

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

Confidential Information

Air New Zealand Limited (“**Air New Zealand**”) and Singapore Airlines Limited (“**Singapore Airlines**”) (together, the “**parties**” or 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) (the **Confidential Information**).

The Confidential Information is commercially sensitive and valuable information which is confidential to the parties (*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 parties.

The parties 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 Singapore Airlines seek authorisation from the Minister to continue to implement their Alliance through the Strategic Alliance Agreement (“**SAA**”).
- 1.2 The Alliance provides Air New Zealand with the opportunity for efficient, sustainable growth of its Pacific Rim network through the operation of services between New Zealand and Singapore, providing the best option for Air New Zealand customers to connect into South and South East Asia, and throughout Europe. For Singapore Airlines, the Alliance continues to provide increased network reach into New Zealand and increased flow through its Singapore hub, ultimately assisting in sustaining its unique position serving three entry points from New Zealand to Singapore and the world.
- 1.3 Since the Alliance commenced on 6 January 2015, the Alliance has delivered substantial benefits to New Zealand and to each airline’s customers:
- (a) **Greater capacity:** the Alliance has grown capacity between New Zealand and Singapore by 26% since the Alliance commenced. The recently announced expansion of Auckland – Singapore services (from NW18) will result in total growth for all Alliance services to around 55% compared to pre-Alliance.
 - (b) **Continued services to Christchurch and new services to Wellington:** despite concerns expressed by third parties regarding Christchurch and the potential for services to Wellington, the Alliance has maintained services to Christchurch, and commenced a new service between Singapore and Wellington.
 - (c) **Improved connectivity:** the Alliance provides Air New Zealand customers with access to an unparalleled network into South East Asia, India and Europe. As part of the introduction of the newly announced expansion of the Auckland – Singapore service, combined with a retiming of existing services, the Alliance is focussed on improving existing connection times, filling connection gaps to key Alliance markets, and balancing connectivity for both the inbound and outbound journey, all resulting in shorter overall journey times for passengers;
 - (d) **Increased availability of lower fare inventory:** the increased capacity and metal neutral features of the Alliance has resulted in a greater availability of lower fare inventory on travel between New Zealand and Singapore. Together with a greater incentive for both parties to lower SPA rates for connecting journeys, the Alliance has contributed to more competitive pricing on Alliance services.
 - (e) **Loyalty and premium customer benefits:** Air New Zealand customers have earned significantly more Airpoints Dollars travelling between New Zealand and Singapore, as well as beyond Singapore on Singapore Airlines and SilkAir (Singapore) Private Limited (“**SilkAir**”) services, arising from enhancements in the loyalty programmes along with Alliance capacity growth. The Alliance has also focused on improving the customer experience, particularly for passengers connecting through Changi Airport.
 - (f) **Tourism benefits:** the Alliance has resulted in Air New Zealand and Singapore Airlines, together and in partnership with Tourism NZ and other third parties, focussing on increasing tourism to New Zealand from key Alliance markets. Since the Alliance commenced, visitors to New Zealand arriving via Singapore has increased by around 15,000, contributing around an additional \$50m to the New Zealand economy. This will increase as further Alliance capacity is introduced over the next few years.

- 1.4 The Alliance has not had any detrimental impact on competition:
- (a) Since the Alliance started, there has been an unprecedented 76% increase in overall seat capacity to New Zealand compared to the pre-Alliance period. This increased capacity has included:
 - (i) new services to New Zealand from key Alliance markets (including Malaysia and Philippines);
 - (ii) the announcement of plans by Qantas to introduce substantial additional capacity to Singapore as part of a strategy to focus on Asia, and new Tasman services that will feed into these Singapore services; and
 - (iii) key hub carriers strengthening their service offering. Emirates and Qatar Airlines have both commenced services direct from New Zealand to their hubs in Dubai and Doha respectively, while Chinese carriers are increasing focus on connecting traffic to and from New Zealand.
 - (b) Notwithstanding the unprecedented increase in competition, Alliance capacity has increased; and
 - (c) The Alliance has not prevented Air New Zealand from commencing services to markets already served by the Alliance, or other airlines from commencing services to New Zealand.
- 1.5 Given the substantial benefit arising from the Alliance, and the lack of any material detriment, the parties request that the Minister of Transport authorise the Alliance for a further term of just over seven years. This period, longer than the initial four year period, will reflect that the key benefits of the Alliance have occurred as predicted and the substantially more competitive environment, and provide the parties with sufficient certainty and confidence to implement and promote additional capacity on the Alliance Sectors, together with other activity in smaller Alliance markets.

2. THE ALLIANCE

Background

Parties

- 2.1 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 to more than 15 million passengers a year.
- 2.2 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.
- 2.3 Singapore Airlines is a Singapore based airline, with its hub at Singapore's Changi Airport, where it is the largest operator. The Singapore Airlines Group¹ comprises 185 aircraft as of 1 November 2017, with a passenger network covering 136 destinations in 38 countries. Singapore Airlines is a public company listed on the Singapore stock exchange.
- 2.4 Both Air New Zealand and Singapore Airlines are members of the Star Alliance, the leading global airline marketing alliance. It has 28 member airlines, working together to offer smooth connections across a vast global network through activities such as co-

¹ Including wholly owned subsidiaries SilkAir (Singapore) Private Limited, ScootTigerAir Pte Ltd and Singapore Airlines Cargo Pte Ltd.

locations at airports, infrastructure, communications initiatives and other services to improve the travel experience.

The Alliance

- 2.5 Singapore Airlines and Air New Zealand entered into the SAA on 16 January 2014, and commenced revenue sharing on 6 January 2015 with the re-entry of Air New Zealand onto the Auckland – Singapore route. A confidential copy of the SAA is attached at Schedule One.
- 2.6 The SAA provides for varying levels of coordination between the parties in relation to:
- (a) the “**Alliance Sectors**” being sectors operating directly between Singapore and New Zealand (Auckland – Singapore, Singapore – Wellington and Christchurch – Singapore); and
 - (b) the “**Alliance Routes**”, which comprise a journey between “Covered Jurisdictions” that includes an Alliance Sector.
- 2.7 Subject to certain exceptions, the SAA provides for reciprocal codesharing, joint pricing and revenue management, joint sales and the optimisation of connection times for both Alliance Sectors and Alliance Routes. Further cooperation is provided for in relation to the Alliance Sectors, including revenue sharing, capacity coordination and, to the extent practical, harmonising the customer experience.² A more detailed description of the coordination provided for in the SAA is set out in the parties 2014 authorisation application (the “**2014 Application**”).
- 2.8 In September 2016 Singapore Airlines commenced a new Alliance service between Singapore and Wellington, via Canberra (to be operated via Melbourne from May 2018). The Singapore-Wellington service falls within the scope of the SAA [Redacted].
- 2.9 With the introduction of the Wellington service, the Alliance now directly serves three New Zealand cities from Singapore. The current Alliance schedule is set out in Figure 1.

² As required by the SAA, the parties only coordinate to those Covered Jurisdictions where that is permitted under the existing competition law of the relevant jurisdiction (which the parties periodically review) or where the required regulatory approvals are obtained.

