

Ministry of Transport

# Detailed analysis to support the report to the Minister of Transport

Application by Air New Zealand and Singapore Airlines for authorisation of  
a Strategic Alliance Agreement

## Purpose

This report provides detailed analysis of the application by Air New Zealand and Singapore Airlines (together ‘the Applicants’), pursuant to the Civil Aviation Act 1990, for authorisation of a Strategic Alliance Agreement (the Alliance). A summary of this advice and our recommendation is provided in a separate briefing.

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## I. Outline of the proposal

1. On 24 January 2014, Air New Zealand and Singapore Airlines submitted an application for authorisation of a Strategic Alliance. Under the Alliance, the Applicants plan to cooperate to varying degrees on services between Singapore and New Zealand and connecting services.
2. The Applicants are seeking unlimited authorisation of the Alliance. The Agreement has an initial commercial term of 5 years.

### Scope of the Alliance

3. The Alliance provides for varying levels of cooperation between the Applicants on passenger services on:
  - a. **Alliance Sectors** operating directly between Singapore and New Zealand (currently Auckland – Singapore and Christchurch – Singapore, both operated by Singapore Airlines). This would see Air New Zealand re-commencing services between Auckland and Singapore. Cooperation on direct services between Singapore and New Zealand would include revenue sharing, network planning, codesharing<sup>1</sup>, coordinating operational requirements, capacity and pricing coordination.
  - b. **Alliance Routes** which comprise a direct service between Singapore and New Zealand as part of a connecting journey. Cooperation on these services would differ depending on the jurisdiction to which the route originates/concludes. On Alliance Routes to priority markets<sup>2</sup>, the parties would code-share and coordinate pricing, sales and marketing. On other Alliance Routes, cooperation would only extend to codesharing.
4. Under the Alliance, the Applicants propose to increase capacity on the Auckland-Singapore route by up to 30 percent over time. According to the Applicants, this would be achieved by:
  - a. Air New Zealand taking over an existing five-flight per week service currently operated by Singapore Airlines on the Auckland-Singapore route. This service would be replaced by a daily service, with a Boeing 777-200 aircraft.
  - b. Singapore Airlines deploying an Airbus A380 aircraft on its remaining daily service between Auckland and Singapore on a seasonal basis. This aircraft has a capacity of 471 seats, compared to 278 seats on its existing Boeing 777-300 aircraft. Singapore Airlines would continue to operate its Boeing 777-300 in the off-peak season.
5. The Applicants also intend to align their frequent flyer programs and premium customer handling, including lounge access.

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<sup>1</sup> An agreement that the parties will sell seats on each other's flights and on how schedules and fares are going to be set.

██  
██  
██

6. The Alliance also intends covering, over time, markets in which Air New Zealand does not currently have the necessary air services rights to operate. The relevant air services rights for each of the covered jurisdictions in the Alliance are outlined in Annex II.

### The agreements

7. The Strategic Alliance Agreement sets out the principles and objectives that will underlie the establishment and maintenance of the Alliance. It also details the markets the Alliance would encompass and the level of cooperation attached to those markets.

8. A number of implementing agreements will support the Alliance. These include:

- a. **Code-Share Agreement** to expand the Applicants' existing code-share arrangements and set out the operational arrangements as between the parties on the Alliance Routes.
- b. **Special Prorate Agreement** to enhance the Applicants' existing special prorate agreement, and set proportional rates, or "prorates" on such routes as the Applicants may agree<sup>3</sup> [on their respective networks].
- c. **Premium Customer Handling and Lounge Agreement** to enhance the Applicants' existing arrangements pursuant to Star Alliance<sup>4</sup> minimum requirements to provide reciprocal premium handling, including lounge access to the extent practical.
- d. **Frequent Flyer Programme (FFP) Agreement** to enhance the parties' existing frequent flyer programme agreement to the extent practical, including extending FFP arrangements to the SilkAir<sup>5</sup> network.
- e. **Slot Transfer Agreement** to set out the arrangements by which the parties shall exchange the relevant slots in order to facilitate operations on Alliance Sectors by Air New Zealand.

## II. Assessment of the Alliance

### Framework

9. The application has been made pursuant to Part 9 of the Civil Aviation Act. Part 9 provides an alternative regime to the Commerce Act 1986 for authorisation of contracts, arrangements or understandings relating to international carriage by air.

10. Section 88 of the Civil Aviation Act sets out a number of statutory pre-conditions, which need to be met by all provisions of the arrangements for which authorisation is being sought. [REDACTED]

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<sup>3</sup> In other words, an agreement setting out the rates the two airlines will charge each other for seats on the flights they operate.

<sup>4</sup> A large global airline alliance which offers passengers an extended choice of destinations on member airlines' networks and more synchronised lounge access, ticketing and check-in services.

<sup>5</sup> A wholly owned subsidiary of Singapore Airlines which operates regional services in the Singapore Airlines Group network.



11. The Civil Aviation Act does not set out any particular framework for assessing whether authorisation is appropriate in the public interest. Our analysis in this regard is broadly consistent with our approach to previous applications, and consists of:
  - a. an assessment of the proposal against the specific statutory criteria in sections 88 (2) – (5) of the Civil Aviation Act
  - b. consideration of where this proposal sits alongside other code-share and alliance agreements in the New Zealand market
  - c. consideration of the nature and scale of any benefits to consumers and/or New Zealand as a whole as a result of the alliance
  - d. consideration of the nature, scale and likelihood of any possible detriments or risks that may occur to consumers and/or New Zealand as a whole as a result of the alliance
  - e. consideration of the counterfactual (the likely scenario in the absence of authorisation)
  - f. an overall conclusion drawing together the factors above.
12. Benefits accruing to Air New Zealand rather than a foreign entity are considered benefits to New Zealand. However, the fact that the New Zealand government owns 53% of Air New Zealand has not been a consideration in our analysis.

*Relationship to the Competition Commission of Singapore*

13. The Alliance is centred upon the New Zealand and Singapore markets. As such, the Alliance has also been considered by the Competition Commission of Singapore (CCS). On 17 April 2014, the CCS announced its decision to authorise the proposed alliance, finding that while the Alliance could raise competition concerns, these would be offset by net economic benefits to Singapore. The CCS has not imposed any time limit on its authorisation. However, it has reserved the right to review its decision in the event that there is a 'material change of circumstance'.
14. In order to proceed, the alliance must be approved in both New Zealand and Singapore. Your decision must be made independently of the CCS. The fact that the CCS has approved the alliance should not be a consideration in your decision, as the CCS process does not take the interests of New Zealand and New Zealand consumers into account.

*'Exclusivity' Provisions*

15. Typically, alliance agreements include 'exclusivity' provisions which prevent the airlines from entering into similar arrangements with other airlines on the same routes. For example, the Air New Zealand/Cathay Pacific alliance application included a provision preventing either airline from cooperating with other airlines on the 'covered jurisdictions' (i.e. routes between New Zealand and Hong Kong). These provisions are designed to protect the integrity of the alliance, and provide assurances that both airlines are committed to the alliance.

16. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Statutory analysis**

*Specific statutory criteria in section 88 of the Civil Aviation Act*

21. We have conducted a comprehensive analysis of the Alliance agreements against the provisions set out in section 88 of the Civil Aviation Act 1990. As a result of this analysis we have determined that the agreements (as amended by the Applicants) do not fall foul of the

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[REDACTED]

statutory criteria and are capable of authorisation. Our detailed analysis of this is set out in Annex I.

#### *Tariffs and capacity*

22. The Civil Aviation Act does not provide that agreements may be authorised in their entirety, but rather that any or all provisions of an agreement may be authorised so far as the provisions relate, directly or indirectly, to the fixing of tariffs, the application of tariffs, or the fixing of capacity, or any combination thereof.
23. We have concluded that (with the exception of clauses 4.1(b)(vi) and 4.9 relating to joint purchasing for which the Applicants are not seeking authorisations) all of the operationally material provisions of the Agreement relate directly or indirectly to the fixing or application of tariffs or the fixing of capacity. A section-by-section analysis of the Agreements in terms of how they relate to the fixing or application of tariffs and the fixing of capacity is included as Annex I to this report.

### **III. Background on Alliance Agreements**

#### **Why do airlines pursue alliance agreements?**

24. Despite being perhaps the most obviously global of all industries, the international air transport industry does not operate as a free market. International aviation is highly regulated by a network of thousands of bilateral air services agreements negotiated between governments. These agreements set out the parameters under which scheduled international services can be operated, including (among other things) the amount of capacity that can be provided, the airports that can be served, and the ownership and control criteria which determines whether an airline qualifies to make use of the rights granted by the agreement.
25. These bilateral agreements have had a profound effect on the global structure of international airlines. Restrictions on foreign ownership requiring airlines to be 'substantially owned and effectively controlled' by nationals of their home State mean that cross-border mergers between airlines are rare. Airlines from smaller markets are further restricted by a lack of access to global equity markets. At the same time, restrictions on market access limit an airlines' ability to expand into new markets. As a consequence, the industry is characterised by an abundance of airlines, with around 1,400 commercial airlines operating globally, and in most markets, limited competition between them. The largest airline in the world (Delta) has a global market share of just seven percent, while the 240 airlines which are members of the International Air Transport Association (IATA) have a collective market share of 84 percent. In contrast, in global shipping (itself a relatively dispersed industry), the top 10 shipping liners have a combined market share of over 60 percent, with the largest shipping liner holding an 18 percent market share.

#### **Global alliances**

26. In response to the restrictions imposed by bilateral agreements, in the late 1990s many of the major network (legacy) airlines started entering into three global alliances: Star (29.3% of the global market); oneworld (23.3%); and Skyteam (24.6%). These alliances have been



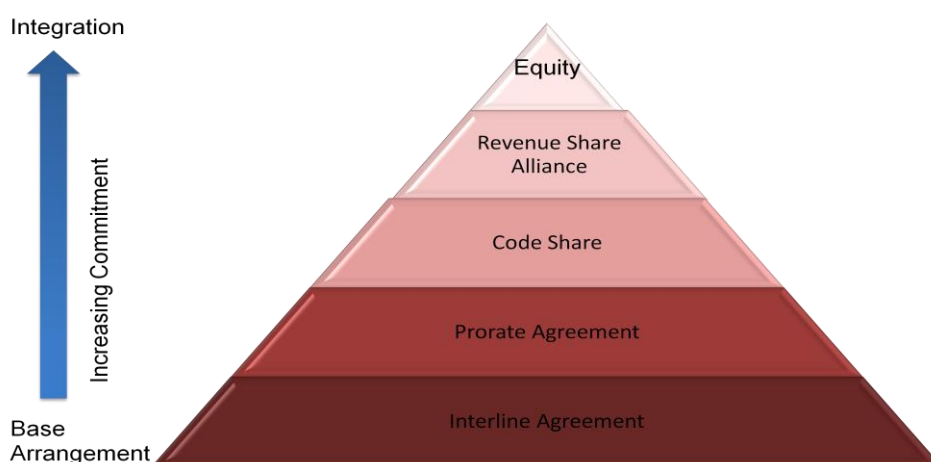
expanding in both breadth and depth. In particular, the three global alliances have been seeking to add new partner airlines in the geographical regions where they are under-represented.

27. Typically, members of these global alliances will cooperate to extend the networks of their individual member airlines by offering interlining<sup>7</sup>, frequent flier points, and reciprocal lounge access. In this way they particularly seek to retain the loyalty of their high-yield business customers. The airlines are also more likely to code-share on a bilateral basis with fellow global alliance members, buying seats on one another's operations, particularly to airports that it would not be commercially viable for an airline to operate to, or on routes it is prohibited from operating under bilateral agreements. For example, foreign airlines cannot pick up domestic passengers travelling between airports in the United States, so operating such services would not be commercially viable and a US-partner airline is vital to fully access that market (for example, Air New Zealand has a code-share arrangement with United Airlines). However, code-sharing does not automatically mean that the airlines concerned have ceased to compete with one another.
28. In the context of this application, Air New Zealand and Singapore Airlines are both members of the Star Alliance. As such, they already cooperate to a limited extent through interlining. A limited code-share arrangement is also already in place, which allows Singapore Airlines to sell tickets on a small number of domestic flights in New Zealand at special (pro-rate) fares as part of an international journey.

**Integrated alliances**

29. More recently, airlines have sought to implement integrated alliance arrangements, which go well beyond the level of cooperation exhibited in code-share arrangements. Common features of such alliances are overlapping routes, revenue sharing, and alignment of product and service offerings. These arrangements allow airlines to achieve greater efficiencies, particularly in areas such as ground-handling, marketing and distribution, and inventory management. The different levels of cooperation between airlines are represented in the diagram below.

**Figure 1 – Spectrum of airline cooperation**



<sup>7</sup> A commercial agreement between airlines to handle passengers travelling on itineraries that require multiple airlines.

30. The government has recognised the value of alliance arrangements, which is evidenced by a number of integrated alliances which have been approved in New Zealand in recent years. In 2010, the previous Minister of Transport (Hon Steven Joyce) approved an alliance between Air New Zealand and Virgin Australia on routes between New Zealand and Australia, which you subsequently reauthorised in 2013. You also approved alliances between Air New Zealand and Cathay Pacific in 2012 and between Qantas and Emirates in 2013.
31. However, the potential benefits of alliances must be balanced against the fact that they are, by definition, anti-competitive, with significant potential to adversely impact consumers. Careful analysis is therefore required to ensure that any alliance arrangement delivers outcomes that benefit consumers over the long term.

#### **IV. Commercial rationale**

##### **Air New Zealand**

32. Alliance arrangements have become an essential part of Air New Zealand's overall international strategy. As an end-of-the-line carrier geographically isolated from many of its key markets, Air New Zealand faces significant challenges. While larger mid-point carriers (including Singapore Airlines) are able to act as global transit points, aggregating passengers from multiple origins, Air New Zealand is heavily reliant on point-to-point traffic. Furthermore, while Air New Zealand has a strong presence and brand within New Zealand, it lacks marketing and distribution strength in many of the points it serves. Air New Zealand's long-haul services in particular are also heavily exposed to global market forces (including fuel prices and exchange rates) and external shocks. These challenges are similar to the challenges faced by Qantas, and the rationale for this alliance is similar to the rationale Qantas provided for pursuing its alliance with Emirates.
33. Air New Zealand has at times struggled to maintain a sustainable international network, and in recent years it has pulled out of a number of markets where it has been unable to find a suitable local partner (including Singapore and Beijing). As shown in Table 1, all of Air New Zealand's remaining long-haul destinations (> 9 hours) are supported by code-share or alliance arrangements with local carriers.

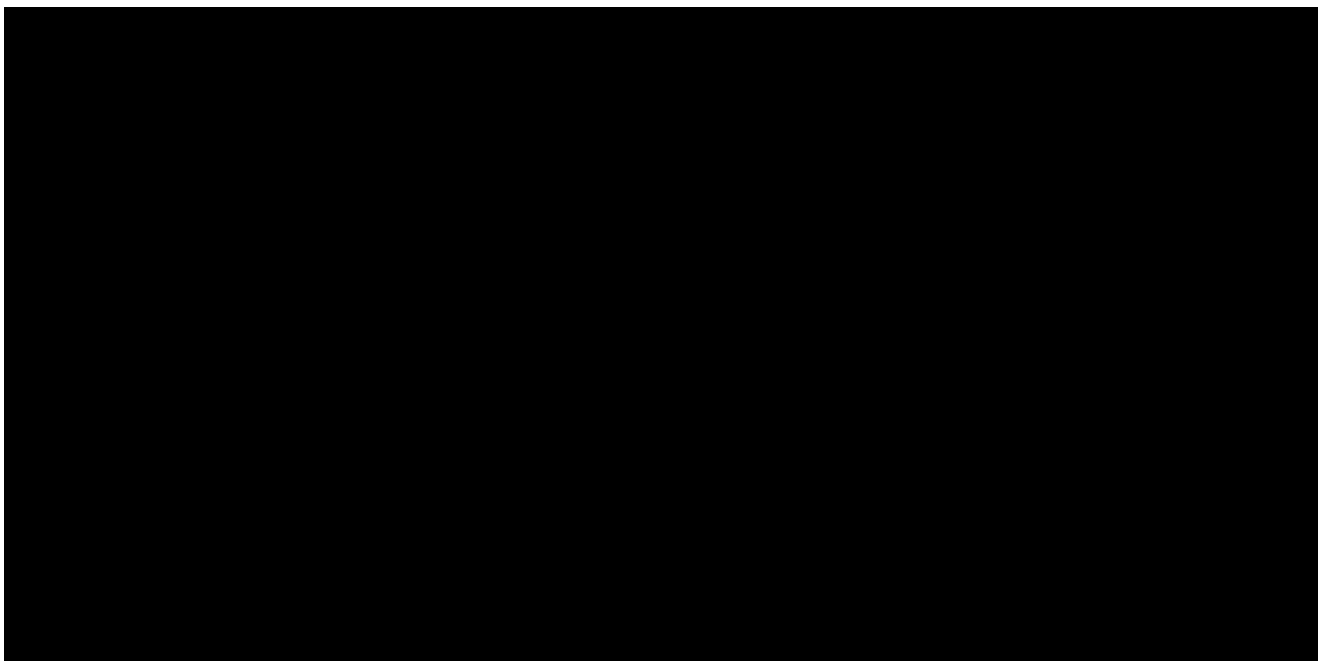
**Table 1 – Air New Zealand’s partner airlines in long-haul markets**

Destination	Code-share/alliance partner
<b>Hong Kong</b>	Cathay Pacific (integrated alliance)
<b>London</b>	Virgin Atlantic (code-share)
<b>Los Angeles</b>	United Airlines (code-share)
<b>San Francisco</b>	United Airlines (code-share)
<b>Shanghai</b>	Air China (code-share)
<b>Tokyo</b>	All Nippon Airlines (code-share)
<b>Vancouver</b>	Air Canada (code-share)

34. Air New Zealand has been unable to establish and maintain a presence in many of the world’s fastest growing markets where it does not have a strong partner. South-East Asia in particular is an obvious ‘white spot’ on Air New Zealand’s international route network.
35. A local partner in South-East Asia is important for Air New Zealand, more so than many other markets, as it is highly fragmented and many of the individual markets could not support direct services on their own. While Air New Zealand could operate its own aircraft to Bangkok (for example), without a local partner it would not be able to offer competitive fares on connecting services to domestic markets within Thailand or to other nearby markets, such as Malaysia, Vietnam or Cambodia.
36. This proposal also has significant implications for Air New Zealand in the Indian market. Direct services between New Zealand and India would be technically feasible, but they are likely to be uneconomical due to the distance involved. India is a large and growing market, but like the South-East Asian market, it is fragmented. On its own, Air New Zealand could conceivably operate, for example, three or five services per week between Auckland and Mumbai, but as well as being significantly payload restricted, this would be of limited appeal to passengers travelling to other points in India. Such a service may struggle to compete against indirect services offered by Asian carriers, particularly Singapore Airlines, which operates more than 100 flights per week to 11 destinations in India (including services operated by its subsidiary, SilkAir).
37. As shown in Figure 2, Air New Zealand’s overall share of the market for travel between New Zealand and South-East Asia is [REDACTED], while its market share in the Southern and Central Asia region<sup>8</sup> (including India) is around [REDACTED]. This is a near perfect contrast with Singapore Airlines, which is strongest in these two regions. With the exception of the European market, competition between Air New Zealand and Singapore Airlines, for travel to/from New Zealand, is extremely limited.

<sup>8</sup> This region includes countries in the Indian subcontinent as well as Central Asia.

Figure 2 – Air New Zealand and Singapore Airlines market share by region<sup>9</sup> (2013 calendar year)



### Singapore Airlines

38. Singapore Airlines is a large, network airline which operates to 65 destinations in 35 countries. It operates to both Auckland and Christchurch and is one of the largest foreign airlines operating to New Zealand. Nevertheless, New Zealand is a relatively small part of its overall route network.
39. As a network carrier, Singapore Airlines is less reliant on alliances to access markets. It already has the ability to pool passengers from various points of origin onto each of its services and it employs this strategy to full effect on its New Zealand services ( [REDACTED] [REDACTED] of passengers travelling to New Zealand on Singapore Airlines services are Singapore citizens). That said, Singapore Airlines has still pursued alliances where it has seen a benefit in doing so. Singapore Airlines has alliances with Virgin Australia (on routes between and beyond Singapore and Australia), and SAS<sup>10</sup> (on services between and beyond Singapore and Copenhagen).
40. These alliances have provided Singapore Airlines with access to passengers originating in regional markets that are too small to justify direct air services. An alliance with Air New Zealand is the only practical way for Singapore Airlines to gain direct access to passengers originating in small towns and cities across New Zealand (and in the Pacific Islands). The only other way for Singapore Airlines to access these markets would be to establish its own subsidiary or domestic operation in New Zealand, which is an unlikely prospect due to the significant investment and high risk that this would entail.

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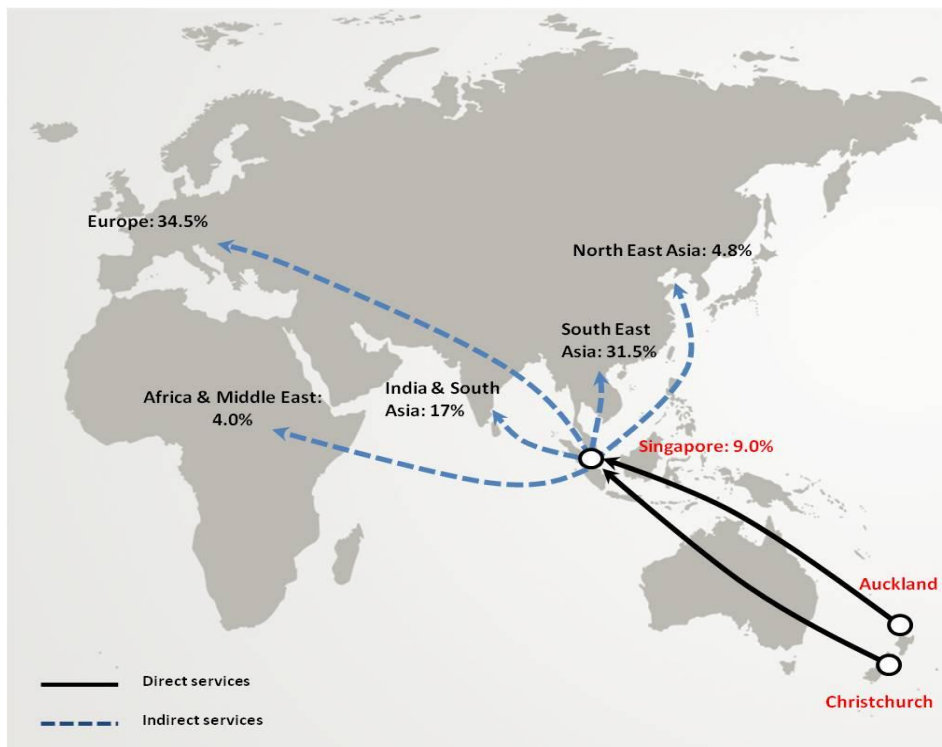
<sup>9</sup> These figures represent Singapore Airlines' share of the total traffic between New Zealand and each region

<sup>10</sup> The flag carrier of Denmark, Norway and Sweden.

