



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

[Assessment framework for airline cooperation agreements

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Glossary of terms and abbreviations

Agreement	An umbrella term that encompasses all forms of cooperation arrangements between applicants. This includes, but is not limited to, interline, codeshare, direct coordination, revenue sharing, and metal neutral agreements.
Applicants	The parties that have applied for authorisation.
Capacity	The total number of seats an airline offers for sale on a route over a specified period.
Codeshare agreement	An agreement between airlines that allows them to sell tickets for each other's flights. For example, a codeshare agreement between airlines A and B would enable the purchase of a ticket for airline A's flight on airline B's website.
Complementary routes	If airline A operates a flight from city X to city Y and airline B operates a flight from city Y to city Z, their routes are complementary as they enable travel from city X to city Z.
Connecting passengers	Passengers that travel to their destination with one or more intermediate stops. In an origin and destination market, a connecting passenger is only considered to be part of the market defined by their origin and destination. Connecting passengers are not part of the markets defined by each separate leg of their journey.
Contribution margin	The difference between revenue and variable cost. This measure indicates how profitable a product or route is.
Coordinated effects	This occurs when an agreement increases the likelihood of airlines, inside or outside the agreement, coordinating on higher prices or worsening other aspects of their product offering.
Counterfactual	The scenario that would prevail "but for" the agreement.
Detriment	Any harm to New Zealand including a lessening of competition. The opposite of a public benefit.
Difference in differences (DiD) analysis	DiD involves identifying "treatment" (routes affected by the agreement) and "control" (comparable routes unaffected by the agreement) groups and identifying the change in airfares due to the agreement as the difference between the treatment group airfares and what the treatment airfares would have been had they followed the same trend as the control group.
Direct coordination	An agreement that allows airlines to coordinate on airfares, schedules, or marketing. However, revenues from coordination are not shared.
Factual	The scenario in which the agreement is implemented.

Feeder routes	In a hub-and-spoke network, routes that transport passengers from spoke airports to the hub airport, where passengers can then connect onwards to their destination. Typically, feeder routes are short-haul or domestic routes.
Feeder traffic foreclosure	This occurs when an airline withholds feeder traffic to a competing airline to increase the competitor's costs. This can allow the foreclosing airline to undercut the competitor and gain market power.
Frequency	The number of flights operated on a route over a specified period.
Frequent flyer programme	A loyalty programme offered by an airline that allows passengers to accumulate points that can then be redeemed for air travel tickets or other rewards.
Frequent flyer programme coordination and lounge access	An agreement that links the frequent flyer programmes of the participating airlines, for example by allowing passengers to allocate points from a flight to either programme. The agreement can also allow passengers access to both airlines' airport lounges.
Gross margin	Gross profit divided by revenue, expressed as a proportion. Gross profit is the difference between sales revenue and cost of goods sold. This identifies how profitable a product is, accounting for both variable and fixed costs.
Gross upward price pressure index (GUPPI)	A screening tool used to identify the markets in which an agreement can increase prices. For two airlines, this index reflects the value of sales that would be captured by one airline in response to a price increase by the other airline.
Herfindahl-Hirschman index (HHI):	An established measure of market concentration. The HHI adds together the square of each competitor's market share.
Horizontal unilateral effects	This occurs when a lessening of competition between airlines in a cooperation agreement results in worse outcomes for consumers.
Hub-and-spoke	A hub is a central airport in an airline's network, from which the airline operates services to all, or most, other airports. Typically, in a hub-and-spoke network, passengers travelling between two airports that are not hub airports connect via a hub airport.
Interline agreement	An agreement between airlines that allows a passenger to use a single ticket for an indirect journey on which different flights are provided by different airlines.
Marketing carrier	The airline that sells the seat to a passenger, either on a flight operated by the airline itself or a flight operated by another airline. The marketing carrier sells the seat with the marketing carrier's own IATA code, regardless of which airline operates the flight.

Metal neutral agreement	An agreement in which the participating airlines share both costs and revenues in the markets covered by the agreement.
Non-premium passengers	Passengers that value price more than quality. These passengers tend to travel for leisure purposes and do not require flexibility with their booking.
Overlap routes	Routes on which multiple applicants provide air transport services.
Point-to-point passengers	Passengers who travel directly between their origin and destination with no intermediate stops.
Premium passengers	Passengers that value quality more than price. These passengers tend to travel for business purposes and require significant flexibility.
Price concentration analysis (PCA)	A means of estimating the extent to which prices are affected by market concentration. This estimates the average difference in price between routes with different levels of concentration.
Public benefit	Anything of value to the community generally, any contribution to the aims pursued by the society including as one of its principal elements (in the context of trade practices legislation) the achievement of the economic goals of efficiency and progress in New Zealand.
Revenue sharing agreements	An agreement in which the participating airlines engage in direct coordination and share revenues, but not costs, in the markets covered by the agreement.
Route	An origin and destination between which an airline provides air transport services. The route can include multiple airports at each of the origin and the destination.
Schedule delay	The difference between a passenger's preferred time of departure and the closest available time of departure.
Slot	A specific time period during which an airline is allowed to arrive at or depart from an airport.
Small but significant increase in price (SSNIP) test	The SSNIP test (also known as the hypothetical monopolist test) is used to define relevant markets. The test asks whether a hypothetical monopolist controlling (all) the supply of a candidate market could profitably impose a SSNIP – conventionally 5 to 10 per cent.
Special prorate agreement (SPA)	A special case of an interline agreement, whereby two airlines agree on the apportionment of fares on journeys where each airline operates at least one leg.
Trunk route	In a hub-and-spoke network, routes that transport passengers between hub airports. On trunk routes, airlines bundle passengers connecting from multiple feeder routes. Typically, trunk routes are long-haul routes.

Introduction

Overview

- 1 Subpart 2 of Part 6 of the Civil Aviation Act 2023 (the Act) provides the statutory framework that enables a person (the applicant) to apply to the Minister of Transport (the Minister) for an authorisation relating to international carriage by air.
- 2 Section 199 of the Act provides the scope and statutory test upon which the Minister must be satisfied before granting that authorisation. To support this, applicants are expected to submit an application that aligns with the information set out in the application guidelines [and those listed here] to ensure a properly completed application with any relevant agreements are received to prevent delays in processing that application.
- 3 Application guidelines are available on the [airline cooperation agreements](#) section of the Ministry's website.
- 4 The Minister has delegated certain powers¹ under Subpart 2 of Part 6 to the Secretary of Transport, who has sub-delegated such powers to certain employees of the Ministry of Transport (Ministry) and this document reflects such delegations. The Ministry will assess any applications received and provide advice to the Minister. Ultimately, the decision to grant an authorisation is at the discretion of the Minister.

