



REDACTED PUBLIC REGISTER VERSION

**RESPONSE TO THIRD PARTY SUBMISSIONS IN RELATION TO THE APPLICATION FOR
REAUTHORISATION OF THE RESTATED MASTER COORDINATION AGREEMENT
DATED 13 OCTOBER 2017**

Qantas and Emirates (**the Applicants**) provide the following response to the third party submissions in relation to their application for reauthorisation of the Restated Master Coordination Agreement (**Restated MCA**), dated 13 October 2017 (**Application**).

Public Benefits for New Zealand Consumers

Reauthorisation of the Qantas-Emirates alliance will allow the Applicants to continue to deliver significant public benefits. As detailed in the Application, these include improving connectivity and schedule choice over an expanded network, offering significant points earning and redemption opportunities for the millions of members of both parties' frequent flyer programs, facilitating Emirates' introduction of non-stop services between New Zealand and the Middle East, and increasing tourism, international trade and business in New Zealand.

Tourism Industry Aotearoa (**TIA**) recognises that the Qantas-Emirates alliance will deliver substantial public benefits to New Zealand consumers and will not result in competitive detriment. As the TIA has acknowledged, reauthorisation will enable the continuation of these public benefits while also allowing the alliance to evolve to reflect changes in market dynamics largely driven by the introduction of direct flights between New Zealand and the Middle East and beyond.

The Applicants welcome the view of the New Zealand Airports Association (**NZAA**) that the alliance has delivered substantial economic benefits for New Zealand. The NZAA is incorrect, however, in asserting that the public benefits delivered by the alliance are 'far less evident than when the application was last considered.' All of the public benefits outlined in the Application are tangible and welcomed by consumers and frequent flyer members in New Zealand and Australia and will not continue without reauthorisation.

The NZAA emphasises the importance of having frequent, high quality and competitively priced services across the Tasman. By removing inefficient 'lumps' of excess capacity and replacing it with multiple new frequencies to and from Auckland, this is exactly what the Qantas-Emirates alliance has enabled.

Intensity of Competition on the Tasman

The NZAA also makes unsubstantiated claims about the likely effects of reauthorising the alliance and implies that it would give the Applicants the ability to artificially increase airfares. This is not the case. In fact, as the Application makes clear, airfare purchasing patterns on the Tasman show concentration at the lower end of the tariff structure, as airlines compete vigorously within markets characterised by excess capacity.

The Tasman is characterised by price sensitive leisure travellers who typically purchase low-yield fare types. Immigration data from the Australian Bureau of Statistics¹ indicates that Tasman traffic flows are predominantly leisure in nature. In the period from September 2016 to August 2017, 43 per cent

¹ ABS Immigration Data: New Zealand Residents and Visitors to New Zealand, data extracted 8 December 2017

of travellers cited 'holiday' as their reason for travel and 34 per cent cited 'visiting friends and relatives' as their reason for travel. Only 12 per cent of travellers in that period were flying for business purposes and many corporations do not permit their staff to purchase business class airfares for travel on the Tasman, due to the short flying time. In 2010, Air New Zealand removed the business class cabin from its narrow-bodied A320 fleet operating on the Tasman, citing that on average only one in eight seats were being sold at business class fare levels.²

A growing proportion of consumers have been choosing lower yielding fare types, such as discount economy class fares, with higher fares, including business class and full economy fares now more likely to be purchased only at limited times of exceptionally high demand. Outside peak periods, on the Tasman there has been a trend of sale fares still being available even up to two weeks prior to departure (this is significantly closer to departure than most short haul markets). Over the last 12 months (November 2016 to October 2017), the proportion of passengers booked in sale fare classes has grown from 40.9 per cent to 47.8 per cent in point of sale Australia and from 55.6 per cent to 62.6 per cent in point of sale New Zealand.

The Application sets out evidence of the intensity of competition between carriers operating on the Tasman. Carriers' frequent tactical pricing activity prompts quick reactions, often within hours, from competitors. The Proposed Conduct will not in any way make coordinated effects any more likely to occur. The Applicants refute absolutely the suggestion that they would, or would become likely to, engage in collusive behaviour with other carriers.

The NZAA further suggests that more direct flying to and from New Zealand may result in increasing 'market dominance' of the Australian and New Zealand carriers on the Tasman. Even if more direct flying was eventually to eventuate, there is no evidence that the intense competitive rivalry between carriers would be in any way diluted. Competition between Qantas/Jetstar and Air New Zealand/Virgin Australia has never been more robust and barriers to new entry and expansion by other carriers, including fifth freedom carriers, remain low, as shown by Singapore Airlines' new services from Canberra to Wellington, Philippine Airlines' new services from Cairns to Auckland and Air Asia's new service from Gold Coast to Auckland in recent years.

