

# Statement of Preliminary Issues

## Christchurch International Airport Limited / Craddocks Car Storage

13 December 2010

### INTRODUCTION

1. On 7 December 2010, the Commerce Commission received an application from Christchurch International Airport Limited (CIAL) seeking clearance to acquire Craddocks Car Storage. The public version of the application can be accessed on the Commission's website at:

<http://www.comcom.govt.nz/clearances-register/detail/696>

2. This Statement of Preliminary Issues outlines the competition issues the Commission currently considers will be important in deciding whether or not to grant clearance. The issues highlighted in this statement are based on the information available at the time of publication, and may change as the Commission's assessment of the application for clearance progresses.
3. The Commission invites interested parties to make comment on the likely competitive effects of the proposed merger.

### RELEVANT PARTIES

4. CIAL is majority owned by Christchurch City Council. CIAL operates Christchurch International Airport as well as numerous non-aviation businesses, including airport parking services.
5. Craddocks Car Storage, owned and operated by PMW 2000 Limited, runs a secure car storage facility supplying parking and other value-added services to users of Christchurch International Airport. These value-added services include valet, on-site vehicle grooming, vehicle servicing and warrant of fitness, re-fuelling and panel and paint repairs.

### ANALYTICAL FRAMEWORK

6. In the context of an application for clearance, the Commission must consider whether or not an acquisition substantially lessens competition. The first step of the Commission's analytical framework<sup>1</sup> is to determine the relevant market or markets. To do this, the Commission identifies the areas of overlap between the acquirer and the target where aggregation of market share may arise from the proposed acquisition. The Commission then considers the relevant products and geographic regions that constitute close substitutes from both a customer's and a supplier's point of view.

---

<sup>1</sup> Commerce Commission, *Mergers and Acquisitions Guidelines*, January 2004.

7. The Commission uses a forward-looking type of analysis to assess the degree of any potential lessening of competition in the relevant market or markets arising from a proposed acquisition. Therefore, the next step is to establish the two hypothetical future scenarios:
- with the acquisition in question (the factual); and
  - without the acquisition (the counterfactual).

The impact of the acquisition on competition is then viewed as the prospective difference between those two scenarios.

8. The Commission analyses the extent of competition in each relevant market for both the factual and counterfactual scenarios, in terms of:
- existing competition - the degree to which existing competitors compete and their ability to expand production in the event that the combined entity raises prices;
  - potential competition – the ability of businesses to readily enter the market and thereafter expand, given an inducement to do so;
  - the countervailing market power of buyers - the potential for a business to be sufficiently constrained by purchasers’ ability to exert an influence on price, quality and/or terms of supply; and
  - coordinated behaviour – whether the acquisition would enhance the ability of market participants to collude either tacitly or explicitly.
9. A comparison of the extent of competition in the relevant markets both with and without the acquisition enables the Commission to assess the degree by which the proposed acquisition may lessen competition. If the lessening is substantial the Commission may not give clearance to the proposed acquisition.

## **PRELIMINARY ISSUES**

10. Of the factors outlined in the previous section, the Commission currently considers its focus will be on the following matters:

### **Market definition**

11. CIAL has submitted that the appropriate market is for travel to and from Christchurch International Airport. Participants in this market would include buses, taxis, shuttles, and drop off/pick up by private car together with airport parking services. However, the Commission considers that an alternative narrower market may be more appropriate in this instance, such as a market for parking at or near Christchurch International Airport.
12. In deciding what is the relevant market, the Commission will assess the following factors:
- The ability of consumers of parking services to substitute between off-site/value added parking services and standard CIAL airport parking adjacent to the airport terminal.
  - Whether the value added component of Craddock is in a separate market to that for parking services.

- Whether parking services at or near Christchurch International Airport are readily substitutable for other transport options such as taxis, shuttles, bus services and private car drop off/pick up.

### **Extent of existing competition**

13. CIAL has advised that there are currently a number of small direct competitors that provide parking services on their land near Christchurch International Airport.
14. The Commission will test whether these competitors are sufficient in extent to constrain CIAL if it sought to increase prices post acquisition, given the possible degree of aggregation of market share arising.

### **Potential competitors**

15. The Commission is also interested in ascertaining how difficult it is to enter the airport parking industry, including testing what is required to establish a successful airport parking business.
16. In order to act as a constraint, entry must be likely. The Commission will therefore consider the likelihood of entry in the event that prices are increased, post acquisition.

### **Vertical effects**

17. The Commission will also consider whether CIAL's ownership of the land around the airport and its control of transport access to the airport's terminal would give rise to competition concerns in the relevant market.

### **NEXT STEPS**

18. In line with the Commission's Merger and Acquisitions Clearance Process Guidelines (available on the Commission's website at [www.comcom.govt.nz](http://www.comcom.govt.nz)), the Commission has established a draft timeframe for consideration of the application for clearance. An extension of time was agreed to by the Applicant such that the Commission should make its final decision by 28 January 2011. However, also in line with the Merger and Acquisitions Clearance Process Guidelines, this timeframe could change. To keep abreast of possible changes in relation to timing and to find relevant documents, visit the Clearance Public Register on the Commission's website at:

<http://www.comcom.govt.nz/clearances-register/>

19. As part of its investigation, the Commission will identify the parties it believes will provide the best information to help it assess the preliminary issues identified above. The Commission will be contacting those parties over the next few weeks.
20. The Commission also invites submissions from any other parties who consider they have information relevant to the Commission's consideration of this matter. If you wish to make a submission, please send it to the Registrar, at [registrar@comcom.govt.nz](mailto:registrar@comcom.govt.nz) with the reference in the subject line of your email, or The Registrar, PO Box 2351, Wellington 6140 by **5pm on Wednesday 22 December 2010**. Please clearly identify any confidential information contained in the submission and provide contact details.