

**Application to the Minister of Transport pursuant to Part 9 of  
the Civil Aviation Act 1990 for authorisation of the Air New  
Zealand and Cathay Pacific Airways North Asia Alliance**

**TABLE OF CONTENTS**

1. EXECUTIVE SUMMARY .....	4
2. THE APPLICANTS.....	9
3. THE ALLIANCE.....	10
4. AUTHORISATION SOUGHT .....	13
5. COMMERCIAL RATIONALE .....	14
6. COUNTERFACTUAL .....	15
7. KEY MARKET DEVELOPMENTS SINCE REAUTHORISATION .....	16
8. RELEVANT MARKETS .....	17
9. BENEFITS TO NEW ZEALAND.....	21
10. COMPETITION CONSIDERATIONS .....	32
11. NO LEGAL REASONS FOR THE MINISTER REFUSING TO AUTHORISE THE ALLIANCE .....	38
12. CONCLUSION .....	39

## CONFIDENTIAL INFORMATION

Air New Zealand Limited (“**Air New Zealand**”) and Cathay Pacific Airways Limited (“**Cathay Pacific**”) (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 green (being information which is confidential to Air New Zealand) or blue (being information confidential to Cathay Pacific), (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 “**Ministry**”) 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

- 1.1 Air New Zealand and Cathay Pacific (the **Applicants**) seek authorisation from the Minister to continue to implement the Alliance through the North Asia Alliance Agreement (**NAAA**), (the **Alliance**).
- 1.2 The purpose and rationale of the Alliance has not materially changed since it first commenced more than a decade ago in February 2013. By way of summary:
- (a) The Alliance enables Air New Zealand to maintain its “Pacific Rim” strategy through the sustainable operation of services between New Zealand and the Hong Kong Special Administrative Region of the People’s Republic of China (**Hong Kong**), with a partner which has an unparalleled network into strategically important markets both within Asia and beyond into the UK and Europe. The Alliance ensures Air New Zealand passengers can connect into a wider range of destinations and at more competitive fares than what would be available without the Alliance. Air New Zealand is small in scale and geographically isolated. As such, it is at a competitive disadvantage compared to the larger international airlines that have significant presence in the markets served by the Alliance. It is not possible for Air New Zealand to build a network of sufficient breadth and width to effectively compete with these larger carriers on its own. [REDACTED] but to create a “virtual network”. This virtual network provides passengers with greater choice and availability into key global markets and ensures that New Zealand continues to have a presence and profile in long haul markets to stimulate trade and tourism (which has additional flow-on benefits for its domestic New Zealand network); and
  - (b) For Cathay Pacific, the Alliance continues to provide increased network reach into New Zealand and increased flow through to its Hong Kong hub and beyond from two entry points within New Zealand. The Alliance allows Cathay Pacific to better compete for passengers from New Zealand travelling to beyond Hong Kong destinations. It does so by allowing Cathay Pacific to use the Air New Zealand operated services that have improved connectivity with its own services, particularly into the Chinese Mainland, India, the Middle East and Europe. The Alliance also stimulates trade and tourism to Hong Kong.
- 1.3 Recent global events have demonstrated the continued importance of the Alliance. As is widely known, the outbreak of COVID-19 severely impacted the global economy, with the aviation and tourism sectors hit especially hard. The Alliance was no exception, and the pandemic had a significant impact on the Hong Kong and the Chinese Mainland markets in particular.
- 1.4 Alliance services were reduced during the outbreak of COVID-19 in response to measures taken by the New Zealand and Hong Kong government. On 20 March 2020, the New Zealand government closed the New Zealand border to non-citizens or permanent residents. Hong Kong followed suit and on 24 March announced with effect from 25 March 2020, all incoming non-residents arriving from overseas countries and regions would be denied entry, including the suspension of transit through Hong Kong airport. The New Zealand border did not fully reopen until 1 August 2022, and in Hong Kong post-arrival testing and quarantine requirements were not officially lifted until 1 April 2023.
- 1.5 While the aviation industry and the Alliance have navigated the most severe impacts of the pandemic, the broader operating environment remains challenging. Labour shortages, fleet constraints, global supply chain issues, fuel costs, high inflation, and high interest rates are affecting both airlines and passengers alike in the form of constrained capacity, reduced connectivity and relatively higher fares. In the face of these persistent challenges and a still uncertain operating environment, the coordination of the Alliance is critical to re-building capacity, restoring connectivity and re-invigorating tourism between New Zealand and Hong Kong as well as those destinations served by Cathay Pacific through its Hong Kong hub. Such coordination is only made possible through authorisation of the Alliance.

### Summary of the Alliance

- 1.6 Since the Alliance was authorised in 2012<sup>1</sup> and reauthorised in 2015 and 2019, it has generated significant public benefits for both the New Zealand and Hong Kong public. While the Alliance is still recovering from the effects of the pandemic, the Applicants are confident it will continue to deliver benefits to New Zealand and Hong Kong that would not be possible absent the Alliance. Since 2013, the Alliance has delivered the following benefits (among others):
- (a) **Greater Capacity:** before the COVID-19 outbreak, the Alliance grew capacity on the routes between New Zealand and Hong Kong by 9%. This was delivered through a new seasonal service from Hong Kong to Christchurch, as well as Cathay Pacific aircraft upgauges (to accommodate increased demand during peak periods). Post-Covid, the Applicants are still rebuilding capacity to pre-Covid levels. In the IATA Northern Winter 2023 season (NW23), Air New Zealand has returned to daily services from Auckland and Hong Kong (i.e. seven return services per week), and Cathay Pacific has reintroduced both its AKL-HKG and CHC-HKG (seasonal) services. However, its Auckland capacity remains below pre-Covid levels while its wider network continues to recover. Demand is recovering and the Applicants expect capacity to continue to increase to pre-pandemic levels as demand recovers.
  - (b) **Increases in point-to-point and total passengers travelling on Alliance services:** before the COVID-19 outbreak, the Alliance grew point to point traffic on Alliance services between Hong Kong and Auckland by ~[REDACTED]%<sup>2</sup> versus pre-Alliance levels. In addition, total passenger numbers travelling on all Alliance services increased by ~[REDACTED]% from pre-Alliance levels. In 2023, despite Hong Kong maintaining travel related restrictions until 1 April 2023 and the Alliance's capacity remaining at approximately 65% of pre-Covid levels, point to point passenger numbers recovered to ~[REDACTED]<sup>3</sup>% of pre-pandemic levels (total passenger numbers recovered to ~[REDACTED]% of pre-pandemic levels).
  - (c) **The introduction of a seasonal route to Christchurch:** as mentioned above, the Alliance introduced a seasonal service from Hong Kong to Christchurch in the IATA Northern Winter 2017 (NW17) season. While this seasonal service was similarly impacted by the pandemic, Cathay Pacific reintroduced direct flights between Hong Kong and Christchurch as part of the Alliance, offering three flights per week from 16 December 2023 through to 29 February 2024 (which was the first seasonal service Cathay Pacific re-introduced across its whole network following COVID-19). The Christchurch service has substantially increased Alliance traffic to and from the South Island and ensures the tourism benefits of the Alliance are distributed throughout New Zealand. This service will continue into future NW seasons.
  - (d) **Greater availability of lower fare inventory:** average point-to-point economy fares from both New Zealand and Hong Kong point of sale (POS) decreased by [REDACTED] respectively in the period before COVID-19. On beyond journeys, the Alliance continues to incentivise the Applicants to provide each other with better and cheaper access to each other's network resulting in more competitive pricing on connecting fares as demonstrated through a revised SPA. While 2023 was a transition year, as reflected by the comparatively lower load factor than before the pandemic, the HKG-AKL route is recovering with fares on a downward trajectory. Again, these lower fares would not be available without the Alliance.
  - (e) **Increased connectivity:** Air New Zealand's passengers continue to benefit from access to Cathay Pacific's extensive network in Asia, India, the Middle East and Europe. In the period from when the Alliance commenced up to the end of 2019, Air New Zealand has increased the total number of passengers connecting from Air New Zealand services onto Cathay Pacific's network by over 300%, creating significant benefits for Hong Kong and supporting its status as an international aviation hub. Moreover, the Alliance continues to be the

<sup>1</sup> The Alliance was first authorised by the Ministry on 1 November 2012 but effectively started on 20 January 2013.

<sup>2</sup> Point to point passengers only includes passengers with a POS in either New Zealand or Hong Kong. Other POS passengers are excluded due to historical data limitations.

<sup>3</sup> [REDACTED].

primary way for Air New Zealand to access the Greater Bay Area (GBA)<sup>4</sup> in the south of the Chinese Mainland. Likewise, the number of Cathay Pacific's passengers connecting onto Air New Zealand's network has continued to grow over the course of the Alliance with an increase of 235% since 2012 creating significant benefits for regional New Zealand.

- (f) **Stimulation of tourism between New Zealand and Hong Kong:** the Alliance has contributed to a growing number of tourists travelling to New Zealand from Hong Kong, and vice-versa. During the period from when the Alliance commenced up to the end of 2019, visitors from Hong Kong to New Zealand have grown by over 100%. In the same period, inbound visitors travelling to New Zealand from the GBA gateway on Alliance services more than doubled. As mentioned above, the Alliance has increased point-to-point and total passenger numbers using the Alliance services. The Alliance ensures that a growing number of these tourists are travelling to regions outside of the main cities by creating incentives for Air New Zealand to open its domestic network to Cathay Pacific passengers.<sup>5</sup> Connectivity into the regions outside of Christchurch and Wellington has increased by 395% since the pre-Alliance year to the year ended 2019. The Alliance has also continued to provide opportunities for the Applicants to promote New Zealand as a destination to Cathay Pacific's customer base. For example, the Applicants recently coordinated a joint marketing campaign as part of the 10th anniversary celebration of the Alliance<sup>6</sup> and as discussed above, Cathay Pacific has recently re-introduced its seasonal service to Christchurch with flow on benefits to the wider region.
- (g) **Alignment to the long-standing New Zealand/Hong Kong trade relationship:** the Alliance's direct services contribute toward the deep and long-standing relationship that exists between New Zealand and Hong Kong. Direct air connectivity helping to facilitate both the dynamic economic and strong people-to-people ties. Hong Kong is an important trading partner for New Zealand. The Alliance provides significant direct air freight capacity into/from Hong Kong, facilitating access to the Hong Kong market and operating as the Applicants' primary gateway into/from the GBA. This access is of particular importance for New Zealand exporters of high value perishable goods (including salmon, lamb, beef etc).

### **Approach to the Applicants' assessment in this Application**

- 1.7 The Ministry recognised the benefits summarised above when the Alliance was last re-authorised in August 2019. In its final report to the Minister, the Ministry made the following conclusion:

*"We consider the Alliance has, and will, provide benefits to New Zealand. It provides greater international airline capacity (number of seats and flights) into New Zealand and improved connectivity for passengers travelling between New Zealand and key markets in Southern China, Europe, and Northern Asia"*

- 1.8 Unfortunately, the onset of the pandemic only six months following the 2019 re-authorisation decision inhibited the Applicants' ability to operate the Alliance services and continue to generate these benefits. As noted above, Hong Kong did not lift its pandemic-related travel restrictions until three years later: on 1 April 2023 – which is significantly later than most major markets. Therefore, there has been a very limited period of "normal" operating conditions since the last re-authorisation making it difficult for the Applicants to assess the benefits delivered by the Alliance since the 2019 re-authorisation. Furthermore, prior to the COVID-19-related travel restrictions, social unrest in Hong Kong during 2019 also impacted airlines. In August 2019, Hong Kong tourist arrivals fell 40 percent, according to Financial Secretary Paul Chan Mo-po, the largest

<sup>4</sup> In its 2019 analysis, the Ministry determined the relevant geographic market for their analysis was the Pearl River Delta region which includes Hong Kong and the Macau Special Administrative Region of the People's Republic of China (Macau), as well as parts of the Guangdong province in the Chinese Mainland (including the major cities of Shenzhen and Guangzhou). This region is now commonly referred to as the Greater Bay Area (GBA). See Section 8 for more detail.

<sup>5</sup> As explained in this Application, the NAAA allows for coordination between the parties on "Feeder Routes" being the domestic New Zealand sector of an international route comprising an Alliance Route plus a domestic New Zealand sector connecting to an Alliance Route as part of an international itinerary

The Alliance enables Air New Zealand to market New Zealand as a destination to Cathay Pacific's customer base. [REDACTED].

<sup>6</sup> See paragraph 9.55 for further detail.

drop since the 2003 SARS outbreak.<sup>7</sup> In other words, the operating environment since the 2019 re-authorisation has been challenging – even without the pandemic.

