

**Application to the Minister of Transport pursuant to Part 9 of
the Civil Aviation Act 1990 for authorisation of the
Air New Zealand and Singapore Airlines Strategic Alliance**

Confidential Information

Air New Zealand Limited (“**Air New Zealand**”) and Singapore Airlines Limited (“**Singapore Airlines**”) (together, the **Applicants**) claim confidentiality for this Application pursuant to section 9(2)(b) of the Official Information Act 1982.

A Public Version will be provided separately, and information redacted in the Public Version in this Confidential Version is enclosed in square brackets and highlighted yellow (being information which is confidential to the Applicants) or red (being information which is confidential to Air New Zealand) (the **Confidential Information**).

The Confidential Information is commercially sensitive and valuable information which is confidential to the Applicants (*vis-a-vis* the public and also in some respects *vis-a-vis* each other), and disclosure would be likely to unreasonably prejudice the commercial position of one, or both, of the Applicants.

The Applicants request they be notified of any request made under the Official Information Act for release of the Confidential Information, and that the Minister of Transport (the **Minister**) seeks their views as to whether the Confidential Information remains confidential and commercially sensitive at the time responses to such requests are being considered.

This request for confidentiality is not intended to constrain the Minister and the Ministry of Transport (the **MOT**) from disclosing information to other Government departments for the purpose of seeking relevant expert advice. However, the Applicants request that the Minister ensure any such departments maintain the same full confidentiality as requested above.

1. EXECUTIVE SUMMARY

The Alliance

- 1.1 Air New Zealand and Singapore Airlines (both Star Alliance members) entered into a Strategic Alliance Agreement on 16 January 2014 (**SAA**) which will see:
- (a) Air New Zealand re-commence services between Auckland and Singapore;
 - (b) Singapore Airlines introduce an A380 aircraft between Auckland and Singapore;
 - (c) sustainable capacity growth between New Zealand and Singapore; and
 - (d) Air New Zealand being able to offer customers codeshare access on the Singapore Airlines/SilkAir network to and from over 50 destinations in South East Asia, Europe/UK, South Africa and (subject to ASA renegotiations) India.
- 1.2 The Alliance provides Air New Zealand with the opportunity for efficient, sustainable growth of its Pacific Rim network. For Singapore Airlines, the Alliance will increase the volume of customers travelling through their Singapore hub, and connecting with their substantial network. The Alliance will also put Air New Zealand and Singapore Airlines in a stronger position to compete with the new Qantas/Emirates alliance.
- 1.3 The Alliance is conditional on approval from the Minister and the Competition Commission of Singapore. The Applicants are seeking authorisation from the Minister under section 88 of the Civil Aviation Act 1990 (the **Act**) to make and to give effect to the SAA, and proposed related agreements which are contemplated by the SAA.

Scope of cooperation

- 1.4 The SAA provides for varying levels of coordination between the parties in relation to "Alliance Sectors" and "Alliance Routes".
- 1.5 On Alliance Sectors, being sectors direct between New Zealand and Singapore, cooperation will include revenue sharing, codeshare, capacity and pricing co-ordination. Coordination on "Alliance Routes", which comprise an Alliance Sector as part of a connecting journey, will differ depending on the jurisdiction to which the route originates/concludes. On some Alliance Routes (including to India, Indonesia, Malysia, Thailand, Vietnam, Philippines, South Africa, UK and Europe), the parties will codeshare and price coordinate. On others, cooperation will extend to codeshare only.

Public benefits

- 1.6 The Alliance will deliver a range of public benefits:
- (a) capacity growth, leading to stimulation of both inbound and outbound traffic and greater availability of low fares;
 - (b) expansion of Air New Zealand's network with Auckland – Singapore services, amongst other codeshare and connectivity benefits, including:
 - (i) increased connectivity for Air New Zealand customers to and from over 50 destinations on the Singapore Airlines/SilkAir network, including South East Asia, Europe/UK and South Africa, with the potential for 8 additional destinations in India (subject to ASA renegotiations);
 - (ii) Singapore Airlines customers will get expanded codeshare access to the Air New Zealand network, including domestic New Zealand and Pacific Island destinations; and

- (iii) Air New Zealand will be able to offer a codeshare routing via Asia to and from UK/Europe as an alternative to travelling via Los Angeles;
- (c) frequent flyer and loyalty benefits:
 - (i) increased opportunities to receive FFP and loyalty benefits for each of Air New Zealand and Singapore Airlines' FFP members;
 - (ii) access to premium customer handling, lounge and FFP benefits on all Air New Zealand and Singapore Airlines services between New Zealand and Singapore in a "metal neutral" way, which will see enhanced Airports earning to that which exists today under Star Alliance arrangements; and
 - (iii) Airports earning and loyalty benefits on the SilkAir network;
- (d) stimulation of tourism to New Zealand, due to both the expansion of the Air New Zealand network and the incentive of each Applicant to fill the new capacity on the Alliance Sectors; and
- (e) promotion of competition between the Applicants and other carriers on routes from New Zealand to Asia/Europe, and in particular the newly formed Qantas/Emirates alliance.

No consumer detriment

- 1.7 The networks of Air New Zealand and Singapore Airlines are largely complementary. Air New Zealand has not operated on Auckland – Singapore since 2006, and has no intention to do so in the future absent an alliance with Singapore Airlines.
- 1.8 The one area of direct overlap – between Auckland and London – has no fewer than five other airlines competing against the proposed Alliance with one stop services, and the Qantas/Emirates alliance provides a large variety of two stop services with a total travel time that is not significantly different to the service that would be operated by the Alliance. Qantas/Emirates are also the largest carrier on the route, greater than the combined capacity share of Air New Zealand and Singapore Airlines.
- 1.9 In addition to the lack of any material overlap between the Applicants' services, there are no legal reasons, under sections 88(3) and (4) of the Act, for the Minister to decline the authorisation of the Alliance.

2. THE ALLIANCE

The parties

- 2.1 The parties to the Alliance are Air New Zealand and Singapore Airlines Limited.

Air New Zealand

- 2.2 As the MOT will be aware, Air New Zealand is New Zealand's national flag carrier, and offers air services in New Zealand and internationally. In the past 12 months Air New Zealand has carried over 13 million sector passengers on a network of 54 domestic and 34 international routes, and has on average 530 departures per day across the network.

- 2.3 The New Zealand Government owns approximately 53% of Air New Zealand¹, with the remainder owned by private investors. Air New Zealand is listed on the New Zealand and Australian stock exchanges.
- 2.4 Air New Zealand is a member of the Star Alliance.

Singapore Airlines

- 2.5 Singapore Airlines is a Singapore based airline offering scheduled passenger services to more than 62 destinations in Asia, North America, Australia, Europe and Africa using a fleet of 100 wide body aircraft (as at 1 January 2014). Singapore Airlines is also a member of the Star Alliance.
- 2.6 Singapore Airlines is a public company listed on the Singapore stock exchange. Singapore Airlines has a 19.8% stake in Virgin Australia and is the number one operator at Singapore Changi Airport.
- 2.7 Singapore Airlines' wholly-owned subsidiary, SilkAir, offers economy and business class to 45 destinations within the Asia-Pacific region, with a fleet of 24 narrow body aircraft on short haul services within Asia (as at 1 January 2014). SilkAir is not part of the Star Alliance.

Existing arrangements between Air New Zealand and Singapore Airlines

Star Alliance

- 2.8 Star Alliance is the leading global airline network. It was established in 1997, and currently has 28 members. Star Alliance provides customers of its member airlines with access to a worldwide route network, and allows frequent flyers of any member airline to earn and use frequent flyer points and access benefits across the range of Star Alliance partners.

One-way codeshare agreement

- 2.9 Air New Zealand and Singapore Airlines are parties to a codeshare agreement dated 1 August 2008 under which Singapore Airlines has its code on 9 domestic sectors and 9 Trans-Tasman sectors operated by Air New Zealand.
- 2.10 Air New Zealand does not currently and would not in future codeshare on Singapore Airlines' network absent a revenue share alliance. Because any codeshare would not link into Air New Zealand's existing international services, there would be no commercial incentive for Air New Zealand's to encourage its passengers to fly over Singapore and divert traffic from its existing codeshare or interline arrangements, almost all of which link into an international route operated by Air New Zealand. With the Proposed Strategic Alliance, the commercial interests of Air New Zealand would be aligned to encourage Air New Zealand's passengers to fly through Singapore.

Previous cooperation between Singapore Airlines and Air New Zealand

- 2.11 Singapore Airlines and Air New Zealand have previously cooperated on the sectors operating directly between Singapore and New Zealand. In November 1997, Air New Zealand and Singapore Airlines entered into a "seat swap" arrangement, whereby each airline marketed an identical number of seats on each other's metal. There was no sharing of revenue or costs, but limited codeshare on beyond/behind routes, frequent flyer programme reciprocity and joint pricing. The seat swap arrangement was terminated in 2002, although a codeshare arrangement, as outlined above, remained in place. Amongst other reasons, the arrangement to the difference in services provided

¹ Just under 2% is also held by the New Zealand Superannuation fund. See <https://nzx.com/companies/AIR/announcements/244244>.

by each airline, with Air New Zealand operating Boeing 767-300 aircraft and Singapore Airlines operating Boeing 747-400 and 777-200 aircraft.