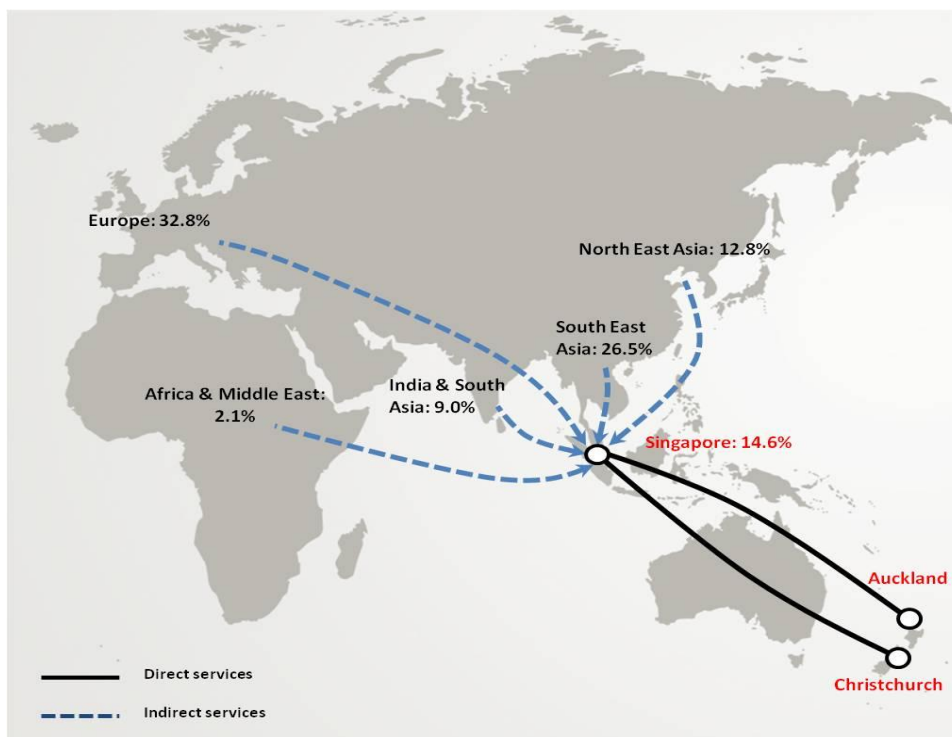
## V. Market definition

41. The proposed alliance includes extensive cooperation on direct (non-stop) services between New Zealand and Singapore (on the Auckland-Singapore and Christchurch-Singapore routes), as well as a lesser form of cooperation on connecting services (where those services connect to a direct service between New Zealand and Singapore). The connecting services covered by the proposed agreement include domestic services within New Zealand, points in the Pacific Islands and Australia, and numerous destinations in Asia and Europe served by Singapore Airlines and SilkAir from Singapore.
42. Determining a 'market definition' is critical to our analysis, as it sets the parameters under which the competitive effects of the alliance will be considered. A simplistic approach would be to define the market as 'the market for air transport between New Zealand and Singapore'. However, in our view, this definition would fail to capture the true impact of the alliance on indirect markets. A more accurate approach to defining the relevant market (or markets) is to consider the actual origin/destination mix of passengers travelling on the direct services covered by the proposed alliance. This is illustrated in Figures 3 and 4.

**Figure 3 – Main destination of New Zealand residents travelling on services between New Zealand and Singapore (2013 calendar year)**



**Figure 4 – Point of origin of overseas visitors travelling on direct services between New Zealand and Singapore (2013)**



43. Based on this analysis it is clear that the New Zealand-Singapore market itself represents a relatively small proportion of the passengers travelling on the direct air services between New Zealand and Singapore. This is a reflection of Singapore’s status as a global transit point. As a result, the alliance is likely to impact on virtually every market in the ‘Eastern hemisphere’. For the purposes of our analysis, we have defined the relevant markets as the markets for air transport between New Zealand and:

- Singapore
- South-East Asia (excluding Singapore)
- Europe
- India and South Asia
- Africa and the Middle East

44. In some cases our analysis focuses more heavily on country-specific markets within each of the wider geographical markets. For example, India accounts for the majority of the wider “India and South Asia” market, and South Africa accounts for the majority of the wider “Africa and the Middle East” market.

45. The North Asia market has been specifically ‘carved out’ from the proposed Alliance in order to protect the integrity of Air New Zealand’s existing alliance with Cathay Pacific over Hong Kong. The trans-Tasman market is too close to New Zealand to be significantly affected by the alliance, although we acknowledge that any increase in fares on the Singapore route could have the effect of incentivising passengers to travel to Singapore (and beyond) on indirect services via Australia. The North American market is also unlikely

to be affected due to the small number of passengers travelling between Singapore and North America via New Zealand.

46. Our analysis focuses primarily on passenger markets, as the airlines are not proposing to cooperate in the carriage of freight. However, the alliance would affect the amount of freight capacity offered between New Zealand and Singapore. The impact of this is considered briefly in *Section VII* of this report.

## VI. Impact on relevant markets

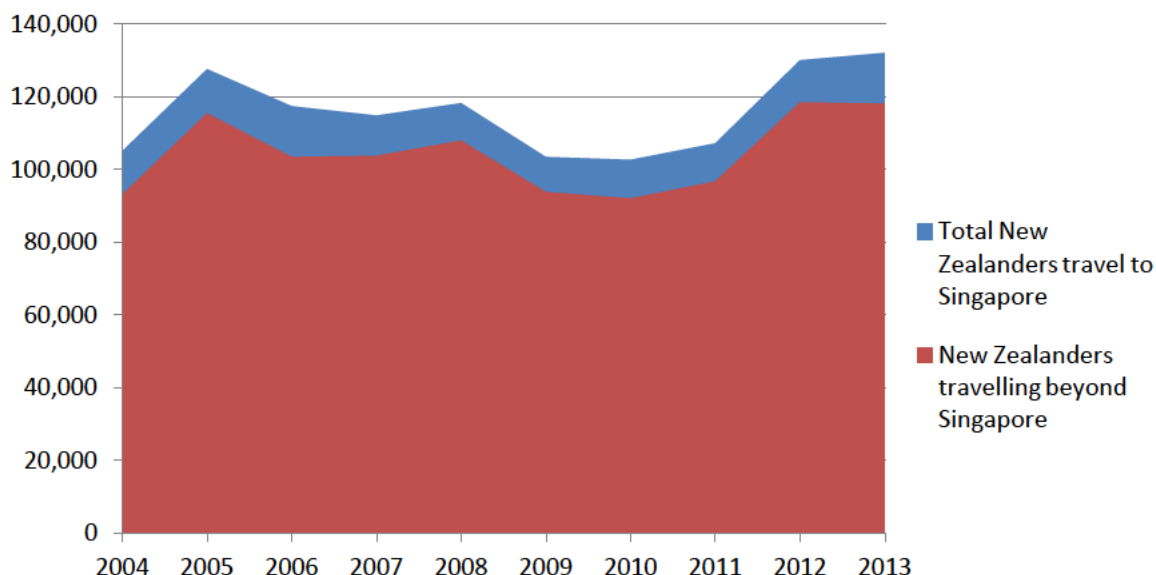
### New Zealand-Singapore

#### *Competition for direct services*

47. Like most of New Zealand’s long-haul air services, the non-stop routes between New Zealand and Singapore can be described as ‘long and thin’ routes, with relatively low demand. While the number of Singaporean visitors to New Zealand (43,190 in 2013) is relatively high on a per-capita basis, Singapore is a small country which on its own would not support the current level of air services to New Zealand.

48. The success of air services between New Zealand and Singapore has been dependent in large part on connecting traffic. Singapore has traditionally been an important transit point for New Zealanders. Singapore’s Changi airport is the fifth largest airport in the world in terms of international passenger numbers, and the second largest in the Asia-Pacific region behind Hong Kong. As shown in Figure 5, most passengers travelling on services between New Zealand and Singapore are travelling to other destinations.

**Figure 5 – New Zealand passengers travelling to Singapore**

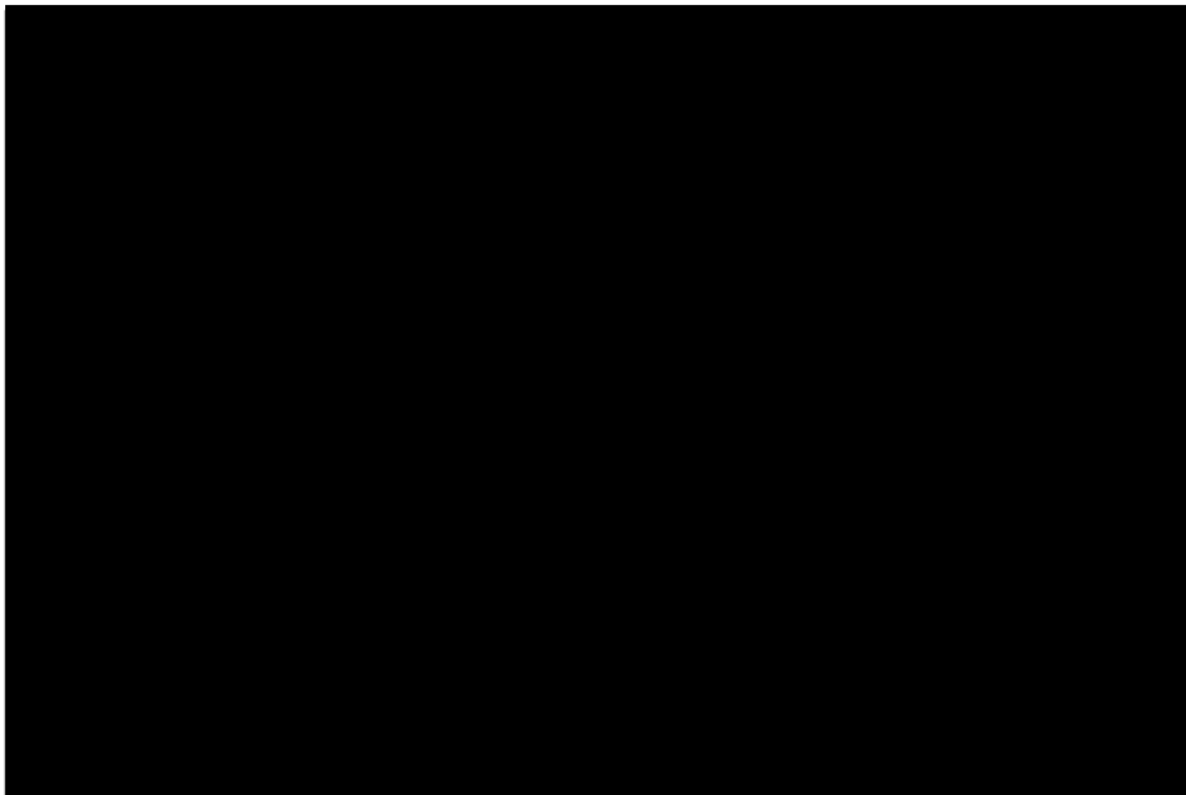


49. Just 15 percent of overseas visitors using the Singapore service are Singapore residents, with European and other South-East Asian passengers accounting for the majority of traffic.



50. While there has been steady growth in capacity offered on direct Auckland-Singapore services, this can in large part be attributed to competition from Air New Zealand from 1999 to 2005 and Jetstar from 2010 onwards. As shown in the figure below, the capacity offered by Singapore Airlines on the route has remained relatively steady despite the actions of its competitors.

**Figure 6 – weekly seat capacity between Auckland and Singapore (2011-2014)**

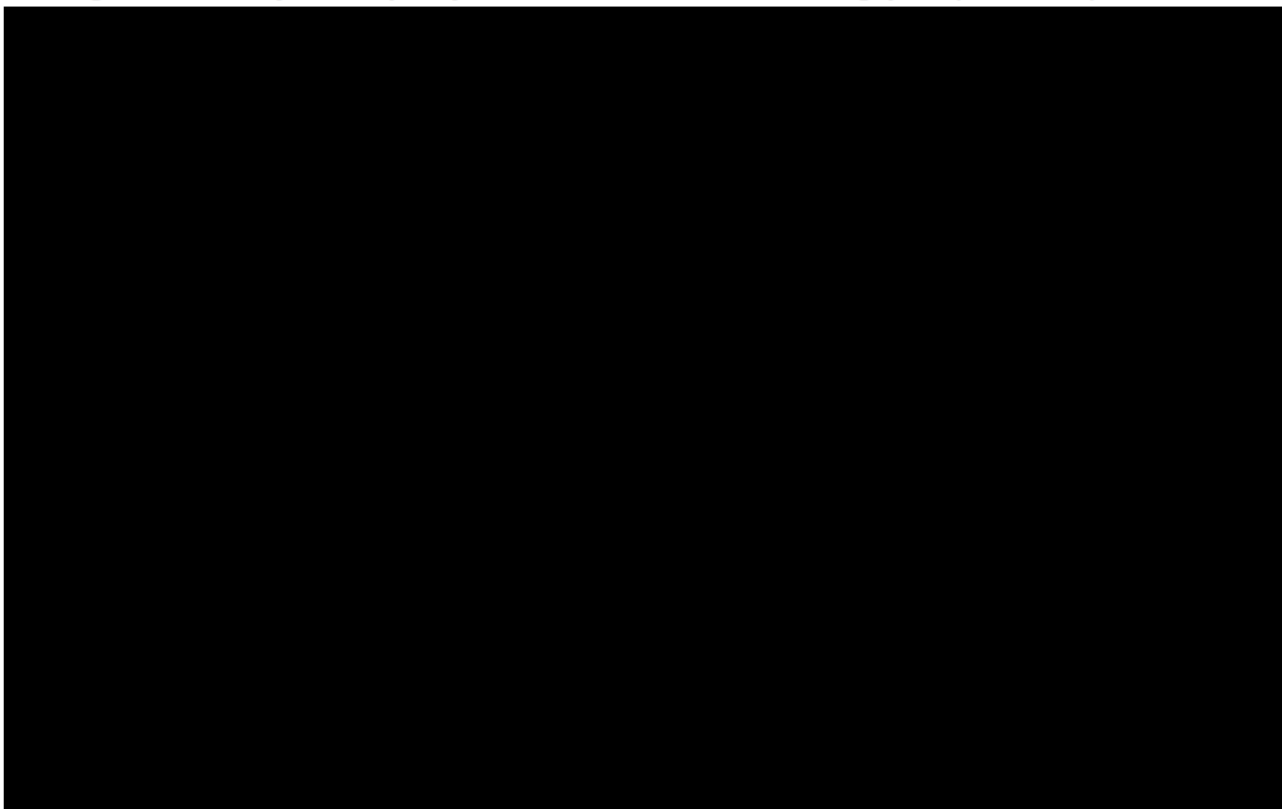


51. The route proved to be a loss-making endeavour for Air New Zealand incurring a loss of [REDACTED] in its last year of operation. This, coupled with Jetstar's recent decision to withdraw from the route (effective from July 2014) suggests that the Auckland-Singapore route may not be large enough to support more than one carrier acting independently.
52. Unlike Air New Zealand and Jetstar, Singapore Airlines has the advantage of being able to generate traffic on the 'other end' of Singapore, to/from other countries in Europe and Asia (particularly South-East Asia).
53. The proposed Alliance may have been a factor in Jetstar's decision to withdraw from the market (although Jetstar has not directly attributed its decision to this). Jetstar would have been faced with the prospect of competing against an alliance comprised of two airlines with hubs on either end of the route. It would have been difficult for Jetstar to challenge both Air New Zealand's domestic reach and Singapore Airlines' regional reach in South-East Asia.



54. Jetstar's withdrawal may leave an opportunity for another carrier, especially a low cost carrier, to challenge the monopoly of Singapore Airlines. However, the most likely threat of entry comes from Scoot, a low cost subsidiary of Singapore Airlines. Scoot is a separate legal entity to Singapore Airlines with its own board. While Scoot does compete head to head with Singapore Airlines in some instances, we are unclear as to the extent the two airlines operate entirely independently of one another. With or without an Alliance, we consider it highly unlikely that Scoot would operate on the Auckland-Singapore route as it would undermine the market share of its parent company and place downward pressure on yields.
55. Capacity on the Christchurch-Singapore route has been steady since late 2011, with the spike in the graph below representing Singapore Airlines' supplementary services over the peak summer months in December/January 2013/14. Singapore Airlines recently announced its intentions to operate 18 supplementary services in the summer of 2014/15.

**Figure 7 – Weekly seat capacity between Christchurch and Singapore (2011-2014)**



56. Demand in the Christchurch-Singapore market appears to be growing. The average number of passengers travelling on each flight between Christchurch and Singapore has [REDACTED]. This is consistent with demand in the trans-Tasman market, where passenger numbers are increasing as the region recovers from the Canterbury earthquakes.
57. Notwithstanding this growth in demand, it is unlikely that a second carrier would seek to operate services between Christchurch and Singapore. The most logical airline to operate such a service is Air New Zealand, but it has stated that it would not be prepared to operate on the much larger Auckland-Singapore route without an alliance partner, so the

likelihood of it operating services between Christchurch and Singapore is even more remote.

58. In addition, Air New Zealand's international route strategy is heavily focussed on Auckland, as it has strong financial incentives to divert as much of its traffic as possible through a single hub. This is a common strategy for many airlines, as it allows them to benefit from economies of scale and network economics.
59. Annex III provides a list of countries with which New Zealand has exchanged the rights to operate services between New Zealand and Singapore. The ability of airlines to actually offer services is subject to the necessary arrangements also being in place between those countries and Singapore.
60. Airlines based in the countries listed in Annex II are unlikely to attach significance to the thin Auckland-Singapore route, even less so to the Christchurch-Singapore route. In addition, many of those carriers are Star Alliance members<sup>11</sup> who would look to code-share on services between New Zealand and Singapore, or indeed are already doing so.
61. Auckland Airport raised concerns over competition in its submission on the Alliance, suggesting that the Minister:

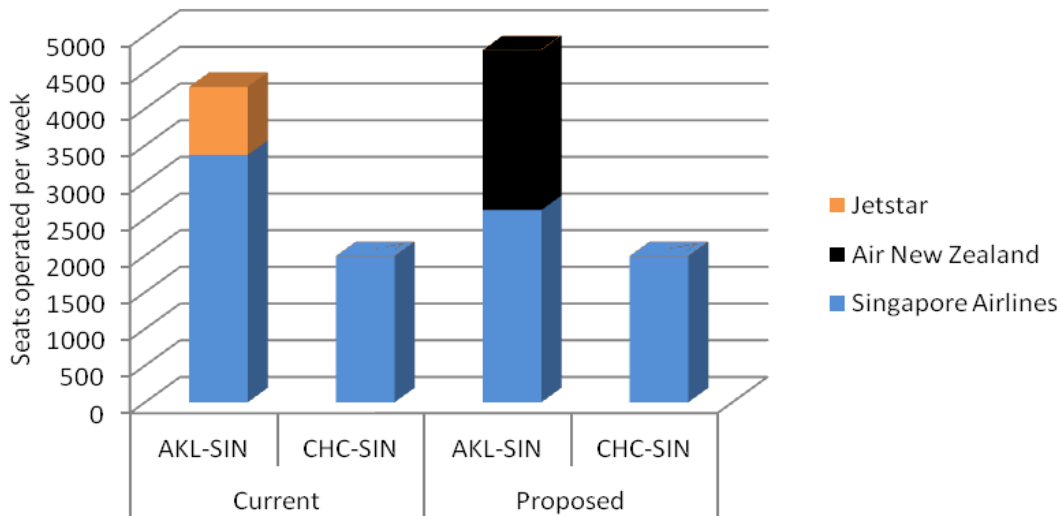
*“test the Applicants’ assertion that the Alliance will not affect the overall level of competition for passengers travelling between New Zealand and Singapore to fully understand what the impact on the competitive environment on that route might be”.*

62. Overall, the threat of competition for direct services between Singapore and New Zealand appears limited to carriers from either home market. Furthermore, the prospect of Air New Zealand entering the market without an Alliance with Singapore Airlines is small given its past performance on the route.
63. In our view, the alliance would be a significant barrier to entry on both the Auckland-Singapore and Christchurch-Singapore routes. However, we consider it highly unlikely that another carrier would seek to operate on either route in the short to medium term regardless of whether the alliance is authorised.
64. In the direct New Zealand-Singapore market, assuming the Applicants increase capacity as they have indicated in their application, the alliance would be preferable to a market in which only Singapore Airlines is operating (i.e. the status quo now that Jetstar has pulled out of the market). The additional capacity provided by the alliance is likely to reduce fares between New Zealand and Singapore (relative to the counterfactual) and stimulate tourism in both directions. Assuming the Applicants increase their capacity as stated in the application, the total capacity between New Zealand and Singapore would exceed what was previously available when Singapore Airlines and Jetstar were both operating on the Auckland-Singapore route (see Figure 8).

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11 Lufthansa, South African Airways, Scandinavian Airlines, and Swiss International Airlines.

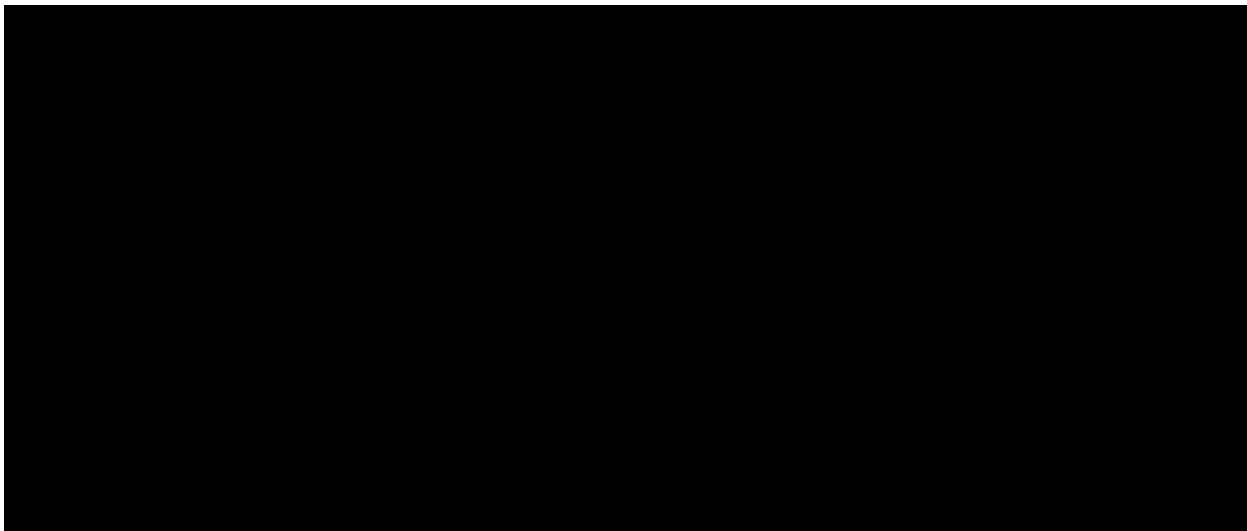
**Figure 8 – Total capacity between New Zealand and Singapore in May 2014 and under the alliance**



*Competition from indirect services*

65. The Alliance would face competition from indirect services between New Zealand and Singapore. This would come primarily from Qantas/Emirates services via Australia (see Figure 9)

**Figure 9 – Competition for Singapore-New Zealand traffic**

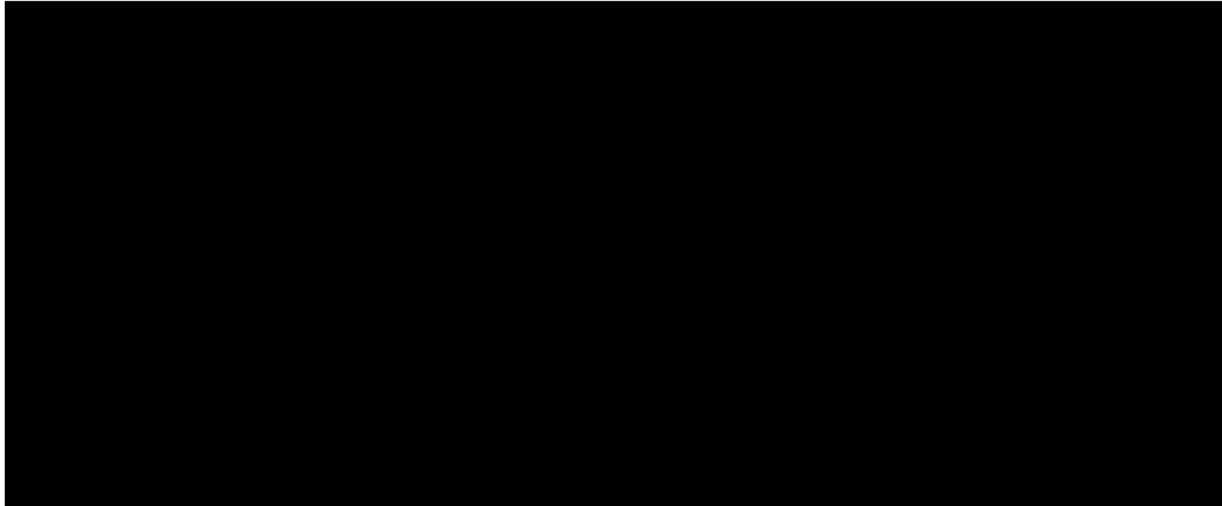


66. Singapore Airlines carries just over half of the traffic between New Zealand and Singapore on its direct services. Air New Zealand tickets passengers to Singapore via Brisbane under an interline agreement with Etihad Airways. Under the Alliance, Air New Zealand is likely to divert passengers on the Etihad services through its own proposed direct service from Auckland to Singapore.