Figure 1: Current Alliance schedule

NW Flight Schedule				
SIN to AKL	NZ281	SIN 08.55	AKL 23.45	Daily
	SQ285	SIN 20.50	AKL 11.45	Daily
AKL to SIN	NZ282	AKL 01.15	SIN 06.40	Daily
	SQ286	AKL 13.30	SIN 19.05	Daily
SIN to WLG	SQ291	SIN 23.55	WLG 17.10	1,3,5,7
	SQ247*	SIN 20.00	WLG 13.20	1, 4, 5, 6
WLG to SIN	SQ292	WLG 20.15	SIN 04.35	1,3,5,7
	SQ248*	WLG 14.45	SIN 22.45	2, 5, 6, 7
SIN to CHC	SQ297	SIN 19.50	CHC 10.40	Daily
CHC to SIN	SQ298	CHC 12.00	SIN 17.40	Daily
NS Flight Schedule				
SIN to AKL	NZ281	SIN 08.50	AKL 22.25	Daily
	SQ285	SIN 21.15	AKL 10.50	Daily
AKL to SIN	NZ282	AKL 11.55	SIN 06.40	Daily
	SQ286	AKL 12.10	SIN 19.00	Daily
SIN to WLG	SQ291	SIN 23.00	WLG 15.05	1,3,5,7
	SQ247*	SIN 19.45	WLG 12.20	1, 4, 5, 6
WLG to SIN	SQ292	WLG 20.15	SIN 05.40	1,3,5,7
	SQ248*	WLG 13.45	SIN 22.45	2, 5, 6, 7
SIN to CHC	SQ297	SIN 19.45	CHC 09.30	Daily
CHC to SIN	SQ298	CHC 10.50	SIN 17.40	Daily

**SQ247/248 will replace SQ291/292 effective from Tuesday 1 May 2018 subject to regulatory approval*

Commercial rationale

- 2.10 The commercial rationale for the Alliance has not materially changed since the 2014 Application, being to increase the number of passengers travelling on the parties' combined services. The Alliance has achieved substantial capacity increases to date – capacity in Year 3 (2017) of the Alliance (all services) was 26%³ higher than immediately pre-Alliance – and this will continue, with a full year of the Singapore – Wellington services and planned capacity increases in the coming year.
- 2.11 The Alliance has provided Air New Zealand with the opportunity for efficient, sustainable growth of its Pacific Rim network through the re-establishment of services between New Zealand and Singapore. This service would not be sustainable without the network feed provided by Singapore Airlines, which Air New Zealand cannot replicate. Many of the key Alliance markets, in particular in South East Asia and India, are particularly fragmented, with small streams of traffic originating from a number of different sub-markets amongst and within different countries. As described in further detail below, the ability to access these markets via Singapore has allowed Air New Zealand to significantly grow its profile in these markets.
- 2.12 The Alliance continues to provide Singapore Airlines with increased network reach into New Zealand and behind and beyond markets e.g. the Pacific Islands, and a consequent increase in feed into its broader network. Singapore Airlines has maintained its long commitment to the New Zealand market for more than 40 years, having launched services to Auckland in 1976, Christchurch in 1986 and recently introducing the Singapore – Wellington service in 2016. The Alliance has also enabled the parties to improve and increase the frequency on the Singapore – Auckland route.
- 2.13 Being able to effectively compete with other carriers remains a strong commercial driver for the Alliance. Qantas/Emirates continues to be Air New Zealand's strongest direct competitor, with Qantas's home market of Australia positioned between New Zealand and the key Alliance markets, making it ideally suited to compete with Air New Zealand and Singapore Airlines. The Alliance also competes with aggressive hub carriers in the Middle East and Asia, exerting significant competitive pressure on the hub model that Singapore Airlines relies on, as well as other foreign carriers, including from key Alliance markets.
- 2.14 More detail on the continuing commercial rationale for the Alliance is set out in each party's confidential submission.

2014 authorisation

- 2.15 The Alliance received regulatory approval from the Competition Commission of Singapore (“CCS”) on 17 April 2014. The regulatory approval was for an unlimited period of time, although the Competition Act 2004 allows the CCS to reconsider the authorisation in the event of a material change in circumstances. At the time of its decision, the CCS indicated that relevant circumstances might include changes in the parties to the Alliance, the proposed increases in capacity contemplated by the Alliance not occurring, changes in the business plans of the Alliance that might have a significant impact on the Singapore market, and/or a reduction in the number of competing carriers in the relevant markets. [Redacted]
- 2.16 The current authorisation from the Minister at the time was received on 7 August 2014. As part of the authorisation, the parties committed to re-applying for, and obtaining, a new authorisation for the Alliance by 6 January 2019 (being the fourth anniversary of the date on which Air New Zealand commenced operations on an Alliance Sector). [Redacted]

³ Based on the parties' ASK data. Pre-alliance period is the year up to the introduction of the A380 by Singapore Airlines in October 2014.

Key market developments since 2014

- 2.17 The commencement of the Alliance has coincided with an unprecedented increase in competition for air travel to New Zealand, driven by aggressive airline entry and expansion, New Zealand's open aviation market and an increase in demand for travel to New Zealand. Since the Alliance commenced, ten new carriers have commenced operations to New Zealand, with total capacity into New Zealand rising by around 76%.⁴
- 2.18 The competitive environment raises significant challenges in all of the destinations to which the Alliance operates. As well as direct entry between New Zealand and many of the key Alliance markets, expansion by Chinese and Middle Eastern hub carriers provides options for the passengers that might have used Changi Airport as a connection to South and South East Asia and Europe. Qantas has also expanded its presence in Singapore, aggressively pursuing New Zealand – Singapore traffic to supplement its direct Singapore services.
- 2.19 Despite the increasingly difficult competitive environment, the Alliance has sustained a significant growth programme. In addition to substantially increasing capacity on Auckland – Singapore (both immediately after the Alliance and the recently announced third service), on 20 September 2016 Singapore Airlines commenced operating a Singapore – Wellington service (currently operated via Canberra, to be operated via Melbourne from May 2018) [Redacted].

Authorisation sought

- 2.20 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.
- 2.21 The Applicants have sought reauthorisation until 28 March 2026 (being just over a seven year period, ending at the end of the NW26/27 IATA season). The Ministry's initial authorisation was for a four year term. The reasons for the shorter initial term included the uncertain impact of the Alliance on the Christchurch – Singapore service, the impact of the Alliance on competing operators to indirect markets, and the uncertainty that some benefits would arise without an amendment to New Zealand's bilateral air service agreement with India.
- 2.22 As set out in further detail below, these concerns have not materialised:
- (a) the Alliance has continued to operate the daily Christchurch – Singapore service, with supplementary services over the peak period [Redacted];
 - (b) the success of the Alliance has prompted the parties to introduce further capacity onto the Auckland – Singapore service in November 2018 (available for booking from 8 December 2017);
 - (c) the Alliance has not impacted current and potential competitors in the relevant markets. Several new entrants have entered New Zealand from key alliance markets, and there has been significant expansion by emerging hub carriers; and
 - (d) in May 2016 the Minister successfully negotiated an amendment to the bilateral Air Service Agreement with India, which has allowed Air New Zealand to place its code on Singapore Airline services to selected points in India other than New Delhi. As a result of the Alliance, Air New Zealand has significantly expanded its marketing presence in India, as demonstrated by the increase in Alliance traffic volume and market share since that date.

⁴ Source: Air NZ data based on change in total ASKs for New Zealand international services since December 2014.

2.23 A longer reauthorisation period would:

- (a) reflect that the key benefits of the Alliance have occurred as predicted, and will continue to accrue to New Zealand;
- (b) provide the parties with sufficient certainty and confidence to implement and promote their additional capacity, together with other projects that will drive benefits from the Alliance, such as increased and sustained activity in some of the smaller Alliance markets; and
- (c) reflect the increased and sustained competitive environment faced by the Alliance.

3. COUNTERFACTUAL

3.1 The parties' commercial strategy absent the Alliance will be covered in each party's confidential submission. Key points as per our 2014 Application and which were included in the public version of the MOT's analysis of the 2014 Application ("**the 2014 Analysis**") remain:

- (a) cooperation between the parties would revert to the pre-alliance cooperation i.e. reduced connectivity and passenger benefits consistent with the Star Alliance;
- (b) Air New Zealand would withdraw from the Auckland - Singapore route. Further details on this issue is provided in Air New Zealand's confidential submission;
- (c) Singapore Airlines would continue to operate services between New Zealand and Singapore, although at a lower capacity to that currently achieved with support from Air New Zealand under the Alliance. Further details on Singapore Airlines' plans absence the Alliance are set out in its confidential submission.