Authorisation sought

- 2.12 The Applicants seek authorisation under section 88(2) of the Civil Aviation Act 1990 (“**Act**”) to make and give effect to the Strategic Alliance Agreement dated 16 January 2014 (“**SAA**”) and a number of “**Implementing Agreements**”. As set out in further detail in section 5, the Alliance does not breach any of the provisions in section 88 of the Act which limit the Minister’s discretion to grant an authorisation.
- 2.13 Consistent with previous alliance applications by Air New Zealand, the Applicants do not seek authorisation from the MOT for the provisions relating to joint procurement/purchasing, referred to in clauses 4.1(b)(vi) and 4.9 of the SAA.
- 2.14 The sections below outline why the Minister should exercise his discretion to approve the Alliance, and in particular why the SAA and its Implementing Agreements give rise to a range of benefits to the travelling public and the New Zealand public generally that outweigh any potential detriment arising from the SAA.

The Alliance Agreement

- 2.15 Singapore Airlines and Air New Zealand entered into the SAA on 16 January 2014, subject to regulatory approvals. The Applicants have determined that there are significant consumer and economic benefits and efficiencies that can be achieved through close and long-term commercial cooperation in relation to their respective networks. A confidential copy of the SAA is attached at Schedule 2.
- 2.16 The Applicants intend to cooperate on their passenger services on:
- (a) the “**Alliance Sectors**” operating directly between Singapore and New Zealand (currently Auckland – Singapore and Christchurch – Singapore); and
 - (b) the “**Alliance Routes**”, which comprise a journey between “Covered Jurisdictions” that includes an Alliance Sector.
- 2.17 A list of the countries which the Alliance will encompass, and the domestic destinations within those countries, is set out in Schedule 1. As significant resources are required to obtain regulatory approval and align internal systems in order to coordinate pricing and revenue management in respect of each different Covered Jurisdiction, the Applicants intend to prioritise establishing coordination in relation to those jurisdictions which will provide the most benefit to both the Applicants and consumers, based on factors such as the size of the market, the potential for growth, and the jurisdiction’s strategic importance to both Singapore Airlines and Air New Zealand. However, it is possible that, in time and subject to the necessary regulatory approvals in the relevant Covered Jurisdictions, cooperation as described in paragraph 2.21 will be established across all Alliance Routes. Therefore, the Applicants request authorisation from the Minister for coordination in relation to each of the Alliance Routes and each Covered Jurisdictions.
- 2.18 As stated in the table at Schedule 1, price or capacity coordination and revenue sharing applies only to certain jurisdictions in respect of which the Applicants will cooperate. Schedule 1 notes certain jurisdictions in respect of which the Applicants only seek authorisation of the codeshare arrangements. In particular, journeys which include Australia and the Pacific Islands routes and an Alliance Sector will only be operated on a codeshare basis, and there will be no price or capacity coordination, or revenue sharing in respect of those jurisdictions.

Alliance principles and objectives

- 2.19 The Applicants have agreed certain principles and objectives² that will underlie the establishment and maintenance of the Alliance, and will be used as a reference point to resolve any conflict of interpretation in relation to the SAA.
- 2.20 The Alliance objectives reflect many of the benefits that the Applicants expect to arise from the Alliance, including increasing capacity and the increased availability of lower fare inventory, lowering average fares, providing consumers with a greater network and more journey options, and offering improved services and FFP benefits.³

Summary of cooperation

- 2.21 In order to achieve the alliance objectives, the SAA provides for varying levels of coordination between the parties in relation to the Alliance Sectors and the Alliance Routes:
- (a) in relation to services operated on the Alliance Routes and in certain 'Covered Jurisdictions', the exact nature of cooperation may vary, but may feature:
 - (i) reciprocal codesharing;
 - (ii) joint pricing and coordinated revenue management;
 - (iii) joint sales and marketing;
 - (iv) to the extent practical, optimising connection requirements for feeder routes to maximise performance of the Alliance;
 - (v) aligning frequent flyer programs and premium customer handling (including lounge access); and
 - (vi) joint procurement as deemed necessary and appropriate; and
 - (b) in relation to services operated on the Alliance Sectors, all of the coordination noted above as well as:
 - (i) revenue sharing;
 - (ii) network planning including scheduling, routing, capacity, frequency of flights and aircraft types;
 - (iii) coordinating operational requirements;
 - (iv) aligning airport operations;
 - (v) to the extent practical, harmonising the customer experience; and
 - (vi) joint procurement as deemed necessary and appropriate.

Implementing agreements

- 2.22 The Alliance will be supported by a number of Implementing Agreements, and the SAA requires the Applicants to use all reasonable endeavours to conclude these agreements as soon as possible following receipt of regulatory approvals in New Zealand and Singapore. These agreements include:

² Clauses 3.1 – 3.3 of the SAA.

³ Clause 3.3 of the SAA.

- (a) a “**Code Share Agreement**” to expand the Applicants existing codeshare arrangements and which will set out the operational arrangements as between the parties on the Alliance Routes;
- (b) a “**Special Prorate Agreement**” (“**SPA**”) to enhance the Applicants existing special prorate agreement, and which will set proportional rates, or “prorates” on such routes as the Applicants may agree;
- (c) a “**Premium Customer Handling and Lounge Agreement**” to enhance the Applicants existing arrangements pursuant to Star Alliance minimum requirements to provide reciprocal premium handling, including lounge access to the extent practical;
- (d) an “**FFP Agreement**” to enhance the parties’ existing frequent flyer programme agreement to the extent practical, including extending FFP arrangements to the SilkAir network; and
- (e) a “**Slot Transfer Agreement**” to set out the arrangements by which the parties shall exchange the relevant slots in order to facilitate operations on Alliance Sectors by Air New Zealand.

2.23 The Applicants have executed the Code Share Agreement and the Slot Transfer Agreement, and copy of each is attached at Schedule 2. The term sheets for the remaining implementing agreements currently envisaged by the Applicants are set out in Schedule 5 of the SAA.

Commercial rationale

2.24 The core rationale for the Alliance is to increase the number of passengers travelling on the Applicants’ combined services. The commercial arrangements achieve this by, among other things, incentivising the deployment of additional capacity on the Alliance Sectors.

2.25 Under the Alliance, the Applicants are confident that substantial and sustainable capacity growth will be enabled through:

- (a) combining each party’s distribution and sales strength to grow traffic on the Alliance Routes;
- (b) combining services between the parties with expanded codesharing that will provide consumers with a greater network, with more connecting options for behind and beyond markets; and
- (c) in doing the above, attracting more inbound and outbound passengers, including higher yielding passengers who value additional frequencies and connections, increasing load factors and revenue.

2.26 For Air New Zealand, the Alliance also provides an opportunity for efficient, sustainable growth of its Pacific Rim network, as it seeks to profitably deploy two additional Boeing 777-300ERs due to arrive in the second half of 2014. As the MOT will be aware, Air New Zealand’s network strategy is focused primarily in growing and developing services in key routes around the Pacific Rim, targeting profitable growth and a balanced portfolio of routes. Air New Zealand sees South East Asia⁴, South Africa and India as potential growth opportunities in this region, with strongly growing markets on the back of rapid economy growth.

⁴ Including Malaysia, Singapore, Thailand, Philippines, Vietnam, Brunei, Laos, Cambodia, Myanmar and Indonesia.

- 2.27 Despite the opportunities that these markets present, operating non-stop services into them present several challenges to Air New Zealand. Many individual routes in the region:
- (a) have too little traffic to service non-stop (despite being collectively significant);
 - (b) are operationally challenging due to long sector lengths (eg India);
 - (c) are well served by existing hub carriers (eg Singapore Airlines at Singapore, Thai Airways at Bangkok); and/or
 - (d) involve overflying large hubs.
- 2.28 The Alliance represents a comprehensive solution to access multiple markets in this region. Under the Alliance, Air New Zealand will be able to access Singapore Airlines' network to efficiently access South East Asia, South Africa, India and a range of other destinations, including ten destinations in the UK and Europe, [overcoming the challenges set out in paragraph 2.27 above without the significant, costly and uncertain investment that would be required to enter even a handful of the routes which will be covered by the Alliance. The Alliance represents a relatively low cost, low risk way for Air New Zealand to comprehensively access a fragmented but rapidly growing economic region.]
- 2.29 For Singapore Airlines, the Alliance provides an opportunity for penetration into the New Zealand and Pacific Rim markets, and to grow and develop services and traffic flow within the Alliance Sectors, which would otherwise have been difficult to achieve at the individual level.
- 2.30 With the Alliance, Singapore Airlines is able to increase its network reach and provide more connecting and convenient options for customers within domestic New Zealand, and behind and beyond markets. Singapore Airlines will be able to achieve potential capacity growth by introducing an A380 aircraft to service the Auckland to Singapore sector in place of the B777-300 aircraft presently deployed (an increase from 278 seats to 471 seats).
- 2.31 By combining services including codeshare opportunities with Air NZ, Singapore Airlines will be able to efficiently grow the network traffic between Singapore and beyond markets including Europe, the United Kingdom, India, South East Asia and South Africa.
- 2.32 Finally, the Alliance will put Air New Zealand and Singapore Airlines in a stronger position to compete with the new Qantas/Emirates alliance. As set out in their application to the MOT, one rationale for the Qantas/Emirates was to “create a seamless premium global air services operation that better connects New Zealand to Australia, Europe, including the United Kingdom (**UK**), and the Middle East and Northern Africa (MENA), as well as other potential regions in the future (subject to air traffic rights), by bringing together two world-class complementary brands, networks and business models”.⁵ The Alliance seeks to provide a similar network for Air New Zealand and Singapore Airlines customers.

