

NZ AIRPORTS SUBMISSION ON

the proposed authorisation of the 2025 Air NZ - Air China alliance

1. Thank you for the opportunity to provide a submission on the proposed re-authorisation of the alliance between Air NZ and Air China. This submission should be read as broadly supportive of other submissions made by our member airports.
2. NZ Airports represents 49 airports across New Zealandⁱ, including the international gateways to New Zealand, the domestic airports which make up the national air transportation network, and smaller airports focused on general aviation services. New Zealand's airports are essential infrastructure of national and regional significance that play a crucial role in the socio-economic wellbeing of our communities.
3. Airline alliances are an enduring concern for NZ Airports because such alliances inherently reduce actual or potential competition between airlines that might otherwise serve the NZ market independently on their own merits. Our members have commercial drivers related to sustainable passenger growth, which is ultimately driven by consumer benefits. As such, NZ Airports is strongly pro-competition¹ as competition is the most direct and certain path to lower ticket prices and better services. We also see the clear benefits of prices and services being driven by market conditions (such as fuel costs and passenger demand) rather than political or administrative decisions.
4. The immense difficulty for parties outside of the alliance in forming an adequate or reliable judgement on the proposal is to gain enough visibility of the proposed alliance and of its past performance.
5. This proposal is one of the first to be evaluated under the new provisions of the 2023 Civil Aviation Act and the resulting Ministry of Transport's new evaluation process. As a result of being one of the first applications, it potentially sets a precedent for the level of detail, the relevance and completeness of information for future applications.
6. NZ Airports, on balance and noting the concerns outlined below, supports authorisation of the proposed alliance between Air NZ and Air China.

¹ We note that airports are substantially monopolies but ones that are clearly recognised as such in New Zealand legislation and policy and so have strong and effective regulation of their prices and services. Airlines face no such restraints nor requirements to disclose information.

The Proposed Authorisation

7. NZ Airports has long hoped for a more thorough and open process of alliance authorisation/re-authorisation under the new Act. Therefore, we are disappointed in the level of redaction and concealment in the publicly available version of this proposal.
8. This denies parties outside of the proposed alliance or the Ministry the ability to bring wider industry knowledge, data, and critical analysis to the application's evaluation. 'Commercial in confidence' should not be a shield to proper scrutiny and evaluation when a substantial reduction in competition may become legally authorised for up to five years. In contrast, the application by Qantas and American Airlines gives far more information and is much closer to the standard and extent of information we were expecting to receive.
9. If Ministry officials agree, it would be optimal to reinforce what 'good' looks like in the new regime for transparency with other airlines' alliance applications.
10. The application makes a great deal of the alliance airlines' response to Covid and the resulting reduced demand. Each airline is acting rationally in providing its own metal capacity to meet its level of demand. The application also points out at length the existing or potential competing China-based airlines as proof that the alliance can have no impact by reducing competition.
11. The application notes that Air China operates the only direct Auckland–Beijing service, with competition coming from one-stop carriers via other hubs. One-stop options are not a like-for-like competitive constraint on a monopoly nonstop service.

Counterfactual

12. The counter-factual is without the alliance, will Air NZ pull out of China (as Qantas has) and Air China pull out of New Zealand. And who will fill the gap? We note that China Southern has shown a willingness to invest in growing its routes into New Zealand.

Freight

13. The application cites continued competition in freight as a benefit, while also confirming cargo is excluded from alliance coordination. Since cargo is out of scope, freight-market outcomes should not weigh positively in the benefit assessment for authorising passenger-market coordination.

Feeder market coordination - time to question of the wider impact

14. While feeder routes are outside revenue sharing, the coordination proposed could limit opportunities for other carriers to participate in inbound growth.
15. In addition, the Ministry should test whether the scope of feeder-route coordination remains narrowly tailored and consistent with New Zealand's broader competition objectives for domestic aviation. In essence, does the Air China alliance in effect lock out competition for Air NZ on domestic and regional routes?

Benefits

16. The benefits of authorisation appear to be relatively minor. As the application itself notes, both airlines are members of the Star Alliance network and so automatically have commercial incentives and existing alternative frameworks to offer many of the application's suggested benefits for passengers such as Frequent Flyer Programs, lounge access, etc. Such consumer benefits either arise from both carriers' Star Alliance membership and/or can be achieved through partnerships without deeper, revenue-sharing coordination. The test should therefore be the incrementality: what benefits would not occur without authorising revenue sharing and joint capacity/pricing on the alliance sectors?
17. If consumer benefits can be realised through lighter-touch arrangements, the reduced competition trade-off from reauthorisation is harder to justify.
18. Similarly, without the alliance, both airlines will still have commercial incentives to schedule flights for convenient feeder and onwards travel.
19. The question then becomes what beneficial behaviour does the alliance incentivise that would not occur absent the alliance, and is this sufficient to offset the anti-competitive impact? As noted in the application, freight competition is untouched, service frequency alters according to season and level of demand, and the consumer benefits can be included within the broader Star Alliance arrangement.

Broader Alliance landscape and capacity throttling

20. NZ Airports has long urged the New Zealand Government to examine proposed alliances as part of a broader network of alliances that collectively have a greater anti-competitive impact than the particular alliance under consideration.
21. Air New Zealand has a wide range of alliances that collectively cover 66% of New Zealand's long-haul connectivity. The Ministry therefore needs to assess this application in the broader alliance landscape.
22. Alliances often include capacity-sharing agreements that lock each party into a fixed proportion of the overall capacity the airlines will together provide. The utility of having such locked proportions to the alliance should be obvious – neither party can grow capacity and over-extract from the alliance, or over-burden the other.
23. When Air New Zealand is facing aircraft and crew constraints (as the application itself acknowledges), capacity commitments within alliances may have the consequence (unintended) of locking in low growth or limited recovery across the alliance. This could mean New Zealand's overall connectivity is throttled not just by Air New Zealand's resources, but how those resources are contractually bound across alliances. If that is the case, it is disappointing to see that Air NZ's alliance partner could not backfill the missing capacity.
24. We note the Government has strong objectives around rebuilding international tourism, especially from China. If Air New Zealand cannot expand capacity, and

its alliances prevent partner carriers from stepping in to expands capacity, New Zealand risks failing to re-grow the tourism sector at the fastest possible rate. NZ Airports does not know if this applies to this particular proposal, but we recommend the Ministry to satisfy itself that the alliance does not, in practice, limit the ability of either carrier to grow capacity in response to market demand.

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ⁱ Our member airports include Alexandra Airport, Ardmore Airport, Ashburton Airport, Auckland Airport, Chatham Islands Airport, Christchurch Airport, Dunedin Airport, Gisborne Airport, Great Barrier Airport, Hamilton Airport, Hawke's Bay Airport, Hokitika Airport, Invercargill Airport, Kapiti Coast Airport, Kaikohe Airport, Katikati Airport, Kerikeri Airport, Marlborough Airport, Masterton Airport, Matamata Airport, Motueka Airport, Nelson Airport, New Plymouth Airport, Oamaru Airport, Pauanui Airfield, Palmerston North Airport, Queenstown Airport, Rangiora Airport, Rotorua Airport, Takaka Airport, Taupo Airport, Tauranga Airport, Te Anau Airport Manapouri, Te Kowhai Aerodrome, Thames Aerodrome, Timaru Airport, Wairoa Airport, Wanaka Airport, Whanganui Airport, Wellington Airport and West Auckland Airport.