- 1.9 Moreover, and unsurprisingly, Cathay Pacific and the Hong Kong and wider GBA gateway, are still recovering from the ongoing impacts of the pandemic-related travel restrictions. Cathay Group's<sup>8</sup> overall capacity is 70% of its pre-pandemic levels and it expects to reach 80% of pre-pandemic passenger flight levels within the second quarter of 2024. It is working towards reaching 100% within the first quarter of 2025. Hong Kong Airport's pandemic recovery has started late compared to other airports. For example, its 2023 passenger throughput was less than 60% of pre-Covid levels (40 million in 2023 vs 71 million in 2019). This late recovery is largely a function of the fact that final travel restrictions were not lifted in Hong Kong until 1 April 2023.
- 1.10 Given that much of the Alliance's public benefit relates to the connectivity with Cathay Pacific's wider beyond network, and access to the Hong Kong and GBA gateway more generally, this late recovery has naturally impacted the Alliance's ability to continue to deliver the benefits recognised by the Ministry and at a speed in which was envisioned. However, this is a function of the macro environment, rather than the Alliance itself. Accordingly, the analysis of the Alliance's benefits for the purposes of this re-authorisation application considers:
- (a) the Alliance's historic performance from its 2013 authorisation until the pandemic, being the period between February 2013 through to March 2020 (**Pre-Covid Period**)<sup>9</sup>; and
  - (b) the Alliance's performance during the "post-covid" period, being the period beginning 1 April 2023, after the final travel restrictions were lifted in Hong Kong and December 2023 (**Post-Covid Period**).
- 1.11 In the Applicants' submission, the Ministry can take comfort from the performance of the Alliance during the Pre-Covid Period. The COVID-19 pandemic years reflect extraordinary and unusual market circumstances and have no reliable or at best limited predictive value of future performance.
- 1.12 In any event, the benefits realised have been achieved without any detrimental impact on competition. The Applicants remained – and will continue to remain – subject to significant competitive constraints relative to the time before the Alliance. Prior to the pandemic, there had been a significant increase in overall seat capacity compared to the pre-Alliance period between New Zealand and the GBA. While some of the capacity is yet to return, several competing airlines have resumed their services. This increase in competition includes:
- (a) **New and expanded direct services from carriers based in the Chinese Mainland:** the Alliance has not disincentivised other carriers from launching new services or expanding existing services to New Zealand from the GBA, including in the Post-Covid Period. During the Pre-Covid Period, China Southern has introduced a year-round direct service from Guangzhou to Christchurch and increased its overall capacity from Guangzhou to New Zealand by over 150% from pre-Alliance levels. In addition, in 2017, Hainan Airlines introduced a year-round direct service from Shenzhen to Auckland. As recognized by the Ministry in 2019, these direct services from nearby competing gateways create further and significant competitive constraint on the Alliance. The entry has meant that Air New Zealand has had to diversify its traffic mix on connecting journeys to ensure it continues to grow and sustain the connecting feed to support the route. Post-Covid, China Southern has resumed its year-round service between Guangzhou and Auckland and has reintroduced its direct Christchurch service. Hainan Airlines has also reintroduced its direct service from Shenzhen to Auckland which is offered twice a week. It should also be noted that Hainan has introduced another service from Haikou (HAK). While not within the GBA, it is another example of the willingness of carriers based in the Chinese Mainland to introduce capacity into new markets to take advantage of opportunities. The Applicants consider that capacity will continue to increase as the recovery continues.

<sup>7</sup> See <https://www.nationalgeographic.com/travel/article/how-four-months-of-protests-are-affecting-tourism>.

<sup>8</sup> The Cathay Group includes a premium full-service airline, a cargo business, a low-cost airline and an express all-cargo business.

<sup>9</sup> This re-assessment of the historic performance of the Alliance prior to the onset of COVID-19 incorporates data from between the year ending December 2012 (pre-Alliance) and the year ending December 2019.

- (b) **One-stop competition:** The Alliance continues to be constrained by indirect carriers. In particular, Qantas and China Southern have both resumed services to the GBA from Australia which can be easily accessed from New Zealand via the Tasman.
- 1.13 Given the benefits that have arisen in the seven years prior to COVID-19, and will continue to arise as the Hong Kong and Chinese Mainland tourism markets recover, and the lack of competitive detriment, the Applicants request that the Minister authorises the Alliance for a further term of at least five years. This period is consistent with the term of the 2019 reauthorisation and provides the Applicants with sufficient certainty and confidence to continue to invest in the Alliance. A five-year term recognises that these investment decisions can only be justified with a long-term view to stimulate and guide recovery and growth post-pandemic.

## 2. THE APPLICANTS

2.1 This application is made by Air New Zealand, and Cathay Pacific.

- (a) Air New Zealand: Air New Zealand is New Zealand's national flag carrier, and offers air services in New Zealand and internationally. The Air New Zealand Group operates a global network that provides air passenger services and cargo transport services to, from, and within New Zealand. Pre-pandemic, Air New Zealand flew more than 17 million passengers every year, with 3,400 flights per week.<sup>10</sup> As at 30 November 2023, Air New Zealand operated 107 aircraft (with another 15 on order).<sup>11</sup>

The New Zealand government owns approximately 52% of Air New Zealand, with the remainder owned by private investors. Air New Zealand is listed on the New Zealand and Australian stock exchanges.

- (b) Cathay Pacific: Cathay Pacific is part of the Cathay Group, which comprises a premium full-service airline, a cargo business, Hong Kong Express Airways Limited (which is a low-cost carrier focusing on providing short-haul to medium haul services across Asia), an express all-cargo carrier AHK Air Hong Kong Limited, and various other subsidiaries. Cathay Pacific is a founding member of the **oneworld** global alliance.

The COVID-19 pandemic had a detrimental impact on Cathay Pacific and it is now gradually restoring passenger capacity and connectivity.

As of June 2023, together with its subsidiaries Cathay Pacific has 225 aircraft. Cathay Pacific's passenger and cargo airlines offered scheduled services to 74 destinations worldwide, including 17 destinations in the Chinese Mainland. There are an additional 42 new passenger aircraft scheduled to join the Group's fleet in the coming years.

Cathay Pacific is listed on the Hong Kong Stock Exchange and its major shareholders include Swire Pacific Limited, with a 45% equity stake, and Air China Limited, with a 29.99% equity stake.

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<sup>10</sup> Air New Zealand "Company Profile" accessed on 15 December 2023 via <https://www.airnewzealand.co.nz/corporate-profile#:~:text=Before%20COVID%2D19%2C%20we%20flew,New%20Zealand%20to%20the%20world%27>.

<sup>11</sup> Air New Zealand Group Fleet Disposition as at 30 November 2023.

### 3. THE ALLIANCE

- 3.1 The NAAA<sup>12</sup> provides for varying levels of coordination between the Applicants in relation to:
- (a) **Alliance Routes**, being sectors operated by either airline between New Zealand and Hong Kong (i.e. Auckland (**AKL**) – Hong Kong (**HKG**) and Christchurch (**CHC**) – Hong Kong); and
  - (b) **Feeder Routes**, being the domestic New Zealand sector of an international route comprising an Alliance Route plus a domestic New Zealand sector connecting to an Alliance Route as part of an international itinerary.
- 3.2 The Alliance provides for broad scheduling, pricing and capacity coordination on both the Alliance Routes and the Feeder Routes. The key commercial features include the following.
- (a) Codesharing and revenue pooling on the Alliance Routes. The Applicants codeshare on all of the direct services between Hong Kong and New Zealand, currently passenger services between Hong Kong and Auckland (regular services), as well as Hong Kong and Christchurch (seasonal services). On these routes, the Applicants operate on a “metal-neutral” basis such that each Party treats each flight, regardless of carrier, as flying on its own network. Under this arrangement, all revenues derived from sales with respect to the Alliance Routes are pooled.
  - (b) Cooperation on beyond and behind sectors. While the Applicants do not codeshare or pool revenue on beyond or behind destinations, the Alliance includes Special Prorate Agreements (**SPAs**) that provide favourable rates on connecting flights to multiple beyond or behind destinations within the Applicants’ respective networks (the **Beyond Routes**, i.e. all routes comprising a sector on an Alliance Route and a beyond or behind sector covered by the SPAs). Currently under the SPAs Air New Zealand offers 59 such Beyond Routes, and Cathay Pacific offers 90 such Beyond Routes. Through the Alliance the Applicants continue to investigate further opportunities to improve the customer journey, experience, access and connectivity on the other party’s products and services.
  - (c) Pricing and marketing coordination. The Applicants cooperate on their respective sales, marketing and pricing of passenger services and certain ancillary revenues, in relation to all journeys between Hong Kong and New Zealand, including the setting of fares, charges and service conditions applicable.
  - (d) Schedule optimisation. The Applicants coordinate their schedules on the Alliance Routes and connection requirements for all New Zealand operated domestic sectors in New Zealand which are sold as part of an international connecting itinerary on the Alliance Routes.
  - (e) Network and capacity planning. The Applicants coordinate their network and capacity planning, including routing, frequency of flight and aircraft types used on the Alliance Routes. Any proposed changes to capacity on these routes must be agreed upon amongst the Applicants.
- 3.3 The Alliance is supported by several “Implementing Agreements” which govern specific areas of the Applicants’ cooperation. These include a Code Share Agreement, a SPA, a Premium Customer Handling and Lounge Access Agreement, and a Frequent Flyer Programme (**FFP**) Agreement.
- 3.4 The Alliance effectively commenced on 30 January 2013 and has been in operation since then, having first been authorised by the then Minister on 1 November 2012 for a period of three years. The Alliance was first reauthorised in 2014 until 31 October 2019 and then reauthorised for a second time in 2019 until 31 October 2024.

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<sup>12</sup> A confidential copy of the NAAA is included in Confidential Annexure 1.

**COVID-19 and the impact on Alliance services**

- 3.5 In response to the COVID-19 outbreak and the measures taken by each of the governments of New Zealand and Hong Kong, Alliance services were significantly reduced.<sup>13</sup> From approximately April 2020, Air New Zealand reduced to two to three services per week through to October 2022 when it started increasing services as travel restrictions began to lift. It was not until the NW22 season (beginning at the end of October 2022) that Air New Zealand increased services, initially to five per week over the NW22 period and then back to seven per week from May 2023. While Air New Zealand never suspended its Hong Kong – Auckland service, this was because it was heavily supported under the government established Maintaining International Air Connectivity scheme (MIAC) to ensure essential goods could be imported and exported through the Hong Kong gateway into and out of New Zealand.
- 3.6 Similarly, Cathay Pacific significantly reduced services from March/April 2020. Unlike Air New Zealand, Cathay Pacific suspended services altogether on the Alliance Routes for some months over the April 2020 – May 2022 period. From November 2022, Cathay Pacific began operating approximately three services per week between Auckland – Hong Kong, gradually building back to six times per week from December 2023. Cathay Pacific re-introduced its seasonal Christchurch service at three times per week from December 2023 to February 2024.
- 3.7 In June 2023, Cathay Pacific announced the resumption of its seasonal Alliance service between Hong Kong and Christchurch from 16 December to 29 February.<sup>14</sup> This is the first seasonal route Cathay Pacific has reinstated since the pandemic.
- 3.8 The Alliance directly services two New Zealand cities from Hong Kong. The current Northern Summer 2024 (NS24) and Northern Winter 2024 (NW24) schedules (as at the date of this Application) are set out in Figure 1 below.

**Figure 1: Alliance flight schedule**

*Northern Summer 24*

Flight No	Days of operation	Flight departs	Flight arrives	Flight duration
<b>Auckland to Hong Kong</b>				
NZ081	7 days	1010	1745	11:10
CX198	5 days (excluding Tuesday and Thursday)	1345	2120	11:15
<b>Hong Kong to Auckland</b>				
NZ080	7 days	1915	0955+1	10:50
CX113	5 days (excluding Monday and Wednesday)	2110	1155+1	10:50

*Northern Winter 24*

Flight No	Days of operation	Flight departs	Flight arrives	Flight duration
<b>Auckland to Hong Kong</b>				
NZ081	7 days	0955	1605	11:10
CX198	7 days	1500	2115	11:15
<b>Hong Kong to Auckland</b>				

<sup>13</sup> On 20 March 2020, the New Zealand government closed the New Zealand border to non-New Zealand citizens or permanent residents. Hong Kong followed suit and on 24 March announced with effect from 25 March 2020, all incoming non-residents arriving from overseas countries and regions would be denied entry, including transit passengers. The New Zealand border did not fully reopen until 1 August 2022. Travel related restrictions in Hong Kong were not fully lifted until 1 April 2023.

<sup>14</sup> <https://news.cathaypacific.com/cathay-pacific-resumes-christchurch-hong-kong-service>.

<b>NZ080</b>	7 days	1740	0930+1	10:50
<b>CX113</b>	7 days	2135	1325+1	10:50
<b>Christchurch to Hong Kong (from 30 October 2024 to 29 March 2025 only)</b>				
<b>CX126 (NZ 4999)</b>	Monday, Thursday, Friday and Saturday	1450	2120	11:30
<b>Hong Kong to Christchurch (from 30 October 2024 to 29 March 2025 only)</b>				
<b>CX123 (NZ 4998)</b>	Wednesday, Thursday, Friday and Sunday	2105	1320+1	11:15

3.9 Aside from the COVID-19 outbreak and the resulting governmental measures, further operational changes since re-authorisation in 2019 include:

- (a) Air New Zealand has made some changes to its fleet since re-authorisation, with the retirement of its 777-200ER aircraft (that previously operated on Alliance Routes) in 2020 as a result of the COVID-19 pandemic. From February 2020 to June 2020, Air New Zealand utilised a Boeing 787-9 aircraft with 275 seats. From July 2020 Air New Zealand has utilised a Boeing 787-9 which has 302 seats. In addition to these fleet changes, for a short period during NW20, Cathay Pacific operated Air New Zealand's Hong Kong – Auckland services on behalf of Air New Zealand. This was due to the Trent 1000 engine issues which impacted Air New Zealand's long-haul fleet.
- (b) As previously notified to the Ministry as part of the last re-authorisation, from NW19, Air New Zealand re-timed the departure of its northbound Auckland – Hong Kong service from 23h45 to 09h55. The rationale for this change was to reduce the significant amount of time that the aircraft sat on the ground in Hong Kong which went from 11-12 hours to approximately two hours. This increase in aircraft utilisation significantly reduces the cost associated with operating the route.
- (c) Cathay Pacific has also made changes to its fleet since authorisation. As discussed in the last application, Cathay Pacific replaced its A340s with A350s from June 2016 which resulted in 10,950 more seats per year. Cathay Pacific further increased capacity in 2022/2023 by deploying predominantly the larger and more comfortable Airbus A350-1000 on the HKG-AKL route.

