

SUBMISSION ON THE REAUTHORISATION OF THE AIR NEW ZEALAND CATHAY PACIFIC AIRWAYS NORTH ASIA ALLIANCE

1 May 2024

Introduction

1. Auckland Airport (Auckland Airport) welcomes the opportunity to submit on the application by Air New Zealand (NZ) and Cathay Pacific (CX) to reauthorise their alliance.
2. Genuine competition between airlines is vital for consumers, so all forms of coordination, including joint ventures and alliances, must be thoroughly scrutinised to ensure they result in strong consumer benefits. As we remain in a period where global aviation is still rebuilding, capacity is constrained, and airfares are high, it is even more crucial to ensure any airline cooperation results in clear benefits for consumers and the wider economy.
3. As at May 2024, Auckland Airport has 26 airlines flying to 42 destinations. International seat capacity has recovered to 93% compared with pre-Covid, and domestic recovered to 91%. The return of passenger flights also restores international freight capacity to 96% of pre-pandemic level.

Auckland Airport supports reauthorisation of the Air New Zealand and Cathay Pacific alliance

4. Auckland Airport supports the reauthorisation of the Air New Zealand Cathay Pacific alliance for a period of five years.
5. The alliance plays valuable role in fostering connectivity in the post-pandemic air travel landscape, ensuring New Zealand consumers have access to connectivity through to Hong Kong which is an important airport hub for connecting travel to and from Europe, and North and South Asia.

6. In the absence of the alliance arrangements, there is a risk that NZ in particular could operate reduced services on the Auckland to Hong Kong air route as the success of this route for NZ is highly dependent on high volumes of connecting passenger traffic transferring onto the CX network beyond the Hong Kong hub.
7. The alliance between NZ and CX has been in place since 2013. The Minister should only reauthorise this agreement if analysis shows that there are clear consumer benefits and that it does not risk suppressing air capacity to and from New Zealand or drive higher prices for travellers. In this case in the view of Auckland Airport, this agreement brings about consumer benefits that justify its reauthorisation.

Consumer benefits arising from the alliance

8. Currently, NZ operates a daily service to and from Hong Kong and CX operates five flights per week. This provides consumers with flexible travel options to mix itineraries on a single roundtrip ticket between Auckland and Hong Kong and vice versa across CX and NZ operated flights. Consumers then have the benefit of being able to access onward connectivity across the CX network at the Hong Kong hub to and from cities across Asia, Middle East and Europe. Customers also have the option under the alliance arrangement to commence and end travel at points of origin and destination across the NZ domestic network.
9. While capacity on the Auckland Hong Kong route is increasing from the lows seen during the period Covid pandemic related disruption, it has not yet recovered to pre-pandemic levels when the alliance was last reauthorised. We would encourage the two operating airlines CX and NZ to prioritise restoring capacity and connectivity options previously available to passengers traveling between New Zealand and Hong Kong, as well as destinations beyond the Hong Kong hub across Asia and Europe.
10. We acknowledge that NZ (NZ operated JV services) has restored full pre-Covid capacity on the Auckland to Hong Kong route, whilst CX on the Hong Kong to Auckland route (CX operated JV services) continues to operate at a level of schedule and capacity that remains half below pre-COVID levels in the recent NW23 season.
11. In 2019, the alliance deployed 492,800 seats between Auckland and Hong Kong, and post-Covid in 2023, the capacity reached 316,400, a 64% recovery. Seat capacity

recovery of Cathay Pacific operated services was 47% comparing the same period, which is significantly lower than CX's global average of 73% seat capacity recovery seen on CX's other long-haul markets such as Australia 61% recovery and Europe 57% recovery¹, noting that CX do not have joint operating services with other airlines in the latter two regions.

12. We note that the alliance has plans to deploy 398,500 seat capacity between Auckland and Hong Kong in 2024, an 81% recovery of capacity compared to 2019.
13. We acknowledge the ongoing challenges faced by airlines post-Covid, such as shortage of crew and aircraft. The alliance can be a crucial tool for CX and NZ to rebuild capacity and offer passengers a wider range of travel options.
14. The alliance's impact on consumer choice needs to be demonstrably positive in the coming period. Increased competition should lead to a wider range of flight options, competitive fares, and improved service offerings for passengers traveling to and from New Zealand.

Need remains for closer monitoring of the cumulative impact of all airline agreements and wider competition issues in international and domestic markets.

15. Auckland Airport's comments in this submission relate only to the reauthorisation of this agreement. Airline joint venture cooperation agreements allow two or more airlines to co-ordinate pricing and seat capacity deployed on one or more air routes and across multiple origin and destination points. While this can bring about consumer benefits, it also concentrates market power.
16. Each new agreement or reauthorisation must always be considered on its merits, not just in isolation but with regard to the cumulative impact on competition and consumer outcomes. Auckland Airport reiterates calls from earlier reauthorisation submissions that the cumulative impact on market structure, competition, and consumer outcomes of all existing airline co-ordination agreements in force across the market for travel to/from New Zealand should be regularly reviewed.

¹ Source: Sabre Market Intelligence

17. Auckland Airport strongly supports a process which requires airline joint venture arrangements to be regularly re-applied for to ensure they are resulting in the benefit to consumers that were promised by the airline operators.
18. In 2023, around 55% of international seat capacity at Auckland Airport was controlled by Air New Zealand or one of their joint venture partners. This combined with Air New Zealand's 86% domestic market share create a dominant market position.
19. As stated in previous submissions, given the large number of air routes and proportion of overall international air capacity to and from New Zealand that is now packaged up within anti-trust immune airline joint ventures that allow airlines to coordinate on capacity and price, we recommend that the Ministry of Transport should give consideration to implementing a system to regularly monitor the structure and health of the international travel market including:
- airline capacity
 - levels of airline competition
 - prices paid in the New Zealand market for both international travel and domestic travel
20. There is a relationship between Air New Zealand's domestic market share and their joint ventures on international routes which important for the Ministry to consider. Having 86% of the domestic market in New Zealand provides a significant competitive advantage to NZ and its authorised joint venture partners because it allows them preferential and ready access to offer domestic connections within New Zealand not as easily available to other airlines.
21. There is also the ability to offer enhanced customer service. For example, if a customer were to check in at Wellington and fly to Hong Kong (even if AKL-HKG is on CX) the customer can get issued a boarding pass and bag transfer all the way to Hong Kong. If they were flying on another airline that isn't in partnership with Air NZ, they would not have access to the NZ domestic network at preferential rates for international transfer passengers and won't be able to provide through check in for the passenger and their bag. There are customer benefits that arise from this which are important, but the cumulative impact of this market power is important

and should be considered as part of the wider impact of all the agreements in place.

22. Auckland Airport supports recent calls made by the New Zealand Airports' Association regarding the need to implement of monitoring of domestic airfares and airline performance. In New Zealand, one carrier represents 86% of the domestic aviation market, which compares to Australia where the largest domestic airline has only 61% market share and makes New Zealand the least competitive domestic aviation market in the world.

Conclusion

23. Auckland Airport supports the reauthorisation of this agreement if the Government can establish clear consumer benefits. However, we seek to engage the Ministry of Transport further on wider issues around consumer choice and competition in the international and domestic aviation markets.