4. PUBLIC BENEFITS

- 4.1 The Alliance has been crucial to achieving significant benefits for New Zealand – including substantial increases in capacity and new services between New Zealand and Singapore, competitive Alliance fares to, from and via Singapore, increased connectivity to the Singapore Airlines network, and increased marketing and exposure of New Zealand in key South and South East Asian markets.
- 4.2 Many of the above benefits were identified in the Ministry's 2014 Analysis, including a capacity increase on the Auckland – Singapore route, positive long term impact on Air New Zealand's commercial position, and improved connectivity in the Indian market. While some reservations were expressed regarding the certainty of the benefits occurring, the analysis below shows that these benefits have been realised as a result of the Alliance.

Increased capacity and Air New Zealand presence on Singapore route

- 4.3 Despite a marked increase in competition, the Alliance has resulted in a substantial and sustainable increase in capacity between New Zealand and Singapore, and a new service between Singapore and Wellington. Total Alliance capacity has increased by 26%⁵ over the course of the Alliance,⁶ with further planned capacity increases which will result in a total ASK increase of around 55% in the coming years.

⁵ As compared to pre-Alliance prior to the introduction of the A380 by Singapore Airlines in October 2014 which was introduced in response to the Alliance.

⁶ Comparing 2014 and 2017 scheduled ASK on Alliance services.

Substantial capacity increase on Auckland – Singapore

- 4.4 In the 2014 Application, the parties submitted that they intended to significantly increase capacity over the course of the Alliance, through a combination of an increase in frequencies from 12 to 14 weekly flights, and up gauging of aircraft. This has occurred: the Alliance has increased capacity on the Auckland – Singapore route by 26% since the commencement of the Alliance,⁷ as a result of:
- (a) upgrading Singapore Airlines' B773 service⁸ (278 seats) to an A380 (471 seats) in the Northern Winter season;
 - (b) replacing the Singapore Airlines B772 service⁹ (271 seats) with an Air New Zealand B789 service (302 seats); and
 - (c) increasing the frequency of the above service from 5x/7x (peak) per week, to a year round daily service.¹⁰
- 4.5 On 7 December 2017 the parties announced a further increase in capacity on the Auckland – Singapore service, with a new Auckland – Singapore service commencing in November 2018, operated by Air New Zealand with a Boeing 787-9 Dreamliner aircraft. The service will operate daily during the peak season from November to March, and five times a week for the remainder of the year, adding more than 165,000 seats a year to the route, a further increase of up to 40% more seats over and above that already added since the commencement of the Alliance. As discussed further below, this additional service will also substantially improve connection times to key markets in the Singapore Airlines network. Auckland Airport has stated that the new service will inject \$136.6 million annually into the New Zealand economy.¹¹
- 4.6 Figure 2 below illustrates the effect of the Alliance on Auckland – Singapore capacity.

⁷ Comparing capacity for the year to 31 October 2014 with the year to 31 October 2017.

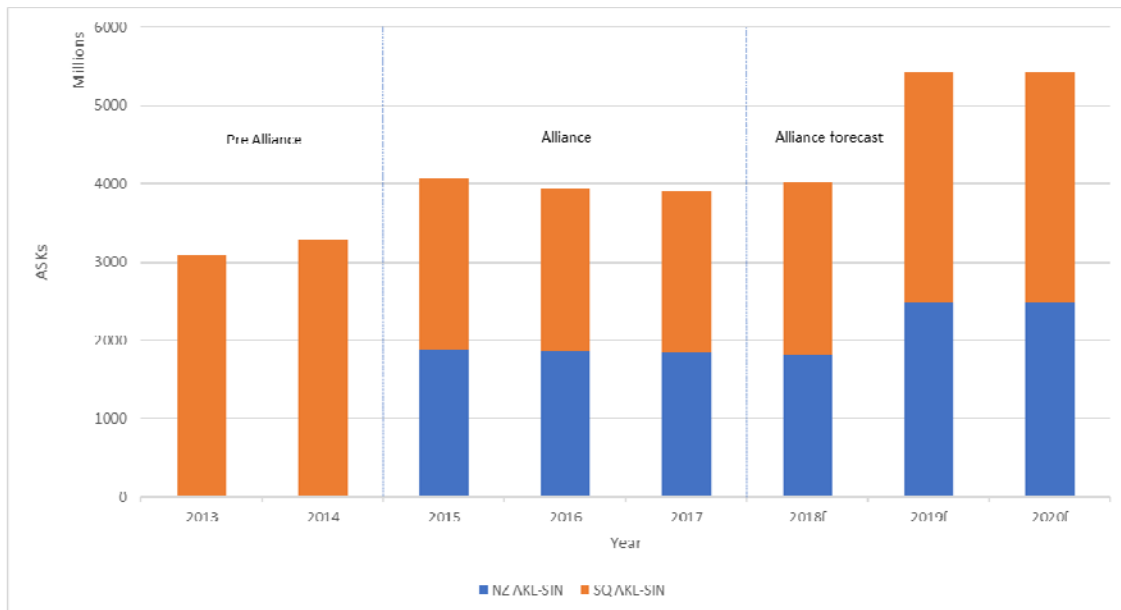
⁸ SQ285/6

⁹ SQ281/2

¹⁰ NZ281/2. When Air New Zealand first replaced the Singapore Airlines' service it did so with a B772 aircraft.

¹¹ <https://corporate.aucklandairport.co.nz/news/latest-media/2017/auckland-airport-welcomes-increased-flights-on-singapore-to-auckland-route>

Figure 2: Alliance capacity on Auckland – Singapore (ASKs)
 [Source: Alliance data]¹²



- 4.7 As set out in the 2014 Analysis, the Auckland – Singapore route had not seen such substantial increase in capacity in the period prior to the Alliance. The total increase in capacity, including the new Auckland – Singapore service commencing in November 2018, will result in approximately a 75%¹³ increase in capacity since the commencement of the Alliance.

Capacity on Christchurch – Singapore

- 4.8 In the 2014 Application, the parties stated that they did not expect the Alliance to result in any further immediate expansion of capacity on Christchurch services, although Christchurch would be well placed to gain from many of the benefits achieved by the Alliance. As part of the authorisation process, the CEOs of both Air New Zealand and Singapore Airlines signed a letter to the Minister reiterating the importance of Christchurch to the Alliance, and the potential for the Alliance to provide a better foundation for existing links between Christchurch and the market beyond.
- 4.9 The CEOs' letter stated that the Alliance would support the Christchurch – Singapore route by incentivising Air New Zealand to encourage its passengers to use the service, and provide Singapore Airlines with increased traffic flows to and through the Christchurch route. This has been achieved through a variety of measures. Singapore Airlines now codeshares to additional Air New Zealand domestic sectors from Christchurch and to/from Australia and the Pacific Islands. This has resulted in a 23% increase in Alliance flows onto the Christchurch – Singapore service to/from domestic sectors.¹⁴ Air New Zealand has built up cross metal sales since the commencement of the Alliance. Singapore Airlines has also been included in Air New Zealand's sale incentive schemes, and trade and corporate deals. Finally, the parties have recently made a commitment to target additional resources to further build Alliance traffic via Christchurch.

¹² Data is based on calendar year (although the Alliance commenced on 6 January 2015) and 2014 capacity includes Singapore Airline's upgauged SQ285/6 service, which commenced shortly after the Alliance was authorised in 2014. The slight dip in 2016 reflects the fact that due to operational constraints Air New Zealand first operated a B772 aircraft to Singapore as an interim measure pending arrival of the slightly smaller B789.

