

# State of competition on the downtown Auckland to Matiatia ferry route

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## Glossary

**Abbreviation**

AT

AT HOP

PAX

PTOM

**Stands for**

Auckland Transport

Auckland Transport Electronic Payment Card

Passenger capacity

Public Transport Operating Model

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## Executive summary

This study assesses the level of competition on the downtown Auckland to Matiatia ferry route.

The Fullers360 Waiheke ferry service operates around 20 hours a day, year-round. During peak periods, sailings are every 30 minutes, with a less frequent 60-minute service off-peak. There are four vessels in operation at any time, each capable of carrying 400 passengers between downtown Auckland and Matiatia on Waiheke Island.

Real world competition is essentially about conduct. It is a process of rivalry by which firms try to win sales by undercutting each other's prices or improving their product range or service delivery relative to rivals (including potential rivals). The relevant market for competition analysis is the field of exchange (or potential exchange) in which the services being considered are substitutable.

### **Competitors providing similar service on the route are limited**

There are limited options to travel to Waiheke Island. The alternative ways to get to Waiheke include a car ferry operated by Sealink to Kennedy Point from Half Moon Bay and, less frequently, from the Wynard Quarter.

Commuters with a downtown destination who live on Waiheke have few realistic options other than Fullers360 service at present. There are no direct competitors on the route who operate an exactly similar service.

Sealink operates a car ferry that takes passengers, cars and freight to Kennedy Point from Half Moon Bay and also connects to downtown Auckland Wynard Quarter three sailings per day. Commuters who are destined for East and South Auckland therefore have passenger and vehicular options on Sealink. Residents who occasionally use the Fullers360 ferry have options on the car ferry and likely choose between the services depending upon on their destination and time considerations.

There are other private options including helicopter and privately owned or chartered vessels including sea taxis. These options are not credible price competitors.

The route has been contested in the past. Explore Group operated a full-service passenger ferry from downtown Auckland to Matiatia from 2014-2016. The boats carried approximately 250 passengers. Explore Group operated four vessels, with slightly shorter operating hours, and a complementary timetable. Sealink operated a passenger ferry briefly in the high season for one year.

### **Competitive rivalry exists on the route despite no exactly similar service operating**

There is competitive rivalry for customers on the downtown Auckland to Matiatia on Waiheke Island passenger route. This rivalry exists in a variable manner across different market segments:

- Commuters who are heaviest users of the service; these commuters mostly travel to Auckland (including for education) and return to Waiheke, though some commute from Auckland to Waiheke for work. These commuters benefit from a service frequency introduced as a competitive response, and from keen pricing which may be a response to the threat of entry, as the loyalty of these customers is important especially in the low season.

- Short-stay visitors, including international tourists and day trippers from the Auckland region, who use the service less frequently and who have other choices in terms of destinations. These passengers often travel during peak periods and pay premium prices. Price discrimination of this nature is an expected outcome of competitive pressure in markets where providers face substantial fixed costs and provide services year-round.
- Residents who travel less regularly, including for important personal and family matters, appear to benefit less from the competitive responses of Fullers360. Older residents benefit from the SuperGold Card subsidy, and a discounted same-day return fare is available for Waiheke residents. An additional service operator, such as the proposed Sea Waiheke, may need to enter the service before this customer segment perceives significant benefit from competitive rivalry.

Consistent with these findings, a report by Deloitte found that there is no evidence of Fullers360 making supernormal profits (Deloitte, September 2023).

Other operators have entered this market previously. Barriers to entry in terms of access to berth facilities appear to have reduced, and a new entrant might reasonably expect to have equal access to government-funded SuperGold Card subsidies. Access to Auckland Transport (AT) subsidies would be a matter for negotiation with AT. There are media reports that at least one other firm (Sea Waiheke) has developed an entry option to the point that it will seek resource consents.

For these reasons, it cannot be concluded that the Fullers360 downtown Auckland to Matiatia services operates in a market where there is little or no competition and little prospect of future competition.

# 1. Background and context

Waiheke is an island near central Auckland; the only access is by sea or air. Fullers360 operates a passenger ferry service between downtown Auckland and Matiatia on Waiheke Island.

There are approximately 9,400 people who live on the island permanently and up to a million visitors per year. The seasonal high in December is approximately 16,000 passengers per day, and there is a low of approximately 4,000 passengers per day in June.

The alternative ways to get to Waiheke include a car ferry operated by SeaLink to Kennedy Point from Half Moon Bay and, less frequently, from the Wynard Quarter. The car ferry also provides passenger fares. There are other private options including helicopter and privately owned or chartered vessels including a sea taxi.

The Fullers360 service is currently an 'Exempt' service under the Land Transport Management Act 2003, which means that the service operates commercially. This is unlike most ferry services in the Auckland region which operate under a contracted service via Auckland Transport (AT) (non-exempt).

This study assesses the level of competition on the downtown Auckland to Matiatia ferry route. The study will be used as an input into Waka Kotahi's consideration, under s150(1)(b) of the Land Transport Management Act 2003, as to whether the service needs its fares regulated.

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## 2. The Fullers360 operation

The Fullers360 ferry service operates a 30-minute service in peak times, year-round, with a slightly less frequent service off-peak every 60 minutes. Generally, there are four vessels in operation at any time, each capable of carrying 400 passengers between downtown Auckland and Matiatia on Waiheke Island.

Prices and options for travel on this service are described in the table below.