Purpose and scope

- 5 This document describes the assessment framework and standard assessment requirements to enable:
 - consistent assessment by the Ministry of applications developed by airlines
 - consistent provision of information, data and analysis in the applications developed by airlines
- 6 The Ministry can request applicants to provide additional information, data and analysis that is not listed in this document, to aid the assessment of all applications².

Assessment principles

- 7 The assessment framework and its application are grounded in five fundamental principles:
 - **Effective competition:** The Ministry examines the effect of the proposed cooperation agreement on competition. This principle ensures that the assessment accounts for the detrimental competitive impacts that are consciously traded-off with wider public benefits.
 - **Public interest:** The Ministry ensures authorised cooperation agreements benefit New Zealand, including by improving the overall economic welfare in New Zealand.
 - **Evidence-based assessment:** The Ministry ensures the decision by the Minister to authorise or decline an application is underpinned by robust, transparent and credible evidence that avoids double-counting.

¹ Sections 195(2), 196(1), 196(2), 197(1) and (2), 197(3), 197(4), 198(1), 198(2), 200 and 201 of the Civil Aviation Act 2023.

² The application process is described in a separate document found here: [add link to document when developed].

- **Transparency and accountability:** The Ministry ensures the rationale behind the assessment and advice to Minister to authorise or decline a cooperation agreement, as well as the airlines' roles, responsibilities, and obligations, are clearly defined, documented, and enforceable. This ensures the Ministry's trustworthiness and credibility.
- **Proportionality:** The Ministry avoids imposing unnecessary regulatory burdens on airlines while ensuring that applications for significant cooperation agreements receive the scrutiny they warrant. This encourages airlines to enter agreements that increase overall economic welfare in New Zealand.

Assessment framework

Relevant law

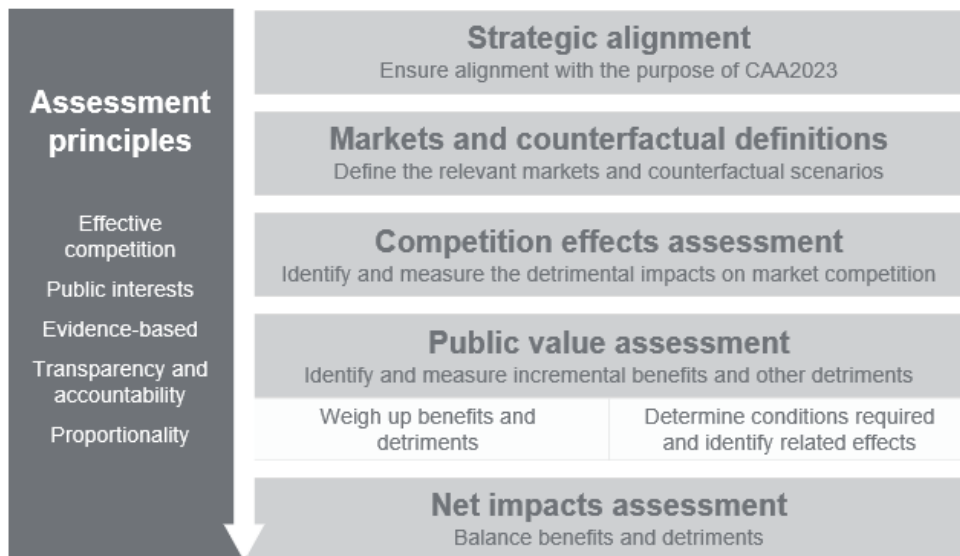
- 8 Subpart 2 of Part 6 of the Act provides the legislative framework that enables a person to apply to the Minister for an authorisation relating to international carriage by air. Section 199 of the Act provides the scope and statutory test upon which the Minister must be satisfied before considering the granting of an authorisation.
- 9 Section 199 of the Act states “The Minister may, in relation to an application for an authorisation under this subpart, authorise a provision or provisions of a contract, an arrangement, or an understanding where:
 - all parties to the contract, arrangement, or understanding are conducting international carriage by air in co-operation with each other, and
 - the provision or provisions relate to:
 - i a specified activity carried out for the purposes of the co-operation, or
 - ii an activity that is ancillary to a specified activity and that is reasonably necessary for the purpose of the co-operation.”
- 10 There are two prongs to the statutory test upon which the Minister must be satisfied before granting an authorisation: “The Minister may grant an authorisation if the Minister is satisfied that:
 - granting the authorisation will contribute to the main purpose or any of the additional purposes of this Act, and
 - giving effect to the provisions of the contract, arrangement, or understanding to which the application relates will in all the circumstances result, or be likely to result, in a benefit to the public that would outweigh any lessening in competition that would result, or would be likely to result, from those provisions.”
- 11 Sections 3 and 4 of the Act provides the main and additional purposes of that Act.
- 12 Applications will need to demonstrate how they have met the requirements provided for under the Act.

Assessment framework

- 13 To uphold the principle of transparency and accountability, the Ministry will assess whether a cooperation agreement application is recommended for authorisation using a consistent framework.
- 14 The Ministry will provide advice to the Minister using the framework presented in Figure 1.
- 15 The assessment framework comprises five components.
 - **Strategic alignment:** the cooperation agreement aligns with and contributes to the main purpose or any of the additional purposes of the Act.

- **Market³ and counterfactual definitions:** the markets affected by the cooperation agreement and the counterfactual scenarios are clearly defined.
 - **Competition effects assessment:** the state, or likely state, of competition with the agreement (the factual) is compared with the state of competition without the agreement (the counterfactual). The known and likely impacts of an agreement on markets are clearly outlined.
 - **Public value assessment:** the benefits and detriments are compared to determine whether the agreement gives rise to a net public benefit. The Ministry will also consider whether conditions could offset competitive harm to give rise to a net public benefit.
 - **Net impact assessment:** the assessment will determine whether the cooperation agreement delivers net benefits to the New Zealand public. This involves a final weighing and balancing of benefits and detriments (including the effects of any conditions required).
- 16 There is no weight assigned to each of the five components. The assessment framework is applied sequentially. The level of evidence required at each step is determined on a case-by-case basis depending on the complexity of the assessment.

³ A market is a description of an area or space for transactions for a product or service. It includes both actual and potential transactions. A market includes those products or services that are considered substitutable for one another as a matter of fact and commercial common sense. The market seeks to capture the factors that directly shape and constrain the rivalry between firms supplying the relevant products or services.

Figure 1: Assessment framework

Applying the assessment framework

17 This section describes the assessment framework in more detail.

Strategic alignment

18 Objectives:

- to identify the rationale for the cooperation agreement
- to assess if the cooperation agreement, including its rationale, contributes to the main purpose, or any of the additional purposes of the Act.

19 The applicants are expected to demonstrate that the cooperation agreement contributes to the main purpose, or any of the additional purposes of the Act. The applicants should explain the rationale for the cooperation agreement and assess (supported by information, data and analysis) how it contributes to the main purpose, or any of the additional purposes of the Act.

