

SUBMISSION ON APPLICATION OF AIR NEW ZEALAND AND VIRGIN AUSTRALIA TRANS-TASMAN CODESHARE AGREEMENT

February 7, 2024

Introduction

1. Auckland International Airport (Auckland Airport) welcomes the opportunity to submit on the application by Air New Zealand (Air NZ) and Virgin Australia (VA) to enter into a unilateral codeshare agreement. The agreement would allow VA to place its code on a free sale basis on Air NZ operated trans-Tasman services (excluding Queenstown).
2. Auckland Airport endorses the submissions of the New Zealand Airports' Association made to the Australian Competition and Consumer Commission (ACCC) and the Ministry of Transport. This submission reinforces much of what is contained in those submissions.
3. Auckland Airport submits that this agreement should not be approved. It would run counter to the interests of New Zealand consumers who wish to fly trans-Tasman and it would limit potential for growth in capacity and competition on the trans-Tasman routes by removing an incentive for VA to return to flying trans-Tasman (excluding Queenstown) as they did pre-Covid.
4. Genuine competition between airlines is vital for consumers and all forms of coordination between airlines, including joint ventures and alliances, must always be thoroughly scrutinised to ensure they result in strong consumer benefits. Auckland Airport assesses each agreement on its merits, and recently submitted in favour of re-authorising an agreement between Air New Zealand and Singapore Airlines. However, as we remain in a period where global aviation is rebuilding, capacity is constrained, and airfares remain higher than they were pre-Covid, it is even more crucial to ensure any airline cooperation results in clear benefits for consumers and the wider economy.
5. While Auckland Airport acknowledges this proposed agreement would provide limited benefits to a group of VA customers, particularly loyalty members and frequent flyers,

these are outweighed by the short and medium-term impacts on the trans-Tasman market and on New Zealand consumers who wish to fly to Australia.

6. The Ministry of Transport should thoroughly assess the impact on New Zealand consumers and the New Zealand tourism sector of this agreement. Approval of the agreement risks entrenching the trans-Tasman (excluding Queenstown) as one with just two carriers, which limits consumer choice, capacity and would put upwards pressure on airfares.

In summary the key reasons this application should not be approved are:

- The benefits are limited and accrue to a small number of largely Australian based VA customers, primarily business and loyalty customers, who wish to fly across the Tasman.
- The Tasman market is less competitive now than it was pre-Covid.
- Approval would risk short and long-term negative impacts on consumers on the Tasman market and the tourism industry. In the short term, it could drive up airfares by displacing existing Air NZ passengers with higher yielding VA passengers without increasing capacity. In the longer term it entrenches the current low level of competition on the Tasman for at least five years.

The trans-Tasman market is important to New Zealanders and the tourism sector.

7. New Zealanders greatly value the trans-Tasman aviation market due to the strong economic and social ties between the two nations. Almost 700,000 New Zealanders live in Australia and 70,000 Australians live in New Zealand. When international borders were closed due to the pandemic, significant effort was put into establishing the trans-Tasman travel bubble and when borders re-opened in 2022, Australia was the first country New Zealand opened to.
8. New Zealand tourism also relies heavily on Australian visitors. According to Tourism New Zealand¹, between July 2022 and June 2023, Australians accounted for 49% of all international arrivals. This equated to 1.2 million Australians, nearly 40% of which

¹ <https://www.tourismnewzealand.com/insights/markets-overview/>

were on holiday. Australian visitors spent around \$1.6 billion in New Zealand in the year to June 2023, and balanced their visits between summer and winter, helping address the issue of seasonality of New Zealand's tourism industry.

9. Given the importance of this market to New Zealand, any agreement between airlines needs to be assessed as to whether it would improve outcomes for consumers in terms of seat availability and price.

Proposed codeshare will benefit Virgin Australia customers at the expense of New Zealanders flying to Australia.

10. The applicants outline in their proposal the key benefits of their codeshare. VA outlines that the agreement will provide their customers with various benefits including:

- Access to VA coded trans-Tasman services on Air NZ, meaning a VA customer can book a VA ticket that is in fact an Air NZ operated Tasman service.
- Ability to redeem velocity points and accrue status credits on VA coded Air NZ services.
- Ability to use Air NZ's seven international lounges in Australia and New Zealand

11. Most of the outlined benefits accrue to VA travellers who wish to fly across the Tasman, in particular loyalty and frequent flyer customers. These benefits to a specific group of mainly Australia based consumers are strongly outweighed by the anti-competitive impact on the Tasman market that will impact a much wider group of consumers.

12. The applicants have not articulated any benefits for New Zealand consumers travellers flying into Australia, nor have they made any commitment to increase seat capacity by adding additional flights.

13. Air NZ states that for them the proposed agreement would:

“drive increased passenger numbers (including high yield passengers such as corporates and SME customers) onto its trans-Tasman and domestic services”.