Tasman Capacity

As set out in the Application, since the inception of the alliance, Qantas, Jetstar and Emirates have grown capacity on routes between New Zealand and Australia. In the period from April 2013 to March 2017, Qantas and Jetstar significantly increased seats on routes to Auckland (by 6,653 seats), Christchurch (by 131,586 seats), Wellington (by 140,100 seats) and Queenstown (by 211,890 seats). To Christchurch, new capacity added from Brisbane and Melbourne has provided enhanced connectivity to the broader Qantas and Emirates networks.

The alliance has also facilitated significant capacity expansion by Emirates to Auckland through the introduction of its direct Auckland-Dubai service in 2016. This service now provides one-stop connectivity between Auckland and Emirates' network beyond Dubai, improving connectivity and travel time for passengers who were previously travelling two-stop across the Tasman.

Implementing Emirates' network transition on the Tasman in a seamless way that benefits consumers would not be possible without the Proposed Conduct. Together, Qantas and Emirates have been able to work to backfill Emirates capacity with additional Qantas frequencies to meet remaining local demand, providing a scheduling and connectivity proposition that is far more suitable to a short haul market with a passenger base that values frequency and largely prefers economy to business class travel. The new Qantas services will maintain connectivity between the Tasman and the alliance's long haul services out of Australia. In turn, by facilitating this network transition, the alliance will give Emirates the ability to consider additional direct services between New Zealand and Dubai, bringing further benefits for consumers.

² 'Air New Zealand to transform its Tasman and Pacific Island services,' 18 March 2010. Available: <http://www.businesswire.com/news/home/20100318006668/en/Air-New-Zealand-Transform-Tasman-Pacific-Island>

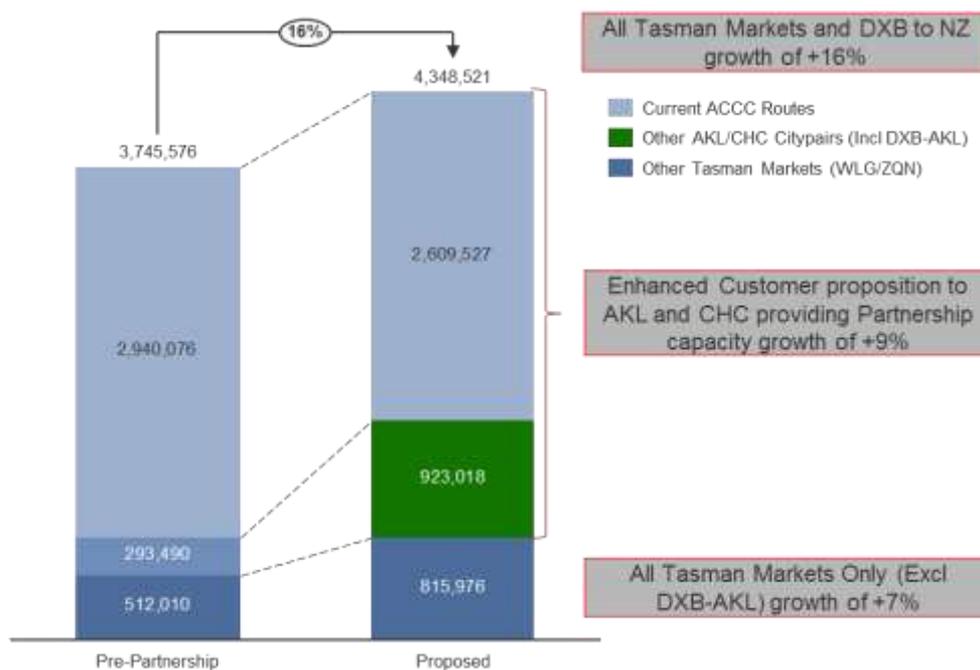
In total, Qantas intends to add around 10,500 seats on average per week from Sydney, Melbourne and Brisbane into Auckland. However, Qantas will not entirely backfill the withdrawn Emirates capacity between Australia and Auckland given the fundamental shift in demand dynamics caused by the introduction of direct capacity to New Zealand that has significantly reduced transit traffic flows across the Tasman.

The impact of the proposed Qantas and Emirates changes to the Auckland services must be assessed from a broader Tasman perspective. After the changes have been implemented, relative to pre-alliance capacity (i.e. pre 31 March 2013) levels, overall alliance capacity will increase by:

- 9 per cent to Auckland (including Emirates’ new Dubai-Auckland service) and Christchurch;
- 7 per cent on the Tasman; and
- 16 per cent to New Zealand.