Priority Markets

- 2.33 As set out in paragraph 2.24 above, the core rationale for the Alliance is to increase the number of passengers travelling on the Applicant's combined services, all of which include a sector between Singapore and New Zealand. The SAA contains certain provisions to ensure each party has the incentives necessary to achieve this goal.

⁵ Qantas/Emirates, *Application to the New Zealand Minister of Transport pursuant to Part IX of the Civil Aviation Act 1990*, 10 September 2012, at page 3.

- 2.34 The only direct overlap between services operated by the parties is New Zealand – London. Under the SAA, the parties will coordinate pricing on Alliance Routes to the United Kingdom, and otherwise coordinate their services as described in 2.21(a) above. Air New Zealand’s New Zealand to London via Los Angeles service is not an Alliance Route, although the Applicants may codeshare on that route. Therefore it will not be subject to the full scope of coordination.
- 2.35 However, in order to minimise the risk that the benefits of the Alliance are undermined by Air New Zealand setting fares to encourage the routing of New Zealand – Europe traffic via Los Angeles, the SAA includes certain provisions requiring alignment of pricing over these two gateways.⁶
- 2.36 [Redacted]
- 2.37 The Applicants consider that these restrictions are critical to attaining the benefits of the Alliance. As described in further detail in the discussion of ‘Consumer Benefits’ below, most of the Alliance benefits are driven by the increase in capacity on Auckland – Singapore, and possibly other Alliance Sectors in the longer term. [Redacted]

SAA is conditional upon authorisation

- 2.38 The implementation and ongoing conduct of the Alliance under the SAA is conditional upon obtaining all necessary regulatory approvals to the satisfaction of each Applicant, including obtaining authorisation to implement the SAA (and to the extent necessary, the implementing agreements) from the MOT and the Competition Commission of Singapore. Coordination in relation to each jurisdiction is conditional on the Applicants being satisfied that such coordination does not require regulatory approval in the relevant jurisdiction, or that any relevant regulatory approval has been obtained on acceptable terms.⁷
- 2.39 The SAA also contemplates future code shares on a number of routes on which Air New Zealand does not currently have the ability to place its code, due to the air service agreement with the relevant overseas jurisdiction. This includes India and the Philippines. We understand that the MOT is working to obtain further access to these markets, [and we expect that Air New Zealand will commence code share flights to these jurisdictions, on the terms set out in the SAA and Code Share Agreement, as soon as they are able].

Competitive position absent the Alliance

- 2.40 Absent the Alliance, there will be no change to the Applicants’ current commercial arrangements:
- (a) the Applicants will continue to offer connectivity and passenger benefits consistent with the Star Alliance, but there will be no greater level of cooperation between them;
 - (b) given Air New Zealand’s history on the New Zealand – Singapore routes, and its current commercial strategy, it would not enter the Singapore route absent the Alliance; and
 - (c) without the feeder traffic that Air New Zealand can provide, Singapore Airlines would not increase capacity on its New Zealand – Singapore routes on a sustained basis.

⁶ Clause 4.5(e) of the SAA.

⁷ Clause 6.2(b) of the SAA.

- 2.41 Each Applicant will separately provide a confidential submission to the MOT providing further information outlining their competitive position absent the Alliance.

3. BACKGROUND

- 3.1 As the MOT will be aware, alliances and mergers are a key feature of the aviation industry, as airlines seek low cost, low risk solutions to network expansion in a highly competitive market.⁸ The MOT will be familiar with much of the background to international aviation and airlines alliances from its consideration of a number of authorisation applications, particularly in the last three years. We have not repeated this background here.
- 3.2 The Alliance positions the Applicants to grow not only existing routes between New Zealand and Singapore, but also services on routes which connect to a New Zealand – Singapore service.
- 3.3 With very few exceptions, the services on which the parties will coordinate are complementary. Singapore Airlines' operations are concentrated on Singapore's Changi Airport, from which it flies to 62 destinations. Its New Zealand services from Christchurch and Auckland would feed into, and take advantage of, this significant network. Air New Zealand's network is based predominantly on its New Zealand domestic network and its international services from New Zealand. As set out above, Air New Zealand does not operate flights to Singapore, has not done so for some time, and absent the Alliance does not intend to do so in the future.

CONSUMER BENEFITS

- 3.4 Consistent with the Alliance objectives, the Alliance will deliver significant and substantiated benefits to the travelling public and the New Zealand public generally.
- 3.5 The Applicants have undertaken a QSI analysis of the proposed Alliance services in order to obtain independent confirmation of the benefits it will bring to consumers. The QSI report was provided by Seabury APG, a consulting firm which focuses exclusively on aviation planning and engagement. This report is attached as Schedule 3 and referred to throughout this section.
- 3.6 An integrated alliance is necessary to achieve the Alliance objectives and consumer benefits. [As set out in paragraph 2.26, part of Air New Zealand's rationale for entering the Alliance is that it will allow Air New Zealand to profitably deploy a Boeing 777-200ER.] [Redacted]
- 3.7 Further, a metal neutral revenue share arrangement, with both airlines operating on the route, incentivises each of the Applicants to support and grow the quality of the services on the route by channelling their respective distribution strengths and passenger feed from to improve the alliance services. This incentive is the key to increasing capacity on the Auckland – Singapore route, which is the key driver of many of the benefits described below. Such incentives will not arise under a codeshare arrangement, or any other lesser form of cooperation.⁹

Increased capacity and Air New Zealand presence on Singapore route

Immediate and substantial capacity increase on Auckland – Singapore

- 3.8 As set out in the SAA, one of the key objectives of the Alliance is to sustainably increase capacity on Auckland – Singapore. Over the course of the Alliance, the Applicants intend to significantly increase capacity through a mixture of:

⁸ The most recent example in the region being Qantas/Emirates, although see also United/Continental, American/US Airways and British Airways/American Airlines/Iberia.

⁹ For a fuller discussion, see the *Virgin/Air New Zealand* 2010 MOT Application at 2.4.

- (a) an increase in frequencies from 12 to 14 weekly flights. This will be achieved by withdrawing Singapore Airlines services which operates five¹⁰ times per week (SQ281/SQ282) and replacing it with a daily Air New Zealand operated service; and
- (b) an increase in the number of seats available on existing frequencies. This will be achieved through the seasonal introduction of a Singapore Airlines A380 on the route in place of a B777-300 aircraft (an increase from 278 seats to 471 seats), and the increased number of seats on the Air New Zealand 777-200 replacing the current Singapore Airlines 777-200 service from 285 seats to 312¹¹ seats.
- 3.9 These measures, based on forecast market conditions, are designed to increase total capacity on Auckland – Singapore by up to 30% over time,¹² a substantial increase on a route where there has been little increase in capacity in the last five years. The extent of this increase can be illustrated by comparing it to the four year Compound Annual Growth Rate (“CAGR”) for all Air New Zealand services of [1.7%] and total ex New Zealand international CAGR of [3.2%].
- 3.10 The QSI analysis confirms that, based on present market forecasts, the market stimulation caused by the Alliance could support such an increase in capacity. The QSI analysis estimates that additional benefits the Alliance offers will attract over [90,049] additional passengers to the Applicants’ services, both inbound and outbound, including an additional [18,596] passengers who would not have travelled at all in the absence of the Alliance.
- 3.11 As set out in the QSI report, such an increase in capacity would not be possible by either Applicant alone.
- (a) The Alliance Routes are likely to attract a large volume of Air New Zealand customers. These customers will be predominantly New Zealand based, and taking advantage of the significant new travel opportunities that the Alliance provides while retaining their ability to earn and redeem Airpoints Dollars (in the case of Air New Zealand customers) and to maintain access to other benefits.
- One of the main objectives of the Alliance is to utilise Air New Zealand’s customer loyalty, brand awareness, local knowledge and distribution network to fill new capacity on Auckland - Singapore. Without this, and to a lesser extent customers wishing to connect onto Air New Zealand’s domestic and Pacific Island network, the Applicants would not be able to increase capacity on the route.
- (b) As alluded to above, the attraction of the route for Air New Zealand customers is access to Singapore Airlines’ extensive network behind Singapore, in addition to Singapore itself. Without the connecting opportunities that Singapore Airlines’ route network provides, Air New Zealand would not be able to sustain a service from New Zealand to Singapore. Further information on the reasons for this are set out in Air New Zealand’s confidential submission on the counterfactual.
- 3.12 Many of the benefits discussed further below flow directly from this planned capacity increase, including increased opportunity for onward travel, greater availability of low fares and stimulation of tourism. The scale of these benefits would be significant – although the parties have not undertaken an extensive quantification exercise,

¹⁰ Up to 7 times per week in peak periods

¹¹ The Air New Zealand B777-200ER fleet currently has 304 seats and is being retro-fitted in mid 2014 to 312 seat capacity. Singapore Airlines’ also intend to retrofit their 777-200 aircraft prior to December 2014, which would reduce seat capacity to 271 seats.