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Table 1: Fullers360 price chart

A full list of Fullers360 Waiheke Island fares are below:

Frequent ferry users	Features	Pricing		
<b>Fullers360 Monthly pass</b>	Unlimited travel for one month from first day of use. 15% off food and beverage at onboard cafés. Free bus travel on AT Waiheke Island urban bus services	Pass	Return price calculation	Per trip calculation
Monthly Adult		\$403.00	\$17.52	\$8.76 <sup>^</sup>
Monthly Tertiary	<sup>^</sup> Per trip pricing based on a 46 trip average (21 returns for work/school and 2 weekend returns for leisure)	\$293.00	\$12.74	\$6.37 <sup>^</sup>
Monthly Child		\$177.00	\$7.70	\$3.85 <sup>^</sup>
Infant*		Free	Free	Free
<b>AT HOP Waiheke Monthly pass</b>	Unlimited travel for one month from first day of use on Waiheke ferry services, all buses and trains in the same zone as the start of the ferry trip	Pass	Return price calculation	Per trip calculation
AT HOP Monthly Adult	<sup>^</sup> Per trip pricing based on a 46 trip average (21 returns for work/school and 2 weekend returns for leisure)	\$355.00	\$15.43	\$7.72 <sup>^</sup>
AT HOP Monthly Tertiary and Child pass not offered				
<b>40-trip ticket</b>	Max two passengers per trip. Valid for one year from date of purchase	Pass	Return price calculation	Per trip calculation
40-trip Adult		\$574.50	\$28.73	\$14.36
40-trip Child		\$262.50	\$13.13	\$6.56
Infant*		Free	Free	Free
<b>FlexiPass 10-trip ticket</b>	Max four passenger per trip. Valid for one year from date of purchase	Pass	Return price calculation	Per trip calculation
FlexiPass Adult		\$166.00	\$33.20	\$16.60
FlexiPass Tertiary		\$97.50	\$19.50	\$9.75
FlexiPass Child		\$77.00	\$15.40	\$7.70
Infant*		Free	Free	Free
<b>Off-island return ticket</b>	For residents traveling ex Matiatia and returning same day of purchase. Only valid for travel on day of purchase. Available from Fullers360 Matiatia ticket office and self-service ticket kiosks		Return price calculation	Per trip calculation
Adult return			\$33.50	\$16.75
Child return			\$16.00	\$8.00
Family return**			\$80.00	\$10.00
Infant*			Free	Free
Visitor travel	Features	Pricing		
<b>Off-peak return tickets</b>	Depart Auckland from 1pm (inclusive), Mon - Sun, Depart Waiheke from 7pm (inclusive), Mon - Sun. Start trip from either Auckland or Waiheke. Valid one year from date of purchase		Return ticket	One way ticket
Adult return			\$29.50	N/A
Child return			\$13.00	N/A
Family return**			\$85.00	N/A
Infant*			Free	N/A
<b>On-peak tickets</b>	Valid one year from date of purchase		Return ticket	One way ticket
Online			Online	
Adult			\$55.00	\$16.75
Child			\$26.00	\$13.00
Family return**			\$27.50	N/A
Infant*			Free	Free
Walk up			Walk up	
Adult			\$59.00	\$29.50
Child			\$26.00	\$13.00
Family return**			\$131.00	N/A
Infant*			Free	Free

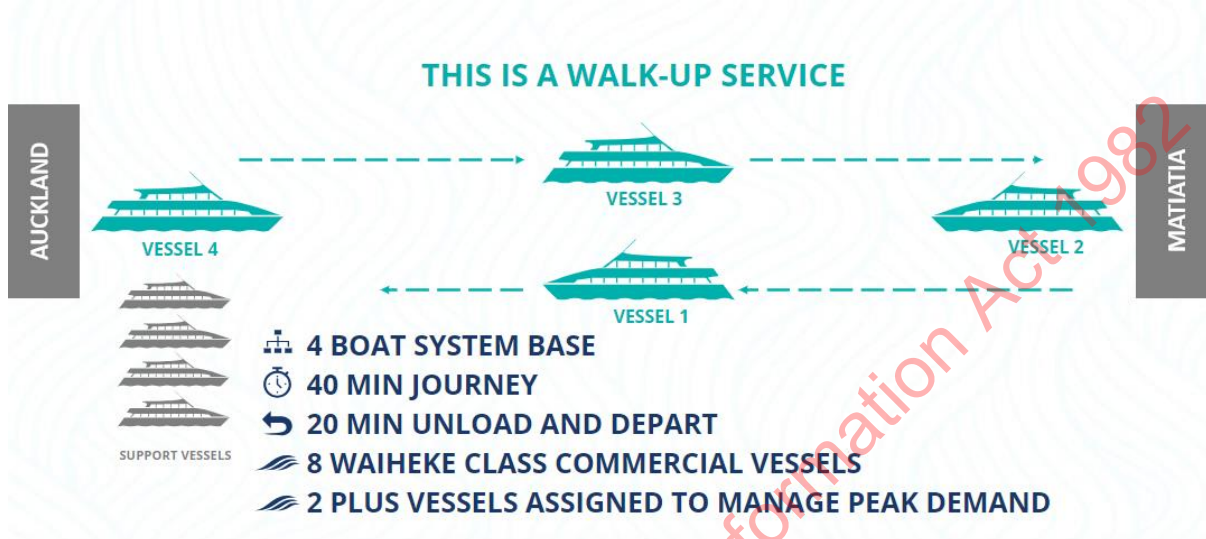
\*\*A family ticket includes two adults and two children. Children must be 5-15 years old

As Table 1 shows, there are significant discounts available for frequent users which include unlimited monthly pass tickets, 40-trip tickets, AT HOP discounts and SuperGold Card free travel. For example, an adult commuter purchasing a monthly pass and traveling each weekday, and a couple of weekend trips, during the month pays an effective price of \$8.76 per trip (or \$7.72 on a AT HOP monthly pass). An adult purchasing a one-way ticket would pay \$29.50.