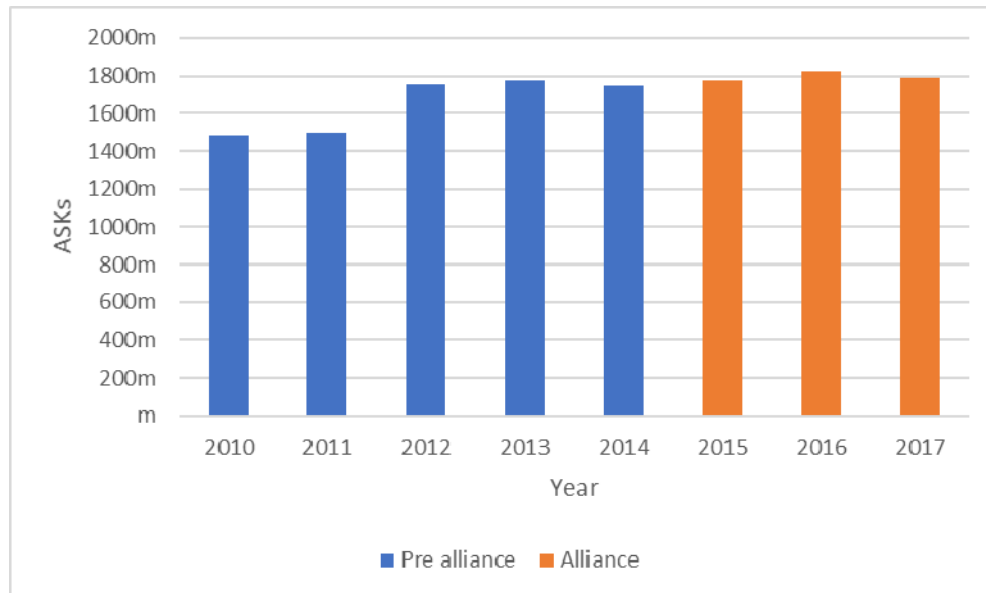
¹³ Source: Alliance ASK for NW18/NS19 compared to pre-Alliance period prior to the introduction of the Singapore Airlines' A380 on the Auckland - Singapore service.

¹⁴ Source: Alliance data, comparing connecting traffic for Jan – September 2014 to the same period in 2017.

- 4.10 The parties have not reduced capacity on the Christchurch service since the commencement of the Alliance, with supplementary peak services operated by Singapore Airlines.¹⁵

Figure 3: Alliance capacity on Christchurch – Singapore (ASKs)

[Source: Alliance data]



- 4.11 [Redacted]

- 4.12 As set out in the 2014 Analysis, the Singapore – Christchurch service plays an important role in providing the South Island with access to international markets. This remains the case, although in recent years Christchurch has seen significant increases in international arrivals, driven by both new entry and increased growth of existing services. Christchurch Airport’s international passenger movements increased by 6.9% in the 2017 financial year, to 1.66 million passengers. The continued operation of Christchurch – Singapore capacity through the term of the Alliance, [Redacted] means the Minister can be comfortable the Alliance has not had an adverse impact on services to Christchurch, but in fact a positive one

Introduction of Singapore – Wellington service

- 4.13 In January 2016 Singapore Airlines announced a new service between Singapore and Wellington, currently operated via Canberra, to be operated via Melbourne from May 2018. In September 2016, it was announced that this service would fall within the scope of the SAA as an Alliance Sector.¹⁶ As part of including this service in the Alliance, the existing codeshare agreement was extended to provide for Singapore Airlines to codeshare on Air New Zealand’s domestic network via Wellington.
- 4.14 The Wellington – Singapore service was Wellington Airport’s first direct service (operated with a single flight number) to a destination outside Australia and the Pacific Islands, and operates at four times weekly. It has produced substantial benefits to the Wellington region, which the Minister at the time stated would expect to “generate \$96 million in visitor expenditure and add around \$44 million to the national economy”.¹⁷

¹⁵ See <http://www.scoop.co.nz/stories/BU1604/S00360/singapore-airlines-increases-summer-services-to-christchurch.htm> and <http://www.stuff.co.nz/travel/news/90760989/singapore-airlines-announces-additional-services-to-and-from-christchurch>.

¹⁶ SIN – WLG is a direct service, as though it is not non-stop, the service is provided on a single aircraft, with a single flight coupon and flight number for each of Singapore Airlines and Air New Zealand.

¹⁷ <https://www.beehive.govt.nz/release/new-wellington-singapore-service-welcomed>.

- 4.15 In the 2014 Analysis, the Ministry was concerned that the Alliance would “effectively remove any prospect of Singapore Airlines operating a long-haul service to/from Wellington”, and acknowledged “a number of doubts around both the technical and economic viability of such a service”. The Ministry also suggested that a Wellington service “would in all likelihood come at the expense of a long-haul service to Auckland or Christchurch”. The introduction of the service illustrates that the Alliance has not adversely impacted Singapore Airlines’ ability or incentive to operate new services to New Zealand where it sees an opportunity. In fact, the Alliance has added substantial additional capacity between New Zealand and Singapore.

Other enhancements to products and services

Greater connectivity

- 4.16 In its 2014 Analysis, the Ministry accepted that the cumulative effect of Air New Zealand gaining access to a greater number of markets was a significant public benefit of the Alliance. The Ministry stated that the Alliance was the best option for increased access to the Indian market, provided that the Ministry could successfully negotiate an expanded Air Services Agreement with India to allow Air New Zealand to codeshare between Singapore and India. This was achieved in 2016.
- 4.17 As set out in the 2014 Application, the Alliance provides for increased online connectivity for each airline. The Codeshare Agreement currently provides for more than 120 code share combinations available through the Alliance. Many of these code share destinations are to South and South East Asia, which is characterised by a number of small and fragmented markets, many of which are cannot be sustained served on a direct basis, whether due to the size of the market and/or their distance from New Zealand. The Alliance provides customers with the ability to travel between New Zealand and these markets to/from all parts of New Zealand. For Air New Zealand in particular, the Alliance increases its ability to reach all of South and South East Asia, on a daily basis, through a route network that it could not possibly replicate in the absence of the Alliance.
- 4.18 As the Ministry identified in its 2014 Analysis, increased connectivity to a market creates a strong incentive for Air New Zealand to invest its marketing and distribution resources there. Prior to the Alliance, Air New Zealand’s sales to, and visibility in, Singapore, India and key South East Asia markets was negligible. In the year prior to the Alliance, less than [Redacted] Air New Zealand passengers travelled between New Zealand and India¹⁸ and just over [Redacted] combined travelled between New Zealand and any of Malaysia, Indonesia, Philippines and Vietnam (excluding the Air New Zealand Auckland – Bali service). As a result of the Alliance, Air New Zealand has increased its marketing presence in these regions, as described in paragraph 4.39 below. These activities, combined with the access to Singapore Airlines’ distribution network, has resulted in significant year on year increase in Air New Zealand’s sales to these regions, as set out in Figure 4 below.

[Redacted]

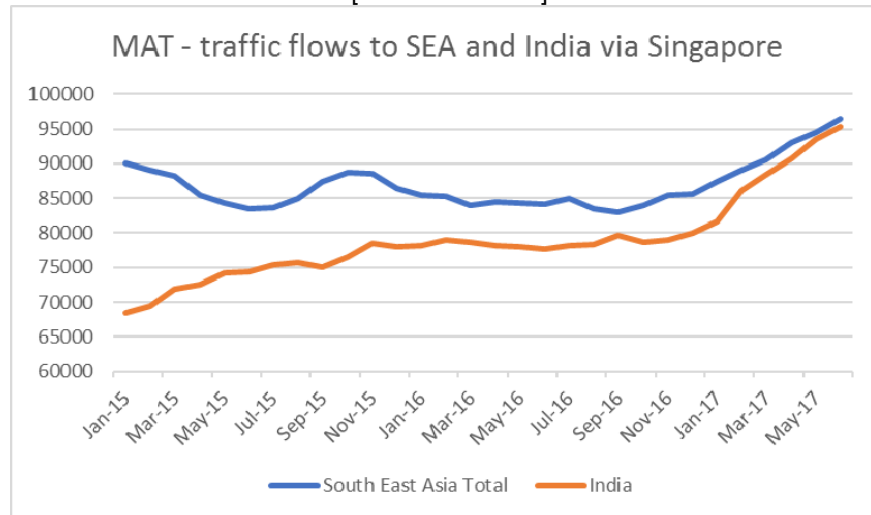
- 4.19 The estimate for the October – December 2017 is based on 2016 October – December passengers. However, given the year to date figures, Air New Zealand expects sales in 2017 to significantly increase from 2016, and continue to grow in 2018, particularly once the third Auckland – Singapore additional capacity is introduced.
- 4.20 Air New Zealand’s sales to India and South East Asia have been matched by a general increase in travel between these regions via Singapore, prompted by the increase in capacity and the marketing/distribution activities in these regions. Figure 5 shows the moving average total for traffic flows between New Zealand and South East Asia/India

¹⁸ Air NZ data based on Air NZ ticketed non-directional passengers [Source David Brown].

via Singapore. The chart shows that traffic was relatively flat until the Alliance was established, with a particular increase in passengers as the Alliance matured and code on services to India was established.