¹² The 27% increase mentioned in the QSI analysis is conservatively based on the Singapore Airlines A380 operating only from October – March. The actual capacity increase will depend on the extent to which the A380 is operated by Singapore Airlines.

Auckland Airport recently estimated that the introduction of an Airbus A380 aircraft on Emirates' existing daily Dubai-Brisbane-Auckland route will boost annual capacity on the service by 100,000 seats and inject an extra \$100 million into New Zealand's economy.¹³

- 3.13 The Applicants hope further capacity increases will be possible once the Alliance is established and the Applicants are able to maximise their combined strength in their respective home markets.

Expansion of Air New Zealand's route network

- 3.14 Air New Zealand has a significant competitive disadvantage in terms of its ability to compete on long-haul routes. This is because Air New Zealand is invariably much smaller than the carrier based at the other "end" of the route (and thus has a relative passenger feed disadvantage), meaning it is far more reliant on passengers travelling between New Zealand and their origin and destination, rather than connecting passengers.
- 3.15 The Alliance expands Air New Zealand's route network, and complements Air New Zealand's Hong Kong presence: the Cathay Pacific arrangements are aimed at maintaining Air New Zealand access to key north Asian markets, most notably China, whereas the Alliance provides a second gateway, focussed on access to both South Asian and European markets.¹⁴
- 3.16 The Alliance will also allow Air New Zealand to re-establish itself as a coded carrier for travel to and from the United Kingdom and Europe via Asia, without being subject to Russian over flight charges. Passengers will also have the option of buying a ticket 'around the world' on Air New Zealand coded flights, travelling to/from London via Singapore and Los Angeles.
- 3.17 More generally, the code share agreement allows Air New Zealand to offer "NZ" coded services to and from each of the destinations set out in Schedule 1. As described in further detail below, this provides substantial additional benefits to Air New Zealand customers over and above those flowing from the Cathay arrangements. As the QSI analysis shows, the passenger increase generated by the alliance will be spread across a range of destinations. [Fifty-seven percent] of the forecast passengers travelling on Air New Zealand codeshare to and from destinations beyond Singapore are forecast to travel to or from the 58 new destinations to which Air New Zealand currently has no codeshare or online presence.

The Christchurch region

- 3.18 Singapore Airlines has an established relationship with Christchurch, through the operation of its Christchurch – Singapore service:
- (a) Singapore Airlines was the first international carrier to offer services out of Christchurch, starting flights in December 1986;
 - (b) other than Air New Zealand's Nadi service, Singapore Airlines is the only carrier that provides a direct service to Christchurch from any international airport other than Australia;
 - (c) Singapore Airlines' commitment to Christchurch has continued notwithstanding the earthquakes. In fact, Singapore Airlines' has announced one-off increases in frequencies for the 2013 Christmas period and for the 2015 ICC Cricket World Cup.

¹³ See <http://www.aucklandairport.co.nz/en/Corporate/NewsAndMedia/AllMediaReleases/World-first-as-Auckland-welcomes-three-A380s-at-one-time.aspx>.

¹⁴ Routes into China, Korea and Taiwan are not included in the Alliance.

- 3.19 While the Alliance is not expected to result in any further immediate expansion of capacity on Christchurch – Singapore, given Singapore Airlines' existing service the Canterbury region will be well placed to gain from many of the benefits achieved by the Alliance, including the ability to travel on Air New Zealand coded services to an increased range of destinations and stimulation of tourism into New Zealand. For example, currently Singapore Airlines codeshares on four domestic city pairs to/from Christchurch. Under the Alliance Singapore Airlines will codeshare on all 15 Air New Zealand domestic sectors that operate to/from Christchurch. In addition, Singapore Airlines will codeshare on Air New Zealand's 5 international services to Australia and the Pacific Islands from Christchurch. There is also the possibility of additional capacity on Christchurch – Singapore during the initial term of the Alliance, should the Alliance have the predicted stimulation effect.

Other enhancements to products and services

Premium customer handling, lounge and FFP benefits

- 3.20 While the Applicants' membership of the Star Alliance means that there is already a degree of reciprocity regarding lounge access and FFP benefits, to the extent practicable, the Alliance will provide additional benefits over and above the existing Star Alliance benefits.
- 3.21 The Alliance will see a substantial increase in the amount of frequent flyer Airpoints Dollars and Status Points awarded to Air New Zealand Airpoints Members, because flights on "NZ" services on Alliance Sectors will attract Airpoints Dollars and Status Points at the Air New Zealand earn rate,¹⁵ rather than the (lower) Airline Partner earn rate.¹⁶
- 3.22 Based on the number of Airpoints members travelling on Singapore Airlines' existing services, Air New Zealand estimates its members will earn an additional [one million] Airpoints Dollars and the accompanying Status Points per annum as a result of the Alliance. In actual fact, the number is likely to be higher given the additional passengers expected to be attracted to the Alliance's enhanced offering.
- 3.23 Members of the Airpoints loyalty programme will also be able to make "any seat" redemptions on Alliance sectors and KrisFlyer members will be able to make "Pay with KrisFlyer miles" on any seat available on Alliance Sectors based on the marketing carrier.
- 3.24 The Alliance also provides for reciprocal FFP arrangements in relation to SilkAir, Singapore Airlines' regional subsidiary. SilkAir operates more than 300 weekly flights to 45 destinations in 12 countries in the Asia-Pacific region. SilkAir provides lounge access at more than 30 ports to eligible Frequent Flyer members. The Star Alliance FFP arrangements do not include SilkAir, so the benefits to Air New Zealand customers of obtaining Airpoints Dollars and Status Points and other frequent flyer benefits, such as lounge access and additional baggage, and the ability to spend Airpoints Dollars on SilkAir flights is wholly due to the Alliance.
- 3.25 The MOT has previously recognised the benefits of reciprocal frequent flyer programmes, although these were assessed as "modest" in relation to both *Air NZ/Virgin* (mainly short haul routes) and *Air NZ/Cathay* (with no codeshare beyond Hong Kong). However, given the significant increase in Air New Zealand's network as a result of the Alliance (and consequently, the increase in the number of passengers who will travel on Air New Zealand code), and the long haul nature of many of the routes that will be the subject of the Alliance, passengers of both Applicants are likely to view frequent flyer reciprocity as a significant Alliance benefit.

¹⁵ <http://www.airnewzealand.co.nz/airpoints-dollars-earned-on-airnz-from-24-july-2012>.

¹⁶ <http://www.airnewzealand.co.nz/airpoints-airline-partner-earning-chart-from-1-november>.

3.26 Finally, the Premium Customer Handling and Lounge Agreement aims to will derive additional benefits, as deemed appropriate and to the extent practical, which could include priority seating towards the front of the aircraft, additional guests in lounges, and additional benefits to Elite or PPS members' partners, such as lounge access and additional baggage. Air New Zealand Koru Club members on Alliance Routes may receive benefits including lounge access in Singapore and selected points, to the extent practical. Star Alliance arrangements do not currently provide any of these benefits to Koru members.

Greater online connectivity

3.27 The Alliance would immediately provide better online services to points beyond each of Auckland and Christchurch (for Singapore Airlines) and beyond Singapore (for Air New Zealand). The MOT has consistently recognised that greater online services and improved access to connecting flights are a key benefit arising from airline alliances.¹⁷

3.28 Increased online connectivity arises from two sources:

- (a) Air New Zealand customers will have increased access to routes beyond Singapore, including Europe, India, Indonesia, Malaysia, Thailand, the Philippines and Vietnam. This includes a code share on SilkAir, which currently operates very few codeshare arrangements with other airlines. The Alliance will provide Air New Zealand customers with an alternative gateway to or from South East Asia and Indian markets, and the United Kingdom and Europe, while preserving the benefits of travelling on a single airline code throughout their journey.
- (b) Singapore Airlines' customers will have increased access to Air New Zealand's network, including domestic New Zealand and Pacific Island destinations, and will be able to travel on Singapore Airlines' code throughout.

3.29 As set out in the QSI analysis, based on a maximum six hour connection time, under the Alliance Air New Zealand would have access to [58] new codeshare destinations, of which [41] would be served in both directions.

Greater availability of lower fares

3.30 The Alliance is likely to result in a greater availability of low fares on the Auckland – Singapore sector, as well as lower fares on Alliance Routes.

3.31 First, the increase in capacity on Singapore – Auckland means that there will be a significantly greater number of seats available in each fare class, including the lower fare classes.

3.32 In addition, and as the MOT will be aware from *Air New Zealand/Cathay Pacific*, seat management involves a carrier withholding a certain number of seats from advance sale at discounted prices. These are reserved for high paying passengers who tend to book relatively more frequently close to the flight date. All other things being equal, a carrier with a higher number of seats available will need to protect a lower percentage of seats (and hence release a relatively greater number of lower priced fares).