### Fleet

A four-vessel fleet is targeted to be in operation at any point in time. Support vessels are required to maintain this level of service due primarily to maintenance reasons.

Figure 1: Fullers360 Waiheke Ferry Current Operations



Fullers360 has plans to standardise the fleet around a 400 PAX fleet as per the chart below.

Figure 2: Fullers360 Waiheke Ferry Fleet Plan



### Service performance

Recent service performance issues have arisen due to a range of factors. These include primarily labour shortages for qualified staff. There is disquiet among some business owners and residents in Waiheke regarding performance. There is queuing at terminals, and this has been exacerbated in

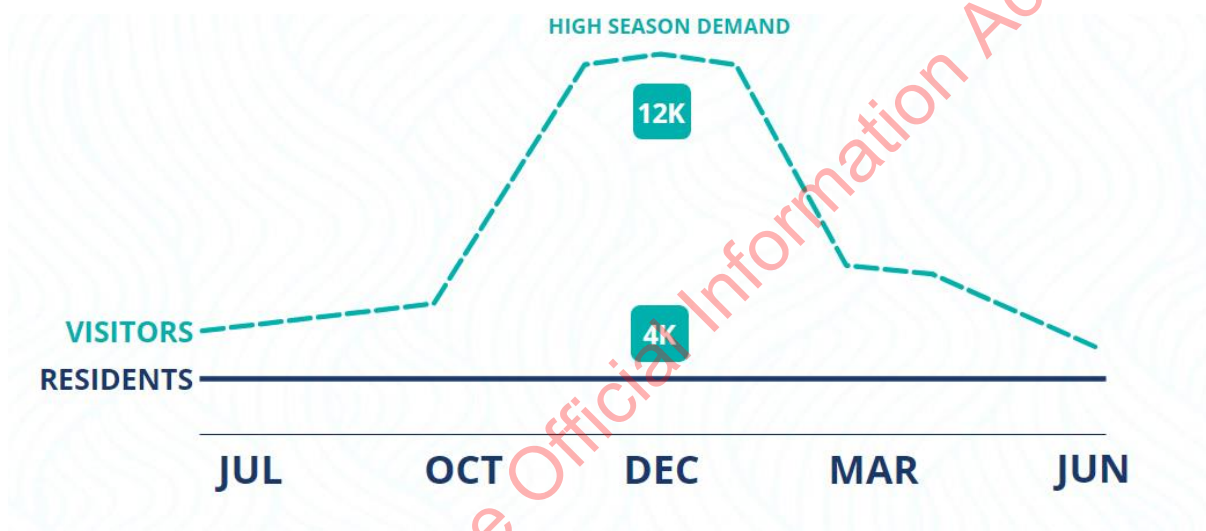
recent times by weather events and by a chronic shortage of qualified mariners. Staffing shortages in particular have led to Fullers360 withdrawing from contracting some other services.<sup>1</sup>

### Short-stay visitors

Visitor and tourist trips are marketed in a variety of ways. These include modest wholesale discounts to tourism operators who wish to sell a package. Fullers360 also offers bundles with public transport options on Waiheke.

In addition, Fullers360 provides support for events on Waiheke such as weddings and wine festivals. The primary value proposition to this group is a destination versus other destinations. Visitors are highly seasonal with high season peaks at three times low season peaks.

