

OPAANZ-C

28 July 2006

Air New Zealand Limited
Qantas Airways Limited
c/o Bell Gully
PO Box 4199
Auckland

Attention: Phil Taylor

Dear Mr Taylor

AIR NEW ZEALAND AND QANTAS: FURTHER INFORMATION SOUGHT FROM THE APPLICANTS

I refer to the April 2006 application from Air New Zealand and Qantas to the Minister of Transport made pursuant to Part 9 of the Civil Aviation Act 1990. In order to further progress this application we now seek the following information on the issues outlined below. Replies should include information with respect to Freedom and Jetstar.

Traffic Data

Note that the Ministry of Transport has detailed traffic-flow information based on entry/departure card for passengers crossing the New Zealand border. We also have access to the relevant DoTaRS data made available through its web site.

1. Please provide data (in an Excel spreadsheet) for each of the 12 month periods ending 31 March 2003-06 for transit passengers, who do not pass through immigration at the Australasian port of disembarkation, carried by the applicants on each of their trans-Tasman city-pair routes in a form that allows reconciliation between total trans-Tasman carriage and New Zealand and Australian entry/departure data.
2. Please provide data (in an Excel spreadsheet) for the period 1 April 2002 to 31 March 2006 for each applicant's seat capacity, revenue passengers and load factors on a month-by-month basis on each route of their trans-Tasman services¹.
3. Please provide information on annual average load factors comparing Tasman routes with other international routes operated by the applicants.

¹ Figures 1 and 2 of the application refer.
www.transport.govt.nz

4. Please provide further information on recent trends in trans-Tasman cargo capacity and carriage².

Financial Data

5. Please provide further information (in an Excel spreadsheet) on a route-by-route basis for all routes that would be covered by the TNA using industry-standard measures for costs, revenue (yield) and profitability over each of the 12 month periods ending 31 March 2003-06, explaining briefly the basis of the management accounting used to derive the results.

6. Please provide cost data using industry-standard measures (e.g., cents per ASK) for each of the aircraft types that the applicants could use on Tasman operations.

7. For Air New Zealand only, please provide data on the impact of the proposed schedule on aircraft utilisation rates.

8. For Air New Zealand only, for the same time periods as requested in 5 above please provide information on route profitability by geographical area that would allow a comparison to be made between Tasman operations and other areas of the company's operations.

9. For Air New Zealand only, please provide more comprehensive financial estimates of the overall impact of an approval on the company's financial position compared with the status-quo and counterfactual.

Note that we are not seeking information concerning the implications for dividend payments to the Crown.

10. Please expand on what the applicants consider an "appropriate return on capital" would be given airline industry norms and to what extent approval of the application is likely to assist in meeting this objective³.

Consumer Market Research

11. Please provide information on any relevant consumer market research as to the relative value different groups of consumers (business, leisure, shippers etc) place on scheduling, low-fare/rate levels, tariff-condition flexibility and frequent flyer programmes in making their travel/shipping decisions⁴.

Note that we are particularly interested in indications of consumer demand for the kind of schedule changes proposed (i.e., less "wing tip" flying).

12. With respect to the applicants' frequent flier programmes, please provide any information on what proportion of trans-Tasman passengers are members of a) the Air New Zealand scheme b) the Qantas scheme and c) both⁵.

² Section 8 of the application refers.

³ Paragraph 4.9 of the application refers.

⁴ Section 7(b) of the application refers.

⁵ Section 7(e) of the application refers.

S.88(4) Criteria⁶

13. In the absence of any indication in the application as to the level of proposed tariffs for trans-Tasman carriage, please expand on your statement with respect to s.88(4)(c)⁷.

Note that we are giving consideration as to whether we are in a position to be able to advise the Minister on whether this requirement is met.

14. Given the wording of the TNA, please explain in practical terms how it does not prevent any party from seeking approval for other tariffs⁸.

15. Please clarify the meaning you attribute to the expression "international comity" and what your legal basis for that meaning is⁹.

Counterfactual

16. For Air New Zealand and Qantas separately, please provide more information about what you consider the implications (capacity, tariffs, network, financial, aeropolitical and wider economic) for each of you of the application not being approved would be.

Contestability of the trans-Tasman Air Transport Market¹⁰

17. Please provide more information on any likely slot, runway length or terminal space constraints on entry or increased services by third-party airlines.

18. For Qantas only, please provide a list of the countries that have exchanged trans-Tasman fifth freedom rights with Australia, together with any related capacity or route limitations) and a list of those countries with airlines that serve Australia that do not have access to trans-Tasman fifth freedom rights¹¹.