**4. AUTHORISATION SOUGHT**

- 4.1 The Minister's discretion to authorise the Alliance is provided for in Section 88(2) of the Act. The Applicants believe the Alliance meets the test for authorisation and the Minister should exercise his discretion to reauthorise the Alliance pursuant to section 88 of the Act for a further period.
- 4.2 The Applicants seek reauthorisation until 27 October 2029 (being a five-year period, ending at the end of the 2029 IATA Northern Summer season).
- 4.3 This term is consistent with the period for which authorisation was granted in 2019 and is necessary to provide the Applicants with sufficient certainty and confidence in the wake of the pandemic recovery to continue to invest in the Alliance by:
- (a) assisting with capacity planning; and provide further opportunity for the Applicants to explore increased connectivity;
  - (b) reflecting the key benefits of the Alliance that have accrued and will continue to accrue for New Zealand and New Zealand passengers; and
  - (c) reflecting the ongoing competitive environment faced by the Alliance and the challenges that this presents (particularly given the inbound nature of the route and the size of the competing carriers).

## 5. COMMERCIAL RATIONALE

- 5.1 The commercial rationale for the Alliance has not materially changed since its inception.
- (a) For Air New Zealand, this has been to sustainably maintain and grow Air New Zealand's presence in strategically important Asian markets in line with Air New Zealand's Pacific Rim strategy (which is a key part of Air New Zealand's wider Kia Mau strategy).
  - (b) The Alliance provides Air New Zealand with greater access and connectivity on Cathay Pacific's extensive beyond network. The Alliance incentivises Cathay Pacific to provide better rates and access to Air New Zealand because it obtains a share of the revenue of every extra passenger that travels on the Alliance Routes. Through the Alliance, Air New Zealand obtains favourable interline rates on Cathay Pacific for services beyond Hong Kong which are then passed onto Air New Zealand passengers. The Alliance also gives Air New Zealand access to Cathay Pacific's distribution network within Hong Kong to enable it to market and promote New Zealand as a tourism destination.
  - (c) [REDACTED].
  - (d) [REDACTED].
  - (e) [REDACTED].
  - (f) For Cathay Pacific, the Alliance continues to provide increased network reach into New Zealand. The Alliance also incentivises Air New Zealand to provide Cathay Pacific with access to more inventory and lower pricing for domestic New Zealand sectors under the SPA, benefitting Hong Kong consumers. The Alliance has also allowed Cathay Pacific to better compete for passengers from New Zealand travelling to Hong Kong and to beyond Hong Kong destinations by allowing it to use Air New Zealand operated services when those services have improved connectivity with its own services into the Chinese Mainland, India, the Middle East and European destinations.
- 5.2 Furthermore, as expanded on below, the Alliance allows the Applicants to compete effectively with other carriers. This has become an increasingly important commercial driver since re-authorisation given the increasingly competitive environment in which the Applicants continue to offer Alliance services. In particular, there has been aggressive expansion of direct services into New Zealand by carriers based in the GBA (i.e. China Southern from Guangzhou and Hainan Airlines from Shenzhen, who have both substantially increased supply into New Zealand). Finally, one-stop carriers have continued to constrain the Alliance, with Qantas continuing to provide significant capacity to Hong Kong from the east coast of Australia which it supports via feed from its Tasman services.

**6. COUNTERFACTUAL**

- 6.1 Further detail on each of Air New Zealand's and Cathay Pacific's counterfactual is provided in Confidential Annexure 2 to this Application.

## 7. KEY MARKET DEVELOPMENTS SINCE REAUTHORISATION

- 7.1 Recent global events have demonstrated the continued importance of the Alliance. As is widely known, the outbreak of COVID-19 severely impacted the global economy, with the aviation and tourism sectors especially hard hit. The Alliance was no exception. Demand for air passenger services has reduced tremendously since 2020, exacerbated by the travel restrictions worldwide.
- 7.2 As described in paragraph 1.4 above, in response to the outbreak and the measures taken by each of the governments of New Zealand and Hong Kong, Alliance services were significantly reduced, with Cathay Pacific's services on the Alliance Routes suspended completely at times during the period between March 2020 and August 2022.
- 7.3 Hong Kong's COVID-19 restrictions were among the world's toughest, remaining in place in Hong Kong (and the Chinese Mainland) for a significant period of time, and longer than many other regions.<sup>15</sup> More specifically, entry of non-residents travelling from overseas countries and regions were banned and transits at Hong Kong airport were suspended from around March 2020. In April 2021, a requirement on visitors to undergo 21 days of mandatory quarantine in a designated hotel (in addition to general testing requirements) was introduced. It was not until September 2022 that the compulsory hotel quarantine requirement was fully lifted and not until 1 April 2023 (i.e. less than 12 months ago) that all post-arrival testing and restrictions were officially lifted. Over the course of the pandemic Cathay Pacific also saw over 8,000 employees cease employment and in June 2020 the Hong Kong government provided Cathay Pacific with financial support in the form of HK\$19.5 billion in preference shares with detachable warrants, as well as a HK\$7.8 billion bridge loan facility.
- 7.4 While the aviation industry and the Alliance has navigated the most severe impacts of the pandemic, the broader operating environment continues to be challenging. Most notably, the financial impact of the pandemic coincided with high fuel prices and high inflation, which has created significant pricing pressures. This combined with labour shortages, fleet constraints, global supply chain issues and high interest rates means airlines and passengers alike are impacted in the form of constrained capacity, reduced connectivity and higher fares. Although the strictest restrictions were removed by September 2022, visitor numbers remained low in Hong Kong in comparison to the Pre-Covid Period, with only ~605,000 visitors in 2022 (in comparison to 2018, when Hong Kong had over 65 million visitors).<sup>16</sup> With the final COVID-19 restrictions having only been officially lifted less than a year ago, the Alliance is still recovering and building back to its pre-Covid capacity. To that end, the Post-Covid Period is not a representation of a normal operating environment and 2023 was somewhat of a transition year.
- 7.5 In the face of these persistent challenges and a still uncertain operating environment, the coordination made possible through the authorisation of the Alliance is critical to re-building capacity, restoring connectivity and re-invigorating tourism between New Zealand and Hong Kong. Beyond the recovery, the Alliance will continue to be essential to continue to unlock the significant public benefits that the Alliance consistently achieved pre-Covid.

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<sup>15</sup> For further information see [here](#).

<sup>16</sup> See [here](#).

## 8. RELEVANT MARKETS

8.1 In its 2019 Report, the Ministry concluded that the airports in the wider GBA are “competing gateways” that provide a viable alternative to passengers travelling to and from New Zealand.<sup>17</sup> This is due to, among other things, the close proximity of the airports, and the introduction of a high-speed rail link between central Hong Kong and the airports in Guangzhou and Shenzhen in 2018.

8.2 As detailed further below, the case for this approach has only strengthened since.

8.3 Accordingly, the Applicants submit that the relevant catchment area for Hong Kong as a point of departure or point of destination with regards to travel to New Zealand, should include flights originating or departing from Hong Kong International Airport (HKG), Macau International Airport (MFM), Shenzhen Bao’an International Airport (SZX), Guangzhou Baiyun International Airport (CAN) and Zhuhai International Airport (ZUH). All of these airports are easily and conveniently accessible from across the GBA region. These journeys are increasingly efficient, even for those travellers who do not hold a People’s Republic of China passport, who benefit from visa exemptions when in transit, such that visa requirements are not a particular hindrance to passengers using an airport in part of the GBA to reach another part of the GBA. Further, the integration of airport infrastructure in the GBA is consistent with the relevant governments’ priorities in developing connectivity within the GBA, including in respect of the airports in the Guangdong-Hong Kong-Macau area.<sup>18</sup>

### ***HKG is used as a gateway by passengers travelling from or to parts of the GBA outside of Hong Kong***

8.4 In the years preceding the pandemic, HKG was consistently one of the world’s ten largest airports, handling more than 70 million passengers annually.<sup>19</sup> However, its recovery from the impact of the pandemic started low and started late – as noted above 2023 passenger throughput was less than 60% of pre-pandemic levels, and it is not forecast to fully recover to pre-pandemic levels until the end of 2024.<sup>20</sup>

8.5 HKG is well connected with the rest of the GBA through road, sea and rail links. A network of buses and ferries directly link HKG to various points within the GBA outside of Hong Kong, with frequent services to Humen, Pazhou (in the centre of Guangzhou), Macau, Nansha, Shenzhen, Zhongshan and Zhuhai. The opening of the Hong Kong-Zhuhai-Macao Bridge linking Hong Kong, Macau and Zhuhai in October 2018 facilitated road connections with HKG, as the bridge lands just next to HKG. Finally, HKG is well-connected through rail and road infrastructure to the rest of Hong Kong, from which passengers can easily transit to other parts of the GBA, e.g., Lo Wu.

8.6 There is a dedicated infrastructure facilitating passengers transiting by sea and by road with the rest of the GBA. Passengers transiting by ferry to other parts of the GBA that are outside of Hong Kong, including Macau, Shenzhen, Guangzhou, Zhuhai etc., via HKG are not required to pass through immigration and customs checks at HKG. They can remain in the airport’s transit zone and transfer to their ultimate destination through the ferry or bonded road services at the SkyPier,

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<sup>17</sup> For completeness, this approach is consistent with the view adopted by other competition authorities. See the press release from the Taiwan Fair Trade Commission concerning its decision in the acquisition of Hong Kong Express Airways Limited by Cathay Pacific: <https://www.ftc.gov.tw/internet/main/doc/docDetail.aspx?uid=1932&docid=17223&mid=1932>.

The Japan Fair Trade Commission in its analysis adopted the same approach as that of the Taiwan Fair Trade Commission when reviewing Cathay Pacific’s acquisition of Hong Kong Express. Consistent with its practice when not opposing merger transactions, the Japan Fair Trade Commission did not adopt a formal reasoned decision, but its approach was reflected in the information requests it issued to the parties.

<sup>18</sup> See in this respect MFM’s Five-Year Plan, which refers to the coordinated approach under the guidance of the PRC’s Civil Aviation Administration, at <https://www.camacau.com/en/AboutUs/YearPlan>.

There are several initiatives to improve infrastructure facilitating the development and integration of the GBA which includes the area of Guangdong, Hong Kong and Macau. This is a key national strategy of the PRC and according to the outline development plan for the Guangdong-Hong Kong-Macao Greater Bay Area published in February 2019, one of the key areas of development is to expedite infrastructural connectivity within the area. In particular, it is the national strategy “to develop a world-class airport cluster”, and “to raise the standards of passenger and cargo transport services”, and one of the specific endeavours is to “pursue public inter-city passenger transport service operations in the GBA, and prompt the use of a single ticket for all connecting trips and a single card for all modes of transport”. See here: <https://www.bayarea.gov.hk/en/outline/plan.html>.

<sup>19</sup> See <https://www.hongkongairport.com/iwov-resources/file/the-airport/hkia-at-a-glance/facts-figures/2021EN.pdf> and [https://en.wikipedia.org/wiki/List\\_of\\_busiest\\_airports\\_by\\_passenger\\_traffic#2019\\_statistics](https://en.wikipedia.org/wiki/List_of_busiest_airports_by_passenger_traffic#2019_statistics).