67. The Qantas/Emirates Alliance would remain as the only significant threat of indirect competition to the Alliance for travel between New Zealand and Singapore. The competition from Qantas/Emirates is likely to be greater for travellers to/from regions

outside of Auckland and Christchurch, where no direct services are available. Figure 10 shows that Qantas/Emirates, and to a lesser extent Virgin Australia, is much stronger competing for passengers outside of Auckland and Christchurch who are more likely to be indifferent between a one-stop service via Auckland/Christchurch and a service via Australia.

**Figure 10 – Competition for Singapore-New Zealand traffic by region**

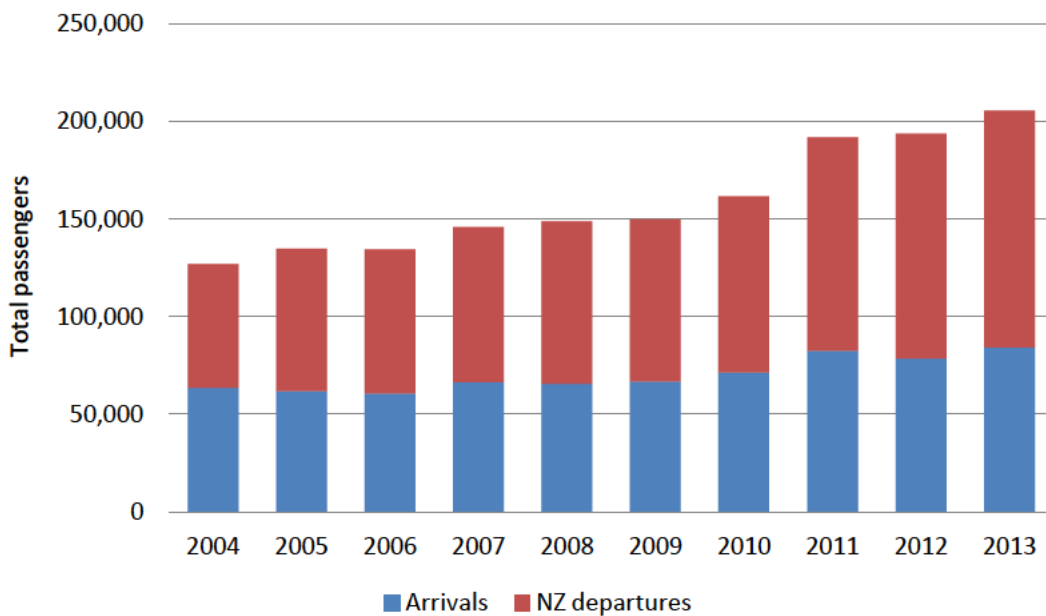


68. The Alliance would undoubtedly strengthen the Applicants' position in the markets where it operates direct services (i.e. Auckland and Christchurch). However, it would continue to face some competitive pressure for indirect services to/from other points in New Zealand.

**South-East Asia**

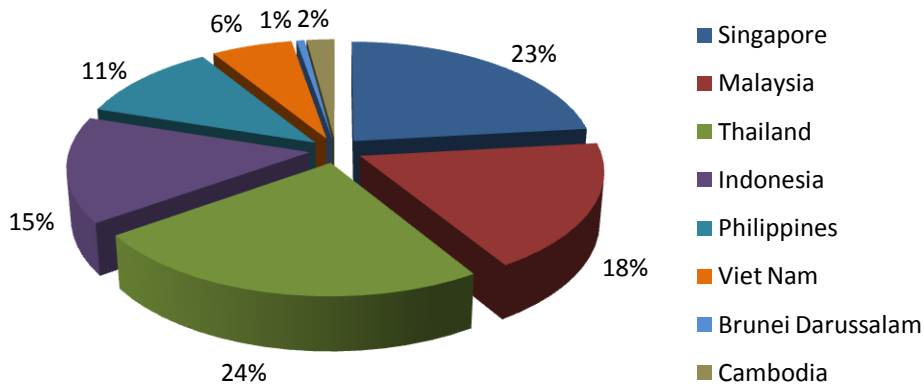
69. As shown in Figure 11, the number of visitor arrivals from South-East Asia has grown significantly since 2006.

**Figure 11 – South-East Asian market (excluding Singapore) for air travel from 2004 - 2013**



70. The South-East Asia market is highly fragmented with many individual markets not large enough to sustain direct air services on their own. Currently, only the three largest markets (Singapore, Malaysia, and Thailand) are served by direct flights to/from New Zealand.

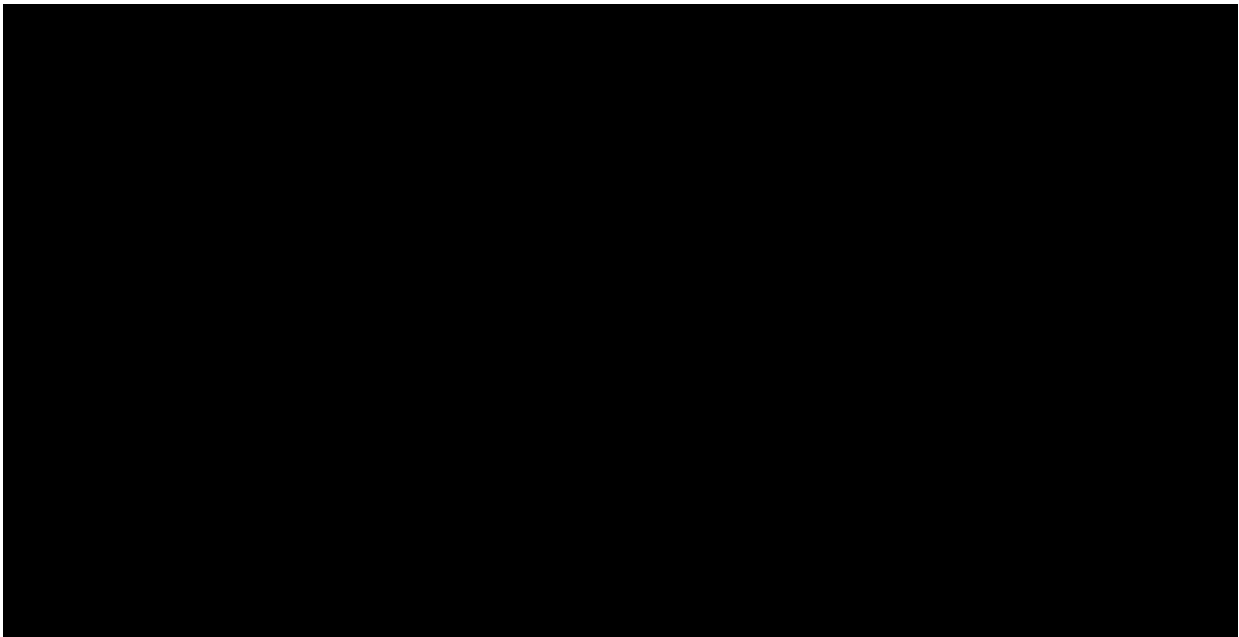
**Figure 12– Relative sizes of South-East Asian markets**



71. The primary markets driving this growth are Indonesia, the Philippines and Viet Nam which have been growing at compound annual rates of 6.2%, 10.1% and 10.1% respectively over the last 10 years.

72. The New Zealand-South East Asia market is competitive, with Qantas/Emirates and Singapore Airlines holding the largest shares. Thai Airways and Malaysia Airlines also compete strongly, with both operating direct (non-stop) services to New Zealand.

**Figure 13– Market share for air travel between New Zealand and South-East Asia (excluding Singapore) for the 2013 calendar year**

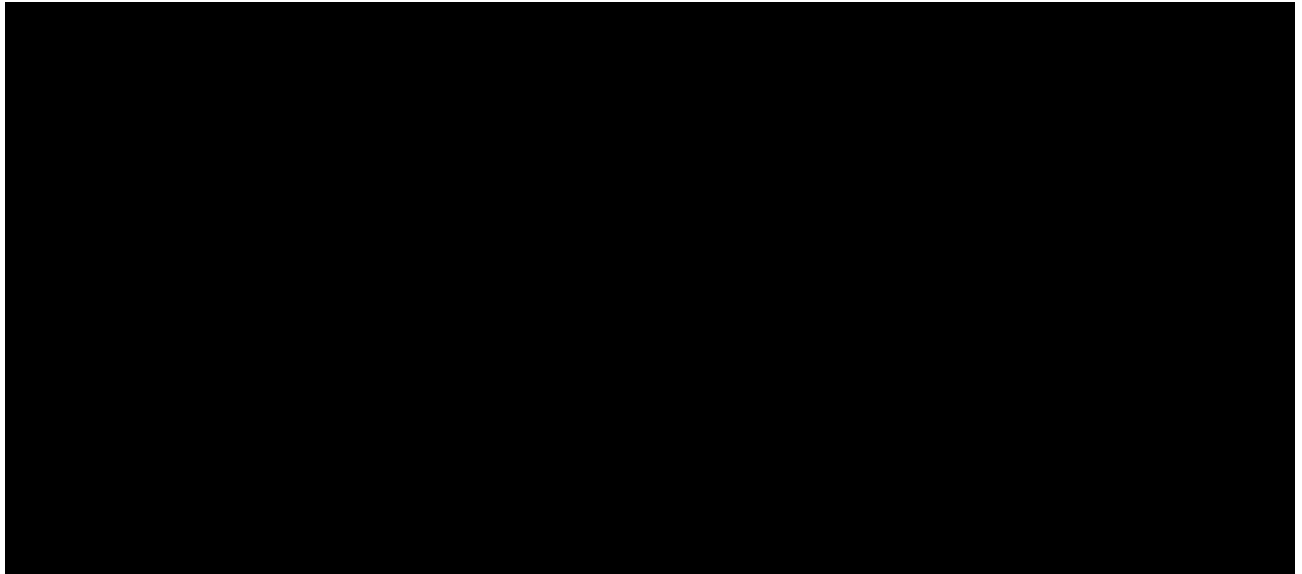


73. The Alliance would strengthen Air New Zealand's position in South-East Asia by not only allowing it to pool its resources with the second largest independent airline in the market, but by allowing it to operate its own direct services into the region and leverage its strong domestic connections in support of those services.
74. Competition for travel between New Zealand-Malaysia and New Zealand-Thailand is unlikely to be significantly affected as passengers would still have the choice of flying with the home carriers of those markets through their respective hubs or with the Alliance through Singapore.

*Competition for connecting traffic with Malaysia Airlines and Thai Airways*

75. As discussed previously, a large proportion of New Zealand passengers travelling on services to Singapore are destined for other points, primarily in Asia and Europe. The same applies for passengers arriving in New Zealand. This means that competition for traffic between Singapore and New Zealand can (and does) come from airlines with strong hubs in South-East Asia offering connections for New Zealand passengers to Asia and Europe.
76. Malaysia Airlines operates 6 services a week from Kuala Lumpur to Auckland. While this is far below the 19 weekly services operated by Singapore Airlines from Singapore, the size of the markets for point to point traffic is comparable. 47,539 passengers travelled between Malaysia and New Zealand in 2013 compared to 61,490 between Singapore and New Zealand.
77. Thai Airways operates between 4-5 services a week from Bangkok to Auckland with a slightly larger market than Singapore for point to point traffic of 63,581. Thailand however is unique in that it is a predominantly outbound market, with around twice as many New Zealanders travelling to Thailand as there are Thai residents travelling to New Zealand.
78. While the markets for point to point traffic between Malaysia, Thailand and Singapore are comparable, Singapore Airlines has a [REDACTED] in connecting (transit) traffic, carrying [REDACTED] New Zealand passengers primarily to Asia and Europe in comparison to [REDACTED] for Malaysian Airlines and [REDACTED] for Thai Airways.

Figure 14 – Comparison of Thai Airways, Malaysia Airlines and Singapore airlines traffic mix (2013 data)



79. An Alliance with Air New Zealand would strengthen Singapore Airlines' position relative to Malaysia Airlines and Thai Airways. As Singapore is strengthened as a hub for New Zealand passengers travelling to Asia and Europe, the opportunities for Malaysia Airlines and Thai Airways to offer more frequent services becomes limited. There is a risk that the alliance would force either Malaysia Airlines or Thai Airways to reduce services to New Zealand or potentially withdraw from the market altogether, as those airlines would be unable to replicate the competitive advantage provided to Air New Zealand and Singapore Airlines through the alliance. We consider this risk to be relatively small, as the market is growing and both airlines managed to withstand increased competition from low-cost carriers in the region over the last few years (Jetstar, on the Auckland-Singapore route, and Air Asia X on the Christchurch-Kuala Lumpur route).

80. As long as Malaysia Airlines and Thai Airways remain in the market they would provide a competitive balance to the alliance as they are well poised (each with [REDACTED] market share) to carry traffic between New Zealand and South-East Asia if the Alliance were to act anti-competitively by raising fares or reducing capacity.

81. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

82. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] These airlines compete vigorously with Singapore Airlines. Once Air New Zealand is operating its own

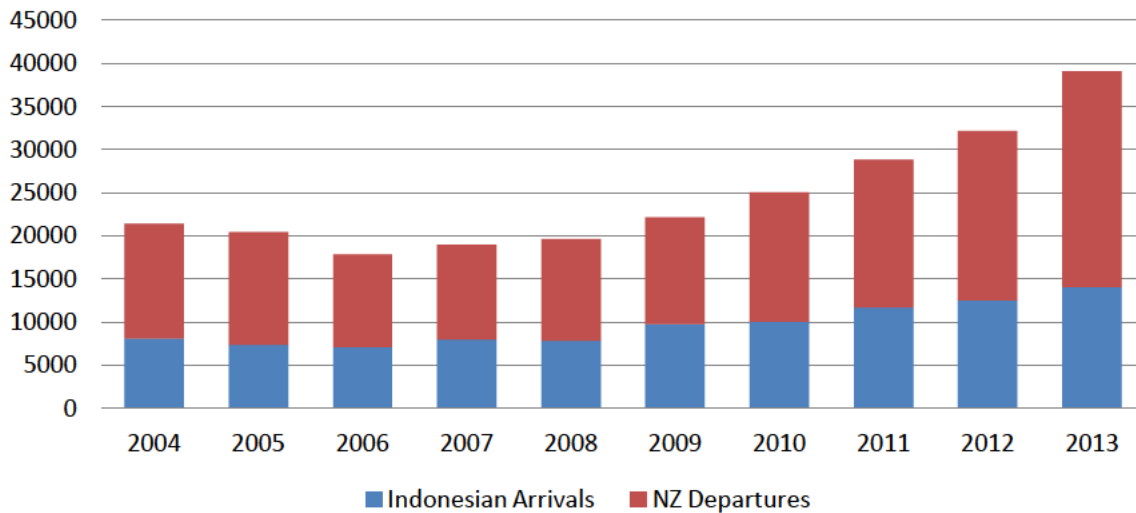
aircraft to Singapore, it would be incentivised to encourage passengers travelling to these markets to travel via Singapore.

83. Regardless of the outcome of the Alliance application, Air New Zealand is unlikely to consider operating its own aircraft to either Kuala Lumpur or Bangkok (without an alliance partner), as neither market is large enough to support direct competition. As such, the exclusivity provisions would have no impact in these markets over and above what is likely to occur through market forces.

*Indonesia*

84. Indonesia is a large market experiencing rapid economic growth. Indonesia is already served by Air New Zealand with an up to thrice weekly service between Auckland and Bali during the peak season. However, this service caters almost exclusively to outbound leisure passengers. As shown in the figure below, there is growing demand for travel between New Zealand and Indonesia. In particular, there is demand for a direct service to Jakarta, which would appeal to business and VFR (visiting friends and relatives) passengers.

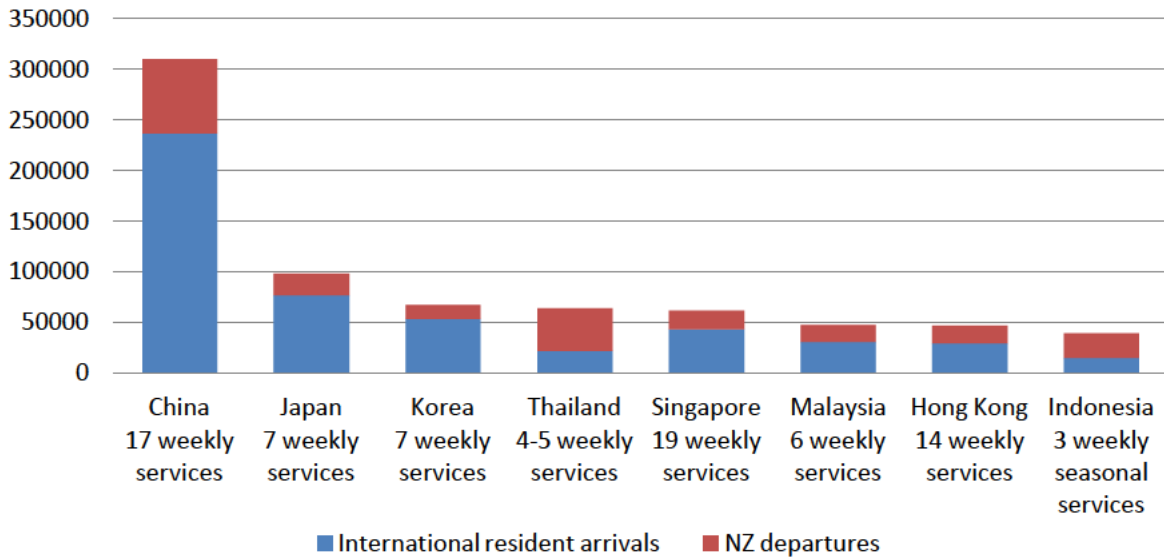
**Figure 15 - Indonesian market for air travel from 2004 - 2013**



85. The passenger traffic between New Zealand and Indonesia compares favourably to other markets in Asia which are already served by year-round direct services from New Zealand (see Figure 16).

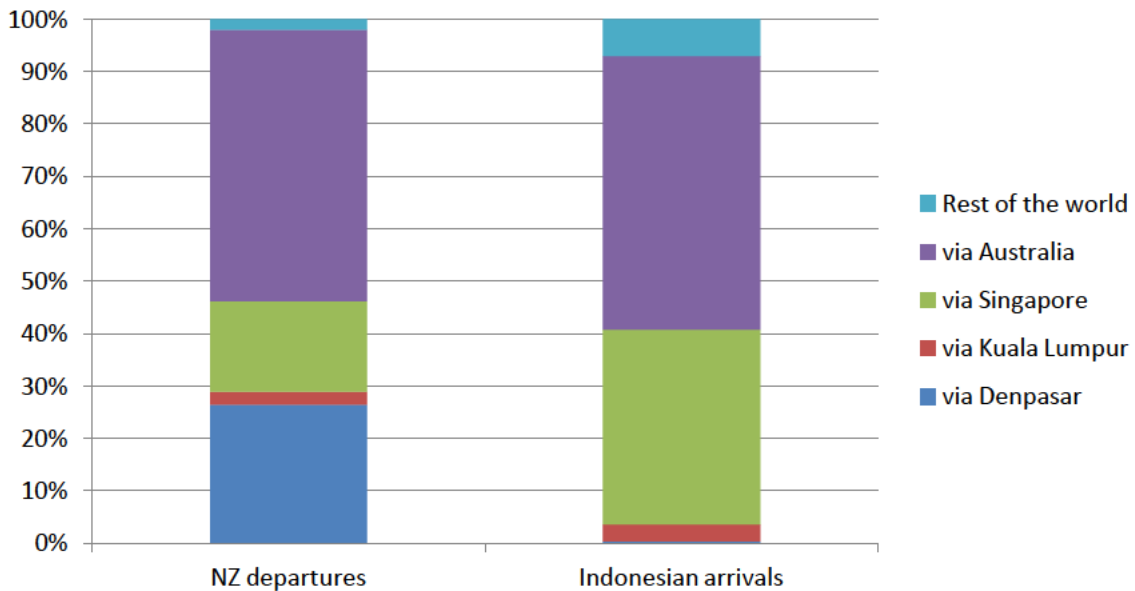


Figure 16 – Comparison of markets in Asia with direct services to/from New Zealand (2013 data)



86. Figure 17 shows the range of routings passengers are taking when travelling between New Zealand and Indonesia. The majority of passengers are currently travelling via Australia, with a large number travelling via Singapore. The direct seasonal service between Auckland and Denpasar (Bali) accounts for [REDACTED] of New Zealand departures to Indonesia, and [REDACTED] of Indonesian arrivals to New Zealand.

Figure 17 – Intermediate points travelled by origin-destination traffic between New Zealand and Indonesia (2013 data)



87. [REDACTED]

[REDACTED]

88. [REDACTED]

89. [REDACTED]

90. The Ministry commissioned Covec to carry out an analysis [REDACTED]

[REDACTED]

---

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

92. [REDACTED]

93. Air New Zealand has expressed a number of concerns with the Covec analysis and related assumptions. We acknowledge these concerns, but note that Covec clearly states its assumptions and caveats around the simplicity of the model used (as well as setting out the limitations of the analysis commissioned by the Applicants in support of the alliance).

