Assessment of whether to self-initiate competition study into the domestic air travel sector (May 2025)

Summary

1. We have undertaken an initial assessment of competition issues in the domestic air travel sector to understand whether we should self-initiate a competition study (often referred to as a market study).

2. Our initial assessment suggests a competition study would not be an effective way to drive stronger competition in the domestic air travel sector at this time. This is because some of the most significant factors driving current concerns are structural and the result of economic factors wider than competition issues alone.

3. We have noted some areas that may benefit from further policy work, particularly in respect of information disclosure, and have passed these to the relevant government agencies. We are also encouraging airlines to be more proactive in informing customers of their rights in respect of service cancellations. We will continue to monitor the domestic air travel sector closely. If we see activity that breaches the laws we enforce, we will not hesitate to act.

A. Introduction

Purpose

4. This document summarises our assessment of whether to self-initiate a competition study into the domestic air travel sector.

Competition studies

5. The Commerce Commission has the power to conduct competition studies under the Commerce Act. A competition study is an in-depth and independent study into the factors affecting competition in a sector or market, to find out how well competition is working and whether it could be improved. A study can be initiated by the Commission or the Minister of Commerce and Consumer Affairs.

6. The Commerce Act empowers us to make non-binding recommendations in a competition study. Substantive change requires commitment from industry and/or Government.

7. When considering whether to initiate a competition study, we need to be mindful that they cost money and take time. They should be deployed where they can benefit New Zealand most effectively. Like all organisations, the Commission has only limited resources and so we must prioritise our efforts we can deliver the greatest benefit for New Zealanders.

Our process for considering whether to self-initiate competition study

8. To inform a decision on whether to self-initiate a competition study into the domestic air travel sector, we decided to first conduct a preliminary assessment of whether a competition study would likely deliver material benefit.

9. This was a focused, four-week exercise, targeted at understanding:

   9.1 the nature of competition and consumer issues in the sector;

   9.2 what could be done about those issues; and

   9.3 ultimately, whether a competition study would likely deliver significant benefit.

10. We primarily relied on publicly available information, and information we already held. Our assessment was also informed by limited discussions with industry participants. We include a note on parameters of this work at the end of this paper.

B. The domestic air travel sector

11. Domestic air travel is an important sector for New Zealanders and the economy. It facilitates the flow of people and goods throughout the country, and enables connections to the rest of the world.

12. There have been concerns recently from stakeholders about potential issues in the sector, and we receive a large number of consumer complaints.

Providers of domestic air travel

13. The main providers of domestic air travel are:

   13.1 **Air NZ.** The largest provider which services 20 domestic destinations. Air NZ carried 10.7m passengers domestically in 2023/24, generating revenue of $2 billion in the 2023/24 financial year.

   13.2 **Jetstar.** Jetstar is currently the only competitor of scale in the NZ domestic air passenger market. It is a wholly owned subsidiary of Qantas. Jetstar competes with Air NZ on the main trunk routes and with some services connecting Queenstown.

   13.3 **Smaller regional airlines.** For example, Air Chatham, Barrier Air, Golden Bay Air, Origin Air and Sounds Air. These smaller airlines generally service routes not covered by Air NZ.

14. There are a limited number of routes where Air NZ faces competition. These are:

   14.1 Seven routes where Air NZ faces competition from Jetstar (flights between Auckland, Wellington, Christchurch and Queenstown).

14.2 A few regional routes where smaller airlines compete with Air NZ (for example, flights between Wellington and Nelson/Blenheim).

15. Beyond that, routes are exclusively served by Air NZ or a small regional airline.

Regional flights within NZ are expensive to operate

16. New Zealand's short routes and relatively low demand (compared to more populous countries) goes some way to help explain why Air New Zealand's reported revenue per available seat kilometre (RASK) and cost per available seat kilometre (CASK) appears high by international standards.

17. We have heard that regional flights within New Zealand are expensive to operate because:

17.1 Many costs occur on landing, take-off or from having a plane on the ground. Examples include airport landing charges, air traffic management levies, passenger security levies, checking-in passengers.

17.2 Short flights use disproportionately more fuel. Fuel use during take-off and climbing is significantly higher than when cruising or descending. The cost of fuel represents around one third of Air NZ's operating costs.

17.3 There is only a short flight time within which to earn revenue. Average aircraft utilisation is low (ie, planes spend a lot of time on the ground).