Markets and counterfactual definitions

20 Objectives:

- to identify and define the markets affected by the cooperation agreement
- to define the market conditions of the counterfactual (i.e. where the cooperation agreement is absent).

Defining the relevant markets

21 Market definitions serve as the foundation for setting the boundaries for assessing the actual and potential competition effects. The applicants are expected to define all markets that are

relevant to the application supported by information, data and analysis (refer Annex 2). The Ministry will review applicants' definitions and may request additional information, data and analysis from the applicants and third parties.

- 22 Markets have multiple dimensions, such as product, geographic and customer dimensions. The relevant product markets for air transport passengers can include flight characteristics (e.g. direct and connecting schedules), traveller types (e.g. business, leisure, visiting family and relatives), cabin classes (e.g. economy and premium classes) and service types (e.g. frequent flyer programme and ground handling). The relevant product markets for air cargo transport can include flight characteristics (see above) and service types (e.g. time-sensitive cargoes).
- 23 The relevant geographic markets for air passenger transport include: (i) specific origin and destination (O&D) pair(s), either based on city-pair or airport-pair, and (ii) beyond destination connections such as trunk and feeder routes, operating as either a point-to-point or a hub-and-spoke model⁴. While the hub-and-spoke model can deliver efficiency gains and facilitate network expansion to deliver connectivity benefits, they could lessen competition. The Ministry will identify and assess if, and how, a hub-and-spoke model affects the size of relevant markets and competition. The relevant geographic markets for air cargo transport are typically defined as O&D pairs and country-to-country or country-to-continent markets.
- 24 If there is supply constraint (no supply-side substitution), markets are defined based on demand substitution. In the absence of supply constraints (where airlines may enter or expand their operations in response to small price changes or other exercise of market power), the application may be subject to the Likely-Extent-Timely (LET) test⁵.
- 25 If the applicants consider there are additional characteristics that should be considered, they are expected to provide evidence showing their relevance.

Defining the counterfactual

- 26 To identify and measure benefits and detriments, as well as to determine whether benefits and detriments are specific to the cooperation agreement, the Ministry will assess what is likely to occur with the cooperation agreement ("the factual") and what is likely to occur without the cooperation agreement ("the counterfactual"⁶) in each relevant market.
- 27 Applicants are expected to provide information, data and analysis for the factual and counterfactual and indicate how the factual or counterfactual scenarios differ from the status quo (See Annex 2). The Ministry may be required to consider multiple counterfactuals to determine all likely benefits and detriments to the cooperation agreement. The Ministry will review the information, data and analysis provided by the applicants and may request additional information from the applicants and third parties.

⁴ Substitutability may exist between non-stop and stopping flights, particularly for long-haul routes where indirect services can provide competitive alternatives. Similarly, different airports within a metropolitan area may be substitutable for consumers.

⁵ The LET test determines whether entry or expansion in response to a price increase or other exercise of market power is **Likely**, and sufficient in **Extent** and **Timely** enough to constrain the parties to an agreement.

⁶ The Ministry may require the applications to consider multiple counterfactuals to determine the likely benefits and detriments relevant to the agreement.

- 28 The factual and counterfactual(s) assessment includes:
- if the applicants expect to enter into other cooperation agreements in the immediate future, both if the agreement is implemented and if it is not
 - if the applicants expect to maintain other existing cooperation agreements, both if the agreement is implemented and if it is not
 - how the set of routes (of identified relevant markets) operated by the applicants are expected to differ between the factual and the counterfactual
 - the expected level of cooperation between the applicants without the cooperation agreement.
- 29 Applicants are expected to provide evidence of past, current and expected passengers and capacity utilisation on those routes to justify why specific markets or routes, if any, are not economically viable. Evidence should include contemporaneous board or management level documents supporting any claims of entry or exit, such as evidence that indicates a trend in reducing passengers over a sustained period and reasonable efforts made to rectify the situation.

Competition effects assessment

- 30 Objectives:
- to identify whether the cooperation agreement increases the applicants' market power, relative to the counterfactual
 - to assess the likelihood and magnitude that increased market power leads to anti-competitive effects.
- 31 The competition effects assessment aims to evaluate the probability and extent to which the cooperation agreement might result in less favourable competitive outcomes for New Zealand consumers.
- 32 Understanding market power is crucial to determine whether the cooperation agreement reduces competition compared to a scenario without the agreement. Assessing changes in market power requires analysing market share, prices, closeness of competition, entry barriers and market dynamics, using quantitative and qualitative analysis.

Unilateral effects

Horizontal unilateral effects

- 33 Cooperation agreements can provide efficiency improvements such as lower costs, improved scheduling, and global connectivity. However, horizontal, unilateral effects can occur when a cooperation agreement results in the lessening of competition, for example, through price, schedule and capacity coordination.
- 34 Competitive pressure may be reduced directly when a cooperation agreement reduces the number of independent airlines operating on a given route. The cooperating airlines can, in this case, exercise their market power to increase airfares because there are limited opportunities for passengers to switch between airlines in response to price changes.
- 35 Competitive pressure may also be reduced indirectly, for example, by discouraging cooperating parties from competing strongly on the relevant routes, or from entering new

routes. This may increase prices for consumers if there is insufficient competition from other competitors to constrain the cooperating parties.

- 36 If the applicants are close competitors, passengers are more likely to switch between them in response to a unilateral price increase by one airline. In this scenario, the anti-competitive effects of the agreement are likely to be greater because a large share of passengers is likely to be retained within the cooperation agreement.
- 37 A lessening of competition can also occur through a similar mechanism by reducing the benefits customers receive from air transport services. Customers can face a reduction in quality of service, less choice and less incremental innovation.
- 38 Factors that help to determine whether horizontal unilateral effects are likely, include market share, market concentration, likely competitor responses, demand-elasticities for the relevant market (e.g. business vs leisure), barriers to entry or exit, capacity constraints, and countervailing buyer power.
- 39 To identify horizontal unilateral effects, the Ministry will compare the market share and market concentration of the relevant markets and related competitive constraints for each airline in the factual and counterfactual scenarios.
- 40 For agreements involving higher levels of integration and a greater likelihood of detriments, more advanced techniques could be used to assess the likely magnitude of horizontal unilateral effects. To support the assessment, the Ministry can request quantitative and qualitative data and information from the applicants and other third parties to contribute to the assessment.