[REDACTED]

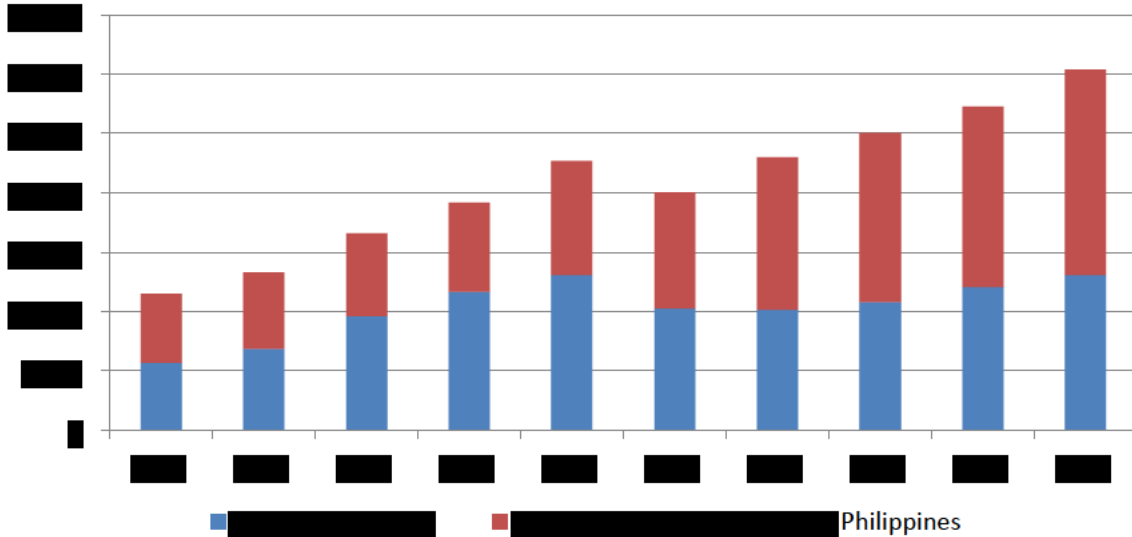
The report forms one aspect of our analysis. It has not been considered in isolation and it was never our intention to treat its conclusions as definitive. For this reason we have not asked Covec to respond to Air New Zealand's criticisms of the report.

94. [REDACTED]

*The Philippines*

95. Like Indonesia, the Philippines is a large market growing rapidly due to high levels of inbound migration. The Philippines market is currently around 30 percent smaller than the New Zealand-Indonesia market.

**Figure 18 – Philippines market for air travel (arrivals + departures) from 2004 - 2013**

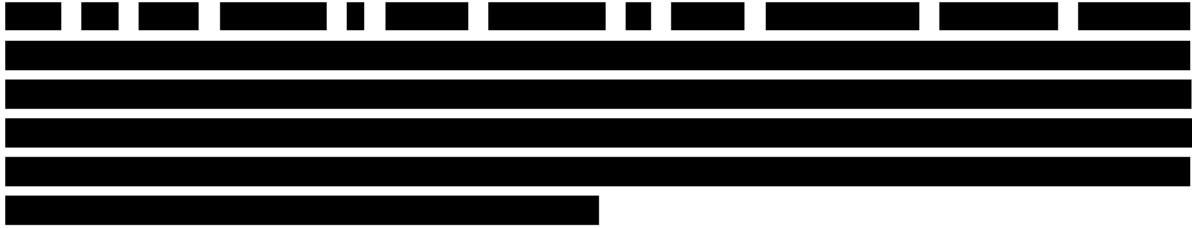


96. We are not aware of any discussions between Air New Zealand and Philippine Airlines (PAL), or any other airline based in the Philippines, to commence direct services. PAL is not a member of a global alliance, though it has expressed its intention to join an alliance in the future. The prospects of a code-share/alliance between Air New Zealand and PAL would be enhanced if PAL joined the Star Alliance.

97. Based on current passenger demand, it is likely that a service to the Philippines would be a lower priority for Air New Zealand than a service to Indonesia. The Philippines also has a number of other carriers which may consider operating to New Zealand without entering into a commercial relationship with Air New Zealand [REDACTED]. Thus we consider it unlikely that [REDACTED] would prevent the development of a new direct service between New Zealand and the Philippines, at least over the next 3-5 years.

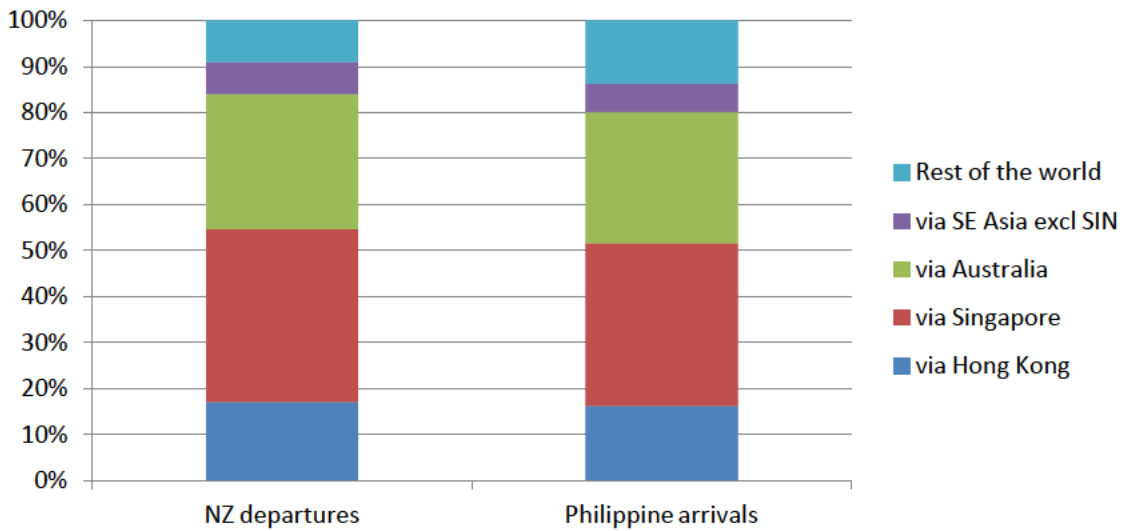
98. However, in the case of the Philippines, [REDACTED] may have wider implications. Air New Zealand already has an alliance with Hong Kong based Cathay Pacific. The two airlines do not currently code-share on services between Hong Kong and the Philippines, but it would appear logical for them to do so. Hong Kong is closer to the Philippines than Singapore, and Cathay Pacific offers more frequencies to the Philippines than Singapore Airlines (for example, it operates up to seven flights per day between Hong Kong and Manila, compared to four flights per day on Singapore Airlines between Singapore and Manila).

99. [REDACTED]



100. As Figure 19 below shows, passengers travelling between New Zealand and the Philippines mainly transit via Singapore and Australia with around 17 percent travelling via Hong Kong.

**Figure 19 – Intermediate points travelled by origin-destination traffic between New Zealand and the Philippines**



101. From a regulatory perspective, if both alliances were to remain in effect, it would be preferable for Air New Zealand to have the same incentives to offer connecting services to the Philippines through either Hong Kong or Singapore. If this cannot be achieved, then the value of the Cathay Pacific alliance with respect to the Philippines market must be questioned.

*Vietnam*

102. Unlike Indonesia and the Philippines, Vietnam is primarily an outbound market. It is a popular tourist destination, with over 12,000 New Zealand residents visiting Vietnam as their main destination in 2013, and almost two-thirds travelling for leisure purposes. However, these figures may not fully represent the true size of the market, as a large number of New Zealanders are known to visit Vietnam as part of a wider itinerary. It is also a seasonal market, with two noticeable peak periods (in July-August, and December).

103. [Redacted content]



*Other South-East Asian markets*

104. The Alliance also covers a number of smaller South-East Asian markets (Brunei, Cambodia, Laos, Myanmar, and Timor Leste). Currently, Air New Zealand would not be able to code-share on services to Laos, Myanmar or Timor Leste as we do not have air services agreements with those States

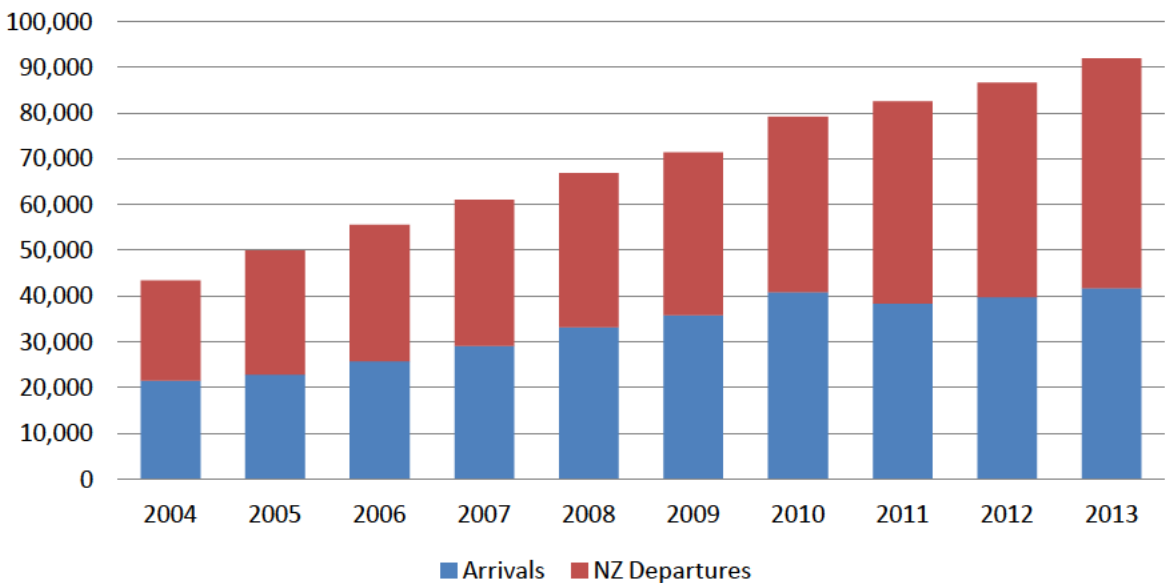
105. These markets are too small to sustain a direct air service and this is unlikely to change over the next 5-10 years. When the necessary air services arrangements are in place, the Alliance would offer a logical way for Air New Zealand to serve these markets and build demand.

**South Asia**

*India*

106. The market for air travel to/from Southern Asia has grown rapidly. This growth has been driven predominantly by inbound (Indian origin) traffic, but New Zealander's travelling to India still account for the greater proportion of passengers.

**Figure 20 – South Asian<sup>14</sup> market for air travel from 2004 to 2013**



107. Market demand between India and New Zealand has almost doubled from 2004 to 2013, with almost 80,000 passengers travelling between the two countries in 2013. This has occurred in the absence of any direct (non-stop) air services to the region. The burgeoning middle class in India makes it a highly attractive tourism market with the potential for significant growth in Indian visitors to New Zealand over the next 5 years.

<sup>14</sup> India, Sri Lanka, Pakistan, Bangladesh, Nepal, Maldives, Bhutan

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108. India's middle class<sup>15</sup> is currently estimated at 50 million, or 5 percent of the population, and is projected to reach 200 million by 2020<sup>16</sup>. By way of comparison, China currently has a middle class population of around 150 million, or 11 percent of its population. In 2013, there were 236,771 Chinese visitor arrivals in New Zealand compared to 18,638 from India.
109. As already mentioned in this report, India is an obvious 'white spot' on Air New Zealand's network as it effectively has no presence in the Indian market, aside from interline arrangements with its Star Alliance partners.
110. Singapore Airlines provides more frequencies and destinations to India than any other South-East Asian airline. As the strongest carrier in the region it is clearly Air New Zealand's preferred partner for serving the India market.

**Table 3 – Options for travel to India from Auckland on one-stop services**

<b>Airline (Gateway)</b>	<b>Cities served in India</b>	<b>Number of weekly services</b>	<b>Total</b>
<b>Singapore Airlines/ SilkAir (Singapore)</b>	Ahmedabad	3	100 weekly services to 11 cities
	Bangalore	14	
	Chennai	7	
	Coimbatore	4	
	Delhi	21	
	Hyderabad	7	
	Kochi	9	
	Kolkata	7	
	Mumbai	21	
	Thiruvananthapuram	4	
<b>Malaysia Airlines (Kuala Lumpur)</b>	Bangalore	12	59 weekly services to 5 cities
	Chennai	14	
	Delhi	14	
	Hyderabad	7	
	Mumbai	12	
<b>Cathay Pacific/ Dragonair (Hong Kong)</b>	Bangalore	7	47 weekly services to 6 cities
	Chennai	7	
	Delhi	14	
	Hyderabad	4	
	Kolkata	5	
<b>Thai Airways (Bangkok)</b>	Bangalore	7	42 weekly services to 5 cities
	Chennai	7	
	Delhi	14	
	Kolkata	7	
	Mumbai	7	

<sup>15</sup> People earning between US\$10 and US\$100 per day where their disposable income is sufficient to purchase consumer goods and services.

<sup>16</sup> Hitting the sweet spot. The growth of the middle class in emerging markets (2013). Ernst & Young in collaboration with the SKOLKOVO Institute for Emerging Markets Studies.

111. The alliance would not affect the number of flights currently available between New Zealand and India. However, it would give Air New Zealand a virtual presence in the market by enabling it to place its code and sell tickets on Singapore Airlines flights between Singapore and India. This is likely to stimulate passenger traffic as Air New Zealand would have a financial incentive to invest marketing resources in India.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

*Rest of South Asia*

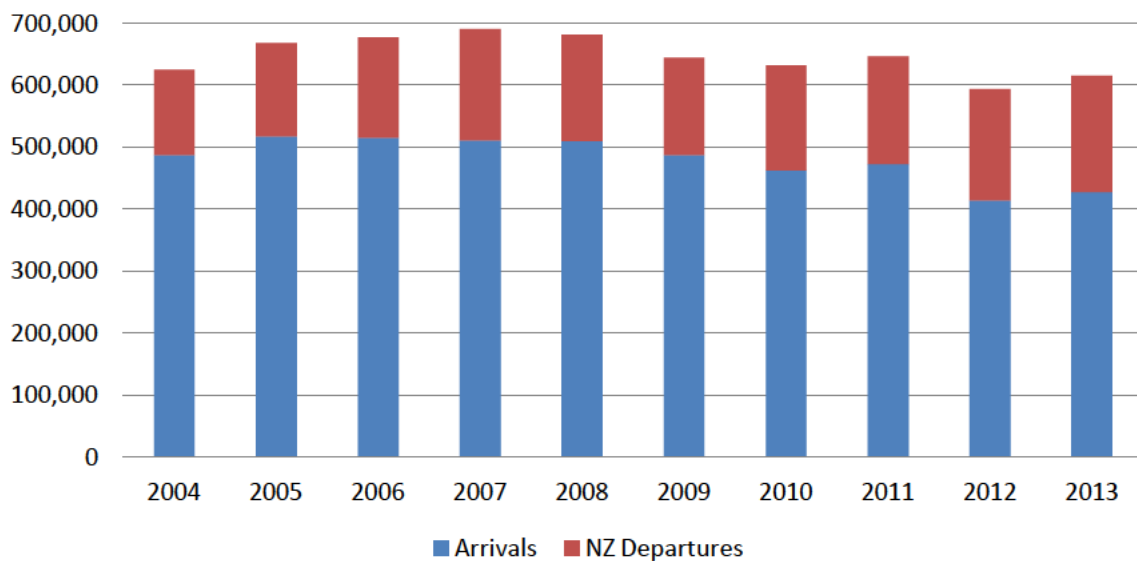
119. Under the Alliance the airlines are proposing to eventually extend their cooperation to cover points to Bangladesh, Nepal, the Maldives, and Sri Lanka. None of these markets are expected to be large enough to support direct services in the foreseeable future. The alliance would be an effective way for Air New Zealand to serve these markets.

120. At present, we do not have air services agreements with Bangladesh, Nepal or the Maldives. [REDACTED]

**Europe**

121. The overall demand for air services between New Zealand and Europe has fluctuated around the 600,000 passenger mark. Notably, outbound demand has been growing at a time when inbound traffic has been falling.

**Figure 21 – European market for air travel from 2004 to 2013**



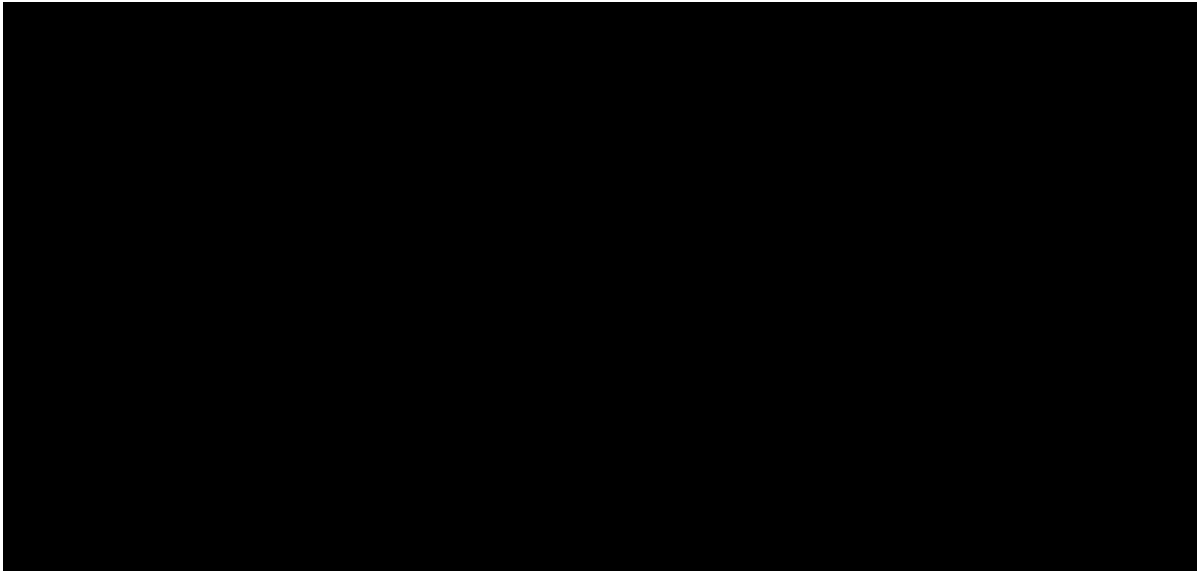
122. The market for air services between New Zealand and Europe is very competitive by industry standards with eight airlines<sup>17</sup> operating one stop services between Auckland and London with frequencies varying from 5 to 19 services per week.

123. However, if the Alliance is approved, it would dilute competition in the market with Air New Zealand/Singapore Airlines and Qantas/Emirates cumulatively holding [REDACTED]

<sup>17</sup> Air New Zealand, Singapore Airlines, Qantas/Emirates, Cathay Pacific, Thai Airways, Malaysia Airlines, Korean Air and China Southern.

of the market share for traffic between New Zealand and Europe. While the Qantas/Emirates alliance does not offer a one-stop service, it provides convenient two-stop services via Australia and Dubai to over 30 points in Europe, and has the largest share of the New Zealand-Europe market [REDACTED]

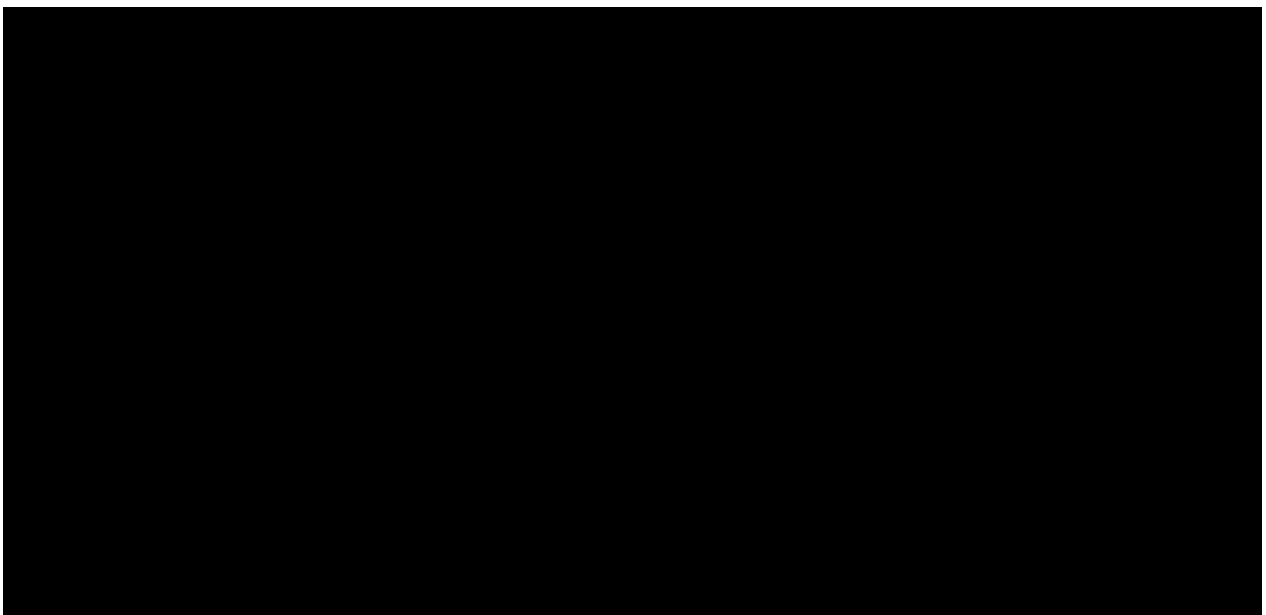
**Figure 22 – Market share for air travel between New Zealand and Europe for the 2013 calendar year**



124. The United Kingdom and Germany see the highest traffic of all New Zealand-European markets and these have been identified as 'priority 1' markets by the Applicants in their Alliance agreement.