17.4 Smaller planes have a higher cost per seat per kilometre (as there are fewer passengers to spread the costs across). Larger planes (eg, jets) are more efficient than smaller planes, but demand on many routes in New Zealand, particularly regional routes, does not warrant larger planes.

Cost pressures and other challenges facing the domestic air travel sector

18. Globally, the airline industry continues to experience challenging operating conditions due to:

18.1 Ongoing effects of the Covid disruptions (eg, excess capacity).

18.2 An unsettled global political environment (eg, Ukraine war, restrictions on entering certain airspaces) impacting many long distance flight routes.

18.3 High costs including for fuel, parts and global staffing challenges.

18.4 Supply chain issues for new airframes, new engines and parts.

18.5 Perennial safety concerns and associated costs.

18.6 The need to maintain sufficiently high seat load factors to cover costs in the face of demand levels which are both cyclical and exposed to significant unforeseen disruptions to demand.

19. The domestic aviation sector in New Zealand has been similarly affected by many of these developments. For example, Air NZ has a number of its most efficient aircraft out of service at present due to global engine maintenance issues (Air NZ has publicly indicated that, for the second half of this 2025, it could have as many as 11 aircraft, which is roughly 20% of its fleet, out of service). There are also additional challenges of providing services around a long geographical market with many regions having low levels of demand.

20. There have been significant increases in fees imposed on domestic air travel including to fund increases in air traffic management, domestic security, and landing costs. These are recovered from passengers via their air fares.

C. Preliminary review of barriers to entry and expansion in airline industry

21. Barriers to entry and expansion are factors that may make it difficult or impossible for new firms to enter or expand their position a relevant market and successfully compete with incumbent firms.

22. We undertook a preliminary review of known barriers to entry and expansion in the sector to understand what is preventing stronger competition and whether there are opportunities to recommend interventions to promote stronger competition. The table below summarises the information obtained within the relevant timeframe.

Summary

23. Many of the major barriers to entry and expansion in the airline industry appear to be related to the costs associated with operating an airline which we have been told are currently very high and the characteristics of the New Zealand market.

24. On routes where competition exists, it is *possible* that some interventions (such as offering new entrants greater access to information about demand and capacity levels on domestic routes) could provide some benefits by facilitating better assessment of commercial opportunities. However, our preliminary review has not identified solutions that we are confident would significantly improve competition.

25. For routes where no competition currently exists, we have been told that the most immediate challenge is maintaining current services. We have been told that many of these routes are of marginal economic viability and that competition on these routes is not realistic at this time. We have not assessed the economic viability of these routes in the time available but note that several airlines (including Air New Zealand and Jetstar) have reduced the number of routes that they operate on during the past few years.

Preliminary review of barriers to entry and expansion in airline industry

Barrier to entry / expansion	Opportunities for change
Structural barriers to entry and expansion	
Financial barriers (eg, capital costs, sunk costs, and input costs). We have heard that input costs have increased substantially in recent years putting pressure on even incumbent airlines. We have heard that the economics of smaller regional routes are particularly challenging.	Beyond government financial support (eg, subsidies, loans), the options for addressing these barriers are likely to be limited. On smaller routes where competition is unlikely, we have heard that some jurisdictions (eg, Canada) provide government support from a regional development or public infrastructure perspective. The relevant Ministers may wish to seek advice from MBIE officials about options for maintaining existing regional routes (noting that this more of a regional/economic development issue than a competition issue). Some airport fees are already subject to regulatory oversight.
Size of market and other market characteristics As outlined in section B above, New Zealand is a small market with short routes (which are relatively expensive to operate) and relatively low demand.	Inherent market characteristics. The options for addressing these barriers are likely to be limited.
Economies of scale Air NZ likely benefits from economies of scale. For example, it can spread its overhead costs over larger numbers of fares. Smaller regional providers need to recoup their overheads from a smaller number of ticket sales.	Additional cooperation between smaller providers or between smaller providers and Air NZ might help deliver scale benefits to smaller airlines. For example, this could be in relation to matters such as: access to airport infrastructure; procurement of inputs and maintenance; customer experience (eg, loyalty, marketing, shared booking sites, interconnected ticketing); shared back-office support. However, the relatively low passenger numbers on most regional routes mean that the potential for economies of scale is limited. The benefits would need to be