<sup>20</sup> [Press Releases, Media Centre - Hong Kong International Airport \(hongkongairport.com\)](https://www.hongkongairport.com/press-releases)

which is a ferry port located within HKG transit zone (the SkyPier ferry port provides ferry services linking HKG to nine ferry ports in the GBA). These passengers do not enter Hong Kong and are treated as other passengers that transit at the airport without entering Hong Kong. They only need to go through immigration and customs checks upon their arrival at their ultimate destination in the GBA. Airlines have also implemented arrangements facilitating the use of HKG as a gateway for residents across the GBA. While these arrangements have evolved over time, particularly during the pandemic, they allow passengers flying out of HKG to check in at various locations in the GBA before boarding a ferry to HKG. Similar arrangements have been extended to transit by road transport through the SkyPier road terminal via the Hong Kong-Zhuhai-Macao Bridge for direct onward travel in 2023. This new road terminal has enabled passengers landing at HKG to remain in the transit zone and to use road transport through the terminal via the bridge, effectively without entering Hong Kong and without having to go through Hong Kong immigration and customs checks, much in the same way as the existing arrangements for ferry services at the SkyPier.<sup>21</sup>

- 8.7 Similarly, passengers from the GBA travelling to beyond destinations via flights departing from HKG are also not required to pass through immigration and customs checks at HKG upon arrival to HKG via ferry services at the SkyPier. The same arrangement has been extended to bridge-to-air passengers from the GBA region outside of Hong Kong that enter HKG by road transport for onward departure by air through the SkyPier road terminal via the Hong Kong-Zhuhai-Macao Bridge, without the need to go through immigration and customs checks at HKG.<sup>22</sup> These passengers are only required to go through immigration and customs checks at the departing points in the GBA, and passengers travelling with some of the participating airlines can also perform one-stop check in process and drop baggage at the departing points, and they are also entitled to an exemption from the air passenger departure tax levied by HKG.<sup>23</sup> While some of the connections linking HKG with the part of the GBA outside of Hong Kong were suspended during the COVID-19 pandemic, they have now generally resumed.
- 8.8 HKG's significant investments in developing specific infrastructure to handle passengers whose destination or origin is the GBA region outside of Hong Kong constitutes strong evidence that HKG's catchment area encompasses the GBA region and overlaps with the catchment areas of neighbouring airports such as SZX, MFM and CAN. This is particularly the case in respect to travel to and from New Zealand, as recognised by the Ministry when it last reviewed the Applicants' application for re-authorisation of the Alliance, where it concluded (at paragraphs 71 and 72 of its Final Report) that:

Given the proximity of the airports in Hong Kong, Macau, Guangzhou, Shenzhen and Zhuhai to one another, a significant proportion of passengers coming from or going to New Zealand are likely to regard flights arriving in or departing from any of these airports as reasonably substitutable. Therefore, airlines operating flights between New Zealand and Hong Kong are likely to be constrained in their ability to increase airfares (or reduce capacity) by the existence of competitive offerings from airlines operating from the other airports in the Pearl River Delta.

Therefore, for the purposes of the competition analysis, the relevant geographic market includes all five airports in the wider Pearl River Delta rather than being confined to Hong Kong. Accordingly, the relevant market includes all routes flown between Auckland and the Pearl River Delta, and between Christchurch and the Pearl River Delta.

- 8.9 A significant proportion of passengers residing in the GBA region outside of Hong Kong use Cathay Pacific's service out of HKG when flying to New Zealand.<sup>24</sup>
- 8.10 [REDACTED]. Further, it is likely that a significant proportion of those passengers were travelling from the GBA within the Chinese Mainland and used one of the available options detailed above to reach Hong Kong.

<sup>21</sup> See <https://www.info.gov.hk/gia/general/202205/18/P2022051700470.htm>; <https://www.hongkongairport.com/en/transport/mainland-connection/transfer-coach-service.page> and <https://www.thestandard.com.hk/breaking-news/section/4/211274/%22Fly-Via-Zhuhai-HK%22-passenger-transfer-service-to-start-on-Tue>.

<sup>22</sup> See <https://www.macauhkairportbus.com/service.php>.

<sup>23</sup> See further information here: <https://www.hongkongairport.com/en/transport/mainland-connection/airline-check-in-at-prd-and-macao.page>.

<sup>24</sup> [REDACTED].

- 8.11 The Chinese Mainland point of sale data is significant in two key respects:
- (a) it provides further support that the relevant market is the wider GBA area consistent with the Ministry's earlier views; and also
  - (b) that the Alliance is critical for Air New Zealand to gain access to the GBA region and compete for traffic with the likes of China Southern and Shenzhen Airlines who have direct services from those areas.
- 8.12 Cathay Pacific's point-of-sales data regarding sales in the GBA before the pandemic (i.e. 2017 to 2019) shows that many passengers residing outside of Hong Kong were also regularly using Cathay Pacific's services out of HKG when flying to regional destinations for example, Japan, Thailand etc. This is evidence that these passengers, who are clearly located within the catchment area of MFM, SZX, CAN and ZUH, do fly to regional as well as long-haul destinations on flights departing from HKG.
- 8.13 Accordingly, the data presented in Section 9 of this Application on the number of connecting passengers significantly underreports the number of passengers travelling to/from the Chinese Mainland on Alliance services.

***Guangzhou Baiyun International Airport (CAN) is one of GBA's largest hub airports and is well-connected to the rest of the GBA***

- 8.14 CAN is one of the largest airports in the world, generally handling the same number of passengers (around 70 million passengers in 2019) as HKG does.<sup>25</sup> At present it can handle over 80 million passengers every year, and expansion projects are underway which would increase the handling capacity to 140 million passengers per annum when completed.<sup>26</sup>
- 8.15 CAN is well connected to the rest of the GBA through road and rail connections<sup>27</sup>, creating a catchment area for the airport that largely overlaps with those of other major airports in the GBA, including HKG. Train travel between Guangzhou and Hong Kong takes approximately 50 minutes on high-speed trains. There are plans to further improve the infrastructure and connectivity between CAN and the cities in the GBA, and CAN has announced that "in the future [it] will build a comprehensive transportation centre and transfer hub integrating multiple modes of transportation including air transportation, high-speed railway, subway, intercity rail and expressway, so as to realise the effective linkage between cities among the [GBA]".<sup>28</sup>
- 8.16 China Southern Airlines has long operated direct services between CAN and AKL, accounting for between around 25% and 40% of total frequencies and capacity between the GBA and AKL over the past ten years. Further, China Southern also started operating direct flights between CAN and CHC in 2015, accounting for well over 80% of total frequencies and capacity between the GBA and CHC over the same period. China Southern continued operating to AKL during the COVID-19 pandemic but suspended its flights to CHC during that time. Since December 2023 it has resumed operating to CHC and has steadily increased capacity and frequencies available to both destinations.

***Shenzhen Bao'an International Airport (SZX) is also well-connected with the rest of the GBA, with the airport and several airlines operating dedicated services for passengers travelling to or from Hong Kong***

- 8.17 SZX, the third-largest airport in the GBA (after HKG and CAN), routinely handled a total annual passenger traffic of around 50 million passengers in the years preceding the pandemic.<sup>29</sup>
- 8.18 Bus services link various points within Hong Kong with SZX.<sup>30</sup> Passengers flying out of SZX can proceed to check in in Hong Kong before boarding buses to SZX. Additionally, while availability

<sup>25</sup> See [https://www.baiyunairport.com/byairport-web/menu/index?urlKey=airport-basic-facts\\_en](https://www.baiyunairport.com/byairport-web/menu/index?urlKey=airport-basic-facts_en).

<sup>26</sup> *Ibid.*

<sup>27</sup> See [https://www.baiyunairport.com/byairport-web/traffic/index?urlKey=wjfc\\_en](https://www.baiyunairport.com/byairport-web/traffic/index?urlKey=wjfc_en).

<sup>28</sup> See [https://www.baiyunairport.com/byairport-web/menu/index?urlKey=airport-basic-facts\\_en](https://www.baiyunairport.com/byairport-web/menu/index?urlKey=airport-basic-facts_en).

<sup>29</sup> See [https://en.wikipedia.org/wiki/List\\_of\\_busiest\\_airports\\_by\\_passenger\\_traffic#2019\\_statistics](https://en.wikipedia.org/wiki/List_of_busiest_airports_by_passenger_traffic#2019_statistics).

<sup>30</sup> See examples here: [https://www.szairport.com/szairport/daba/zlm\\_tt.shtml](https://www.szairport.com/szairport/daba/zlm_tt.shtml).

has evolved over time, some airlines have been running a “flight-plus-shuttle” service between HKG and SZX with a service every 15 to 30 minutes.<sup>31</sup> SZX also has sea links with Macau and Hong Kong, with frequent ferries operating between the Shenzhen Airport Ferry Terminal, two Macau ports and two Hong Kong ports (at HKG and the city centre).<sup>32</sup> Finally, SZX can be reached via the Shenzhen subway, which is itself easily accessible from other parts of the GBA (such as through bus and train connections within the Guangdong Province), including Lo Wu in Hong Kong.

- 8.19 Since December 2016, Hainan Airlines (HU) has been operating direct services between SZX and AKL, accounting for between around 5% to 9% of total direct frequencies and capacity between the GBA and AKL. While services were suspended during the COVID-19 pandemic, HU re-started operations to AKL in 2023.

***Macau International Airport (MFM), while a smaller airport, is also well-connected to the rest of the GBA, and in particular Hong Kong***

- 8.20 While a much smaller airport than its neighbouring rivals SZX, HKG and CAN, MFM handled around 9 million annual passengers before the pandemic and remains an attractive gateway to the GBA.<sup>33</sup> The Hong Kong-Zhuhai-Macao Bridge facilitates road connections between Hong Kong and Macau, with exits at a short distance from MFM. A ferry pier is located close to MFM, with frequent connections to Hong Kong and some other ports in the GBA, including Shenzhen. While no airlines currently operate direct flights between MFM and New Zealand destinations, it remains a potential competitor, and currently offers flights to connecting hubs such as Manila, Taipei, or Singapore.

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<sup>31</sup> <https://newsroom.airasia.com/news/2019/12/30/connects-hong-kong-and-shenzhen-through-city-transfer-service/eng>.

<sup>32</sup> See [https://www.szairport.com/szairporten/kechuan/zlm\\_tt.shtml](https://www.szairport.com/szairporten/kechuan/zlm_tt.shtml).

<sup>33</sup> See <https://www.camacau.com/en/OurBusiness/TrafficStatsPassengers>.

## 9. BENEFITS TO NEW ZEALAND

9.1 In the more than 10 years since it was first authorised, Air New Zealand and Cathay Pacific have together delivered real and substantial benefits to consumers as a result of the Alliance. These benefits include:

- (a) increases in capacity on the Hong Kong – New Zealand routes;
- (b) increases in point-to-point and total passengers travelling on the Alliance services;
- (c) the introduction of a seasonal route to Christchurch (with resulting benefits to the wider South Island region);
- (d) greater availability of lower fare inventory;
- (e) increased connectivity; and
- (f) increased marketing and exposure of New Zealand in Hong Kong and the other destinations served by the Cathay Pacific network (particularly, in relation to Christchurch).

9.2 However, as noted above, the realisation of these benefits since the 2019 re-authorisation has been significantly disrupted with the onset of the pandemic only six months after the Ministry's decision, that is, from early 2020 onwards. In the Applicants' submission, the COVID-19 pandemic years reflect extraordinary and unusual market circumstances and have no reliable or at best limited predictive value of the future performance of the Alliance. Instead, the Ministry can take comfort from the performance of the Alliance during the Pre-Covid Period.

9.3 Against this background, the relevant benefits in this Section are considered with reference to:

- (a) the historic performance of the Alliance since it was authorised in 2012 until the end of 2019 (the year prior to the onset of COVID-19), (the Pre-Covid Period); and
- (b) the performance of the Alliance during the Post-Covid Period, being the period beginning 1 April 2023 after the final travel restrictions were lifted in Hong Kong and December 2023 (the Post-Covid Period) (but noting that recovery on the routes to/from Hong Kong generally started from a lower level and comparatively later than other places).

### A. Increased capacity on the Hong Kong to New Zealand route

9.4 The Alliance has resulted in material increases to capacity between New Zealand and Hong Kong. As demonstrated by Figure 2 below, total capacity has increased by approximately [REDACTED] over the Pre-Covid Period. This equates to approximately [REDACTED] additional seats per year.

**Figure 2:** [REDACTED]

Source: [REDACTED]

9.5 The additional capacity was achieved through;

- (a) the introduction of a new seasonal Christchurch - Hong Kong routes (see further below); and
- (b) upgauges to Cathay Pacific's fleet from A340 to A350s resulting in 5.6% more capacity.<sup>34</sup>

9.6 At the time of the 2019 re-authorisation, the Ministry acknowledged the capacity increases and network growth as a benefit to New Zealand as it *"increased the availability of services to and from New Zealand and provided more options for passengers. The Alliance has enabled the*

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<sup>34</sup> A340 seat capacity is 265 pax. A350-900 seat capacity is 280 pax.

*Applicants to sustain international services and to launch new ones in an economically sustainable way.”<sup>35</sup>*

- 9.7 It should be noted that in this respect in terms of available seat kilometres (ASK)<sup>36</sup> the Applicants’ capacity between HKG and New Zealand has increased by 8.9% since 2013 up until the COVID-19 pandemic (from around 4.371 billion ASK in 2013 to 4.791 billion ASK in 2019). These capacity increases have been supported through preferential SPA pricing that the Applicants have offered each other. As noted above, this has allowed the Applicants to offer attractive fares on connecting itineraries, driving more traffic on the Alliance Routes from beyond markets which in turn has supported increased services and the capacity upgauges.
- 9.8 Post-Covid, the Applicants are still rebuilding capacity but expect that capacity will return to pre-Covid levels. As the wider network continues to recover, there is a clear upwards trajectory emerging in this regard (as evidenced by Figure 2 above). Ultimately, the Alliance enables the Applicants to deliver an increase in overall capacity on Alliance Routes relative to the likely counterfactual, not only in the form of additional frequencies but also additional seats (where load factors justify the use of additional aircraft).