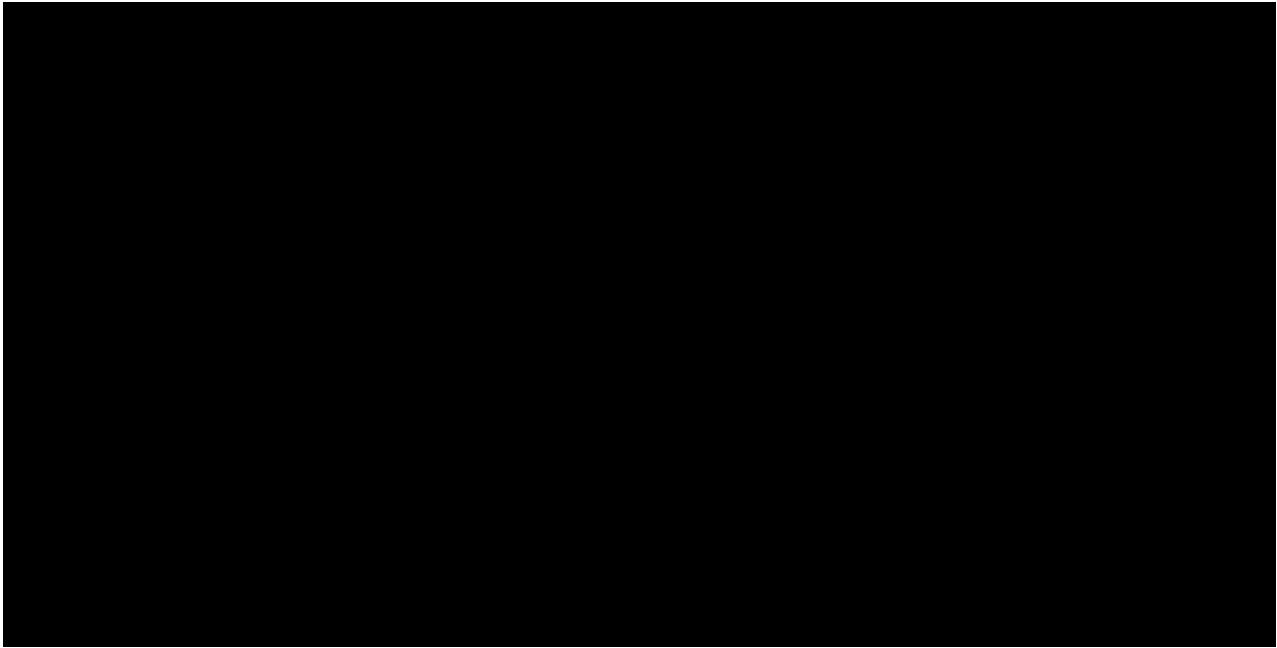
125. As Figure 23 shows, the New Zealand-United Kingdom has been trending downwards since 2007, although it is beginning to show signs of recovery.

**Figure 23 – Traffic between New Zealand and the United Kingdom from 2004 to 2013**



126. In contrast, the smaller New Zealand-Germany market has been growing steadily over the past 10 years, with significant growth in the past 12 months.

**Figure 24 – Traffic between New Zealand and Germany from 2004 to 2013**



[Redacted text]

[Redacted text]

[Redacted text]

129. As indicated in the Table below, Air New Zealand’s fares to London are among the most competitive in the market.

**Table 4 – Fare comparison for selected one-way flights from Auckland to London**

Carrier	Duration	Stopover(s)	Lowest fare in Sep 2014	Lowest fare in Dec 2014
<b>Air New Zealand<sup>19</sup></b>	24hr 45min	Los Angeles	\$1,139	\$1,574
<b>Malaysia Airlines</b>	27hr 35min	Kuala Lumpur	\$1,114	\$1,857
<b>Cathay</b>	27hr 15min	Hong Kong	\$1,285	\$1,805

<sup>18</sup> Clause 4.5(e) of the Strategic Alliance Agreement.

<sup>19</sup> Includes ‘Global Saver Fares’ which are offered year round to selected long haul international destinations, including the United Kingdom.

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<b>Pacific</b>				
<b>Virgin Atlantic<sup>20</sup></b>	28hr 15min	San Francisco	\$1,519	\$1,639
	29hr 5min	Shanghai	\$1,098	\$2,348
<b>Singapore Airlines</b>	26hr 45min	Singapore	\$1,306	\$1,688
<b>Etihad Airways</b>	33hr 20min	Sydney and Abu Dhabi	\$1,359	\$1,895
<b>Qantas/ Emirates</b>	36hr 10min	Melbourne and Dubai	\$1,398	NA
	37hr 20min	Sydney and Dubai	\$1,415	\$1,757
<b>British Airways</b>	32hr 20min	Sydney and Hong Kong	\$1,638	\$1,758
<b>Air Tahiti Nui</b>	34hr 35min	Los Angeles and Papeete	NA	\$1,441
<b>Asiana Airlines</b>	47hr 50min	Sydney and Seoul	NA	\$1,566

130. Air New Zealand also offers its customers access to a number of European destinations on services via Los Angeles. Table 5 provides more detail on these services and compares them with those offered by Singapore Airlines on its own aircraft.

**Table 5 – Comparison of flights sold by NZ and SQ to priority European markets (month of September 2014)**

<b>Destinations</b>	<b>Service offered by NZ</b>			<b>Service offered by SQ<sup>21</sup></b>	
	<b>Partner airline</b>	<b>Duration</b>	<b>Fare</b>	<b>Duration</b>	<b>Fare</b>
<b>Frankfurt</b>	Lufthansa (1 stop)	27 hours	\$1,384	28 hours	\$1,632
<b>Munich</b>	Lufthansa (1 stop)	27 hours	\$1,384	28 hours	\$1,632
<b>Paris</b>	Air France* (1 stop)	26 hours	\$1,411	29 hours	\$1,688
<b>Istanbul</b>	Turkish Airlines (1 stop)	28 hours	\$1,399	28hours	\$1,722
<b>Milan</b>	British Airways* (2 stops)	29 hours	Not available	28 hours	\$1,722
<b>Rome</b>	British Airways* (2 stops)	30 hours	\$1,513	30 hours	\$1,688
<b>Barcelona</b>	British Airways* (2 stops)	31 hours	\$1,536	30 hours	\$1,722
<b>Amsterdam</b>	KLM* (1 stop)	25 hours	\$1,411	29 hours	\$1,722
<b>Zurich</b>	British Airways* (2 stops)	29 hours	\$1,536	29 hours	\$1,722
<b>Copenhagen</b>	SAS (2 stops)	28 hours	\$1,566	28 hours	\$1,722
	Lufthansa (2 stops)	30 hours	\$1,456		

\*Denotes interline agreements

131. As the table above shows, Air New Zealand fares to European destinations are around \$100 to \$250 cheaper than those offered by Singapore Airlines. As with its fares to London, these are among the most competitive in the market.

132. The Alliance with Singapore Airlines would partially remove the need for Air New Zealand to compete as strongly on its services to London and Europe through

<sup>20</sup> Code-shares on Air New Zealand services to San Francisco and Shanghai.

<sup>21</sup> All one-stop services via Singapore on Singapore Airlines' aircraft.

Los Angeles as it would have an alternative route via Singapore to market to its customers.

[REDACTED]

133. While this is a concern, the impact is likely to be limited as there are a number of other airlines competing in the market, such as Malaysia Airlines, Cathay Pacific and Qantas/Emirates with competitive fare offerings that would be in a position to attract price-sensitive travellers if Air New Zealand were to raise fares. Air New Zealand also tickets passengers to Europe via Vancouver and San Francisco, [REDACTED].

[REDACTED]

134. [REDACTED]

135. Air New Zealand has a monopoly on the Auckland-Los Angeles-London route and as a result the alliance may create some upward pressure on fares over this route in order to achieve greater alignment with fares via Singapore. However, strong competition on other routes to Europe should ensure that any fare increase is not excessive.

136. Table 6 below outlines Air New Zealand's current code-share arrangements to Europe. These involve services on Virgin Atlantic, Etihad, and Air New Zealand's Star Alliance partners (Lufthansa, United Airlines, Turkish Airlines, and Air Canada). These partnerships extend Air New Zealand's presence in Europe and allow it to ticket passengers to destinations that would not be commercially viable for own aircraft services. The Alliance would not impact on these arrangements.

**Table 6 – Air New Zealand's code-share arrangements to Europe**

Country	Destinations	Code-share partner
<b>Germany</b>	Munich	Lufthansa (via London, Hong Kong, Los Angeles or San Francisco)
	Frankfurt	Lufthansa (via Hong Kong, London, Los Angeles, San Francisco or Vancouver) United Airlines (via San Francisco)
<b>Switzerland</b>	Geneva	Etihad Airways (via Abu Dhabi)
<b>Turkey</b>	Istanbul	Turkish Airlines (via Hong Kong, London or Los Angeles)
	Ankara	Turkish Airlines (via Istanbul)
<b>United Kingdom</b>	Aberdeen	Virgin Atlantic (via London)
	Edinburgh	Virgin Atlantic (via London)
	London	Air Canada (via Vancouver)
		Etihad Airways (via Abu Dhabi)
		United Airlines (via Los Angeles or San Francisco) Virgin Atlantic (via San Francisco)
Manchester	Etihad Airways (via Abu Dhabi) Virgin Atlantic (via London)	

137. Singapore Airlines operates to 13 points in Europe with onward connections to 37 other destinations (see Table 7). The vast majority of these connecting services are operated by Star Alliance partners Lufthansa and SAS from their respective hubs in Frankfurt and Copenhagen. Further additions to Singapore Airlines' network are expected through a significantly expanded code-share arrangement with Turkish Airlines.

**Table 7 – Singapore Airlines' European network**

<b>Destination</b>	<b>SIA services</b>	<b>SIA code-share on connecting services</b>
<b>Amsterdam</b>	7 weekly services	Glasgow, Warsaw
<b>Barcelona</b>	3 weekly services non stop 2 weekly services via Milan	
<b>Copenhagen</b>	5 weekly services	Aalborg, Alesund, Bergen, Berlin, Goteborg, Oslo, Stavanger, Stockholm, Trondheim, Turku, Vilnius, Warsaw
<b>Frankfurt</b>	14 weekly services	Berlin, Bremen, Brussels, Budapest, Dresden, Dusseldorf, Geneva, Graz, Hamburg, Hanover, Helsinki, Leipzig/Halle, Linz, Lyon, Marseille, Nice, Nuremberg, Oslo, Prague, Stockholm, Stuttgart, Toulouse, Vienna, Warsaw
<b>Istanbul<sup>22</sup></b>	4-5 weekly services	
<b>London</b>	28 weekly services	Brussels, Glasgow
<b>Manchester</b>	7 weekly services via Munich	
<b>Milan</b>	5 weekly services	Brussels
<b>Moscow</b>	5 weekly services	Novosibirsk, Saint Petersburg, Samara, Yekaterinburg
<b>Munich</b>	7 weekly services	Warsaw
<b>Paris</b>	7 weekly services	
<b>Rome</b>	2-3 weekly services	
<b>Zurich</b>	7 weekly services	Brussels, Geneva, Nice, Vienna, Warsaw

138. The difference between Singapore Airlines' and Air New Zealand's presence in Europe is telling. This illustrates some of the challenges to Air New Zealand operating as an end-of-the-line carrier.

139. Air New Zealand already has a limited code-sharing relationship with Lufthansa. Air New Zealand can ticket passengers to Frankfurt or Munich via Lufthansa services from either of Hong Kong, London, Los Angeles, San Francisco or Vancouver. This arrangement previously covered more domestic points within Germany but the scope of that agreement was recently reduced.

<sup>22</sup> Singapore Airlines and Turkish Airlines recently expanded their code-share arrangement to cover points beyond Istanbul including other points in Turkey and Europe. More details on this arrangement have not yet been released.

140. Under the Alliance, Air New Zealand would be able to ticket passengers on Singapore Airlines' double daily services to Frankfurt and daily services to Munich.

[REDACTED]

141. Singapore Airlines is able to offer passengers a much wider range of destinations than Air New Zealand. Singapore Airlines operates to Frankfurt and Munich and code-shares on Lufthansa services to Berlin, Bremen, Dresden, Dusseldorf, Hamburg, Hannover, Leipzig/Halle, Nuremberg, and Stuttgart. While the Alliance would allow Air New Zealand to code-share on Singapore Airlines' services to Frankfurt and Munich, it would not provide Air New Zealand with any greater connectivity than it currently has.

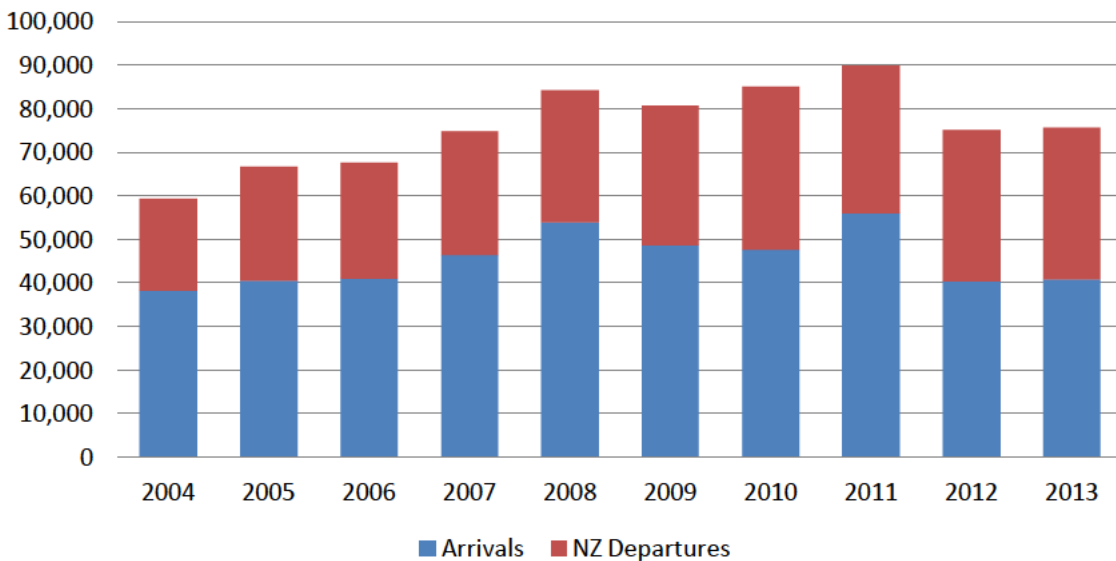
[REDACTED]

142. [REDACTED]

**South Africa (Africa and the Middle East)**

143. Demand for services between New Zealand and Africa and the Middle East has fluctuated over the last decade with a positive overall trend since 2004. The South African market has been in gradual decline for several years, with the exception of a peak in 2011 (likely due to the Rugby World Cup).

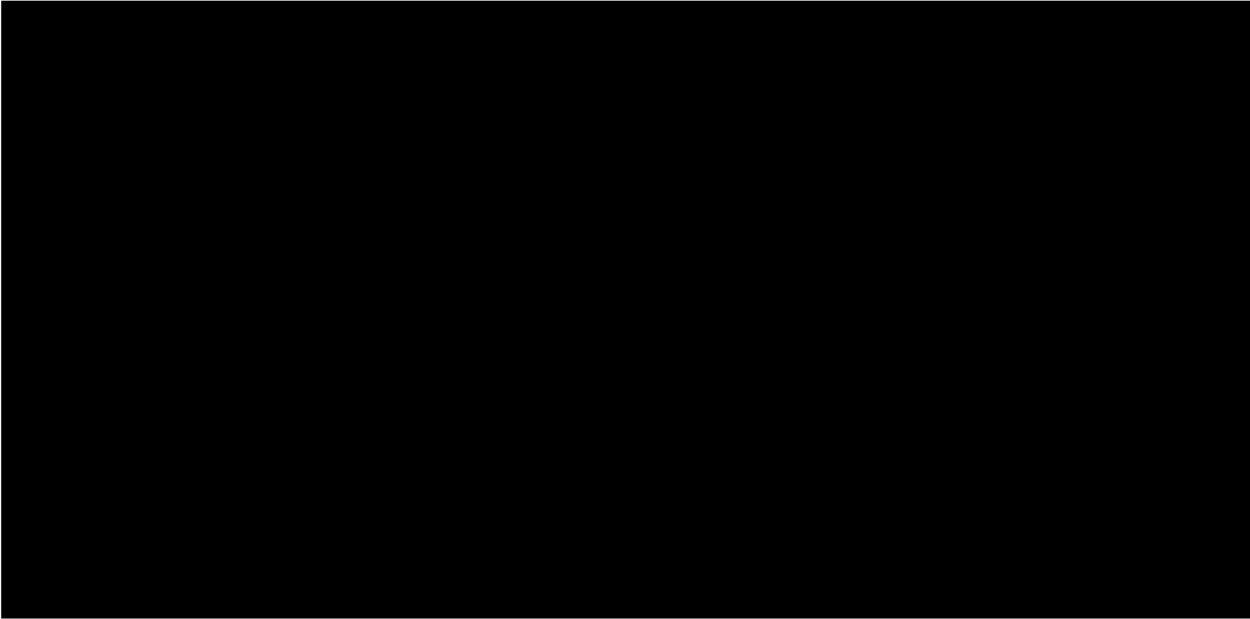
**Figure 25 – African and Middle Eastern market for air travel from 2004 to 2013**



144. The Alliance would have a limited impact on these markets. South Africa (which accounts for almost half of this broader market) has been identified as a priority market in the Agreement but the only other country within this region included in the scope of the Alliance is Saudi Arabia.

145. As Figure 26 suggests, an Air New Zealand/Singapore Airlines Alliance would consolidate the market shares of the two largest competitors to the Qantas/Emirates Alliance which serves almost half the market.

**Figure 26 – Market share for travel between Africa/Middle East and New Zealand**



146. In the South African market in particular the Alliance would create a duopoly with Qantas/Emirates and Air New Zealand/Singapore Airlines serving ██████████ of the market (see Table 8). This market is distinct in that most of the arrivals from South Africa are on Qantas/Emirates services whereas most of the departures from New Zealand are on Air New Zealand services. This may represent the stronger presence of Qantas in the South African market as it operates direct services to Johannesburg whereas Air New Zealand only code-shares on South African Airways' services.

**Table 8 – Market share for travel between South Africa and New Zealand**

██████	██████	██████	██████	██████
██████	██████	██████	██████	██████
██████████████	██████	██████	██████	██████
██████████████	██████	██████	██████	██████
██████	██████	██████	██████	██████

147. The effect of the Alliance on competition is likely to be limited given Air New Zealand would be placing its code on two different carriers as opposed to one. Air New Zealand

<sup>23</sup> Air New Zealand does not operate direct services to South Africa. The market share figures quoted in this table reflect passengers leaving New Zealand on an Air New Zealand flight, and connecting to a flight operated by another airline (predominantly South African Airways).



already code-shares on South African Airways' daily one-stop service between Johannesburg and Perth and connecting domestic services to Cape Town, Durban, Port Elizabeth and East London. However, this routing involves a close to 6 hour transit in Perth when travelling in both directions.

148. The Alliance would allow Air New Zealand to code-share on Singapore Airlines' daily service to Johannesburg and 4 weekly connecting services to Cape Town. The Alliance agreement would also allow Air New Zealand to retain its code-share arrangements with South African Airways which means that overall connectivity to South Africa would be improved, albeit modestly.

149. [REDACTED]

150. [REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

153. The impact of the alliance on other markets in Africa and the Middle East is likely to be marginally positive.

## VII. Impact on consumers

### Connectivity

154. Under the Alliance, Air New Zealand would be able to sell tickets on Singapore Airlines/SilkAir services to over fifty destinations in Asia and Europe, including major growth markets such as India, Indonesia and the Philippines. Singapore Airlines would be able to sell tickets on Air New Zealand's domestic and Pacific flights.

155. The alliance would not impact on the number of flights beyond Singapore and New Zealand, or create new connections which do not already exist. In the absence of the Alliance, passengers would still be able to access these existing flights.
156. The benefit of the Alliance is that both airlines would be able to jointly market these services. This could have the effect of stimulating tourism as both airlines would have financial incentives to market their services in these markets in order to stimulate demand.

### **Fares**

157. Given the large scope of the Alliance, there are varying incentives across different destinations for the Applicants when pricing their services.
158. On the direct Singapore-Auckland route, assuming the proposed capacity increases eventuate, the potential for lower fares is higher. The A380 aircraft in particular would substantially increase capacity (it can seat 193 more passengers than the Boeing 777-300 currently operating the route). This level of increase in capacity is likely to result in a larger inventory of lower priced seats.
159. On connecting services beyond New Zealand and Singapore, the Applicants would agree to special code-share prorates. Under the Alliance, the incentives for Singapore Airlines to seek a higher rate for operating code-share services with Air New Zealand would diminish as it would look to encourage Air New Zealand to route its passengers via Singapore.
160. The Alliance would also enable both airlines to co-ordinate pricing decisions. Under an interline agreement, each carrier would seek to maximise profits from its own segment of an itinerary. The result is a higher airfare compared to if a single carrier were operating the route. This is also known as double marginalisation as both airlines are marking up prices on their segments of an itinerary. Under a revenue-sharing Alliance, the incentives for Air New Zealand and Singapore Airlines to both mark-up airfares diminish as they would simply be deducting from their shared revenue pot.
161. While there is *potential* for fares to be lowered on connecting services, the Alliance may also provide opportunities for the Applicants to raise fares as a result of a stronger market position. This is especially true on routes where Alliance would hold a monopoly. In our report on the application by Air New Zealand and Virgin Australia for reauthorisation of their trans-Tasman alliance, we noted that fares tended to rise on routes where the Applicants did not face any competition.
162. The impact of the Alliance on fares is uncertain. The avoidance of double marginalisation would create scope for lower fares, but we cannot assume that any cost savings would be passed on to consumers. Fares on a particular route would continue to be predominantly driven by the level of competition in that market and the threat of competition from potential new entrants.

### **Premium customer handling, lounge and frequent flyer benefits**

163. As Air New Zealand and Singapore Airlines are members of the Star Alliance, Airpoints members of both airlines already receive some benefits with respect to lounge access and frequent flyer benefits. Premium customers travelling on Star Alliance carriers are able to make use of lounge facilities provided by Star Alliance member airlines. They are also able to earn and redeem frequent flyer points on flights operated by Star Alliance member airlines, although the rate at which points are earned varies.

164. The Applicants have stated that the Alliance would provide additional benefits over and above the existing Star Alliance arrangements.

- a. Air New Zealand Airpoints members would earn an additional [REDACTED] Airpoints dollars and accompanying status points<sup>24</sup> on existing Singapore Airlines services. These members would be subject to the higher Air New Zealand earn rate rather than the lower airline partner earn rate.
- b. Air New Zealand Koru Club members would receive lounge access in Singapore and selected points which are currently unavailable under Star Alliance arrangements.
- c. The Alliance would provide for reciprocal frequent flyer and lounge access arrangements with SilkAir which is not part of the Star Alliance arrangements.

165. The Ministry accepts that the Alliance would provide additional benefits over and above existing Star Alliance arrangements with respect to frequent flyer programs and lounge access. However, these benefits are modest and primarily limited to premium and/or frequent customers.

### **Freight**

166. Singapore Airlines operates a dedicated freighter service 5 times a week from Singapore to Auckland via either Melbourne or Sydney. It also carries bellyhold cargo on its passenger services to/from Auckland and Christchurch.

167. Competition for freighter services comes from two other dedicated cargo carriers. Tasman Cargo Airlines operates five times per week between Auckland and Sydney and Federal Express operates once per week from Los Angeles – Honolulu – Auckland – Sydney – Shanghai – Kansai (Osaka) – Narita (Tokyo) – Anchorage. Competition can also come from the bellyhold cargo capacity of other passenger airlines including Emirates Airlines and China Southern Airlines.

168. Air transport plays a major strategic role in moving New Zealand's primary production quickly into overseas markets, and allows high value good manufacturers to import components and spare parts for production lines quickly. The share of freight entering and leaving the country by air in 2011 was 17.8% of the total value of freight.

