Form A

Commonwealth of Australia

Competition and Consumer Act 2010 — subsections 88 (1A) and (1)

EXCLUSIONARY PROVISIONS AND ASSOCIATED CARTEL PROVISIONS: APPLICATION FOR AUTHORISATION

To the Australian Competition and Consumer Commission:
Application is hereby made under subsection(s) 88 (1A)/88 (1) of the *Competition and Consumer Act 2010* for an authorisation:

- to make a contract or arrangement, or arrive at an understanding, a provision of which would be, or might be, a cartel provision within the meaning of Division 1 of Part IV of that Act and which would also be, or might also be, an exclusionary provision within the meaning of section 45 of that Act.

- to give effect to a provision of a contract, arrangement or understanding that is, or may be, a cartel provision within the meaning of Division 1 of Part IV of that Act and which is also, or may also be, an exclusionary provision within the meaning of section 45 of that Act.

- to make a contract or arrangement, or arrive at an understanding, where a provision of the proposed contract, arrangement or understanding would be, or might be, an exclusionary provision within the meaning of section 45 of that Act.

- to give effect to a provision of a contract, arrangement or understanding where the provision is, or may be, an exclusionary provision within the meaning of section 45 of that Act.

  (Strike out whichever is not applicable)

PLEASE FOLLOW DIRECTIONS ON BACK OF THIS FORM

1. Applicant

(a) Name of Applicant:
(Refer to direction 2)

A91362

Virgin Australia Airlines Pty Ltd (ABN 36 090 670 965);
Virgin Australia Airlines (NZ) Ltd (ABN 26 313 149 900);
Virgin Australia Airlines (SE Asia) Pty Ltd (ABN 79 097 892 389); and
Virgin Australia International Airlines Pty Ltd (ABN 63 125 580 823)
(together **Virgin Australia**) and

Air New Zealand Limited (ABN 70 000 3112 685) (**Air New Zealand**).

This application is to be read and determined together with the application in Form B (together the **Application**) and the submission supporting the Application (the **Submission**), which are lodged with this form.

(b) Description of business carried on by applicant:
(Refer to direction 3)

The provision of domestic and international air transportation services.

For more detail please refer to Annexure B and Annexure C of the Submission.

(c) Address in Australia for service of documents on the applicant:

Gilbert + Tobin
Level 37, 2 Park Street
SYDNEY NSW 2000

Attention:	Luke Woodward Tel: 02 9236 4014 Fax: 02 9263 4111 lwoodward@gtlaw.com.au	and	Rebecca Dollisson Tel: 02 9263 4349 Fax: 02 9263 4111 rdollisson@gtlaw.com.au

2. Contract, arrangement or understanding

(a) Description of the contract, arrangement or understanding, whether proposed or actual, for which authorisation is sought:
(Refer to direction 4)

Virgin Australia and Air New Zealand seek authorisation to maintain and to continue to give effect to the Australasian Airline Alliance Agreement (**AAA**), an associated Code Share Agreement (**Code Share Agreement**) and related agreements which are contemplated by the AAA (together, **the Alliance**).

Copies of the AAA and Code Share Agreement are set out in Confidential Annexure A of the Submission.

(b) Description of those provisions of the contract, arrangement or understanding described at 2 (a) that are, or would or might be, exclusionary provisions and (if applicable) are, or would or might be, cartel provisions:
(Refer to direction 4)

See the Executive Summary and Confidential Annexure A of the Submission.

(c) Description of the goods or services to which the contract, arrangement or understanding (whether proposed or actual) relate:

Commercial passenger airline services.

(d) The term for which authorisation of the provision of the contract, arrangement or understanding (whether proposed or actual) is being sought and grounds supporting this period of authorisation:

Reauthorisation of the Alliance is being sought for the term of the Alliance and, in any event, for a period ending no less than 5 years from 31 December 2013 (the expiry date of the current authorisation).

The grounds supporting this period of authorisation are set out in sections 1, 3 and 6 of the Submission.

3. Parties to the proposed arrangement

(a) Names, addresses and descriptions of business carried on by other parties or proposed parties to the contract or proposed contract, arrangement or understanding:

Not applicable.

(b) Names, addresses and descriptions of business carried on by parties and other persons on whose behalf this application is made:
(Refer to direction 5)

Not applicable.

4. Public benefit claims

(a) Arguments in support of application for authorisation:
(Refer to direction 6)

See the Submission.

(b) Facts and evidence relied upon in support of these claims:

See the Submission, including in particular sections 1 and 3.

5. Market definition

Provide a description of the market(s) in which the goods or services described at 2 (c) are supplied or acquired and other affected markets including: significant suppliers and acquirers; substitutes available for the relevant goods or services; any restriction on the supply or acquisition of the relevant goods or services (for example geographic or legal restrictions):
(Refer to direction 7)

See the Submission, including in particular section 2 and Annexure D.

6. Public detriments

(a) Detriments to the public resulting or likely to result from the contract arrangement or understanding for which authorisation is sought, in particular the likely effect of the contract arrangement or understanding, on the prices of the goods or services described at 2 (c) and the prices of goods or services in other affected markets:
(Refer to direction 8)

No detriments to the public will result or be likely to result from the continuation of the Alliance.

(b) Facts and evidence relevant to these detriments:

See the Submission, including in particular section 4.

7. Contracts, arrangements or understandings in similar terms

(a) This application for authorisation may also be expressed to be made in relation to other contracts, arrangements or understandings or proposed contracts, arrangements or understandings, that are or will be in similar terms to the abovementioned contract, arrangement or understanding:

(b) Is this application to be so expressed?

No.

(c) If so, the following information is to be furnished:

(i) description of any variations between the contract, arrangement or understanding for which authorisation is sought and those contracts, arrangements or understandings that are stated to be in similar terms:
(Refer to direction 9)

Not applicable.

(ii) Where the parties to the similar term contract(s) are known — names, addresses and descriptions of business carried on by those other parties:
(Refer to direction 10)

Not applicable.

(iii) Where the parties to the similar term contract(s) are not known — description of the class of business carried on by those possible parties:

Not applicable.

8. Joint Ventures

(a) Does this application deal with a matter relating to a joint venture (See section 4J of the *Competition and Consumer Act 2010*)?

Yes, as defined by section 4J of the Competition and Consumer Act 2010.

(b) If so, are any other applications being made simultaneously with this application in relation to that joint venture?

Yes (being the attached Form B).

(c) If so, by whom or on whose behalf are those other applications being made?

Virgin Australia and Air New Zealand.

9. Further information

(a) Name, postal address and telephone contact details of the person authorised by the applicant seeking authorisation to provide additional information in relation to this application:

Gilbert + Tobin
Level 37, 2 Park Street
SYDNEY NSW 2000

Attention: Luke Woodward
Tel: 02 9236 4014
Fax: 02 9263 4111
lwoodward@gtlaw.com.au

and Rebecca Dollisson
Tel: 02 9263 4349
Fax: 02 9263 4111
rdollisson@gtlaw.com.au

Dated 8 March 2013

Signed ~~by/~~on behalf of the applicant

....
(Signature)

LUKE WOODWARD
(Full Name)

GILBERT + TOBIN
(Organisation)

PARTNER
(Position in organisation)

DIRECTIONS

1. Use Form A if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision and which is also, or might also be, an exclusionary provision. Use Form B if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision or a provision which would have the purpose, or would or might have the effect, of substantially lessening competition. It may be necessary to use both forms for the same contract, arrangement or understanding.

   In lodging this form, applicants must include all information, including supporting evidence, that they wish the Commission to take into account in assessing their application for authorisation.

   Where there is insufficient space on this form to furnish the required information, the information is to be shown on separate sheets, numbered consecutively and signed by or on behalf of the applicant.

2. Where the application is made by or on behalf of a corporation, the name of the corporation is to be inserted in item 1 (a), not the name of the person signing the application and the application is to be signed by a person authorised by the corporation to do so.

3. Describe that part of the applicant's business relating to the subject matter of the contract, arrangement or understanding in respect of which authorisation is sought.

4. Provide details of the contract, arrangement or understanding (whether proposed or actual) in respect of which the authorisation is sought. Provide details of those provisions of the contract, arrangement or understanding that are, or would or might be, exclusionary provisions. Provide details of those provisions of the contract, arrangement or understanding that are, or would or might be, cartel provisions.

   In providing these details:

   (a) to the extent that any of the details have been reduced to writing, provide a true copy of the writing; and

   (b) to the extent that any of the details have not been reduced to writing, provide a full and correct description of the particulars that have not been reduced to writing.

5. Where authorisation is sought on behalf of other parties provide details of each of those parties including names, addresses, descriptions of the business activities engaged in relating to the subject matter of the authorisation, and evidence of the party's consent to authorisation being sought on their behalf.

6. Provide details of those public benefits claimed to result or to be likely to result from the proposed contract, arrangement or understanding including quantification of those benefits where possible.

7. Provide details of the market(s) likely to be effected by the contract, arrangement or understanding in particular having regard to goods or services that may be substitutes for the good or service that is the subject matter of the application for authorisation.

8. Provide details of the detriments to the public, including those resulting from any lessening of competition, which may result from the proposed contract, arrangement or understanding. Provide quantification of those detriments where possible.

9. Where the application is made also in respect of other contracts, arrangements or understandings, which are or will be in similar terms to the contract, arrangement or understanding referred to in item 2, furnish with the application details of the manner in which those contracts, arrangements or understandings vary in their terms from the contract, arrangements or understanding referred to in item 2.

10. Where authorisation is sought on behalf of other parties provide details of each of those parties including names, addresses, and descriptions of the business activities engaged in relating to the subject matter of the authorisation, and evidence of the party's consent to authorisation being sought on their behalf.

Form B

Commonwealth of Australia

Competition and Consumer Act 2010 — subsections 88 (1A) and (1)

AGREEMENTS AFFECTING COMPETITION OR INCORPORATING RELATED CARTEL PROVISIONS: APPLICATION FOR AUTHORISATION

To the Australian Competition and Consumer Commission:
Application is hereby made under subsection(s) 88 (1A)/88 (1) of the *Competition and Consumer Act 2010* for an authorisation:

- to make a contract or arrangement, or arrive at an understanding, a provision of which would be, or might be, a cartel provision within the meaning of Division 1 of Part IV of that Act (other than a provision which would also be, or might also be, an exclusionary provision within the meaning of section 45 of that Act).

- to give effect to a provision of a contract, arrangement or understanding that is, or may be, a cartel provision within the meaning of Division 1 of Part IV of that Act (other than a provision which is also, or may also be, an exclusionary provision within the meaning of section 45 of that Act).

- to make a contract or arrangement, or arrive at an understanding, a provision of which would have the purpose, or would or might have the effect, of substantially lessening competition within the meaning of section 45 of that Act.

- to give effect to a provision of a contract, arrangement or understanding which provision has the purpose, or has or may have the effect, of substantially lessening competition within the meaning of section 45 of that Act.

(Strike out whichever is not applicable)

PLEASE FOLLOW DIRECTIONS ON BACK OF THIS FORM

1. Applicant

(a) Name of Applicant:
(Refer to direction 2)

A91363

Virgin Australia Airlines Pty Ltd (ABN 36 090 670 965);
Virgin Australia Airlines (NZ) Ltd (ABN 26 313 149 900);
Virgin Australia Airlines (SE Asia) Pty Ltd (ABN 79 097 892 389); and
Virgin Australia International Airlines Pty Ltd (ABN 63 125 580 823)
(together **Virgin Australia**) and

Air New Zealand Limited (ABN 70 000 3112 685) (**Air New Zealand**).

This application is to be read and determined together with the application in Form A (together the **Application**) and the submission supporting the Application (the **Submission**), which are lodged with this form.

(b) Short description of business carried on by applicant:
(Refer to direction 3)

The provision of domestic and international air transportation services.

For more detail please refer to Annexure B and Annexure C of the Submission.

(c) Address in Australia for service of documents on the applicant:

Gilbert + Tobin
Level 37, 2 Park Street
SYDNEY NSW 2000

Attention:	Luke Woodward Tel: 02 9236 4014 Fax: 02 9263 4111 lwoodward@gtlaw.com.au	and	Rebecca Dollisson Tel: 02 9263 4349 Fax: 02 9263 4111 rdollisson@gtlaw.com.au

2. Contract, arrangement or understanding

(a) Description of the contract, arrangement or understanding, whether proposed or actual, for which authorisation is sought:
(Refer to direction 4)

Virgin Australia and Air New Zealand seek authorisation to maintain and to continue to give effect to the Australasian Airline Alliance Agreement (**AAA**), an associated Code Share Agreement (**Code Share Agreement**) and related agreements which are contemplated by the AAA (together, **the Alliance**).

Copies of the AAA and Code Share Agreement are set out in Confidential Annexure A of the Submission.

(b) Description of those provisions of the contract, arrangement or understanding described at 2 (a) that are, or would or might be, cartel provisions, or that do, or would or might, have the effect of substantially lessening competition:
(Refer to direction 4)

See the Executive Summary and Confidential Annexure A of the Submission.

(c) Description of the goods or services to which the contract, arrangement or understanding (whether proposed or actual) relate:

Commercial passenger airline services.

(d) The term for which authorisation of the contract, arrangement or understanding (whether proposed or actual) is being sought and grounds supporting this period of authorisation:

Reauthorisation of the Alliance is being sought for the term of the Alliance and, in any event, for a period ending no less than 5 years from 31 December 2013 (the expiry date of the current authorisation).

The grounds supporting this period of authorisation are set out in sections 1, 3 and 6 of the Submission.

3. Parties to the proposed arrangement

(a) Names, addresses and descriptions of business carried on by other parties or proposed parties to the contract or proposed contract, arrangement or understanding:

Not applicable.