Vertical unilateral effects

- 41 While horizontal unilateral effects focus on competition between airlines, vertical unilateral effects impact how airlines interact with upstream and downstream suppliers, affecting cost efficiencies and restricting access to crucial services for rival airlines.
- 42 Vertical integration can reduce costs, enhance operational efficiency, and improve passenger experience. However, vertical unilateral effects can occur when the cooperation agreement increases the ability or incentive of the cooperating parties to prevent or hinder competition by:
 - refusing to supply or raising the prices of an input to a downstream competitor (input foreclosure)
 - limiting upstream competitor access to downstream customers (customer foreclosure).
- 43 Feeder traffic foreclosure occurs when cooperating parties limit the access to feeder traffic to competitor airlines. This can increase competitors' per-passenger costs, because costs are then spread over smaller passenger numbers, and reduce their competitiveness. The airline employing this strategy can then raise its airfares because of the weakened constraint from affected competitors.
- 44 Examples of input foreclosures include restricting competitors' airport access to catering, engineering, maintenance facilities, or limiting independent airline visibility on booking platforms, through exclusive agreements with relevant parties.

- 45 To identify vertical unilateral effects, the Ministry will assess relevant information such as slot allocation for independent airlines and the presence of exclusive agreements in the aviation supply chain. To support the assessment, the Ministry can request data and information from the applicants and other third parties to contribute to the assessment.

Co-ordinated effects

- 46 Coordinated effects happen when an agreement makes it more likely that airlines will coordinate on airfares or other aspects of their services beyond the specific cooperation outlined in the cooperation agreement. This could involve coordination with airlines that are not included in the agreement.
- 47 To identify co-ordinated effects, the Ministry will assess relevant information including capacity and price schedules, and changes in market and capacity allocation. To support the assessment, the Ministry can request information and data from the applicants and other third parties.

Public value assessment

- 48 Objectives:
- to identify and estimate the incremental benefits and detriments of the agreement
 - to ensure the benefits and detriments are incremental and not double counted
 - to determine conditions and the likely effects of actions proposed.
- 49 The applicants are expected to identify the benefits that arise from the cooperation agreement and verify them with evidence. In providing evidence, applicants are expected to take care to avoid double-counting benefits. The Ministry gives more weight to benefits that are passed onto customers in a timely manner, and that are more closely linked to the agreement.
- 50 The Ministry expects quantification of the likely benefits to the extent practicable. The Ministry tests the reliability of any quantification, especially when the information provided is incomplete or uncertain, via sensitivity analyses.
- 51 For benefits that are difficult to quantify, qualitative analysis can be used to determine the nature and the size of the impacts. The Ministry places less weight on qualitative benefits that are less likely to occur in the near term or for which the evidence is less strong.
- 52 Table 1 provides examples of benefits for which the applicants are expected to submit evidence.

Table 1: Potential benefits of cooperation

Potential benefit	Description	Assessment(s)
Elimination of double marginalisation	Airlines may coordinate to offer multiple connecting routes, operated by separate airlines, as a single product. This incentivises airlines to offer lower airfares.	Reduction in airfares for connecting passengers due to the elimination of double marginalisation.

Economies of traffic density	Cooperation between airlines may increase the number of passengers travelling on each route of the applicants' networks. This lowers the airline's per-passenger cost which may lead to lower airfares.	<p>Reduction in airfares:</p> <ul style="list-style-type: none"> - for point-to-point passengers from a reduction in double marginalisation on complementary routes; and - for all passengers from grouping together passengers on overlap routes. <p>Addition of new destinations.</p>
Optimised flight schedules	Airlines may jointly optimise their flight schedules to serve more times of day and reduce time between connections.	<p>Reduction in schedule delay.</p> <p>Reduction in waiting times between connections.</p> <p>Enhanced overall connectivity.</p>
Frequent flyer benefits	Airlines may coordinate their frequent flyer or loyalty programmes to provide passengers access to benefits across both their programmes.	Additional rewards or amenities available to passengers.
Operational efficiencies	In cost-sharing agreements, airlines may share ground handling and engineering staff, as well as combining marketing campaigns. This improves productive efficiency and may result in lower costs which could be passed onto passengers.	Reduction in cost from efficiencies, including the share of the cost reduction that will be passed onto customers.

- 53 The applicants are expected to provide evidence of any other benefits they consider relevant, including those that do not directly relate to passengers, cargo delivery, or the airlines themselves. These may include environmental benefits or benefits to the wider economy, such as through tourism and trade. These additional benefits are expected to be verified to avoid double-counting.
- 54 Cooperation agreements that lead to greater public benefits than competitive detriments, considering all the available evidence, are more likely to be recommended for authorisation. Where an agreement leads to competitive detriments that outweigh public benefits for New Zealand, the Ministry will consider whether it is satisfied that conditions could sufficiently reduce the competitive detriments, while enabling the public benefits.

Net impact assessment

55 Objectives:

- to determine if benefits or detriments are greater, considering conditions proposed (if appropriate)
- to weigh up the benefits and detriments, where appropriate.

56 The Ministry will assess whether the cooperation agreement delivers net benefits to the New Zealand public. In doing so, the Ministry considers the relevant benefits and detriments to determine whether the cooperation agreement increases or decreases public value for New Zealand relative to the counterfactual.

Assessments are proportionate to the type of cooperation agreement.

57 [‘Assessment by cooperation agreement type’](#) provides further details on the level of assessment that the applicants are expected to submit for each type of cooperation agreement.

Assessment by cooperation agreement type

- 58 In general, the level of assessment can vary depending on how much the cooperation agreement changes the structure of the relevant markets. This enables proportionate assessments. The depth of cooperation in cooperation agreements can be broadly categorised into three levels of agreement:
- **limited cooperation on specific routes:** interline or frequent flyer programme and lounge access
 - **additional cooperation to expand the network:** code-sharing agreements or direct coordination
 - **merger-like integration:** revenue sharing or metal neutral.
- 59 This section outlines how we apply the assessment framework to each type of cooperation agreement. The Ministry encourages applicants to discuss information, data and assessment expectations with the Ministry at the earliest opportunity. Each assessment is undertaken on a case-by-case basis - more information may be required than indicated below.

Foundational assessment

- 60 Some parts of the assessment are foundational and are required in all assessments, regardless of the depth of coordination. For every coordination agreement type, the applicants are expected to provide the following:
- the rationale for the agreement and how it aligns with the purposes of the Act
 - the relevant markets and the most likely counterfactual scenario in each market.
- 61 The Ministry assesses all the information provided by applicants to determine whether a lessening of competition is likely. In that case, the Ministry will assess whether the benefits of the agreement will likely outweigh the competitive detriments.

Limited cooperation on specific routes

- 62 The Ministry expects applicants to provide simple descriptive analyses to assess cooperation agreements involving limited co-operation, including:
- share of passengers, frequency of flights, and capacity in each of the relevant markets
 - shares of slot holdings at each airport covered by the agreement
 - any wider social or economic detriments.
- 63 The applicants are also expected to provide evidence of the likely benefits of the cooperation agreement. The overall benefits must outweigh the detriments.

