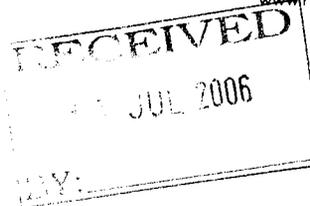


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28 July 2006

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Ministry of Transport  
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**SUBMISSION ON PROPOSED CODE SHARE AGREEMENT BETWEEN  
AIR NEW ZEALAND AND QANTAS**

I speak on behalf of Rotorua Regional Airport Limited [RRAL], the operator of Rotorua Airport. In terms of passenger movements, Rotorua Airport is the largest airport in the Bay of Plenty Region. The airport's prime focus is scheduled passenger services, hosting regular commercial aircraft ranging in size from the 19 seat Beechcraft 1900, to the 136 seat Boeing 737-300.

Daily passenger flights currently service Auckland, Wellington and Christchurch from Rotorua but airline competition in Rotorua is extremely limited. The market is dominated by Air New Zealand, with the national carrier being the only airline connecting Rotorua with Auckland and Wellington.

The sole airline competitor of Air New Zealand in Rotorua is Qantas Airways. Qantas operates a daily service from Christchurch to Rotorua return. The Rotorua – Christchurch route is the busiest route for Rotorua Airport contributing 67% of total passenger movements, reflecting the historical tourism link between Rotorua, Christchurch and Queenstown.

The Tourism industry directly contributes 20% of all employment in Rotorua making it a critical sector of the local economy. The continuation of competitively priced, well connected air services between Rotorua and Christchurch is crucial to ensuring the continued success and future growth of the visitor industry in Rotorua.

RRAL is of the opinion that the approval of any Code Share agreement between Air New Zealand and Qantas, without first inviting the Commerce Commission to make a full assessment of the effects on the consumer and competition would be seriously deficient. It is our belief that some of the reasons cited in support of the code share are misleading, if not absolutely incorrect.

We have read statements detailing the "empty seats" flying across the Tasman and noted the alarming numbers quoted by Air New Zealand. The fact is that empty seats are a fact of life for all airlines, on all routes, in every country. Airlines seldom book all seats on any particular aircraft and it is widely understood in aviation circles that airfare pricing is based around achieving a stable average load factor of between 70 and 80%. We understand from figures supplied by Air New Zealand that the loads already carried across the Tasman by both airlines are in line with this industry benchmark.

*Into the world of light*



I am confident that the consumer protection agencies of most countries would have something to say if, in every case where airlines have empty seats on aircraft they were to agree to control supply in order to increase yields and profits to above market generated levels.

From the Rotorua perspective, it is unclear as to whether or not Air New Zealand and Qantas will look to collude on domestic routes if they are permitted to do so on Tasman routes. Whether the code share relates specifically to Tasman services or not, the fact remains that the two airlines will move closer together increasing the likelihood of yield increasing deals in all sectors of the market.

Rotorua – Christchurch services currently operate at around 70% capacity. Using the same methodology as we have heard in support of the proposed code share, this statistic means that the airlines are losing money on the Rotorua – Christchurch “bloodbath”. By the same logic, the best thing for everyone concerned would be to let the two airlines agree to fix pricing and scheduling, allowing them to increase yields to a more “sustainable” level.

I think most people would agree that this scenario could only lead to a future of reduced services, flight unavailability, reduced consumer choice and higher travel costs. This would be an unacceptable outcome for Rotorua Airport and we would expect the Commerce Commission to step in to reduce the possibility of this occurring.

This is the outcome we seek with regard to the proposed code share. It is our belief that the Commerce Commission must be brought into the evaluation process before any agreement is further progressed. Only after an even handed assessment of the full range of potential effects on consumers and competition should the approval of such an agreement be considered. It is evident that the legislation granting approvals by the Ministry of Transport of airline code share agreements was not created to allow for airline collusion, let alone collusion on the route upon which New Zealand is most heavily reliant.

I hope you will consider this submission carefully, and I look forward to your response in due course.

Yours sincerely



Matt Clarke

Chief Executive

Rotorua Regional Airport Limited