



23 January 2015

Ministry of Transport
PO Box 3175
Wellington, 6140
FAO: Richard Cross

By email

Dear Mr Cross

Application by Air New Zealand and Cathay Pacific Airways for reauthorisation of the North Asia Alliance

Wellington International Airport Limited ("**WIAL**") welcomes this opportunity to submit its views on the application made by Air New Zealand Limited ("**ANZ**") and Cathay Pacific Airways Limited ("**Cathay**") (together the "**parties**"), seeking reauthorisation of their North Asia Alliance ("**Alliance**") (the "**Application**").

WIAL made submissions to the Ministry of Transport ("**Ministry**") on the parties' application in 2012 for initial authorisation of the Alliance. Among other things, WIAL submitted that it was vital to ensure that the benefits of the Alliance then asserted by the parties were in fact realised, and that consumer detriment was avoided. WIAL also contributed to and supported the submission advanced by NZ Airports, which expressed a similar view.

Those submissions were advanced in the context of the parties' application for an authorisation for a period of three years. The parties' Application now seeks reauthorisation for a period of five years, through until January 2021.

WIAL supports means to sustain and increase air services to and from New Zealand and recognises that international airline alliances can contribute positively to achieving these objectives. It appears to WIAL that an important consideration for the initial authorisation, and which continues to be relevant to this Application, is the potential for ANZ's withdrawal from the Auckland-Hong Kong route, absent the Alliance. However, as with the initial authorisation, this factor is not determinative. Rather, the Minister will assess carefully the full range of potential outcomes and their associated costs and benefits.

In WIAL's view, the lengthy duration of the approval sought in this case reinforces that, in assessing the Application, careful consideration must be given to the concerns raised by WIAL in the context of the initial authorisation, namely to ensure that the benefits asserted are realised for the duration of the period. In doing so, reliance should not be placed upon an assumption that the outcomes of the Alliance over its first two years will continue for the next six years.

As the Ministry's briefing to the Minister in connection with the 2012 authorisation notes (in respect of a three year authorisation period), the airline industry is notoriously dynamic. This makes it difficult to anticipate what the market dynamics will look like in the future.¹ WIAL considers that this general observation applies acutely to routes operated between Asia and New Zealand. In the past five years significant changes, in terms of both carriers and routes, have occurred, including:

- The entry of China Southern in 2011, operating the Guangzhou-Auckland route (Guangzhou being just 160 kilometres from Hong Kong). Entry was initially three services per week, but increased to a daily service in 2012. For the NZ summer 2014 season, China Southern has moved to twice-daily frequencies on the route, operated by a Boeing 787-800 and a Boeing 777-300 (offering greater capacity than the Boeing 787-800 and Airbus A330 aircraft previously operated).
- The entry of China Airlines in 2011, operating the Auckland to Taipei route (with a stop in Australia). Capacity has increased significantly from an initial three services per week in 2011 to eight services per week for summer 2014 (and with aircraft capacity due to be upgraded from Airbus A330 to Boeing 747-400²).
- China Eastern commenced operating the Shanghai-Auckland route in late 2014 (four services per week).³
- Air China has also recently announced plans to operate a direct service between Beijing and Auckland, as part of an alliance with Air New Zealand.⁴

More specifically, in the context of the Auckland-Hong Kong route, development and expansion at Hong Kong International Airport ("**HKG**") means that there is considerable scope over the period 2016 to 2021 for additional services and carriers to operate out of HKG. By the end of 2015 HKG expects to have added a further 48 parking stands under its Midfield Development and West Apron Expansion works.⁵ This additional capacity is likely to see airlines other than Cathay looking to add services (including new routes) operated in and out of HKG.

The potential for market demand growth over the authorisation period sought should also be considered in light of anticipated growth in aviation markets served by the Alliance. Over the next 20 years, Chinese carriers alone are expected to order 6,020 aircraft to support rapid demand growth. 1,480 of these aircraft are expected to be wide-body aircraft suitable for operating services between New Zealand and Hong Kong.⁶

¹ Ministry of Transport, Briefing to the Minister of Transport, Air New Zealand - Cathay Pacific Alliance, 18 October 2012, paragraph 25.