Additional cooperation to expand network

- 64 For the assessment of cooperation agreements entailing additional cooperation, the Ministry requires:
- the information listed in paragraphs 57 to 62; and
 - additional and more detailed analyses that provide the Ministry with a more comprehensive understanding of the likely effects of the agreement in the relevant

markets, including analysis of closeness of competition between applicants and countervailing factors.

- 65 For the assessment of competition, additional analyses may be needed to assess:
- the likelihood and effects of feeder traffic foreclosure in the relevant markets
 - the likelihood of coordinated effects in the relevant markets. It can be the case that coordinated effects take place in markets not served by either of the applicants. Any market where coordinated effects can occur because of the agreement are considered relevant markets.
- 66 The Ministry expects applicants to provide substantive evidence of the benefits arising from the agreement. Examples of passenger benefits applicants are expected to provide evidence for include:
- the effect of the elimination of double marginalisation on passenger airfares
 - the effect of economies of traffic density on passenger airfares
 - flight schedule improvements.
- 67 To avoid double counting, applicants should consider how individual effects interact. For example, the overall effect of elimination of double marginalisation and the economies of traffic density can be lower than the sum of their individual effects. Assessment of benefits should be done separately for passengers on overlap and complementary routes.

Merger-like integration⁷

- 68 For the assessment of agreements with merger-like levels of integration, applicants are expected to submit advanced analyses, in addition to the information identified in '[Foundational assessment](#)', '[Limited cooperation on specific routes](#)', and '[Additional cooperation to expand network](#)'. It is for the applicants to decide which advanced analysis to provide, depending on data availability and quality. Examples of advanced analyses are:
- analysis of the upward pressure on prices from the agreement, applying a gross upward price pressure index (GUPPI) or similar price pressure analysis
 - analysis of the likely effect of market concentration on airfares, in the relevant markets and at a network level
 - analysis of the profitability of the affected routes
 - where reauthorisation is sought, analysis of the effect of previous iterations of the agreement on airfares in the relevant markets (for instance, using a difference-in-differences approach).
- 69 In addition, applicants are expected to provide substantive evidence of the benefits caused by the agreement. For merger-like agreements, the Ministry encourages applicants to submit more advanced analyses of the benefits, including detailed quantification where possible.

⁷ A 'merger-like' integration may be subject to section 47 of the Commerce Act 1986 and oversight of the Commerce Commission, if an agreement provides for the acquisition of business assets or shares. Section 47 prohibits acquisitions of business assets or shares that would substantially lessen competition in a market. If applicants think that section 47 may apply, or may need to seek clearance for the acquisition, they should contact the Commerce Commission.

Overview of analysis by agreement type

- 70 Tables 2 and 3 provide an overview of the analyses the Ministry expects applicants to submit for each type of cooperation agreement. The greater the level of integration involved in an agreement and the greater the risk of expected detriments, the more substantive the analysis needs to be for the agreement to be assessed properly.
- 71 For Table 2 on competitive detriments, analyses listed as “expected” are expected to be provided by the applicants, unless a clear explanation is provided for why the analysis is not applicable or is inconsequential to the agreement. The level of analysis required by the Ministry reflects the nature and scope of the agreement. However, the Ministry can request further analyses at any point if it considers it necessary to assess the application.
- 72 Applicants should provide any evidence or analysis that supports the assessment of their application by the Ministry. Accordingly, analyses listed as “on request” can be provided proactively by applicants to support their application. See also [‘Economic tools and methodologies’](#), for other analyses that applicants can provide. The Ministry is expected to request analyses at any point if the Ministry considers it is necessary to support the application.

Table 2: Competitive detriments analyses – by type of agreement

Type of agreement	Competitive detriments					
	Horizontal unilateral effects				Feeder traffic foreclosure	Coordinated effects
	Market share	Slot holdings	Closeness, countervailing factors, and pricing analyses	Advance pricing analyses		
Interline / Frequent flyer programme	Expected	Expected	On request	On request	On request	On request
Codeshare	Expected	Expected	Expected	On request	On request	On request
Direct coordination / Revenue sharing / Metal neutral	Expected	Expected	Expected	Expected	Expected	Expected

- 73 Table 3 provides examples of public benefits where evidence is required if they are expected to arise due to the agreement. Applicants are expected to provide evidence of the likely size of these benefits, the extent to which they apply to passengers and the public in New Zealand and demonstrate that they have avoided double counting. See also '[Additional cooperation to expand network](#)'.
- 74 Benefits are listed as "likely minimal" if they are not expected to arise to a significant extent due to the agreement. The Ministry usually assigns less weight to these benefits in its assessment but considers evidence submitted by applicants if the benefits are material.

Table 3: Public benefits – by type of agreement

Type of agreement	Public benefits				
	Elimination of double marginalisation	Economies of traffic density	Optimised flight schedules	Frequent flyer benefits	Operational efficiencies
Interline / Frequent flyer programme / Codeshare	Evidence Expected	Likely minimal	Likely minimal	Evidence Expected	Likely minimal
Direct coordination / Revenue sharing / Metal neutral	Evidence Expected	Evidence Expected	Evidence Expected	Evidence Expected	Likely minimal

Applicant obligations

- 75 Applicants are expected to provide the rationale for the agreement and evidence of how it can lead to net public benefits relative to the counterfactual. This ensures that the assessment is evidence-based, transparent and accountable.
- 76 Applicants are also expected to include information on the agreement and analyses of the agreement's likely effects. The expected information is listed in Annex 2, "checklist of data expectations". For agreements with deeper levels of cooperation, additional analyses are required, as explained in '[Assessment by cooperation agreement type](#)'.
- 77 All claims submitted by applicants are expected to be supported by substantive evidence (including data, assumptions and related analyses). The level of detail and breadth of the evidence required reflects the level of integration and scope of the agreement. Applicants are expected to provide more detailed evidence for agreements that cause more substantial changes to the market structure.
- 78 The Ministry reserves the right to request other analyses at any point if the Ministry considers it is necessary to support the application.
- 79 The Ministry will monitor any conditions specified in the authorisation. Therefore, the Ministry may require the applicants to provide data after authorisation has been granted, for the duration of the agreement, to check that the agreement leads to public value. This may mean a condition to provide ongoing data is recommended to the Minister as part of any authorisation for consideration.

Economic tools and methodologies

- 80 This section describes economic tools and methodologies that applicants can apply to support their application. Each assessment will be undertaken on a case-by-case basis. For benefits that are difficult to quantify, qualitative analysis can be used to determine the nature and the size of the impacts. The Ministry may request specific analyses if it considers them necessary to support the application.