(b) Names, addresses and descriptions of business carried on by parties and other persons on whose behalf this application is made:
(Refer to direction 5)

Not applicable.

4. Public benefit claims

(a) Arguments in support of authorisation:
(Refer to direction 6)

See the Submission.

(b) Facts and evidence relied upon in support of these claims:

See the Submission, including in particular section 1 and 3.

5. Market definition

Provide a description of the market(s) in which the goods or services described at 2 (c) are supplied or acquired and other affected markets including: significant suppliers and acquirers; substitutes available for the relevant goods or services; any restriction on the supply or acquisition of the relevant goods or services (for example geographic or legal restrictions):
(Refer to direction 7)

See the Submission, including in particular section 2 and Annexure D.

6. Public detriments

(a) Detriments to the public resulting or likely to result from the authorisation, in particular the likely effect of the contract, arrangement or understanding, on the prices of the goods or services described at 2 (c) and the prices of goods or services in other affected markets:
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No detriments to the public will result or be likely to result from the continuation of the Alliance.

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See the Submission, including in particular section 4.

7. Contract, arrangements or understandings in similar terms

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(a) Is this application to be so expressed?

No.

(b) If so, the following information is to be furnished:

(i) description of any variations between the contract, arrangement or understanding for which authorisation is sought and those contracts, arrangements or understandings that are stated to be in similar terms:
(Refer to direction 9)

Not applicable.

(ii) Where the parties to the similar term contract(s) are known — names, addresses and descriptions of business carried on by those other parties:

Not applicable.

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Not applicable.

8. Joint Ventures

(a) Does this application deal with a matter relating to a joint venture (See section 4J of the *Competition and Consumer Act 2010*)?

Yes, as defined by section 4J of the *Competition and Consumer Act 2010*.

(b) If so, are any other applications being made simultaneously with this application in relation to that joint venture?

Yes (being the attached Form A).

(c) If so, by whom or on whose behalf are those other applications being made?

Virgin Australia and Air New Zealand.

9. Further information

(a) Name and address of person authorised by the applicant to provide additional information in relation to this application:

Gilbert + Tobin
Level 37, 2 Park Street
SYDNEY NSW 2000

Attention: Luke Woodward and Rebecca Dollisson

Luke Woodward	and	Rebecca Dollisson
Tel: 02 9236 4014		Tel: 02 9263 4349
Fax: 02 9263 4111		Fax: 02 9263 4111
lwoodward@gtlaw.com.au		rdollisson@gtlaw.com.au

Dated....8 MARCH 2013....

Signed ~~by~~/on behalf of the applicant

....
(Signature)

....LUKE WOODWARD....
(Full Name)

....PARTNER....
(Position in Organisation)

DIRECTIONS

1. Use Form A if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision and which is also, or might also be, an exclusionary provision. Use Form B if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision or a provision which would have the purpose, or would or might have the effect, of substantially lessening competition. It may be necessary to use both forms for the same contract, arrangement or understanding.

   In lodging this form, applicants must include all information, including supporting evidence, that they wish the Commission to take into account in assessing the application for authorisation.

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3. Describe that part of the applicant's business relating to the subject matter of the contract, arrangement or understanding in respect of which the application is made.

4. Provide details of the contract, arrangement or understanding (whether proposed or actual) in respect of which the authorisation is sought. Provide details of those provisions of the contract, arrangement or understanding that are, or would or might be, cartel provisions. Provide details of those provisions of the contract, arrangement or understanding that do, or would or might, substantially lessen competition.

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   (a) to the extent that any of the details have been reduced to writing, provide a true copy of the writing; and

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6. Provide details of those public benefits claimed to result or to be likely to result from the proposed contract, arrangement or understanding including quantification of those benefits where possible.

7. Provide details of the market(s) likely to be effected by the contract, arrangement or understanding, in particular having regard to goods or services that may be substitutes for the good or service that is the subject matter of the authorisation.

8. Provide details of the detriments to the public which may result from the proposed contract, arrangement or understanding including quantification of those detriments where possible.

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RESTRICTION OF PUBLICATION CLAIMED IN PART
Public register version

Australasian Airline Alliance between Virgin Australia Group and Air New Zealand

Submission in support of Application for reauthorisation

8 March 2013

Contents

Executive summary

Application for reauthorisation

On 16 December 2010, the Australian Competition & Consumer Commission (**ACCC**) granted Virgin Australia and Air New Zealand (the **Applicants**) a three year conditional authorisation to make and give effect to the Australasian Airline Alliance Agreement (the **AAA**), the Code Share Agreement and proposed related agreements contemplated in the AAA (together the **Alliance**).[1]

Copies of the executed AAA and Code Share Agreement (as amended on 15 June 2012)[2] are set out in **Confidential Annexure A**. Further information on Virgin Australia and Air New Zealand is set out in **Annexure B** and **Annexure C** respectively.

Authorisation of the Alliance came into effect on 7 January 2011 and expires on 31 December 2013.

This submission is lodged in support of the application by Virgin Australia and Air New Zealand for unconditional reauthorisation of the Alliance from 31 December 2013. Reauthorisation is sought for a period of no less than 5 years.

The Alliance

The Alliance covers cooperation between the Applicants across:

- **Trans Tasman Sectors**, which are any sectors between a point in Australia and a point in New Zealand, including when the ultimate destination of the service is another point in Australia, New Zealand or another country; and
- **Network Alliance Routes**, which comprise the Trans Tasman Sectors plus any domestic Australian or New Zealand sectors connecting to a Trans Tasman Sector as part of an international itinerary.

Under the Alliance, the Applicants aim to:

- fully cooperate and coordinate on all aspects of their international services on the Trans Tasman Sectors;
- code share on the Network Alliance Routes (on a free sale basis);
- work together to align their Customer Facing Products and Systems on the Trans Tasman Sectors to:
  - achieve "Metal Neutrality"[3]; and

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[1] Other related agreements include the frequent flyer program (**FFP**), Premium Customer Handling and a special prorate agreement (**SPA**). For further information see: ACCC, Determination: Applications for authorisation lodged by Virgin Blue Airlines Pty Ltd and Others in respect of an airline alliance between the applicants, 16 December 2010 (**Final Determination**). On 21 December 2010, the New Zealand Ministry of Transport (**MOT**) similarly authorised the Alliance. For further information see: MOT, Analysis of Air New Zealand/Virgin Blue application for authorisation of a Trans Tasman alliance http://www.transport.govt.nz/ourwork/air/airnz-virginbluealllianceapplication/.

[2] On 15 June 2012, Virgin Australia and Air New Zealand made some minor amendments to the AAA and Codeshare Agreement. These amendments were within the scope of the existing authorisation and were necessary for the practical operation of the Alliance. The ACCC was provided with copies of the amended agreements on 28 June 2012.

[3] Metal Neutrality means a state of events where each Applicant will implement programs and policies that ensure the Applicants are incentivised to sell, and consumers are willing to buy, tickets on Network Alliance Routes without preference as to which Applicant is the Operating Carrier.

- provide passengers with a harmonised and integrated product with consistent service and seamless check-in, transfers, baggage and other services;

- cooperate in relation to frequent flyer programs and lounge access on the Network Alliance Routes;
- cooperate in achieving cost savings, cost sharing and other efficiencies;
- work together to optimise their operations on the Trans Tasman Sectors by developing a network that matches aircraft type to route and focuses each Operating Carrier on its market strengths and primary operating hubs; and
- cooperate to develop new Tasman products that customers value.

A core principle of the Alliance is that the Applicants share the risks and rewards generated by the Alliance. Another core principle is Metal Neutrality, which is given effect through revenue allocation and other mechanisms under the Alliance. Metal Neutrality ensures that the Applicants' commercial interests are aligned so they can maximise passenger numbers and Alliance revenue.[4]

Core rationale

The core rationale for the Alliance is to increase the number of passengers travelling on the Applicants' combined services through the development of a second integrated Australasian network offering enhanced products and services including a greater choice of flights, better online connections, better schedule options and enhanced loyalty programs and lounge benefits.

The enhanced product and service offering under the Alliance allows the Applicants to achieve a better competitive position on the Tasman and more generally within Australasia against the Qantas-Jetstar Group and Emirates.

For Virgin Australia, the Alliance is key to its Game Change Program:

- the Tasman is a key market for corporate contracts; and
- without the Alliance, Virgin Australia cannot match Qantas' Tasman product in terms of frequency and schedule or frequent flyer and lounge benefits.

For Air New Zealand, the Alliance addresses limitations to its stand-alone competitive offering such as:

[4] The ACCC recently noted that the realisation of potential public benefits from airlines alliances depends on:

- how complementary the product and services offerings of the airlines concerned are; and
- how strongly the alliance aligns the incentives of the parties so that they are driven to act in the interests of the alliance as a whole, rather than themselves. In alliances where the parties' incentives are fully aligned – to a point where each carrier is not concerned with making sure that a passenger flies on their airline (a situation described in the literature as "metal neutrality") – they tend to be very focused on synchronising their operations and activities and sharing the financial rewards and risks so as to make their products and services as appealing as possible to passengers. See ACCC, Draft Determination, Applications for authorisation lodged by Qantas Airways Limited and Emirates in respect of a Master Coordination Agreement to coordinate the operations of the applicants Authorisation numbers A91332 & A91333 dated 20 December 2012 (**QF/EK Draft Determination**) par 122 at pp30-31.

- a lack of access to onward connections within Australia;
- a lack of an effective marketing presence within Australia; and
- a lack of effective Australian distribution channels.

Evidence of substantial Alliance driven public benefits

In its short operation, the Alliance has already delivered on the core rationale and resulted in substantial public benefits. [5] Reauthorisation will result in further and deeper benefits as the Alliance matures.

Some of the key outcomes generated by the Alliance so far include:

- **enhanced products and services** and the associated increase in consumer choice (including increased access to existing frequencies, increased online connection options, better schedule spread, enhanced value added services and new frequencies). For example:
  - the availability of an additional 576 online connection options for Alliance passengers. This will increase to 628 from May 2013[6];
  - additional frequencies on Auckland-Adelaide, Auckland-Brisbane, Auckland-Perth, Brisbane-Wellington, Melbourne-Wellington and the addition of some peak period frequencies on Sydney-Wellington;
  - a significant reduction of wingtip flying including, in some cases the removal of wingtip flights in a particular schedule, providing customers with a greater choice of departure and arrival times on a number of high frequency sectors;
  - a removal of day of week clashes on low frequency sectors Brisbane-Queenstown and Queenstown-Sydney to provide consumers with a better offering including the ability to have different length stays;
  - the ability to earn and burn frequent flyer points across the entire Air New Zealand and Virgin Australia networks including the Trans Tasman, domestic Australia, domestic New Zealand and long haul sectors (excluding sectors to/from the Pacific Islands);
  - the ability for Virgin Australia passengers to access Air New Zealand's six international air-side lounges on the Tasman and Air New Zealand's 12 domestic lounges and Air New Zealand passengers to access Virgin Australia's eight domestic Australia lounges;

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[5] To enable an analysis of the Alliance's impact since implementation the Applicants have compared actual data during the period 1 November 2011 to 31 October 2012 (the first full year of data reflecting the network changes made to optimise schedules, the codeshare sales that were commenced on certain sectors and other cooperative activities Year 1) with actual data during the period 1 November 2009 to 31 October 2010 (the year prior to the Alliance being authorised) (Pre-Alliance Year). The Pre-Alliance Year is used throughout the submission as a 'without authorisation' or 'without the Alliance' reference point for comparison. During 1 November 2010 to 31 October 2011 (Year 0), authorisation of the Alliance came into effect. Some cooperative activities also commenced at different points throughout Year 0.

[6] This is in excess of the 420 additional online connection options anticipated by the Applicants in their initial application for authorisation.

- Air New Zealand upgauged its daily Auckland-Perth service from a Boeing 767 to a 777 on 3 September 2012. This upgauge will result in approximately [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] additional seats (for Year 2[7] compared with the Pre-Alliance Year); and
- the commencement of new seasonal Auckland-Sunshine Coast services.

- **stimulation of passengers on Alliance services and the Tasman overall** showing that passengers value the improved product offering under the Alliance. From the Pre-Alliance Year to Year 1, the total number of passengers travelling on the Tasman across all carriers increased by 4.0%. Over the same period the number of Trans Tasman Alliance passengers increased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] on non-Christchurch routes[8]);
- **lower average fares as a result of cost savings and efficiency improvements** through the removal of double marginalisation and higher load factors;
- **promotion of competition,** particularly in the business traveller segment of the Trans Tasman market; and
- **stimulation of tourism** through the Alliance's improved product offering, the creation of a second comprehensive Australasian network in competition with the Qantas-Jetstar Group, synergies from joint promotion of Alliance services and Alliance destinations and improved distribution channels.

No anti-competitive detriment

The Alliance has delivered, and with reauthorisation will continue to deliver, substantial public benefits without any anti-competitive detriment on the Tasman or on any individual route.

The Alliance provides an improved service offering that consumers value. The Alliance has led to a decrease in the combined average fares[9] of the Applicants and has not resulted in an anti-competitive withholding of capacity on the Trans Tasman generally or on any individual route. In fact, from the Pre-Alliance Year to Year 1:

- the volume and proportion of lead-in and sales fares sold on flights operated by Virgin Australia and Air New Zealand has increased;
- the combined average fare for the Alliance has decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]; and

[7] Year 2 means the period from 1 November 2012 to 31 October 2013. It includes forecasted data.

[8] In light of the impact of the Christchurch earthquake on services to/from Christchurch, this submission provides data for non-Christchurch routes as well as the Tasman generally.

[9] Average fare means the average base fare on a given sector in A$. Calculated as Average Fare = Net Passenger Revenue/No. Passengers.

