Australian Competition & Consumer Commission

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<tr><th colspan="4">FILE NOTE</th></tr>
<tr><td>Matter name:</td><td colspan="3">Air New Zealand Limited & Air Canada - Authorisations - A91097 & A91098</td></tr>
<tr><td>ACCC parties:</td><td colspan="3">Richard Chadwick (RC), Darrell Channing (DC), Clare McGinness (CM)</td></tr>
<tr><td rowspan="3">Applicants:</td><td>Freehills:</td><td colspan="2">Michael Gray (MG), Patrick Gay (PG)</td></tr>
<tr><td>Air New Zealand:</td><td colspan="2">John Harrison (JH)</td></tr>
<tr><td>Air Canada:</td><td colspan="2">Jeannie Foster (JF), Cynthia Joy (CJ)</td></tr>
<tr><td>Date:</td><td>9 January 2009</td><td>Time:</td><td>2:30pm – 3:40pm</td></tr>
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Anti-competitive detriment

The Applicants consider there will sufficient competition between their direct flights and indirect flights offered by existing competitors and new entrants. The Applicants noted the abundance of airlines traveling from Australia/New Zealand to North America and the recent entrance of more competitors on the route. Specifically, the Applicants noted the recent entry of V Australia (in February 2009) and Delta (in July 2009) which will provide consumers with other options for flights from Sydney to Vancouver/Canada via Los Angeles or other hubs such as Salt Lake City.

The Applicants stated there has been a large increase in the number of seats on flights from Australia to the United States since the draft determination was released, making the Sydney to Vancouver/Canada route even more competitive.

It was also noted that the Applicants believe Air New Zealand to be of a similar size in terms of market share to United Airways on the Australia to Canada route. Thus they believe it is misleading to classify Air New Zealand as one of the top three players alongside Air Canada and Qantas.

The agreement in practice

The Applicants discussed how the Cooperation Agreement is intended to work in practice, if implemented. They emphasized the importance of the sales incentives provided to airline sales people to the success of the agreement and sale of the direct services. It was also noted that the direct services would be promoted through Air New Zealand's advertising and price promotions, whereas today they are not.

The Applicants advised that under the Cooperation Agreement sales people of both airlines will have incentives to sell both direct and indirect services. For example, Air New Zealand sales staff will have an incentive to sell the Air Canada direct service in addition to the Air New Zealand indirect service.

CJ noted that past experience has proven that agreements such as this one are very successful in generating passenger traffic. The Applicants believe the Cooperation Agreement will generate additional demand per flight, as opposed to taking customers from the Air New Zealand indirect services onto the Air Canada direct services. It was reinforced that both airlines will be benefiting from the agreement.

JH noted Air New Zealand's objective with all services, including the Vancouver service, is to fly daily. The Cooperation Agreement would likely enable an increase of direct service frequencies from the current three a week.

Air Canada's utilization of Air New Zealand's Australian marketing force

Further to their submission, the Applicants explained how they believe the Cooperation Agreement will help Air Canada in terms of it utilizing Air New Zealand's marketing presence in Australia to promote the direct Sydney to Vancouver flight.

The Applicants stated that Air New Zealand has a sales force of 18 people in Australia, primarily involved in the trans-Tasman market but also with involvement in the North American market. It was explained that combining Air Canada and Air New Zealand incentive agreements for Vancouver would increase the priority that agents give to the carriers compared to Qantas due to the larger total revenue at stake. The Applicants noted the existing difficulties in trying to get travel agents to promote Air Canada or Air New Zealand's services over Qantas's services due to the market presence of Qantas in Australia and incentives faced by travel agents. Air Canada will also benefit from Air New Zealand advertising the direct services in Air New Zealand advertising and promotional materials.

The Revenue Share Arrangements

The Applicants articulated further to their application how the revenue share arrangements are to work under the Cooperation Agreement. They reinforced the fact that revenue will be shared based on what each carrier sold as opposed to what each carrier carried.

The Applicants agreed that a large proportion of their sales on these routes still come about through travel agents. It was expressed that private sales (direct to the airlines, not using a travel agent) will still be influenced by the agreement through advertising and price promotions.

[Exclusion of material from Public Register]