3.33 Finally, an important aspect of the Alliance is that the special prorate agreement (SPA) between the parties will be enhanced to provide for lower sector rates for connecting passengers on Alliance Routes, which will reduce the effects of double marginalisation that such connecting passengers are typically exposed to.

Competition with other carriers

¹⁷ See, for example, the *Cathay Report* at 92 and the *Virgin 2010 Report*, at 155. The High Court came to a similar view in *Qantas/Air New Zealand*.

- 3.34 The MOT has acknowledged in the past that the New Zealand – Europe market is “highly competitive” being served by most carriers operating to New Zealand”.¹⁸ The market is served by many long-haul airlines based at mid-point airports between New Zealand and Europe, including all of those listed in paragraph 4.19 below. The MOT has also noted that the wider Asia market is well served from New Zealand.¹⁹
- 3.35 The enhanced offering under the Alliance will allow the combined Singapore Airlines/Air New Zealand service to better compete with other carriers on routes from New Zealand to Asia/Europe: in particular the Qantas/Emirates alliance, but also airlines such as Malaysia, Thai Airways, Etihad etc. The QSI analysis estimates that the Alliance will attract a substantial number of customers from a variety of different airlines. This is likely to prompt a competitive response from these competitors.

Stimulation of tourism

- 3.36 As the QSI analysis shows, the Alliance will stimulate significant additional consumer demand on the Alliance Routes. Many of these customers will be inbound customers to New Zealand, arriving from Singapore and routes behind Singapore.
- 3.37 The Alliance will provide an incentive for both Air New Zealand and Singapore Airlines to increase marketing activity to further promote New Zealand as an international destination. The most obvious driver for this increase in tourism is the significant new capacity that the Alliance will introduce onto the Auckland – Singapore route. The need to fill this new capacity will stimulate marketing initiatives at both ends of the route and into destinations served by connecting sectors.
- 3.38 [Redacted]
- 3.39 Immediate access to more connecting flights, on a codeshare basis, will also stimulate marketing initiatives. This is particularly the case for Air New Zealand, given the Alliance will give it improved access to an extensive network of destinations. As can be seen by a number of recent initiatives attached as Schedule 4, Air New Zealand has been extremely active in promoting New Zealand in those overseas markets to which it operates. Given the nature of the Alliance arrangements, a similar incentive will exist in relation to the Alliance Routes.
- 3.40 The SAA expressly recognises the importance of stimulating further demand for inbound travellers to New Zealand. It provides for the Applicants to coordinate their marketing activities in a way which best emphasises the consumer benefits of the Alliance. Singapore Airlines’ strong brand and sales presence in Europe and Asia, combined with the additional Alliance capacity, will stimulate tourism to New Zealand.
- 3.41 The value of the Alliance to New Zealand tourism was highlighted by the Tourism Industry Association (**TIA**) shortly after the Alliance was announced. The TIA emphasised the importance of Singapore both as a market for tourists itself, and as a hub for tourists to connect through to New Zealand. The TIA also emphasised the importance of Air New Zealand attracting tourists to New Zealand, observing that “having our national carrier flying daily to one of the world’s major air transport hubs will help lift New Zealand’s profile, as well as our country’s accessibility to visitors from this important region”.²⁰

4. COMPETITION CONSIDERATIONS

¹⁸ Cathay Report at 53

¹⁹ Cathay Report at 54.

²⁰ <http://www.tianz.org.nz/main/news-detail/index.cfm/2014/01/air-alliance-signals-tourisms-determination-to-grow-value/>.

- 4.1 While the Applicants' services only overlap on one route, being Auckland – London, the Applicants also comment below in relation to New Zealand – Singapore services, as well as other routes containing a New Zealand – Singapore sector.

New Zealand – London

- 4.2 The Applicants each operate services between New Zealand and London:
- (a) Air New Zealand operates its service from Auckland to London Heathrow via Los Angeles. The two sectors of this route are the only services operated by Air New Zealand out of Los Angeles, with the exception of one service per week between Los Angeles and Rarotonga.
 - (b) Singapore Airlines operates services from both Auckland and Christchurch to London, in each case operating via Singapore's Changi Airport. The services from Auckland and Christchurch to Singapore are three of a number of feeder flights for Singapore Airlines' Singapore to London services.

Competitors operating New Zealand – London services

- 4.3 No fewer than five competing airlines, all larger than Air New Zealand, operate one stop services through their respective Asian hubs, including Thai Airways (from Bangkok to Auckland five to six times per week, and twice per day from Bangkok to London Heathrow), Malaysia Airlines (from Kuala Lumpur to Auckland 6 to 7 times per week, and twice per day from Kuala Lumpur to London Heathrow), Cathay Pacific, (from Hong Kong to Auckland seven to nine times per week and up to five flights per day to London Heathrow), Korean Air (Seoul to Auckland 4 to 5 times per week, and one flight per day to London Heathrow) and China Southern (daily flights from Guangzhou to both Auckland and onto London Heathrow).
- 4.4 In addition, Qantas/Emirates operate a variety of services between New Zealand destinations and Australia, linking into their Australia – London services. Passengers can fly on a number of services ex Queenstown, Christchurch, Wellington and Auckland via Australia and then onto multiple gateways into the United Kingdom/Ireland, including Glasgow, Dublin, Birmingham, Manchester, Newcastle and both major London airports, all via Dubai. For this reason, Qantas/Emirates is by far the largest carrier of travellers between New Zealand and the United Kingdom.
- 4.5 Despite being a two-stop service, the total travel time for Qantas's New Zealand – London services are not significantly different from the services operated by the Applicants, and in some cases involve the same flight time. In addition, Qantas operates services from a number of New Zealand destinations which feed into its London services, the Alliance parties do not operate competing one-stop services to Europe other than ex Auckland or Christchurch. For instance, passengers wishing to travel on Air New Zealand who live outside of Auckland already require two-stops (ie Auckland and Los Angeles).²¹ Some example itineraries for Qantas/Emirates services and one-stop carriers to London are set out in Schedule 5.

²¹ Singapore Airlines obviously offers Christchurch passengers a one-stop service to Europe, but Air New Zealand does not offer a competing one-stop service ex Christchurch.

Share of services

- 4.6 Table 1 sets out the airlines operating services between New Zealand and London Heathrow for the year ended December 2013. For each airline, the table shows the number of services operated by each airline both out of Auckland and into London Heathrow. The table also shows the number of Auckland flights connecting to a London service, based on a maximum connection time of four hours.

Table 1: Auckland – LHR services

| Carrier | Stops | Daily flights ex Auckland | Daily flights into LHR | ex AKL flights connecting to LHR service ²² |
|---------------------------------|-------|---------------------------|------------------------|--|
| Air New Zealand | 1 | 1 | 1 | 1 |
| Singapore Airlines | 1 | 1-2 | 4 | 1 |
| Cathay | 1 | 1-2 | 4-5 | 1 |
| China Southern | 1 | 1-2 | 1 | 1 |
| Korean Air | 1 | 1 | 1 | 0 ²³ |
| Malaysia Airlines | 1 | 1 | 2 | 1 |
| Thai Airways | 1 | 1 | 2 | 1 |
| Qantas Emirates Alliance | 2 | 13 | 6-7 | 6-7 |

- 4.7 As the table shows, Air New Zealand and Singapore Airlines together currently operate only two out of up to 13 daily services from Auckland to London Heathrow. Qantas/Emirates operates the greatest number of services, the marked difference between Qantas/Emirates and other operators becomes even greater if other New Zealand destinations (such as Wellington) and other UK destinations (such as Manchester) are included in the analysis.
- 4.8 It is not possible to determine the exact seat capacity shares for services between New Zealand and the United Kingdom. Travel between New Zealand and the United Kingdom involves two to three flight legs and each flight leg also forms part of a number of other itineraries (eg. Singapore to Munich, Los Angeles to Chicago etc) which airlines revenue manage according to demand. Therefore, while capacity can be measured by the number of flights (either leaving New Zealand or arriving in the UK), the number of seats allocated to passengers travelling from New Zealand to the United Kingdom on any individual flight is difficult to determine.