- Alliance capacity on the Tasman has increased 5% (10.1% on non-Christchurch routes).[10]

The Tasman is a highly competitive market characterised by substantial capacity and strong fare competition. The Alliance faces strong competition on the Tasman in the form of new entry and expansion and the expansion of existing carriers, including on the individual routes subject to the capacity conditions (eg, the entry of Jetstar on Queenstown-Sydney and the entry of China Airlines on Auckland-Brisbane).

Under the Alliance, consumers also benefit from the fact that the Alliance provides a more effective competitive offering than either of the Applicants could provide independently.

The capacity conditions are not required for the Alliance to satisfy the net public benefits test

The Alliance was granted subject to capacity conditions that were proposed by the Applicants (**the Conditions**). The Conditions are not necessary to satisfy the public benefits test as the public benefits derived from the Alliance are sufficient in and of themselves to outweigh any risk of an anti-competitive detriment on the Tasman.

Capacity conditions, by their very nature, create a measure of inflexibility, and (to the extent they hamper otherwise efficient resource allocation) a measure of inefficiency. Notwithstanding, where the net public benefit position is finely balanced such capacity conditions are appropriate so as to ensure the delivery of the overall net public benefit.

This is particularly true where there is already substantial capacity in the market and in the potential situation of simultaneous capacity conditions on the overlapping routes of Qantas and Emirates (if the Qantas-Emirates Alliance is approved).

Consumers would be worse off without reauthorisation

If reauthorisation were not granted, the Applicants would immediately take steps to unwind the Alliance. In particular, each Applicant would:

- remove its code from the other's services and terminate or renegotiate the interline pricing for access to its domestic network;
- review its network with a view to adjusting capacity where necessary to reflect the likely reduced demand due to the loss of connectivity and distribution provided by their former Alliance partner;
- retime services to maximise load factors on its own services even though that may result in wingtip flying with their former Alliance partner;
- take steps to secure access to slots that were surrendered during the term of the Alliance;
- terminate their former Alliance partner's access to its lounges; and
- renegotiate access to reciprocal frequent flyer benefits with their former

[10] In order for like for like comparisons to be made between the Pre-Alliance Year and Year 1 for average fares, passenger numbers, industry capacity and Alliance capacity, all capacity analysis in this submission refers to the actual change in capacity over the relevant time period. This includes the change in capacity from the reconfiguration of Air New Zealand's A320 fleet from 152 to 168 seats. The Applicants have provided a breakdown of Alliance capacity by route at Annexure E. In Annexure E, capacity data is provided including the A320 reconfiguration and excluding the A320 reconfiguration.

Alliance partner. This would involve less favourable commercial terms which would impact the overall benefit to consumers.

This would leave consumers with less choice and a reduced product and service offering. It would also remove a competitive alternative to the Qantas-Jetstar Group or the Qantas-Emirates Alliance (if that alliance is approved).

1 Implementation of the Alliance

Key aspects of the Alliance have been implemented

1.1 Authorisation of the Alliance came into effect on 7 January 2011. In the 2 years since then, the Applicants have:

- commenced code share sales on Network Alliance Routes;[11]
- implemented joint pricing on code share routes for travel from 26 July 2011;
- commenced lounge and frequent flyer reciprocity from 26 July 2011;
- begun aligning product offerings, including meal specifications on Trans Tasman flights, the alignment of child and infant fares, age policies, check-in policies and baggage policies and fees;[12]
- implemented a revenue share model from 1 August 2011;
- commenced joint scheduling from April 2011 with comprehensive network changes starting on 30 October 2011;
- commenced joint promotion of the Alliance and its destinations through the Joint Sales Team; and
- complied with the Conditions.[13]

[11] Codeshare sales on Trans Tasman Sectors and domestic Australia sectors connecting to a Trans Tasman Sector as part of an international itinerary started from 4 July 2011 for travel from 26 July 2011. Codeshare sales on domestic New Zealand sectors connecting to a Trans Tasman Sector as part of an international itinerary were gradually introduced due to Virgin Australia's migration to the SabreSonic platform. From 4 July 2011 (for travel from 26 July 2011), Virgin Australia commenced codesharing from 9 destinations via 13 city pairs. This was increased to 26 destinations via 37 city pairs on 23 October 2012 (for travel from 31 October 2011).

[12] The onboard experience of passengers has, and will continue to be, improved under the Alliance. For example, Air New Zealand guests on Virgin Australia services have indicated increased satisfaction in relation to catering under the Alliance. Significant steps have already been made by the Applicants to harmonise the onboard experience for passengers. This is an ongoing project and further improvements will made over time. [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Currently, Air New Zealand offers some seat back IFE to all guests and full content to guests with an IFE inclusive fare whereas Virgin Australia offers hand held DigiPlayers to those guests with an IFE inclusive fare. Virgin Australia is currently testing a new WiFi system, which will enable both airline-provided and user-provided devices to access the onboard WiFi while in the air.

[13] Under the authorisation, the Conditions have applied for each scheduling season since 1 April 2011. From that date there have been three decisions by the MOT and ACCC to vary the requirement to comply fully with the Conditions due to exceptional circumstances including the Christchurch earthquakes and the Chilean volcanic ash cloud. As a result of the Christchurch earthquakes in February 2011, compliance with the Conditions was varied by the ACCC on 27 July 2011 for the Northern Summer 2011 and Northern Winter 2011 scheduling seasons. The ACCC made a further variation on 31 May 2012 for the Northern Summer 2012 and Northern Winter 2012 scheduling seasons due to the continued impact of the February 2011 earthquakes and the series of high magnitude aftershocks that followed. The Applicants applied for these variations on 3 June and 21 March 2012 respectively. As a result of the Chilean volcanic ash cloud activity, the ACCC varied the requirement

Reauthorisation is required to more fully implement the Alliance and deliver continued and expanded public benefits

1.2 Implementing alliance agreements and integrating business systems takes time. Authorisation of the Alliance has only been in effect for 2 years and the Alliance has only been operational for 18 months. Whilst key aspects of the Alliance have been implemented, reauthorisation will allow the Applicants to:

- continue the delivery of public benefits that have been realised to date such as, increased coded frequencies and the public benefits flowing from lounge and frequent flyer reciprocity; and
- enhance and expand the public benefits achievable as a result of the Alliance.

1.3 The Applicants would not offer lounge and frequent flyer reciprocity or codeshare sales across the full extent of each other's networks without the Alliance. Nor, could they independently deliver the public benefits and efficiencies derived from optimisation of the Applicants' shared networks, products and costs.

1.4 Examples of the public benefits which will be enhanced or expanded with continued authorisation are:

- Cost savings achieved by taking advantage of future opportunities for joint contracting.
- Cost savings delivered over time from the operational changes made to deliver the Alliance product offering.
- An enhanced product offering through further alignment of the Applicants' products and services and the continued ability to optimise scheduling across the total Alliance network.

1.5 Now that Virgin Australia has upgraded its reservations system, even greater public benefits can be realised if the Alliance is reauthorised. In January 2013, Virgin Australia migrated to a single SabreSonic reservation platform from the dual platforms of Amadeus (used for the long haul network) and Navitaire (used for the domestic and short haul networks). Due to the difficulty in interfacing Air New Zealand's IT infrastructure with Virgin Australia's previous platforms, implementation of certain aspects of the Alliance was put on hold until Virgin Australia had migrated to SabreSonic. This allowed the Applicants to avoid doubling up on the time and costs associated with interfacing their systems. The recent migration to SabreSonic will allow a greater level of compatibility and integration between the Applicant's IT infrastructures and enable:

- an improved flexibility and functionality in pricing which allows the Applicants to put improved fare and product offerings to market;
- the potential expansion of interline cooperation beyond the Tasman to drive dual-destination traffic and tourism into Australia and New Zealand from global points of sale;
- an improved messaging between the two airlines, ultimately allowing better design and delivery of joint fare product innovations and a more seamless reservations process;
- an improved customer experience at the airport, with better recognition of high value guests, and guests with special needs;

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to comply fully with the conditions for the Northern Summer 2011 scheduling season on 4 August 2011. The Applicants applied for this variation on 21 March 2012.

- an improved capability to through check guests from the Virgin Australia network;
- a more flexible combination of segments to build journeys when selling connecting flights, allowing maximum origin/destination combinations; and
- [RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS].

1.6 Reauthorisation will enable the Applicants to continue to work together and achieve ever improving levels of integration and efficiency. Thus, expanding the public benefits achievable under the Alliance.

The Alliance's impact since implementation

Measurement of the Alliance's impact since implementation

1.7 To enable an analysis of the Alliance's impact since implementation, the Applicants have provided, where appropriate, three years of actual data starting at 1 November 2009.[14] This includes data for the following periods:

- 1 November 2009 to 31 October 2010 (**Pre-Alliance Year**);
- 1 November 2010 to 31 October 2011 (**Year 0**); and
- 1 November 2011 to 31 October 2012 (**Year 1**).

1.8 The Pre-Alliance Year is the year prior to the Alliance being authorised. It is used throughout the submission as a 'without authorisation' or 'without the Alliance' reference point for comparison. During Year 0, authorisation of the Alliance came into effect. Cooperative activities commenced at different points throughout Year 0. Due to the lead times of various initiatives and booking patterns Alliance benefits were limited in Year 0. Year 0 was also marked by exceptional circumstances such as continued earthquakes in Christchurch and the Canterbury region, the Queensland floods and the Chilean volcanic eruption. Year 1 is the first full year of data reflecting the network changes made to optimise schedules, the codeshare sales that were commenced on certain sectors and other cooperative activities. For this reason, comparisons between the Pre-Alliance Year and Year 1 are used in this submission to provide an overview of the Alliance's impact since implementation.[15]

1.9 In the initial application for authorisation, Air New Zealand noted that it was planning to reconfigure the A320 short haul fleet from 152 seats to 171 seats. The Conditions placed on the Applicants assumed this proposed increase to have taken place. However, following customer feedback on the changes Air New Zealand chose to reconfigure the A320 short haul fleet to 168 seats instead of 171 seats. These charges in capacity took place after authorisation.

1.10 Since authorisation, Tasman air services have been affected by challenging market conditions and in particular, natural disasters. These included the series of high magnitude earthquakes in

[14] The years begin at 1 November so that they reflect two complete scheduling seasons. 1 November is the start date of the northern winter scheduling season.

[15] In order for like for like comparisons to be made between the Pre-Alliance Year and Year 1 for average fares, passenger numbers, industry capacity and Alliance capacity, all capacity analysis in this submission refers to the actual change in capacity over the relevant time period. This includes the change in capacity from the reconfiguration of Air New Zealand's A320 fleet from 152 to 168 seats. The Applicants have provided a breakdown of Alliance capacity by route at Annexure E. In Annexure E, capacity data is provided including the A320 reconfiguration and excluding the A320 reconfiguration.

Christchurch and the Canterbury region, the Queensland floods and the Chilean volcanic ash cloud plume. Further information on these natural disasters is provided at 2.20 to 2.26.

1.11 In light of these conditions, this submission separately provides, where appropriate, data for non-Christchurch routes in addition to similar data for the Tasman overall.

Conclusion

1.12 Despite the Alliance only being in operation since July 2011 and the Alliance's performance taking place in the context of difficult conditions, the data reflects the fact that the Alliance has:

- delivered substantial public benefits without any adverse impact on overall fare levels or the number and availability of low fares;
- delivered on its core rationale, including:
  - combining to build a better network and product on the Tasman with increased frequencies, better connections and access to passengers for new and increased online flights;
  - increasing passenger traffic on Alliance services through the provision of an improved service offering which customers value, including higher yield passengers who value additional frequencies and connections;
  - achieving a better competitive position against the Qantas-Jetstar Group and Emirates than would be possible without the Alliance; and
  - capitalising on each Applicant's distribution and sales strength to make the Alliance product more readily accessible and easier to purchase for the public.

1.13 With reauthorisation, the public benefits resulting from the Alliance will continue and expand as the Alliance matures and greater levels of integration and cooperation take place.

2 Overview of market conditions

The Alliance operates within the context of the broader Australasian aviation market

2.1 The Alliance operates in the market for Trans Tasman air passenger services which is part of the broader Australasian and global aviation markets.

2.2 Trans Tasman air services include services between any point in Australia and any point in New Zealand.

2.3 There is strong demand for Trans Tasman air services. This includes Trans Tasman travel that originates in Australia or New Zealand and travel between Australia and New Zealand as part of travel from Asia, Europe, the Middle East or North or South America.

2.4 Each of the main airlines operating on the Tasman has operations across or into Asia. Asian and Middle-Eastern based carriers have shown an increasing interest in establishing services to Australia, New Zealand and also across the Tasman to address the demand for Trans Tasman air services. For example, China Airlines began operating a Taipei-Brisbane-Auckland service in 2011 and has expanded its Tasman offering by adding Taipei-Sydney-Auckland services in October 2012.

2.5 The Tasman market reflects the dynamics and trends of the global and regional aviation industry generally, including:

- the continued deregulation and liberalisation of airline markets around the world, with New Zealand and Australia at the forefront of this trend;
- the sustained pressure on airlines to drive cost reductions and efficiencies and innovate;
- the risk associated with exposure to unpredictable demand shocks; and
- the formation of alliances as a principal means by which airlines can offer passengers services to destinations that the airline does not individually offer , or offer more services to destinations than it could individually offer.

Overview of Trans Tasman air passenger services

2.6 The Tasman is a well served, highly competitive market, with seven carriers providing a range of product offerings including the:

- high frequency, high service offering of full service airline (**FSA**) Qantas;
- high frequency, highly connected, comprehensive Alliance product offering of Virgin Australia and Air New Zealand;
- full service offering, by fifth freedom carriers (**FFCs**)[16] (eg, Emirates, LAN Airlines and China Airlines); and
- low cost carrier (**LCC**) offering of Jetstar.

