

**SUBMISSION TO THE MINISTER OF TRANSPORT ON
THE APPLICATION FOR AUTHORISATION OF
THE PROPOSED AIR NEW ZEALAND AND AIR CHINA ALLIANCE**

MAY 2015

1. INTRODUCTION

- 1.1 This submission is provided by the New Zealand Airports Association ("**NZ Airports**") in relation to the application made to the Minister of Transport ("**Minister**") by Air New Zealand Ltd ("**Air NZ**") and Air China Ltd ("**Air China**") (together "**the Applicants**") seeking authorisation to for strategic alliance under Part 9 of the Civil Aviation Act 1990 ("**CAA**").
- 1.2 NZ Airports wishes to thank the Ministry for the opportunity to submit views on the Air NZ and Air China application for authorisation of their proposed alliance, and we regret the late submission.
- 1.3 This submission should be read alongside the submissions from individual member airports.

2. CONTEXT

- 2.1 NZ Airports has a direct interest in a sustainable and thriving travel industry – internationally and domestically in New Zealand – and is committed to ensuring that the travel market remains competitive, accessible and viable for all stakeholders. For that reason, NZ Airports is generally very supportive of airlines endeavouring to improve their products and services in ways that will result in real public benefits such as lower fares, increased competition and choice, or improved air links supporting increased tourism and improved opportunities for trade and economic development.
- 2.2 We are also strong supporters of Tourism 2025, the industry-led economic growth framework which has an aspirational goal of reaching \$41 billion in annual tourism revenues by 2025. To achieve that, the industry must grow international tourism at the challenging average rate of 6% year on year, and grow value from international tourism even faster than volume growth.
- 2.3 The growth platform of tourism also drives capacity and connectivity that enable growth in other important economic activities such as air freight and export education. In short, improving New Zealand's air services and connectivity is vital to the overall economy.
- 2.4 We are therefore committed to ensuring that the New Zealand travel market remains competitive, accessible, and viable for consumers and stakeholders, and with sufficient capacity to deliver essential travel and trade growth to support New Zealand's economic interests.

- 2.5 NZ Airports recognises that airlines today operate under very significant economic pressures and constraints (including the international framework governing international aviation). We acknowledge that airlines operate in the context of an international industry the fabric of which includes networks of strategic alliances and alignments set up between carriers and amongst groups of carriers, as airlines look for ways to introduce operational efficiencies that will enhance their reach, reduce operating costs, streamline services and ensure continued viability.
- 2.6 NZ Airports is not, in principle, opposed to alliances of airlines where each alliance can demonstrably improve or retain consumer, supplier and economic benefits that would otherwise not exist in the competitive market; which do not create market power that affects the sustainability of markets and competitors; and whose cumulative effect (given the growth of alliances) does not work against New Zealand's overall interest. However, it must be recognised that, airline collaborations fundamentally involve potentially anti-competitive provisions.
- 2.7 The key to the Minister's consideration of this proposal is therefore rigorous assessment to ensure the applicants are able to demonstrate there is no overall detriment that outweighs any potential benefits to New Zealand's overall prosperity.

3. AIRPORTS POSITION

3.1 NZ Airports' views on the application can be summarised as follows:

- (a) A robust test of the public benefits of the alliance is required. Ideally this will identify and quantify the claimed benefits as well as any lessening of competition or other detrimental aspects that would result from the alliance, throughout its term.
- (b) The testing of the proposal must establish a high level of confidence that the main benefits (or a significant proportion of them) would not be obtained in any event, without the alliance. For example Air NZ and Air China already have a commercial alignment – is the proposal really necessary to further underpin the services? Will the alliance have a chilling effect on other entrants that would otherwise provide equivalent benefits without an alliance?
- (c) The current proposal should also be viewed in the context of the wider network of alliances affecting services to New Zealand to test the cumulative impacts on New Zealand's interest. The relevant question for the Ministry to ask is: will New Zealand become, over time, generally unattractive to new airlines and expanded services?
- (d) The Minister's decision can then be made, based on whether the benefits to the New Zealand public outweigh the detriments.
- (e) If the Minister is minded to grant the application consideration should be given to what the appropriate period of such approval should be, ensuring that sufficient time is given to allow delivery of benefits to be assessed while taking account of the need to consider lead in times that are an integral aspect of airline planning.

3.2 On the surface, the proposed alliance may result in certain public benefits. These include the re-establishment of direct air services between Beijing and New Zealand, growth of passenger volumes between New Zealand and China, and improved sustainability of the existing Air NZ service to Shanghai. Only if any such benefits, and the absence of any countervailing disadvantages, can be demonstrated by the

applicants to a high level of confidence should a recommendation be made in favour of authorising the alliance.

- 3.3 However, in NZ Airports' view, while the public version of the application claims potential benefits it does not, by itself, provide sufficient basis for reaching a sound conclusion on each of a) to e) above.

4. CONCLUSION

- 4.1 NZ Airports strongly encourages the Minister of Transport to have regard to the outlined requirements in paragraph 3.1 above, which we think approximate good practice for the authorisation task, in making a decision on the Air New Zealand – Air China alliance application.

Kevin Ward
Chief Executive
NZ Airports