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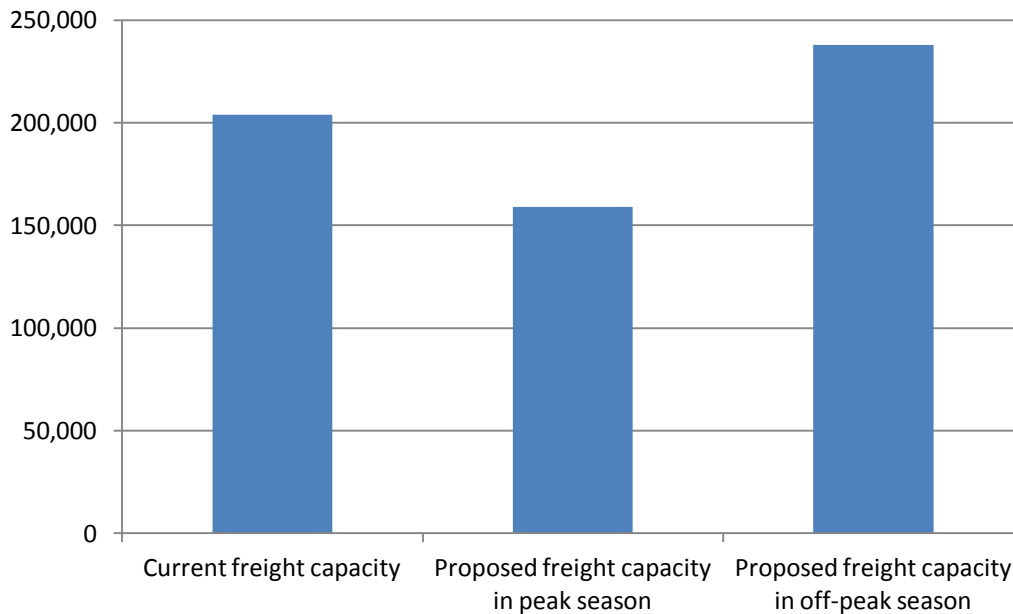
<sup>24</sup> Points that are earned to upgrade or retain a specific class of Airpoints membership (i.e. silver, gold or elite).

169. Auckland and Christchurch international airports account for close to 100% of the total airfreight exported from New Zealand. Key exports by air include seafood, vegetables, fruit and meat, accounting for about half of all air export by weight. Christchurch accounts for about 18% of the gross weight of exports and 21% of the total value.

170. The airfreight exported to Singapore is about \$125million a year, with about 23% (or \$29 million) exported through Christchurch. The main commodities moved by Singapore Airlines are seafood/fish, meat, eggs, leather, electronics, seasonal products and seeds.

171. The Alliance does not cover cooperation for the carriage of freight. However, any change in aircraft type or frequency of services brought about as a result of the Alliance would have an indirect impact on freight markets. The two additional frequencies per week on the Auckland-Singapore route would have a positive impact on freight markets, but this may be offset by the fact that the Airbus A380 aircraft (which Singapore Airlines is proposing to deploy on the Auckland-Singapore route in peak season) has a lower freight capacity than the Boeing 777-200 aircraft currently being used. The overall impact of the Alliance on bellyhold freight capacity on the Auckland-Singapore route is demonstrated in Figure 27.

**Figure 27 - Current and proposed bellyhold freight capacity (kgs) on Auckland-Singapore route**



172. The reduced capacity in peak season may lead to higher freight prices, although the extent of this would be dependent on whether the market is already capacity constrained. However, any increases in freight prices during peak season are likely to be offset by roughly equivalent reductions outside of the peak season.

173. Freight capacity on the Christchurch-Singapore route would be unaffected (assuming services are maintained as the applicants intend), as no changes to frequency or aircraft type are proposed on that route.



[REDACTED]

[REDACTED]

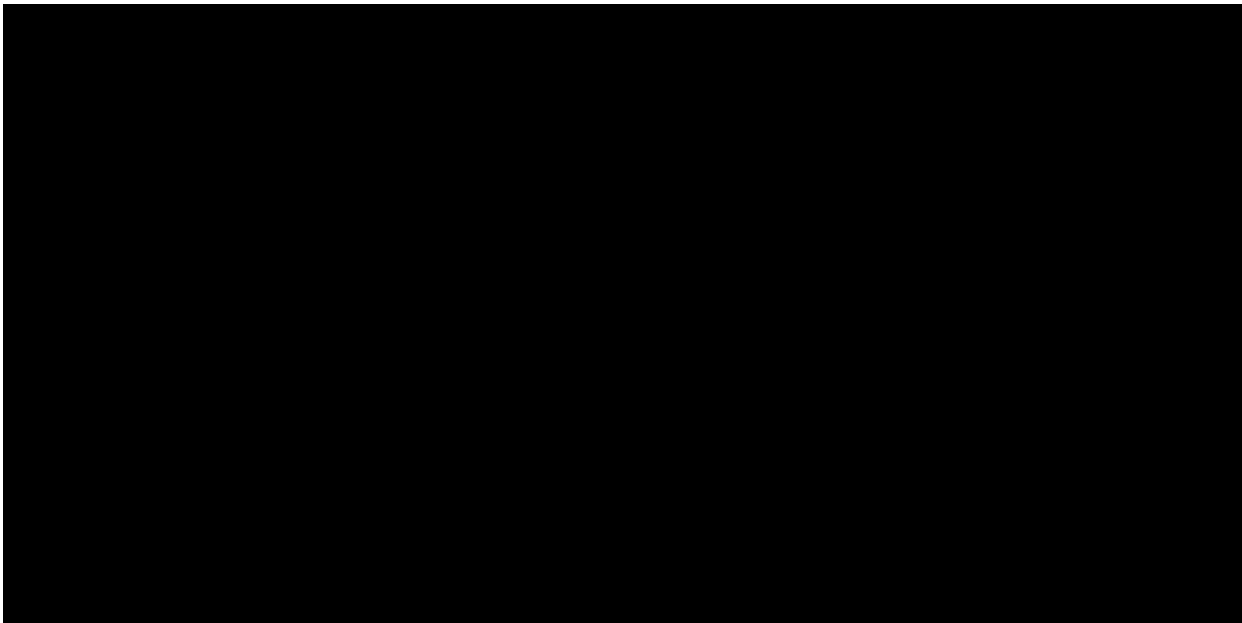
- [REDACTED]

- [REDACTED]

[REDACTED]

[REDACTED]

**Figure 29 – Air New Zealand/Cathay Pacific change in market share vs overall change in market demand in South-East Asia and India from pre-alliance (Nov 2011-Nov 2012) to year 1 of the alliance (Nov 2012-Nov 2013)**



<sup>25</sup> The right, when operating a service between two countries, to pick up or put down traffic in the territory of a third country as part of the same service.

<sup>26</sup> Clause 3.2(a)(iv)(d)

181. Under the Alliance, the strength of Cathay Pacific in the New Zealand-South-East Asian markets is likely to decline, as Air New Zealand would be incentivised to route its passengers via Auckland-Singapore instead of Auckland-Hong Kong. This would provide some benefits to Air New Zealand passengers as in most cases, transiting via Singapore would involve slightly shorter flying distances than flying through Hong Kong.

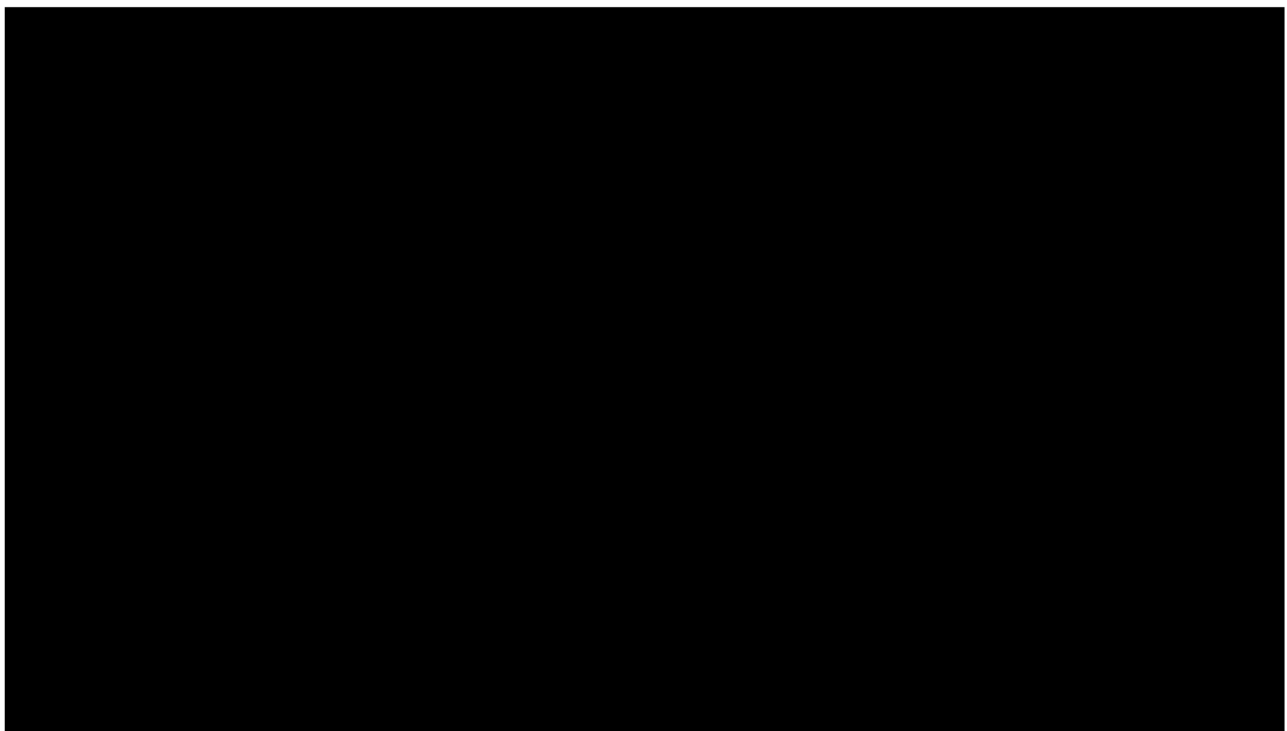
182. Overall, the Alliance would have the effect of limiting the scope of cooperation between Air New Zealand and Cathay Pacific, [REDACTED]  
[REDACTED]

**Qantas/Emirates Alliance**

183. The Applicants have referred to the competitive threat provided by the newly formed Qantas/Emirates Alliance as one of the reasons behind the proposed Alliance.

184. Figure 30 provides an indication of the impact of the Qantas/Emirates Alliance on key markets for the Applicants. It takes the latest available 6 months of passenger data after the Qantas/Emirates Alliance was authorised (September 2013 – February 2014), and compares this to data from the same 6 month period one year prior to authorisation (September 2012 to February 2013).

**Figure 30 – Difference in market share before and after Qantas/Emirates Alliance**



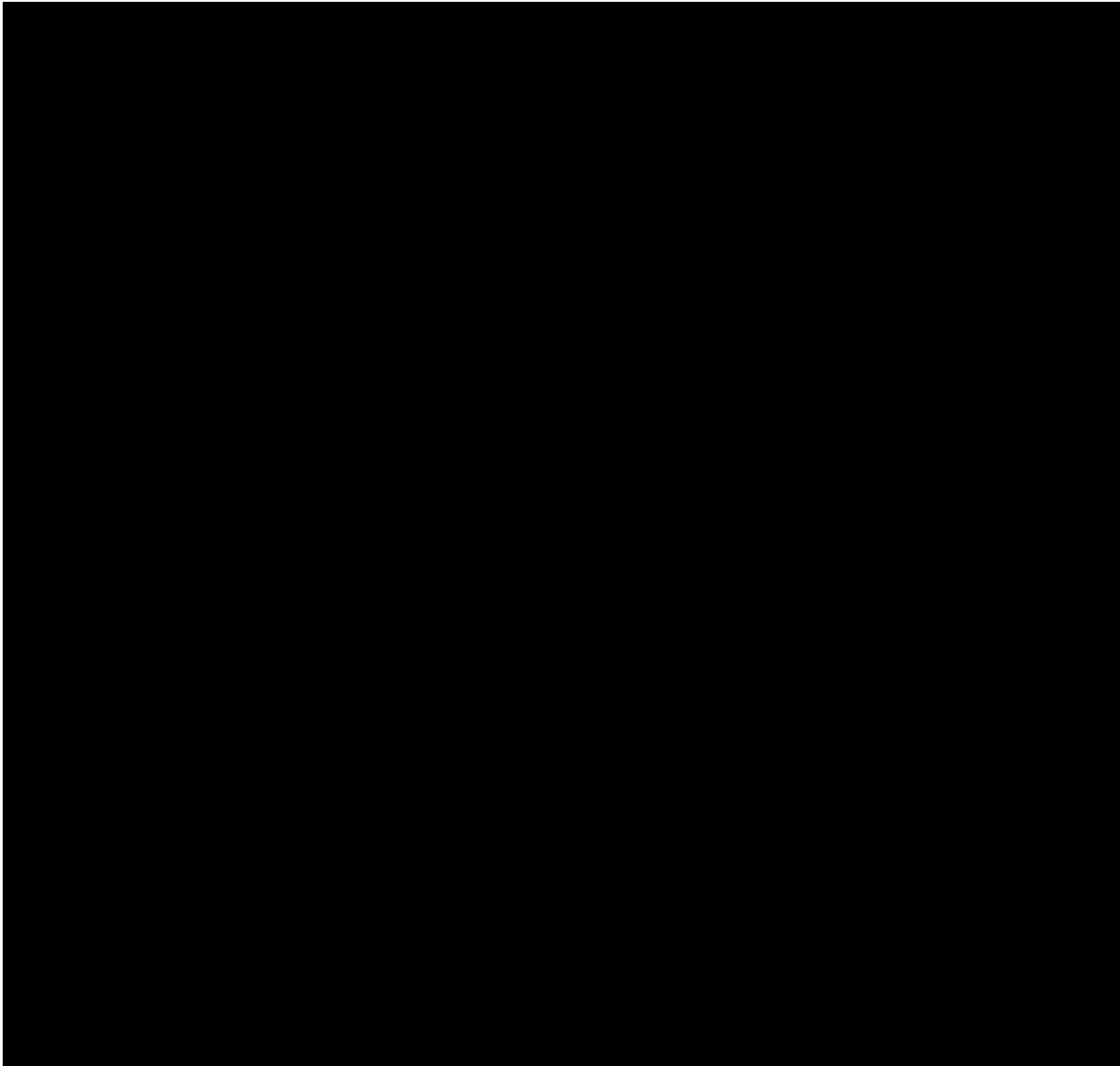
185. [REDACTED]  
[REDACTED]  
[REDACTED]

186. The Qantas/Emirates Alliance has been operating for just under a year and it may be too early to draw conclusions about the effect of that alliance. Nevertheless, at this stage

there is little evidence to suggest that the Qantas/Emirates Alliance has substantially weakened Air New Zealand's position in the markets covered by the proposed Alliance.

187. Regardless of the strength of Qantas/Emirates, the Alliance with Singapore Airlines would strengthen Air New Zealand's position when competing for traffic to key markets, especially India. This is displayed by the combined market shares for Air New Zealand/Singapore Airlines and Qantas/Emirates during the 2013 calendar year (see Figure 31).

**Figure 31 – Market share of Air New Zealand/Singapore Airlines in comparison with Qantas/Emirates during the 2013 calendar year**



188. A significant, albeit smaller, proportion of the above markets are served by other airlines. This provides some competitive pressures on both the Qantas/Emirates and Air New Zealand/Singapore Airlines alliances and should mitigate the possibility of further dilution of competition in those markets.



## IX. Regional impacts

### Christchurch

#### *Significance of the Christchurch-Singapore service*

189. Singapore Airlines is one of the largest foreign airlines currently serving New Zealand, and one of just two (along with Qantas/Emirates) currently operating long-haul services to Christchurch. Crucially, it is the only airline offering a non-stop, long-haul service to Christchurch (as the Emirates service stops in Sydney and Bangkok en route to Dubai). As a result, the service is important to the South Island's international connectivity. As shown in the Table below, this service provides the fastest routing for passengers and freight travelling between the South Island and many of New Zealand's major trading partners, particularly to destinations throughout South-East Asia and India. The service is less competitive as an option for travel between Christchurch and Northern Asia or South Africa.

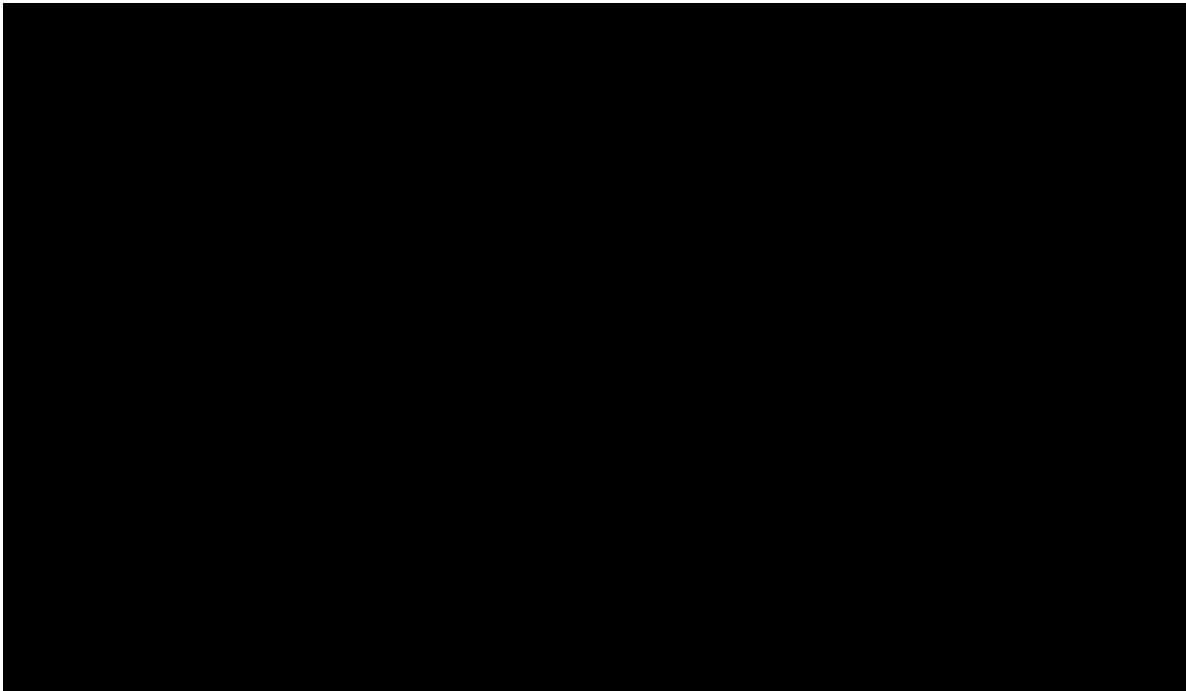
**Table 10 – Flight times for travel between Christchurch and a sample of major cities to the West of New Zealand on Singapore Airlines compared to other airlines.**

	<b>Fastest connection on Singapore Airlines</b>	<b>Fastest connection on another airline</b>
<b>Singapore</b>	10:55 (non-stop)	13:30 (Qantas, one-stop via Sydney)
<b>Bangkok</b>	14:10 (one-stop via Singapore)	14:15 (Emirates, one-stop via Sydney)
<b>Jakarta</b>	13:30 (one-stop via Singapore)	14:25 (Garuda Indonesia, one-stop via Sydney)*
<b>Manila</b>	15:55 (one-stop via Singapore)	14:40 (Philippine Airlines, one-stop via Melbourne)*
<b>Delhi</b>	18:30 (one-stop via Singapore)*	18:45 (Air India, one-stop via Melbourne)*
<b>Dubai</b>	22:05 (one-stop via Singapore)	21:20 (Emirates, two-stops via Sydney and Bangkok)
<b>Johannesburg</b>	29:55 (one-stop via Singapore)	19:05 (Qantas, one-stop via Sydney)
<b>Tokyo</b>	22:05 (one-stop via Singapore)	14:10 (Air New Zealand, one stop via Auckland)
<b>Beijing</b>	24:15 (one-stop via Singapore)	18:25 (Korean Air, one-stop via Auckland)*
<b>London</b>	31:00 (one-stop via Singapore)	28:10 (Air New Zealand, two-stops via Auckland and Los Angeles)
<b>Frankfurt</b>	30:05 (one-stop via Singapore)*	27:45 (Air New Zealand, two-stops via Auckland and Vancouver)*
<b>Paris</b>	31:00 (one-stop via Singapore)	29:35 (Air New Zealand, two-stops via Auckland and San Francisco)*

\* indicates that the itinerary involves other airlines providing connecting services

190. The strong position of Singapore Airlines in the South Island is demonstrated in Figure 32, which shows that Singapore Airlines' market share is higher among South Island residents compared to North Island residents in every region in which it competes.

**Figure 32 – Singapore Airlines market share by region among South Island and North Island residents (based on the main destination of departing residents)**



191. Singapore Airlines also has an important role in bringing tourists into the South Island. [REDACTED] of visitor arrivals to New Zealand overall and [REDACTED] of arrivals into Christchurch travelled on Singapore Airlines. An international visitor survey completed by Tourism New Zealand in 2013 showed that Chinese tourists to New Zealand that took the time to visit the South Island stayed longer than those who didn't (17.4 nights vs. 6.2 nights), spent more money (\$3,499 per visitor vs. \$2,969), and were overall more satisfied with their trip to New Zealand. While this may partly be a unique trait among Chinese visitors, it is not unreasonable to assume that direct services to Christchurch have a role in dispersing tourists throughout New Zealand.
192. In its submission, Christchurch Airport referred to the reliance of international passengers, tourism organisations, and air freight exporters/importers on Christchurch as a gateway to the South Island, and the access to international markets provided by Singapore-Christchurch services.
193. A number of other parties from the South Island made submissions to the Ministry, noting the importance of the Christchurch service to the Canterbury region, the South Island, and the national economy. A 2010 study by BERL (commissioned by Christchurch International Airport) estimated the direct impact of Singapore Airlines' services to the South Island to be additional employment of 2,113 Full-Time Equivalents, \$243.7 million in gross output and \$113.3 million in value added or Gross Domestic Product.
194. The Canterbury rebuild is one of the government's four main priorities. Estimates of the total cost of the rebuild are at around \$40 billion or 20% of New Zealand's annual GDP with the government's share of that cost at around \$15 billion. As the only non-stop long-haul international service into Christchurch, the Christchurch-Singapore service will

continue to be an important international link for the regional economy and valuable for its growth over the short to medium term.