2.7 Further detail on each of these carriers is provided in Annexure D.

2.8 The supply of Trans Tasman air passenger services is characterised by low barriers to entry and expansion. The Tasman is one of the most open international airline markets in the world. Any international designated airline can operate a connecting fifth freedom service between the two countries without restriction[17] and any foreign-owned carrier can operate domestic services through an Australian subsidiary.

2.9 Given connections between Australia and New Zealand for onward international travel and the liberal aviation policies of each country, Trans Tasman routes can be served by international operators using fifth freedom rights at marginal cost. As a result, a Trans Tasman route does not need to be profitable on a stand-alone fully costed basis for a FFC. FFCs are an established feature of the Tasman market with many FFC operators having offered Trans Tasman services at different points in time such as Malaysia Airlines, Thai Airways, Royal Brunei and Aerolineas Argentinas. Emirates, in particular, has positioned itself as a long term fixture in the market and has been able to achieve rapid and significant growth in passenger share. The competitive presence and threat of entry from FFCs is characteristic of the Tasman market and from the Pre-Alliance Year to the end of Year 1, the proportion of FFC flying increased from around 16% of Tasman capacity to 18%.

2.10 The majority of Tasman traffic is carried on a few main routes, enabling carriers (such as FFCs) to establish their Tasman presence and support a substantial proportion of the overall market without having to operate on all routes. For example, in April 2010, the three routes from

[16] Fifth freedom rights are the rights of an airline of one country to carry traffic between two foreign countries as long as the flight originates and terminates in its own country.

[17] Any constraint is at the level of access to either the Australian or New Zealand market under the various bilateral Air Service Agreements between each of Australia and New Zealand and other jurisdictions.

Auckland to Sydney, Melbourne and Brisbane alone accounted for around 54% of total Trans Tasman traffic.[18]

2.11 Entry and expansion on the Tasman since the Alliance has included the entry of China Airlines onto Auckland-Brisbane in 2011 and its expansion onto Auckland-Sydney in October 2012. Jetstar and Emirates have also expanded their Tasman operations. There have been substantial increases in capacity by Emirates (13.3%), Jetstar (5.2%), LAN Airlines (4.2%) and Qantas (2.1%) on the Tasman from the Pre-Alliance Year to Year 1. Since November 2012, Jetstar has increased capacity further with an additional aircraft in its New Zealand based fleet.

2.12 Demand for Trans Tasman air passenger services is characterised by highly price responsive passengers (a so called tactical market). This is reflected in the success of online internet bookings, cheap fares and the continued discount fare offerings available on the Tasman. According to data provided by the Department of Immigration and Citizenship (**DIAC**), in the year ended 30 June 2012, 73% of Trans Tasman origin/destination passengers travelled for leisure and 12% travelled for business.[19] The overall leisure nature of the Tasman intensifies Tasman fare competition and provides a strong incentive for operators to seek to also attract the high yielding business travellers. The result is that there is strong fare competition in both the business and leisure segments of the Tasman.

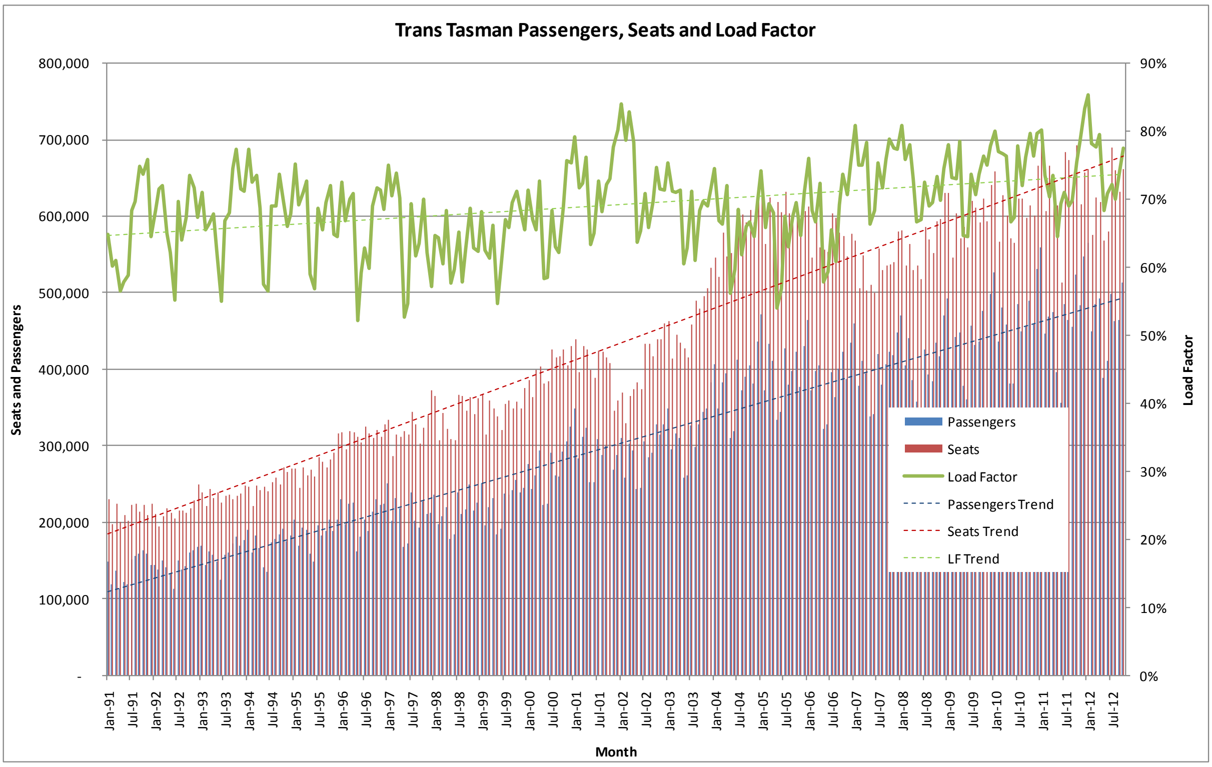
2.13 The strong fare competition on the Tasman is also a reflection of available capacity. Structurally, the Tasman has not been capacity constrained but instead demand for Trans Tasman air passenger services has been consistently supported by substantial capacity growth. This has continued to be the case during the operation of the Alliance with excess capacity across Trans Tasman routes.

2.14 Figure 1 below shows the number of seats, passengers and the overall load factor for the Tasman from January 1991 to October 2012.

[18] Auckland-Sydney accounted for around 26%, Auckland-Melbourne account for around 15% and Auckland-Brisbane accounted for 13%. See Final Determination at par 5.324, 5.332 and 5.340.

[19] QF/EK Draft Determination at par 356, p76.

Figure 1: Passenger numbers, seats and load factor from January 1991 to October 2012[20]



Source: BITRE

2.15 As shown in Figure 1, the Tasman has seen consistent growth in passengers and capacity over the 21 year period and there is excess capacity available on the Tasman.

2.16 Since implementation of the Alliance, the Tasman has continued to be characterised by high capacity levels relative to overall passenger numbers as well as strong fare competition. Figure 2 below provides a summary of Trans Tasman passengers before and during the Alliance.

Figure 2: Summary of Trans Tasman Passengers before and during the Alliance

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2.17 Figure 3 below gives a summary of Trans Tasman capacity before and during the Alliance.

[20] The passenger numbers in Figure 1 are O & D passengers. They include passengers that originate their journey in New Zealand with Australia as their final destination (and vice versa) regardless of the particular flight itinerary or the behind/beyond connections that make up the journey.

Figure 3: Summary of Trans Tasman capacity before and during the Alliance

Summary of Trans Tasman Capacity					
Airline	**Pre-Alliance Year**	**Year 0**	**% Var to Pre-Alliance Year**	**Year 1**	**% Var to Pre-Alliance Year**
Virgin Australia	1,301,040	1,220,316	-6.2%	1,244,088	-4.4%
Air New Zealand	2,605,631	2,885,221	10.7%	2,857,495	9.7%
Alliance	*3,906,671*	*4,105,537*	*5.1%*	*4,101,583*	*5.0%*
Qantas	1,705,737	1,690,290	-0.9%	1,742,134	2.1%
Jetstar	725,773	846,927	16.7%	763,455	5.2%
Emirates	1,004,897	1,114,066	10.9%	1,139,022	13.3%
Royal Brunei Airlines	30,355	-	-100.0%	-	-100.0%
Aerolineas Argentinas	95,907	82,004	-14.5%	49,894	-48.0%
Lan Airlines	153,276	155,654	1.6%	159,768	4.2%
China Airlines	-	70,970		95,784	
Total Competitors	***3,715,944***	***3,959,911***	***6.6%***	***3,950,057***	***6.3%***
Total Trans Tasman	**7,622,615**	**8,065,448**	**5.8%**	**8,051,640**	**5.6%**

Note: Alliance capacity fell slightly between Year 0 and Year 1 due to the impact of the Christchurch earthquakes. Christchurch routes form a substantial proportion of routes flown by the Alliance. This proportion is considerably higher than it is for the Alliance's competitors as a whole. As a result, the Alliance has been relatively more effected by the earthquake than competing airlines.

2.18 As shown in Figures 2 and 3, Trans Tasman capacity increased by 5.6% whilst passengers increased by 4.0% from the Pre-Alliance Year to Year 1. The Applicants increased capacity by 5% from the Pre-Alliance Year to Year 1. Figure 3 shows that in addition to the capacity increases of the Applicants there were significant capacity increases by Emirates and Jetstar following the implementation of the Alliance. Emirates increased capacity by 13.3% and Jetstar increased capacity by 5.2% from the Pre-Alliance Year to Year 1. It also demonstrates the ability for airlines such as Jetstar to rapidly deploy capacity in response to market opportunities. In the year between Year 0 and the Pre-Alliance Year, Jetstar was able to increase its capacity by 16.7%.

2.19 Further information on Alliance passengers, capacity and load factors is provided at Confidential Annexure E on a route by route basis.

Natural disasters impacting Trans Tasman air services since authorisation

2.20 Since authorisation of the Alliance, there have been a number of significant natural disasters that have affected the demand and supply of Trans Tasman air passenger services and consequently the performance of the Alliance. For example:

- the series of high magnitude earthquakes in Christchurch and the Canterbury region from September 2010 through to January 2012;
- the ash cloud activity over Australia and New Zealand from the eruption of the Puyehue-Cordon Caulle volcano in South-Central Chile in June 2011; and
- the series of Australian floods beginning in December 2010 primarily in Queensland.

2.21 In February 2011, an earthquake of magnitude 6.3 struck the centre of Christchurch, killing over 180 people and causing severe destruction of homes, businesses, essential infrastructure and iconic landmarks and tourist attractions such as the Christchurch Cathedral. Following the February 2011 earthquake, Christchurch continued to experience aftershocks and a series of high magnitude earthquakes slowing rebuilding efforts and recovery. The Canterbury region has been struck with more than 40 earthquakes of magnitude 5.0 or over since September 2010.[21]

2.22 As a result of the earthquakes there has been a significant reduction in demand for Trans Tasman flights to Christchurch.[22] Australian visitors to Christchurch for holiday purposes have declined by more than 85,000 or 40% for the year ending June 2010 to June 2012.[23]

2.23 On 4 June 2011, the Puyehue-Cordon Caulle volcano in South-Central Chile erupted sending an ash plume over 15 kilometres into the air. Winds blew the ash plume eastwards across the Atlantic Ocean, under southern Africa and across the Southern Ocean towards southern Australia and New Zealand.

2.24 On 12 June 2011, ash clouds moved into the air space above Australia and New Zealand, creating conditions which were potentially dangerous for flying and resulting in the cancellation of significant numbers of domestic and international services by all Australian airlines and many international airlines. As a direct consequence of the volcanic ash, Virgin Australia cancelled over 150 Trans Tasman flights (net of additional services deployed to transport inconvenienced passengers) over a period of 16 days.

2.25 Air New Zealand was able to safely continue operating the majority of its services by making flight path adjustments. As a consequence, it cancelled two Trans Tasman flights and, where aircraft were available, deployed larger aircraft on services in order to uplift some of the passengers who were disrupted by cancellations.

2.26 The series of Australian floods beginning in December 2010 forced the evacuation of thousands of people from towns and cities, mostly in Queensland. At least 70 towns and over 200,000 people were affected. Damage was initially estimated at around A$1 billion with three-quarters of the state of Queensland declared a disaster zone. Inbound demand from New Zealand was negatively affected by the floods due to limited access to key tourist destinations within Queensland as well as the negative publicity generated during and after the floods.

3 Public benefits derived from the Alliance

The ACCC concluded that the Alliance was likely to result in material public benefits

3.1 In its Final Determination, the ACCC considered that the Alliance would likely result in material public benefits in the form of:

- **enhanced products and services** and the associated increase in consumer choice (including increased access to existing frequencies, increased online connection options, better schedule spread, enhanced value added services and new frequencies);

[21] Reserve Bank of New Zealand – “The economic impact of the Canterbury earthquakes” at http://www.rbnz.govt.nz/research/bulletin/2012_2016/2012sep75_3parkersteenkamp.pdf.

[22] It was accepted by the ACCC in its decision to vary compliance with condition 1(b) of authorisations A91227 & A91228 dated 31 May 2012, that the ongoing impacts of the Christchurch earthquakes in February 2011 and January 2012 reduced the demand for airline travel to and from Christchurch.

[23] Statistics New Zealand *International Travel and Migration Statistics* at www.stats.gov.nz.