Figure 3: Fullers360 Waiheke Ferry Seasonal Demand

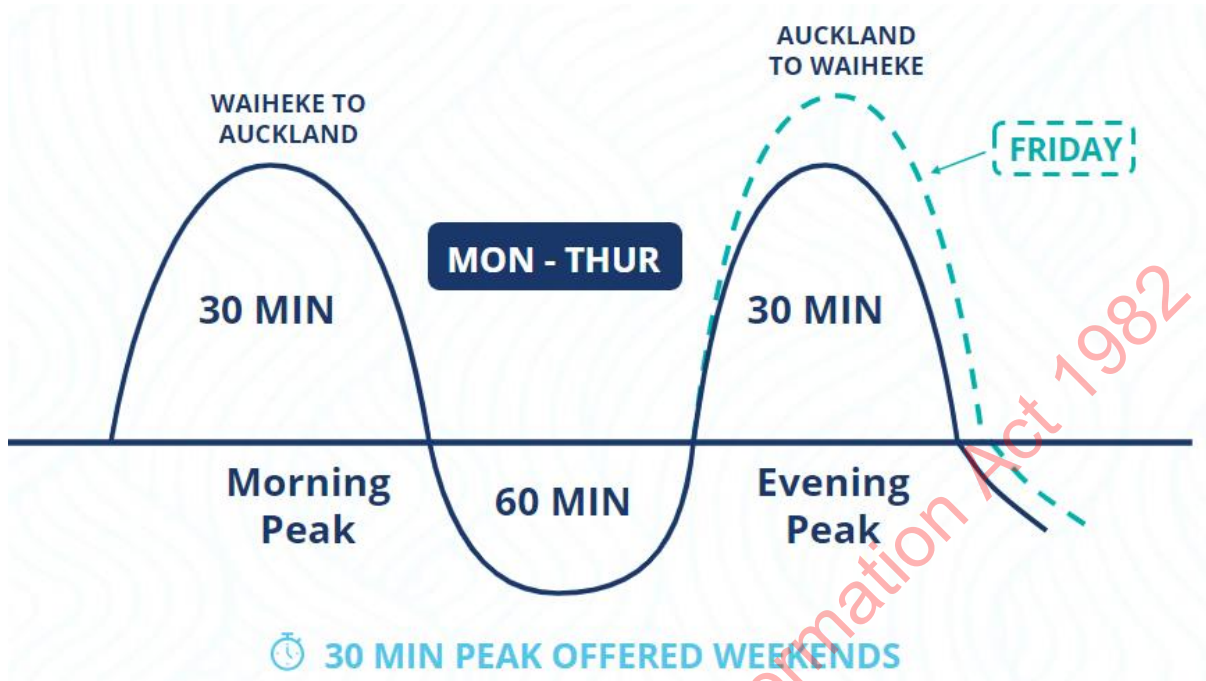


### Commuters and residents

The primary value proposition to commuters and Waiheke Island residents is price, frequency and reliability (and facilities to support customers at terminals). The commuter demand has marked peaks and troughs throughout the day, with service frequency doubling in peak periods in the morning and evening as per the chart below:

<sup>1</sup> <https://www.nzherald.co.nz/nz/auckland-ferries-suspended-birkenhead-te-onewa-northcote-pt-bayswater-to-stop-running/YNWSKOZI3VBILFAYO5CAR4BYK4/>

Figure 4: Fullers360 Waiheke Ferry Peak Commuter Demand and Frequency

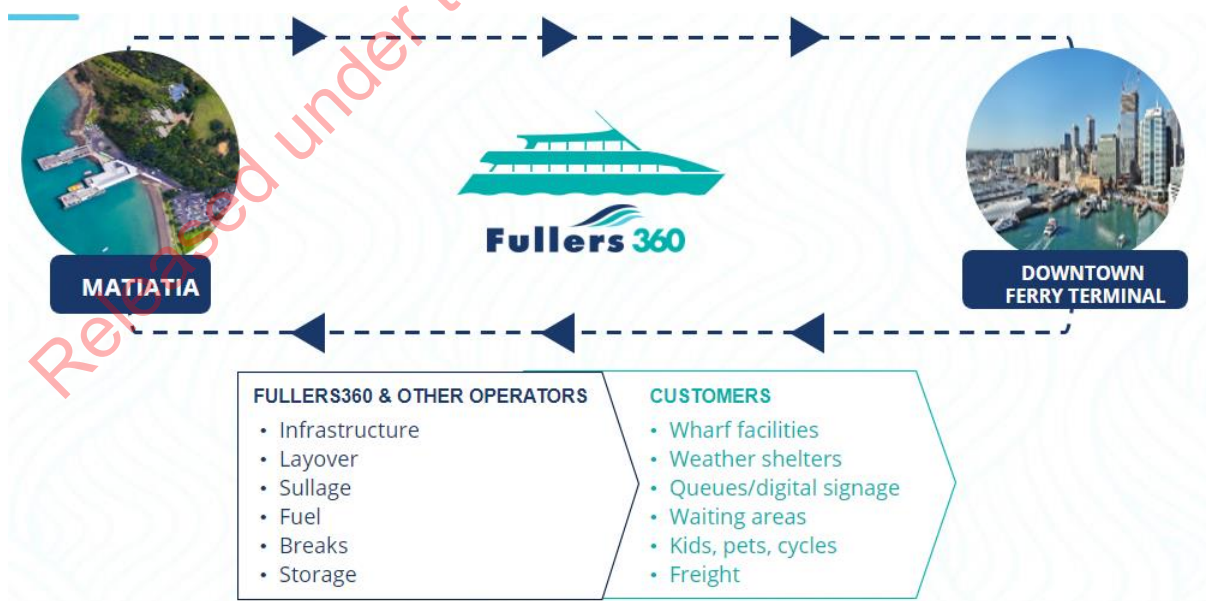


There is a separate queue for residents that operates during peak periods, increasing the effective frequency for this segment.

#### Facilities used by Fullers360 on the route

There are significant facilities and assets used by the ferry service. These include AT assets of berths, wharves, shelters and other assets as described below:

Figure 5: Fullers360 Waiheke Ferry Facilities (including to improve)



## 3. Assessing competition

### 3.1 A process of rivalry

At its most basic, competition is simply a process of rivalry between sellers to win and retain sales, analogous to a sporting competition. It implies independence of action and the absence of collusion or coordination, where the conduct of rivals affects and constrains the conduct of others. No entity in a competitive market can conduct itself without regard to the behaviour of other entities or the choices available to its customers.

In assessing competitive pressure, it is important to distinguish competition from competitors. Effective competition is consistent with the demise of individual competitors. As competitors vie to offer consumers better products at cheaper prices and to adopt the most cost-effective means of delivery, individual firms may adopt different strategies. Some will succeed and others will fail.

The economic theory of *perfect competition* presented in undergraduate economics courses, in which many suppliers compete against each other, is not intended to describe real-world markets. Rather, it establishes the formal conditions for certain theoretical findings. The theory of perfect competition is an equilibrium condition, in which all firms earn a normal rate of return and resources are efficiently allocated, such that there is no incentive for anything to change and hence the process of competition almost ceases to exist (Hayek, 1948). Firms in a perfectly competitive equilibrium do not alter their prices, do not advertise or differentiate their products or attempt to reduce their costs or innovate.

