

17 October 2019

Commerce Commission
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Wellington

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Cardrona Alpine Resort Limited/Treble Cone Investments Limited – Late Submission

I realise that submissions closed in relation to the above application on 8 October 2019 and am seeking an indulgence from the Commission to provide comments on the likely anti-competitive effects of the proposed acquisition of the Treble Cone ski-field and assets by Cardrona Alpine Resort Limited. I propose to prepare and forward to you a further letter as soon as I can early next week to expand on the matters which I believe make the proposed acquisition anti-competitive.

The main points that my submission will focus include the following:

Market

- The Wanaka ski-market is, in my view, a market in itself. I completely disagree with the contention that that pricing is constrained by the Queenstown fields and Ruapehu. The Wanaka and Queenstown ski-fields are separated geographically by the significant physical barrier of the Crown Range which is hazardous and often unpassable in winter. This road is often closed due to winter conditions or open with 'extreme care/chains needed'. The additional effort required means that intermediate and other less advanced/hardy skiers will not travel over the Crown Range.

The two markets are not interchangeable. I also note that the Lindis Pass like the Crown Range is not always passable in winter conditions. It is at least a 2 ½ hour drive to Cardrona/Treble Cone from the Mackenzie Country.

- Ruapehu is difficult to access for New Zealanders and in particular international skiers. In contrast Queenstown is serviced by direct flights. The claim that Ruapehu is price constrained is also, in my view, a nonsense.
- The applicant suggests that Cardrona and Treble Cone cater to different markets (Cardrona to beginner/intermediate and Treble Cone to advanced), with which, I again disagree:
 - There is a very substantial area of advanced terrain at Cardrona (evidenced by the extent of snowsports competition and international race teams training there) and the imminent expansion of



available terrain into the Soho area suggests that it is indeed attractive to advanced skiers. Soho is in fact a large skiing area adding more than 80% to the size of Cadrona. Soho in my view is almost all advanced skiing, and not suitable for Intermediate skiers.

- Further, there is ample terrain at Treble Cone suitable for beginner skiers and boarders. Additional investment would result in this area being better utilised.

Pricing

- In my view allowing the application will raise the possibility of the major players in the overall market in the Queenstown/Wanaka area coordinating price increases – rather than increasing competition.

Reasons for the late submission

Please note that the reason I had not previously submitted is that I was in good faith trying to negotiate with the Board to recommend what I considered to be a commercially superior offer to shareholders. Because it involved Treble Cone continuing to trade and further investment in its assets. I believe that my proposal had the significant additional benefit of ensuring that competition remained in the provision of services to skiers and snowboarders in the Wanaka area.

More detail regarding the proposal that I had put to the Board of Treble Cone will follow in my subsequent letter.

Yours faithfully



Hamish J Hepburn
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The Mount Cook Collection

25 October 2019

Commerce Commission
WELLINGTON

Subject: Cardrona/Treble Cone

The parties, Treble Cone Investments Limited (TCIL) sale to the Applicant
Cardrona Alpine Resort Limited (CARL)

Existing Operator TCIL, and Applicant CARL

Reference Notes, Commerce Commission Decision 410 Raupehu Alpine Lifts Limited
(RAL) and Tuaroa Ski Resorts Limited (TSRL)

To the registrar

Further to my preliminary letter last Friday, I submit the following in relation to the
proposed sale of assets of TCIL to CARL.

If you have any further need for information, please do not hesitate to contact me

Yours faithfully

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The Market

The Market - Product Type

Downhill Skiing & Snow Boarding (skiing & boarding)

All most all activity on a ski field (ski area) is downhill skiing and snowboarding.

The commercial viability and vitality of a ski area requires provision for both disciplines on mountain, and within both disciplines of skiing and boarding, the provision for the range of abilities of the skier or snowboarder is paramount.

The range of ability spans learner, intermediate, advanced intermediate, and advanced.

In addition to the range of ability, the skier and snowboarder have evolved substantially over the last 20 years to "multi disciplines" within the downhill skiing and snow boarding disciplines themselves.

Examples of the multi disciplines over both skiing and boarding are, powder off piste, slalom- giant slalom-downhill on piste, free style, and terrain parks

The development of the multi disciplines within skiing and boarding over the last 20 years has been rapid and arising through the development of the technology in specialised high technical skier and boarder equipment and the development and provision of facilities on mountain by ski area operators through capital investment.