#### *Introduction of Christchurch to Hong Kong service*

- 9.9 On 1 December 2017, the Alliance commenced a new seasonal service between Christchurch and Hong Kong with three services per week over the Northern Winter period. This was increased to four services per week in December 2019 before being suspended due to COVID-19. The route serviced not only the GBA-CHC region but also many other destinations, with a large number of passengers connecting beyond Hong Kong. [REDACTED].
- 9.10 While this seasonal service was impacted by the pandemic, Cathay Pacific recently resumed services on the route as part of the Alliance, with three flights per week starting 16 December 2023 through to 29 February 2024.<sup>37</sup> This has provided a welcome boost to Christchurch and the broader South Island, adding economic growth over the New Zealand summer period.

#### *Load factors largely track industry average and do not evidence that the Applicants are restricting supply*

- 9.11 As discussed in the last authorisation, there is no clear answer as to what an appropriate load factor for an airline is as it depends on route specifics and seasonal factors. The Ministry has previously accepted that load factors within the 75-85% range are typical across the industry and in its 2019 Report the Ministry considered the Alliance load factors have been at acceptable levels.<sup>38</sup> Whilst these load factors may be considered to be at acceptable levels, as the aviation sector looks to decarbonise it is worth noting that industry norms may move to reflect increasing load factors as a method to generate emission efficiencies.
- 9.12 As shown in Figure 3 below,<sup>39</sup> in the Pre-Covid Period, Alliance load factors have been around this range and have fallen from where they were at the time of the last re-authorisation. The Applicants expect that as the market re-calibrates post-Covid, load factors will return to pre-Covid levels.

#### **Figure 3: [REDACTED]**

<sup>35</sup> Ministry’s Briefing Paper, para 32.

<sup>36</sup> Available Seat Kilometers (ASK) captures the total flight passenger capacity of an airline in kilometres. It is obtained by multiplying the total number of seats available for scheduled passengers and the total number of kilometres in which those seats were flown.

<sup>37</sup> Cathay Pacific “Cathay Pacific resumes Christchurch-Hong Kong service” available here: <https://news.cathaypacific.com/cathay-pacific-resumes-christchurch-hong-kong-service>

<sup>38</sup> Ministry of Transport Analysis “Air New Zealand / Cathay Pacific Alliance Reauthorisation” August 2019, para. 169.

<sup>39</sup> The Figure 3 load factor data for 2021 is limited to the Feb-Dec 2012 period, due to historical data availability.

## B. Lower average Alliance fares and access to lower fare inventory

9.13 In its 2019 Report, the Ministry was of the view that the Alliance has not led to increased airfares and that it responded appropriately to market conditions during the period of reauthorisation.<sup>40</sup>

### *Average fares*

9.14 Figures 4 and 5<sup>41</sup> below demonstrate that, despite inflation, the Alliance has not led to an increase in average Alliance fares from January 2012 to the end of the Pre-Covid Period. The graphs below demonstrate that prices had a downward trajectory through this period.

**Figure 4:** [REDACTED]

**Figure 5:** [REDACTED]

9.15 As explained in the 2018 Application, this favourable pricing is attributable to many factors, including in particular the additional capacity offered by competing services in the Pre-Covid Period. In the Applicants' submission, the increased capacity and coordination offered as a result of the Alliance is instrumental in these prices.

9.16 As explained above, COVID-19 has impacted international aviation networks in an unprecedented manner and the industry continues to suffer from its ongoing impacts. Labour shortages, fleet constraints and backlogs with aircraft manufacturers mean the global supply chain continues to be stretched due to the pace of the rebuild. Alongside high inflation and fuel costs, this has contributed to elevated airfares across the industry, including on Alliance Routes in the Post-Covid Period.

9.17 As is the case with carriers worldwide, an increase in fares can be seen universally across the Applicants' international routes (i.e., including those outside the Alliance).

9.18 Accordingly, the Applicants consider that an increase in fares would have occurred on services between New Zealand to Hong Kong in the absence of the Alliance due to a number of factors outside of the Applicants' control. Most notably, the financial impact of the pandemic has coincided with high fuel prices (including as a result of the war in Ukraine) and high inflation, which has created significant pricing pressures. That said, the Applicants do not anticipate these "price shocks" to have a long-term effect on pricing in the aviation industry and in any event, the Applicants consider the Alliance continues to facilitate lower fares on the New Zealand to Hong Kong route than would prevail in the absence of the Alliance, noting the increased capacity and reduced double marginalisation effects outlined below.

9.19 In the Post-Covid Period Figures 4 and 5 above demonstrate that there is already a clear downward trajectory emerging (noting as above, that 2023 operated as a transition year). [REDACTED]. The Hong Kong Census and Statistics Department has indicated that while inflation remains moderate as at December 2023, external pricing pressures should continue to recede.<sup>42</sup> Similarly, the Reserve Bank of New Zealand currently forecasts the annual inflation rate to decline over calendar years 2024 and 2025, with inflation stabilizing from 2026.<sup>43</sup>

9.20 As far as predicting the Alliance's potential impact on fares when pandemic-related and other disruptions mean that fares in recent years have no reliable predictive value, the parties believe the Ministry can take considerable comfort from the long history of competitive pricing on Alliance Routes. This is evidenced by the analysis above, is consistent with what economic theory would predict in relation to an Alliance such as this, and there are no factors which should cause the

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<sup>40</sup> Para. 218.

<sup>41</sup> Please note that the data provided in Figures 4 and 5 related to Years 1 through 5 of the Alliance differs from the equivalent data provided in the 2018 Application. These differences are explained by differing methodologies in extrapolating the data. Whilst the methodology differs, both data sets reflect the same trends.

<sup>42</sup> See

[https://www.censtatd.gov.hk/en/press\\_release\\_detail.html?id=5378#:~:text=For%202023%20as%20a%20whole,2.0%25%20and%202.0%25%20respectively.](https://www.censtatd.gov.hk/en/press_release_detail.html?id=5378#:~:text=For%202023%20as%20a%20whole,2.0%25%20and%202.0%25%20respectively.)

<sup>43</sup> See Reserve Bank of New Zealand "Monetary Policy Statement: February 2024" accessible via <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2024/feb/mps-feb-2024.pdf>

next Alliance period to be any different in terms of competitive fares than it has delivered from its inception.

### *Connecting Fares*

#### BLS report

- 9.21 As set out in the 2018 Application, in 2015/16 Air New Zealand commissioned a major economic study of all of its alliance activity (the **BLS Report**). The BLS Report provided compelling evidence that prices for international JV connecting fares (excluding the Tasman) are 8.8% to 11.6% lower than traditional interline fares. The BLS Report found that connecting fares on Air New Zealand's revenue share Alliance services are indistinguishable from online fares, indicating that the Alliance partners operate as though they were a single airline, providing substantial fare benefits to customers who make international connecting trips to/from New Zealand ([REDACTED]). The BLS Report found that the closeness of cooperation was the key to these lower fares, i.e., the ability of Air New Zealand and its partners to offer the most efficient, lowest, connecting fares would not be realised outside of a revenue sharing Alliance.
- 9.22 In the Applicants' submission, the findings of the BLS Report continue to hold true.

#### SPA billing rate reductions

- 9.23 The alignment of incentives achieved amongst the Applicants through the Alliance also contributed to lower fares for passengers connecting beyond Hong Kong or New Zealand gateways. The Applicants were able to offer more competitive fares for passengers due to fare combinability, which enables passengers to lower travelling costs by buying the cheapest Cathay Pacific fares in one direction and the cheapest Air New Zealand fares in the other direction. This incentive to lower prices on the Alliance Routes with a view to generating demand and traffic not only on these routes but also on the Beyond Routes (i.e. elimination of double marginalisation), is clear from the fall in SPA interline rates.
- 9.24 Figure 6 below compares the rates between the pre-Alliance SPA, the SPA operating at the time of authorisation and the 2019 re-authorisation, as well as the SPA which currently applies. Average billing rates on all Cathay Pacific like for like routes has [REDACTED] with a [REDACTED]% reduction in economy rates, and a [REDACTED]% reduction on Cathay Pacific's business class routes relative to the pre-Alliance SPA. Furthermore, average billing rates on all Air New Zealand like for like routes has [REDACTED] with for example, a [REDACTED]% reduction in economy rates.

#### **Figure 6:** [REDACTED]

- 9.25 Further, as shown in the examples below, these SPA interline rates on behind/beyond domestic routes are about [REDACTED]. As mentioned, there have been no material changes to the rates since the last reauthorisation despite the significant increase in costs. As explained in the 2018 Application, the reductions in SPA rates directly benefit Alliance passengers in the form of lower connecting fares than what would be available absent the Alliance.

#### **Figure 7:** [REDACTED]

- 9.26 The preferential SPA rates the Applicants have offered each other enables Air New Zealand and Cathay Pacific to offer attractive airfares to travellers. As set out further below, over the course of the Alliance, the Applicants have reduced the average billing rates under the SPA between each other. This is consistent with the findings of the BLS report (discussed further at 9.21) which conclude that in an Alliance the parties are incentivised to act as a single airline and provide preferential rates and access to their perspective beyond networks.

### **C. Greater connectivity**

- 9.27 As outlined in its 2019 Report, the Ministry recognised that the Alliance has facilitated greater connectivity for passengers by combining the Applicants' networks. As explained in previous applications and acknowledged by the Ministry, the Alliance incentivises both parties to provide

the other party with better interline access for connecting passengers than would be available absent the Alliance because each party obtains a share of the revenue of every extra passenger that travels on the Alliance Routes.

- 9.28 Consistent with that finding, the Alliance continues to provide passengers with better connectivity and access than what would be available absent the Alliance. This connectivity enables Air New Zealand passengers to access markets which would otherwise be very difficult to access in the absence of the Alliance. In particular, the Alliance opens up access to the GBA in the Chinese Mainland, as well as destinations in North Asia, India, and East Asia (as well as UK/Europe and the Middle East). The North Asian and East Asian regions that are characterised by a number of small and fragmented markets, many of which cannot be sustainably served on a direct basis, whether due to the size of the market and/or their distance from New Zealand. Furthermore, in the case of the GBA and North Asia, the Alliance represents the primary means by which Air New Zealand is able to access and compete in these markets.
- 9.29 As illustrated by Figure 8 below, in the year ended December 2019, over 50,000 Air New Zealand passengers connected onto Cathay Pacific's beyond network, up 300% since the Alliance commenced. Likewise, for the year ended December 2019, 40,000 Cathay Pacific passengers connected onto Air New Zealand's domestic network – up 235% from pre-Alliance Levels. Post-Covid, Air New Zealand has continued to rely heavily on Cathay Pacific's beyond network with the number of passengers connecting in 2023 already higher than pre-Covid levels.

**Figure 8:** [REDACTED]

- 9.30 As detailed further in Air New Zealand's confidential submission, absent the Alliance, [REDACTED].
- 9.31 The number of Cathay Pacific passengers connecting on Air New Zealand's beyond network has not yet reached pre-Covid levels. This can be primarily explained by Cathay Pacific capacity on its overall network not yet being back to pre-Covid levels. As discussed above, Cathay Pacific was hit particularly hard by the pandemic. Air transport services from the GBA started to recover later than in other major markets, with the Chinese Mainland only relaxing its COVID-19 controls in April 2023 (i.e., less than 12 months ago).
- 9.32 However, the number of passengers using Alliance services to connect to the Applicants' respective beyond networks has been increasing post-Covid and is expected to continue to increase in response to growing demand. The route continues to be characterised by connecting travel, with [REDACTED]% of passengers on Air New Zealand operated services connecting behind or beyond Hong Kong in 2023 (with [REDACTED]% of those connecting passengers doing so to or from Cathay Pacific's network).
- 9.33 Air New Zealand has also recently introduced the Upstream Check-in Service, bringing the same convenience as that offered by Cathay Pacific across the GBA. Passengers from the GBA can easily take the ferry from applicable ferry ports (including Shenzhen Shekou and Guangzhou Pazhou) and directly arrive at the Hong Kong International Airport Departure area to enjoy a seamless transit experience.<sup>44</sup>

#### *Destinations beyond Hong Kong*

##### The Chinese Mainland

- 9.34 Pre-Covid, the Chinese Mainland was New Zealand's second largest tourism market in terms of both arrivals and spend and was expected to surpass Australia as the largest contributor to spend by 2024. The Chinese Mainland was expected to contribute 27.4% of total international visitor growth from 2017 to 2024, and 38% of total visitor spending.<sup>45</sup> The Chinese Mainland [REDACTED]<sup>46</sup> – Cathay Pacific has the most comprehensive beyond network of any airline from Hong Kong into the Chinese Mainland (with 23 destinations in 2019 and 19 destinations in 2024). Hong Kong remains Air New Zealand's best gateway for servicing regions in the Chinese

<sup>44</sup> For further information, see <https://www.hongkongairport.com/en/transport/mainland-connection/ferry-transfer.page>

<sup>45</sup> New Zealand Tourism Forecasts 2018-2024, see [here](#).

<sup>46</sup> Based on 2019 data.

Mainland other than Shanghai and Beijing. In particular, the Alliance provides Air New Zealand with the best access and connectivity into the south of the Chinese Mainland where significant parts of the population live.

9.35 Air New Zealand could not be competitive in the GBA through either the Singapore Airlines Alliance or Air China Alliance:

(a) [REDACTED].

(b) [REDACTED].