Real-world competition is essentially about conduct, as the analogy with sporting rivalry implies. It is the process by which firms try to undercut each other's prices or improve their product range or service delivery relative to rivals (including potential rivals), hence driving prices to reflect costs and delivering to consumers the services they want by the most efficient and convenient means.

A concept which places more emphasis on the real-world process of competition, through which firms constantly vie to meet (and to create) consumers' needs at efficient costs and prices, is the concept of workable competition. Under workable competition, some (or all) firms may have a degree of market power, but no firm has substantial market power. At any particular point in time, prices may deviate from costs and technologies can deviate from the most efficient ones available. However, in workably competitive markets, firms strive for an advantage against actual and potential rivals, and competitive pressure is sufficient to drive the market towards efficient prices, outputs and costs.

### 3.2 Competition and the need for fare regulation

Competition is generally accepted as the best available mechanism for maximising the benefits from an economic system in most circumstances (Crampton, 2002). Price regulation tends to impede innovation and customer choice as well as imposing costs to establish and administer. For this reason, policymakers tend to substitute price regulation for market prices only in a limited range of circumstances. Notably, under Part 4 of the Commerce Act 1986, the Commerce Commission regulates the price and quality of goods and services only in markets where there is little or no competition and little prospect of future competition.



There are of course reasons why policymakers might choose to regulate prices in the public interest regardless of the potential for competition. However, the focus of this report is on competition. The circumstances in which there is little or no competition and little prospect of future competition typically arise in markets in which the services provided reflect one or more of the following dimensions. The services:

- are characterised as 'public goods': In economics a public good is a service in which it is difficult to establish an efficient pricing mechanism and the cost of extending the service to additional people is small; examples of public goods include defence, flood protection, and parks—these services are most efficiently funded by taxes.
- are supplied at least cost by a single supplier: Suppliers of these services are sometimes referred to as 'natural monopolies'; examples include electricity networks, water pipes, roads, etc.
- are in sectors where alternative suppliers face high barriers to entry: These barriers to entry include high costs to enter which cannot be recovered on exit (if entry to the market does not succeed) and restrictions on access to critical services provided by others, or regulatory constraints on entry.

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## 4. Market definition

The first step in competition analysis is to define the relevant market. A market is the field of exchange (or potential exchange) in which the services being considered are substitutable. It is this possibility of substitution in response to changing prices or output that limits the ability of a firm 'to give less and charge more' (Re Queensland Co-operative Milling Association Ltd; Re Defiance Holding Ltd, 1976).

Markets are defined across product, geographic, customer, functional and temporal dimensions. In defining the relevant market for the Waiheke ferry services supplied by Fullers360, the customer dimension and the geographic dimension are the key dimensions of the market at issue.

### 4.1 Market dimensions

#### Product or service dimension

The service of interest for this study is the transport of passengers to and from Waiheke.<sup>2</sup>

Access to the services is either by 'walk up' and purchase at the time of travel, or by the purchase of monthly passes, or multi-trip tickets, either online or at ticket windows. Tickets are also sold via wholesale resellers. The trip takes around 45 minutes each way depending on sea conditions.

Frequency of sailings is a key aspect of the service. Fullers360 operates a 20-minute schedule during peak commute times in the morning and evening. Frequency may be lower outside these times.

Service performance is a critical element of the service provision. Cancellation of services is highly disruptive, especially for commuters, and queuing has been observed, including waiting for one or more sailings before access is achieved. Fullers360 operates a 'residents only' lane during peak periods to provide a more reliable service for frequent users. Weather causes disruptions that will affect all operators. Crew shortages also impact operations, especially for skilled mariners required for vessel operation.

Ancillary services such as food and beverage are provided on board.

#### Customer dimension

The customer dimension comprises three main segments:

- Commuters who are heaviest users of the service; these commuters mostly travel to Auckland (including for education) and return to Waiheke, though some commute from Auckland to Waiheke for work.
- Residents who travel less regularly, including for important personal and family matters.
- Short-stay visitors, including international tourists and day trippers from the Auckland region who use the service less frequently.

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<sup>2</sup> Fullers360 provides a limited freight service: <https://www.fullers.co.nz/help/freight-service/>

The route is highly seasonal with a peak through the high season, in summer, dominated by short-stay visitors, and a low season through winter dominated by commuters and residents.

### **Geographic dimension**

The geographic dimension considers whether services to locations other than downtown Auckland and Matiatia are sufficiently close substitutes to be in the same market.

For most commuters and residents, the car ferry service provided by SeaLink between Halfmoon Bay in Auckland's east and Kennedy Point on Waiheke Island would not be a close substitute for a passenger service from downtown Auckland to Matiatia, though the SeaLink service from the Wynard Quarter would be somewhat closer.

There is, however, some overlap in this dimension as it is possible to commute on the SeaLink service, either with or without a car using public transport connections. It is also a very realistic option for short-stay visitors, especially if they have the option or need to take a car and those who live in Waiheke but work or attend school in south Auckland for whom the locations are more convenient.

### **Functional dimension**

Few people would take the ferry just for the ferry trip itself. For most people, the service forms a critical element of an origin-destination journey and is utilised in conjunction with other forms of public or private transport.

The ferry service is also sometimes incorporated into another service, for example event packages to Waiheke which incorporate the ferry service within them, sold as a bundled deal.