The Market - Product Type - Associated Facilities & Services

Commercial viability in a ski area for skiers and boarders requires the provision of associated facilities and services.

In the main these are; lifts for delivery up the mountain, snow making, snow grooming, ski patrolling, accident & medical care, ski & boarding equipment hire, ski school, ski and boarder development academies, race training services for domestic and international off season race and competition development, food, beverage, and convenience, creche facilities and valet services around car parking moving guests quickly and efficiently to and from parking to main building facilities and services.

The Market - Geographical Extent

Geographical Extent Queenstown Basin Ski Area Market

The Queenstown Basin Ski Areas are two, owned by NZ Ski.Com.

The Queenstown Basin area has a direct feeder of skier and boarder guests arriving directly from domestic New Zealand and international to the Queenstown International Airport

Auckland, Wellington and Christchurch International Airports are also direct feeding domestic and international skier and borders into Queenstown International Airport supplying the Queenstown Basin Area.

Queenstown is a winter and summer destination in it's own right providing the guest plentiful accommodation, transport, activities, food and beverage options day and through the night, attractive, in particular when the weather is bad for skiing and boarding or just as an alternative to skiing during a ski or boarding vacation.

The skiers and boarders are mainly from Auckland, Wellington, Christchurch, Sydney, Melbourne and Brisbane.

The majority of these skiers and boarders are below advanced intermediate and will be looking for a range of skiing and boarding facilities and services from beginner to learner, intermediate advanced intermediate

In excess of 80% of skiers and boarders into the Queenstown Basin ski areas are New Zealand and Australian.

Geographical Extent North Island Ski Area Market

Skiers and boarders in the north island ski areas Ruapehu and Turoa are predominantly from the North Island.

North Island skis areas experience very low levels of South Island and International skiers.

North Island ski areas have very limited accommodation at or close to the mountain location of Ruapehu and Turoa

The North Island ski areas are not a destination in themselves like the Queenstown Basin Area and the substantially less offering and therefore capacity in the Wanaka Basin.

Only Queenstown has a direct feed of international skier and boarder guess arriving directly from overseas to the Queenstown International and domestic airport.

International skiers and boarders can also arrive to Queenstown airport vis international airport hubs Auckland, Wellington, and Christchurch

Queenstown has a wide variety of non-alpine activities on offer, useful in particular when the weather is bad for skiing and boarding or just as an alternative to skiing during a ski or boarding vacation.

In addition to activities Queenstown is also a destination for other night and daytime activities and including an abundance of various food and bar options.

Travel to the North Island ski areas from the two main feeders of skiers and boarders in the North Island, Wellington and Auckland is difficult as the travel requires a long drive to the mountain area or a flight to a regional airport close by and then a long drive to the maintain area.

Further, the weather in the North Island ski areas is at best variable.

As a result, the main feeders of the North Island ski areas Wellington and Auckland, take the ease of air travel direct to Queenstown Airport in the first instance and remove time consumption through the long drive and staying in an area with nothing to do outside skiing or boarding where the weather at best is variable.

Geographical Extent South Island Ski Area Market

The South Island skier market is predominantly 4 regions, Canterbury, Mackenzie Basin, Queenstown Basin and Wanaka Basin

The Canterbury and Mackenzie Basin is separated from the Wanaka & Queenstown markets by a long drive and having to pass the mountain pass that is the Lindas Pass.

The Lindas Pass is often closed or requires chains to pass through on winter conditions, much the same as the Crown Range separating Queenstown from Wanaka.

The conditions and time of travel to the Wanaka and Queenstown ski areas prevents most from access these areas on a day travel to ski either area.

Travel to the Wanaka & Queenstown for extended stays from the South Island, if not by air to Queenstown will be by road which place the occupants of each vehicle in the same choice pattern of all other skiers and boarders staying in either Queenstown or Wanaka.

Geographical Extent The Wanaka Basin Ski Area Market

The Wanaka Basin has two ski areas, Cardrona in the Cardrona Valley located on the Wanaka side of the Crown Range 45 minutes from Wanaka, and Treble Cone up the left hand side of Lake Wanaka 45 minutes from Wanaka.

The Queenstown Basin ski areas are two, Coronet Peak and Remarkables separated by the Crown Range from the Wanaka Basin ski areas.

If passable in the winter road conditions Cardrona is 60 minutes from Queenstown and Treble Cone 1 3/4 hour from Queenstown.