9.36 Air New Zealand competes with other carriers offering direct services out of competing gateways in the Chinese Mainland (Hainan from Shenzhen and China Southern from Guangzhou). This rapid expansion of competing alternatives since re-authorisation has constrained the ability of Air New Zealand to grow beyond traffic into the Chinese Mainland. Notwithstanding, the number of passengers connecting into the Chinese Mainland from Air New Zealand's Auckland - Hong Kong services remains significant. [REDACTED].

9.37 As noted previously, the true number of passengers connecting from the Chinese Mainland onto Alliance services is much higher - this is because many passengers are travelling between Hong Kong and Auckland/Christchurch on Alliance services to/from the Chinese Mainland via the road, rail and ferry services that are in place. This is supported by [REDACTED]. In other words, the data available takes into account connections between airports only. That is only a fraction of the picture. Air New Zealand intends to make these ground services more accessible to its passengers by building out relationships with local intermodal service providers – Air New Zealand expects that these relationships will drive incremental passengers onto Alliance Routes to the benefit of the Alliance.

#### Other Beyond Destinations

9.38 The Alliance also provides Air New Zealand with connectivity into other beyond destinations in order to support traffic on the Hong Kong route. [REDACTED].

9.39 [REDACTED].

#### **Figure 9: [REDACTED]**

*Increased connectivity has been facilitated through improvements to the SPA*

9.40 The improvements in connectivity have been facilitated through improvements in the SPA relative to the Pre-Alliance Period. Figure 10 below summarises the main differences between the pre-Alliance SPA, the SPA operating at the time of authorisation and the last reauthorisation, as well as the SPA as it currently stands. In summary, the number of destinations covered by the SPAs between the Applicants has increased as a result of the Alliance, as the Applicants continued to add destinations as their respective networks and coverage expanded. This has led to a significant increase in destinations accessible by passengers based in the GBA.

9.41 As shown in Figure 10 below:<sup>47</sup>

(a) the number of additional new routes available to Air New Zealand on Cathay Pacific's network since authorisation has [REDACTED] with substantial increases in routes across all fare classes. Air New Zealand now has access to [REDACTED] routes on Cathay Pacific's network (compared to [REDACTED] pre-Alliance); and

(b) the number of routes available to Cathay Pacific on Air New Zealand's network since authorisation has nearly doubled. Cathay Pacific now has access to [REDACTED] routes on Air New Zealand's network (compared to [REDACTED] pre-Alliance).

<sup>47</sup> For clarity, the reference to "total routes" in Figure 10 refers to the total number of routes offered in the SPA (as opposed to the sum of routes available by class).

**Figure 10:** [REDACTED]

*Improved time of day benefits*

- 9.42 Over the course of the Alliance, the Applicants have looked to optimise their schedules to provide better choice and connectivity for passengers. For example, starting from NS24 Air New Zealand shifted the departure time of its NZ081 service to Hong Kong from 08h40 to 10h10. This was to allow connectivity from Queenstown and shorten the connection time into Cathay Pacific's services to Europe.
- 9.43 While, all things being equal, two carriers working together will rationally reduce wing-tip flying, the Applicants must inevitably also consider the broader operating environment in setting their schedule. As noted above, in Northern Winter 2019, Air New Zealand re-timed the departure of its northbound Auckland - Hong Kong service from 23h45 to 09h55. The rationale for this change was to reduce the significant amount of time that the aircraft sat on the ground in Hong Kong which went from 11-12 hours to approximately two hours – helping to reduce the costs associated with operating the route. The Applicants remain confident that they will be able to continue to deliver improved time of day benefits for passengers as a result of the Alliance as demand recovers.

**D. Stimulation of tourism to New Zealand**

- 9.44 As explained above, for the period immediately preceding the COVID-19 pandemic the Alliance increased point-to-point passenger volumes<sup>48</sup> by ~[REDACTED]% compared to pre-Alliance levels. Moreover, while total passenger volumes were flat in the first two years of the Alliance, they had subsequently grown by [REDACTED]% by 2019. Compared to the pre-Alliance year, total inbound visitors to New Zealand travelling on Alliance services increased by 26,817 for calendar year 2019.<sup>49</sup> Based on Ministry of Business, Innovation and Employment data, the average tourist expenditure in New Zealand for the year ending Dec 2019 was \$3,400. Therefore, this increase in passengers represents a value of NZD\$91 million to the New Zealand economy.
- 9.45 The Alliance has ensured that the benefits of this increase in tourism are distributed to different geographical regions throughout New Zealand. This is most obviously apparent with the introduction of the new Christchurch - Hong Kong route which has substantially increased Alliance passengers travelling to and from the South Island. Since the introduction of this route, over 25,000 overseas visitors<sup>50</sup> have arrived in Christchurch from or through Hong Kong, representing approximately \$85.5 million in tourist spend.
- 9.46 The Alliance also stimulates travel to other regions outside Auckland and Christchurch due to the increased incentive that the Alliance creates for Air New Zealand to open its domestic network to Cathay Pacific passengers. Wellington has benefited from an increase in Cathay Pacific's passengers connecting into Wellington from Auckland – which have more than doubled in 2019 from 2012 ([REDACTED] Cathay Pacific passengers connected to Wellington from Auckland in 2019 compared to only [REDACTED] pre-Alliance). The Alliance has also increased connectivity into regions outside of New Zealand's main cities – in 2019 over [REDACTED] Cathay Pacific passengers travelled on Air New Zealand's regional network (compared to less than [REDACTED] in 2012). In particular there have been large increases in the following regions:<sup>51</sup>
- [REDACTED].
- 9.47 As demonstrated in Figure 11 below, these increases have happened progressively over time with connectivity onto Air New Zealand's domestic network increasing every year from 2016 through to 2019 (before being interrupted due to COVID-19). As noted above, recovery of the connectivity onto Air New Zealand's network has started low and started late, however, it is still above pre-Alliance levels.

<sup>48</sup> Point to point passengers only includes passengers with a POS in either New Zealand or Hong Kong. Other POS passengers are excluded due to historical data limitations.

<sup>49</sup> From Stats NZ.

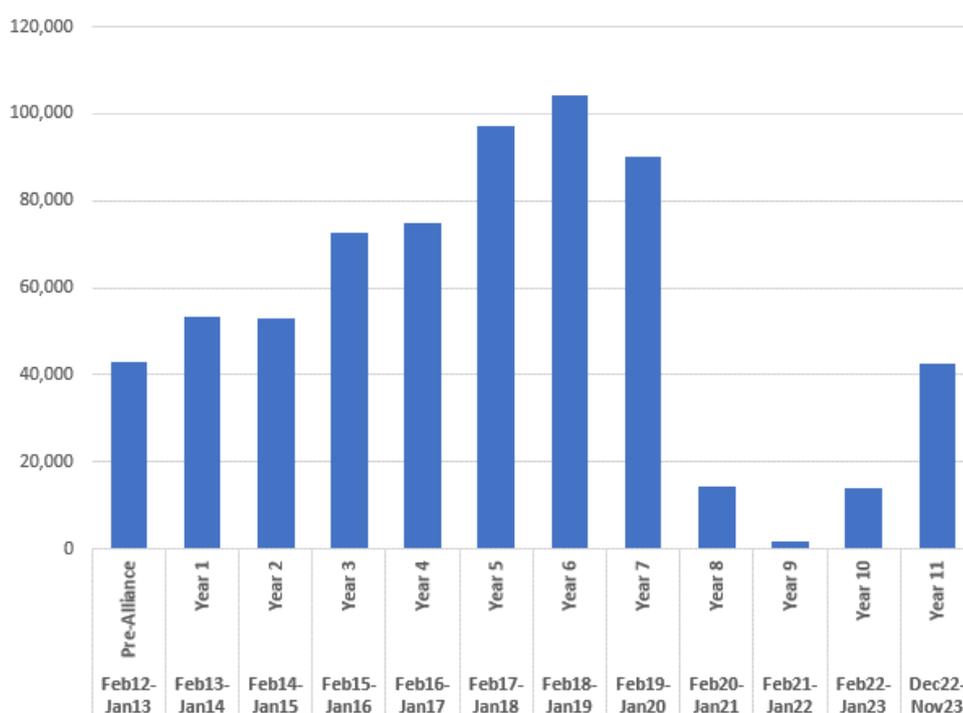
<sup>50</sup> From Stats NZ.

<sup>51</sup> Air New Zealand's estimates.

**Figure 11:** [REDACTED]

- 9.48 As noted above, Cathay Pacific has recently resumed its seasonal Christchurch - Hong Kong service. During the NW23 season (15 December 2023 to 29 February 2024), passenger numbers on the HKG-CHC v.v. service totalled 17,050 by coupon count. This service represents approximately NZ\$58 million in tourist spend.<sup>52</sup>
- 9.49 As demonstrated in Figure 12 below, the number of GBA residents travelling to New Zealand has grown substantially over the course of the Alliance (prior to the onset of Covid). This increase and the increase in total passengers using the Alliance services (as well as the increase in Cathay Pacific passengers using Air New Zealand’s domestic network) all support the view that the Alliance has contributed to the growth of inbound tourism to New Zealand from the GBA and other international markets.

**Figure 12: Inbound visitors to New Zealand from the GBA region on Alliance services**



(Source: Stats NZ data)

- 9.50 As set out in the BLS report, passenger flows from the Alliance services onto Air New Zealand’s domestic services is important not just for the benefits the passengers themselves bring to their ultimate destination, but it also contributes to the viability of these domestic services themselves given these are often operated on a marginal basis. At the time the study was carried out, approximately 47% of Air New Zealand’s passengers travelling on a typical long-haul international flight make a connection behind/beyond Air New Zealand’s Auckland hub. The BLS Report concludes that alliances have “served to strengthen Air New Zealand’s *domestic network*, thereby helping it to maintain (and in some cases increase) service in domestic markets”.<sup>53</sup>
- 9.51 In its 2015 Report, the Ministry noted that “*the Alliance has incentivised both airlines to coordinate marketing efforts in Hong Kong. In particular, the Alliance enables Air New Zealand to market New Zealand as a destination to Cathay Pacific’s base in Hong Kong...*”<sup>54</sup>. This continues to be a benefit of the Alliance. Appendix B of the 2015 Report sets out the details of a jointly funded

<sup>52</sup> Based on Ministry of Business, Innovation and Employment data, the average tourist expenditure in New Zealand for the year ending Dec 2019 of \$3,400.

<sup>53</sup> BLS Report. See the 2018 Application for further information.

<sup>54</sup> See paragraph 117 of the MOT’s 2015 Report.

promotional campaign run in 2017 which was assisted by the strength of Cathay Pacific's marketing and distribution in Hong Kong.

*Sales and Marketing of Destination New Zealand*

- 9.52 The Applicants, together with government and trade partners, have invested in marketing New Zealand as an Alliance destination. As explained above at paragraph 9.44, these marketing efforts have contributed to the rising number of passengers travelling to New Zealand on Alliance services prior to the outbreak of COVID-19.
- 9.53 Naturally, Air New Zealand's broader marketing and development activity dramatically decreased as a result of and through the course of the pandemic, with limited marketing activity taking place between FY21-22 as a result. However, the Alliance has continued to invest in initiatives to support New Zealand's tourism industry in the Post-Covid Period. The co-ordination facilitated by the Alliance has incentivised greater investment in marketing initiatives during this period than would have been likely in the counterfactual. The Applicants consider that this investment has been important in supporting the recovery of tourism to New Zealand, and that continued investment will be required over the coming years.
- 9.54 As part of the Alliance, the Applicants cooperate on their respective marketing activities in relation to jointly develop and promote the Alliance and New Zealand as a tourist destination. This arrangement has been used to facilitate the recovery of passenger numbers between Hong Kong and New Zealand. Figure 13 below includes the total dollars spent or forecast to be spent on marketing in Hong Kong during the Post-Covid Period.

**Figure 13: Applicants' marketing spend in Hong Kong pursuant to the Alliance FY (HKD)**

Year	Air New Zealand	Cathay Pacific
FY24	[REDACTED]	[REDACTED]
FY21-23	[REDACTED]	[REDACTED]
FY20	[REDACTED]	[REDACTED]

Source: The Applicants respective data

- 9.55 The Applicants have launched a number of marketing campaigns to boost New Zealand's profile. By way of example, the Applicants launched a joint campaign to celebrate the 10<sup>th</sup> anniversary of the Alliance (see Annexure 3). This campaign included:
- (a) bonus mileage rewards to both Airpoints members and Asia Miles members when booking on Alliance Routes (including CHC-HKG), including beyond destinations;
  - (b) a joint sales' blitz to 10+ key trade partners with a focus on the benefits of the Alliance (i.e. schedule etc);
  - (c) a joint frontline training session with 9 Regional Tourism Organisations and NZL operators. The Applicants presented the latest Air New Zealand (NZL) product update to more than 40 local trade partners; and
  - (d) hosting a joint media gathering to highlight New Zealand as a destination, as well as provide a general business update on the Alliance (including the resumption of the CHC-HKG route).
- 9.56 Furthermore, the Applicants have a joint contact list across different business units (i.e. group desk, agency support, revenue management) to ensure they are well positioned to work together and provide seamless support to Alliance customers as required.

