

SUBMISSION ON APPLICATION FOR AUTHORISATION OF THE ALLIANCE BETWEEN AIR NEW ZEALAND AND SINGAPORE AIRLINES

- 1 Christchurch International Airport Limited (*CIAL*) refers to its previous letter to the Ministry of Transport (*MOT*) dated 15 March 2018 and welcomes the opportunity to submit to the MoT on the application for authorisation by Air New Zealand Limited (*Air NZ*) and Singapore Airlines Limited (*SQ*), (together, the *Airlines*) of their Strategic Alliance Agreement (the *Alliance*).
- 2 *CIAL* recognises that from time to time there will be market conditions in existence that necessitate the authorisation by the Minister of Transport (Minister) of airline alliances. *CIAL* has consistently adopted a principled position that where such conditions exist it is broadly supportive of alliances which, following a rigorous evaluation by MoT and key industry stakeholders, 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 and its regional distribution within New Zealand.

Key points

- 3 *CIAL* recognises the importance of Air NZ and SQ to the New Zealand aviation sector. It holds its relationship with SQ in **high regard because of the airline's** long term dedication to the South Island, and because of the wider, significant economic benefit **that the airline's services provide to a broad range of stakeholders across the regions** of the South Island. ***CIAL's* submission to the MoT** dated 28 February 2014 in respect of the previous application for authorisation (*2014 Authorisation*) reinforced the importance of current services operated by SQ between Christchurch Airport (*CHC*) – Changi Airport (*SIN*) and the reliance placed upon them by the wider South Island economy.
- 4 When **considered in isolation *CIAL's* appreciates the** proposed Alliance may, if authorised for a shorter term, be capable of delivering some of the public benefits **outlined in the Airlines' application.**
- 5 However, for the Alliance to be in the public interest the following would need to occur:
  - (a) conditions would need to be imposed by the Minister, or assumed voluntarily by the Airlines, to ensure the public benefits claimed are delivered; and
  - (b) the Airlines will need to demonstrate any public benefits claimed in their application are not outweighed by the public detriment which results from the cumulative impacts of existing alliances the Airlines are a party to and which have been previously authorised by the Minister; and
  - (c) the Airlines would need to provide assurances equivalent to those provided with the 2014 Authorisation that the Alliance would support the CHC-SIN route by

incentivising Air NZ to encourage its passengers to use the service, and provide SQ with increased traffic flows to and through the CHC route.

Public Benefits Claimed

- 6 The MoT should consider which of those benefits claimed by the Airlines accrue directly to passengers and members of the public as distinct from those which transfer value to alliance airlines from other carriers by way of increased traffic and revenues and reduced costs.
- 7 When considering these public benefits, the MoT must also consider the extent to which those benefits, are and will be delivered as a direct consequence of the Alliance. For example, the degree to which the Airlines can demonstrate they have supported the CHC-SIN route by incentivising Air NZ to encourage its passengers to use the service, and providing SQ with increased traffic flows to and through the Christchurch route.
- 8 **The Airlines claim** "the Minister can be comfortable the Alliance has not had an adverse impact on services to Christchurch, but in fact a positive one." CIAL acknowledges there has been an overall increase of 6.9% in international passenger movements at CHC during the 2017 financial year however on SQ/NZ alliance services there was a reduction of [REDACTED] in passengers. Furthermore the 6.9% increase is lower than the national growth rate in international passenger movements of approximately 10%.
- 9 Specifically looking at capacity on CHC since the 2014 Authorisation, the base schedule [REDACTED] has reduced between 2014 and 2017 as detailed in Figure 1 below.

Figure 1

SQ/NZ Alliance Capacity & Pax-CHC					
	FY	2014	2015	2016	2017
Base schedule	Seat	203,383	198,101	198,643	197,559
		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note: the reduction in capacity between 2014-2015 was a result of a business class configuration change.

- 10 This is in contrast to the capacity growth on AKL shown in Figure 2 meaning since the 2014 Authorisation the alliance has delivered asymmetrical capacity growth.

Figure 2

SQ/NZ Alliance Capacity- AKL					
	FY	2014	2015	2016	2017
AKL	Seat	368,232	455,390	486,580	480,264



[REDACTED]. The supplementary services have seen total SQ/NZ alliance capacity increase by 3.3% between 2014-2017 (see Figure 3). Contrast this to the growth on AKL which has been 30% over the same period.

Figure 3

SQ/NZ Alliance Capacity- CHC					
	<u>FY</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Base schedule	Seat	203,383	198,101	198,643	197,559
Supplementary	Seat	5,680	12,466	15,718	19,241
<b>Total</b>	<b>Seat</b>	<b>209,063</b>	<b>210,567</b>	<b>214,361</b>	<b>216,800</b>

- 11 Concern was expressed in the 2014 Authorisation that “the Alliance would effectively remove any prospect of Singapore Airlines operating a long-haul service to/from Wellington” with the doubts. “around both the technical and economic viability of such a service”
- 12 It is well accepted that SQ has received a significant amount of marketing support for the WLG – SIN route.<sup>1</sup> It is also fair to assume the WLG-SIN route has not arisen directly as a consequence of the Alliance.
- 13 The MoT can conclude there are a range of other factors that drive the claimed benefits and they do not all flow directly as a consequence of the Alliance.

#### Counterfactual/ Independent prospects of the Airlines

- 14 In its 2014 Authorisation the MOT considered that most likely counterfactual to authorisation was the withdrawal of one of the Airlines from the AKL-SIN route and **that it was “highly unlikely that another carrier would seek to operate on either route [New Zealand – Singapore] in the short to medium term regardless of whether the alliance is authorised”.**
- 15 The aviation environment is dynamic and the Airlines responsibly acknowledge market conditions have changed since the 2014 Authorisation with the entry of other carriers on the New Zealand - SIN Route now a real possibility.
- 16 The MOT will now need to carefully consider whether the current market dynamics are sufficiently similar to those in existence previously such that same counterfactual remains likely. In doing so the MoT will need to have regard to all counterfactuals that **are a “real chance” of occurring (not just any one considered the most likely of various scenarios or those proposed by the Airlines).**

#### Term of authorisation

- 17 The Airlines have sought an authorisation for a term of seven years. Except for the open-ended Air NZ/United Airlines alliance, an authorisation of that duration would make the Alliance the longest authorisation granted by the MoT.

<sup>1</sup> <https://www.nbr.co.nz/article/wellington-ratepayers-pay-8m-over-10-years-canberra-flights-b-183853>

- 18 Longer term authorisations are only likely to be appropriate where the arrangements involve significant long term investment for example in infrastructure. The Airlines have not demonstrated why such a duration is necessary to deliver the claimed public benefits or how this is unlikely to be of public detriment in an environment which is acknowledged as becoming increasingly open to competition.
- 19 Also relevant to consideration of the appropriate duration is the review of the CAA authorisation framework currently being undertaken. A lengthy authorisation would potentially have the effect of undermining any benefits that may arise from that process.
- 20 CIAL suggests good regulatory practice requires authorisations are made for the shortest finite period necessary to give effect to the benefits. and strongly recommends that if the MOT is minded to authorise the Alliance it do so only for a period of four years.

If there are any questions about this submission, please contact Michael Singleton, General Manager Corporate Affairs, [michael.singleton@cial.co.nz](mailto:michael.singleton@cial.co.nz); (03) 353 7046.