Relevant markets

- 81 The hypothetical monopolist test is used to define relevant markets. The test asks whether a hypothetical monopolist controlling (all) the supply of a candidate market could profitably impose a small but significant non-transitory increase in price (SSNIP) – conventionally 5 to 10 per cent. The SSNIP can be unprofitable either due to demand-side substitution – whether customers view other flights as alternatives and would switch to these in response to a SSNIP – or supply-side substitution, whether airlines could and would switch supply between routes in response to a SSNIP.
- 82 A SSNIP test involves the following steps:
 - Define a candidate market (for example, a city pair route).
 - Ask whether a hypothetical monopolist controlling supply on that market could profitably impose a SSNIP.
 - i If the evidence shows that a hypothetical monopolist could impose a SSNIP profitably, the candidate market is a relevant market.

- ii If a hypothetical monopolist could not impose a SSNIP profitably because of demand or supply substitution, a broader market is expected to be considered, including alternative flights, airports or other transport. The SSNIP test is reapplied to this broader market and to successively broader candidate markets until it is passed.

83 A SSNIP test provides a crucial conceptual framework for defining markets rigorously.

Horizontal unilateral effects

84 This section describes tools to identify whether an agreement leads to horizontal unilateral effects. The Ministry may apply these tools to validate the claims of the applicants.

Market share

- 85 Market shares provide an overview of competition in a market. Applicants' combined market share is one tool to measure applicants' market power, which represents their ability to raise prices above competitive levels. See also Annex 2, "checklist of data expectations".
- 86 As market shares do not account for other important factors in determining the likely horizontal unilateral effects, other analyses such as the closeness of competition between the airlines with other competing airlines will be needed to supplement market share analysis.

Herfindahl-Hirschman index (HHI)

- 87 The HHI is an established measure of market concentration. The greater the increase in concentration, the greater the risk of horizontal unilateral effects.
- 88 The HHI adds together the square of each competitor's market share.⁸ The HHI increment shows how much the agreement changes market concentration. The higher the HHI, the more concentrated the market. HHIs are classified as high (1800 or above), moderate (1000-1800), and low (below 1000).

Illustrative example

Route Z: Origin X and Destination Y

Airlines: Airline A (20% market share), Airline B (30% market share), Airline C (50% market share)

Calculation:

Airline A: $20^2 = 400$

Airline B: $30^2 = 900$

Airline C: $50^2 = 2500$

HHI: $400 + 900 + 2500 = 3800$

In this example, Route Z has an HHI of 3800, indicating this market is highly concentrated.

⁸ $HHI = (\text{market share of competitor 1})^2 + (\text{market share of competitor 2})^2 + (\text{market share of competitor 3})^2 + \dots + (\text{market share of competitor N})^2$

- 89 The HHI is simple to calculate and provides a single number to describe the overall concentration in a market. As the HHI does not account for other factors, other analyses such as closeness of competition between the airlines will be needed to supplement the HHI analysis.

Closeness of competition and diversion ratios

- 90 Closeness of competition captures the degree to which airlines compete for the same or similar customers. Horizontal unilateral effects are more likely when airlines are close competitors.
- 91 Closeness of competition can be assessed using qualitative evidence of the similarity between the applicant's service offerings and evidence of consumer preferences.
- 92 One indicative measure of closeness of competition between two airlines is a diversion ratio, which is the proportion of sales lost by one airline that are gained by the other airline, such as in response to a small but significant price increase.
- 93 Diversion ratios can be obtained from statistical analysis of price and quantity data or consumer surveys. Diversion ratios do not capture future reactions by competitors.

Illustrative example

Route Z: Origin X and Destination Y

Airlines: Airline A and Airline B both fly the same route

Imagine a scenario where Airline A raises its prices by 5% and 80% of its customers switch to Airline B. The diversion ratio in this case is 80% (or 0.8).

A diversion ratio of 0.8 is high, indicating that the two airlines are very close substitutes, and a cooperative agreement between them could lead to a significant reduction in competition, potentially resulting in higher prices and reduced choice for

Market competition and slot analyses

- 94 Market competition analysis include:
- **Barriers to entry:** This assesses the likelihood that another airline will enter and offer lower airfares. Barriers to entry include required investment in aircraft and crew, the availability of slots, and customer loyalty to incumbent operators.
 - **Spare capacity:** This assesses the level of spare capacity (spare seats, aircraft or staff) an airline has and the likelihood that the airline would adjust airfares if passengers respond by switching airline.
 - **Buyer power:** This assesses the existence of a major player or customer who is sufficiently important to an airline that might prevent the airline from increasing airfares such as through the threat of sponsoring new entry. This is rare but can apply to large corporate clients or travel agencies.
- 95 Slot analysis identifies whether competitors can easily enter the relevant markets. If no slots are available, an airline is unable to fly a route and cannot enter the market.
- 96 Slot analysis typically involves assessing the average share of slots held by applicants (i) during airport opening hours, and (ii) during peak hours.

- 97 Slot analysis indicates the availability of slots at airports. It does not reveal the extent to which airlines have requested slots and whether they have been denied entry, which may indicate entry is more difficult. Evidence of airlines requesting slots and being denied entry may be publicly available or provided by airports.

Gross upward price pressure index (GUPPI)

- 98 The GUPPI is a screening tool used to identify the markets in which an agreement can increase prices. For two airlines, this index reflects the value of sales that would be captured by one airline in response to a price increase by the other airline.
- 99 The GUPPI formula is below, with a separate GUPPI for each applicant.
- $$(3) \text{ GUPPI}_{\text{airline 1}} = \frac{(\text{diversion ratio}_{\text{airline 1 to airline 2}}) * (\text{gross margin}_{\text{airline 2}}) * (\text{price}_{\text{airline 2}})}{\text{price}_{\text{airline 1}}}$$
- 100 GUPPI accounts for closeness of competition between the applicant airlines. However, it does not account for other factors, such as future reactions by competitors and agreement-specific cost savings.
- 101 GUPPIs are classified as high (0.1 or above), medium (0.05-0.1), and low (below 0.05). The Ministry will use these thresholds as **a screening tool** to determine whether more advanced price analyses would be needed.

Illustrative example

Route Z: Origin X and Destination Y

Airlines: Airline A and Airline B both fly the same route.

Other assumptions:

- Airline A has a 20% profit margin, while Airline B has a 10% profit margin.
- The diversion ratio from Airline A to Airline B is 30%.
- The price of a flight on Airline A is \$200, and the price of a flight on Airline B is \$180.

GUPPI Calculation:

$\text{GUPPI} = (\text{Diversion Ratio}) * (\text{Profit Margin of Airline B}) * (\text{Price of Airline B}) / (\text{Price of Airline A})$

$\text{GUPPI} = 0.30 * 0.10 * 180 / 200 = 0.027$

The GUPPI is below 0.05, indicating the potential price effects may be low.

Pricing analyses

- 102 Analysis of airline prices can indicate market power. It can also indicate closeness of competition in addition to diversion ratios (see '[Closeness of competition and diversion ratios](#)'). If an airline charges higher prices than other airlines, this can indicate that they are able to charge prices greater than the competitive level which reflects market power. If airlines charge similar prices, this indicates that they serve customers with similar budgets, so can be close competitors.