*Impact of the alliance on the Christchurch-Singapore service*

195. While there have been exceptions (such as a short lived non-stop service between Christchurch and Kuala Lumpur by Air Asia X), past experience suggests that airlines will not generally consider operating non-stop services into Christchurch until they have already established themselves in the Auckland market. Once an airline is already operating in the Auckland market, the prospect of operating direct services to Christchurch may be more appealing, as it allows the airline to differentiate itself from Air New Zealand and other foreign airlines.
196. Air New Zealand arguably has little to gain from operating non-stop services to Christchurch. While it has previously operated non-stop services between Christchurch and each of Singapore and Los Angeles, neither service proved successful. Air New Zealand has strong incentives to divert as much traffic as possible through its Auckland hub, leveraging its strong domestic network to pool passengers from various points of origin around New Zealand. This may change if more foreign airlines were operating direct services to Christchurch, as Air New Zealand would then need to defend its position in Christchurch.
197. Under the alliance, Singapore Airlines would effectively gain access to Air New Zealand's entire domestic network. In doing so, its incentives to differentiate itself from Air New Zealand and other airlines by operating to Christchurch would reduce.
198. The Applicants have claimed that they would maintain a daily service on the Christchurch route. However, it is notable that all of the proposed capacity increases are on the Auckland-Singapore route. In order to fill this additional capacity, the Applicants would likely be required to reduce fares on the Auckland-Singapore route. While this can be considered a benefit of the alliance, it is likely to further encourage the Applicants to divert passenger traffic through Auckland, rather than Christchurch.
199. An alternative view is that the Alliance would provide Singapore Airlines with access to Air New Zealand's domestic network, making it easier to support its Christchurch service with passengers originating in smaller regional centres across the New Zealand. The Alliance would also give Air New Zealand a financial stake in the Christchurch service, which would encourage it to invest its own resources in making the service work.
200. In our view, it is unlikely that the Applicants would consider pulling out of the Christchurch market altogether, as this could compromise any subsequent application to have the alliance reauthorised (assuming it was subject to a time limited authorisation). We also note that Singapore Airlines has a long history of commitment to the Christchurch market, having operated there for over 25 years including in the aftermath of the 2010/11 earthquakes.

201. There is some risk that the level of capacity growth into Christchurch under the alliance may be less than what could be expected under the counterfactual. In particular we note that Singapore Airlines would be operating an additional 18 services per week to Christchurch over the 2014/15 peak summer period. The application provides no assurances that these supplementary services would continue under the Alliance.

## Wellington

202. Despite being New Zealand's capital and third largest city, Wellington lacks the international connectivity of Auckland and Christchurch. No airline has ever operated a non-stop, long-haul service to or from Wellington. There are a number of factors contributing to this, including relatively low demand (compared to Auckland and Christchurch) and the technical constraints of its short-runway. Like Christchurch, Wellington is also disadvantaged by Air New Zealand's international strategy, which is focussed on funnelling as much traffic as possible through its Auckland hub. In Wellington's case, Air New Zealand has stated in no uncertain terms that it has no intentions of operating long-haul services from the airport. This means that Wellington's best prospects of securing a long-haul service lie with foreign airlines.

203. The emergence of integrated alliances has delivered mixed results for Wellington and its international connectivity. For example, a key advantage of the alliance between Qantas and Emirates is that it enables Wellington-based passengers to travel to Sydney, Brisbane, or Melbourne and connect to an Emirates flight bound for Dubai and a multitude of onwards destinations. However, the alliance also removed any incentives for Emirates to operate services to Wellington with its own aircraft, thus removing a potential new entrant from the equation. Likewise, Cathay Pacific would have no incentives to operate its own services to Wellington now that it has an integrated alliance in place with Air New Zealand.

204. Singapore Airlines already operates up to three services a day into New Zealand. It appears to be the most likely carrier to consider operating services to Wellington. [REDACTED]

[REDACTED] We understand that such a service would likely follow a triangular route (such as Singapore-Wellington-Christchurch-Singapore), as wide-body aircraft are able to land on the existing runway at Wellington, but cannot take off with a full load of fuel.

205. We are concerned that the Alliance would effectively remove any prospect of Singapore Airlines operating a long-haul service to/from Wellington. However, the weight that we place on this is limited by the high level of uncertainty that such a service would actually eventuate. We have a number of doubts around both the technical and economical viability of such a service. We also note that, while a long-haul service would deliver benefits to the Wellington economy, such a service would in all likelihood come at the expense of a long-haul service to Auckland or Christchurch. From a strictly economic perspective, the net benefit to New Zealand as a whole may therefore be minimal.

206. Wellington Airport is currently in the process of developing a business case to extend its runway in order to accommodate long-haul air services. While this would largely address our concerns around the technical viability of a non-stop service to Wellington, it is

far from certain that the runway extension will proceed. In any case, any runway extension is unlikely to be completed during the initial term of the Alliance.

207. While the Ministry does not have a formal position on the proposed runway extension, we acknowledge that the Alliance would likely have a negative impact on the proposal.

## **X. Impact on 'NZ inc'**

### **Stimulation of tourism**

208. The Applicants engaged SeaburyAPG to evaluate the impact of the proposed Alliance. The analysis by SeaburyAPG predicts that the Alliance would stimulate additional demand between New Zealand and Singapore of around 18,596 passengers per year. Of these, around 73% are expected to originate in markets beyond Singapore.

209. Code-sharing arrangements can make booking and travelling easier and more convenient for passengers. Airlines are able to coordinate flights, checked in baggage and lounge access throughout the entire itinerary to provide a more seamless experience. Under the Alliance, Air New Zealand, and to a lesser extent Singapore Airlines, would be able to considerably strengthen its online distribution channels by selling tickets to all destinations covered by the Alliance. An added advantage is flights operated by the Alliance would appear higher on the listings of travel booking systems in comparison to services operated under an interline agreement.

210. Tourism New Zealand recently extended its marketing partnership with Air New Zealand by \$20 million. This is intended to allow for a coordinated marketing effort over the next 12 months in key markets in Australia, China, Hong Kong, Japan, North America, the UK and Europe as well as in emerging markets such as India, Indonesia and Latin America. The proposed Alliance would complement this marketing effort, giving Air New Zealand far greater incentives to invest its own resources in these markets.

211. The Tourism Industry Association submitted that the Alliance would act as a stimulant for New Zealand inbound tourism, noting that Singapore is New Zealand's 9th largest inbound market, and a hub for many more visitors that come to New Zealand. The Tourism Industry Association believes that:

*"Having our national carrier flying daily to one of the world's major air transport hubs will help lift New Zealand's profile, as well as our country's accessibility to visitors from the wider Asian region where many of our new Asian markets are located"*

212. Overall, the Ministry accepts that the Alliance would stimulate some additional inbound travel as a result of improved distribution and marketing channels, offering benefits to the tourism industry compared to the status quo.

### **Connectivity with the Association of South East Asian Nations (ASEAN)**

213. A report released by IATA in 2007 describes the economic benefits of the air transport sector, including the benefits of greater access to the global network

(see Figure 33). The report showed that a 10 percent rise in connectivity relative to a country's GDP boosted labour productivity levels by 0.07 percent. The relationship between labour productivity and connectivity is displayed in Figure 34.

Figure 34 – Wider economic benefits of connectivity<sup>27</sup>

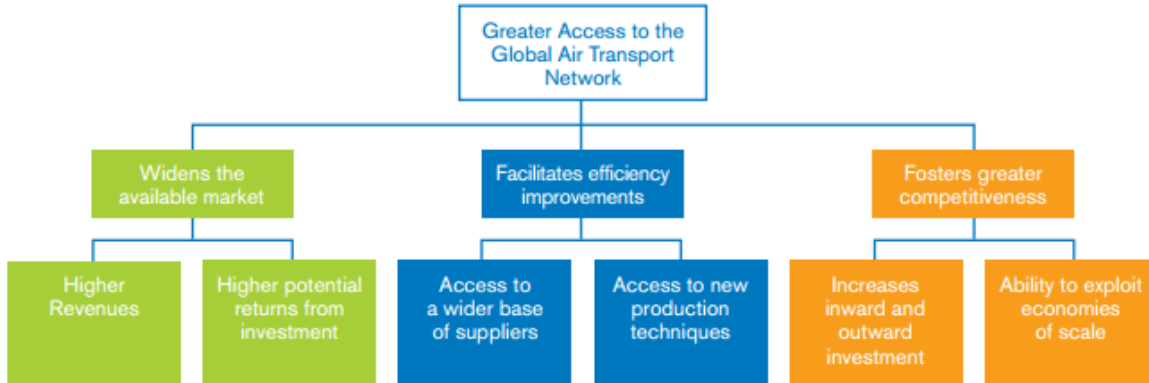
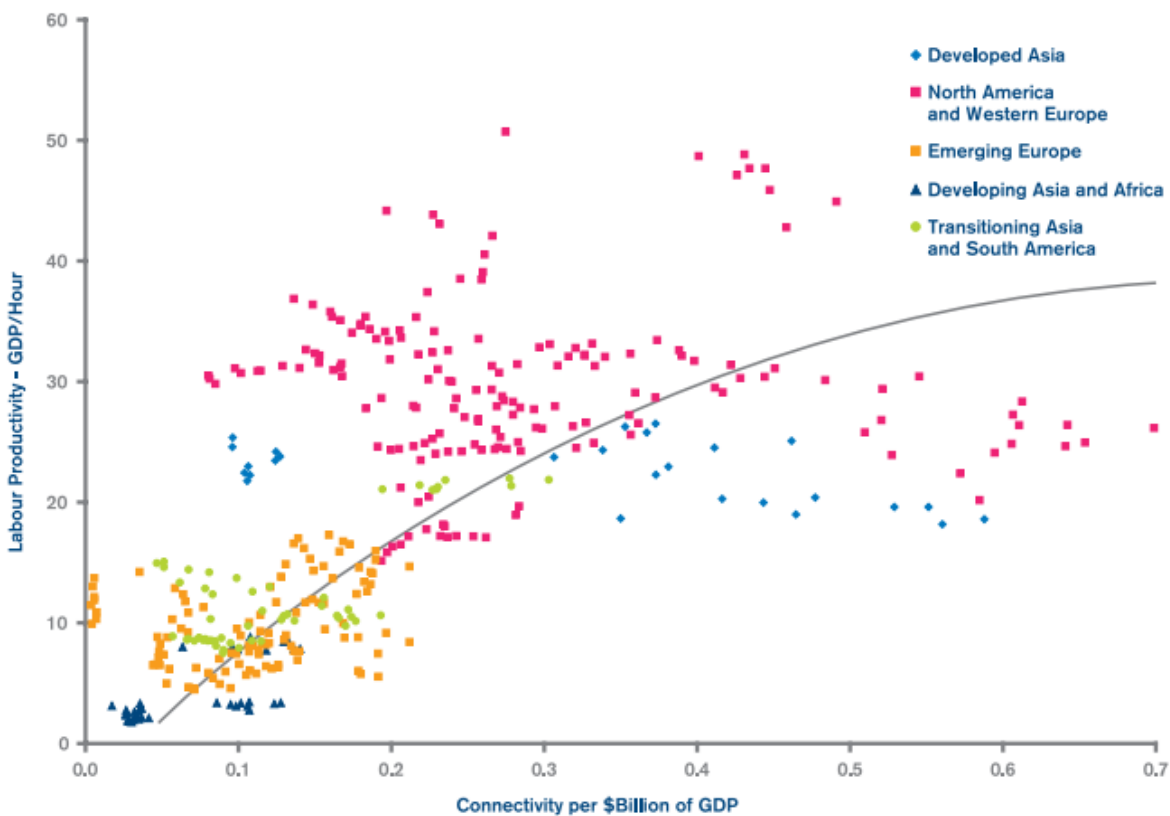


Figure 35 – Connectivity and labour productivity<sup>28</sup>



214. A report<sup>29</sup> produced by Ernst & Young and the SKOLKOVO Institute for Emerging Markets Studies projected that by 2030, two-thirds of the 'global middle class'<sup>30</sup> will be

<sup>27</sup> Aviation economic benefits (2007). International Air Transport Association.

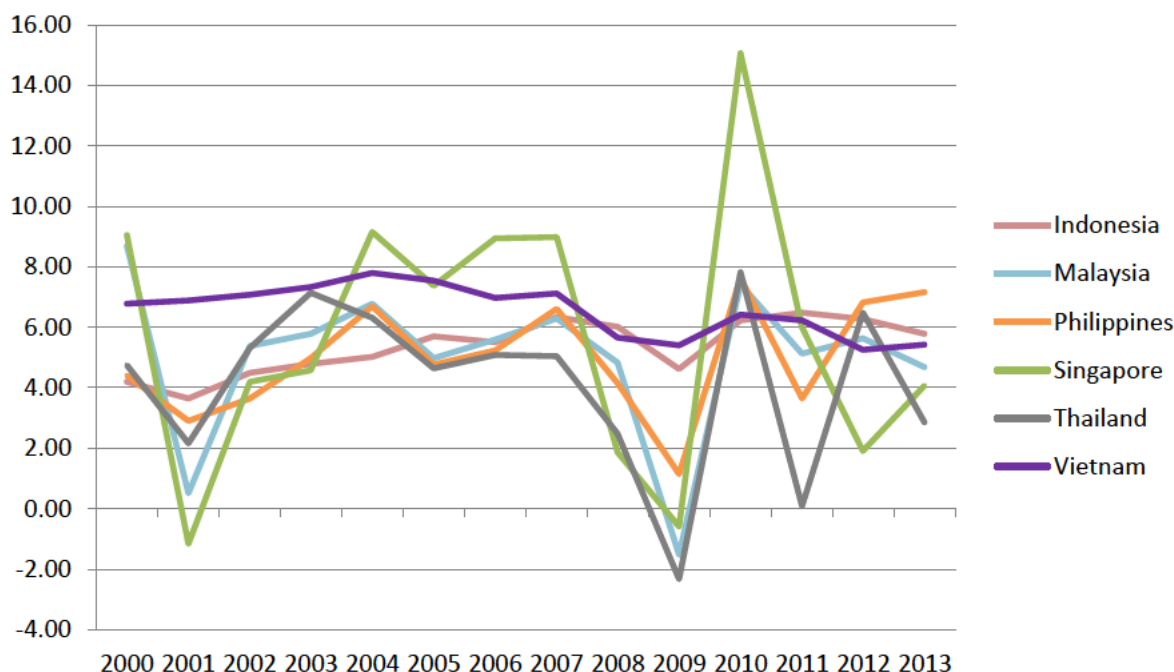
<sup>28</sup> Ibid.

<sup>29</sup> Hitting the sweet spot. The growth of the middle class in emerging markets (2013). Ernst & Young in collaboration with the SKOLKOVO Institute for Emerging Markets Studies.

residents of the Asia-Pacific region. The report identifies Indonesia, the Philippines, Viet Nam and India as countries that are likely to witness rapid economic growth because of the burgeoning middle class in those countries.

215. As Figure 35 illustrates, growth in key South-East Asian markets has been volatile, but strong, in some cases exceeding six percent per annum. The International Monetary Fund forecasts continued growth in South-East Asia (see Table 12).

**Figure 35 – Change in rate of GDP growth in key South-East Asian economies (International Monetary Fund, World Economic Outlook Database)**



**Table 11 – International Monetary Fund forecast rate of real GDP growth (% per annum) in key South-East Asian economies**

Country	2014	2015	2016	2017	2018	2019
<b>Indonesia</b>	5.36	5.80	6.00	6.00	6.00	6.00
<b>Malaysia</b>	5.20	5.00	5.00	5.00	5.00	5.00
<b>Philippines</b>	6.47	6.51	6.21	6.01	6.02	6.02
<b>Singapore</b>	3.63	3.63	3.64	3.61	3.71	3.78
<b>Thailand</b>	2.50	3.78	4.79	4.73	4.50	4.47
<b>Vietnam</b>	5.60	5.70	5.80	5.90	6.00	6.00

<sup>30</sup> People earning between US\$10 and US\$100 per day where their disposable income is sufficient to purchase consumer goods and services.

216. There is a clear economic rationale for New Zealand in targeting increased connectivity to these regions which are forecast to grow rapidly. ASEAN countries<sup>31</sup> together make up New Zealand's fourth largest trading partner and over the past 10 years New Zealand's total trade with ASEAN has grown at 9% per year on average. The ASEAN region accounts for 10% of New Zealand's GDP. Total bilateral trade with ASEAN was \$13.9 billion in 2012 with investment totalling \$8.8 billion into New Zealand and \$4.6 billion out of New Zealand<sup>32</sup>.
217. In July 2013, the Prime Minister launched the NZ Inc ASEAN Strategy<sup>33</sup> which aims to boost investment, trade and economic returns from the region. This Strategy identifies three key goals:
- a. Becoming better connected and more influential in ASEAN countries.
  - b. Becoming better integrated with the ASEAN Community.
  - c. Boosting investment and trade and economic returns from the region.
218. The ASEAN strategy recognises the role of air links in boosting trade and investment. The Alliance would clearly contribute to this strategy by strengthening New Zealand's connectivity with the ASEAN region compared to the status quo.

### **Strengthening Air New Zealand's Commercial Position**

219. As noted in paragraph 12 of this report, the fact that the government owns 53 percent of Air New Zealand has not been a factor in our analysis. However, our analysis does take account of the impact the Alliance would have on Air New Zealand's commercial position, given that it is a large New Zealand based employer, which creates flow-on benefits throughout the New Zealand aviation industry and the economy in general. We also recognise the importance of having a strong national airline. Due to restrictions in our air services agreements with other countries, Air New Zealand is effectively required to operate services that either begin or end in New Zealand (with a small number of exceptions).
220. Air New Zealand is currently performing very well. Its return on equity is in excess of 15 percent, which ranks among the highest of any airline in the world. While the Alliance would be of significant value to Air New Zealand, it is unlikely to be 'vital' to its success as a business in the short-medium term.

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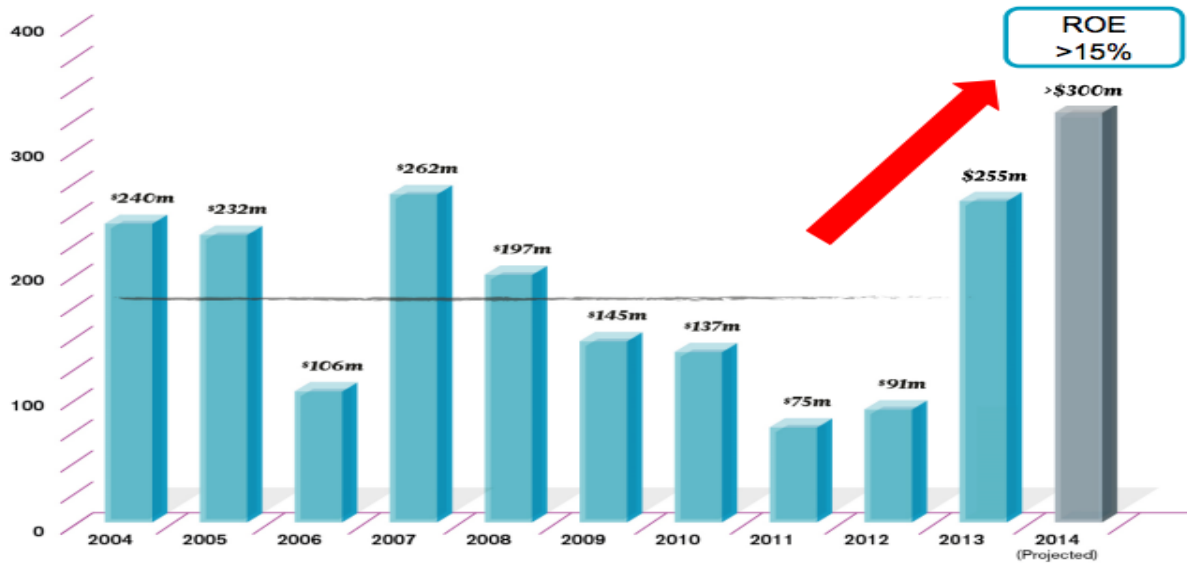
<sup>31</sup> Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam.

<sup>32</sup> Our trade with ASEAN factsheet available from <http://www.mfat.govt.nz/downloads/NZinc/ASEAN-Our-Trade.pdf>.

<sup>33</sup> New Zealand's ASEAN partnership: One pathway to ten nations. (2013). New Zealand Trade and Enterprise & Ministry of Foreign Affairs and Trade.



Figure 36 – Air New Zealand's normalised earnings before taxation, 2004-2014 (source: Air New Zealand)



221. However, Air New Zealand is a small carrier with a small home market, geographically isolated from its major markets. Its long-haul international services in particular are heavily exposed to external shocks, including fluctuations in fuel prices and exchange rates, and political or economic turmoil in the markets it serves. Over the longer term, Air New Zealand remains highly vulnerable. An Alliance with a dominant carrier such as Singapore Airlines might help to insulate Air New Zealand from some of the risks it faces.

## XI. Counterfactual

### Air New Zealand

222. Air New Zealand has informed us that in the event the Alliance is not authorised, it would not operate services into Singapore. [REDACTED]

[REDACTED]

224. [REDACTED]

[REDACTED]

█ [REDACTED] █ [REDACTED] █ [REDACTED]  
█ [REDACTED]

█ [REDACTED]  
█ [REDACTED]

### Singapore Airlines

225. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

### Ministry's assessment

226. The Ministry largely accepts the information provided by both Applicants on the likely outcomes if the Alliance application was declined.

227. [REDACTED] Singapore Airlines [REDACTED]  
[REDACTED] has in the past two years deployed additional seasonal services on the Christchurch-Singapore route. This suggests that there is potential for expansion of Christchurch-Singapore services on a more permanent basis, at least during the peak season.

228. In the absence of the Alliance, we consider that it is conceivable that Singapore Airlines may still deploy an A380 on the Auckland-Singapore route. However, we accept that this would be a much more risky proposition in the absence of an Alliance with Air New Zealand.

229. Without access to the networks of Singapore Airlines and SilkAir, Air New Zealand would need to enter into commercial arrangements with carriers with less of a market presence in India and South East Asia such as Thai Airways [REDACTED]. While these airlines would pose a less attractive prospect for Air New Zealand, New Zealand consumers could experience benefits in the form of expanded or new direct services to specific Asian markets such as Thailand [REDACTED].

230. It should be noted that under the Alliance, Air New Zealand would be deploying a Boeing 777-200ER daily to Singapore, replacing Singapore Airlines' 5 times weekly service. In the counterfactual, Singapore Airlines would continue to operate 19 services weekly to New Zealand, with Air New Zealand able to deploy its aircraft elsewhere. Under the Alliance, travellers would benefit from 2 additional weekly services and the additional seasonal capacity on the A380 between New Zealand and Singapore.

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<sup>34</sup> Air New Zealand currently code-shares on Thai Airways services from Auckland to Bangkok, Hong Kong to Bangkok and connecting services from Bangkok to Phuket.



[REDACTED]

[REDACTED]

[REDACTED]

236. The Covec analysis suggests the counterfactual may provide benefits comparable with the Alliance in the long term. [REDACTED]

## XII. Submissions

237. The Ministry invited comments from the public on the Alliance from 27 January to 21 February 2014. Table 13 provides a summary of the submissions the Ministry received. In addition to these, the Ministry received short supporting letters from South Island stakeholders highlighting the importance of the Christchurch-Singapore service to the region. These stakeholders were Dunedin International Airport, Mid-Canterbury Tourism, Canterbury Employers' Chamber of Commerce, Canterbury Development Corporation, Tourism Dunedin and NZSki.