Figure 5: Traffic flows between New Zealand and South East Asia/India via Singapore (MAT)

[Source: Stats NZ]



- 4.21 While the Alliance has resulted in an increase in travel between South and South East Asia via Singapore, competition remains strong – the emergence of hub carriers in China in particular has meant there will be no immediate or consistent increase in Alliance market share across all of these markets.
- 4.22 Prompted by the above, together with the expansion of the New Zealand – India Air Services Agreement in 2016, a key objective of the Alliance in the last year has been how to maximise the use of Changi Airport as a hub into India and South East Asia. As a result of this increased focus, the last year has seen a significant rise in both passenger volume and share for the Alliance in India and South East Asia. The parties hope to improve this even further by using the new Auckland – Singapore service to optimise connectivity through Changi Airport, in both northbound and southbound directions.
- 4.23 With the new Auckland – Singapore service, the parties have agreed to re-time existing services to ensure the Alliance will connect into three different banks of connecting services, resulting in more connections, and shorter northbound and southbound connections.
- 4.24 The new service, together with the retimed SQ285/6 service, connects well both northbound and southbound with South East Asia and India services, and onto Europe, filling gaps in connectivity to key markets in these regions and providing greater options for others, ensuring that the Alliance is well placed to capture increasing growth in these markets. Particular examples include:
- improving connectivity to/from Delhi by reducing connection times by 2 hours. The new schedule will also create new options for passengers wishing to connect to Mumbai, with available northbound connections increasing from 7 to 17 per week. Overall northbound connections to Indian cities will increase by 24 per week, including two new connections (Ahmedabad and Calcutta);
 - improving connections to about 22 Southeast Asian destinations in the Singapore Airlines/SilkAir network within a 4 hour window, including to Cambodia (Siam Reap), Indonesia (Denpasar and Jakarta), Malaysia (Penang), Philippines

(Manila), Thailand (Bangkok, Phuket), and Vietnam (Hanoi, Ho Chi Minh, Danang).

- (c) reducing connection times for services to Europe, where passengers travelling to e.g. Germany, Netherlands, France, Spain, Denmark, Switzerland, currently have 5 - 6 hour connections via Singapore in the northbound direction. With the new schedule, these customers will have access to 1 - 3 hour connections in the northbound directions.
- 4.25 The new service northbound will also connect into Air New Zealand's Auckland – Buenos Aires service, creating new opportunities for travellers to use Auckland as a connecting hub between Asia and both North and South America; and
- 4.26 Due to the timing of the service, the parties project that, based on current schedules and expected demand patterns, the key contributing markets in respect of the passengers on the new Auckland – Singapore service will be South East Asia (including Singapore) and India.
- 4.27 As set above analysis shows, the Alliance has led to substantial connectivity improvements for Air NZ customers, and Alliance customers generally. The new and the rescheduled Auckland – Singapore service in particular will reduce journey times to customers, particularly to and from those destinations that are not currently well served.

More lower fare seat inventory

- 4.28 In the 2014 Application, the parties stated that there would be greater availability of seats in the lower fare classes for passengers on the Auckland – Singapore sector, as the additional capacity would make more seats available in each fare class, including the lower fare classes. In 2015, following the commencement of the Alliance, the number of tactical fares sold on the Auckland – Singapore sector increased by 35% compared to the previous year, and sales of lower mid fares increased by 20%.
- 4.29 In the 2014 Application, the parties also stated that the Alliance will lead to better seat management due to the increased capacity, and more competitive SPA rates. As part of the implementation of the Alliance, the parties moved from a fixed rate SPA to a 'straight rate prorated' arrangement. The effect of this arrangement has been to significantly reduce the prorated amount each party pays to the operating carrier for connecting services.
- 4.30 Fares on Alliance services have decreased over the course of the Alliance. This is due to many factors, including additional capacity by the Alliance, additional capacity by competitors and reduced fuel prices. In order to isolate and quantify the price benefits of alliances for connecting travellers, in 2015/16 Air New Zealand commissioned a major economic study of all of its alliance activity (the "**BLS Report**"), to undertake a qualitative analysis of the price effects of all of Air New Zealand's existing alliances. The study used actual pricing data from Air New Zealand, including the first year of the Alliance, together with Air New Zealand's alliances with Virgin Australia and Cathay Pacific. A full copy of the report is attached as Schedule Two. Despite extensive economic literature on the effects of airline cooperation, the BLS Report will be the first published study extending the empirical approach of airline cooperation to the analysis of the price effect of airline revenue sharing joint ventures.
- 4.31 The report found that prices for 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 (around 75% of total passengers on alliance services). 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.

- 4.32 Overall, the study provided compelling evidence that prices for international JV connecting fares (excluding the Tasman) are 8.8% to 11.6% lower than traditional interline fares. While this part of the study included all of Air New Zealand's long-haul alliances, the incentives created by the Alliance, including the sharing of revenue on Alliance Sectors and the revised SPA arrangements, are the same factors identified by in the BLS Report as leading to relatively lower fares in revenue sharing alliances. The BLS Report provides empirical evidence showing that benefits obtained from the sharing of alliance revenue and more closely aligned SPA arrangements are passed onto consumers.

Competitive response from other carriers

- 4.33 The initial period of the Alliance has been marked by unprecedented increases in competition for travel to New Zealand – making the Alliance capacity increases all the more noteworthy. The level of competition in each of the relevant regions considered by the Ministry in the 2014 Analysis is set out in section 5. However, particular examples include:
- (a) expansion by Qantas, Air New Zealand's largest competitor, with hubs situated directly between New Zealand and the markets served by the Alliance. Qantas has recently increased its focus on Asia, and Singapore in particular. It has announced that it intends to re-route its Sydney – Dubai – London service through Singapore (i.e. Sydney – Singapore – London), introduce a new Brisbane – Singapore – London service, and up gauge its existing Melbourne – Singapore service. In conjunction with this, Qantas is also introducing new trans-Tasman services, timed to connect onto these Singapore services;
 - (b) Qantas' alliance partner, Emirates, along with fellow Middle Eastern carrier Qatar, have each commenced direct services from Auckland to their hubs in Dubai and Qatar respectively, both of which service destinations across Europe, Africa and Asia, in competition with indirect services via Singapore. Emirates is also evaluating a potential second daily direct Auckland to Dubai service in the short to medium term;
 - (c) airlines have launched services to New Zealand from markets served by the Alliance, including Philippines Airlines (initially Manila – Cairns – Auckland, then Manila – Auckland from December 2017) and Air Asia X (Kuala Lumpur – Gold Coast – Auckland); and
 - (d) new hub carriers are emerging throughout Asia, and in particular Greater China, with a strong focus on linking Asian markets to New Zealand.
- 4.34 As set out in the BLS Report,¹⁹ direct long haul services to New Zealand are difficult to sustain for Air New Zealand and foreign carriers. New Zealand is small in size and geographically isolated. In addition, Australia sits between New Zealand and many of its key tourism markets. With its far larger market and ability to sustain international services, travel via Australia to New Zealand is attractive to many travellers. In 2015, 44.8% of visitors to New Zealand with nationalities other than Australia and other countries from the South Pacific arrived into New Zealand from Australia. To sustain long haul services, Air New Zealand needs to be able to offer the same (or higher) degree of integrated service that Qantas and other carriers to Australia are able to offer. The Alliance is essential to allowing Air New Zealand to compete with Qantas and other long haul carriers operating to Australia.

¹⁹ BLS Report, pages 52 – 59.