### **Temporal dimension**

The service operates year-round, seven days a week, with frequent sailings each day. There have been seasonal operators in the past and there may be so again. Currently, however, both the passenger service and car service operate seven days a week all year round. When Explore entered the market, it followed the same pattern of a seven days a week service with multiple sailings each day, distinguishing its entry from seasonal operators.



## 5. Competition on the route

There are limited options to travel to Waiheke Island. Commuters with a downtown destination who live on Waiheke have few realistic options other than Fullers360's service at present. There are no direct competitors on the route who operate a similar service.

SeaLink operates a car ferry that also takes passengers, cars and freight to Kennedy Point from Half Moon Bay and connects to downtown Auckland Wynyard Quarter three sailings per day. Commuters who are destined for East and South Auckland have passenger and vehicular options on SeaLink. Residents who occasionally use the ferry have options on the car ferry and likely choose based on their destination due to time considerations.

The route has been contested in the past. Explore Group operated a full-service passenger ferry from downtown Auckland to Matiatia from 2014-2016. The boats carried up to 250 passengers. Explore Group operated four vessels, with slightly shorter operating hours, and a complementary timetable. SeaLink operated a passenger ferry briefly in the high season.

### 5.1 SeaLink car ferry

SeaLink passengers can take the SeaLink car ferry, with or without their car. The vessels run from Kennedy Point on Waiheke to Half Moon Bay in Eastern Auckland and, less frequently, to the Wynard Quarter in Auckland.

The primary business of SeaLink is carrying the majority of freight and vehicles to and from Waiheke. The passenger service is an ancillary service to this business. The service runs on the hour from 6am to 6pm in the winter season. The service runs more frequently in the high season (summer) with the timetable extending to 5am. Journey times are 45 minutes to one hour depending on weather conditions.

Table 2: SeaLink car ferry passenger service pricing

<b>Fares</b>	<b>One way</b>
Adults	\$23.50
Student	\$19.50
Senior	\$20.00
Child (5-15 years) *	\$13.00
Car + Driver - up to 5.5m +	\$137.50
Bicycle only	Free
Motorbike + Rider	\$71.00
Quadbike + Rider	\$84.00
Gold AT HOP cardholder	Travel free

## **Relative time of travel and connections to different locations on the SeaLink car Ferry**

There are public transport links at both ends for passengers on the car ferry. SeaLink describes the public transport connections at Half Moon Bay as follows:

“The best way to get from Half Moon Bay to Auckland without a car is to take line 76 bus which takes 30 min and costs \$4 - \$5. How long does it take to get from Half Moon Bay to Auckland? The line 76 bus from Taniwha Street/West Tamaki Road to Fort Street takes 30 min including transfers and departs every 20 minutes.

Downtown commuters who live on Waiheke are therefore somewhat inconvenienced in this option as it takes a significantly longer (at least one hour return – more than doubling journey time) amount of time to connect via Half Moon Bay with downtown work locations relative to the Fullers360 service which terminates directly in downtown.

However, commuters who work in South or East Auckland, or those commuting to Waiheke for work, are likely to consider this option. Commuters who require a car at either end are limited to this option.

Day trippers and short-term visitors from Auckland may take (or prefer) their car and are a direct competitive option for Fullers360 passengers coupled with bus options on Waiheke.

International visitors without a car are not likely to take the car ferry over a downtown passenger service. International visitors with a rental car will compete as per local visitors above.

## **5.2 Other competitors**

There are some other options to travel to Waiheke. There are sea taxi operators who are available and take occasional passengers. This option is not price-competitive at several hundred dollars per trip and only a handful of passengers at a time. It is not a credible competitor (estimate @500\$ / trip). There are also helicopter options, but these are also not credible price competitors.

Private boats are also used and limited to those who have one. Some will use this option although it is unlikely to be price competitive once fuel and total ownership cost is considered.

## **5.3 Barriers to entry**

### **Access to facilities**

The primary reason for withdrawal by Explore has been cited as an inequitable access to facilities in downtown Auckland at that time. A commuter service requires full-service terminal facilities during winter. The location of the Explore Group pier reduced relative visibility for passengers. Ticketing facilities were considered inferior and all-weather terminal facilities were cited as critical for commuters in winter.

Successful entry on the route would likely require access to facilities of comparable visibility and quality to those available to Fullers360 given this history and experience. This is now possible to a higher degree than when Explore competed on the route with the development of downtown berthing and ticketing facilities since 2016. Facilities at Matiatia have improved since 2016 also but have not been cited as a relative limitation.

### **Connections with public transport**

Connecting public transport options on Waiheke in particular are important to operators – these can be slow to respond to changing timetables and entry. These services are contracted by AT. Explore Group reported that while slow to change, the public transport timetables did in fact change over time to connect more seamlessly with its ferry operations.

### **Capital barriers to entry**

The capital barriers to entry are relatively high. Four vessels, for example, would require in the order of \$80m. It is unlikely an operator that was not already in the market or a closely related market would easily achieve or consider this. A low-cost operator seeking to provide a frequent schedule may still require \$20-40m in capital alone. Obtaining vessels has been cited as more difficult than disposing of vessels. Sunk investments that are not easily disposed of can also be a barrier to entry. This has not been cited as a reason in this situation for additional barriers to entry; we were advised that good ferry boats are easy to sell in today's market.

### **Access to subsidies and programmes**

Entry would also require access to the pricing landscape that Fullers360 receives including AT, SuperGold Card and other opportunities. Explore Group reported early difficulties in accessing the same public transport subsidies as Fullers360 benefits from, particularly SuperGold Card subsidies. We understand that a new entrant might reasonably expect to have equal access to government-funded SuperGold Card subsidies. Access to AT subsidies would be a matter for negotiation with AT.