These increases are reflected in Figure 1 below.

Figure 1: Increase in Alliance Capacity to New Zealand, Pre-Alliance Year and Proposed 2018 Schedule



Note: Current ‘ACCC Routes’ refers to the Overlapping Routes of Sydney-Auckland, Melbourne-Auckland, Brisbane-Auckland and Sydney-Christchurch.

The TIA, NZAA and Auckland International Airport Limited (AIAL) all recognise the importance of sustainable, frequent, high quality services across the Tasman. The Proposed Conduct gives the Qantas Group the best ability to deliver this on a sustainable long term basis, with appropriate levels of capacity matched to demand.

The Applicants wholly reject the contention that Australian demand is ‘currently underserved by approximately 25%’. As set out in the Application, load factors on the Tasman show that the routes are currently characterised by substantial excess capacity that is mis-matched to demand, with Australia-New Zealand connecting traffic significantly reducing since the introduction of new direct international services to and from New Zealand.

There are inherent inconsistencies in the NZAA’s and AIAL’s arguments. While agreeing with the Applicants that structural changes are occurring in the global airline industry and that airlines need an ability to respond to economic pressures, the NZAA and AIAL respectively fail to recognise the need

for alliances to evolve with those changes and instead express a preference for regulatory intervention to hamper dynamic commercial operations.

Similarly, although acknowledging the benefits that the Qantas-Emirates alliance has delivered to New Zealand and stating that the carriers' 'ongoing health and viability remain important to national tourism and trade interests', the NZAA then suggests that the Minister should consider imposing a separate and additional capacity condition to be overseen by the Ministry.

Such a suggestion is entirely self-serving and misguided. Monopoly service providers have no role in dictating the regulatory framework that should apply to airlines in circumstances where those providers have a vested interest in trying to entrench capacity to their facility even if that no longer matches demand. The NZAA has failed to appreciate that continuation of the ACCC's current capacity condition, or worse still, imposition of a duplicate condition by the Minister, could undermine the continued delivery of sustainable Tasman services. It is counter-intuitive for the NZAA to expect the carriers to continue to offer sustainable services over the longer term while at the same demanding they be subject to onerous, costly, and unnecessary regulatory burdens that further erode profitability.

A capacity condition is unnecessary. While traffic flows on its fifth freedom services across the Tasman have been impacted by the direct non-stop service between Auckland and Dubai, Emirates will remain an operator on the Tasman. In particular, Emirates is committed to operating the unique A380 product offering into Christchurch. Furthermore, as set out in the Application, the Qantas Group remains committed to serving the Tasman. It is core to the Qantas Group's network and is a key component of its corporate and leisure proposition for customers.

The strategic relevance of the Tasman is clear. The two countries are intrinsically linked geographically, socially, culturally and economically. It is the largest point to point international market for both New Zealanders and Australians and provides a key link for international visitors from Asia, the United States or Europe who choose to visit both countries at the same time. Inbound and outbound tourism to Australia relies heavily on Tasman services. Australia is overwhelmingly the largest source of visitors to New Zealand, with 1,463,504 visitors from Australia in 2017 (up 5.3 per cent from figures in 2016).³ Likewise, New Zealand is the largest source of visitors to Australia, with 1,347,600 arrivals in the year ended September 2017.⁴ The Tasman is also central to freight operations, given the key trading relationship between Australia and New Zealand.

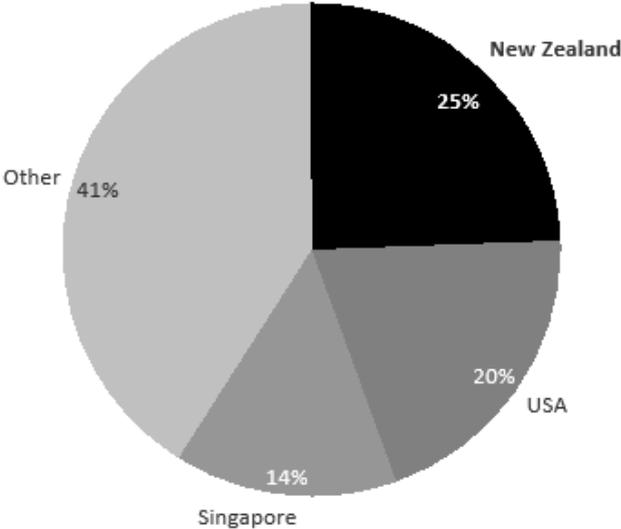
The Qantas Group accordingly views the Tasman as one of its key strategic priorities and, unlike the fifth freedom operators, is inherently incentivised to invest in the market, treating it as a virtual extension of the Australian domestic network (and lobbying to make Australia-New Zealand cross-border travel a seamless passenger experience). The Group provides around 150 direct one way services per week between Australia and New Zealand and has expanded capacity – as set out in the Application – including through the launch of new routes such as Melbourne-Christchurch (Qantas), Brisbane-Christchurch (Qantas), Gold Coast-Queenstown (Jetstar) and Gold Coast-Wellington (Jetstar) and by increasing frequency on Sydney-Queenstown (Qantas). In addition, onward connectivity and revenue from New Zealand to Qantas' broader international network is extremely important, with Tasman feed providing in excess of **[REDACTED CONFIDENTIAL]** in revenue to other international services.