19. Please supply supporting international comparative evidence for the statement that "The Tasman is one of the most competitive aviation operating environments."¹²

20. Please expand on your comments concerning the competitive strength of Pacific Blue in light of its substantial reduction in Wellington services¹³.

21. Please provide any relevant market research concerning the impact of pricing on the substitutability of trans-Tasman destinations for leisure travellers.

22. Please comment on the current pricing behaviour of Emirates now that it has achieved higher load factors and enhanced brand awareness¹⁴.

⁶ Section 9 of the application refers.

⁷ Page 56 of the application refers.

⁸ Section 88(4)(e) of the Civil Aviation Act 1990 refers.

⁹ Section 10 of the application refers.

¹⁰ Section 6(a) of the application refers.

¹¹ Paragraph 1.10 of the application refers.

¹² Paragraph 4.1 of the application refers.

¹³ Section 5(c) of the application refers.

¹⁴ Paragraph 4.20 of the application refers.

23. Please provide information on the interline (IATA or other) fares/prorate arrangements that would be available to passengers and third-party airlines for trans-Tasman carriage on the services of the applicants.
24. Please provide a comparison between the interline fare levels and the other fare levels (tariffs) available on the applicants' trans-Tasman services¹⁵.
25. Please provide an outline of all prorate agreements that allow for carriage on third-party airlines to be combined with trans-Tasman carriage by the applicants.

26.

S. 9(2)(j)

Public Interest Considerations

27. Please provide a detailed route-by-route comparison of the net capacity (seat and frequency) impacts comparing the indicative schedule with the last comparable season of trans-Tasman operations by the applicants.
28. Please elaborate on the likelihood of any new trans-Tasman routes (including to additional New Zealand airports) being offered were the application to be approved¹⁷.
29. Please provide an analysis of the impact of the indicative schedules¹⁸ on individual New Zealand airport revenues (notably on landing charges and passenger throughput).
30. Please provide any observations you wish to make on whether by spreading scheduled flight times there would be a reduction of the need for capital expenditure to cater for schedule peaks at any particular New Zealand airports.
31. Please provide additional commentary on your assessment of the likely implications of an approval for your other New Zealand suppliers (including travel agents), shippers of air cargo and the New Zealand tourism industry.
32. Please provide further explanation as to why Jetstar and Freedom would be included in the revenue-sharing arrangements from the outset but not the code sharing.
33. Please provide a fuller explanation as to why joint tariff setting and revenue sharing need to be part of the TNA, as opposed to arrangements that only cover code-sharing?¹⁹

¹⁵ Section 7(d) of the application refers.

¹⁶ Section 5(b) of the application refers.

¹⁷ Section 7(h) of the application refers.

¹⁸ Schedule 11 of the TNA refers.

¹⁹ Paragraph 4.15 of the application refers.

*Commission Regime*²⁰

34. Please explain what you envisage would be the relationship of the Commission regime that you seek to the current Commission regimes dated 8 September 1983.

Note our preliminary interpretation of the current Commission regime is that it already provides for the payment of commission on the Qantas basis. To quote 4(1) of the passenger regime, "... travel on the **services** of a principal ..." We interpret this as including code-share services.

35. Please advise details of any discussions that you have held with TAANZ about the proposed new Commission regime.

36. If you still maintain that a new Commission regime is required, please advise in further detail what you consider would be its content.

In the interests of facilitating consideration of your application, we would appreciate if answers were fed through to the Ministry in tranches as they are finalised with the aim of providing all information by mid August 2006. We would also appreciate being provided with a full set of the questions asked by the ACCC on 22 May 2006 and answers provided by the applicants to the ACCC. We appreciate that there is significant overlap with the information requested above and you may wish to cross refer.

We are likely to have further questions for the applicants as we consider the relevant views expressed by third parties and as our analysis progresses. We may seek a meeting to progress this.

We wish to post this information request on our website. Our assessment is that nothing in this letter is withholdable under the Official Information Act but would like your comments on this proposal, before the close of business on Wednesday, 2 August 2006.

We appreciate however that some of the replies may be commercially confidential and that in some cases separate replies from each applicant would be appropriate. In replying please note any information that you consider should be kept confidential and the Official Information Act grounds for doing so.

Please contact me by email at j.macilree@transport.govt.nz (copied to s.vandeger@transport.govt.nz) if you require any clarification of the above.

Yours sincerely



John Macilree
Principal Adviser, Air Services Team

²⁰ Section 11 of the application refers.