



Op-ed: 1 May, 2025

Market study into domestic flights not the best way to drive competition

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The performance of our domestic airlines, and the cost of air travel within New Zealand, is really important to Kiwis and our economy. This is why the Commerce Commission is keeping a very close eye on the sector.

Where New Zealanders raise concerns with us about air travel, and where we find airlines are acting in breach of our fair trading and competition laws, the Commission is taking strong action, and we'll continue to do so.

For example, last year, we filed charges against Jetstar under the Fair Trading Act which allege it misled consumers about their rights to compensation. We have an active investigation underway into Air New Zealand for similar conduct.

We've also heard concerns about air fares and competition between domestic airlines.

Over recent weeks we have assessed competition issues in the domestic airline sector to understand whether we should self-initiate a market study (referred to in the Commerce Act as a competition study).

Competition is the catalyst that propels sectors to innovate, enhance efficiency, and provide New Zealanders with better value and more options. Where we see opportunities in markets to strengthen competition, market studies have recommended effective interventions.

Previous market studies have looked at groceries, fuel, building supplies, and personal banking services. Each of these studies has identified issues and proposed remedies to improve competition for the benefit of all New Zealanders.

When considering whether to initiate a market study, we need to be mindful of the costs and potential benefits. They should be deployed where they can benefit New Zealand most effectively.

In this instance, our initial assessment of the domestic airline market suggests a market study would not be an effective way to drive stronger competition in the sector. This is because some of the most significant factors driving current concerns are structural and are the result of economic factors wider than competition issues alone:

- Domestic air fares have increased considerably over the past 5 years, but there is also evidence that the cost of flying planes has increased significantly.

- Air New Zealand competes on the main domestic air routes and on a number of regional routes with Jetstar and smaller local airlines, though it is currently doing so without access to several of its best aircraft due to supply chain constraints.
- The routes without significant competition tend to be regional routes that are expensive to operate and therefore not very attractive to competitors. It's hard to see how an intervention that encourages competition would make much difference on those routes.

Finally, we've heard the public's concerns about Air New Zealand's dynamic pricing model, which can see tickets in high demand periods and routes become very expensive. We understand how this might be perceived as unfair, but we do not consider it anti-competitive.

In summary, at this time we believe that economic and structural factors are the main driver of the current challenges in our domestic airline sector, including the limited competition we currently see. We'll be publishing further information about our initial assessment shortly.

This is a point-in-time assessment, and competitive conditions change. We will continue to monitor the domestic airline sector closely. If we see activity that falls foul of the laws we enforce, we will not hesitate to act. We will also continue to provide independent advice to the government on policy matters.