- **potential for lower fares as a result of cost savings and efficiency improvements** through the removal of double marginalisation and higher load factors;
- **promotion of competition**, particularly in the business traveller segment of the Trans Tasman market; and
- **stimulation of tourism**.[24]

Enhanced products and services

3.2 The ACCC considered that the Alliance would materially enhance the Applicants' product and service offering. The ACCC also recognised that this would be a key source of public benefit.[25]

Increased access to existing frequencies and increased online connection options

3.3 Under the Alliance, the Applicants have, and will continue to, provide an overall improved service offering which customers value. This includes increased access to existing frequencies and greater online connection options.

3.4 In the Final Determination, the ACCC noted that:

- an increase in flight choice through the replacement of separate Virgin Australia and Air New Zealand coded frequencies with consolidated Alliance coded frequencies was likely to directly benefit consumers who, under the Alliance, prefer to fly with Virgin Australia or Air New Zealand rather than any other airline and who value the increased flexibility associated with the greater number of frequencies;[26]
- there would be a direct public benefit from increased online connections under the Alliance through increased choice for many travellers who connect beyond Trans Tasman gateways;[27] and
- increased online connection options provide public benefits in the form of the convenience of not having to collect and bear baggage mid journey, time savings associated with through check and removal of the risk of forfeiting non-refundable fares if the first flight in a multiple flight journey is delayed.[28]

3.5 The implementation of codeshare sales on Network Alliance Routes has allowed each of the Applicants to now offer a full range of high frequency flights between 26 points in New Zealand and 34 points in Australia. This represents an Alliance product offering with:

- significantly increased frequency of service for both Virgin Australia and Air New Zealand passengers; and
- substantially increased connectivity in terms of available city pairs. The Alliance offers city pair connectivity between all ports in Australia and all ports in New Zealand. An equivalent Trans Tasman connectivity offering has not previously been achieved by any airline or alliance.

3.6 Under the Alliance, an additional 576 online connection options have become available to Alliance passengers. In addition, Virgin Australia announced on 26 February, the introduction of

[24] Final Determination at par 5.243.
[25] Final Determination at par 5.134.
[26] Final Determination at par 5.75.
[27] Final Determination at par 5.87.
[28] Final Determination at par 5.82.

two new domestic destinations, Bundaberg and Moranbah. This creates an additional 52 online connections between New Zealand and Australia bringing the total Alliance connections to 628 from May 2013. This is in excess of the 420 additional online connection options anticipated by the Applicants in their initial application for authorisation.

3.7 For a Virgin Australia customer, online options across the Tasman have increased from 168 to 884 (including access to Air New Zealand's 26 New Zealand destinations via 37 city pairs). For an Air New Zealand customer, online options across the Tasman have increased from 182 to 884 (including access to Virgin Australia's 34 Australian destinations via 65 city pairs).

3.8 The benefits described above could not have been achieved without the Alliance. Unlike a standalone code share agreement, the Alliance's metal neutral revenue allocation model incentivises the carriers to focus on improving revenue across both carriers' Tasman flights without preference to their own operated services.[29] For example, prior to the Alliance, Virgin Australia would have sold a passenger travelling from Adelaide to Auckland, a ticket going via Sydney or Melbourne. Under the Alliance, because there is no revenue impact, Virgin Australia would offer the same passenger a direct flight on Air New Zealand metal.

3.9 The Alliance has increased the choice of online journey options for passengers providing them with:

- access to better connections and a broader schedule at competitive fare levels;
- the convenience of not having to collect and bear baggage mid journey;
- time savings associated with through check; and
- the removal of the risk of forfeiting non-refundable fares if the first flight in a multiple flight journey is delayed.

3.10 If reauthorised, consumers will continue to receive these benefits.

Better schedule spread

3.11 In their initial application for authorisation, the Applicants submitted that the Alliance would provide them with the ability and the incentive to undertake significant schedule changes which would optimise the network and benefit all travellers.

3.12 In the Final Determination, the ACCC acknowledged that under the Alliance the Applicants would have an incentive to optimise their combined schedules.[30] The ACCC also noted that increased schedule spread would likely be a direct source of public benefit.[31] In particular, the ACCC observed that, not only business but also, leisure passengers are likely to value increased schedule spread to the extent that it improves connectivity with other transport options, allows passengers to avoid overnight accommodation costs, provides greater flexibility for coordination with friends and relatives' schedules and allows access to cheaper fares.[32]

3.13 Under the Alliance, the Applicants have been able to work together to maximise their total network offering. There have been a number of key changes to the Alliance's network and schedule spread which have provided, and will continue to provide, public benefits, namely:

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[29] Final Determination at par 5.215.

[30] Final Determination at par 5.92.

[31] Final Determination at par 5.106.

[32] Final Determination at 5.96.

- a significant reduction of wingtip flying[33] including, in some cases the removal of wingtip flights, providing customers with a greater choice of departure and arrival times on a number of high frequency sectors; and

- a removal of day of week clashes[34] on low frequency sectors Brisbane-Queenstown and Queenstown-Sydney to provide consumers with a better offering including the ability to have different length stays.

3.14 The Alliance has also allowed for better management of flight disruptions or cancellations and better outcomes for customers in those situations. For example, prior to the Alliance, if there was a cancellation of a Virgin Australia Auckland-Coolangatta service, passengers were re-accommodated onto a flight to Brisbane and an onwards bus service. Under the Alliance, two Auckland-Coolangatta services are operated a day so passengers can be re-accommodated onto the next flight.

Reduction in wingtip flying

3.15 As shown in Figure 4 below, from the Pre-Alliance Year to Year 1 the Alliance has:

- removed northern winter wingtip flying on Auckland-Brisbane, Auckland-Gold Coast, Auckland-Melbourne, Brisbane-Wellington and Sydney-Wellington;

- removed northern summer wingtip flying on Sydney-Wellington;

- significantly reduced the number of northern winter wingtip flights on Auckland-Sydney, Brisbane-Christchurch, Christchurch-Melbourne and Christchurch-Sydney; and

- significantly reduced the number of northern summer wingtip flights on Auckland-Brisbane, Auckland-Gold Coast, Auckland-Melbourne, Auckland-Sydney, Brisbane-Wellington, Christchurch-Melbourne and Christchurch-Sydney.

[33] Wingtip flying refers to when there are two flights, on the same sector, and they both depart in the same morning or afternoon or less than 3 hours apart. When there are more than two flights per day on a given sector, wingtip flying is defined as any flights that depart within 1 hour of each other.

[34] Day of the week clash refers to sectors where both Air New Zealand and Virgin Australia operated less than 7 trips per week each. A day of week clash is where both carriers operate on the same day and leave another day with zero services.

Figure 4: Wingtip Flying from the Pre-Alliance Year to Year 1[35]

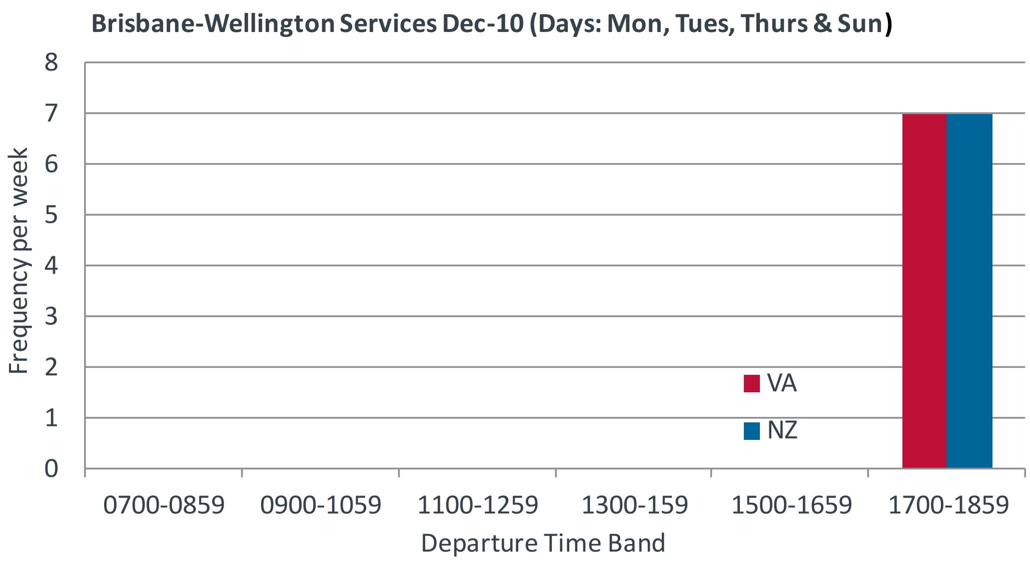
	Pre-Alliance Year						Year 0						Year 1					
	Northern Winter			Northern Summer			Northern Winter			Northern Summer			Northern Winter			Northern Summer		
	Sectors per season	No. of wingtip Flights	Wingtip %	Sectors per season	No. of wingtip Flights	Wingtip %	Sectors per season	No. of wingtip Flights	Wingtip %	Sectors per season	No. of wingtip	Wingtip %	Sectors per season	No. of wingtip Flights	Wingtip %	Sectors per season	No. of wingtip Flights	Wingtip %
AKLBNE	952	161	17%	1514	267	18%	944	160	17%	1504	102	7%	946	0	0%	1598	174	11%
AKLOOL	456	52	11%	736	175	24%	476	0	0%	728	116	16%	478	0	0%	696	4	1%
AKLMEL	1051	30	3%	1362	205	15%	1008	83	8%	1394	206	15%	106	4	0%	1422	49	3%
AKLSYD	1885	268	14%	2340	415	18%	1704	295	17%	2368	420	18%	1712	92	5%	2334	49	2%
BNECHC	643	148	23%	1106	262	24%	710	49	7%	950	222	23%	578	36	6%	992	302	30%
BNEWLG	600	164	27%	848	243	29%	574	141	25%	886	271	31%	588	0	0%	866	28	3%
CHCMEL	742	192	26%	738	149	20%	706	2	0%	650	94	14%	534	29	5%	586	26	4%
CHCSYD	784	117	15%	900	200	22%	714	88	12%	756	158	21%	536	24	4%	668	67	10%
SYDWLG	594	110	19%	676	167	25%	536	88	16%	802	76	9%	586	0	0%	756	0	0%

3.16 The improved schedule spread and reduction in wingtip flying achieved under the Alliance has resulted in greater customer choice, convenience and flexibility. Airline schedules including the schedule of the Alliance vary season by season and month by month. However, the examples provided below are a point in time illustration of the schedule improvements made possible under the Alliance.

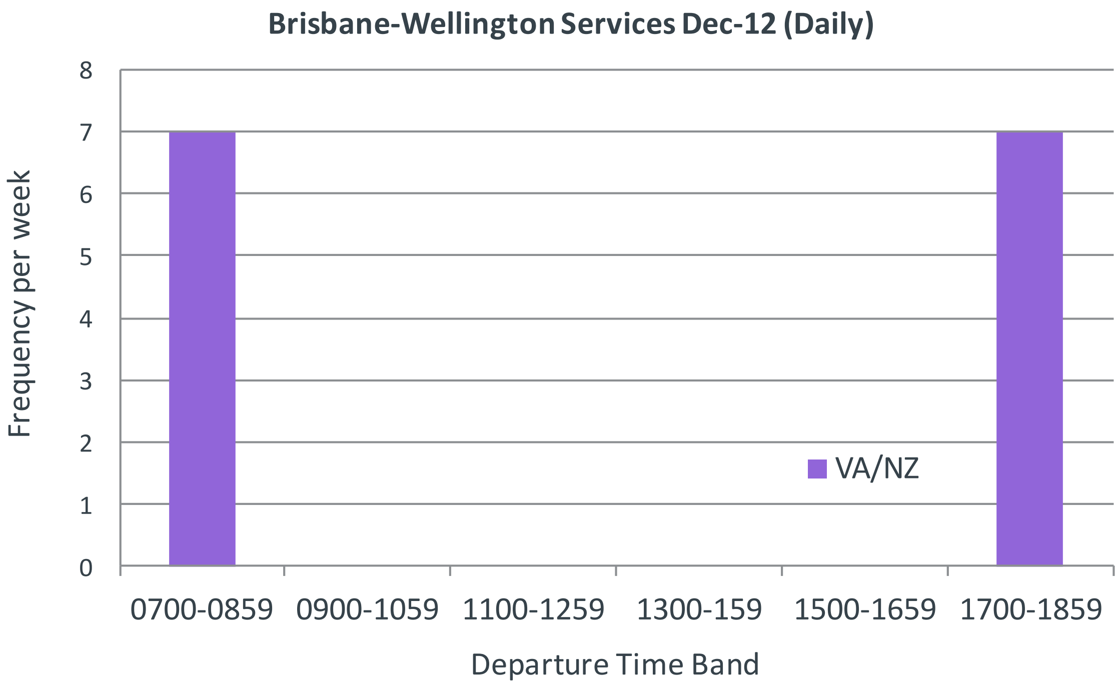
Removal of time of day clashes

3.17 In December 2010, both Air New Zealand and Virgin Australia had similar evening departures from Brisbane on four days of the week. These services departed as little as 25 minutes apart. This meant that people flying from Brisbane to Wellington were ‘forced’ to travel on an evening service four days of the week, arriving in Wellington around midnight, necessitating an overnight stay and preventing any onward connections.

[35] The relatively high wingtip percentage for northern summer on BNE-CHC reflects operational changes required to meet capacity commitments under the Conditions and account for growth on BNE-DUD and BNE-ZQN. Flights to BNE-DUD and BNE-ZQN affect the departure and arrival time possibilities for BNE-CHC flights.