Premium customer handling, lounge and FFP benefits

- 4.35 In the 2014 Application, Air New Zealand estimated that members will earn an additional one million Airpoints Dollars and the accompanying Status Points per annum as a result of the Alliance. Air New Zealand Airpoints members have obtained significant additional benefits since the Alliance commenced:
- (a) Air New Zealand passengers travelling on Singapore Airlines' operated services accrued an average of over [Redacted] additional Airpoints Dollars per month since the launch of the Alliance, compared to the monthly average in the 12 month period prior to the Alliance (around [Redacted] in total). This is due to both a more favourable accrual rate, accruals for each airline on the other's lower tier inventory and an increased number of Air New Zealand passengers travelling on Singapore Airlines' services, and has occurred despite Singapore Airlines no longer operating the SQ285/6 service.
 - (b) Passengers travelling on Air New Zealand's Auckland – Singapore service have accrued around [Redacted] Airpoints Dollars per annum on Air New Zealand's Auckland – Singapore service.
 - (c) In October 2014 Air New Zealand entered into an agreement with SilkAir, a subsidiary of Singapore Airlines, to allow Air New Zealand passengers to earn Airpoints Dollars on SilkAir flights. Prior to the Alliance, Air New Zealand passengers could not earn Airpoints Dollars on SilkAir flights, even at Star Alliance rates. Since the commencement of the Alliance, Air New Zealand passengers have earned over [Redacted] Airpoints Dollars through travelling on SilkAir.
- 4.36 Overall, Air New Zealand Airpoints members are earning substantially more Airpoints Dollars on services to and via Singapore than they were immediately prior to the Alliance. These benefits would not have been obtained in the absence of the Alliance.
- 4.37 Consistent with the Alliance objectives, the Alliance has also worked on further improving the customer experience for Alliance passengers, both at the time of booking, and during the journey itself. Singapore Airlines has provided greater lounge access for Air New Zealand passengers, with Elite members and Elite partners now able to access Singapore Airlines' SilverKris lounge at Changi Airport. Other members also have the option to access the SATS lounge in Terminal 3 at Changi Airport when travelling from Singapore to New Zealand. The parties commenced a project to allow joint seat select on Alliance services, although this has now been adopted as a Star Alliance project. As set out above, the parties are also focussed on minimising connection times for customers at Changi Airport. Air New Zealand has also participated in Singapore Airlines' proprietary Singapore Stopover Holidays product, and the Changi Transit Programme.

Stimulation of tourism

- 4.38 As the Ministry will be aware, tourism to New Zealand has grown substantially over the period of the Alliance. While this is due to a number of factors, the Ministry accepted in its 2014 Analysis that the Alliance would result in some additional inbound travel as a result of improved distribution and marketing channels.
- 4.39 Air New Zealand, together with Singapore Airlines and government and trade partners, has invested heavily in marketing New Zealand as an Alliance destination. Immediately upon the implementation of the Alliance, Air New Zealand opened a local sales office in Singapore. Air New Zealand has around six sales staff based in Singapore (excluding airport operations staff) tasked with selling New Zealand as a destination to Singapore and South and South East Asia. Since the commencement of the Alliance, and in particular as a result of the signing of the Air Services Agreement with India, Air New

Zealand has undertaken a number of activities on its own, with Singapore Airlines, and with tourism bodies and industry partners, to increase the profile of New Zealand in South and South East Asia. These include:

- (a) Air New Zealand has reviewed its network of sales agents in South and South East Asia, in many cases replacing incumbents with new agents better suited to take advantage of the opportunities created by the Alliance. In India, Air New Zealand has appointed a new GSA. The GSA is based in Mumbai, to best take advantage of the code share opportunity created by the new ASA. The GSA is based on a 'hybrid' model, with at least one full time staff member dedicated to marketing Air New Zealand in Mumbai [Redacted]. The Alliance has invested heavily in awareness training and incentives for the Indian trade, including establishing partnerships with the key trade partners in a market that is heavily based on purchases with travel agents.
- (b) As well as each party's own marketing activity, Air New Zealand and Singapore Airlines have entered into a number of marketing arrangements with Tourism New Zealand and other trade partners in Singapore and India. The focus of these arrangements is to promote leisure travel and holiday arrivals to New Zealand, with a strong focus on consumer campaigns and trade education. Activities have included consumer campaigns, Facebook and other social media campaigns, trade seminars and famils to educate travellers and the trade as to the benefits of New Zealand as a holiday destination, and how the Alliance works in order to facilitate journeys to New Zealand.
- (c) Air New Zealand has increased its online presence in South and South East Asia, setting up a number of online storefronts (including Singapore and Vietnam [Redacted]), and investing in search engine marketing to increase its profiles in these jurisdictions.

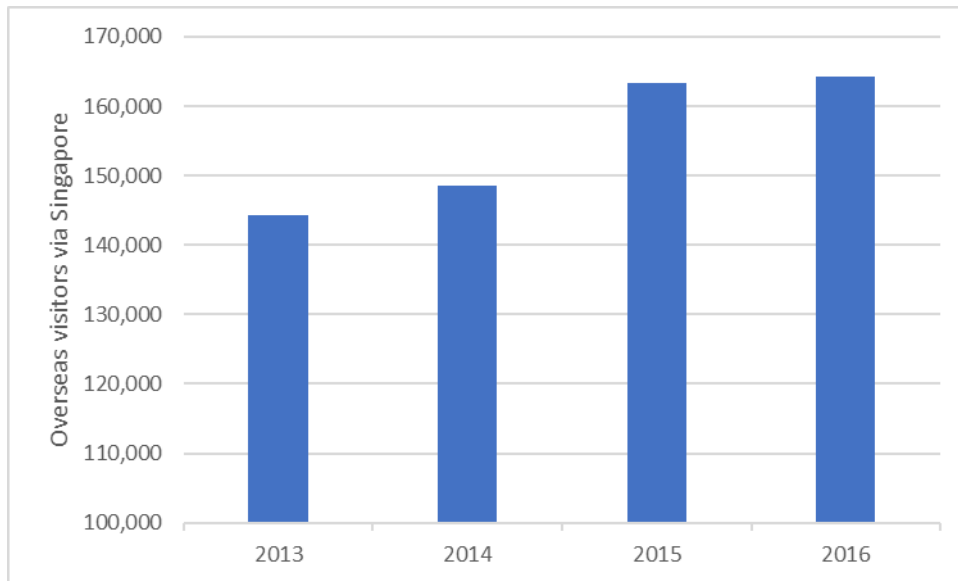
- 4.40 Attached as Schedule Three are examples of joint marketing undertaken by the Alliance. As the materials show, the Alliance has led to a greater focus by Singapore Airlines on New Zealand as a destination in its own right, rather than as part of wider Australasian or Pacific campaigns.
- 4.41 Since the commencement of the Alliance, the parties have been working on joint marketing, including a fund to promote Alliance services and drive passenger growth on Alliance Sectors. [Redacted]
- 4.42 The result of these increased marketing efforts in South and South East Asia is starting to show in the number of passengers from those markets travelling on Alliances services. Figure 6 shows the increase in total inbound visitors to New Zealand from Alliance services. Compared to the year prior to the Alliance, total visitor numbers increased via Singapore by 14,848 in Year 1 of the Alliance, and 15,632 in Year 2 of the Alliance. Based on Ministry of Business, Innovation and Employment's the average tourist expenditure of \$3,180 per person,²⁰ this increase in visitors is worth just under \$50m to the New Zealand economy.²¹ This does not include the additional increase in visitors likely to result from the third Auckland – Singapore service, which will add 165,000 seats annually to the Alliance.

²⁰ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/documents-image-library/key-tourism-statistics.pdf>

²¹ This does not include visitors arriving via the Wellington – Singapore service to the extent that those passengers are captured as arriving via Canberra, nor does 2014 exclude passengers arriving on Jetstar services up until July 2014.

