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Tēnā koe Sonya

SUBMISSION ON APPLICATION FOR AUTHORISATION OF PARTNERSHIP BETWEEN AIR NEW ZEALAND AND CATHAY PACIFIC

1. Christchurch International Airport Limited (*Christchurch Airport*) welcomes the opportunity to submit to the Ministry of Transport (Ministry) on the application by Air New Zealand Limited (*Air NZ*) and Cathay Pacific (CX) (together, the *Airlines*) of their proposed arrangement.
2. CIAL recognises that from time to time there will be market conditions that necessitate the authorisation by the Minister of Transport of coordination between airlines. CIAL adopts a principled position that where the appropriate conditions exist it is broadly supportive of coordination which, following a rigorous evaluation by MoT and key industry stakeholders, can demonstrate the public benefits outweigh any public detriment.
3. Christchurch Airport is the international gateway for people and freight to the South Island. Of particular interest to CIAL will always be the potential for real capacity, and consequent market growth demonstrated by the alliance and its regional distribution within New Zealand, and in particular the South Island

Key points

4. Both Air New Zealand and Cathay Pacific are valued airline partners for Christchurch Airport. Cathay Pacific's direct seasonal service to Christchurch is important for bringing visitors directly to the South Island and providing freight access to the Greater Bay Area for South Island exporters, especially of high value perishable goods.
5. The arrangement between the airlines has been previously renewed and is now twelve years old. We acknowledge performance of the arrangement in its most recent term has been interrupted by COVID-19 and the associated decline in international travel in key markets accessed by the arrangement. There is an argument this makes it more difficult to assess if traffic growth under the arrangement is comparable to the counterfactual since 2020 and if the arrangement is benefiting consumers. We acknowledge the changes to markets in a pre- and post-Covid operating environment makes comparison complex.
6. To proceed the proposed arrangement must be likely to have benefits that overcome the natural disbenefits to consumers of coordination.

7. In Christchurch Airport's view the Cathay Pacific service to Christchurch is well-established, absent the Covid interruption, and works well feeding the Hong Kong hub to points on the greater Cathay Pacific network. The service also secures patronage from the core Greater Bay Area, where Hong Kong Airport is located. Christchurch Airport can also identify traffic that connects from alliance services onto Air NZ regional services. This is traffic that is only made possible by the Hong Kong service.
8. Christchurch Airport recognises the North Asia Alliance is capable of creating benefits for the South Island and for travellers that might not exist if the alliance were not in operation.

Air connectivity to Cathay Pacific's network is important for the South Island

9. Hong Kong, the Chinese Mainland and behind markets serviced by Cathay Pacific on to the North-Asian Alliance are important markets for the South Island. CX services brought over one thousand visitors a week to Christchurch during the 2023 Northern Winter season. The CX service is also a reliable freight link to key markets during summer for South Island exporters. In 2023, Cathay Pacific carried over 400 tonnes of cherries to high value markets in Asia and Europe.
10. Chinese visitors were worth an estimated \$670 million a year to the South Island pre-Covid, according to the NZ International Visitor Survey. Visitors that enter the country via Christchurch tend to spend more time in the South Island. On average, Chinese visitors who arrived directly at Christchurch spend 79% of their time in the South Island, while those arriving into Auckland only spend 21% of their time in the South Island. If spending is proportional to the time spent, the visitor who arrives directly into Christchurch spends \$2,600 more in the South Island. Direct services to the South Island amplify the distribution of the benefits from visitation.
11. Expanding the distribution of passengers via direct services to the South Island remains a key strategy to Christchurch Airport and is something Christchurch Airport has, and will continue to, invest heavily in. Christchurch Airport data indicates that the Hong Kong market on Cathay Pacific has recovered at a rate similar to our other international markets. Its share of all other nationalities on the Christchurch service has recovered at a faster rate than the general recovery of international traffic.
12. This rate of recovery can be viewed as a positive result of the joint business agreement working in favour of the South Island market.