3.18 Under the Alliance, the Applicants have been able to provide a better spread of schedules, as illustrated below.

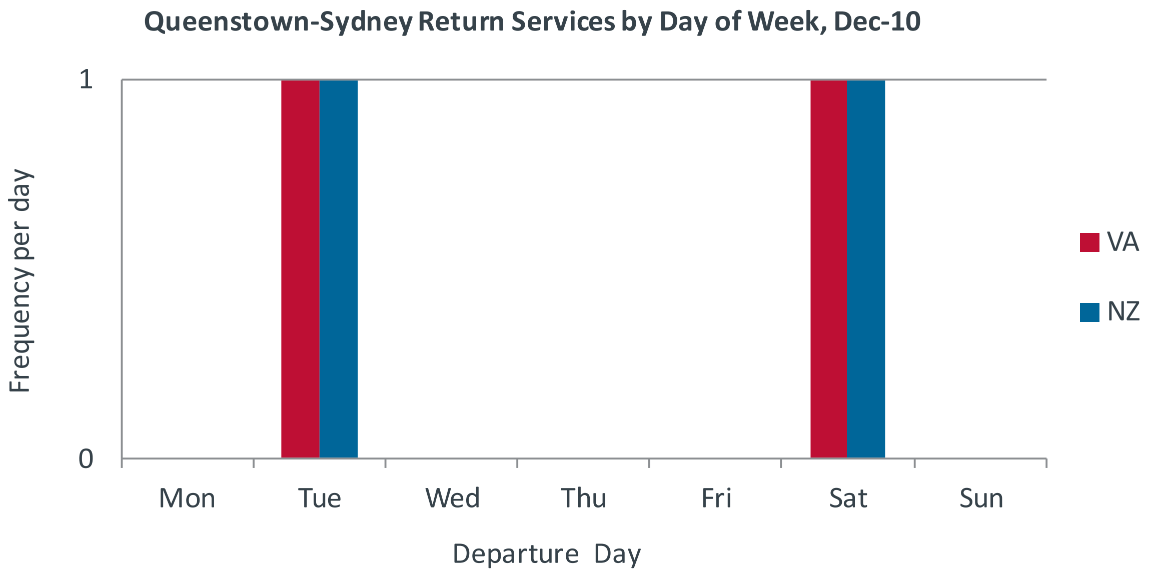


3.19 As these graphs show, prior to the Alliance, on four days of the week, customers could only travel Brisbane-Wellington on an evening service. Under the Alliance, the Applicants have been able to fly this route twice daily, with one arrival/departure time in the morning, and one in the evening, enhancing choice and convenience.

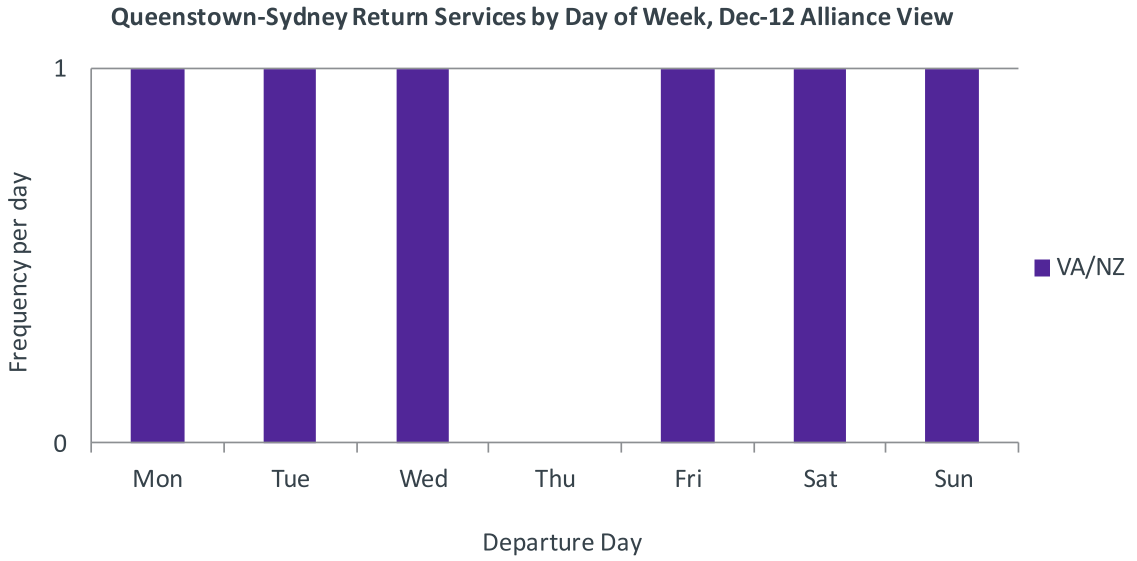
Removal of day of week clashes

3.20 This specific example of changes made to the Queenstown-Sydney schedule since December 2010 is used below to illustrate the greater customer choice, convenience and flexibility of the improved schedule changes made to remove day of the week clashes under the Alliance.

3.21 In December 2010, each of Virgin Australia and Air New Zealand operated two services a week. Both airlines operated these services on a Tuesday and a Saturday departing within 30 minutes of each other. This day of the week clash and wingtip flying did not reflect higher demand at this time but was due to each airline optimising its schedule operation in isolation. As a consequence, a person wishing to travel on a direct service from Sydney to Queenstown could only fly with Virgin Australia or Air New Zealand on a Tuesday or Saturday, enabling a 3, 4 or 7 night stay, as illustrated below.



3.22 Under the Alliance, the Applicants have been able to optimise their schedule to remove the day of week clashes, reduce wingtip flying when there is more than one service per day and grow frequency as illustrated below.



3.23 As the above graphs illustrate, prior to the Alliance, the Applicant's customers could only fly from Sydney to Queenstown on either a Tuesday or a Saturday. Under the Alliance, the Applicants were able to make schedule changes so that customers have the flexibility of choosing one of six potential departure or arrival days, enabling a 1, 2, 3, 4, 5, 6 or 7 night stay, including over a weekend.

Enhanced value added services - Frequent flyer reciprocity

3.24 In the Final Determination, the ACCC accepted that:

- there are public benefits from the increased opportunities for passengers to earn and redeem frequent flyer points under the Alliance; and
- the attractiveness of Virgin Australia's loyalty program would be enhanced under the Alliance.[36]

3.25 Since 26 July 2011, the Applicants have offered guests frequent flyer reciprocity on their respective networks. The reciprocal loyalty program access negotiated as a result of the Alliance includes earning and redeeming points across the entire Air New Zealand and Virgin Australia networks including the Trans Tasman, domestic Australia, domestic New Zealand and long haul sectors excluding sectors to/from the Pacific Islands. Such access would not have been agreed without the Alliance.

3.26 The frequent flyer reciprocity under the Alliance translates to the ability for passengers to earn and burn on over 160,000 more one way services per year. In Year 1, Virgin Australia passengers gained access to frequent flyer benefits on an additional 190,000 Air New Zealand services and Air New Zealand passengers gained access to frequent flyer benefits on an additional 161,000 services compared to the Pre-Alliance Year.

3.27 Members of Velocity or Airpoints also receive reciprocal benefits including (depending on the membership tier and the fare purchased) lounge access, priority check-in, priority baggage handling, additional checked baggage, priority seating and priority boarding on both Alliance and non-Alliance flights (excluding the Pacific Islands).

3.28 There has been a substantial increase in Velocity frequent flyer membership since the implementation of the Alliance. As at 31 October 2009, the beginning of the Pre-Alliance Year, Velocity had [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] members. As at 31 October 2012, membership increased to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] members. Airpoints membership has also increased since the implementation of the Alliance from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] members as at 31 October 2009 to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] as at 31 October 2012. This means that even more members of the public now have access to the frequent flyer benefits provided under the Alliance.

3.29 The public benefits delivered from frequent flyer reciprocity under the Alliance will continue and increase in magnitude with increases in passenger traffic, frequent flyer memberships and increases in network services and coverage. Without reauthorisation frequent flyer reciprocity would be renegotiated.

Enhanced value added services - Lounge access reciprocity

3.30 In the Final Determination, the ACCC noted that direct public benefits from reciprocal access to Alliance lounges were likely to accrue to Trans Tasman passengers who prefer to fly with Virgin

[36] Final Determination at par 5.116.

Australia or Air New Zealand and who are eligible to use lounge facilities with one of those carriers.[37] The ACCC acknowledged that:

- lounge access is important to business passengers and to the Alliance's plans to better target corporate accounts and business travellers;
- air-side lounges are of greater value to business customers than land-side lounges; and
- the Alliance is likely to provide Air New Zealand with stronger incentives to allow Virgin Australia customers access to lounges than under an access arrangement between rivals.[38]

3.31 Prior to the Alliance, Virgin Australia customers had no international lounge access in Australia or New Zealand and no domestic lounge access in New Zealand. Similarly, prior to the Alliance, Air New Zealand customers travelling on domestic Australia services had no lounge access.

3.32 The reciprocal access to the Applicant's respective loyalty programs in relation to Alliance and non-Alliance journeys (excluding the Pacific Islands) negotiated under the Alliance, has (depending on frequent flyer membership tier[39] and/or the fare purchase) allowed:

- Virgin Australia passengers to access Air New Zealand's six international air-side lounges on the Tasman and Air New Zealand's 12 domestic lounges; and
- Air New Zealand passengers to access Virgin Australia's eight domestic Australia lounges.

3.33 Figure 5 below sets out the various Air New Zealand and Virgin Australia lounges which have permitted reciprocal access since 26 July 2011 as a result of the Alliance.

Figure 5: Lounge access permitted under the Alliance since 26 July 2011

Air New Zealand Lounges	Virgin Australia Lounges
Auckland (Intl and Dom)	Adelaide
Brisbane International	Brisbane Domestic
Christchurch (Intl and Dom)	Canberra
Dunedin	Gold Coast
Hamilton	Mackay
Invercargill	Melbourne Domestic
Melbourne International	Perth
Napier	Sydney Domestic
Nelson	
New Plymouth	
Palmerston North	
Sydney International	

[37] Final Determination at par 5.128.
[38] Final Determination at par 5.127.
[39] Air New Zealand's Koru club paid lounge membership allows such members to access Virgin Australia's various lounges.

Air New Zealand Lounges	Virgin Australia Lounges
Tauranga	
Wellington (Intl and Dom)	
Queenstown	

3.34 Lounge access is a significant benefit, particularly for those travellers with onward connections. If the Alliance is reauthorised, reciprocal lounge access will continue to be available and provide valued benefits to customers.

3.35 The table below shows that reciprocal access under the Alliance is being utilised by customers and that there has been considerable growth in lounge entries by Alliance customers on Alliance and non-Alliance journeys since implementation. The Applicants expect further growth over time.

Figure 6: Reciprocal Lounge Access Usage

[**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Expected new frequencies under the Alliance

3.36 The ACCC accepted that the Alliance would result in a significant number of new Trans Tasman frequencies which would directly benefit passengers.[40]

3.37 In their initial application for authorisation, the Applicants stated that the Alliance would enable them to increase frequencies by an additional 326 frequencies per annum comprising additional frequencies on Auckland-Coolangatta, Auckland-Perth, Brisbane-Wellington, Melbourne-Wellington and Sydney-Wellington.

3.38 In the Alliance's short operation, the Applicants have realised the additional frequencies proposed on Auckland-Adelaide, Auckland-Perth, Brisbane-Wellington and Melbourne-Wellington. Frequencies have increased under the Alliance by an additional 310 return trips per year on non-Christchurch routes. However, due to a drop in demand following the Christchurch earthquakes there has been a reduction of 465 return trips on Christchurch routes. As expected, the Applicants were also able to implement some additional frequencies in peak periods on Sydney-Wellington. However, there was not the demand for these to be sustained year round.

3.39 Instead of increasing frequency on Auckland-Perth, Air New Zealand upgauged its daily Auckland-Perth service from a Boeing 767 to a 777 on 3 September 2012. This will result in approximately [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] additional seats (for Year 2 compared with the Pre-Alliance Year). This has also resulted in an improved product being provided to customers with lie flat business class seats and a premium economy offering.

3.40 The Applicants proposed double daily services from July through September and 12 services weekly from October through June on the Auckland-Coolangatta sector.[41] Both Applicants operate on this route and the Applicants have maintained a strong schedule with improved spread as well as up to 13 services per week in the peak months of July, December and January. While the Alliance has not yet reached the anticipated level of services for all months

[40] Final Determination at par 5.133.

[41] Applicants', Submission in response to Draft Determination, 11 October 2010 at p.28.

of the year, some of the anticipated demand for these services will have formed part of the growth on related routes such as Christchurch-Coolangatta, Auckland-Brisbane and the new Auckland-Sunshine Coast services.

3.41 The Applicants started the new seasonal services from Auckland to the Sunshine Coast twice a week between July and September 2012. This new route was made possible by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] the strength of the Alliance. The Applicants intend to operate these services again in the northern summer 2013 season.

3.42 In addition to the new routes and new frequencies that have already been implemented by the Alliance, the Applicants are actively engaged in exploring new opportunities. [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

3.43 Further details of the Alliance's improved network changes and increased frequencies by sector are set out at **Confidential Annexure F**.

Cost savings and other efficiencies

3.44 The ACCC acknowledged that the Alliance would be likely to facilitate and achieve cost savings and efficiencies which are a public benefit in and of themselves.[42]

3.45 In their initial application for authorisation, the Applicants envisaged that the Alliance would result in cost savings and efficiencies in the following areas:

- higher load factors resulting in a lower cost per seat sold;
- joint procurement;
- collocation of certain functions and utilisation of common resources;
- operational optimisation; and
- removal of double marginalisation.

3.46 Examples of the cost savings and efficiencies that have been achieved to date are set out below. Many of the cost savings achievable under the Alliance could not be fully realised in the first 18 months of implementation and are still to come. These include, cost savings that will be delivered over time from better fleet planning and operational changes and cost savings from improved or more efficient contractual arrangements with suppliers.