Figure 6: Visitor arrivals to New Zealand via Singapore

[Source: Stats NZ closest port of flight data]



- 4.43 As well as stimulating tourism to New Zealand, the Alliance has ensured that the benefits of this increase in tourism is distributed to different geographical regions throughout New Zealand. This is immediately apparent in relation to the new Singapore – Wellington service [Redacted]. The Alliance has also stimulated travel to regions outside the three main centres served, due to the increased incentive that the Alliance creates for Air New Zealand to both open up its domestic network to Singapore Airlines travellers, and to accommodate Air New Zealand customers travelling on Alliance services. As part of the implementation of the Alliance, the parties agreed to expand the number of New Zealand domestic services on which Singapore Airlines could codeshare (up to 40 domestic and selected international destinations, compared to five domestic ports and selected trans-Tasman services), as well as agreeing reduced rates for these domestic services. As a result of the Alliance, a higher proportion of travellers on the Alliance Sectors now travel beyond the Auckland and Christchurch gateways to other destinations throughout New Zealand, a direct benefit to regional New Zealand.
- 4.44 The passenger flows from the Alliance Sectors 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. As set out in the BLS Report, passenger feed from long haul services such as the Alliance Sectors is key to the viability of domestic services, which are often operated on a marginal basis. Approximately 47% of Air New Zealand’s passengers travelling on a typical long-haul international flight from Auckland 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”.²²

5. COMPETITION CONSIDERATIONS

- 5.1 As set out above, the Alliance faces unprecedented competition, with travellers to and from New Zealand having a range of travel options, substantially more than when the Alliance commenced in 2015. As set out below, the Alliance has not created any competitive detriment in any of the Alliance markets.

²² BLS Report at [page number]

New Zealand – Singapore

- 5.2 Absent the benefit of the Singapore Airlines' feed as part of the Alliance, Air New Zealand would not sustain its own service to Singapore. While travel between New Zealand – Singapore has increased substantially as a result of the Alliance, the vast majority connects to/from Singapore services (over [Redacted]), meaning the lack of connectivity which has historically meant Air New Zealand cannot justify such direct services would remain a fundamental issue.
- 5.3 The Alliance has not affected the overall level of competition for passengers travelling between New Zealand and Singapore with continued one stop competition from:
- (a) Qantas/Emirates (via Australia);
 - (b) Cathay Pacific (via Hong Kong);
 - (c) China Southern Airlines (via Guangzhou);
 - (d) Korean Air (via Incheon);
 - (e) Malaysia Airlines (via Kuala Lumpur);
 - (f) Thai Airways (via Bangkok);
 - (g) Air China (via Beijing);
 - (h) China Eastern Airlines (via Shanghai);
 - (i) Jetstar (via Melbourne);
 - (j) Philippine Airlines (via Manila); and
 - (k) Fiji Airways (via Fiji).
- 5.4 There is no evidence of monopoly behaviour by the Alliance in relation to New Zealand – Singapore traffic. As set out in section 4 above, the Alliance has resulted in substantial current and planned capacity increases on the New Zealand – Singapore route which is inconsistent with any evidence of market power. There is no indication of an increasing trend in average fares for passengers travelling between New Zealand and Singapore since the commencement of the Alliance, even while the Alliance has been the only direct carrier between New Zealand and Singapore.

[Redacted]

- 5.5 This lack of market power is also illustrated by the fact that, despite the Alliance resulting in a greater number of travellers between New Zealand and Singapore and substantially lower fares on the service, the market share carried by the Alliance also has remained relatively steady at around [Redacted] since the initial boost to market share (from around [Redacted]) arising from the increase in capacity on Auckland – Singapore. This illustrates the continuing impact that one-stop competition has on the New Zealand – Singapore route. Qantas in particular has an increasing market share, and aggressive plans to compete for New Zealand traffic to Singapore, having recently announced plans to establish Singapore as a transit location from March 2018. These plans are estimated to provide an additional 3,800 seats every week on Australia – Singapore routes²³, providing by extension additional one stop travel options to passengers on New Zealand – Singapore routes.
- 5.6 The Ministry has previously recognised that it was “highly unlikely that another carrier would seek to operate on either route [New Zealand – Singapore] in the short to medium term regardless of whether the alliance is authorised”.²⁴ However, given the change in market conditions since 2014, and the lack of any barriers to entry, there remains a possibility that Jetstar Airways or another low cost carrier will re-enter the New Zealand – Singapore route. The recent entry of Hong Kong Airlines onto the Hong Kong – Auckland route shows that an alliance between flag carriers does not act as a barrier to entry in today's competitive environment.

²³ [refer to Qantas/Emirate submission]

²⁴ Ministry of Transport, Air New Zealand/Singapore Airlines Alliance Application: Draft Recommendation dated 25 July 2014 at 15.

New Zealand – Europe

- 5.7 Competition for travellers between New Zealand and Europe has continued to increase over the period of the Alliance, with a number of other international airlines that fly New Zealand – Europe/United Kingdom via their various hubs in Asia and the Middle East.
- 5.8 As at the date of the first application for approval of the Alliance, eight carriers were identified as directly competing with the Alliance for Auckland – London traffic. This has now increased to eleven airlines which offer one stop services on this route being:
- (a) China Southern Airlines (Guangzhou);
 - (b) Emirates (Dubai);
 - (c) Qatar Airways (Doha);
 - (d) Malaysia Airlines (Kuala Lumpur);
 - (e) Cathay Pacific (Hong Kong);
 - (f) Philippine Airlines (Manila);
 - (g) Air China (Beijing);
 - (h) Korean Air (Incheon, South Korean);
 - (i) Thai Airways (Bangkok);
 - (j) American Airlines/British Airways (Los Angeles); and
 - (k) China Eastern Airlines (Shanghai).
- 5.9 Many existing carriers have also expanded their existing services. The introduction of the non-stop Auckland – Doha service by Qatar Airways in February 2017, and the non-stop Auckland – Dubai service by Emirates in March 2016, has had a significant impact on the competitive environment on this route.
- 5.10 [Redacted] carries the majority of New Zealand – Europe/United Kingdom traffic, with [Redacted] and other carriers carrying the balance. Market shares are set out in Figure 8 below. Other than [Redacted], the market is very fragmented with no carrier holding more than a [Redacted]% share of the market.

Figure 8: Market shares for New Zealand – Europe/United Kingdom

[Source: PaxIS-Plus data]

Airline	Market Share ²⁵
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

- 5.11 Competition also remains strong to each individual Priority Market, with the Alliance’s share steady or falling in each, resulting in an overall reduction in the Alliance’s share.

²⁵ January to September 2017 only.

Figure 9: market shares for individual Europe markets

[Source: PaxIS-Plus data]

Priority Market	Pre-Alliance	Year 1	Year 2	Year 3 ²⁶
United Kingdom	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Germany	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Switzerland	[Redacted]	[Redacted]	[Redacted]	[Redacted]
France	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Netherlands	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Denmark	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Italy	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Spain	[Redacted]	[Redacted]	[Redacted]	[Redacted]

5.12 The parties expect that competition for travellers between New Zealand and Europe will continue to increase as the full effect of the new Qatar and Emirates service flows into market share, and as Chinese carriers further develop their hubs and increase the number of destinations in Europe they serve.

South East Asia

5.13 On South East Asia markets beyond Singapore, the Alliance continues to compete with other international airlines that fly from New Zealand to their hubs in Asia, the Middle East, and Australia. This includes well established airlines such as:

- (a) Qantas/Emirates (which offers one to two stop options via Australia to various destinations in South East Asia);
- (b) Malaysia Airlines and AirAsiaX (via their hubs in Kuala Lumpur);
- (c) Thai Airlines (via its hub in Bangkok);
- (d) Philippines Airlines (via Manila) and
- (e) Cathay Pacific (via its hub in Hong Kong).

5.14 As with the New Zealand – Europe/United Kingdom services, [Redacted] carries the majority of the New Zealand – South East Asia traffic, with [Redacted] and other carriers carrying the balance. Figure 10 sets out market share for the South East Asia region.

²⁶ January to September 2017 only.

