

14 July 2011

Darrell Channing
Director, Adjudication Branch
Australian Competition & Consumer Commission
GPO Box 3131
Canberra ACT 2601
AUSTRALIA

Dear Sir

Thank you for your letter of 24 June inviting Air New Zealand Limited (*Air NZ*) to comment on the application for authorisation made by Virgin Australia Group and Singapore Airlines to the Australian Competition and Consumer Commission (ACCC).

The application asks ACCC to authorise a proposed alliance between the Virgin Australia Group and Singapore Airlines, which includes an Alliance Framework Agreement and associated:

- Codeshare Agreements;
- Special Prorate Agreement;
- Frequent Flyer and Lounge Agreement; and
- Reciprocal Staff Duty Travel Agreement,

(collectively the *Proposed Alliance*)

Air NZ notes that for the purposes of disclosure, that it:

- holds an equity interest in Virgin Australia of 14.99% of the issued share capital, and is currently in the process of implementing an approved alliance with Virgin Australia in the Tasman market; and
- is party to a codeshare arrangement with Singapore Airlines.

As the ACCC is aware, a recent trend in the airline industry has been towards consolidation to drive efficiencies and growth in the face of steeply rising costs. Due in the main to foreign ownership restrictions, these consolidations frequently take the form of alliances, which when structured correctly improve the overall service offerings and enhance competition, bringing benefit to the travelling public.

Air NZ believes that, particularly in the current economic climate, international alliances which demonstrate significant and tangible public benefits should be supported and accepted by the ACCC and anti-trust regulators worldwide. Air services are particularly important in providing access to global trade and tourism markets for island nations like Australia and New Zealand.

If approved by the ACCC, Air NZ believes that the Proposed Alliance will:

- enable Virgin Australia and Singapore Airlines to offer an international and domestic Australian network that is comparable to that of its closest competitor (the Qantas/Jetstar

Group), particularly enabling it to more effectively compete in the corporate/government sector of the Australian air services market; and

- give rise to a number of significant public benefits across the Australian economy and tourism industry (both in terms of the corporate market and tourism generally).

Accordingly, Air NZ supports the Proposed Alliance and the granting of the necessary authorisations by the ACCC to enable the Proposed Alliance to proceed.

More effective competition in the Corporate/Government sector

At present, only Qantas/Jetstar is able to offer the travelling public a comprehensive Australian network combined with an extensive international network (including through Qantas' alliance with British Airways on its services to Europe, and additionally through other members of the oneworld alliance).

In comparison, while Virgin Australia has an extensive Australian network, it lacks sufficient international connections to and from Asia, a region of prime importance to Australia's future prosperity. As a result, Virgin Australia cannot effectively compete with the Qantas/Jetstar Group.

In Air NZ's opinion, in order for Virgin Australia to be able to develop the Australian corporate market, it must develop a comprehensive international network to complement its domestic operations. History has shown that unless a challenging Australian airline has comprehensive international routes, corporate travellers are in essence constrained in choice to flying only with the dominant carrier for domestic as well as international travel.

In the past, Air NZ faced that same issue via its investment in Ansett Australia. While at that time Ansett Australia held a significant share of the domestic Australian market, its international network was not comparable to that of Qantas. Ansett's experience in that situation was that as the Australian corporate traveller required access to international travel and associated frequent traveller benefits (such as lounge access and the ability to 'earn and burn' frequent flyer miles), Ansett's inferior international network caused significant difficulty for it in being able to grow, and effectively compete in, the corporate/government travel market.

If approved by the ACCC, the proposed alliance would result in Virgin Australia achieving network coverage to and from Asia. When combined with Virgin Australia's existing authorised alliances with Etihad, Air New Zealand and Delta, the Proposed Alliance would result in Virgin Australia achieving full international network coverage, enabling it to effectively compete against Qantas' dominant market position in the corporate/government market.

Tourism benefits

The Proposed Alliance would also boost tourism to and within Australia as a result of the traffic feed from Singapore Airlines global network into Australia, creating an incentive for the participants to market and promote Australia as a tourism destination.

In addition to the likely new direct services and frequencies that the Proposed Alliance would bring between Australia and Asia, with Singapore Airlines' daily flights to New Zealand, and Virgin Australia's coverage of the Tasman, the Proposed Alliance would also assist to promote Australia and New Zealand as a dual destination. This would further assist in the growth of the Tasman market.

No substantial lessening of competition

In Air NZ's opinion, significant and robust competition exists in the air travel market between Australia and Asia. As Virgin Australia has noted in its submission, there are a large number of

prominent carriers currently operating daily routes between Australia and Asia (including Qantas/Jetstar, Thai, Cathy Pacific, Malaysia Airlines and Air Asia X), and Air NZ considers it likely that a number of other carriers (particularly from China and India) are likely to introduce services and/or increase their Australian market presence in the near future. As a result, Air NZ doubts that the applicants would have any ability to exercise any market power through raising fares or reducing/withholding capacity.

Accordingly, Air NZ does not believe that the ACCC's approval of the Proposed Alliance would result in a substantial lessening of competition on Australian – Singapore/Asian routes, or would present a barrier to entry or expansion.

Conclusion

In conclusion, Air NZ believes that the Proposed Alliance:

- will provide tangible public benefits as it will promote increased competition for international travel between Australia and Asia; and
- will not negatively impact competition on Australia-Asia services.

Thank you for the opportunity to comment.



Paul Wilkins
Legal Counsel
Air New Zealand Limited

