

**STRATEGY AND RESOURCES COMMITTEE
SUPPLEMENTARY AGENDA**

**MONDAY 14 SEPTEMBER 1998
AT 4.00 PM**

24. AIRLINE ALLIANCES

RR 8629

As advised in the main agenda, Mr Peter Wakeman has been granted speaking rights to make representations to the Committee on the above issue.

Mr Richard Simmonds, Financial Analyst, reports:

BACKGROUND

From a review of previous correspondence, I understand that Mr Wakeman has objected to the proposed alliance between Air New Zealand, Singapore Airlines and Ansett International. His objection is on the grounds that it is anti-competitive, and will have an adverse impact on local employment and economic development – areas for which the Council has a responsibility. He has lobbied various bodies on the issue, and lodged an objection with the Australian Commerce and Competition Commission (“ACCC”).

Mr Wakeman has now written to the Strategy and Resources Committee, requesting the Council to assist him in appealing against a decision by the ACCC on 27 August 1998. The decision was to the effect that he was not an “interested party”, and therefore had no legal standing to make objections to the proposed alliance.

VIEWS OF CIAL

I have discussed this issue with CIAL management, and they have commented separately. They clearly view the proposed alliance as a positive move.

OTHER FACTORS

1. Even discounting the points raised by CIAL, it would clearly put CIAL in a difficult position if its majority shareholder became involved in a campaign directly against the interests of CIAL’s largest customer.
2. Additionally, it is highly probable that any Council involvement in the objection process would be very costly in terms of staff resources, and have limited prospects of success.
3. The trend towards the merging of international airlines is driven by commercial imperatives which are far outside the ability of the Council to influence. However, I am aware that the Council has taken its own initiatives at a local level to attract the greatest number of flights possible into Christchurch, and given CIAL every incentive to do the same.

CONCLUSION

There appears to be little compelling evidence to suggest that the Council should take a stance against the proposed airline alliance.

Mr George Bellew, Chief Executive, Christchurch International Airport, reports:

BACKGROUND

Airline alliances are a phenomenon of the present very highly competitive situation between international airlines. There is an accelerating trend whereby individual airlines are forming at least a commercial alliance with others in order to increase their geographic coverage, thereby offering passengers the opportunity for seamless travel, irrespective of whether the travellers ultimate destination is part of the host airlines own network.

This practice is often referred to as “code-sharing” whereby a particular carrier say, Air New Zealand, will enter into an arrangement to provide seats and carry the flight designation of their alliance partner, eg Singapore Airlines. This results in a situation where irrespective of who has issued your ticket, you may to all intents and purposes, be a Singapore Airlines customer but flying on a sector where the aircraft is operated by Air New Zealand.

There are various forms of alliances, some are purely commercial contracts, others involve a cross shareholding. For example, Air New Zealand own 50% of Ansett Australia but Singapore Airlines have a commercial arrangement whereby they are also part of the alliance despite no cross shareholding.

WHO ARE THE MAJOR ALLIANCES RELEVANT TO CHRISTCHURCH?

Air New Zealand, Ansett Australia, Singapore Airlines, and Lufthansa form one alliance.

Qantas, British Airways form another.

IMPLICATIONS FOR CHRISTCHURCH INTERNATIONAL AIRPORT

History

For a number of years Qantas and Air New Zealand code-shared for many of their trans-Tasman flights to/from Christchurch. In other words, there was in effect a commercial alliance between Qantas and Air New Zealand to buy seats on each others services.

Following British Airways investment in Qantas, this commercial arrangement with Air New Zealand had started to breakdown, but it was terminated quite quickly once Air New Zealand displayed their interest in the Australian domestic airline market by buying their 50% shareholding in Ansett Australia.

Current Situation

As a direct consequence of the Air New Zealand/Ansett Australia alliance we now have a highly competitive situation for trans-Tasman services to and from Christchurch in that both Qantas and Air New Zealand are each providing a greatly increased number of flights in a determined attempt to each gain the maximum market share.

Certain days of the week we now have up to three return services a day, Christchurch-Sydney and better frequencies than previously to both Melbourne and Brisbane.

From the Airports perspective this is excellent as travellers now have a greater choice of travel time, an increased availability of seats and competitive fares.

Christchurch-Singapore

Traditionally Christchurch had four services a week provided by Singapore Airlines and these travelled a triangular route – Singapore-Christchurch-Auckland-Singapore, twice a week and in the reverse direction for the other two services.

Following the commercial alliance between Singapore Airlines and Air New Zealand we now have daily return services to Singapore and as from late October three days a week we will enjoy twice daily services.

Again, a commercial alliance has resulted in an increase in the number of services and more seat capacity on for us an important sector. As separate entities neither carrier was prepared to provide this number of services.

Furthermore the advent of the alliance between Singapore Airlines and Air New Zealand is resulting in new airfares to encourage people to utilise their services.

ANALYSIS

From the above, we are adamantly of the opinion that alliances have been of benefit to Christchurch. They have resulted in an increase in the number of services and the number of available seats and more competitive pricing.

In our opinion, such associations have given the respective partners increased commercial strength and hence the ability to better service destinations such as Christchurch.

CONCLUSION

Christchurch International Airport Limited are strongly supportive of the current alliances.