Figure 10: market share for South East Asia
[source: PaxIS-Plus data]

Airline	Market Share ²⁷
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

5.15 As the market shares illustrate, the market for travel to South East Asia is particularly fragmented, and is likely to become even more so with the continuing boom in airline travel in the region. Since the Alliance was approved, two new carriers (Philippine Airlines and AirAsiaX) have entered the New Zealand – South East Asia market, and Malaysia Airlines and Thai Airways have increased services:

- (a) **AirAsiaX** started daily services between Kuala Lumpur and Auckland, by extending its Gold Coast service in March 2016.²⁸
- (b) **Philippine Airlines** launched service between Auckland and Manila in December 2015, operating four flights per week with a stopover in Cairns.²⁹
- (c) **Thai Airways** has announced intention to increase flights on its Bangkok to Auckland service – will fly daily from November 2017 (currently 5 times per week)³⁰.
- (d) **Malaysia Airlines** has increased its capacity by approximately 2 million ASKs on its Auckland – Kuala Lumpur routes.

5.16 Competition also remains strong in each Priority Market in South East Asia. Despite the significant increase in capacity by the Alliance, and the increase in Alliance passengers from South East Asia, the growing presence of competitors means the Alliance's share in each Priority Market has either remained steady or decreased in 2015 and 2016.

²⁷ January to September 2017 only.

²⁸ <https://corporate.aucklandairport.co.nz/news/latest-media/2016/airasia-x-to-land-in-auckland-in-march>

²⁹ <https://corporate.aucklandairport.co.nz/news/community-news/2015/philippine-airlines-touches-down-at-auckland-for-the-first-time>

³⁰ <https://corporate.aucklandairport.co.nz/news/latest-media/2017/auckland-airport-welcomes-increased-flights-on-bangkok-to-auckland-route>

Figure 11: market share for South East Asia Priority Markets (and Indonesia)
[source: PaxIS-Plus data]

Priority Market	Pre-Alliance	Year 1	Year 2	Year 3 ³¹
Vietnam	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Thailand	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Malaysia	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Philippines	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Indonesia	[Redacted]	[Redacted]	[Redacted]	[Redacted]

5.17 The South East Asia markets continue to remain highly competitive, resulting in new direct services being established for Malaysia and Philippines. The Alliance has also embedded various marketing, promotion and other initiatives in relation to these markets. The Alliance expects further improvement in passenger numbers as the Alliance becomes more established, and Air New Zealand's presence grows in these regions, although it is also expected that continued new entry, and expansion of existing competitors, will mean that these markets remain fiercely competitive.

India

5.18 Travel between India and New Zealand has growth strongly over the period of the Alliance. The number of passengers on the New Zealand – India route continues to increase, with Alliance passengers up [Redacted] to approximately [Redacted] passengers for the period from January to September 2017 as compared to the prior period.

Figure 12: market share for India
[source: PaxIS-Plus]

Airline	Market Share ³²
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

5.19 The growth in travel to and from India is a major battleground for airlines in the region, and services to New Zealand are no exception. While currently the leading provider of travel between India and New Zealand, the Alliance competes with a number of

³¹ January to September 2017 only.

³² January to September 2017 only.

established and new international airlines who offer flights on the New Zealand – India route via their respective hubs including:

- (a) Thai Airways (Bangkok);
- (b) China Southern Airlines (Guangzhou);
- (c) Qantas/Emirates (via Australia and Dubai);
- (d) Cathay Pacific (Hong Kong);
- (e) Korean Air (Incheon, South Korean);
- (f) Qatar Airways (Doha, Qatar);
- (g) Malaysia Airlines (Kuala Lumpur);
- (h) China Eastern Airlines (Shanghai);
- (i) Hong Kong Airlines (Hong Kong); and
- (j) Air India (India).

5.20 The passenger profile on this route means that passengers are more willing to travel on indirect services, even if this results in a substantially longer journey time. Given the significant level of competition on the New Zealand – India route, Air New Zealand would have a very limited presence in this market but for the Alliance.

5.21 For the specific routes, [Redacted] maintains the largest market share for New Zealand – Delhi, carrying [Redacted]% of the market as compared to [Redacted]% for [Redacted] (for the period January to September 2017). For New Zealand – Mumbai, [Redacted] carries [Redacted]% of the market, with [Redacted] carrying [Redacted]% and [Redacted] carrying [Redacted]% (for the period January to September 2017).

5.22 New competition continues to emerge for travel between Hong Kong and India. Hong Kong Airlines commencing daily direct Hong Kong – Auckland flights in November 2016, enabling it to leverage its codeshares with Air India (Delhi) and Jet Airways (India) (Mumbai) and quickly building market share for India – New Zealand travel. Philippines Airlines also flies directly to India from its Manila hub, and it is expected to increase its market share once it has commenced its new Auckland - Manila service.

[Redacted]

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

6.1 Under Part 9 of the Civil Aviation Act 1990 (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.

6.2 In its 2014 Analysis, the Ministry accepted that the Alliance did not fall foul of any of the prohibitions set out in sections 88(3) and 88(4) of the CAA, and that the agreements were capable of being authorised under the CAA. We do not consider that there have been any material changes to the Alliance that would warrant a change to these conclusions. However, we comment below on some of the observations in the Ministry's 2014 Analysis.

Section 88(3)

6.3 Section 88(3) requires the Minister to ensure that the granting of authorisation will not prejudice compliance with any relevant international convention, agreement, or arrangement to which the Government of New Zealand is a party.

6.4 In considering section 88(3) in the 2014 Analysis, the Ministry reviewed the bilateral and multilateral air services agreements with each of countries relevant to the Alliance. As the Ministry will be aware, there have been some changes to the relevant air service agreements since the commencement of the Alliance, the most significant being the

expansion of the air service agreement with India to allow some third party codesharing.

- 6.5 As set out in the 2014 Analysis, requirements of the Act will ensure that the granting of an authorisation will not prejudice compliance with relevant international agreements and arrangements. In addition, the SAA also provides that any cooperation is subject to the parties maintaining the necessary regulatory approvals and consents, so even if the proposed cooperation did fall outside a relevant ASA (now or in the future), the parties would adapt their conduct accordingly.

Section 88(4)

- 6.6 Section 88(4) allows the Ministry to decline to give authorisation where any of a number of factors apply. In its 2014 Analysis, the Ministry found that there were no provisions in the SAA or Implementing Agreements that fell within any of the prohibitions in s88(4) of the Act. Nothing about the Alliance has changed to alter this conclusion:

- (a) **Market pressures:** In its 2014 Analysis the Ministry raised concerns regarding the application of section 88(4) to some clauses in the SAA as submitted to the Ministry. The parties amended the SAA to resolve the Ministry's concerns. Since the 2014 Authorisation, nothing in the SAA has been amended which could change the Ministry's view on section 88(4)(a). In particular, Air New Zealand has opened new routes into the Priority Market, and codeshare arrangements with airlines other than Singapore Airlines outside of the Priority Markets.
- (b) **Commission regimes:** no provision of the SAA has the purpose or effect of breaching any commission regime.
- (c) **Discrimination:** The SAA does not unjustifiably discriminate between consumers of international air services in the access they have to competitive tariffs.
- (d) **Exclusionary effect of tariffs:** the SAA does have a number of restrictive provisions, including exclusivity obligations. However, all of these obligations relate to capacity, not tariffs, and neither party is excluded from operating any international route of its own accord. Nor has the SAA, through the setting of its tariffs (or otherwise), had an exclusionary effect on other airlines from operating any international route.
- (e) **Section 90 approvals:** the SAA 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) **No penalty for withdrawal:** the Ministry's conclusion in the 2014 Analysis was that the SAA does not prevent a party from withdrawing from the SAA without penalty. Clause 9.4(d) of the SAA continues to explicitly state that no penalty is payable related simply to the act of termination. The initial term of the agreement is five years, following which either party may terminate by 12 months' notice (with effect from the end of the IATA season in which notice expires), with earlier termination in certain circumstances. All implementing agreements cease upon termination of the Agreement, also without penalty.

Section 88(5) – International comity

- 6.7 The Applicants note the MOT's conclusion in the 2014 Analysis that declining authorisation would not have an undesirable effect on international comity.

Schedule One
Alliance Agreement

[Redacted]

Schedule Two

BLS Report

[Redacted]

Schedule Three

Marketing examples



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