Outlook

Submission on the Air New Zealand / Virgin Australia Application for Authorisation

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RE: Air New Zealand / Virgin Australia Application for Authorisation

I oppose the above application in its current form.

I accept that the proposed arrangement has benefits for passengers, particularly through frequent flyer benefits, through-ticketing and better connections between Virgin Australia's Australian network and Air New Zealand's New Zealand network.

My concern is that these benefits come with a potentially significant longer-term cost: the arrangement may substantially reduce Virgin Australia's incentive to return to operating its own aircraft on additional trans-Tasman routes.

Virgin Australia's incentive to operate its own services

The proposed arrangement gives Virgin Australia something close to a comprehensive New Zealand network without requiring it to operate additional aircraft to New Zealand.

Virgin would be able to sell Air New Zealand-operated trans-Tasman flights under its own code, connect passengers onto domestic New Zealand services, offer reciprocal frequent flyer and status benefits, participate in joint marketing and distribution, cooperate in relation to corporate customers, and offer its Australian customers a much more complete New Zealand network.

These are genuine benefits. However, they also remove many of the commercial reasons Virgin Australia might otherwise have to operate additional trans-Tasman services itself.

The application repeatedly relies on the fact that Virgin Australia is not currently a material competitor to Air New Zealand. It argues that this lack of competition is one of the reasons the partnership works commercially.

That raises an important question which I do not believe the public application adequately answers:

If the arrangement is commercially attractive partly because Virgin Australia does not compete with Air New Zealand, what effect will the arrangement have on Virgin Australia's incentive to become a competitor in the future?

I acknowledge that the agreement does not prohibit Virgin from commencing its own services. Paragraphs 5.9 and 5.10 provide that if Virgin starts operating on a trans-Tasman route itself, that route would be carved out of the substantive cooperation.

However, that does not resolve the issue.

If Virgin starts operating its own aircraft on a route, it would have to give up the benefits of the cooperation on that route and compete directly with its partner, Air New Zealand. In my view, that creates an additional commercial disincentive to entry which should be carefully considered.

The original codeshare approval

This concern is particularly important because the Ministry considered essentially the same issue when it assessed the original Virgin Australia/Air New Zealand codeshare in 2024.

At that time, the Ministry said that if the arrangement prevented Virgin Australia from re-entering the trans-Tasman market, the cost to New Zealand would likely outweigh the benefits of the codeshare.

The Ministry nevertheless considered Virgin Australia re-entry to be very unlikely over the following two to three years, taking into account the circumstances facing Virgin at that time, including aircraft availability and the continuing recovery of the aviation industry.

We are now at the end of that two-to-three-year period.

Circumstances have changed. Virgin Australia is now a stronger airline with a substantially larger fleet. The present application states that Virgin operates 110 narrowbody aircraft.

More importantly, the application now seeks approval for a much deeper relationship for another five years.

I therefore believe the question of Virgin Australia returning to the Tasman as an operating airline needs to be considered again based on its circumstances today, rather than relying on conclusions reached in 2024.

The public application does not provide enough information to properly assess this. Virgin Australia's detailed counterfactual is confidential, and important statements concerning its potential future trans-Tasman operations have been redacted.

I believe the Ministry should closely examine Virgin Australia's actual fleet plans, network planning and internal consideration of future trans-Tasman flying before concluding that there is no competitive detriment.

Competition is weaker than it was before COVID

There is also a broader reason why Virgin Australia's potential return matters.

Before COVID, Virgin Australia was a substantial independent competitor across the Tasman. In 2019, it accounted for approximately 19% of trans-Tasman capacity.

The current application shows a very different market.

In 2026, the Qantas Group accounts for approximately 51% of trans-Tasman available seat kilometres and Air New Zealand approximately 40%. Together, those two airline groups now account for around 91% of the market. Virgin Australia accounts for only around 4%, principally through its Queenstown services.

Before COVID, Air New Zealand and the Qantas Group together accounted for approximately 73%.

In other words, the trans-Tasman market has gone from having three substantial competing airline groups to being overwhelmingly dominated by two.

The application points to fifth-freedom airlines and the ability of airlines to enter the market under the open skies arrangements. Those are relevant factors, but I do not believe they are substitutes for Virgin Australia.