² See <http://www.aucklandairport.co.nz/Corporate/NewsAndMedia/AllMediaReleases/hina-Airlines-to-increase-flights-on-Taipei-Brisbane-Auckland-Route.aspx>

³ See <http://www.aucklandairport.co.nz/Corporate/NewsAndMedia/AllMediaReleases/Inaugural-China-Eastern-Airlines-seasonal-flight-arrives-at-Auckland-Airport.aspx>

⁴ See http://news.xinhuanet.com/english/business/2014-11/21/c_133805287.htm

⁵ See <http://www.hongkongairport.com/eng/future/medium-term-development/index.html>

⁶ Boeing, Current Market Outlook 2014 – 2033, Long term outlook: China.



The decision to authorise the parties' Application necessarily involves a forward looking assessment of the benefits and potential detriments arising from the Alliance. The dynamic nature of the airline sector and, in particular, services operated by airlines other than Cathay/ANZ from North Asia to New Zealand, means it is difficult, in WIAL's submission, to predict with certainty how market conditions for air services between Hong Kong and New Zealand will evolve over the period through to 2021. This difficulty was recognised by the Ministry in its recommendation to authorise the Alliance in 2012, and indeed led the Ministry to recommend authorisation for a three year term.⁷

WIAL submits that a very careful assessment of the benefits asserted by the parties, and the potential for detriment to consumers to arise, is required, and that such matters should be monitored over the duration of the reauthorisation.

In terms of the benefits asserted by the parties, WIAL considers it vital the Minister has confidence that passengers continue to benefit from, *inter alia*, improved time of day benefits, additional interline connections for competitors and lower fares for connecting passengers (all of which are advanced in the parties' Application). Moreover, in WIAL's view, it is important the Minister is able to derive sufficient comfort from the parties' Application, that, under the Alliance, they will not restrict capacity below the levels which the market would support in a competitive environment.

WIAL anticipates that the Ministry can only have confidence that the above outcomes materialise for the duration of the reauthorisation through receipt of detailed capacity and yield data from the parties at regular intervals. Such data ought to allow the Ministry to monitor the effects of the Alliance on fares, capacity, schedules for connecting passengers and growth achieved on the route relative to what would be anticipated in consideration of relevant market benchmarks.

Regarding any competitive detriment, WIAL considers that the Ministry's primary focus ought to be on the potential for the Alliance to deter or impede entry onto routes connecting New Zealand with Hong Kong. WIAL does not disagree with the parties' submission that at present imminent entry appears unlikely (with or without the Alliance). However, in light of the dynamic conditions outlined above, it is difficult to conclude with certainty that this will continue to be the case through until 2021. Specific attention should therefore be paid to ensuring, where possible, that any authorisation of the Alliance does not unduly discourage potential entrants on to routes connecting New Zealand with Hong Kong and North Asia.

Finally, in assessing the parties' application, it is relevant to take account of the unique characteristics of the Alliance. As the Ministry observed in the initial authorisation, it involves competition on a single international route.⁸ It also involves the home carrier at each end of that single route, adding to the position of market power gained by the applicants by way of the Alliance. Additionally, the Ministry will provide the only regulatory oversight of the Alliance as no regulatory approval is required in Hong Kong. Therefore, the Ministry ought to undertake a careful consideration of the costs and benefits of the Alliance and, in light of the uncertainty characterising that forward looking assessment, ensure that it has the means to monitor the evolution of those factors over the period of any Authorisation granted.

⁷ Ministry of Transport, Briefing to the Minister of Transport, Air New Zealand - Cathay Pacific Alliance, 18 October 2012, paragraph 30.

⁸ Ministry of Transport, Briefing to the Minister of Transport, Air New Zealand - Cathay Pacific Alliance, 18 October 2012, paragraph 27.



WIAL would be pleased to discuss the views outlined in this submission in further detail with the Ministry should that be of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Sanderson', written over a light grey rectangular background.

Steve Sanderson
CHIEF EXECUTIVE OFFICER

