57, 58, 65

It is imperative that airfares, schedules and capacities for the business and leisure traveller in Dunedin, Otago and Southland are not placed at the mercy of a market oligopoly. The suggestion by Air New Zealand that it is willing to cap fares on some routes in New Zealand goes some way towards resolving this concern but requires further analysis. There is a risk that fares may be capped on some routes and not others, leading to certain routes subsidising others – a situation that the Dunedin travelling public has considerable experience of in recent years.

Similarly, schedules and capacities into and out of Dunedin need to be protected. There is no indication that Air New Zealand would retain current schedules and capacities on all routes (with or without competition) even though it might cap fares. There is the strong possibility that fare caps might come at the expense of aircraft downgrading or schedule changes – two scenarios that would jeopardise business viability in Dunedin and Otago. This Dunedin City Council submission seeks assurances via the Commerce Commission that the overall air service to Dunedin travellers will not be disadvantaged by any alliance.

2. The impact of the alliance on access to the Tasman market – Questions 28, 30, 65

Dunedin has enjoyed a very positive relationship with Freedom Air since its inception in 1997. Through the efforts of Project Gateway (a joint promotional initiative funded by the Dunedin City Council and involving Tourism Dunedin, Dunedin International Airport and the Otago Chamber of Commerce), flights from Dunedin to eastern ports of Australia have steadily increased. Tourist and business travellers using these flights has also grown steadily and now Freedom Air is an important carrier of international travellers direct to Dunedin, Otago and Southland. These flights will play an increasing part in current and future growth in the region

For the 10 months of 2002 to October, 17,186 international (non- NZ resident) visitors flew into Dunedin International Airport, mostly to visit friends and relatives with Australians comprising 95% of the total. This sustained 204 FTEs, generated gross output of \$19.3 million per annum, and created value added of \$8.6 million per annum in the Otago region's economy.

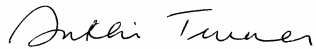
By 2008, international visitors are expected to total 42,000 inbound visitors per annum with returning New Zealand travellers estimated to bring total inbound passengers to 75,000, representing 150,000 total passenger movements per annum.

Spending in Otago region by inbound visitors is estimated at \$33 million per annum in 2008. This is expected to directly generate in total, after counting indirect and induced effects, 620 FTE jobs, gross output of \$60 million per annum and \$26 million per annum of value added to the Otago region's economy.

It is essential for the local economy that this international air service remains in Dunedin. Air New Zealand has suggested it would retain Freedom Air services in Dunedin whilst sacrificing those services out of Auckland, Wellington and Christchurch. The Dunedin City Council considers this to be a very positive concession and, if it can be secured, would encourage the Commerce Commission to view this favourably. However, the Dunedin City Council urges the Commerce Commission to secure assurances that genuinely protect competition.

**3. The impact of the alliance on the freight market both in capacity and price –
Questions 35, 36, 37, 60**

There is already pressure on freight capacity and pricing for exporters in Otago and Southland which is likely to increase through growth in horticulture (cut flowers, stone fruit etc), seafood and other perishable export items. There is concern that an alliance might further reduce freight capacity within New Zealand, across the Tasman and internationally. This Dunedin City Council submission seeks assurance that an alliance of Air New Zealand and Qantas would not exacerbate the current freight situation and that some improvement in capacity might be secured. The comments in (1) above on scheduling and aircraft types are also pertinent.



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MAYOR OF DUNEDIN