Figures 2 and 3 below demonstrate that the Tasman is the Qantas Group's largest corporate and leisure international market.

³ International visitor arrivals, NZ Stats, October 2017. Available: www.stats.gov.nz/topics/tourism

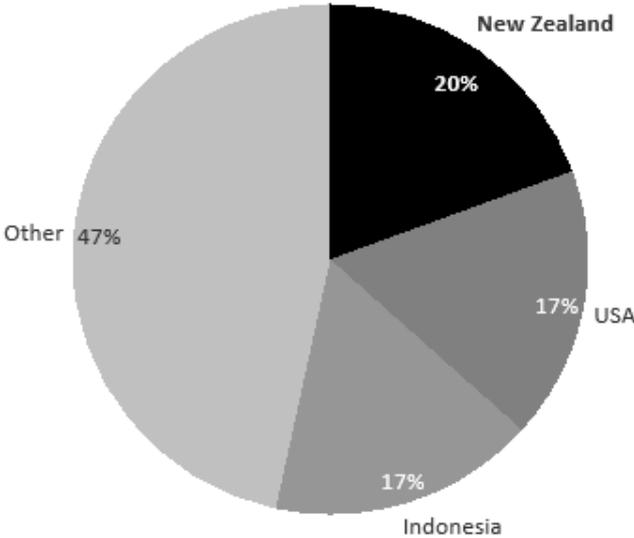
⁴ International visitor arrivals, Tourism Australia, September 2017. Available: <http://www.tourism.australia.com/en/markets-and-research/tourism-statistics/international-visitor-arrivals.html>

Figure 2: Business Market Breakdown by Country: Qantas and Jetstar



Source: Based on ABS Data with Trip Purpose 'Business', based on Discharge Country, from April 2016 to March 2017.

Figure 3: Leisure Market Breakdown By Country: Qantas and Jetstar



Source: Based on ABS Data with Trip Purpose 'Holiday', based on Discharge Country, from April 2016 to March 2017.

The Qantas Group today has the largest presence it has ever had in New Zealand, including as a major employer. The Group is continually investing in product (such as refurbishing its 737 fleet which primarily services the Tasman), lounges, airports and marketing.

Qantas is committed to attracting and retaining key corporate and premium leisure traffic. [REDACTED CONFIDENTIAL] The Tasman makes up a significant portion of many corporate entities' travel requirements, with staff making thousands of trips every year. In these circumstances it is essential that Qantas is able to provide sufficient frequencies to meet this demand and provide comprehensive and flexible corporate travel arrangements to those customers. [REDACTED CONFIDENTIAL]

The Tasman is also a key part of the Qantas Frequent Flyer program, [REDACTED CONFIDENTIAL]. Qantas has a large and growing frequent flyer membership base of [REDACTED CONFIDENTIAL]

CONFIDENTIAL] people in New Zealand (the biggest outside Australia) and is investing in building a coalition of loyalty partners in New Zealand, **[REDACTED CONFIDENTIAL]**.

The Applicants also recognise the importance of freighter operations across the Tasman and are working closely together to ensure that freight services continue at adequate levels by utilising Qantas aircraft and Emirates' sales presence in New Zealand.

Jetstar launched regional services in New Zealand in 2015 and has expanded significantly to now offer up to 250 return domestic services a week within New Zealand between nine New Zealand destinations; Auckland, Wellington, Christchurch, Dunedin, Queenstown, Napier, Nelson, New Plymouth and Palmerston North. The significant investment in Jetstar's regional services provides the Qantas Group with a further interest in ensuring that the Tasman is serviced sustainably over the longer term, particularly given the importance of providing feeder traffic between its domestic networks in Australia and New Zealand.

15 December 2017