	balanced against a risk of increased market coordination.
Access to airport facilities and services Facility and service arrangements at airports may favour incumbent airlines. Arrangements vary by airport.	It is possible that imposing equal access obligations for airport facilities and services could support competition at the margins. However, the extent to which access to airport facilities and services is currently impacting competition is not clear, and we acknowledge that in some circumstances an equal access obligation could give rise to operational inefficiencies at airports.
Brand recognition / reputation Air NZ has strong brand recognition and loyalty, which can make it challenging for other airlines to win customers from Air NZ.	This is naturally determined by the market. There is limited scope for intervention to alter this.
Interconnectivity / access to feeder traffic We have heard that access to feeder traffic can make a difference to the viability of airlines in the long run. Greater interconnectivity / interoperability between airlines within the sector could reduce barriers to entry / expansion – eg, the ability of regional airlines to access passengers ticketed on other airlines for main trunk or international routes as a 'feeder' for regional routes.	It is possible that better access to feeder traffic (eg, through interline or code-share agreements) could improve the ability of other airlines to gain more customers, although the volumes of passengers that such agreements could deliver are unclear without further work. We note that code-share arrangements are bilateral arrangements between private businesses (albeit subject to approval by the Ministry of Transport (MoT)) and the mechanisms for intervention are not clear. We understand from public reporting that some discussions between Air NZ and smaller airlines relating to interconnectivity and ticketing arrangements are already occurring.
Access to information We have heard that information asymmetries can increase barriers to entry for new or expanding entrants. Incumbents hold granular data about demand, capacity, airfares and travel	Access to information such as route specific demand and capacity levels could potentially highlight opportunities for providers to service new routes or to enhance capacity on existing routes and reduce information advantages that Air New Zealand may have from decades of providing services. We would support a closer look at this option.

patterns that is not visible to new entrants. Some jurisdictions have imposed reporting obligations on major airlines to provide prospective entrants better visibility of demand. Some jurisdictions (eg, Australia) also require major airlines to provide information about prices, costs and profitability to government bodies to monitor and report on. There are no such obligations in New Zealand and we understand that there is limited publicly available information about passengers and demand.	
Strategic barriers to entry and expansion	
Incumbent airlines may engage in strategic conduct in response to new entry, which is often noted as a barrier to entry and expansion, and/or a reason for airline failure. Such conduct can include capacity deployment, yield management, cross-subsidisation, discounts and price adjustments, heavy advertising, introducing low-cost carrier offerings, impeding access of new entrants to interconnectivity arrangements.	The competitive response of incumbent airlines is often identified as a reason for airline failure. It is not generally a breach of the Commerce Act for incumbent airlines to compete strongly, even where this causes competitors to lose sales or even exit entirely. However, the Commerce Act prohibits firms from engaging in conduct that damages the competitive process by restricting or undermining rivals' ability to compete. In the context of the airline industry, this could include agreements with airports to restrict the access of rivals to key infrastructure (eg, ground services and terminal facilities such as gates, stands, take-off / landing slots, and check-in facilities), below cost (or "predatory") pricing, or increasing capacity on routes to prevent rivals from winning sufficient passengers to meet their costs. We monitor for conduct that may 'cross the line' and breach the Commerce Act (such as below cost pricing) and will take action accordingly.

	Intervention to protect new entrants from a strategic response by incumbent airlines is not possible under current legislation and policy settings.
Regulatory barriers to entry and expansion	
General sector regulation Given the risks involved in air travel, much of the regulation of the airline sector is safety related.	We have heard that some safety regulations impact a small number of routes for certain aircraft but are not well placed to assess the appropriateness of safety regulations.
Regulatory fees A number of sources mention recent increases in Civil Aviation Authority levies (eg, passenger safety and security levies) as an additional cost pressure facing airlines. We have heard that a rising cost base puts pressure on airlines and can particularly affect the low-cost carrier business model.	We have heard that New Zealand is a high-cost environment, which has some impact on the viability of entry and expansion. However, the setting of regulatory fees is a matter for Government.
Code-sharing authorisation Code share arrangements have the potential to harm competition, for example by reducing the number of competitors operating on any given route (horizontal effects) or reducing access by third party airlines to feeder traffic (vertical effects). Airlines servicing New Zealand have entered into a number of code-share arrangements, although most (aside from Air New Zealand / Qantas) relate to international rather than domestic travel. MoT is responsible for authorising code share applications, including weighing the effects on competition against other benefits.	Impacts on competition are taken into account by MoT in assessing code-share authorisations. There may be scope for the Commission to support MoT with the competition aspects of these assessments.