Other access routes by road are too long in distance and time therefore are not an option to ski or board in the Wanaka Basin ski areas, from the Lindis Pass an additional 2 hours, via Cromwell an additional 1 hour, and no skier volume of a material size arrives from the Haast West Coast road.

The Wanaka Ski Area Market by Air

The Wanaka Basin can be accessed by air however no material volume of scheduled commercial air service operates out of the Wanaka airport, Air New Zealand pulling out of its commercial service prior to 2010.

The nearest volume commercial air service, domestic and international, is Christchurch International Airport some 4-5 hours north of Wanaka by car, and Queenstown International Airport in Queenstown.

Queenstown International Airport and the greater Queenstown region is separated by the Crown Range requiring road transport to Wanaka either via the Crown Range, some 55 minutes or via Cromwell adding a further 60 to 70 minutes, in total almost 2 hours.

The Wanaka Basin area (Wanaka) in central Otago is in the main accessed by road.

The Market - Functional Level - Ski Area Access - Road Transport

Ski Area (Ski Field) Accessibility Queenstown Basin & Wanaka Basin

Ski Areas in New Zealand are almost 100% accessed by road.

In the main unsealed access roads, only Coronet Peak in the Queenstown area is sealed in the South Island, while both Ruapehu and Turoa are sealed in the North Island.

Ski area road access, non-commercial is by car, SUV, minivan, and campervan, while commercial access is by minibuss and bus.

On maintain access to ski areas in the winter for skiing and boarding by default requires vehicle access to negotiate winter conditions such as falling snow, snow and ice, requires caution, "fitting of chains" driving with care and experience.

To maintain access, to access on maintain roads in the main also require negotiating winter road conditions in particular in the Queenstown and Wanaka Basins.

Within the Wanaka Basin access to mountain access to Cardrona and Treble Cone is straight forward.

However, for mountain access from the Queenstown Basin to the Wanaka Basin by road and within acceptable travel time to the mountain for day skiing it is road access via the Crown Range Mountain Pass.

The crown range during the winter is often treterious requiring chains or even often impassable as the road is closed.

Alternative road access either way via Cromwell is time and distance impractical for day skiing.

In addition to common impassable conditions over the mountain passes, excessive time loss through distance means access to the Wanaka Basin via the Lindas Pass is also not practical for day skiing.

Health, Safety, and wellness compliance on road safety translates to more road closures, fitting of chains and slow caution protecting both the road users and road operators.

The Market - Functional Level - Ski Area Access - Vehicle Occupant Composition

In access to ski areas in the Queenstown and Wanaka Basins by road transport the composition of the occupants of each vehicle are critical to understand.

Simple demographics, skier or boarder abilities when overlaid over the composition of the vehicle occupants will result in a simple decision on which ski area the vehicle will be driving to.

In the case of commercial transport to mountain, in the main only Queenstown Ski Area based, the decision on ski area destination is made at the purchase of a ticket.

A non-commercial vehicle destination will be chosen on the best outcome for the range of abilities and needs that will exist in each vehicle.

Range of skier and boarder abilities, and the associated services provided on mountain by each ski area

In the case of the Wanaka ski areas on the Wanaka side of the Crown Range the choice is Cardrona or Treble Cone

Market Summary As It Relates To Cardrona / Treble Cone

Market definition

1.1 The Commission has previously stated that “*The relevant market is that in which a hypothetical monopoly supplier would find it profitable to raise price by a significant amount for a significant period of time.*”

1.2

Given the Wanaka Ski Areas are separated by the Crown Range, limited at best access by air the Wanaka Ski Area market is a market in itself.¹ Further Treble Cone is an additional hour on the road travel time from Queenstown if in fact the Crown Range is Passable.

If one takes the view that the Wanaka ski-market is a market in itself then it is easy to see that combining the two ski-fields will lead to a monopoly where the consumers become price takers.

1.2 With this view on a market in itself the amount of ‘switching’ between Queenstown and Wanaka fields if prices were increased is unlikely to be significant. This is primarily because the Wanaka and Queenstown ski-fields are separated geographically by the significant physical barrier of the Crown Range which is hazardous and often unpassable in winter. This road is often closed due to winter conditions or open with ‘extreme care/chains needed’. The additional effort required means that intermediate and other less advanced/hardy skiers will not travel over the Crown Range.

