

GRG11639

File No: AP35/1

13 February 2003

Janet Whiteside
Chief Adviser
Market Structure
Commerce Commission
PO Box 2351
WELLINGTON

Dear Ms Whiteside

**COMMERCE ACT: APPLICATION FOR AUTHORISATION OF PROPOSED
ARRANGEMENT AND ACQUISITION OF EQUITY –
AIR NEW ZEALAND AND QANTAS**

Thank you for your memorandum of 19 December 2002 and the opportunity to comment on the application by Qantas and Air New Zealand.

Palmerston North Airport Ltd owns and operates Palmerston North International Airport.

The application by Air New Zealand and Qantas is relevant to Palmerston North Airport Ltd because Palmerston North International Airport is a key regional airport in the New Zealand domestic airport network, and it services international sectors that at present are trans-Tasman services only.

The purpose of this submission is to:

- (i) ensure that the Commission is aware that loss of competition on domestic sectors will affect regional airports such as Palmerston North; and
- (ii) promote consideration of separation of the “longhaul” international components of the applicants’ businesses as distinct from the local (domestic and trans-Tasman) components, for the purposes of addressing the issues that are of interest to the Commission.

Domestic Competition

Over the last 10 years Palmerston North has experienced periods where domestic sectors have been served in a competitive environment and periods when there has been less competition.

The most recent period where the loss of competition impacted was the 18 month period following the collapse of Qantas New Zealand in April 2001.

Our experience is that the remaining competitive forces focus on the traditional “main trunk” (Auckland/Wellington/Christchurch) routes at the expense of regional sectors such as Palmerston North. Fares during that period were readily available from Auckland to Christchurch cheaper than most Auckland to Palmerston North fares. Yet this occurred in an environment where load factors (ie. the numbers of passengers per aircraft seat availability) was higher on the Palmerston North sectors.

The consequence of such pricing and capacity management is a combined effect of loss in the overall scale of travel from/to regional ports (ie. the “pie” gets smaller) and a shift in market share to the “main trunk” ports (ie. redistribution of the “pie”).

While this is an impact on our business, it is also a cost to the local economy as the cost of transport increases and convenience reduces. We become the recipient of complaints and comments from travellers and the public, although the situation is largely out of our hands.

It has been of interest to observe that with the significant increase in Origin Pacific Airways capacity through Palmerston North in September 2002 and the introduction of the Air New Zealand Express Class fare structures, domestic travel through Palmerston North has increased back to (in fact slightly exceeding) that prior to the collapse of Qantas New Zealand. During 2002 Air New Zealand provided 90% of the capacity of scheduled domestic services from Palmerston North and Air New Zealand subsidiary Freedom Air provided 100% of international services.

Any loss of competition in the New Zealand domestic network will negatively affect regional centres such as Palmerston North.

Separation of Issues

In reading the material made available by the applicants through the Commerce Commission, it appears that the issues at stake for the public interest in the application largely relate to “longhaul” sectors, ie. international travel to/from beyond Australia and access to local ‘connectivity’.

While the solution of jointly operating the trans-Tasman and domestic networks is the operational effect of the application, the need for such action and the net benefits to society appear to predominantly relate to “longhaul”.

In view of the previous section on ‘Domestic Competition’, we commend the Commission to consider separation of these issues and the potential for solutions to lie in separation of local and longhaul elements of the airlines businesses.

Yours faithfully

GARRY GOODMAN
CHIEF EXECUTIVE OFFICER