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Application to the Minister of Transport pursuant to Part 6 of the Civil Aviation Act 2023 for authorisation of the enhanced partnership between Air New Zealand and Virgin Australia

1. Christchurch International Airport Limited (**CIAL)** operates New Zealand's second largest airport and the main domestic and international gateway to the South Island of New Zealand. Christchurch Airport serves 11 airline customers and 7 million passengers each year.

2. CIAL welcomes careful scrutiny of authorisation applications in the aviation industry by the Ministry of Cities, Environment, Regions and Transport (**MCERT**). As a starting point, the conduct that is sought to be authorised by airlines inherently reduces competition. Strong consumer benefits should be demonstrated for conduct to be approved.

3. CIAL adopts a principled position toward authorisations. We are broadly supportive of alliances where appropriate market conditions exist that can demonstrate the public benefits outweigh any public detriment. Of particular interest to CIAL will always be the potential for real capacity growth demonstrated by the alliance, its regional distribution within New Zealand and the overall effect on New Zealand travellers.

4. Routes across the Tasman Sea are a critical part of the New Zealand travel market. Australia is the largest source of in-bound visitors to New Zealand, Australia is the largest destination for New Zealanders and also facilitates a large amount of on-bound travel for New Zealanders. A well-functioning aviation market on the Tasman is of critical importance to New Zealander's wellbeing.

5. The current state of competition in the trans-Tasman aviation market is poor. Since 2019, the two main carriers have extended their combined market share from 73% to 91% of total passengers. Previously healthy competition and market entry has dissipated. Concentration of sales strength on each side of the Tasman exacerbates this dynamic.

6. Immediately prior to making this application, Air New Zealand and Qantas Group announced that their existing code-share arrangement will conclude on 7 April 2027. That arrangement provided reciprocal network access for trans-Tasman customers with on-bound domestic connections. The

reduction of that arrangement to a mutual interline sets the scene for this proposed arrangement to take its place while not exacerbating the poor state of competition on the Tasman.

7. Overall, Christchurch Airport view the effects, and benefits, of the proposed conduct as likely to be modest but beneficial to trans-Tasman travellers in the current context. The ending of the QF/NZ arrangement, which is coincidental to but outside of this arrangement, is likely to be positive for competition. We have also shared this conclusion with the ACCC.

Analysis

8. Christchurch Airport supports MCERT's use of an analytical framework to assess authorisation applications under the Civil Aviation Act. We adopt the structure of that framework for our comments below.

Strategic alignment

9. The proposed authorisation aligns to, or at least is not clearly contrary to, the broad purposes of the Civil Aviation Act.

Market and counter-factual definitions

10. This application seeks to extend the existing 2024 one-way trans-Tasman code share arrangement between the parties into a reciprocal code share arrangement with access to domestic inventory, lounge access, reciprocal loyalty and frequent flyer benefits access for trans-Tasman travel with on-bound domestic connection. The applicants define the market as "services between any point in New Zealand and any point in Australia" [excluding overlapping services].

11. The proposed counter-factual is that the existing 2024 arrangements would continue until it expires. CIAL accepts that counter-factual. Resumption of the arrangement between Qantas Group and Air New Zealand, or unilateral market entry onto Tasman routes by Virgin Australia are not realistic counter-factual positions.

12. The market definition includes New Zealand ports that are covered by this agreement and where Air New Zealand is the only connecting carrier. Those ports will qualify for inclusion under a SSNIP. They are likely to have a higher HHI quotient when matched with an Australian city pair than the Tasman in general. The aggregated HHI based on trans-Tasman market share is already high. The level of concentration for individual ports will be even higher.

Competition effects

13. In previous applications from 2004, the applicants sought substantially deeper arrangements in the context of Virgin Australia being a substantial participant on the Tasman and potential domestic New Zealand participant. The potential competition implications then were much more significant than they are now.

14. Our view is that Virgin Australia is now unlikely to further enter the market for Tasman services or enter the New Zealand domestic market in the short-term. This view substantially colours our analysis of the likely competition effects of the proposal. MCERT should seek satisfaction that if circumstances change and Virgin Australia does contemplate market entry their incentives to do so are not constrained by this arrangement.

15. The proposed arrangement may impact travellers to Australia who are connecting from regional ports in New Zealand where Air New Zealand is the sole carrier. Under the Qantas-Air New Zealand code share arrangement, Qantas Group had access to (confidential) Special Pro-rate fares to a selection of provincial ports in New Zealand. Qantas will now access (more costly) interline fares for that purpose. The likely outcome is a reduction in competition for travellers from ports that are not linked to the Tasman by Qantas Group services. We estimate that over 100,000 travellers each year connect on Tasman services from these ports. The content of SPA and Interline agreements is not public and the previous Qantas – Air New Zealand is not part of the counter-factual for this application. However, MCERT should seek to understand if the changes to pricing for travellers connecting from single-carrier New Zealand ports is likely to be material.

Public value assessment

16. Overall, we assess the public value of the proposed arrangement as modest but positive. The types of public value identified by MCERT – elimination of double marginalisation, economies of traffic density and frequent flyer benefits – are likely to exist but to a modest degree. MCERT should consider how much of those benefits will be captured by the applicants, how much is captured by a discrete set of frequent flyers who can access lounges and frequent flyer benefits and how much will flow to a wider set of travellers.

17. The proposed conduct allows Virgin Australia Velocity Frequent Flyers to both earn and use frequent flyer points on Air New Zealand-operated services and gain access to lounges. This is likely to make New Zealand a more available and attractive destination for those Velocity members who are considering visiting New Zealand, including the South Island. Approximately [redacted] travellers on VA tickets travelled to Christchurch in the year to October 2026.

18. CIAL has not seen the confidential NERA report that forms the basis of the applicants' public value assessment. The rationale included in the application is based on economic theory that Virgin Australia will be motivated to provide lower SPA rates and therefore lower fares as part of this arrangement. MCERT should seek firm commitments from the applicants and then monitor them against those commitments rather than rely on economic theory.

19. In our view, any competitive response by Qantas Group to this arrangement should not be considered as part of the benefits of this application as they are not a party to it.

20. You are welcome to contact me to discuss any part of this submission.

Michael Singleton
Chief Strategy and Stakeholder Officer