1.3 To illustrate this the following is in extract from the 100% Pure New Zealand website:

“The Crown Range lies between Queenstown and Wanaka. The road over the range, known as the Crown Range Road, is the highest main road in New Zealand. It reaches an altitude of 1121 metres, which does bring challenges. In winter, the road is often covered in snow and ice, making for very difficult driving conditions.”ⁱⁱ

1.4 The applicant also suggests that Cardrona and Treble Cone cater to different markets (Cardrona to beginner/intermediate and Treble Cone to advanced), with which, I disagree:

(a) There is a very substantial area of intermediate-advanced terrain at Cardrona (evidenced by the extent of snow sports competition and international race teams training there) and the imminent expansion of available terrain into the Soho area suggests that it is indeed attractive to intermediate-advanced skiers. Soho is in fact a large skiing area adding

more than 65-75% to the size of Cardrona. Soho in my view is almost all intermediate-advanced skiing, and not suitable for Intermediate skiers.

- (b) Further, there is ample terrain at Treble Cone suitable for beginner skiers and boarders. Additional investment would result in this area being better utilised.

1.5 I also note that:

- (a) Car parking at Remarkables ski-field is severely constrained; and
- (b) The altitudes of both Treble Cone and Cardrona are significantly higher than either of Coronet or the Remarkables and that this is important in considering the length of the season and associated availability for skiing days especially in light of impending global warming.

1.6 I also completely disagree with the statement made by the applicant that that pricing is constrained by the Queenstown fields and Ruapehu/Tuaroa. The claim that Ruapehu/Tuaroa is price constrained is also, in my view, a nonsense.

Further, to claim constraint from international ski areas is also a nonsense

1.7 The three markets are not interchangeable. I also note that the Lindis Pass like the Crown Range is not always passable in winter conditions. It is at least a 2 ½ hour drive to Cardrona/Treble Cone from the Mackenzie Country. Therefore removing the Mackenzie and Canterbury ski areas a price constraints also.

1.8 Ruapehu/Tuaroa by comparison is difficult to access for New Zealanders and, in particular, international skiers. In contrast Queenstown is serviced by direct flights.












1.9 Flights from Auckland to Taupo are infrequent and serviced by smaller aircraft. The Australian market similarly requires 2 flights and is significantly more impractical for holidaying Australians who would naturally prefer the direct flights to Queenstown from the East Coast main centres.

1.10 To illustrate this included below is an extract from the rome2rio.com website showing flight routes from Sydney to Taupo:

FROM Sydney, NSW, Australia X ↔ TO Taupo, New Zealand X

Outbound Date: Today | Return Date: Choose return Date | Passengers: 1 passenger | Find

Outbound | Return

✈️ x 2	SYD	TUO	When
	09:55	AKL 17:45	Except Sat
	19:15	AKL 08:55	Fri Sun
 	08:45	WLG 16:15	Mon Thu Fri
 	09:55	AKL 17:45	Tue Wed
✈️ x 3	SYD	TUO	When
 	08:00	BNE AKL 17:45	Mon to Fri
 	07:00	MEL AKL 17:45	Except Sat
	19:15	CHC AKL 08:55	Wed Fri Sun

1.11 Further the availability of accommodation is important in terms of market definition in such a tourist-based industry. The distance from Queenstown to:

- Cardrona is approximately 58 km; and
- Treble Cone via the Crown Range is approximately 90 km.

The distance via the Crown Range from Wanaka to:

- (c) Coronet Peak is approximately 70 km;
- (d) Treble Cone is approximately 23 km; and
- (e) The Remarkables is approximately 78 km.

There is very limited accommodation or services (restaurants, shops, fuel etc) available in between those two centres including Arrowtown and the Cardrona Valley.

2. **Competition**

- 2.1 In my view it is unwise to have only two resort operators in the entire Central Otago region. It will raise the possibility of the two major players in the overall market in the Queenstown/Wanaka area co-ordinating price increases – rather than increasing competition.
- 2.2 Both of the two major players are diversified tourism operators facing limited competition and a duopoly between these two operators is undesirable. Ironically the initial stage following merger is likely to see prices at the combined ski-field reduce which is likely to have a detrimental effect on small South Island operators.
- 2.3 CARL and Treble Cone compete with one another. I understand that Cardrona has approximately 80% of skier days on day passes rather than season passes. This is important in that skiers are not committed to either mountain (e.g. Treble Cone or Cardrona) and that competition between these two resorts is very important to regulate price and service.
- 2.4 The proposed merger would also lessen competition for specialist skill sets such as ski instructors and groomer drivers, thus depressing wages.
- 2.5 There are no other existing ski areas in the entire Central Otago region that are likely to be developed - other than Soho which is already controlled by CARL. The consenting process alone for a new resort would be likely to take 5-10 years and would naturally be opposed by both NZSki and Cardrona. In my view therefore there is no realistic pricing constraint associated with the threat of new entrants.

