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Thursday, 20 June 2013

Dr Mark Berry
Chair
Commerce Commission New Zealand

Email: regulation.branch@comcom.govt.nz

PUBLIC VERSION

Dear Dr Berry,

RE: INCREASES TO CHRISTCHURCH AIRPORT CHARGES

Emirates supports the submissions lodged by the Board of Airline Representatives New Zealand (BARNZ) in relation to the Christchurch International Airport Limited's (CIAL) proposed pricing reset.

Further to the 24 May 2013 Airports Services Conference, Emirates calls on the Commerce Commission New Zealand (CCNZ) to reject CIAL's pricing proposal as currently structured.

Emirates supports user pay models, providing the cost represents value for money for both the airline and the end-user and that the charging regime is fair and equitable. The proposed pricing reset is neither.

About Emirates services to Christchurch:

Emirates currently operates daily services from Dubai to Christchurch via Bangkok and Sydney utilising a 354 seat (three class configuration) Boeing 777-300ER. The aircraft type deployed is a function of the mission range and passenger demand on the sectors before Sydney, so there is extremely limited scope to revert to a narrower gauge aircraft.

Emirates has maintained its commitment to the Christchurch market and kept its daily operations despite competitors withdrawing over 171,300 seats per annum or 19.9% capacity from 2010-12.

In 2012/13 Emirates Christchurch services operated with an average seat factor of 68%, below the network average of 80%. While Christchurch is an integral route on our global network; it did book a loss in fiscal 2012/13 and all inputs into the route's current cost-base including airport services are under review.

Christchurch is primarily a tourist and visiting friends and relatives (VFR) led market. Such consumers are highly price elastic and Emirates is a price follower in the market, given limited frequency and schedule is determined by two parameters:

1. Connections to the Middle East, European and African networks; and
2. Sydney Airport's curfew.

Given the demand dynamics and macro-economic challenges in Christchurch, the rational commercial response for all carriers has been to use the tactical pricing lever to stimulate demand.

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Emirates + Qantas partnership on the Trans-Tasman:

In March 2013, the Australian Competition and Consumer Commission (ACCC) provided conditional authorisation for five years, for the applicants to "coordinate their air passenger and cargo transport operations, and other related services".

The authorisation is subject to conditions that applicants maintain at least their pre-alliance aggregated capacity on the four Trans-Tasman routes [including Sydney-Christchurch] where they both operate services, subject to a review on 1 September 2015. The Trans-Tasman capacity conditions are contained in Appendix B of the Determination.

It should be noted that while in theory there appears to be scope for the parties to reduce but not eliminate capacity on Sydney-Christchurch under the conditions, in practice, Emirates is unlikely to be able to down gauge or withdraw its wide body aircraft because to do so would create a significant deficit in the overall capacity commitment that could not easily be addressed by the other parties to the condition, especially given that both Qantas or Jetstar operate (smaller) narrow body aircraft. Therefore, the conditions as currently drafted, restrict options available to Emirates in the event of a significant increase in price at Christchurch Airport.

New Zealand's Minister for Transport, the Hon Gerry Brownlee, granted Ministerial authorisation for the alliance on 15 May.

Emirates + Qantas expect to commence co-ordinating on pricing and scheduling on Trans-Tasman services, including the Sydney-Christchurch route within three months.

Impact of proposed changes:

When coupled with the ACCC's capacity conditions as highlighted above, CLIA's proposed pricing regime puts Emirates at distinct competitive and financial disadvantage. Given the medium-term route outlook, average seat factors on the Christchurch service will continue to trend around 70%.

Charges for the Boeing 777-300 are currently $5,745 or based on the average seat factor in 2012/13, NZ$23.86 per passenger. Applying the price increase of 44% as outlined in the proposal to NZ$8,283 and assuming no deterioration in consumer demand flows from earlier price changes, the cost per passenger will climb to NZ$34.51.

Competitors based in Australia and New Zealand who operate on the route have greater flexibility in terms of the aircraft type managing demand with their scheduling. Typically the aircraft deployed on the route are Airbus A320s and Boeing 737s with passenger capacities ranging from 168 – 177 seats.

Applying the average seat factor for the leading alliance (Air New Zealand and Virgin Australia) on the Trans-Tasman in 2012, which was 81.4%, to the proposed pricing, it becomes clear that Emirates is being put at a major cost disadvantage.

Today:

Aircraft	Seats (Max)	Seat Factor '12 (%)	Per plane	Per Passenger (Actual)
Boeing 737-800	177	81.4%	NZ$1,621	NZ$11.25
Boeing 777-300	354	68%	NZ$5,745	NZ$23.87

Proposed pricing reset - 1 July 2016:

Aircraft	Seats (Max)	Seat Factor '12 (%)	Per plane	Per Passenger (Actual)
Boeing 737-800	177	81.4%	NZ$2,293	NZ$15.91
Boeing 777-300	354	68%	NZ$8,283	NZ$34.41

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Consultations on the pricing proposal has crystallised Emirates concerns regarding the inequality on the pricing regime on a per unit basis growing from NZ$12.61 to NZ$18.50.

As highlighted, Sydney-Christchurch is a price sensitive route and Emirates is a price follower in the market with recent tactical as low as A$221 one-way. A cost base delta of NZ$12.62 growing to NZ$18.50 per passenger if the price reset is implemented gives carriers using narrower gauge aircraft a significant cost advantage. Also, it should be noted that cost saving measures currently available are unlikely to offset the increase in airport charges.

Finally, there is nothing in CLIA's capital plan that delivers an additional NZ$18.50 in value/benefit on a per passenger basis.

Conclusion:

Emirates is of the view that the 44% price increase as outlined in the proposed pricing proposal is excessive and is demonstrative of monopolistic pricing behaviour. Emirates calls on the CCNZ to reject or ameliorate the price impacts to ensure market players are not adversely impacted or put at a major disadvantage on costs.

[redacted]

Yours sincerely,

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