14. Without committing to increased capacity, new high yielding customers accessed via the VA network would simply displace existing Air NZ customers and put upward pressure on airfares, which is not in the broader interests of consumers. This means New Zealanders wanting to fly on the Tasman risk paying higher fares or not being able to secure a seat as they have been taken up by a VA passenger. It may be in the interests of airline to seek the highest paying customers, but not consumers.
15. This is of particular concern in a market where Air NZ short-haul flights out of Auckland Airport (Australia and Pacific) are at 84% load factor, meaning there is little extra capacity on existing flights. Over 80% load factor is high, flights do not operate on 100% load factor.
16. Airfares for travellers flying to and from Auckland to Australia are up 88% on pre-COVID levels. This data indicates the market requires extra capacity and competition, which this codeshare application does not require and will in fact act as a disincentive to deploy more seat capacity onto Tasman routes.

The Auckland- trans Tasman market is less competitive than it was pre-Covid

17. As outlined in the submission made by NZ Airports, the overall trans-Tasman market is less competitive now than it was pre-Covid. That is also true of the Auckland-Australia market.
18. In 2019, Auckland Airport had three main carriers competing on Auckland to Australia routes: Air New Zealand, the Qantas Group Airlines (Qantas Airways and Jetstar) and Virgin Australia. Virgin Australia operated routes to 5 cities – Melbourne, Brisbane, Sydney, Gold Coast and Newcastle. At peak this was approximately 58 flights per week and represented 16% of the seat capacity between Auckland and Australia. Auckland now only has two main carriers who provide Tasman services, Air New Zealand and the Qantas Group
19. In 2019 around 76% of the Tasman seat capacity and 74% of the Tasman flights on Auckland routes was provided by Air NZ and the Qantas Group. Over the coming 12-months, over 88% of Tasman seat capacity and 90% of Tasman flights are scheduled to be operated by Air NZ and the Qantas Group.

20. While there are several 5th freedom carriers who provide some limited off-peak competition (China Airlines, LATAM Airlines, China Eastern Airlines, Batik Air), this is only 10 % of trans-Tasman seat capacity out of Auckland. Auckland to Australia travellers is not the priority market for 5th freedom carriers with just 55% of passengers carried traveling to Australia, the remainder have onward connections in Australia to other international destinations. 5th freedom carriers provide so little capacity and schedule frequency for passengers who wish to travel to and from Auckland and Australia that they do not replace the genuine competition VA provided prior to their exit in 2020.
21. The exit this month of Air Asia X from the Auckland to Sydney service is significant as it demonstrates that sustained competition on the Tasman requires an operator for whom the Australia and New Zealand markets are core to their business model. VA is currently the only such carrier that could provide sustained competition and this agreement provides them with a long-term incentive not to return to the market with their own operations.
22. Authorisation of the codeshare agreement between VA and Air New Zealand would remove the only significant potential competitor to the current duopoly on the trans-Tasman routes.
23. There is no other New Zealand carrier with the same ability to launch services and operate on the Tasman routes as VA does. In Australia, while REX and Bonza have aircraft types within their fleets that could operate on the Tasman, their limited fleet, network and domestic market focus, means this is unlikely to occur in the foreseeable future. In our view, VA is currently the only Australian carrier with the aircraft and customer base to operate on the Tasman, therefore VA is the only airline that has the capability to potentially provide genuine competition in the Tasman market. Authorisation of this agreement would lock in a 5-year disincentive for VA to resume services on the Tasman.
24. It is not the case that aviation markets will necessarily be less competitive now than in they were pre-Covid. For example, the Auckland to North America market (mainland

United States of America and Canada) now has more competition and seat capacity than was in place pre-Covid. There are now up to six carriers who operate between Auckland and seven different North American cities. For the year ending October 2024 airlines have scheduled 39% more seat capacity between Auckland and North America compared to the same period pre-Covid. This new competitive environment has resulted in lower airfares and overall, more travellers between New Zealand and North America than ever before, this has been a major boost to our inbound tourism sector. Authorisation of this codeshare will not allow competition to be fostered on the Tasman, as it has been allowed to grow on North America.

This agreement provides little incentive for VA to re-enter the Tasman market for five years.

25. The trans-Tasman market is significantly less competitive than it was pre-Covid, and that VA is likely to be the only airline in a position to provide sustainable competition. They provided 16% of seats between Australia and Auckland in 2019 and them resuming even some of those services would provide consumers with greater choice and put downward pressure on airfares.

26. Authorisation of this agreement would entrench a position where for five years VA would have little incentive to resume services on the Tasman because their customers can access flights and loyalty benefits by booking a VA code-share flight operated by Air New Zealand. Five years is a long time to entrench such a position on a key market.

27. VA customers wish to have access to the Tasman market, this is why the carrier is seeking this codeshare. The counter-factual is that if this arrangement is not approved, Virgin Australia will have a stronger commercial incentive to consider resuming services on the Tasman in the next few years as their customers are demanding it. That is an outcome that would be better for all consumers and ensure there is new capacity and competition on the Tasman.

Conclusion

28. The Tasman market is New Zealand's most important international aviation market due to the close connections between the two nations.

29. While in some instances codeshare agreements between airlines can provide net benefits for consumers, approval of this agreement provides no clear benefits to New Zealand consumers and would entrench a less competitive Tasman market than existed prior to the pandemic.



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