## E. Premium customer handling, lounge and FPP benefits

- 9.57 Implementation of the Alliance has led to a more generous allocation of resources (by the Applicants) to the same pool of passengers. More specifically, frequent flyer mileage accrual and joint customer handling arrangements are amongst those benefits now enjoyed by all passengers as a result of the Alliance. Whereas the pooling of frequent flyer programmes between the Applicants facilitates the accrual of mileage to the benefit of passengers, allowing for the redemption of a variety of rewards including flights and other holiday-related benefits, shared customer handling arrangements between the Applicants enhance the overall quality of the service offered to passengers. Of these passengers, some also enjoy premium treatment – airport lounge access, priority waitlist,<sup>55</sup> priority seating,<sup>56</sup> priority check-in, priority baggage handling, priority boarding, additional baggage allowances, and more attentive and personal customer service are amongst those factors which lead to a better service and more enjoyable experience as a premium passenger.
- 9.58 The Ministry has previously acknowledged that the Alliance provides additional benefits to certain consumers with respect to loyalty programs and lounge access.<sup>57</sup>
- 9.59 These benefits have continued to accrue in the Pre-Covid Period. For example:
- (a) Overall, Air New Zealand Airpoints members are earning more Airpoints dollars on services to and from Hong Kong than they were immediately prior to the Alliance. These benefits would not have been obtained in absence of the Alliance. The number of Airpoints dollars accumulated by Air New Zealand Airpoints customers is estimated at more than [REDACTED] from the commencement of the Alliance through to the end of the Pre-Covid Period. For the 2019 calendar year, the total amount of Airpoints earned was more than [REDACTED] million, which is an increase of [REDACTED]% on 2012 (i.e. the calendar year immediately preceding the commencement of the Alliance).
  - (b) Alliance passengers have continued to benefit from access to the Applicants' respective lounges. The number of Cathay Pacific premium customers using Air New Zealand's lounges increased to an average of more [REDACTED] for 2018 and 2019. Air New Zealand passengers using the Cathay Pacific lounge in Hong Kong increased to around [REDACTED]<sup>58</sup> passengers annually in 2019.
- 9.60 However, as a direct result of the government enforced travel restrictions and the associated drop in demand, the number of Airpoints earned by Air New Zealand passengers travelling on Alliance services decreased significantly. Nevertheless, Air New Zealand expects this decrease will be temporary. There are signs of recovery, with the number of Airpoints earned on Alliance services recovering to [REDACTED] in 2022, with more than [REDACTED] Airpoints dollars earned in 2023 (as at November 2023). Based on the pre-pandemic performance, the Applicants expect this figure to continue the upwards trajectory as demand recovers.
- 9.61 Alliance passengers have continued to benefit from access to the Applicants' respective lounges. The number of Cathay Pacific premium customers using Air New Zealand's lounges has increased to [REDACTED] (for 2023 through to November). This is an increase on both the 2020 ([REDACTED]) and 2021 ([REDACTED]) figures.

## F. Continuing competition in the freight market

- 9.62 As the MOT is aware, the Alliance does not provide for coordination in the freight market. Under the Alliance, Air New Zealand and Cathay Pacific market and price freight capacity independently and the Applicants continue to compete for air freight services on the Auckland - Hong Kong route.

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<sup>55</sup> Priority waitlist is where a passenger may be waitlisted on an earlier or later flight from the originally ticketed service subject to eligibility requirements, seat availability and any applicable fare rules.

<sup>56</sup> Priority seating is where passengers may be seated in extra legroom or priority seats, where available.

<sup>57</sup> Para 228, Final Report.

<sup>58</sup> Source: Air New Zealand data. High level estimate only.

- 9.63 As is the case in the passenger market, the direct services to Guangzhou and Shenzhen have substantially increased competition and there are now greater options for cargo exporters into the Chinese Mainland. These alternative options have impacted the value and volume of air freight to Hong Kong. Naturally, capacity reduced dramatically as a result of the pandemic which put upwards pressure on pricing which was not sustainable by some exporters. However, despite these declining volumes, air freight continues to be important for trade between New Zealand and Hong Kong - representing over 36% in 2019 (22% in 2023) of total exports to Hong Kong (compared to approximately 18% for New Zealand exports to all destinations in 2019 (17% in 2023)). [REDACTED]. Hong Kong as a destination is an important market for New Zealand exporters, given the demand for high-value perishable cargo such as salmon, poultry, beef, lamb and flowers. Given the nature of these products, New Zealand exporters rely on providers who are able to guarantee capacity and can provide the required frequency of services. [REDACTED].
- 9.64 Given the continued importance of air cargo for trade between New Zealand and Hong Kong, the continuing competition facilitated by the Alliance remains a key benefit of the Alliance.

10. **COMPETITION CONSIDERATIONS: THE ALLIANCE HAS NOT RESULTED IN ANY DETRIMENT TO COMPETITION**

- 10.1 The benefits outlined in Section 9 above have been achieved without any detrimental impact on competition. The Applicants remained – and will continue to remain – subject to significant competitive constraints.
- 10.2 Since the Alliance was first authorised there has been a significant increase in overall seat capacity between New Zealand and the wider GBA in the Pre-Covid Period relative to the pre-Alliance Period. While services from the GBA started to recover from the Pandemic from a lower level and later than in other major markets, there are strong signs of recovery. Both China Southern and Hainan have resumed services between New Zealand and Guangzhou and Shenzhen, respectively. One-stop competition has also returned with Qantas, and China Southern both offering services from Australia to the GBA, which can be easily accessed from New Zealand via the Tasman.
- 10.3 The Alliance has provided, and continues to provide, Air New Zealand and Cathay Pacific with the ability to offer a strong competitive proposition in the face of this increasingly competitive environment.

***Continued competition from Chinese Mainland Carriers travelling direct to New Zealand***

- 10.4 The Ministry has previously accepted,<sup>59</sup> that the airports in the wider GBA are “competing gateways” that provide a viable alternative to passengers travelling to and from New Zealand via Hong Kong. As detailed in Section 8 above, these gateways continue to compete strongly with Hong Kong for passengers to New Zealand.
- 10.5 In the years prior to the pandemic, there was a rapid expansion of capacity from Chinese Mainland carriers operating direct services from competing gateways in the GBA. Specifically, China Southern and Hainan Airlines added significant additional capacity into New Zealand. As shown in Figure 14 below, China Southern increased capacity from Guangzhou to New Zealand by 153% between 2012 and 2019. This additional capacity has included both an increase to its Auckland direct service of 72% as well as the introduction of a new Christchurch service. In addition, in December 2016 Hainan Airlines (HU) launched a direct service to Auckland from Shenzhen, operating three flights per week in each direction over the peak season.

**Figure 14:** [REDACTED]

- 10.6 The launch of these competing services had an obvious impact on the Alliance. Passengers connecting from the Chinese Mainland onto Alliance services dropped by nearly [REDACTED]% between 2016 and 2019. Notwithstanding this drop, connectivity from this region was still higher in 2019 than pre-Alliance levels.
- 10.7 Moreover, as discussed further above, the Alliance has benefited from the improved ferry, rail and road services linking the Chinese Mainland (in particular the GBA region) and Hong Kong. This has led to a greater number of passengers from the Chinese Mainland (in particular the GBA region) travelling on the Alliances point-to-point services, offsetting some of the loss of passengers to China Southern and Hainan Airlines. Nonetheless, the increase in competition from the Chinese Mainland has meant that Air New Zealand has had to grow connecting traffic from other regions in order to support the Hong Kong - Auckland route.
- 10.8 Unsurprisingly, both China Southern and Hainan Airlines were forced to significantly reduce (and in the case of Hainan, completely withdraw) services to New Zealand as a result of the pandemic. However, as shown in Figure 15 below, both airlines have reinstated their previous services

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<sup>59</sup> In the 2019 Report, the Ministry accepted that “*there is potential for additional competition from Chinese carriers as there is spare capacity in New Zealand – China Air Services Agreement for airlines to increase or start new services from any point in China, including those in the Pearl River Delta*”. See the New Zealand Ministry of Transport Analysis regarding Air New Zealand/Cathay Pacific Alliance Authorisation of August 2019, at paragraph 72.

during the Post-Covid Period and their planned capacity for 2024 is approximately 80% of pre-Covid levels. Specifically:

- (a) China Southern: China Southern has resumed its year-round direct service between the GBA (Guangzhou) and Auckland and has reintroduced its direct GBA-Christchurch service.<sup>60</sup>

China Southern is a full-service network carrier which operates more than 850 passengers and cargo transport aircraft and more than 3,000 daily flights to more than 220 destinations in 40 countries and regions across the world.<sup>61</sup> It has long operated direct services between CAN and AKL, accounting for between around 25% and 40% of total frequencies and capacity between the GBA and AKL over the past ten years. China Southern continued operating to AKL during the COVID-19 pandemic, and has steadily increased capacity and frequencies since the start of 2023.

China Southern started operating its year-round direct flights between CAN and CHC in 2015, accounting for well over 80% of total frequencies and capacity between the GBA and CHC since then. Having suspended its flights to CHC during the pandemic, China Southern has steadily increased capacity and frequency in the Post-Covid Period.

- (b) Hainan Airlines: Hainan Airlines restarted its service from GBA (Shenzen) to Auckland in June 2023, which is offered twice a week.<sup>62</sup>

Hainan Airlines, established in 1993, is a full-service carrier and one of the largest airlines in the Chinese Mainland. As of 2022, Hainan Airlines together with its subsidiaries operated nearly 1,900 domestic and international routes, covering more than 40 international destinations across Asia, Europe, Africa, North America and Oceania regions. Since 2017, it has been operating direct services between SZX and AKL, accounting for between around 5% to 9% of total direct frequencies and capacity between the GBA and AKL.

Hainan Airlines has introduced another direct service to Auckland from Haikou.<sup>63</sup> While not within the GBA, demonstrating the willingness of Chinese Mainland carriers, and the low barriers to introducing new services from the Chinese Mainland into New Zealand to take advantage of opportunities.

**Figure 15: [REDACTED]**

### **Continued competition from one-stop carriers**

10.9 Prior to the pandemic, competition from one-stop services between New Zealand and the GBA was significant, most notably from carriers via the Tasman. Pre-Covid, Qantas, China Southern and Hainan Airlines (among others) all had direct services between the GBA and Australia.

10.10 As illustrated in Figure 16 below, these direct services resulted in considerable additional capacity between the GBA and New Zealand which could be easily accessed from New Zealand via Tasman services. Post-Covid, both Qantas and China Southern have re-instated these services and have been building back capacity. As above, Hainan Airlines resumed services between Shenzen and Auckland from June 2023.

**Figure 16: [REDACTED]**

10.11 Qantas (QF),<sup>64</sup> in particular, has been actively re-introducing capacity to Hong Kong. Qantas resumed its direct flights to Hong Kong from Sydney / Melbourne in 2023 after a three-year hiatus due to the pandemic. It subsequently increased capacity over the peak summer months in 2023/

<sup>60</sup> For further information, please see [here](#).

<sup>61</sup> <https://www.csair.com/en/about/gongsijianjie/>.

<sup>62</sup> For further information, please see [here](#).

<sup>63</sup> <https://aviationweek.com/air-transport/airports-networks/hainan-airlines-plans-second-new-zealand-connection>

<sup>64</sup> Qantas is the flag carrier and the largest airline in Australia, and the largest by fleet size, international flights, and international destinations in Oceania. It has a substantial presence in New Zealand. Qantas offers an extensive domestic network in addition to connections serving Asia, the South Pacific, Europe, North and South America and Africa, covering more than 97 destinations in 25 territories.

2024 boosting the Sydney to Hong Kong capacity by 50% over the peak Australian summer season and increasing Melbourne to Hong Kong flights from four per week to daily. Qantas has done so in "*line with strong travel demand and the broader recovery of the aviation industry*".<sup>65</sup> As of December 2023, it operates approximately 6 daily flights from Sydney to AKL and about 4 daily flights from Melbourne to AKL, providing alternatives to passengers travelling to AKL transiting in its hubs in Sydney and Melbourne. These options can be particularly attractive for New Zealand passengers based outside of Auckland or Christchurch who will need to connect regardless of which route they take.

- 10.12 Fiji Airlines has also re-introduced flights from Nadi to Hong Kong and is steadily making its way back to capacity at pre-Covid levels. Prior to the pandemic, Fiji Airlines had five flights per week to and from Hong Kong. Over Northern Winter 2023, Fiji Airlines returned to four services per week.

