



**Australian Government**

**Department of Infrastructure, Transport,  
Regional Development and Local Government**

Mr Darrell Channing  
Director  
Adjudication Branch  
Australian Competition and Consumer Commission  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Channing

**Air New Zealand & Air Canada Applications for Authorisation A91097 & A91098**

Thank you for the letters to Mr Stephen Borthwick and Mr Scott Stone of this Department, dated 19 August 2008, inviting a submission on the proposed Cooperation Agreement between Air New Zealand and Air Canada.

The Department recognises that it is a matter for the Commission to determine the relative merits of arguments presented by the applicants on the public benefits and anti-competitive effects of the proposed Cooperation Agreement.

To assist the Commission in coming to a determination, the Department is pleased to provide the following information in response to the letter requesting our submission. The Department notes that issues concerning the proposed arrangements as they apply to Auckland-Vancouver services are a matter for New Zealand Government authorities.

*Aviation Market*

The Australia-Canada market is Australia's 13th largest aviation market. In the year ending May 2008, there were over 447,000 total passenger movements between the two countries which is a growth of 7.1 per cent on the previous year. The average annual growth rate for the 5 years 2002-2007 was 5.8 per cent. Qantas, Air Canada and Air New Zealand are the major carriers of passenger traffic between Australia and Canada.

Air Canada is currently the only carrier to a direct daily non-stop Australia-Canada service from Sydney to Vancouver. Qantas provides daily services to Los Angeles from Sydney, Melbourne and Brisbane with connections to Vancouver and a range of Canadian destinations under code share arrangements with American Airlines and Alaska Airlines. In addition, Qantas operates services to San Francisco with connections to Canadian ports.

A number of other airlines provide 'sixth freedom' services via their home countries including United Airlines (via Los Angeles and San Francisco), Air New Zealand (via Auckland), Cathay Pacific (via Hong Kong), Singapore Airlines (via Singapore) and Air Pacific (via Fiji).

Star Alliance members Air Canada, Air New Zealand, United Airlines and US Airways already provide a range of code share services in the trans-Pacific and trans-Tasman market.

### *Air Services Arrangements*

Australia's bilateral air services arrangements between Australia and Canada provide that airlines designated by either country may enter into cooperative arrangements for the purpose of code sharing with any airline of Australia, Canada or any third country. Australia's air services arrangements with New Zealand also allow the airlines of each party to enter into code share agreements with any other airline.

Capacity entitlements under the Australia-Canada air services arrangements, currently 3, 000seats each way each week for each side, are well in excess of current services with Air Canada using only 1890 seats of Canada's entitlement and Australia's entitlement unused.

Any Australian airline, such as V Australia, can commence services between at any time within existing capacity entitlements and subject to necessary regulatory approvals. Similarly, any Canadian airline could also commence services.

### *Industry Trends & Policy Settings*

The Cooperation Agreement proposed by Air Canada and Air New Zealand is consistent with current trends within the airline industry towards cost-saving consolidation strategies as a means of remaining competitive. Code sharing, alliances and even takeovers and mergers are a number of strategies that airlines are exploring in the face of pressures such as increased fuel prices, global economic uncertainty and increased competition from other carriers.

Australian Government policy is to ensure that the level of aviation services is determined by market forces, not government regulations or restrictions. Government policy is for bilateral negotiations to be conducted to obtain the most liberal arrangements possible, including 'open skies' arrangements, in the national interest.

In conducting bilateral negotiations, one of the few competitive rights Australia does have is access to the trans-Pacific route between Australia and North America. The Department notes that a perceived lack of competition on the trans-Pacific route between Australia and the United States has attracted public and industry criticism in the past and claims of uncompetitive airfares. Australia has traded fifth freedom intermediate and beyond rights to the United States with countries such as Germany, France, India, Switzerland, Fiji, Taiwan, Macau, Finland and New Zealand. Australia has also traded fifth freedom rights to Canada with countries such as the United Kingdom. It is a commercial decision for airlines in which markets to operate services.

Australia concluded 'open skies' arrangements with the United States in February this year which has removed restrictions on service frequencies and routes and fosters increased competition from Australian and United States carriers. V Australia is due to commence services to the United States in December 2008.

Australia intends to enter discussions with Canada in the near future towards negotiations on existing air services arrangements.

If you wish to discuss this matter further please contact Mr Samuel Lucas on 02 6274 6532.

Yours sincerely



Ian Lumsden  
A/g General Manager  
Aviation Industry Policy  
3 /09/2008