

REF STA/10

13 February 2003

Commerce Commission  
C/- Janet Whiteside  
Chief Adviser  
Market Structure Group  
Business Competition Branch  
PO Box 2351  
**WELLINGTON**

Dear Ms Whiteside

**SUBMISSION TO THE COMMERCE COMMISSION  
RE AIR NEW ZEALAND/QANTAS MERGER**

As Mayor of the Mackenzie District Council, I wish to oppose the proposal currently before the Commission for Air New Zealand to form a strategic alliance with Qantas.

It is difficult to see how the proposal will meet the purpose of the Commerce Act which is to promote competition in markets for the long term benefit of consumers within New Zealand.

It seems clear that the alliance will reduce the choice of services in the domestic, Trans-Tasman and Trans-Pacific markets. The cheaper fares that have been offered in response to competitive pressure will rapidly disappear. With only one significant seller of air travel operating within New Zealand there will be no commercial pressure to offer discounted fares.

The airlines believe significant savings are possible from reduced duplication of services and less unused capacity. From the consumer's viewpoint, these translate to more limited travel choices and higher fares.

Frankly, I am sceptical of increased tourism numbers promised by joint promotion of Australia and New Zealand. New Zealand's interests are likely to be submerged in any such joint arrangements by the demands of the larger partner. Similarly, promises of increased aircraft maintenance work being carried out in New Zealand ignores the very likely resistance to such moves from the Australian unions representing their members' interests.

I also doubt whether the claimed increase in freight capacity will eventuate. With “rationisation” driving the alliance’s approach, those using airfreight services internally or internationally are also likely to face reduced choice and increased charges.

I also note that Virgin Blue, a “value airline” that might provide alternative services to those offered by the alliance, has indicated it is less likely to start up in New Zealand if the merger proceeds.

Interestingly, in considering the Fonterra proposal, the Commission required the divestment of the interests in N Z Milk Products Ltd in order to retain some competition in the domestic milk market. No similar moves are proposed by Air New Zealand in this case.

To conclude, I believe that the alleged benefits of this merger are likely to prove illusory and, in any event, are outnumbered by the harm that will follow the loss of competition in the provision of airline services.

STAN SCORRINGE  
**MAYOR**