- 2.6 I believe that Treble Cone has suffered from poor management choices and a dysfunctional ownership structure, lack of access to capital funds which has resulted in under-investment in key assets and facilities such as the access road, car parking, adequate snow-making equipment, investment and up keep in the base lodge facilities and associated product and services.

Cardrona over current ownership time to date (7 years) is a shining example of a ski area development in the ski area product and the associated facilities and services keeping pace with the evolving market demands of the skier and boarder today and the investment carried out by NZSki.Com in the Queenstown Basin.

Treble Cone Investments on the other hand has been a continuous trail of poor market, customer, community, family, economic, and commercial decisions for the ski area since at least 2010/2011

Working from the most recent

A focus only on the advanced skier and not the boarder market, these markets making up less than 30% of total the ski market

Raising ticket and season pass prices significantly above Cardrona and NZSki.com to a 30% total market share, insuring the remaining 70% choice is at least Cardrona, again knocking out all those vehicles containing the 70% who at least need Cardrona, and so the other 30% go to Cardrona too.

In adequate snow making to access the mountain from the school holidays, in the last 2 years this has lost Treble Cone around 25%-30% of its revenue and up to 4 weeks of its 12 to 13 week revenue take. This further increases the cost or unattractiveness of the high seasons pass as the mountain is likely to be open for a limited time and in the most important time too.

In adequate provisioning of car parking on mountain.

In adequate upkeep of the access road.

In ability to provide better beginner and learner areas for the other individuals in the vehicle traveling to the ski area with a range of abilities such as families.

Failure to upkeep and modernise the base facilities that should house all the associated product and services where all other ski areas make significant revenue.

A realignment of existing on-field assets combined with relatively modest investment would result in a significant improvement to access to terrain for the beginner/intermediate market that could potentially flow on to a viable and thriving competitor to Cardrona/Soho

2.7 **Cardrona the shining example of how to operate and develop a ski area**

Without the realignment of the on field assets of Treble Cone and the continued ski area operation status quo Treble Cone is not a commercial viable operation.

Cardrona has committing to substantial development of the Cardrona and now the adjoining Soho ski areas.

In addition, there is larger investment committed for accommodation at Cardrona Competing directly with Wanaka and Treble Cone

Further access to the ski areas is likely to be a gondola once consented for access by pass the road on to on mountain.

This will be the end of Treble Cone with out investment, re alignment and development.

At best it will be some years before Cardrona allocated resource to address the terminal issues Treble Cone currently faces without investment

No doubt the investment from Cardrona will come, however only when the current Cardrona Soho development is nearing capacity.

All the while in the Wanaka market Cardrona have the opportunity to discriminate on price, product, and services at Cardrona.

At best Treble Cone in the short term (5years) will become a 8-9 week ski area on natural snow if it falls

If the limited market share Treble Cone now caters to is likely unsustainable Cardrona could simply shut Treble Cone down entirely and remove the ski area from the market.

Given the purchase price of Treble Cone, this is a cheap option for Cardrona to have total control over the Wanaka market itself.

With the purchase of Treble Cone existing or not existing in the future the Queenstown and Wanaka Basins will be a near perfect oligopoly between Cardrona and NZSki.com where in fact Cardrona also will be operating a monopoly in the Wanaka Basin ski areas a market with limited substitution itself.

This does not fit with the best use of societies resources, in particular the last larger non corporate mainstream high volume commercial ski area that is Treble Cone all of whom, including Treble Cone have lost touch with the Kiwi experience, local communities, and families that make up to Kiwiana experience that internationals travel around the world to be apart of.

Yours faithfully

Hamish J Hepburn

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ⁱ Decision No. 410 Ruapehu Alpine Lifts Limited and Turoa Ski Resorts (para 88)

ⁱⁱ <https://www.newzealand.com/int/feature/the-crown-range/>