Z ENERGY/CHEVRON PROPOSED MERGER
PUBLIC VERSION OF AIR NEW ZEALAND SUBMISSION

Air New Zealand is the largest purchaser of jet fuel in New Zealand, and at Auckland Airport. Jet fuel is a key input for Air New Zealand's business, accounting for almost 30% of our operating expenditure.

Air New Zealand currently purchases jet fuel from all four suppliers at Auckland Airport. These suppliers collectively own the processing and refinery infrastructure that supports not only the supply of jet fuel to Auckland Airport, but also the bulk of the retail supply throughout New Zealand. As part of this infrastructure arrangement, the amount of product each oil company is able to supply to Auckland Airport is determined by the refinery capacity allocation model. This has two important implications for competition within the industry. First, each supplier has knowledge of key elements of the others' business, including their capacity to supply jet fuel at Auckland Airport. Secondly, the prospect of large changes in market share or entry by a new operator are limited.

Air New Zealand has concerns regarding the merger which we do not think are adequately addressed in the parties' application. If the merger proceeds:

a) Air New Zealand would have no option but to purchase at least a portion of their jet fuel from the merged entity.

b) Air New Zealand would have even less ability to switch volumes away from the incumbent oil suppliers. Air New Zealand's supply would be concentrated in the merged entity, and the constraint provided by Air New Zealand's ability to switch volumes between providers will be significantly reduced; and

c) The potential for coordination within the industry will increase. The current structure of the oil industry already exhibits many of the features that the Commission has observed as facilitating coordinated conduct.

Alternative supply at Auckland Airport is not an option for Air New Zealand. Imported jet fuel cannot be trucked into Auckland Airport given the volume requirements. Further, tankering (ie fueling up at destinations other than Auckland Airport) is not a realistic alternative for domestic or international flights.

If the Commission is inclined to clear the merger, enforced changes to the processing agreements and access rights to the refinery and related infrastructure could alleviate some of Air New Zealand concerns. This could include requiring the disclosure of the processing agreement and access rights to the various infrastructure, opening up access to the pipeline and Wiri so that it is not dependent on process through the refinery, and/or placing a cap on the share of supply from the refinery to ensure that no one oil company has more than 40% of jet fuel supply.