

01 May 2013
Ministry of Transport
PO Box 3175
Wellington 6140

Dear Sir/Madam,

Thank you for the opportunity for Rotorua International Airport to make a submission on the re-authorisation of the Air NZ and Virgin Alliance. The Tasman is incredibly important to the North Island's Rotorua Region ("the Region") with a significant amount of outbound travel from the area to Australia, while Australia is a vital inbound tourism market for the Region.

Executive Summary

The co-signers of this letter support Air NZ and Virgin's re-authorisation proposal and the removal of capacity conditions on the basis of their belief that the public benefits to the Region will outweigh any potential detriments.

At the same time we also support the NZ Airports Association submission which focuses on the wider benefits to the NZ Tasman travelling public, and how overall Tasman capacity growth commitments are required to ensure passenger demand is retained.

Analysis of Benefits

The key direct benefits of this Alliance result from both Air NZ and Virgin promoting and selling the SYD-ROT service, which we believe will make the service more sustainable in the long term, while increasing the potential opportunity for additional frequencies and new destinations to be added in the future. This benefits the people in the Bay of Plenty Region (~300,000 people live within an hour's drive of ROT airport) through increased Australian visitors coming to the Region which will promote tourism and business growth, as well as reducing the cost and time that it takes for local residents to fly to Australia. The alternative is for local residents to drive to Auckland and fly from there. These benefits are supported by the following:

- In the 12 months prior to April 2013, 11% of the total pax carried on ROT-SYD were on Virgin Australia code, whilst over the same period, 5% of the passengers connected from or to a domestic AU service.
- The VA/NZ Alliance opens up an additional 16 destinations (an increase from six) in Australia that can be reached in one-stop from ROT. A further 12 ports can be reached via two stops, with a total of 34 destinations in AU potentially available
- The SYD-ROT service also provides another option for passengers wishing to travel to the six gateways, as it is possible to travel via SYD as well as AKL

Capacity Conditions

We believe that Sector Specific capacity conditions have a distorting effect on the Tasman market and are reducing the ability of Air NZ and Virgin to quickly respond to demand, with these conditions clearly benefiting other regions and sectors to the detriment of the Region. As such, we support the removal of these conditions.

We also believe that due to the competitive nature of the Tasman and the strength in air travel across Asia, that overall Tasman capacity conditions are not required as incentives and market dynamics already exist to ensure that fares are kept reasonable and capacity is added where required.

Overall, capacity conditions also reduce the likelihood of new airlines entering the Tasman, or existing competitors increasing their capacity (ie Jetstar), as these Airlines will know that Air NZ/Virgin are committed to a set amount of capacity irrespective of demand for their services. This means it would be very difficult for new entrants and existing competitors to carve out a market for themselves.

Key Concerns

One of the Region's key concerns is whether the reduced competition will increase fares. However, as there are no competitors currently on SYD-ROT, we do not believe that the Alliance will materially change the approach to pricing on this sector. Further market conditions exist (with increased tag flying into AKL by Asian 5th Freedom Carriers) which will mean that incentives exist to keep fares low ex AKL, which is the other key gateway for the Region.

Thank you for the opportunity to submit our views on this Alliance re-authorisation request. If you have any further questions please contact us.

Yours Faithfully

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Ray Cook

Chairman – Rotorua International Airport

Peter Guerin

CEO – Rotorua District Council

Kevin Winters

Mayor – Rotorua

