

ISSN NO. 0114 - 2720

COMMERCE COMMISSION

DECISION NO. 292

Determination pursuant to the Commerce Act 1986 (the Act), and in accordance with a delegation given in terms of s 105 of the Act, in the matter of an application for clearance of a business acquisition involving:

GATE GOURMET INTERNATIONAL AG

and

AIR NEW ZEALAND LIMITED

The Commission: Dr K M Brown

Summary of Proposed Business Acquisition: That Gate Gourmet International AG acquire the assets of the flight catering division of Air New Zealand Limited.

Determination: Pursuant to s 66(3)(a) of the Act, the Commission determines to give a clearance for the acquisition.

Date of Determination: 1 May 1997

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MEMORANDUM

To: Kate Brown

From: John Preston

Date: 1 May 1997

Subject: **Notice Seeking Clearance for the Proposed Acquisition of a Business**

Gate Gourmet International AG/Air New Zealand Ltd Flight Catering Division

Confidential information in this report is contained in square brackets.

Working day 10: Friday 9 May 1997

INTRODUCTION

- 1 On 24 April 1997 the Commission registered a notice lodged on behalf of Gate Gourmet International AG (Gate Gourmet) under section 66 of the Commerce Act 1986 (the Act) seeking clearance to acquire the assets of the flight catering business operated by Air New Zealand Limited (Air NZ Catering).
- 2 Section 66(3) of the Act requires the Commission either to give a clearance, or to decline to give a clearance, within 10 working days, unless the Commission and the person who gave the notice agree to a longer period. As no extension has been agreed, the Commission decision on the notice is due by 9 May 1997.

- 3 An order under s100 of the Act has been made providing for confidentiality for the fact of the proposal until the earlier of 20 working days from the Commission's determination of the notice and public announcement by the parties.

THE PARTIES

Gate Gourmet International AG

- 4 Gate Gourmet is ultimately wholly owned by SAir Group Holding AG of Zurich, the owner of the SwissAir airline. The immediate parent of Gate Gourmet, Gate Gourmet Holding AG, has numerous catering and hotel subsidiaries, principally in Europe but also in North and South America and Asia. Most of these interests involve wholly owned subsidiaries, but in some cases Gate Gourmet Holding AG has controlling interests or substantial minority interests in the companies concerned.

- 5 Gate Gourmet Holdings AG has no existing interests in New Zealand. SwissAir does not have any direct air services to New Zealand, the closest points served being Singapore and Los Angeles. SwissAir has a small representative office in Auckland, Swissair (NZ) Ltd, which provides ticket sales and service. The company sells tickets which combine travel by another airline from a New Zealand airport to an airport served by SwissAir with travel from the latter to the destination by SwissAir.

Air New Zealand Limited

- 6 Air New Zealand Limited is a listed company which provides international and domestic air travel services. Its activities include the provision of in-flight catering services to its own airlines and to 16 international airlines. The company has three flight kitchens in New Zealand, one in each of Auckland, Wellington and Christchurch.

MARKET DEFINITION

- 7 In the staff report which was incorporated into Decision 284 of 12 March 1997 (Pacific Flight Catering/Air NZ Catering) certain characteristics which differentiated the provision of in-flight catering from other catering were outlined. These included the requirement for certain purpose built plant and equipment, the need for a large kitchen facility usually located at or close to an airport, specific food preparation techniques, familiarity with airline service requirements and the need to comply with stringent health quality and quarantine requirements.
- 8 The staff report in Decision 284 indicated that in addition to the three airports at which Air NZ Catering operates flight kitchens (Auckland, Wellington and Christchurch), caterers operate under sub-contract in some other airports.

Conclusion on Market Definition

- 9 We consider that the market definition adopted in Decision 284 continues to be appropriate, and we therefore conclude that the relevant market is that for the provision of in-flight catering services, and related activities, to domestic and international airlines on flights departing New Zealand airports.

COMPETITION ISSUES

- 10 The two major providers of in-flight catering services in New Zealand are Air NZ Catering and PRI Flight Catering Ltd, with estimated market shares of [] and [] respectively. The balance is represented by “double catering” provided by Qantas [] and other caterers [].
- 11 Double catering is the practice of carrying meals for both the inward and outward flight on an aircraft. For example, for a aircraft travelling Sydney-Auckland-Sydney, the catering for both legs of the journey could be undertaken at Sydney and two sets of meal trolleys carried. The extent to which this service provides an alternative for

airlines has limitations. It would not be practicable if an aircraft had to remain at an airport overnight, and could not normally be used on long-haul services because there would be insufficient space to carry more than two meals per passenger. The service would usually not be practicable for narrow bodied aircraft such as Boeing 737s used on international services. Double catering is not an option for domestic airline operators.

- 12 As Gate Gourmet is not involved in undertaking catering for flights departing from New Zealand airports there is no aggregation of market share. There do not appear to be any relevant vertical integration issues.
- 13 Were the proposed acquisition to be implemented, the present market structure would be maintained. Gate Gourmet would replace Air New Zealand as operator of the larger of the two New Zealand-based providers, and PRI Flight Catering would continue to provide an alternative for any airline which became dissatisfied with Gate Gourmet's service. Competition of a limited nature would continue to be provided by double catering at Australian or other short haul airports.

Conclusion on Competition Issues

- 14 We conclude that implementation of the proposed acquisition would not result, or would not be likely to result, in Gate Gourmet acquiring or strengthening a dominant position in a market.

RECOMMENDATION

- 15 We recommend that, in terms of s 66(3)(a) of the Act, you give clearance to the proposed acquisition.

Chief Investigator

Manager