D. Consumer protection

Consumer concerns

26. MBIE's Consumer Survey in 2024 found that around 11% of consumers surveyed had experienced problems with travel-related services in 2023 or 2024. This was a lower rate than the previous survey (18%), and lower than a number of other sectors such as groceries. However, resolution rates for problems with travel were significantly lower than average (64% compared to the average of 78%), with many respondents reporting challenges and time delays to achieve resolution.

27. Consumers may not always have a good understanding of what consumer protections apply, what extra protections insurance provides, and how to exercise their rights when things go wrong. Not only does the Civil Aviation Act provide protection for costs related to cancellations, Air NZ also markets private travel insurance products covering similar circumstances. If a customer pays by credit card, they may also be covered by their credit card insurance.

28. Consumer advocacy group Consumer NZ has reported various other consumer concerns associated with air travel including:

    28.1 price increases (18 July 2024) including increases of up to 300% over four years, and varying prices according to higher demand in the school holiday period for example;

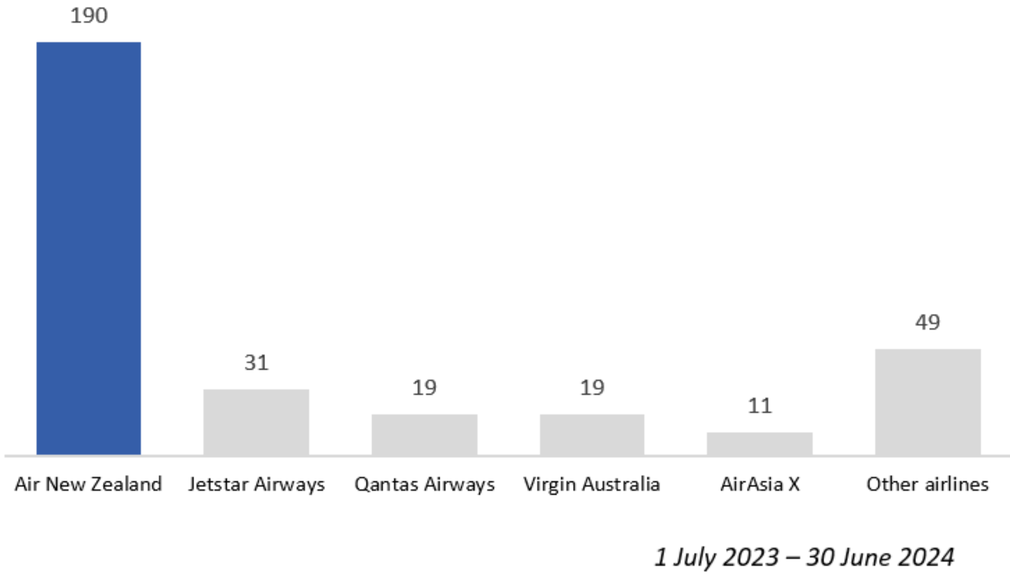
    28.2 communication and service problems (19 February 2025) including luggage delays due to a lack of available weight capacity on flights, and a lack of compensation; and

    28.3 misleading information about refund rights (18 May 2020) especially in the context of cancelled US flights.

Reported concerns to the Commission about airlines

29. We receive large numbers of consumer concerns about airlines. Between 1 July 2023 and 30 June 2024, the Commission received around 317 consumer concerns regarding airlines (this includes international as well as domestic). Air NZ has the largest share of reported consumer concerns, which may reflect its large market share.

Reported consumer concerns by airline

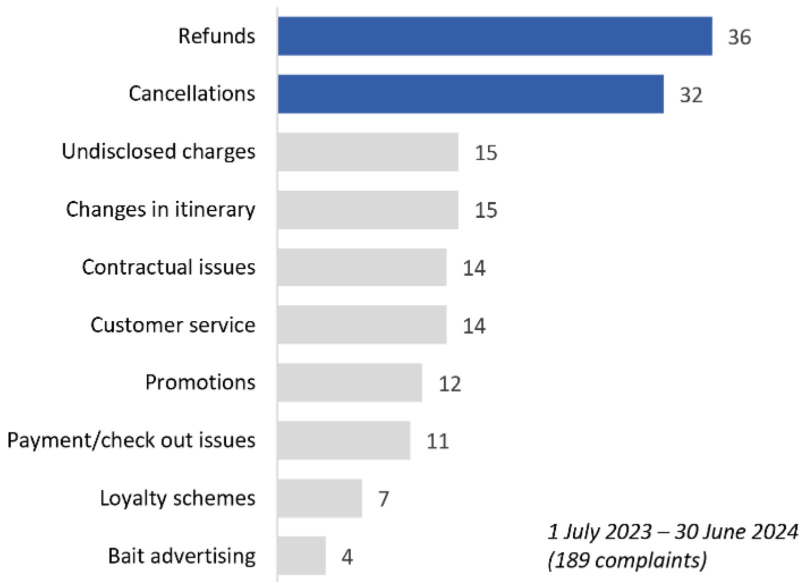


Note: reported concerns can be attributed to two or more traders or "industry wide".