Higher load factors resulting in a lower cost per seat sold

3.47 The Applicants originally submitted that increased load factors under the Alliance will result in public benefit either directly through greater efficiency (ie, lower cost per seat sold) or indirectly by supporting greater total output (ie, increased capacity) and that the overall increase in passenger numbers under the Alliance is likely to have a combination of these effects.

3.48 A plane has a set number of available seats and if the plane leaves the gate with empty seats, this inventory cannot be stored and is lost. That is, the overall costs of operating the flight are fixed, hence the greater the number of passengers on that flight the more efficient the use of the plane's "perishable" inventory, which is reflected in a lower average cost per seat sold.

[42] Final Determination at par 5.160, 5.195 and 5.196.

3.49 In the Draft Determination, the ACCC accepted that increased load factors, to the extent that they are realised under the Alliance, represent a source of efficiency improvement through lowering of cost per seat sold.

3.50 In its Final Determination, the ACCC noted that, the Alliance would be likely to have an overall stimulatory effect on Trans Tasman traffic and on that basis concluded that the Alliance would likely generate public benefits through increased load factors.[43]

3.51 As anticipated, the Alliance has resulted in higher load factors. The load factor on the Tasman increased from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] in the Pre-Alliance Year to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] in Year 1, at the same time as overall capacity has increased. The increased load factor achieved under the Alliance has resulted in a lower overall average cost per seat sold. In addition, as anticipated, travellers have also benefited indirectly from increased load factors supporting greater total output in the form of new routes and additional frequencies and capacity on existing routes as discussed above.

3.52 Further information on the Alliance's load factors by sector can be found at **Confidential Annexure E**.

Joint procurement

3.53 The Applicants have and will continue to review opportunities for cost savings from joint procurement activities.

3.54 In November 2012, Air New Zealand announced that from early 2013 it would be moving its Australian Ground Handling contract to Toll Dnata, who also supply ground handling services for Virgin Australia. This move is largely attributable to the Alliance and Air New Zealand expects to realise cost savings of approximately [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] per annum in the first year, increasing to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] per annum as a result of this change.

3.55 Large scale procurement such as fuel and ground handling are generally contracted for a number of years in advance. As these arrangements expire the Applicants expect to be able to capitalise on further cost saving opportunities.

Collocation of certain functions and utilisation of common resources

3.56 The Applicants have also been able to achieve savings in operational areas. For example, Air New Zealand and Virgin Australia entered into an engine access agreement in December 2011 which enables the parties to pool their spare B777 engines and reduce the overall number of spares required to be held by each party. This represents a substantial saving of up to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] for each party.

3.57 Air New Zealand and Virgin Australia are actively engaged in discussions about further cost savings opportunities. For example:

- the Applicants are exploring further opportunities to realise improvements and cost savings for other engine types. The opportunities being developed currently include sharing of knowledge, systems, personnel and joint training.

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[43] Final Determination at par 5.192.

- Air New Zealand uses kiosk check in for international flights out of New Zealand and Sydney. [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Operational optimisation

3.58 The optimisation of the Applicant's combined Tasman network offering under the Alliance has allowed them to achieve cost savings by utilising their fleet in a more cost efficient way. This has created a more efficient network and schedule offering without the associated increase in fixed costs that would be incurred by the Applicants acting independently. For example:

- Virgin Australia is operating the seasonal Dunedin-Sydney and Dunedin-Melbourne services previously operated by Air New Zealand which complements the existing Virgin Australia schedule on Brisbane-Dunedin.
- Air New Zealand becoming the Alliance carrier on the Sydney-Wellington route utilises the market presence of Air New Zealand on this sector, while Virgin Australia has been able to utilise the advantages of its home hub in Brisbane by becoming the Alliance carrier on the Brisbane-Wellington route.
- Air New Zealand's operation of the Auckland-Cairns services allows the Alliance to take advantage of the Air New Zealand's sales strength on a sector which is largely a New Zealand point of sale sector.[44]

The Alliance has enabled more effective handling of flight disruptions including utilising each other's aircraft (both scheduled and non-scheduled flights) to re-accommodate passengers in a disrupt situation. Such assistance also saves costs. Potential opportunities currently under review include the sharing of systems, personnel and resources and joint purchasing initiatives that leverage on combined buying power.

3.59 In particular, at the expiration of the existing contracts, the Applicants intend to review the following operations in order to derive future cost savings:

- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**];
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**];
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**];
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**];
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Reduced pro-rate costs and removal of double marginalisation

3.60 In their initial application for authorisation, the Applicants stated that the Alliance would create the opportunity for reduced costs for connecting services. In particular it would facilitate more low cost code share inventory, which would enable the parties to offer a more competitive combined fare for connecting services than was possible under an arms-length arrangement. In the Draft Determination,[45] the ACCC noted that revenue sharing under the Alliance would give

[44] This move has also provided passengers with additional benefits on the sector such as IFE for all passengers, irrespective of fare type and a daytime flight schedule with the removal of overnight flying.

[45] ACCC, Draft Determination: Applications for authorisation lodged by Virgin Blue Airlines Pty Ltd and Others in respect of an airline alliance between the applicants (**Draft Determination**). 10 September 2010.

the Applicants an incentive to offer cost reflective fares on complementary flights,[46] but questioned whether in practice these benefits would be widespread across the Tasman[47] and also questioned the proportion of total Trans Tasman passengers under that Alliance that would purchase onward (complementary) flights beyond current destination points in Australia.

3.61 In their responding submission, the Applicants were able to provide substantive evidence of the large number of connecting fares that would benefit from the Applicants sharing low cost code share inventory with each other. Accordingly, in the Final Determination the ACCC accepted that the removal of double marginalisation under the Alliance was a direct benefit to Trans Tasman passengers who prefer to travel with one of the Applicants post-Alliance and utilise connections in both Australia and New Zealand beyond the Trans Tasman gateway destinations.[48] The ACCC also noted that revenue sharing permitted under the Alliance would provide the Applicants with the incentive to offer fares on complementary flights that incorporate a lower margin than currently offered in interline agreements (eg, between Air New Zealand and Qantas)[49] and that the removal of double marginalisation could permit fare reductions.

Revenue sharing under the Alliance has provided the Applicants with the incentive to offer cost reflective fares on complementary flights leading to the realisation of the benefits of reduced pro-rate costs and the removal of double marginalisation. As a result, the Applicants have been able to pass through these lower costs on connecting services to consumers via lower fares. For example, between the Pre-Alliance Year and Year 1, Air New Zealand sold journeys that included a domestic Australian sector at [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] lower fares than in the Pre-Alliance Year. In relation to Virgin Australia, New Zealand connectors are not as significant due to the large number of direct flights to key New Zealand ports. Virgin Australia also did not have an interline arrangement with another competitor prior to the Alliance to compare the pro-rates.

3.62 The wide spread benefit of these lower fares to consumers is reflected in the fact that, between the Pre-Alliance Year and Year 1, Air New Zealand sold an additional [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] journeys that included a domestic Australian sector. This also reflects increased connecting fare competition as a result of the Alliance.

3.63 Further information on rates charged to Air New Zealand under the Qantas interline agreement versus the rates charged by Virgin Australia under the Alliance and the impact on fare levels is provided at **Air New Zealand Confidential Annexure J**.

Promotion of competition

3.64 The essence of competition is seeking to win customers away from competitors by providing a service-price offering that the customer prefers to the service-price offering of other competitors. In short, competition is about offering customers a choice.

3.65 Under the Alliance, the Applicants' have been able to achieve this. Customers now have the choice to access an Alliance product with better frequencies, pricing, frequent flyer value and a more integrated network than either airline could have offered alone. This has allowed the Applicants to compete more effectively with the Qantas-Jetstar Group for both leisure and business passengers on the Tasman and throughout Australasia.

[46] Draft Determination at par 5.154.
[47] Draft Determination at par 5.155.
[48] Final Determination at par 5.177.
[49] Final Determination at par 5.170.

3.66 In response to the Applicant's submissions, the ACCC concluded that the Alliance had the potential to confer material public benefits by stimulating competition.[50] The ACCC noted that the Alliance was likely to enhance the Applicants' product and service offering and could lead to lower fares to the extent that cost savings and efficiency gains are passed through to consumers. The ACCC considered that this had the potential to trigger a competitive reaction from the Qantas-Jetstar Group which could lead to better price and service offerings and potentially lower fares for Qantas-Jetstar Group passengers. In turn, the Qantas-Jetstar Group's reaction to the Alliance could stimulate a second round competitive response from the Alliance.[51]

3.67 Since the authorisation of the Alliance the Trans Tasman market has seen frequent and aggressive tactical pricing activity and carrier entry and expansion.

3.68 For example, from January to August 2010 to the same period in 2012, there has been an increase in the total frequency of tactical sales activity on the Auckland-Sydney route. In particular, Qantas, Jetstar and Emirates increased their sales activity over that period. The Auckland-Sydney route is representative of the increased tactical sales activity across other Trans Tasman Sectors due to each airline generally releasing network wide sales.

3.69 Entry and expansion on the Tasman since the Alliance has included the entry of China Airlines onto Auckland-Brisbane in 2011 and its expansion onto Auckland-Sydney in October 2012. Jetstar and Emirates have also expanded their Tasman operations. There have been substantial increases in capacity by Emirates (13.3%), Jetstar (5.2%), LAN Airlines (4.2%) and Qantas (2.1%) on the Tasman from the Pre-Alliance Year to Year 1. Since November 2012, Jetstar has increased capacity further with an additional aircraft to its New Zealand based fleet.

3.70 Qantas and Emirates have also proposed entry into an alliance for broad cooperation across their global networks including the Tasman. The ACCC has issued a draft determination approving this alliance and the Applicants understand a decision is expected late March 2013.

3.71 The ACCC considered that the Alliance would be likely to strengthen Virgin Australia's capacity to contest the business traveller segment of the Trans Tasman market (a key rationale for the Alliance) and enhance the Applicants' prospects of attracting additional corporate and government customers who might otherwise have signed with Qantas. It was further accepted that increased competitive pressure on Qantas in the market for business passengers could benefit Qantas passengers as well.[52]

3.72 The Alliance has enabled Virgin Australia to access more of the corporate market than would otherwise be the case. The Applicants have seen significant growth in corporate revenue as a result of the Alliance. Trans Tasman revenue on Air New Zealand code through contracted [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

3.73 The Alliance has enabled the Applicants to retain significant corporate contracts and attract new corporate contracts which might previously have been signed with Qantas. This is due to the greater scope of benefits available to consumers under the Alliance than could be offered by the Applicants on their own.

3.74 Examples of the Alliance's corporate contracts include:

- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

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[50] Final Determination at par 5.213.

[51] Final Determination at par 5.203.

[52] Final Determination at par 5.210 and 5.212-5.213.

- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

3.75 The Alliance has allowed Virgin Australia to quickly and efficiently provide customers with a stronger product offering in competition with the Qantas-Jetstar Group promoting competition for air travel within and to/from Australia and giving Australian travellers the choice of a second international Australian based airline.

3.76 In light of the recent draft approval of the Qantas / Emirates alliance there is an even greater need for reauthorisation of the Alliance so that Virgin Australia can continue to provide consumers with an alternative competitive offering and continue to exert service and price pressure on Qantas and Emirates.

Stimulation of tourism

3.77 New Zealand is Australia's largest source of inbound tourism. There was A$2.1 billion in total spend from New Zealand travellers to Australia in 2011 and the Tourism 2020 strategy estimates that New Zealand tourism has the potential to grow to between A$3.4 billion and A$4.2 billion in total expenditure by 2020.[53]

3.78 In their initial authorisation application, the Applicants submitted that the increase in Trans Tasman passenger traffic resulting from the Alliance would in turn stimulate tourism. In particular, the Alliance would increase the attractiveness of Australia to New Zealanders through:

- the improved product offering available under the Alliance;
- the creation of a second comprehensive Australasian network in competition with the Qantas-Jetstar group, offering increased competition and greater consumer choice;
- incentives to jointly promote travel on Alliance services and Alliance destinations; and
- the Alliance's improved distribution channels.

3.79 Specifically, the Applicants suggested that tourism in destinations beyond the East Coast Gateways, including the Northern Territory, Western Australia and South Australia, would benefit.

3.80 The ACCC has recognised that airline alliances can stimulate tourism by:

- making Australia more accessible or convenient as a tourist destination by enhancing the alliance's product and service offering; and
- allowing the parties to exploit synergies through joint rather than separate tourism promotion activity.[54]

3.81 In particular, the ACCC accepted that:

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[53] Tourism Australia, *New Zealand* available at http://www.tourism.australia.com/en-au/markets/new-zealand.aspx.

[54] QF/EK Draft Determination, at par 186, p43.

- stimulation of tourism was a potential source of public benefit under the Alliance;
- the Alliance was likely to have an overall stimulatory effect on Trans Tasman traffic and considering that the extent of tourism benefits realised under the Alliance would be highly (positively) correlated with the additional Trans Tasman traffic, further accepted that the Alliance was likely to generate tourism-related public benefits;
- the Alliance had the potential to stimulate tourism spend in Australia (and New Zealand) and the revenue sharing arrangements underpinning the Alliance would provide a strong incentive to pursue joint marketing opportunities;[55]
- the increased online connection options under the Alliance would also be available to long haul international passengers; and
- the Alliance would make it more convenient for travellers to travel beyond Trans Tasman gateway destinations in Australia and New Zealand.

Stimulation of tourism through an enhanced product and service offering and increased passenger traffic

3.82 As previously discussed, the Alliance has resulted in increased passenger traffic on Alliance services and increased online connections.

3.83 The Alliance has and will continue to allow for increased short haul tourism and long haul dual destination tourism.