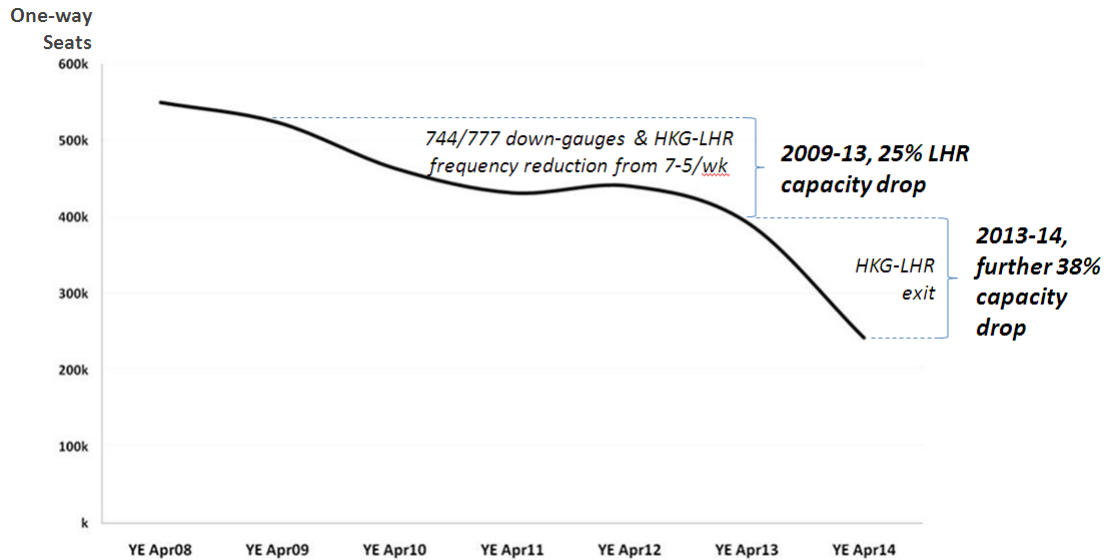
Decline in Air New Zealand share

- 4.9 Air New Zealand's withdrawal from the Hong Kong route is part of a steady decline in its New Zealand – United Kingdom traffic in the last five years, consistent with its consolidation of its international network. Figure 1 below illustrates the reduction in Air New Zealand's capacity since 2008.

²² Based on 4 hour maximum connection time for flight connecting to London Heathrow.

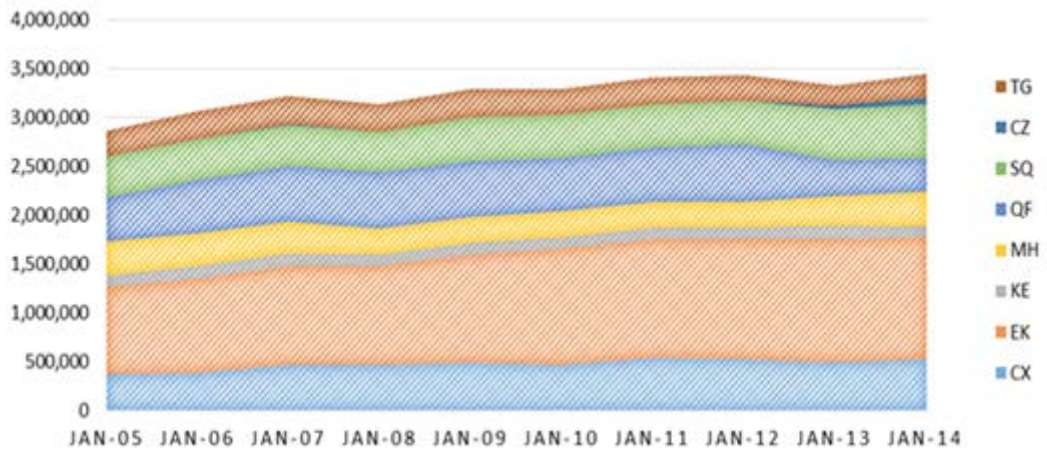
²³ The connection time for Korean Airlines is over 4 hours.

Figure 1: Air New Zealand capacity: NZL – UK



4.10 By contrast, capacity for hub carriers is generally increasing. **Figure 2** below illustrates the growth of carriers serving the New Zealand market, showing the growth in capacity from each of their hubs into London Heathrow.

Figure 2: One-way seats into London Heathrow by carriers serving New Zealand



4.11 Competitor capacity has also increased into New Zealand. Emirates has recently upgauged its Auckland to Brisbane operation from a Boeing 777-300 to an Airbus A380. This is the third of their four trans-Tasman services on which an A380 will operate. China Southern also operated two A380 scheduled services into Auckland in December 2012, and each of Qantas, Thai Airways, Malaysia Airlines and Korean Air have A380s in their current fleet and could choose to operate A380s into New Zealand.

No competitive detriment

- 4.12 Based on the above analysis, the coordination of services between Air New Zealand and Singapore Airlines on the New Zealand – London service is unlikely to have any material adverse effect on competition:
- (a) the Alliance will continue to face a **strong competitive constraint** from Qantas/Emirates. As the figures show, Qantas/Emirates are easily the largest carrier on the route, greater than the combined presence of Singapore Airlines and Air New Zealand. The Alliance will enhance competition on New Zealand – London routes by allowing the Applicants to better compete against Qantas/Emirates;
 - (b) the Applicants will continue to face **competition from a large number of international airlines** in addition to Qantas/Emirates, all of whom operate from Auckland to the United Kingdom through their respective hubs;
 - (c) there are very **few barriers to entry or expansion** on New Zealand – London routes. There is sufficient capacity at both Auckland and Christchurch airports to sustain a new entrant. While London Heathrow is capacity constrained, operating a sustainable New Zealand – London Heathrow service only requires a modest number of frequencies per week. In addition, most international airlines already have services operating into London Heathrow from their hub airports. Air Service Agreements are generally not a barrier to entry for international airlines who wish to fly into New Zealand.
- 4.13 Both the MOT and the Commerce Commission have recognised the competitive nature of long haul services between New Zealand and Europe, including the United Kingdom. As well as recognising that Qantas and Air New Zealand competed on services between New Zealand and Europe, the Commerce Commission noted that in relation to flights into Europe:²⁴

Competition on international routes is strong with the presence of many large and fringe competitors. Many alternatives exist in flying to destinations in Europe, for instance Singapore Airlines, Thai Airways, Cathay Pacific and Emirates all operate extensive routes to Europe from their respective hubs in Singapore, Bangkok, Hong Kong and Dubai.

New Zealand – Singapore

- 4.14 There is no overlap on this route.
- 4.15 Singapore Airlines currently operates direct services between New Zealand and Singapore. Singapore Airlines operates 12 flights per week on Auckland – Singapore (rising to 14 flights per week during the New Zealand summer) and seven flights per week on Christchurch - Singapore.
- 4.16 Jetstar is the only other operator of direct services between New Zealand and Singapore, operating three return services per week on Auckland – Singapore. As the MOT will be aware, Jetstar is a wholly owned subsidiary of Qantas, and markets itself as a low cost carrier. However, Jetstar does advertise a business fare, with a separate business cabin on some flights.
- 4.17 Air New Zealand does not currently operate services to Singapore and has no intention to do so in the future absent the Alliance. Air New Zealand began operating services to Singapore in October 1973, and continued to operate on the route until October 2006. The decision to cease operating the route was made after sustained losses due to the substantial disadvantage Air New Zealand faced in attracting feeder traffic onto the

²⁴ Commerce Commission, *Air New Zealand and Qantas Authorisation*, 23 October 2003 at [833].

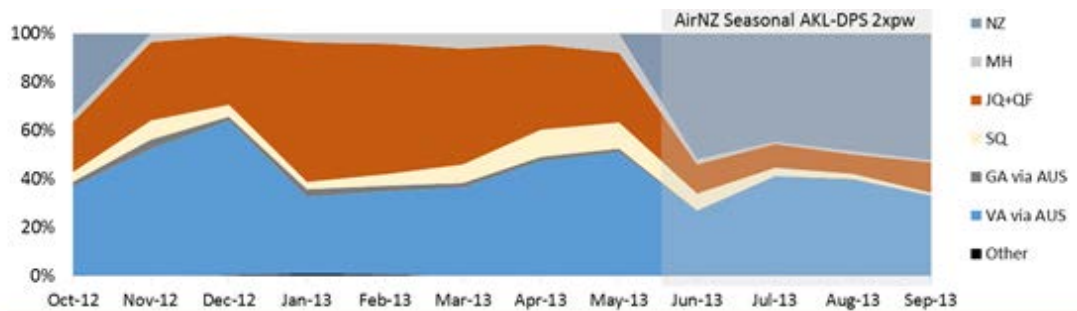
route. [Redacted].²⁵ Withdrawal from Singapore was not unusual in this respect: the relative feed issue has also led Air New Zealand to withdraw from Hong Kong - London, and Auckland – Beijing, amongst others.

- 4.18 The Alliance will not affect the overall level of competition for passengers travelling between New Zealand and Singapore. Competition will continue among Singapore Airlines' and Jetstar's direct services, along with one stop services operated by Qantas/Emirates (via Australia) Cathay Pacific (Hong Kong), China Southern Airlines (Guangzhou), Korean Airlines (Incheon, South Korean), Malaysia Airlines (Kuala Lumpur) and Thai Airways (Bangkok).

Other routes

- 4.19 With the exception of Auckland – London, the parties do not operate directly competing services on any of the connecting markets that will be covered by the Alliance. On markets beyond Singapore, Singapore Airlines generally competes with other international airlines who fly from New Zealand to their hubs in Asia or the Middle East. This includes Malaysia Airlines (via their hub in Kuala Lumpur), Thai Airlines (Bangkok), Cathay Pacific (Hong Kong), Korean Air (Seoul) and China Southern Airlines (Guangzhou). In addition, the Qantas/Emirates partnership offers one to two stop options via Australia to destinations throughout Asia, the Middle East, South Africa and Europe. Finally, Jetstar/Jetstar Asia also offers flights throughout Asia through its Singapore hub.
- 4.20 As Indonesia is a "Covered Jurisdiction", the parties intend (subject to appropriate regulatory approvals) to coordinate pricing on services between New Zealand and Bali (Denpasar). Air New Zealand currently operates a seasonal Auckland – Bali (Denpasar) service, which competes primarily with Virgin Australia, Qantas and Jetstar via Australia. While Singapore Airlines does offer a one-stop Auckland – Bali service via Singapore, as the table below illustrates, Singapore Airlines' share of passenger traffic is very low.

