Commerce Commission consideration of application from Air NZ and Qantas for authorisation of proposed arrangements and acquisition of equity.

Submission by Waikato Regional Airport Ltd (WRAL)

Introduction

WRAL owns and operates Hamilton International Airport. The airport services the Waikato region for domestic aviation services, and the whole of the Central North Island for international services.

WRAL is owned by five territorial authorities, which consider the airport to be a vital asset for the economic well being and development of the region. The ownership details are appended.

Issues

Survival of Air New Zealand

We do not dispute the arguments made in terms of the need for Air NZ to survive. We question however whether the proposed arrangement is the best option. It appears to be a pragmatic response in a limited range of options. A better option from a competition standpoint would have been an Air NZ alliance with Singapore, which would have created two equally matched full service airlines operating in Australia and New Zealand, with two competing no frills services provided by Freedom and some other value based airline such as Virgin Blue.

Such an argument is academic however, given that Singapore has withdrawn from its involvement with Air NZ.

We also dispute the logic that the inevitable consequence of this application being declined being a war of attrition with only one airline surviving. Both airlines are Government owned, and would in the end be able to manage such a situation if they chose to.

We make the point that the survival of Air NZ is vitally important, for this airport and for the aviation industry in New Zealand as a whole.

Desirability of two equal strong competitors

The arrangements proposed by Air NZ and Qantas will give the merged entity very strong market presence in the domestic main trunk and regional routes, as well as the trans Tasman and other international routes. The withdrawal of United Airlines effectively cedes the trans Pacific to them.

Without some competition there will be an inevitable management of available fares and capacity to ensure high seat factors and route yields. That is the central purpose behind the proposed arrangements.

There would need to be a strong regulatory environment to control such behaviour in the absence of real competition. Strong regulation is not likely to eventuate given the light handed regulatory philosophy New Zealand governments have adopted since 1985.

We recommend that the Commission should require an outcome that ensures the presence of an alternative strong carrier on the Tasman and in the domestic market, or the potential for a strong new carrier to enter each of these markets. Air NZ and Qantas should be challenged to show how such competition can be ensured

Need for competition or equivalent measure to keep prices competitive

The underlying drive by all airlines is to increase yield. Unless there is real competition the merged entity will be able to manage the factors affecting yield. They will be able to increase average fares by limiting availability of discounted price seats. They will also be able to control the overall capacity offered on each route.

The merged entity would also be in a strong position to manage its costs. They will be in a strong position to increase pressure on suppliers to hold down costs. They will be the sole or dominant carrier at most of the airports they operate to in New Zealand and Australia.

Need for control over abuse of monopoly power

The undertakings given by Air NZ and Qantas are very qualified, and the merged entity would be able to work to the letter but not necessarily the spirit of such undertakings if it considered its position was being challenged.

It is difficult to see a Government agency enforcing compliance with such undertakings, or regulating the commercial decisions of the merged entity.

Effect on Hamilton & NZ regional market

Air NZ is the major operator at Hamilton. Air NZ provides over 85% of scheduled domestic services from Hamilton, and Air NZ subsidiary Freedom Air provides 100% of our international services.

The survival of Air NZ is critically important to this airport and all other regional airports in New Zealand. However, the maintenance of competition, or the potential for real competition on our domestic and international routes is also very important.

The outcome of the Commissions considerations should ensure that competition, or the potential for real competition, can occur on regional domestic and international routes, and that the merged entity is constrained in its ability to dominate the routes it operates and drive out competition.

Hugh G McCarroll
Chief Executive
Waikato Regional Airport Ltd

Notes:

Personal background

> I have been involved in the aviation industry in Australia and New Zealand for 34 years. I worked for Qantas from 1968 to 1984, Christchurch Airport from 1984 to 2002 and WRAL since April 2002. I have a good understanding about how airlines work from my time at Qantas, and have had considerable experience in dealing with airlines from the airport's perspective since 1984.

WRAL ownership

Hamilton City Council	50.000%
Waipa District Council	15.625%
Matamata-Piako District Council	15.625%
Waikato District Council	15.625%
Otorohanga District Council	3.125%