**Table 12 – Summary of submissions**

Organisation	Benefits	Risks	Conditions
<b>Auckland International Airport</b>	<ul style="list-style-type: none"> <li>Welcomes and supports the benefits outlined by the Applicants</li> </ul>	<ul style="list-style-type: none"> <li>Considers it necessary to ensure that the Minister is satisfied that the Alliance will not have the effect of creating an uncompetitive environment on the Auckland-Singapore route</li> </ul>	<ul style="list-style-type: none"> <li>No comment provided</li> </ul>
<b>Christchurch International Airport</b>	<ul style="list-style-type: none"> <li>Not in the strategic interest of the Alliance to reduce services to Christchurch</li> </ul>	<ul style="list-style-type: none"> <li>Initial concerns around sustainability of Christchurch services</li> </ul>	<ul style="list-style-type: none"> <li>No comment provided</li> </ul>

Organisation	Benefits	Risks	Conditions
<b>Tourism Industry Association</b>	<ul style="list-style-type: none"> <li>▪ Opportunity for sustainable capacity and frequency growth on services between New Zealand and Singapore</li> <li>▪ Should lead to a stimulation of both inbound and outbound traffic and greater availability of competitive airfares</li> </ul>	<ul style="list-style-type: none"> <li>▪ No comment provided</li> </ul>	<ul style="list-style-type: none"> <li>▪ No comment provided</li> </ul>
<b>Tourism New Zealand</b>	<ul style="list-style-type: none"> <li>▪ Link between New Zealand and fast growing markets in Asia</li> </ul>	<ul style="list-style-type: none"> <li>▪ Impact on competition on New Zealand-Singapore route</li> </ul>	<ul style="list-style-type: none"> <li>▪ Capacity conditions on Auckland and Christchurch with force majeure provisions</li> </ul>

238. Broadly, each stakeholder was supportive of the benefits claimed by the Applicants and on that basis, supported authorisation of the Alliance.

239. [REDACTED]

240. [REDACTED]

## Annex I – Statutory analysis

### Statutory Criteria in section 88 of the Civil Aviation Act

1. This section of the report examines the matters that, under Part 9 of the Civil Aviation Act 1990 (the Act), you are required to take into account 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.

#### Section 88(3)

**In considering whether to grant authorisation under subsection (2) of this section, the Minister shall ensure that the granting of such authorisation will not prejudice compliance with any relevant international convention, agreement, or arrangement to which the Government of New Zealand is a party.**

2. The Alliance Agreement covers services under a large number of current and potential future bilateral and multilateral air services agreements.
3. New Zealand and Singapore are both parties to the Multilateral Agreement for the Liberalisation of International Air Transportation (the MALIAT). The MALIAT provides for an open route schedule, open capacity and for third country code-sharing.
4. The Alliance Agreement also envisages code-sharing to a number of other countries. In terms of routes identified by the parties the air services agreement situation is as set out below.

Country	Third country code-sharing permitted	Any route or capacity restrictions for code-share services	Comment
India	No	Yes	Seeking discussions with India to provide for third country code-sharing
Indonesia	Yes	Jakarta, Denpasar and three other points	
Malaysia	Yes	No	
Thailand	Yes	Yes – codesharing counts against marketing carrier	We have sought talks with Thailand but these have been postponed at Thailand's request
Vietnam	Yes	7x per week per city pair	
Philippines	Yes	1 point only	Sufficient to provide for via Singapore

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			services
South Africa	Yes	No	
United Kingdom	Yes	No	
Germany	Yes	No	
France	Restricted	Yes	
Italy	Yes	Rome only	
Netherlands	Yes	No	
Switzerland	Yes	No	
Denmark	Yes	No	
Spain	Yes	Yes	
Russia	Yes	Two points in Russia	
Turkey	Yes	No	
Cambodia	Yes	No	
Brunei	Yes	No	
Sri Lanka	Yes	No	
Myanmar	No	-	No agreement in place. We are hoping that we might meet with Myanmar at ICAN 2014
East Timor	No	-	No agreement in place. We are hoping that we might meet with East Timor at ICAN 2014
Maldives	No	-	No agreement in place
Bangladesh	No	-	No agreement in place
Nepal	No	-	No agreement in place
Saudi Arabia	Yes	Yes	

5. The requirement under the Act for Air New Zealand to be licensed to offer code-share services, and the associated provision precluding licences from being granted where this would be contrary to an agreement, will ensure that the granting of authorisation will not prejudice compliance with the relevant international agreements and arrangements.

**Section 88(4)**

**Subject to subsection (5) of this section, authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that:**

- (a) provides that any party to it may directly or indirectly enforce it through any form of action by way of fines or market pressures against any person, whether or not that person is a party to the contract, arrangement, or understanding**

6. The agreement does not include any provisions that provide for its enforcement through fines. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

9. [REDACTED]

(b) **Has the purpose or effect of breaching the terms of a commission regime issued under section 89 of this Act**

10. Section 89 allows the Minister of Transport to issue, amend or revoke agent commission regimes. There are two commission regimes which remain in place (the Civil Aviation (Passenger Agents' Commission Regime) Notice 1983 and the Civil Aviation (Cargo Agents' Commission Regime) Notice 1983.

11. The Agreements do not have any reference to any commission regime issued under section 90 and do not contain any provisions that have the purpose or effect of breaching the terms of the commission regimes issued under the Act.

12. [REDACTED]

13. As commissions are payable outside of the provisions of the commission regime, this provision does not have the purpose or effect of breaching any commission regime.

(c) **Unjustifiably discriminates between consumers of international air services in the access they have to competitive tariffs**

14. The Alliance Agreement and the Code Share Agreement do not set tariffs themselves, but put in place a process for setting tariffs. The processes set out in the Agreements do not contain any provisions that unjustifiably discriminate between consumers in terms of this subsection.

15. The broader issue of the impact of the Agreements on the tariffs that may be faced by consumers if the Alliance is authorised, is addressed in *Section VII* of this report.

**(d) so far as it relates to tariffs, has the effect of excluding any supplier of international carriage by air from participating in the market to which it relates**

16. The agreement does include a number of provisions that restrict the types of code-share or alliance agreements that the parties can enter into, outside of the Alliance:

[REDACTED]

17. However these provisions relate primarily to the setting of capacity, not to tariffs, and do not prevent any other carrier from entering a market in their own right.

18. [REDACTED]

19. Furthermore the code-share agreement notes that “subject to 7.2 and 7.3 of the Alliance Agreement, this is a non-exclusive Agreement and does not prevent either Party from entering into or maintaining existing marketing arrangements or code-share arrangements with any other airline”.

20. Discussions between Air New Zealand and Singapore Airlines on tariffs do not have the effect of excluding any other carrier from participating in the market. Indeed if there was a situation where such discussions resulted in higher fares, this could have the effect of making it easier for other carriers to compete.

21. So far as tariffs are concerned the agreements do not have the effect of **excluding** a carrier. Interline fares are still available and special prorate agreements are not prohibited.

**(e) Has the purpose or effect of preventing any party from seeking approval, in terms of section 90 of this Act, for the purpose of selling international carriage by air at any other tariff so approved**

22. Section 90 of the Act provides for authorisation of single airline tariffs (as opposed to joint airline tariffs). We have not sought authorisation of such tariffs since 1994 and so section 90 is very rarely used.

23. Furthermore the Multilateral Agreement which governs air services between New Zealand and Singapore states that

Prices for international air transportation operated pursuant to this Agreement shall not be subject to the approval of any Party, nor may they be required to be filed with any party, provided that a Party may require that they be filed for informational purposes for so long as the laws of that Party continue to so require.

24. The agreement also explicitly provides (clause 12.2) that:

Both parties are free to independently seek approval, in terms of Section 90 of the Civil Aviation Act 1990 (New Zealand) or any other aviation act, regulation or statute of any country, for the purpose of selling international carriage by air at any other tariff so approved.

25. Therefore, although the Agreement contains a number of provisions setting out the airlines' intention to price jointly and the way they will go about it (Recital C, clause 4.1(a)(i), 4.5, schedule 4) the Agreement 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.

26. The potential market effects of joint pricing are discussed elsewhere in this report.

**(f) Prevents any party from withdrawing without penalty on reasonable notice from the contract, arrangement, or understanding**

27. No penalty is payable when a party withdraws from the Agreement. Further, section 9.4(d) of the Alliance Agreement states that:

[REDACTED]

28. The Alliance Agreement provides for an initial 5-year term (Clause 9.1).

29. Following the initial period either party may terminate the agreement by giving twelve months notice in writing (termination to have effect on the last day of the next IATA season

following 12 months notice). The Code Share Agreement also provides for termination with 12 months notice (clause 24.1)

30. All implementing agreements shall cease upon the termination of the Agreement.
31. While simple code-share arrangements often provide for relatively short notice periods (sometimes as short as a schedule period), alliance arrangements often envisage and require a greater degree of commitment by the parties. Where the parties rearrange schedules and give up slots and other facilities at airports (as is the case here), withdrawal by one party could cause considerable disruption to the other party. Therefore, longer notice periods may be appropriate.

32. [REDACTED]  
[REDACTED] The Ministry has previously concluded that in some circumstances a period of 5 years is acceptable for more significant alliance or code-share agreements, notably the Air New Zealand/Virgin Australia Australasian Airline Alliance and the Qantas/Emirates Master Coordination Agreement.

33. The Alliance Agreement (section 9.2(c)) and the Code Share Agreement (section 24.2) also provide that the parties can terminate early in certain circumstances including insolvency of one of the parties, change of control of one of the parties, or breach of safety obligations.

34. The Agreements do not contain any provisions that prevent any party from withdrawing without penalty on reasonable notice from the contract, arrangement, or understanding.

*Conclusion on section 88(4)*

35. There are no provisions in the Alliance Agreement or the Code Share Agreement that fall within any of the prohibitions in s88(4) of the Act.

**Section 88(5):**

**Notwithstanding the provisions of subsection (4) of this section, the Minister may authorise any provision of any contract, arrangement, or understanding under this section if the Minister believes that to decline authorisation would have an undesirable effect on international comity between New Zealand and any other State.**

36. [This provision only becomes relevant if, contrary to the advice set out above, you determine that provisions in the Agreements fall foul of one of the criteria in section 88(4) of the Act.]

37. Comity is not defined in the Act and the Act is the only instance of the use of the term in New Zealand legislation.
38. “Comity” is defined in the Shorter Oxford (in the form of “comity of nations”) as being “the courteous and friendly understanding by which each nation respects the laws and usages of every other, so far as may be without prejudice to its own rights and interests”. In very similar vein is Chambers: “The international courtesy between nations in which recognition is accorded to the laws and customs of each state by others”. Legal dictionaries focus more on the aspect of courts taking due notice of foreign laws and judgments. Comity is not part of international law but is regarded as important for public policy reasons.
39. Most international code-share arrangements will require approval in at least two jurisdictions, each with their own legislation or processes. Therefore we consider that this provision should not be interpreted to mean that New Zealand must always accept and adopt the findings of the other regulator.
40. The two regulators will be applying different legislation. The impacts of a proposed alliance may also be different in the two countries. The Competition Commission of Singapore looked at the arrangements from the point of view of the Singapore economy. One of its considerations was enhancing the role of Singapore as a hub. On the other hand, we have looked at whether the arrangements are in the New Zealand public interest. We do not consider that reaching a decision that differs from that of the Competition Commission of Singapore would have an undesirable effect on international comity between New Zealand and Singapore.

**Clause-by-clause analysis of the Agreements against section 88 (2) of the Act**

Strategic Alliance Agreement		
R	[REDACTED]	Structural
1	[REDACTED]	Machinery
2	[REDACTED]	Machinery
3.1	[REDACTED]	Machinery. [REDACTED] therefore relates indirectly to tariffs and capacity
3.2	[REDACTED]	Machinery. [REDACTED] therefore relates indirectly to tariffs and capacity
3.3	[REDACTED]	Machinery. [REDACTED] – therefore indirectly relates to the fixing of tariffs and capacity
4.1	[REDACTED]	Machinery. [REDACTED]

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		██████████ therefore relates indirectly to tariffs and capacity ██████████
4.2	██████████	Machinery. ██████████ therefore relates indirectly to tariffs and capacity
4.3	██████████	Machinery. Relates directly or indirectly to the fixing or application of tariffs
4.4	██████████	Relates directly to the fixing of capacity
4.5	██████████ ██████████ ██████████	Relates directly and indirectly to the fixing of tariffs
4.6	██████████ ██████████	Machinery. ██████████ – relates indirectly to the fixing of capacity
4.7	██████████	Machinery. Relates directly to the fixing of tariffs
4.8	██████████	Machinery – ██████████ therefore indirectly related to capacity
4.9	██████████	██████████ ██████████ ██████████
4.10	██████████	Machinery – relates indirectly to the fixing of tariffs and capacity
4.11	██████████ ██████████	Machinery. Relates to fixing of tariffs ██████████
5.1	██████████	Machinery
5.2	██████████	Partly machinery – ██████████ ██████████
5.3	██████████	Partly machinery – ██████████ ██████████
6.1	██████████	Machinery – necessary for the implementation of the arrangement
6.2	██████████	Machinery (not related to tariffs or capacity)
6.3	██████████	Boilerplate
6.4	██████████	Machinery (not related to tariffs or capacity)
6.5	██████████ ██████████	Machinery (not related to tariffs and capacity)
6.6	██████████	Machinery
6.7	██████████	Machinery
7	██████████	Machinery. ██████████ ██████████ – therefore indirectly relates to the fixing of tariffs and capacity
8.1	██████████	Machinery – ██████████ indirectly relates to the fixing of tariffs and capacity

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8.2	[REDACTED]	Machinery – [REDACTED] [REDACTED] – indirectly relates to the fixing of tariffs and capacity
8.3	[REDACTED]	Machinery
9.1	[REDACTED]	Machinery
9.2	[REDACTED]	Machinery
9.3	[REDACTED] [REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED] indirectly relates to the fixing of tariffs and capacity
9.4	[REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED] indirectly relates to the fixing of tariffs and capacity
9.5	[REDACTED] [REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED] indirectly relates to the fixing of tariffs and capacity
9.6	[REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED] indirectly relates to the fixing of tariffs and capacity
10	[REDACTED]	Boilerplate
11	[REDACTED] [REDACTED]	Part machinery, part boilerplate
12	[REDACTED]	Machinery – [REDACTED] relates directly to tariffs.
13	[REDACTED] [REDACTED]	Machinery [REDACTED] (not related to tariffs and capacity)
14	[REDACTED]	Machinery – necessary for the operation of other provisions relating to tariffs and capacity
15	[REDACTED]	Boilerplate
16	[REDACTED]	Boilerplate
17	[REDACTED]	Boilerplate
18	[REDACTED]	Boilerplate
19	[REDACTED]	Boilerplate
20	[REDACTED]	Boilerplate
21	[REDACTED]	Boilerplate
22	[REDACTED]	Boilerplate
23	[REDACTED]	Boilerplate
24	[REDACTED]	Boilerplate
25	[REDACTED]	Boilerplate
26	[REDACTED]	Boilerplate
27	[REDACTED]	Boilerplate
28	[REDACTED]	Boilerplate
29	[REDACTED]	Boilerplate
S 1	[REDACTED]	Machinery
S 2	[REDACTED] [REDACTED] [REDACTED]	Machinery

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S 3	[REDACTED]	Machinery. Relates to the fixing and application of tariffs
S 4	[REDACTED]	Machinery. [REDACTED]
S 5	[REDACTED]	Machinery.

Code Share Agreement		
Introduction		Structural
1	[REDACTED]	Machinery
2	[REDACTED]	All provisions either relate directly or indirectly to the fixing of tariffs or capacity, or are machinery provisions necessary for the operation of other provisions relating to tariffs and capacity
2	[REDACTED]	Machinery. Relates indirectly to the fixing of tariffs and capacity
3	[REDACTED]	Machinery. [REDACTED]
4	[REDACTED]	Relates indirectly to the fixing of capacity
5	[REDACTED]	Relates indirectly to the fixing of capacity
6	[REDACTED]	Relates indirectly to the fixing and application of tariffs
7	[REDACTED]	Machinery. Relates to the fixing of tariffs and capacity
8	[REDACTED]	Machinery
9	[REDACTED]	Machinery – [REDACTED]
10	[REDACTED]	Relates indirectly to the fixing of capacity
11	[REDACTED]	Relates indirectly to the fixing of capacity
12	[REDACTED]	Machinery – [REDACTED]
13	[REDACTED]	Relates indirectly to the fixing of capacity
14	[REDACTED]	Machinery – [REDACTED]
15	[REDACTED]	Machinery – [REDACTED]
16	[REDACTED]	Machinery – [REDACTED]
17	[REDACTED]	Boilerplate
18	[REDACTED]	Boilerplate
19	[REDACTED]	Boilerplate
20	[REDACTED]	Boilerplate
21	[REDACTED]	Boilerplate
22	[REDACTED]	Boilerplate
23	[REDACTED]	



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24	[REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED] – indirectly relates to the fixing of tariffs and capacity
25	[REDACTED]	Boilerplate
26	[REDACTED]	Machinery. [REDACTED] [REDACTED] [REDACTED] therefore indirectly relates to the fixing of tariffs and capacity
27	[REDACTED]	Boilerplate
28	[REDACTED]	Boilerplate
29	[REDACTED]	Boilerplate
30	[REDACTED]	Boilerplate
31	[REDACTED]	Boilerplate
32	[REDACTED]	
33	[REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED]
34	[REDACTED]	Structural/boilerplate
Appendix A	[REDACTED]	Relates directly to the fixing of capacity
Appendix B	[REDACTED]	Machinery – [REDACTED] [REDACTED]
Appendix C	[REDACTED]	Relates indirectly to the fixing of capacity
Appendix D	[REDACTED]	Machinery – [REDACTED] [REDACTED] [REDACTED]
Appendix E	[REDACTED]	Relates indirectly to the fixing of tariffs and capacity
Appendix F	[REDACTED]	Machinery – [REDACTED] [REDACTED]
Appendix G:	[REDACTED]	Machinery – [REDACTED] [REDACTED]

Key

Structural: Document framework. Not related to tariffs and/or capacity.

Machinery: Makes *this* agreement work. May be:

- directly related to tariffs and/or capacity
- indirectly related to tariffs and/or capacity
- not related to tariffs and/or capacity.

Boilerplate: Standard provisions of a general nature not peculiar to *this* agreement. Not related to tariffs and/or capacity.

## Annex II – Air Services rights available to the Alliance

Air services rights for the Alliance.

Jurisdictions behind/beyond and Singapore	Destinations	ASA rights for New Zealand Airlines	
		Own-aircraft	Code-share
<b><i>Destinations served by Singapore Airlines</i></b>			
Singapore	Singapore	✓	✓
United Kingdom	London (including on Air NZ operated service via Los Angeles)	✓	✓
Germany	Munich, Frankfurt	✓	✓
India	Calcutta, Vishakhapatnam, Madras, Trivandrum, Coimbatore, Bangalore, Cochin, Hyderabad, Bombay, Ahmedabad, Delhi	7 services per week	X
Indonesia	Jakarta, Denpasar, Balikpapan, Bandung, Kuala, Lombok, Namu, Medan, Manado, Pekanbaru, Palembang, Praya, Semarang, Solo City, Surabaya, Ujung Pandang	14 services per week on aircraft with 400 seat maximum	✓
Malaysia	Kuala Lumpur, Kota Kinabalu, Penang, Kuching, Langkawi	✓	✓
Thailand	Bangkok, Phuket, Ko Samui, Chiang Mai	✓	Third country code-sharing allowed but capacity is counted against marketing airline
Viet Nam	Ho Chi Minh City, Danang, Hanoi	14 services per week for 3rd and 4th freedom services	✓
Philippines	Manila, Cebu, Davao	✓	✓
South Africa	Johannesburg, Capetown	14 services per week for up to and including 5th freedom services	Third country code-sharing allowed without limitation
France	Paris	X	X
Italy	Milan, Rome	3 services per week for 3rd and 4th freedom services	X
Netherlands	Amsterdam	X	✓
Switzerland	Zurich	✓	✓
Spain	Barcelona	X	Third country code-sharing allowed but with no fifth freedom rights
Denmark	Copenhagen	✓	✓
Russia	Moscow	7 services per week on each of three selected route schedules	✓
Turkey	Istanbul	X	✓

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Jurisdictions behind/beyond and Singapore	Destinations	ASA rights for New Zealand Airlines	
		Own-aircraft	Code-share
Cambodia	Phnom Penh, Siem Reap	✓	✓
Brunei	Brunei	✓	✓
Sri Lanka	Colombo	✓	✓
Saudi Arabia	Riyadh	✓	✓
Myanmar	Yangon	No ASA in place	
Timor Leste	Dili	No ASA in place	
Maldives	Male	No ASA in place	
Bangladesh	Dhaka	No ASA in place	
Nepal	Kathmandu	No ASA in place	

Jurisdictions behind/beyond New Zealand	Destinations	ASA rights for Airlines from Singapore <sup>35</sup>	
		Own-aircraft	Code-share
<b><i>Destinations served by Air NZ</i></b>			
New Zealand	Auckland, Christchurch Domestic connections: Dunedin, New Plymouth, Palmerston North, Wellington, Queenstown, Napier, Nelson, Whangarei, Kaitaia, Kerikeri, Gisborne, Tauranga, Taupo, Wanganui, Whakatane, Rotorua, Blenheim, Masterton, Paraparaumu, Hamilton, Hokitika, Invercargill, Timaru, Westport	✓	✓
Fiji	Nadi	✓	?
Tonga	Nuku'alofa	✓	✓
Niue	Niue	?	?
French Polynesia	Papeete	?	?
New Caledonia	Noumea	?	?
Samoa	Apia	✓	✓
Cook Islands	Rarotonga	✓	✓
Vanuatu	Port Vila	?	?
Norfolk Island	Norfolk Island	✓	✓
Australia	Perth, Sydney, Melbourne, Adelaide, Brisbane, Gold Coast, Sunshine Coast, Cairns	✓	✓

<sup>35</sup> In some cases, the details of Singapore's relevant air services arrangements are not available and we are unable to confirm if the air traffic rights are available for airlines based in Singapore to operate or code-share to the destinations covered by the proposed Alliance.

## Annex III – Air services rights allowing third country airlines to operate between New Zealand and Singapore

Countries with whom New Zealand has exchanged the rights for carriers to operate own-aircraft services between New Zealand and Singapore exercising either 5<sup>th</sup> freedom<sup>36</sup> or 7<sup>th</sup> freedom<sup>37</sup> traffic rights. This list is subject to the necessary rights being available in Singapore’s air services arrangements.

<u>Open rights</u>		<u>Restricted rights</u>
Australia (7 <sup>th</sup> )	Macau	Ethiopia (7 services per week)
Austria	Malaysia (7 <sup>th</sup> )	Indonesia (7 services per week)
Brazil	Paraguay (7 <sup>th</sup> )	
Brunei (7 <sup>th</sup> )	Qatar (7 <sup>th</sup> )	Japan (7 services per week)
Canada	Samoa	Korea (11 services per week)
Chile (7 <sup>th</sup> )	Saudi Arabia	Philippines (5 services per week)
China	Sri Lanka	South Africa (14 services per week)
Cook Islands	Switzerland	Russia (7 services per week)
Denmark/Norway/ Sweden	Taiwan	Thailand (21 services per week)
Finland (7 <sup>th</sup> )	Togo (7 <sup>th</sup> )	
Germany	Tonga	
Iceland (7 <sup>th</sup> )	United Arab Emirates (7 <sup>th</sup> )	<u>Rights to code-share only</u>
Jamaica	United Kingdom (7 <sup>h</sup> )	Mongolia
Kuwait	United States of America	Turkey
Luxembourg	Uruguay	
	Zambia	

<sup>36</sup> Operating between New Zealand and Singapore as part of an itinerary that includes a point in the territory of the country designating the airline

<sup>37</sup> Operating an itinerary which begins in Singapore and ends in New Zealand or vice versa.