Virgin has a large Australian domestic network, a substantial Australian customer base, an established loyalty programme, a significant fleet of narrowbody aircraft and a history of operating extensively between Australia and New Zealand.

It is therefore one of the most credible potential sources of substantial new competition across the Tasman.

The possibility of Virgin returning is itself valuable. An airline does not necessarily need to enter a market before it provides a competitive constraint. The realistic possibility that it could enter can influence the fares, capacity and commercial decisions of the airlines already operating.

New Zealand aviation employment

There is also a New Zealand employment aspect that I believe deserves consideration.

Before COVID, Virgin Australia had an established New Zealand pilot workforce supporting its operations.

In 2020, Virgin made its New Zealand-based pilots redundant as its international operation collapsed during the pandemic. Those pilots lost their jobs through circumstances entirely outside their control, and Virgin Australia has never subsequently offered those New Zealand-based jobs back.

A significant pool of former Virgin Australia pilots remains in New Zealand, alongside other experienced Boeing 737 pilots. Many have had to move on to other employment arrangements following the loss of the Virgin New Zealand operation.

I am not suggesting that every former Virgin pilot remains immediately available or current on the aircraft. However, New Zealand has previously supported a Virgin Australia pilot base and retains considerable relevant aviation experience.

A genuine return by Virgin Australia to operating trans-Tasman services could therefore do more than simply add seats.

It could create skilled New Zealand aviation jobs, rebuild a New Zealand-based Virgin Australia pilot operation, increase competition for aviation employment, and improve the resilience and depth of New Zealand's aviation sector.

I am not asking the Minister to require Virgin Australia to establish a New Zealand pilot base as a condition of this authorisation. I recognise that this application is primarily about airline cooperation and competition, not Virgin's employment arrangements.

However, I would strongly welcome a future in which Virgin again operates substantial trans-Tasman services using its own aircraft and establishes a New Zealand pilot base to support those operations.

The possibility of that occurring is one of the reasons I believe preserving Virgin Australia's incentive to operate independently is important.

The existing codeshare already runs until 2029

I also question the need to authorise this substantially expanded arrangement for a further five years at this point.

The existing, more limited codeshare is already authorised until August 2029.

The choice is therefore not between approving this application and Virgin Australia having no relationship with Air New Zealand.

The existing arrangement can continue.

One option would be to approve any expanded cooperation only until August 2029. The Ministry could then reassess the market, Virgin Australia's fleet position and the prospect of Virgin operating additional trans-Tasman services.

That would allow consumers to receive many of the claimed benefits while avoiding a situation where a much deeper relationship is effectively locked in until approximately 2031.

If a longer authorisation is granted, I believe there should at least be safeguards allowing the Ministry to monitor its effect on competition and Virgin Australia's incentives to operate additional trans-Tasman capacity.

Conclusion

My concern with this application is not that codesharing is inherently harmful.

It is that there is an important difference between Virgin Australia selling a seat on an Air New Zealand aircraft and Virgin Australia putting another aircraft across the Tasman.

The latter provides additional capacity and, importantly, another independent competitor.

The trans-Tasman market has become considerably more concentrated since COVID. Virgin Australia was previously a substantial competitor and remains one of the airlines most realistically capable of

becoming one again.

The Ministry itself recognised in 2024 that if the codeshare prevented Virgin Australia from re-entering the market, the cost to New Zealand would likely outweigh the benefits.

I believe that issue is even more important when considering this substantially deeper partnership.

I therefore ask the Ministry not to authorise the proposed arrangement for five years unless it is satisfied, based on Virgin Australia's current internal plans and other evidence, that the arrangement will not materially reduce Virgin Australia's incentive to introduce additional own-operated trans-Tasman services.

Alternatively, I ask that any authorisation initially run only until the existing authorisation expires in August 2029, at which point the competitive position can be reconsidered.

Ultimately, I would like to see Virgin Australia return as a meaningful independent operator across the Tasman. Ideally, that would include rebuilding a New Zealand pilot base and restoring some of the skilled aviation employment that disappeared when Virgin closed its New Zealand operation in 2020.

In my view, preserving the realistic possibility of that outcome is worth considerably more to New Zealand in the long term than simply giving Virgin Australia the ability to put its flight number on more Air New Zealand-operated services.

Regards,