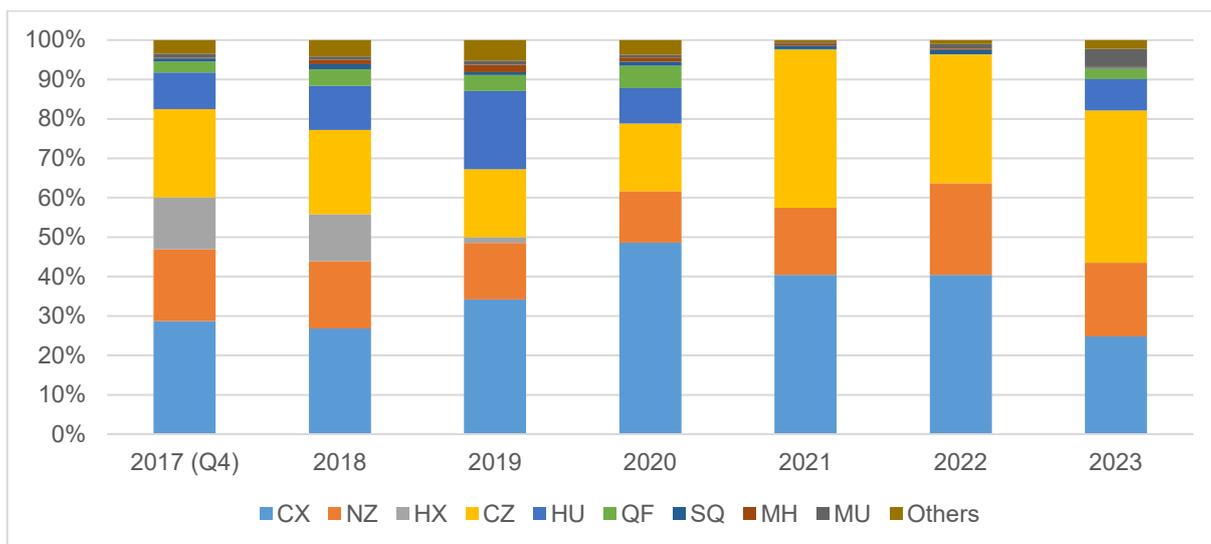
**Market share estimates**

- 10.13 The increasingly competitive environment is evident when we consider the airlines' respective share of bookings for travel between GBA and Auckland and the GBA and Christchurch respectively. As shown in Figure 17 and Figure 18 below, the Applicants combined share of bookings has decreased in the Post-Covid Period, with China Southern, Qantas, Hainan Airlines and China Eastern Airlines each increasing their respective share on the relevant routes.

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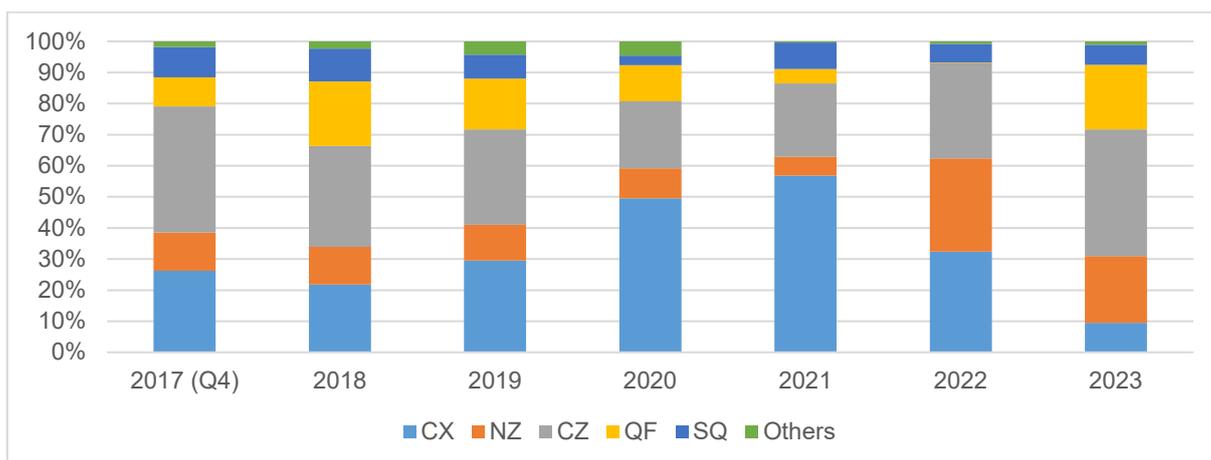
<sup>65</sup> For further information, please see the Qantas press release available [here](#).

Figure 17: Share of bookings for AKL-GBA



(Source: DDS)

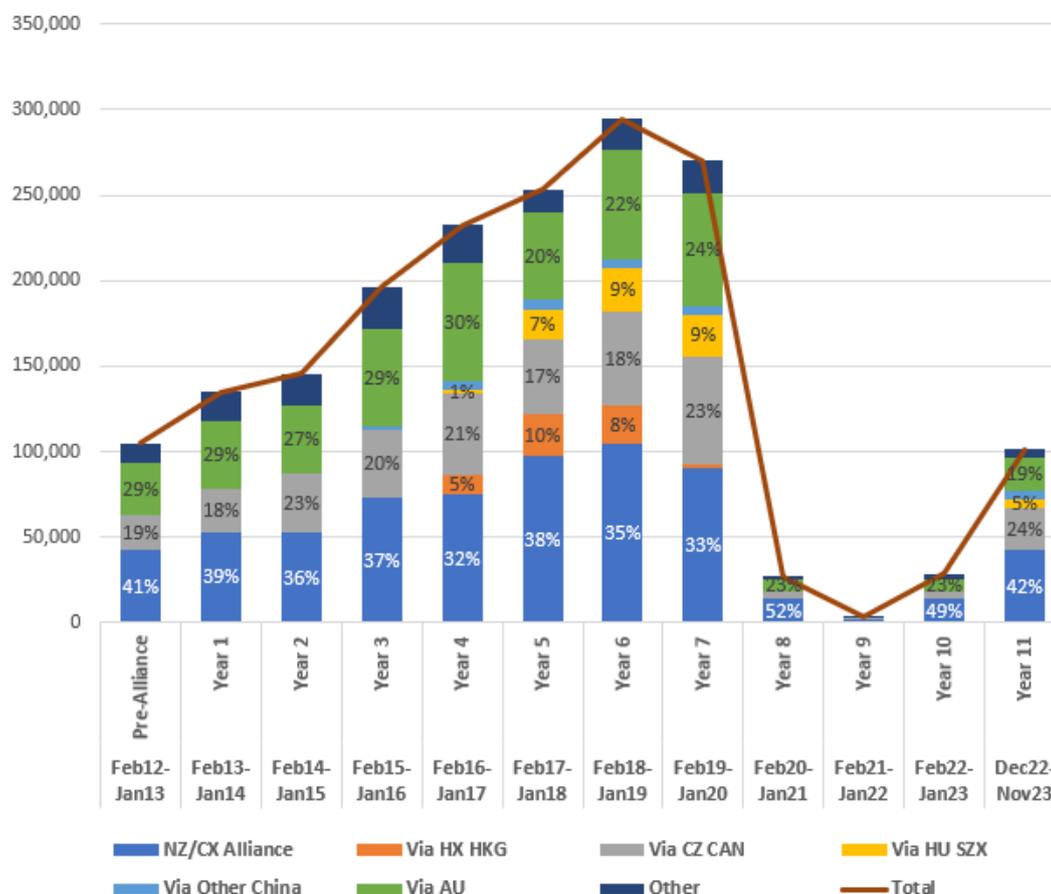
Figure 18: Share of bookings for CHC-GBA



(Source: DDS)

10.14 The significant constraint provided by other carriers is further supported by the high share of inbound visitors from the GBA region that are carried by competing carriers. As shown in Figure 19 below, in 2019 the Alliance only had a 33% share of these visitors. China Southern held a 23% share, Hainan had a 9% share and one-stop carriers via the Tasman (including Qantas, China Southern and Hainan, among others) holding 24%. The most recent Stats NZ data for 2023 shows a similar picture with China Southern and one-stop carriers carrying 24% and 19% of GBA visitors respectively. This clearly demonstrates that passengers are taking advantage of the significant capacity available on competitor services.

Figure 19: Inbound Visitors to New Zealand from GBA region



(Source: Stats NZ)

10.15 Accordingly, competition from both direct and one-stop services between New Zealand and the GBA continue to provide a significant competitive constraint on the Alliance. The downward trajectory in fare levels observed over the course of the Alliance prior to the onset of COVID-19 is reflective of the competitive constraint offered by these competing carriers.<sup>66</sup>

**The Parties' operations on these routes depend heavily on connecting traffic**

10.16 The market share analysis above has focused on the Applicants' share of the GBA – New Zealand market given the Applicants are only authorised to co-ordinate with respect to Hong Kong which sits within the wider GBA market. However, as noted previously, the Hong Kong – New Zealand route is characterised by a large proportion of connecting traffic [REDACTED]. The Applicants are not authorised to co-ordinate fares or any other activity with respect to these connecting journeys. This reliance on connecting traffic therefore acts as an inherent constraint on the Applicants ability to exercise market power.

10.17 By way of further context:

- (a) passengers travelling point-to-point between GBA and Auckland only accounted for a small proportion of the passengers travelling on the Applicants' flights, whereas a significant proportion of them are connecting to beyond destinations (in 2018 about 70% on Cathay Pacific's flights and about [REDACTED]% on Air New Zealand's flights were transiting passengers). Naturally, there was some fluctuation in these proportions between 2019 and 2022 as a result of the extraordinary operating conditions but the numbers are gradually returning to earlier levels. In 2023 the percentage of transiting passengers on Cathay

<sup>66</sup> See Section 9 for further detail.

Pacific's flights was at about [REDACTED]%, while for Air New Zealand that number was [REDACTED]%.

- (b) similarly, passengers travelling point-to-point between GBA and Christchurch only accounted for a small proportion of the passengers travelling on Cathay Pacific's flights, whereas a significant proportion of them are connecting passengers. In 2018, an estimated 62% of the passengers travelling on Cathay Pacific's services between Hong Kong and Christchurch were transiting passengers and again, while this proportion did fluctuate between 2019 and 2022, the expectation is that the proportion will gradually return to pre-2018 levels. GBA-CHC is also a relatively thin route with historically low demand. Following the introduction of direct services total annual passengers increased to around 31,000 passengers in 2018, and around 35,000 in 2019. Therefore, the viability of operations thereon is dependent on the volume of connecting traffic channelled from a carrier's network.

***Constraint exerted by other holiday destinations***

- 10.18 For a majority of the GBA-based passengers, both Auckland and Christchurch are predominantly holiday destinations. Accordingly, an increase in fares would likely see a diversion of traffic towards (the wide range of) alternatives. When considering other destinations which would involve a comparable flight duration and similar holiday activities, passengers can choose from numerous locations including, for example, in Australia, the Pacific Islands or the west coast of North America. Otherwise, many more destinations, whether in Asia or Europe may well be considered substitutable.

## 11. NO LEGAL REASONS FOR THE MINISTER REFUSING TO AUTHORISE THE ALLIANCE

11.1 Under Part 9 of the Act, the Minister is required to take into account a number of factors in making a decision as to whether to grant, or to decline to grant, authorisation of provisions in contracts, arrangements, and understandings relating to international carriage by air. In particular, sections 88(3) and (4) of the Act provide specific reasons for the Minister to decline to authorise, although they are subject to an override in section 88(5) if the Minister believes that to decline authorisation would have an undesirable effect on international comity.

11.2 The Ministry's 2019 Report accepted that the Alliance met the statutory conditions allowing it to be authorised under section 88 of the Act.<sup>67</sup> The Applicants do not consider that there have been any material changes to the Alliance that would warrant a change to the conclusions reached in the 2019 Report.

### **Section 88(3)**

11.3 Nothing has occurred in the period since reauthorisation which should cause the Ministry to depart from its earlier view that authorisation of the Alliance is consistent with the arrangements in section 88(3) and the arrangements will not prejudice compliance with any relevant international convention, agreement or arrangement to which the Government of New Zealand is a party.

### **Section 88(4)**

11.4 The Minister cannot decline to re-authorise the Alliance under section 88(4) as the Alliance includes no provision that would infringe section 88(4)(a)-(f):

- (a) Market pressures: the Alliance makes no provision for either Applicant to directly or indirectly enforce the relevant agreements through any form of action by way of fines or market pressures against any person.
- (b) Commission regimes: no provision of the Alliance has the purpose or the effect of breaching any commission regime.
- (c) Discrimination: the Alliance does not unjustifiably discriminate between consumers of international air services in the access they have to competitive tariffs.
- (d) Exclusionary effect of tariffs: the Alliance will not have an exclusionary effect on other airlines from operating any international route.
- (e) Section 90 approvals: the Alliance does not have the purpose or effect of preventing any party from seeking approval in terms of section 90 of the Act, for the purpose of selling international carriage by air at any other tariff so approved.
- (f) There is no penalty for withdrawal on reasonable notice.

### **Section 88(5)**

11.5 If the Minister considers, contrary to the Applicants' view, that the Alliance does not comply with section 88(4)(a)-(f) of the Act, he can nevertheless authorise the Alliance under section 88(5) if declining to authorisation would have an undesirable effect on international comity between New Zealand and another state.

11.6 The Applicants remain of the view that declining authorisation would have an undesirable effect on international comity for the purposes of s88(5) of the CAA which therefore provides a distinct reason for the Minister to exercise his discretion in favour of authorising the Alliance.

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<sup>67</sup> See paras. 229 and 230 of the Ministry's 2019 Report available [here](#).

**12. CONCLUSION**

- 12.1 In light of the benefits that will result from the Alliance, and the lack of material competitive detriment, the Applicants consider that the Alliance meets the test for authorisation. For the reasons described in further detail in this Application, the Applicants consider that the Alliance should be reauthorised for a period of five years.

**Confidential Annexure 1: the NAAA**

*Attached as separate file*

**Confidential Annexure 2: Air New Zealand and Cathay Pacific Counterfactual Submissions**

*Attached as separate files*

Annexure 3: Joint marketing campaign

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