### **Regulatory barriers to entry**

We are not aware of any specific regulatory barriers to entry except for the requirements to operate safe vessels and qualified staff, as with all routes and operators.

### **Possibility of future direct competition**

Other operators have considered this route in the past and may consider the route in the future. Other terminals could potentially be used also. Sea Waiheke is reported in the media as working to set up another service out of Kennedy Point, starting with a new electric ferry which could hold 35 vehicles and up to 150 passengers.<sup>3</sup> The ferry, equipped with e-bike chargers, would travel between a purpose-built pontoon at Ōrākei Landing and Kennedy Point.

Future growth may increase the likelihood of entry. Fullers360 frequently operates at capacity and may not easily be able to expand the fleet or the staff required to operate it.

It is possible that future operators may seek to cherry-pick high season volumes. It is not obvious that Fullers360 would be concerned about this as the experience may even be enhanced if queues were smoothed.

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<sup>3</sup> <https://www.waihekegulfnews.co.nz/new-electric-ferry-service-closer-to-launch/>; <https://evsandbeyond.co.nz/new-e-ferry-service-suggested/#:~:text=A%20new%20electric%20ferry%20service,and%20e%2Dbike%20charging%20facilities> . See also the presentation attached to the minutes of the Ōrākei Local Board meeting, 16 February 2023.

Capital efficiency is likely to dominate considerations by operators. This was the case when SeaLink used a vessel on the route during high season. If a vessel is available to an operator, it could easily be deployed as part of an overall fleet plan. Therefore, unless the high season were complementary to other operations for the vessel, this might be limited.

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## 6. Competitive rivalry

There is competitive rivalry on the route. This rivalry exists in a variable manner across different market segments:

- There is direct rivalry for short-term visitors between the SeaLink car ferry and Fullers360 passenger services.
- Aggressive pricing for frequent users on Fullers360 is not matched by SeaLink car ferry and suggests the threat of entry is a factor in this pricing behaviour.
- There is rivalry for Waiheke as a destination relative to other rival destinations.

### 6.1 Day-trippers and short-term visitors to Waiheke

There is a high degree of rivalry directly between the SeaLink car ferry and Fullers360 for day-trippers, and short-term travellers from local origins. This rivalry is seen in terms of price, and promotions targeting these users.

#### Sample price comparison between SeaLink car ferry and Fullers360

A direct comparison of fares is complicated by a range of options from both operators. The most direct comparison is for a visitor return fare – noting that there are different conditions associated with the need to book in advance, the length of validity of the ticket, the sales process and different seasonality conditions.

Table 3: Sample comparison of head-to-head fares on Fullers360 and SeaLink car ferry

Fares~	One way – SeaLink passenger	Fullers360 peak return	Fullers360 off-peak return	Fullers360 per return trip for monthly pass holder (46 trips)	Fullers360 monthly pass per trip with AT HOP discount (46 trips)
Adults	\$23.50 (\$47 rt)	\$55.00	\$29.50	\$17.52	\$15.43
Student	\$19.50 (\$39 rt)	n/a	n/a	\$12.74	n/a
Child	\$13.00 (\$26 rt)	\$26.00	\$26.00	\$7.70	n/a

Prices appear broadly comparable for similar services. The effective price for frequent users is significantly lower than all other options on Fullers360, if the passenger makes the estimated 46 trips per month. Other frequent user options range up from there including the AT HOP pass, 40-trip tickets and so forth on Fullers360 services. The lower prices for the 'captured' commuter customers is indicative of competitive pressure, rather than pricing to extract monopoly prices as discussed below.

The headline return only price from SeaLink is slightly lower than Fullers360 at \$47 compared to \$55 at peak times. Fullers360 is lower at off peak times, which may reflect different booking processes, a higher commuter peak from downtown, or other factors. These headline return fares appear targeted toward the short-stay visitors who have other choices in terms of destinations.

A consistent message from the operators we spoke to—Fullers360, SeaLink and Explore—is that the additional income earned during the peak periods, including from premium pricing, is necessary to sustain operations during the low season. Price discrimination of this nature is an expected outcome of competitive pressure in markets where providers face substantial fixed costs. Baumol (2005) argues that if the constraint on profit imposed by (potential) entry is potent, the only way for firms with large fixed and continuing sunk costs to survive will be to engage in price discrimination of the most sophisticated variety that is workable. Firms that are more efficient in finding and carrying out better pricing strategies will survive against less creative firms.

### **Waiheke as a competitive destination**

Packages to Waiheke for both international visitors and local tourists rival other packages and destinations. This would include options such as cruise ship activity lists, wedding facility markets, restaurant destinations, events and festivals on Waiheke.

Fullers360 promotes Waiheke as a destination (as does SeaLink). In the past they have been a major sponsor of these events.

The package and event sales processes involve rivalry between Waiheke as a destination, even on Fullers360's own website, which markets a range of destinations in the harbour.

Wholesale discounts and reseller behaviours include a 10 to 25 per cent discount to package resellers. The ferry service is a key input into packages sold by tourism operators and restaurants and wineries. The price on the ferry for these customers significantly exceeds the effective price for frequent travellers.