Figure 3: share of New Zealand - Denpasar traffic by carrier/month



- 4.21 On the basis of the market share in Figure 3, there will be no competitive detriment on the Auckland – Denpasar route. Indeed, the ability of Air New Zealand to offer flights to Bali with Air New Zealand code on a year round basis will increase Air New Zealand's competitive offering on the route, enabling it to better compete with Virgin, Jetstar and Qantas.

5. NO LEGAL REASONS FOR THE MINISTER REFUSING TO AUTHORISE THE ALLIANCE

- 5.1 In considering whether to grant authorisation for the Alliance under section 88 of the Act, sections 88(3) and (4) provide specific reasons for the Minister to decline to authorise. Section 88(4) is subject to section 88(5), which allows the Minister to authorise the Alliance if the Minister believes that to decline authorisation would have

²⁵ [Air New Zealand exited a number of other international routes around the same period similar reasons e.g. AKLBKK, LAXSYD, HKGLHR, AKLKUL]

an undesirable effect on international comity between New Zealand and any other State.

5.2 For the reasons discussed below:

- (a) none of the reasons set out in sections 88(3) and (4) apply in respect of the Alliance; and
- (b) furthermore, declining authorisation would have an undesirable effect on international comity between New Zealand and Singapore and accordingly, section 88(5) provides a distinct reason for the Minister to exercise its discretion in favour of authorising the Alliance.

No infringement of section 88(3)

5.3 The Minister's authorisation of the Alliance will not prejudice compliance with any relevant international convention, agreement or arrangement to which New Zealand is a party.

5.4 Conventions and agreements which may be relevant include:

- (a) The Multilateral Agreement on the Liberalization of International Air Transportation between New Zealand, Singapore and a number of other countries, including the United States of America (the "MALIAT"); and
- (b) Bilateral agreements between New Zealand and other countries to which Alliance routes will operate.

5.5 The purpose of the MALIAT is to liberalise international air transport between signatory countries.²⁶ The MALIAT expressly allows code sharing between designated carriers (both Air New Zealand and Singapore Airlines are designated by their respective governments) and key features of the MALIAT include open route schedules and freedom for designated airlines to set their own capacity and frequency.²⁷ The MALIAT does not directly address alliance arrangements, although it expressly contemplates that designated airlines may enter into "cooperative marketing arrangements such as blocked-space, code-sharing or leasing arrangements" with other designated airlines "provided that all participants in such arrangements hold the appropriate authority and meet the requirements applied to such arrangements".

5.6 Authorisation of the Alliance will therefore be consistent, and would not prejudice compliance, with MALIAT.

5.7 The Alliance provides for Air New Zealand and Singapore Airlines to cooperate in relation to a number of routes beyond each of Singapore and New Zealand. For this reason, the bilateral agreements between New Zealand and each of the countries to which Alliance Routes will operate will be relevant to the Minister's assessment under section 88(3). As discussed in paragraph 2.38, cooperation on services into each jurisdiction is dependent on obtaining the necessary regulatory approvals.

No infringement of section 88(4)

5.8 The Applicants believe that the Minister should not decline to authorise the Alliance under section 88(4) as the Alliance includes no provision that would infringe section 88(4)(a) – (f).

²⁶ The current signatory countries of the MALIAT are Brunei, Chile, Cook Islands, Mongolia, New Zealand, Samoa, Singapore, Tonga and the United States.

²⁷ There are limited exceptions on capacity and frequency (eg for customs, technical, operational or environmental reasons), none of which are relevant to the Alliance.

- (a) **No infringement of section 88(4)(a):** the Alliance makes no provision for either Applicant to directly or indirectly enforce the Alliance through any form of action by way of fines or market pressures against any person;
- (b) **No infringement of section 88(4)(b):** The Applicants are aware of two commission regimes currently in force - the Civil Aviation (Passenger Agents' Commission Regime) Notice 1983 and the Civil Aviation (Cargo Agents' Commission Regime) Notice 1983.

The reference to commissions in the SAA relate to cooperation on commissions to achieve the Alliance objectives (clause 4.5). Neither of these provisions have the purpose or effect of breaching the terms of either of the commission regimes.

- (c) **No infringement of section 88(4)(c):** The Alliance is likely to enhance the availability of competitive fares on the Alliance Routes, and improve outcomes for consumers of international air services.

As set out in paragraphs 3.2 - 3.5, the Alliance will result in a greater availability of lower fares.

In addition, the Alliance parties will continue to face competitive pressure from a range of airlines, including Qantas, Emirates, Thai Airways and Malaysia Airlines.

The Alliance Agreement does not prescribe actual tariffs, but puts in place a process for setting tariffs, and does not contain any provisions that unjustifiably discriminate between consumers in the availability of Alliance fares.

Accordingly, neither the Alliance viewed as a whole nor any other provision of the Alliance will undermine the consumers' wide access to competitive fares either from the Applicants or their competitors on the Alliance Routes. Indeed, the opposite is the case.

- (d) **No infringement of section 88(4)(d):** The SAA expressly provides that the Alliance will not set tariffs in a way that precludes any airline from operating on Alliance Routes.²⁸ The SAA does restrict each Applicant from entering into revenue sharing arrangements with other parties on the Alliance Sectors, and certain codesharing arrangements, but this does not preclude any carrier operating those routes in its own right.

The Applicants will continue to set tariffs having regard to existing and potential competition from other carriers on all routes which on which they operate. Authorisation will not have any flow-on impact in terms of ASAs or other regulatory conditions that would impact another airline's access to the Alliance Routes.

Further given the low barriers to entry on the Alliance Routes, and the existence of strong, established international competitors, the Applicants will have no incentive to set tariffs so as to exclude any person from providing international air services on any of the Alliance Routes.

- (e) **No infringement of section 88(4)(e):** The MALIAT has removed any requirement for tariffs to be filed in either New Zealand or Singapore.

In any event, clause 12.2 of the SAA expressly provides that both Applicants are free to independently seek approval, in terms of section 90 of the CAA, for the purpose of selling international carriage by air at any other tariff so approved.

²⁸ Clause 4.5(g)(iii) of the SAA.

- (f) **No infringement of section 88(4)(f):** No penalty is payable under the Alliance when a party withdraws on reasonable notice.²⁹

The SAA provides for an initial five year term from the date on which regulatory approvals are received to the Applicants' satisfaction.³⁰ An initial term of five years is appropriate for commercial arrangements of that nature, and to fully realise the benefits of the Alliance. It can be terminated early in specific circumstances. The Implementing Agreements are contingent upon the continuation in force of the SAA.

Following the initial term, the SAA may be terminated on twelve months' notice. As the MOT has recognised in the past, alliance agreements provide for a degree of commitment by the parties than lesser forms of cooperation, such as codeshare arrangements, that justify a longer notice period.

This period (10 scheduling seasons) complies with section 88(4)(f):

- A period of five years is necessary in order to realise the benefits of the Alliance. The successful implementation of the Alliance will require significant investment by each of the Applicants to implement product and service enhancements, develop the necessary information technology, and align sales and services on Alliance Routes.
- Having regard to previous MOT decisions, several have accepted that certain arrangements justify a five year period.
 - Air New Zealand / United Expansion Agreement: a period of five years (or four years with 12 months' notice for termination) was considered to comply with section 88(4)(f); and
 - Air New Zealand / Ansett / Singapore: a period of five and a half years was considered to comply with section 88(4)(f).
 - Each of the Air New Zealand / Virgin Australia alliance (2010) and the Air New Zealand / Cathay Pacific Alliance were expressed to be for initial terms of five years. In each case the MOT authorised the alliance for three years, but did not find that the proposed five year period would breach section 88(4)(f);
 - The Qantas/Emirates authorisation and the Air New Zealand / Virgin Australia reauthorisation (both 2013) were for five years.

International comity

- 5.9 If the Minister concludes, contrary to the view of the Applicants, that the Alliance does not comply with any of section 88(4)(a) – (f), he can nevertheless authorise the Alliance under section 88(5) if declining authorisation would have an undesirable effect on international comity between New Zealand and another state.
- 5.10 Declining authorisation would have an undesirable effect on international comity between New Zealand and Singapore. Accordingly international comity provides a distinct reason for the Minister to exercise his discretion in favour of authorising the Alliance.
- 5.11 As discussed above, arrangements between carriers are consistent with the MALIAT. The Applicants have applied to the Competition Commission of Singapore for

²⁹ Clause 9.4 of the SAA.

³⁰ Clause 9.1 of the SAA.

authorisation of the Alliance and believe authorisation should be granted in that jurisdiction on the basis that the Alliance creates net public benefits for the Singaporean economy.

- 5.12 In those circumstances, declining authorisation for the Alliance would prevent Singapore from realising net public benefits for its economy from the Alliance.