- 103 A simple analysis of prices involves comparing mean or median prices charged by the airlines serving each route with those charged by individual airlines, in an International Air Transport Association (**IATA**) season.
- 104 This analysis is indicative and does not account for differences in airlines' costs and product offering. Care should be taken to ensure that prices are compared on a like-for-like basis. For example, economy prices should not be compared to business-class prices.
- 105 Where appropriate, the Ministry can require more advanced analyses by applicants to assess the horizontal unilateral effects of an agreement. These analyses can require advanced econometric techniques. Two examples of detailed analysis are price-concentration analysis and difference in differences analysis.

Price-concentration analysis (PCA)

- 106 PCA provides a means of estimating the extent to which prices are affected by market concentration. This estimates the average difference in price between routes with different levels of concentration. Market concentration is typically measured by the number of competitors in the market or by the HHI (see '[Herfindahl-Hirschman index \(HHI\)](#)').
- 107 Where data is available, econometric analysis should be conducted to account for other factors that can affect prices across routes, such as cost and demand differences, possible "reverse causation" between prices and concentration, and can examine changes over time. This analysis requires data for multiple routes, on market concentration, airfares, and other factors that influence airfares.

Difference-in-differences analysis

- 108 For a reauthorisation application, the Ministry can request a difference-in-differences (DiD) analysis to establish whether an agreement has led to increased prices as there is information on what occurred before and after the initial authorisation. DiD involves the following.
- a. Identify "treatment" (routes affected by the agreement) and "control" (comparable routes unaffected by the agreement) groups.
 - b. Check airfares of treatment and control groups follow the same parallel trend before the agreement was in place.
 - c. Identify the change in airfares due to the agreement as the difference between the treatment group airfares and what the treatment airfares would have been had they followed the same trend as the control group.
- 109 The key assumption of the analysis is that the treated and control group would have continued to follow the same trend absent the agreement (known as the parallel trends assumption).⁹ In addition, to ensure a like-for-like comparison between airfares of the treated and control groups, the analysis will need to account for different cost or demand characteristics of each route, and differences across time.

⁹ Generally, if the airfares of treated and control groups follow similar trends before the agreement is implemented, this indicates that the control group is a suitable counterfactual for the treated group.

- 110 The Ministry will balance results obtained from DiD analysis with other benefits and detriments in the '[Net impact assessment](#)' stage to consider whether the cooperation arrangement results in a net benefit to the economy.

Illustrative example

Assumptions:

- **Before the Alliance:** Treatment group average fare: \$100
Control group average fare: \$100
- **After the Alliance:** Treatment group average fare: \$110
Control group average fare: \$102

Basic DiD Calculation:

- 1) Change in Treatment Group: $\$110 - \$100 = \$10$ increase
- 2) Change in Control Group: $\$102 - \$100 = \$2$ increase

DiD estimate = $\$10 - \$2 = \$8$

This simple calculation suggests that, on average, the alliance is associated with a \$8 increase in fares on affected routes.

A formal DiD analysis can be undertaken using advanced econometric techniques to control for confounding factors (such as route distance, market size and time trends) and to test for statistical significance of effects. A positive statistically significant DiD estimate indicates an airline alliance result in higher fares.

Feeder traffic foreclosure

- 111 Feeder traffic increases the number of passengers on a flight, which reduces the per-passenger cost of the flight. Feeder traffic foreclosure occurs when an airline withholds feeder traffic to a competing airline to increase the competitor's costs. This can allow the foreclosing airline to undercut the competitor and gain market power.
- 112 Feeder traffic foreclosure can be assessed using an "ability-incentive-harm" framework.
- **Ability to foreclose:** Whether the airline provides a share of rivals' feeder traffic and whether rivals can replace feeder traffic with passengers from their own network or other airlines.
 - **Incentive to foreclose:** Whether the profit gained by the airline (the passengers diverted to applicants and the margins earned on them) outweighs the profit lost (the passengers that no longer use the airline's route and the margins earned on them).
 - **Harm from foreclosure:** Whether foreclosure leads to higher airfares.

Coordinated effects

- 113 Coordinated effects occur when an agreement increases the likelihood of airlines, inside or outside the agreement, coordinating on higher prices or worsening other aspects of their product offering.
- 114 The assessment of coordinated effects that result from an agreement involves assessing the following conditions:

- **Alignment:** This assesses the ability for airlines to arrive at a common understanding of what the coordinated outcome should be. This depends, among other things, on the number of airlines, transparency, complexity, asymmetry between airlines, and whether any of the airlines are “mavericks”.
- **Internal stability:** This assesses the ability for airlines to effectively monitor and credibly punish any deviations from the coordinated outcome. This depends on transparency and whether the airlines have spare capacity to punish deviations through charging low prices or improving their product offering.
- **External stability:** This assesses the level of influence from external competitive parties (i.e. from outside the coordinating group), such as from rival airlines or airports. This depends on whether fringe airlines can expand, or new airlines can enter.

115 The analysis focuses on whether the agreement increases the likelihood that the three cumulative conditions are met or strengthens existing coordination. The analysis uses both qualitative and quantitative evidence.

Public benefits

116 In evaluating public benefits, applicants are expected to adhere to the following guidance:

- the benefits will arise in New Zealand and are specific to the agreement
- the relevant benefits are those over and above the benefits that would arise if the agreement was not implemented (the counterfactual)
- there should be no double-counting
- benefits are verifiable and given more weight in the assessment when passed onto customers in a timely manner and when they are more closely linked to the agreement.

Elimination of double marginalisation

117 Elimination of double marginalisation can occur when airlines that separately operate two routes combine their operations. Prior to integration each leg of a passenger’s journey is priced individually. Once integrated, all legs of a passengers’ journey are priced together. As a result, the airlines accounting for the revenue and density benefits that connecting passengers provide on all legs can offer lower airfares.

118 For a reauthorisation application, econometric analysis can be undertaken to show whether elimination of double marginalisation reduces airfares, by identifying the change in airfares once an agreement is implemented.

Economies of traffic density

119 Cooperation between airlines can increase the number of passengers travelling on each route in the airlines’ networks (an increase in traffic density). An increase in traffic density is typically achieved either via the elimination of double marginalisation or by grouping together passengers on overlap routes. This reduces per-passenger costs and possibly airfares.

120 Econometric techniques can be used to estimate how much an increase in the number of passengers per-flight reduces per-passenger costs. This requires route-level data on:

- per-passenger costs
- flight frequency

- number of passengers
- all other variables that determine or influence per-passenger cost.

121 Economies of traffic density delivered by a cooperation agreement can cause a route to be profitable for the airlines concerned that they otherwise would not operate. Operating a new route increases choice and reduces journey durations. For the Ministry to consider this benefit, applicants are expected to provide evidence of:

- the profitability of serving the route both with and without the agreement, which shows that the agreement makes the route viable to serve; and
- the reduction in journey duration (the difference between the direct flight duration and the previous shortest indirect flight duration), and its monetary value to passengers using estimates from the economic literature.