### **There are considerable promotional activities from both operators**

Promotions for this segment are conducted online and through agents. There are significant seasonal variations and various events are also promoted. A sample of promotions from a range promoted by the companies includes a current promotion offering the following deal on the SeaLink car ferry, for example:

"Waiheke Winter Combo Deal: 15% off when you select Car + Driver fare + \$5.00 coffee and bakery add on (so not just the apple slice but you can order any 1 bakery good from the shelf)."

A comparative deal on the Fullers360 service states the following:

"Travel off peak and save: Head to Waiheke Island for only \$29.50 return when you travel off peak, available seven days a week. Tickets can be purchased either online or at the Fullers360 ticket offices. Travel from downtown Auckland to Waiheke Island from 1pm onwards, and return from Waiheke Island to downtown Auckland from 7pm onwards."

These promotions are subject to change, seasonality and so on. Both operators appear to target this segment and offer discounts and other benefits to attract the passengers.

## 6.2 Commuters

For commuters the rivalry is seen in a minor way in direct competition with SeaLink, as the option for commuters on SeaLink is a lesser offer (in terms of time and price) unless the destination is in the east or south of Auckland. Frequent users pay the lowest rates for travel to Waiheke despite often using the service at peak operating times (see above). There are two reasons that could cause this in some degree:

- The threat of entry may constrain pricing behaviour for the most frequent users – loyalty of these customers is important, especially in low season.
- It is being done for reasons other than profit maximisation (political economy factors).

Competitive entry onto the downtown route of Fullers360 would likely target commuters and frequent travellers, especially during the low season when commuters and frequent travellers make up a significant proportion of all trips. Explore Group upon entry devised a pricing system that enabled 'carry-over' of trips beyond a month in a direct competition with the Fullers360 monthly pass option. While Explore's service was ultimately unsuccessful, there was not a suggestion it was due to price strategies such as this, rather due to a mismatch in facilities and other factors.

It is possible that other factors (including marketing) is also a factor for relatively aggressive pricing for frequent users. SeaLink also offers resident pricing options.

### **Competitive response to Explore Group entry**

When Explore Group entered the market, Fullers360 amended its timetable to increase frequency in response to competitive entry. The increase in frequency has largely been retained, suggesting passengers continue to benefit from the competitive response by Fullers360.

The Explore offer suffered in winter season, failing to attract frequent users as a result of the lack of all-weather facilities, location and sales capabilities at the downtown pier. Explore Group is primarily a tourism operator with tourist operations in Australasia.

## 6.3 Residents who travel infrequently

Waiheke residents who occasionally need or wish to travel to downtown Auckland appear to benefit least from the competitive responses of Fullers360. As infrequent travellers, these customers would not benefit from the monthly pass discounts. The frequency of service during peak periods may be less of a concern for them, depending on the flexibility associated with the reason for their trip. They would benefit from the 'residents' lane, though it is not obvious that this initiative is a 'competitive' response rather than a response to other community pressure on Fullers360. Older residents benefit from the SuperGold Card subsidy, and a discounted same-day return fare is available for Waiheke residents.

An additional service operator, such as the proposed Sea Waiheke, may need to enter the service before this customer segment perceives any benefit from competitive rivalry.

## 6.4 No evidence of supernormal profits

A firm facing little or no competitive pressure could be expected to earn supernormal profits. Deloitte assessed the revenue Fullers360 would have been permitted to earn had its revenue been regulated by the Commerce Commission under Part 4 of the Commerce Act 1986 (Deloitte, September 2023). Deloitte concluded that current and previous fares charged by Fullers360 do not generate what could be classified as super profits. This finding is consistent with our assessment that there is competitive rivalry varying across different market segments on the route.

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## 7. Conclusion

Real-world competition is essentially about conduct, as the analogy with sporting rivalry implies. It is the process by which firms try to undercut each other's prices or improve their product range or service delivery relative to rivals (including potential rivals). The relevant market is the field of exchange (or potential exchange) in which the services being considered are substitutable.

Competition for customers on the downtown Auckland to Matiatia on Waiheke Island passenger route appears to occur across three main customer segments.

- Commuters who are heaviest users of the service; these commuters mostly travel to Auckland (including for education) and return to Waiheke, though some commute from Auckland to Waiheke for work. These commuters benefit from a service frequency introduced as a competitive response, and from keen pricing which may be a response to the threat of entry, as the loyalty of these customers is important especially in the low season.
- Short-stay visitors, including international tourists and day trippers from the Auckland region, who use the service less frequently and who have other choices in terms of destinations. These passengers often travel during peak periods and pay premium prices. Price discrimination of this nature is an expected outcome of competitive pressure in markets where providers face substantial fixed costs and provide services year-round.
- Residents who travel less regularly, including for important personal and family matters, appear to benefit less from the competitive responses of Fullers360. Older residents benefit from the SuperGold Card subsidy, and a discounted same-day return fare is available for Waiheke residents. An additional service operator, such as the proposed Sea Waiheke, may need to enter the service before this customer segment perceives any benefit from competitive rivalry.

Consistent with these findings, a report by Deloitte found that there is no evidence of Fullers360 making supernormal profits (Deloitte, September 2023).

Other operators have entered this market previously. Barriers to entry in terms of access to berth facilities appear to have since reduced, and a new entrant might reasonably expect to have equal access to government-funded SuperGold Card subsidies. Access to AT subsidies would be a matter for negotiation with AT. There are media reports that at least one other firm (Sea Waiheke) has developed an entry option to the point that it will seek resource consents.

For these reasons, it cannot be concluded that the Fullers360 downtown Auckland to Matiatia services operates in a market where there is little or no competition and little prospect of future competition.

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