'Other airlines' contains airlines with less than 10 reported concerns as well as 'industry wide' concerns. The airlines with the most reported concerns in 'Other airlines' are Singapore Airlines (7), Air Vanuatu (6), and Qatar Airways (5).

30. Airlines' handling of refunds and cancellations are a common theme in these complaints. The figure below shows the breakdown of concerns we received about Air NZ by primary issue.

Reported consumer concerns by primary issue for Air NZ



31. We have filed charges against Jetstar under the Fair Trading Act, alleging Jetstar misled consumers about their rights to compensation when flights were delayed or cancelled. We are currently investigating Air NZ for similar conduct.

32. We will continue to closely monitor complaints and other intelligence about the sector and pursue potential breaches of consumer law as they arise.

33. We encourage airlines to continue to work even harder to provide clear information to consumers about their lawful refund and cancellation rights – both on their websites, as tickets are purchased and directly to consumers when their travel is impacted. We support all efforts that make seeking all entitled refunds as easy and as fast as possible for consumers.

Pricing practices

34. Anecdotally, another area of frustration for consumers is airline pricing practices, including their use of dynamic pricing and drip pricing. These are pricing practices that exist in many sectors of the economy, and may be better examined as part of any broader review of economy-wide consumer-protection legislation than for the air travel sector specifically. There may also be more that airlines could do to increase public confidence in their pricing practices.

35. Most airlines globally, including Air NZ, use dynamic pricing. Dynamic pricing involves a trader changing the price of its good/service to reflect changing demand/supply. This is normally automated with the use of pricing algorithms. For example, Air NZ may increase flight prices because of an anticipated surge in demand related to a holiday period or an event at the destination. Businesses are generally lawfully able to set prices which reflect demand/supply, and it is unlikely to breach the Fair Trading Act unless consumers were misled by pricing representations in some way.

36. We note that some jurisdictions, such as Australia, have announced plans to ban certain pricing practices, potentially including dynamic pricing. This is a matter for Government policy.

E. What value would a competition study add?

37. A competition study could help to build a more detailed, better-evidenced picture of competition in the sector.

38. However, from our initial assessment, our view is that a competition study is unlikely to reveal any clear opportunities to significantly shift the dial on competition and consumer outcomes. This reflects that the primary challenges facing the sector appear to be economic ones, rather than competition ones.

39. As such we do not consider there to be significant benefit in a competition study into the domestic air travel sector at this time. While we have identified a few areas where the Government may wish to seek further advice from officials about policy options, we do not consider a competition study a necessary input to these.

F. Next steps

40. We will keep a watching brief on the domestic air travel sector as part of our general market intelligence work.

41. We will progress current Fair Trading and Commerce Act enquiries and investigations, and remain open to opening further investigations where we become aware of issues. We encourage airlines to be more pro-active about consumers' rights when flights are cancelled.

42. We will continue to review the prices set by Auckland, Wellington and Christchurch airports (typically every five years) under Part 4 of the Commerce Act.

43. We can support MBIE or other officials with competition and consumer protection expertise in relation to any policy work in this area.

44. This is a dynamic sector, and our assessment was a snapshot in time. As such, we will re-assess whether a competition study may be warranted in future.

Notes on the limitations of this work

This paper reflects our initial assessment of whether it would be in the public interest to undertake a competition study into the domestic air travel sector. It explains the process and analysis we undertook to inform our prioritisation decision, rather than representing a comprehensive assessment of the state of competition in the sector.

There are several limitations of our initial assessment in this paper:

- Given the short, sharp nature of our assessment, we have generally relied on publicly available information and historic information we already held. (Rather than requesting more comprehensive and up-to-date information from market participants, as we would in a market study.)
- Our judgement has been informed by commercially sensitive information provided to us by market participants on a confidential basis, which is unable to be reported in this paper.
- We have not been able to fully test the validity of all the information we received, given the limited scope for engagement with interested parties.

We have exercised expert judgement in forming our view of the likely benefits of a competition study, having regard to these limitations.