Schedule 1

List of alliance destinations

| Jurisdictions behind /beyond Singapore | Destinations served by SQ within scope of the alliance | Approval required for Pricing Coordination or only codeshare | Approval required for Revenue Share & Capacity Coordination |
|---|---|---|--|
| Singapore | Singapore | Yes | Yes (only direct to New Zealand) |
| United Kingdom | London (including on Air NZ operated service via LAX) | Yes | X |
| Germany | Munich, Frankfurt | Yes | X |
| India | Calcutta, Vishakhapatnam, Madras, Trivandrum, Coimbatore, Bangalore, Cochin, Hyderabad, Bombay, Ahmedabad, Delhi | Yes | X |
| Indonesia | Jakarta, Denpasar, Balikpapan, Bandung, Kuala, Lombok, Namu, Medan, Manado, Pekanbaru, Palembang, Praya, Semarang, Solo City, Surabaya, Ujung Pandang | Yes | X |
| Malaysia | Kuala Lumpur, Kota Kinabalu, Penang, Kuching, Langkawi | Yes | X |
| Thailand | Bangkok, Phuket, Ko Samui, Chiang Mai | Yes | X |
| Vietnam | Ho Chi Minh City, Danang, Hanoi | Yes | X |
| Philippines | Manila, Cebu, Davao | Yes | X |
| South Africa | Johannesburg, Capetown | Yes | X |
| France | Paris | Yes | X |
| Italy | Milan, Rome | Yes | X |
| Netherlands | Amsterdam | Yes | X |
| Switzerland | Zurich | Yes | X |
| Spain | Barcelona | Yes | X |
| Denmark | Copenhagen | Yes | X |
| Russia | Moscow | No, codeshare only | X |
| Turkey | Istanbul | No, codeshare only | X |
| Cambodia | Phnom Penh, Siem Reap | No, codeshare only | X |
| Brunei | Brunei | No, codeshare only | X |
| Sri Lanka | Colombo | No, codeshare only | X |
| Burma | Yangon | No, codeshare only | X |
| East Timor | Dili | No, codeshare only | X |
| Maldives | Male | No, codeshare only | X |

| | | | |
|--|---|---|--|
| Bangladesh | Dhaka | No, codeshare only | X |
| Nepal | Kathmandu | No, codeshare only | X |
| Saudi Arabia | Riyadh | No, codeshare only | X |
| Jurisdictions behind / beyond New Zealand | Destinations served by Air NZ in relevant jurisdiction | Approval required for Pricing Coordination or only codeshare | Approval required for Revenue Share & Capacity Coordination |
| New Zealand | Auckland, Christchurch; Domestic connections: Dunedin, New Plymouth, Palmerston North, Wellington, Queenstown, Napier, Nelson, Whangarei, Kaitaia, Kerikeri, Gisborne, Tauranga, Taupo, Wanganui, Whakatane, Rotorua, Blenheim, Masterton, Paraparaumu, Hamilton, Hokitika, Invercagill, Timaru, Westport | Yes | Yes (only direct to Singapore) |
| Pacific Islands | Fiji, Nadi, Nuku'alofa, Niue, Papeete, Noumea, Apia, Rarotonga, Port Vila, Norfolk Island | No, codeshare only | X |
| Australia | Perth, Sydney, Melbourne, Adelaide, Brisbane, Gold Coast, Sunshine Coast, Cairns | No, codeshare only | X |

**Schedule 2
Agreements**

[Redacted]

Schedule 3

QSI Analysis

[Attached – QSI Report from Seabury APG]

Schedule 4
Recent tourism promotions in Hong Kong and Australia


18 – 19 May 2012: Press in Sunshine Coast, Cairns and Gold Coast

Reason to visit NZ snow #89:


Mount Cook has got
your name on it
Well not really, just snow.

\$100 off
any return flight to ***new zealand***

HURRY
SALE ENDS
22 MAY

A STAR ALLIANCE MEMBER 

Enter promo code **NZ100** when booking online. [Book now at airnewzealand.com.au](http://airnewzealand.com.au)



72 hour sale, 12 – 14 March 2012: Press in Sunshine Coast and Cairns

HURRY
SALE ENDS
12 APRIL

**“new zealand...
I expected Hobbits, but all I got was an
amazing experience”**

- Patrick Stevenson, Ex-Kiwi Sceptic

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Schedule 5
Example New Zealand – London itineraries

Air New Zealand’s Auckland – London Heathrow service (for travel in week commencing 1 December 2013)

| Flight number | Departs | Arrives | Total Travel Time | Days operated |
|-----------------------------------|---------|---------------------------|-------------------|---------------|
| Auckland – London Heathrow | | | | |
| NZ0002 | 10.45pm | 10.45am ^{+1 day} | 25h00m | MTWTFSS |
| London Heathrow – Auckland | | | | |
| NZ0001 | 3.35pm | 7.15am ^{+2 days} | 26h40m | MTWTFSS |

Singapore Airlines’ Auckland – London service (for travel in week commencing 1 December 2013)

| Flight numbers | Departs | Arrives | Total Travel Time | Days operated |
|---------------------------------------|---------|----------------------------|-------------------|---------------|
| Auckland – London Heathrow | | | | |
| SIN286/SQ322 | 12.30pm | 5.55am ^{+1 day} | 29h25m | MTWTFSS |
| SIN282/SQ308 | 1.05am | 3.10pm ^{+1 day} | 27h05m | M.W.FSS |
| London Heathrow – Auckland | | | | |
| SQ317/SQ281 | 10.55am | 11.45pm ^{+2 days} | 23h50m | .T.TFSS |
| SQ321/SQ285 | 10.05pm | 12.10pm ^{+2 days} | 25h05m | MTWTFSS |
| Christchurch – London Heathrow | | | | |
| SQ298/SQ322 | 11.55am | 5.55am ^{+1 day} | 31h00m | MTWTFSS |
| London Heathrow - Christchurch | | | | |
| SQ321/SQ297 | 10.05pm | 10.35am ^{+2days} | 23h30m | MTWTFSS |

Examples of QF/EK itineraries for travel between New Zealand and the United Kingdom

| Flight numbers | Departs | Arrives | Total Travel Time | Days operated |
|---------------------------------------|---------|---------------------------|-------------------|---------------|
| Auckland – London Heathrow | | | | |
| EK413/EK1 | 6.40pm | 11.35am ⁺¹ day | 29h55m | MTWTFSS |
| EK407/EK1 | 6.50pm | 11.35am ⁺¹ day | 29h45m | MTWTFSS |
| London Heathrow – Auckland | | | | |
| EK6/EK406 | 10.00pm | 1.45pm ^{+2 days} | 26h45m | MTWTFSS |
| EK4/EK412 | 8.15pm | 2.00pm ^{+2 days} | 28h45m | MTWTFSS |
| Christchurch – London Heathrow | | | | |
| QF8765/QF8419/QF8001 | 4.55pm | 11.35am ^{+1 day} | 31h40m | MTWTFSS |
| London Heathrow - Christchurch | | | | |
| QF8004/QF2/QF8766 | 8.15pm | 3.20pm ^{+2days} | 30h05m | MTWTFSS |

Examples of one-stop itineraries for travel between New Zealand and the United Kingdom

| Flight number | Departs | Arrives | Total Travel Time | Days operated |
|---|---------|---------------------------|-------------------|---------------|
| Malaysia Airlines via Kuala Lumpur | | | | |
| Auckland – London Heathrow (daily flights available with varying times) | | | | |
| MH0130/0002 | 2.30pm | 5.35am+1 | 28h05m | MT.T..S |
| London Heathrow – Auckland | | | | |
| MH0003/0133 | 10.00pm | 1.05pm ^{+2 days} | 26h05m | .T..FSS |
| Thai Airways via Bangkok | | | | |
| Auckland – London Heathrow | | | | |
| TG492/910 | 14.50pm | 06.20am ⁺¹ day | 28h30m | .TW.FSS |

| | | | | |
|---|---------|-------------------------------|--------|---------|
| London Heathrow – Auckland | | | | |
| TG917/491 | 9.35pm | 12.05pm ⁺² days | 25h30m | M.WTF.S |
| Cathay Pacific via Hong Kong | | | | |
| Auckland – London Heathrow | | | | |
| CX198/251 | 2.30pm | 5.00am ⁺¹ day | 27h30m | MTWTFSS |
| London Heathrow – Auckland | | | | |
| CX250/117 | 18.05pm | 07.30am ⁺² days | 24h25m | MTWTFSS |
| Korean Air via Seoul/Incheon [to be completed] | | | | |
| Auckland - London Heathrow | | | | |
| KE130/907 | 09.55pm | 16.30pm ⁺¹ day | 43h35 | MTWTFSS |
| | | | | |
| KE908/129 | 18.50pm | 08.10 ⁺² days | 24h20m | MTWTFSS |
| China Southern via Guangzhou | | | | |
| | | | | |
| CZ306/303 | 11.00pm | 14.30pm ⁺¹ day | 28h50 | MTWTFSS |
| | | | | |
| CZ304/305 | 22.30pm | 17.00pm ⁺² days | 29h30m | MTWTFSS |