Optimised flight schedules

122 Joint optimisation of cooperating airlines' schedules can increase passengers' choice of flight times and reduce waiting times between connecting flights. The benefit can be quantified by reduced schedule delay (the difference between a passenger's preferred and actual flight time). This requires:

- the flight schedules of applicants and competitors before the agreement and the applicants' planned schedules after the agreement
- estimates of hourly passenger demand throughout the week, before and after the agreement, to compare to the flight schedules
- estimates of the monetary value of reduced schedule delay by passenger type.

123 This analysis indicates the benefit passengers receive from a jointly optimised flight schedule. The true benefit can differ as competitors can respond by changing their schedules.

Annex 1 Check list for assessment framework

Table 4: Assessment framework expectations by type of agreement

Assessment framework component	Types of agreement requiring assessment	Requirement
Strategic alignment	Expected for all agreements	Explain the rationale for the agreement
		Evidence of how the agreement contributes to at least one purpose of the Civil Aviation Act 2023
Markets and counterfactual definitions	Expected for all agreements	Definitions of all relevant markets affected by the agreement
		The likely scenario absent the agreement (counterfactual)
Competition effects assessment	Expected for all agreements	Market share analysis in each relevant market
		Analysis of the shares of slot holdings at each relevant airport
		Wider social, environmental, and economic detriments
	Expected for codeshare, direct coordination, and merger-like integration	Closeness, countervailing factors, and pricing analyses
	Expected for direct coordination and merger-like integration	Analysis of the likelihood and impact of feeder traffic foreclosure
		Analysis of the likelihood and impact of coordinated effects
Public value assessment	Expected for all agreements	Evidence of the likely benefits arising from the agreement
	Upon request where relevant and appropriate	Conditions which alleviate the detrimental effects of the agreement
Net impact assessment	Expected for all agreements	Covered by points above

Annex 2 Data and information expectations

- 124 Applicants are expected to provide the following information. All quantitative information submitted by applicants is expected to be accompanied by the underlying data and a documentation of the analysis (including related calculations and methodology).
- 125 The applicants are expected to provide information on the agreement's likely effects. The level and breadth of the analysis required reflects the level of integration and scope of the agreement. The applicants are expected to provide more detailed evidence for agreements that cause more substantial changes to market structure.
- 126 The Ministry can request other analyses at any point if we consider it is necessary to assess the application. During the assessment process, the Ministry can also request data and information from the applicants and other third parties, such as competitors and interested parties, to contribute to the assessment.

Documents

- **Agreements:** All agreements into which the applicants are entering or have entered (individually or jointly), that are relevant to the agreements for which they are requesting authorisation. This includes the agreement for which the applicants are requesting authorisation, as well as any agreements entered by one applicant which cover a market that is also covered by an agreement entered into by another applicant.
- **Purpose of agreement:** An explanation of how the agreement contributes to the main purpose or any of the additional purposes of the Civil Aviation Act 2023 and the business rationale for the agreement. The applicants are expected to provide substantive evidence to support any claims, such as internal strategy documents or analysis.
- **Strategic documents:** Strategic documents related to the markets affected by the agreement, created in the ordinary course of business during the last 5 years.
- **Technical documents:** These cover documentations of any technical analyses conducted to support the application. These should outline data, assumptions and methods used in the analyses as well as the corresponding findings.

Data and information

- 127 When submitting the estimates or evidence of impacts described below, applicants are expected to provide the underlying data used to produce these estimates or evidence of impact. The applicants are expected to provide the underlying data in the closest available format to the format in which it was obtained or extracted. Where data is requested by IATA season below, the applicants are expected to provide the underlying data at least at the monthly level.
- **Relevant markets:** A list of the markets affected by or otherwise relevant to the agreement. Markets should be defined as described in sections '[Markets and counterfactual definitions](#)' and '[Relevant markets](#)'. All types of market should be considered, not only air passenger transport markets. For example, cargo or maintenance, repair and overhaul markets can also be relevant. Alongside the list of markets, the applicants are expected to list all the air transport segments affected by the

agreement. This should include, but is not limited to, segments on all routes with an origin or destination airport in New Zealand that are operated or marketed by the applicants.

- **Counterfactual:** The applicants should indicate if they expect the counterfactual (without the agreement) to differ from the status quo and the factual (with the agreement) in any of the relevant markets. Areas to consider include, but are not limited to:
 - i whether the applicants expect to enter into other agreements in the immediate future
 - ii whether the applicants expect to maintain other existing agreements
 - iii how the set of routes operated by the applicants are expected to differ between the factual and the counterfactual
 - iv the expected level of cooperation between the applicants absent the agreement.

For routes the applicants will enter or exit in the counterfactual, the applicants are expected to provide their overall contribution margin, as well as separately for point-to-point passengers and connecting passengers.

The applicants should include contemporaneous board or management level documents to support any claims of entry or exit, such as evidence that indicates a trend in reducing passengers over a sustained period and reasonable efforts made to rectify the situation.

The applicants can provide other measures and analyses of their current or expected financial performance on these routes. All measures of financial performance are expected to be provided for the last 5 years, by IATA season.

- **Market shares:** The applicants and competitors' share of (i) passengers, (ii) frequency, and (iii) capacity (that is the number of seats supplied) in all markets meeting the following criteria:
 - i The market is affected by the agreement.
 - ii The applicants' combined share of passengers in the market is above 20 per cent, in at least one of the four most recent IATA seasons.

The applicants should present market shares for the last 5 years (and sufficient data for re-authorisation that covers both the before and after periods), by IATA season, passenger type (overall, premium, and non-premium), and carrier (treating airlines that belong to the same revenue sharing or metal neutral agreement as a single competitor). Passengers should be assigned to the competitor with whom they purchased their ticket, referred to as the marketing carrier. Premium passengers are those travelling with first-class, business, premium economy, or fully flexible economy tickets.

- **Slot holdings:** The average share of slots held by the applicants individually and combined at each of the applicants' hub airports in each IATA season included in the market shares. The share of slot holdings should be provided for both during (i) all opening hours, and (ii) peak hours.
- **Prices:** To the best of the applicants' knowledge, the mean and median fares charged by themselves and their competitors on each of the routes for which market shares are provided. This data should be provided by IATA season, passenger type, and carrier.

- **Flight schedules:** The flight schedule operated by each of the applicants, as well as the flight schedule that is planned to be operated by each of the applicants after the agreement is implemented. This data is expected to be provided for the routes and IATA seasons included in the market shares, as well as for the first Summer and Winter IATA seasons following the agreement's implementation or reauthorisation.

Assessment framework for
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