Christchurch Airport's previous submissions remain relevant – public benefits must be identified

13. In 2019, Christchurch Airport submitted that the benefits of the alliance were not clear and should be 'put to the test' by the Ministry before continuing, particularly;
 - a. Whether conditions need to be imposed, or voluntarily assumed, to ensure that the benefits claimed are delivered through the term of the alliance;
 - b. Which of the claimed public benefits accrue to passengers and members of the public;
 - c. The extent to which benefits are outweighed by the public detriment caused by the cumulative impact of alliance arrangements;

- d. The impact of changing route dynamics and regulatory barriers and their impact on the likely counterfactuals;
 - e. The cumulative impact of the term of the alliance; and
 - f. Whether the term of the alliance is appropriate given the upcoming changes to caused by the introduction of the Civil Aviation Act 2023.
14. In our submission, this remains a valid set of criteria for the Ministry to assess the arrangement against. At each period of authorisation it remains important to identify the benefits of the arrangement to the public and customers and that they exceed those that would exist in likely counterfactual.

Could the alliance deliver future expansion?

15. The alliance has delivered traffic growth on an annualised basis on the CHC route. COVID-19 interrupted the trend line for 2023/24. However, forward schedules indicate that the operation will continue its growth trend exceeding pre-Covid levels for the northern winter season 2024/25.
16. Cathay Pacific have indicated that their intention is to grow the CHC operation. Christchurch remains the only seasonal operation on the Cathay Pacific network. By implication the alliance plays an important role in activating the market to a seasonal operation like the Christchurch route, and potentially accelerating expansion so that the route conforms to the network standard of year-round operations.

Which of the benefits accrue to the public

17. It is important that the arrangement creates benefits for the public and consumers as well as the airline partners. The addition of Cathay Pacific's service to Christchurch has had clear public benefits in terms of connectivity, freight access and the value from visitation. The proposed arrangement also points to declining fares over time.

The impact of changing route dynamics and regulatory barriers and their impact

18. The Hong Kong – New Zealand market has not stayed the same since 2012. Relative demand for travel to Hong Kong and for Hong Kong as a hub continues to change. Market access and regulatory barriers continue to evolve. By way of example Air New Zealand has indicated a pessimistic growth outlook over those next five years, driven by equipment and economic factors.

The effects of authorisation 'in the round' need to be considered.

19. New Zealand's International Air Carriage Competition regime will move from Part 9 of the Civil Aviation Act 1990 to Part 6 of the Civil Aviation Act 2023 in 2025. The tests outlined in s199 (2) of the 2023 Act provide the policy purpose of the new regime.
20. As we come to the end of the operation of the 1990 Act, Air New Zealand has authorisations in place with Air China and Singapore Airlines and a pending application with Virgin Australia. It has a perpetual arrangement with United Airlines and a code-share with Qantas that has not undergone regulatory approval. Air New Zealand has code-share arrangements with eight airlines on the SYD-CHC service alone.

21. It is timely for the Ministry of Transport to reflect if this level of authorisation is likely to achieve the purposes of the Civil Aviation Act 2023 as indicated in s199(2).

New Zealand requires resilient networks

22. Christchurch Airport has previously submitted that resilient transport networks are important in the context of the effects of, and adaptation to, climate change. Networks with multiple points of entry offer greater resilience enabling New Zealand to respond to hazards and maintain continuity. Network diversity reduces the reliance on single network points of failure and reduces the impacts on travellers if a route is congested or prevented from operating.

23. In our view, long haul services operating from Christchurch, and Christchurch Airport's ability to accept and process long haul services, present an important network resilience benefit to New Zealand and our aviation system. Airline Alliance Authorisations are a tool available to the Minister of Transport to promote the resilience of air transport networks to New Zealand. The Minister should be prepared to use their powers relating to authorisations under the Civil Aviation Act to promote that policy goal, as required.

If there are any questions about this submission, please contact Gordon Bevan, General Manager Aeronautical Development, [s 9\(2\)\(a\)](#)

Yours sincerely

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Christchurch International Airport Limited