3.84 An important characteristic of long haul international tourists to Australia is their propensity to take the opportunity to visit other destinations at the same time. In order to attract dual destination travel it is important to be able to offer extensive domestic Australian and New Zealand networks.

3.85 The Alliance has these characteristics and both partners are committed to development of fare products which support these objectives. Such products are technically possible following Virgin Australia's migration to SabreSonic and the Rivera revenue accounting platform. Prior to migration, Virgin Australia did not have the ability to support settlement of such itineraries and the development of these products was challenging, due to IT incompatibilities.

Joint marketing

3.86 Both Applicants have relationships with Tourism New Zealand (**TNZ**) and regional New Zealand tourism organisations. Together they support the Alliance network by ensuring that both airlines maximise airtime within TNZ activity.

3.87 Each financial year the Alliance undertakes joint promotional activity in New Zealand and Australia. Examples of these marketing initiatives are provided at **Confidential Annexure G**.

3.88 The Alliance's ability to jointly host familiarisation groups[56] and media has expanded these marketing arrangements so that new, non-gateway destinations can now be showcased to the consumer. For example, in September 2012 the Alliance undertook a joint marketing venture with Tourism Western Australia for Broome. Air New Zealand transported a familiarisation group to Perth while Virgin Australia carried them from Perth to Broome.

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[55] Final Determination at par 5.241.

[56] The purpose of a familiarisation group is to take trade agents, product/marketing managers away to experience new destinations.

3.89 Another example of a joint marketing endeavour made possible under the Alliance was the Seniors Card promotion with AAT Kings & Tourism Tasmania. The prize-winners were awarded a ticket from New Zealand to Hobart. Air New Zealand carried passengers across the Tasman while Virgin Australia carried passengers to Hobart.

3.90 The Alliance has also enabled the Applicants to more efficiently use their marketing spend and increase their scope of destination promoting activity. Further details of Australia and New Zealand point of sale promotions are set out at **Confidential Annexure G**.

3.91 Examples of marketing investment by the Applicants are the "Just 3 hours away" winter campaigns in 2011 and 2012 and "The Kiwi Sceptics" campaigns in 2012. The work has gained considerable attention in Australia, with Kiwi Sceptics recognised globally in creative awards, and indications that consideration of New Zealand, Air New Zealand and Virgin Australia has grown as a result.

3.92 The Alliance actively works with TNZ to promote and stimulate tourism to New Zealand. The Alliance advises TNZ of all planned sales so that it is easy for TNZ to leverage off the tactical fares the Alliance has on offer and promote New Zealand to the travelling public. As an Alliance Air New Zealand and Virgin Australia are able to provide TNZ with greater opportunity to promote New Zealand due to the strength and reach of the combined Alliance network.

3.93 Since the implementation of the Alliance, the Applicants have been able to utilise their marketing spend for the Trans Tasman more efficiently than was possible prior to the Alliance.

Joint promotion of the Alliance

3.94 Through the Joint Sales Team, the Applicants have conducted regular coordinated marketing campaigns to stimulate travel on the Trans Tasman and educate the public about the Alliance. Specific Joint awareness campaigns which have been undertaken in 2011 and 2012 are set out at **Confidential Annexure G**.

3.95 In addition to the joint awareness activity, the Alliance has been to market three times with specific Alliance retail campaigns. The "Bromance Sale" was in market in two bursts in 2011 to celebrate the launch of the Alliance and the "Friends with benefits" sale in 2012 to leverage the 1 year anniversary of the partnership. The campaigns included a tactical offer and key messaging reinforced the consumer benefits of better flight times and reciprocal loyalty rewards.

3.96 In relation to general retail marketing, since authorisation the Applicants have conducted a minimum of one proactive retail marketing campaign per month. For the second half of the 2012 financial year there were up to two proactive retail campaigns per month. These campaigns have been promoted on television, press, online and electronic mail.

3.97 A sample of the campaigns is set out in **Confidential Annexure G**.

3.98 In addition to the specific Trans Tasman campaigns, the Alliance is also involved in regular retail campaigns. This includes Alliance awareness messaging. For example, in electronic mail outs to loyalty program members, Alliance messaging is included. The Alliance has also produced an "Alliance brochure" to assist the travel agent trade to sell the Alliance and identify the product offerings of each airline.

Improved distribution channels

3.99 The implementation of codesharing across each other's Network Alliance Routes has greatly expanded the availability of inventory through various distribution channels. Before implementing the Alliance, Virgin Australia and Air New Zealand both had distribution strength in differing channels. Air New Zealand had a strong presence across indirect channels (particularly through GDS channels) as well as in the online space, with a stronger presence in

New Zealand regions. Conversely, Virgin Australia had a stronger presence within Australia, and a strong presence through direct channels and non-GDS direct channels using bespoke business interfaces (such as API). Such interfaces are preferred by many large travel retailers within Australia, and are favoured due to lower transaction costs.

3.100 The recent Virgin Australia migration to the SabreSonic and Rivera revenue accounting platform has removed the reporting limitations that were inherent in Virgin Australia's previous reservation platform and will allow for greater and easier alignment of reporting enhancing the ability of the Applicants to more effectively cooperate in sales and distribution.

4 No anti-competitive detriment

ACCC assessment

4.1 The ACCC analysed the impact of the Alliance on competition in the Trans Tasman air passenger services market on city pair by city pair basis. [57] In the Final Determination, the ACCC considered that the Alliance:

- was likely to result in material competition issues, (ie, there was scope for the Alliance to exercise market power whether through raising fares, reducing or withholding capacity or otherwise decreasing service quality), on Sydney-Wellington; Melbourne-Wellington; Brisbane-Wellington; and Brisbane-Dunedin.
- *may* adversely affect competition on Auckland-Brisbane and Queenstown-Sydney. However, given the information available at the time it was difficult to be definitive about the likely competition effect on these routes.[58]

4.2 The ACCC also noted that whether the Alliance would exercise market power through raising fares, reducing or withholding capacity or otherwise decreasing service quality would depend on two key factors:

- whether the Alliance would generate benefits that would make it a more effective competitor than Air New Zealand or Virgin Australia acting independently; and
- the competitive constraint imposed by other carriers and their incentive and ability to expand capacity in the event that the Alliance partners attempt to exercise market power (assuming the Alliance partners had market power to exercise).[59]

Impact of the Alliance on competition

More effective competitor as an Alliance than Applicants would be independently

4.3 The Alliance has not, and will not (following reauthorisation), result in any material anti-competitive detriment in the Trans Tasman air passenger market or on any individual route. The Alliance has enabled the Applicants to become a more effective competitor than Air New Zealand or Virgin Australia could be acting independently. Rather than decreasing the quality of its service offering, the Alliance has provided an improved service offering that consumers value. This improved service offering would not have been achievable without the authorisation and has increased passenger traffic onto Alliance services. The Alliance has led to a reduction in the combined average fares of the Applicants and the Applicants have not reduced or

[57] Final Determination par 5.247 – 5.251.

[58] Final Determination par 5.355, 5.401 and 5.436.

[59] Final Determination par 5.286 – 5.288.

withheld capacity in an anti-competitive way on the Tasman or any individual Trans Tasman route. Nor do the structure or commercial objectives of the Alliance provide the incentives to do this in the future.

4.4 The core rationale of the Alliance was always to increase the number of passengers travelling on the Applicants' combined services through the development of a second integrated Australasian network with enhanced services. The Alliance was designed to ensure that each Applicant has the incentive to achieve this commercial objective for the Alliance as a whole and as a result there has not been an incentive to remove capacity or increase prices in an anti-competitive way. In fact, as a result of the increased passenger numbers generated by the Alliance, the Applicants have been incentivised to increase capacity and fill that capacity by continuing to compete strongly on product and price.

Alliance capacity

4.5 Trans Tasman Alliance capacity has grown by 5% from the Pre-Alliance Year to Year 1. On non-Christchurch routes Alliance capacity grew by 10.1% over the same time period. With the exception of the Christchurch routes, which suffered depressed demand as a result of the earthquake and aftershocks, and the Hamilton routes, from which unprofitable services were withdrawn, Alliance capacity increased on all routes over this time period. An analysis of capacity growth on Alliance services is provided at **Confidential Annexure E**.

4.6 In addition to the 5% additional capacity added by the Alliance, the Applicants also had access to the excess capacity Virgin Australia had in the market prior to authorisation. From Pre-Alliance Year to Year 1, Virgin Australia's average load factor has grown from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Alliance fares

4.7 Across Trans Tasman routes, combined Alliance average fares have decreased overall by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] from the Pre-Alliance Year to Year 1. Average fares are nominal figures (in that they are not adjusted for CPI/inflation) consequently the real decrease would be even more significant. An analysis of average fares under the Alliance is provided at **Confidential Annexure H**.

4.8 The metal neutral nature of the Alliance has resulted in differential fare changes for Virgin Australia and Air New Zealand, as the average fare levels of each carrier move to alignment to coincide with the alignment of products and sales.

4.9 As a result of the Alliance, Virgin Australia has been able to provide an improved product and network offering. This has allowed Virgin Australia to attract higher yielding passengers which was one of commercial objectives behind the Alliance. Consequently, Virgin Australia's fare class mix has been altered and since the implementation of the Alliance, the overall Tasman average fare of Virgin Australia has increased. At the same time, under the Alliance, the average fare for Air New Zealand over Trans Tasman routes fell by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

4.10 Virgin Australia's ability to achieve an increase in average fares on the Tasman and on certain routes is also a function of other factors which are dealt with in more detail below, including:

- network changes or the operation of a different schedule under the Alliance;
- the sale of the full range of Air New Zealand's product types on flights operated by Virgin Australia;
- fuel cost increases; and

- the ability to sell higher fare inventory, where increased demand (as reflected in higher load ratios) has allowed Virgin Australia to sell additional seats at fares that it would not otherwise have sold.

4.11 To optimise the total network offering under the Alliance, Virgin Australia's network schedule has changed. Virgin Australia has rebalanced the services it operates (resulting in operational efficiencies). The rebalance of Virgin Australia's services has resulted in increased Virgin Australia capacity on routes which tend to have higher fares due to the particular route characteristics such as the thin seasonal route of Brisbane-Queenstown and decreased Virgin Australia capacity (but not total Alliance capacity) on routes which tend to have lower fare levels such as Auckland-Sydney. The Applicants estimate that this factor is responsible for around half of the increase in Virgin Australia's total average fare.

4.12 Prior to the Alliance, Virgin Australia only sold saver fares and not an all inclusive fare. Under the Alliance, Air New Zealand has been able to offer the full range of product types on Virgin Australia operated flights. This has meant that Virgin Australia have carried more full service customers who pay higher fares for the additional service inclusions. In Year 1, Air New Zealand sold [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] Works customers out of Virgin Australia's total of [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] customers. This equates to around a quarter of the increase in the Tasman average fare for Virgin Australia.

4.13 Auckland-Coolangatta and Auckland-Melbourne, as with other routes, were affected by fuel cost increases. Although Virgin Australia's average fare increased on these sectors, Virgin Australia's relative average fare is now in-line with the Tasman average, whilst in the Pre-Alliance Year their average fares on these sectors were below the average.

4.14 However, as previously discussed, the Alliance has also enabled opportunities for lower fare levels. For example, reduced pro-rate costs and the cost reduction from the removal of double marginalisation have been passed through to consumers on connecting services in the form of lower fare levels. In Year 1, Air New Zealand sold journeys that included a domestic Australian sector at [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] lower fares than in the Pre-Alliance Year.

4.15 Under the Alliance, there has been no anti-competitive adverse impact on overall fare levels or the availability of fares in lower classes. In fact, as demonstrated in Figure 6 below, the volumes of lead-in and sale fares sold on Virgin Australia operated flights have increased between the Pre-Alliance Year and Year 1 by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. As a proportion of Virgin Australia's total customers, this represents an increase from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Figure 6 Lead-in and sales fare volumes on Virgin Australia operated flights

[**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

4.16 As shown in Figure 7 below, between the Pre-Alliance Year and Year 1, Trans Tasman flights operated by Air New Zealand carried [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] more customers paying lead-in or sales fares. As a proportion of Air New Zealand's total customers, this has reduced but not in a material way.

Figure 7 Lead-in and sales fare volumes on Air New Zealand operated flights

[**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Competitive constraint imposed by other carriers

4.17 The Tasman is a highly competitive market characterised by substantial capacity and strong fare competition. The Alliance faces, and will continue to face, strong competition on the Tasman in the form of new entry and expansion as well as the expansion of existing carriers, including on the individual routes subject to the Conditions. Since the implementation of the Alliance, there has been entry and expansion on both the Auckland-Brisbane route (by China Airlines) and the Queenstown-Sydney route (by Jetstar). There have also been substantial increases in capacity by Emirates (13.3%), Jetstar (5.2%), LAN Airlines (4.2%) and Qantas (2.1%) on the Tasman from the Pre-Alliance Year to Year 1.

4.18 Further information on the competitive constraint imposed by other carriers on a route by route basis is provided at **Annexure I**.

No anti-competitive detriment on the Tasman or on any city pair

4.19 As discussed in detail above, the Alliance has not, and if reauthorised will not, result in any anti-competitive detriment on the Tasman as a whole or on any individual route. Competitive constraints are such that this will continue to be the case.

4.20 A route by route break down of Alliance average fares has been provided in **Confidential Annexure H** and an analysis of the competitive dynamics on specific routes is provided in **Annexure I**.

5 Operation of the capacity conditions

Background to the capacity conditions

5.1 Authorisation of the Alliance was granted subject to the capacity conditions set out in the Final Determination at Attachment A - Conditions of authorisation (**Conditions**).

5.2 Broadly speaking, the Conditions require the Applicants to maintain a base level of capacity on the Trans Tasman as a whole and grow capacity seasonally on individually identified routes (Brisbane / Melbourne / Sydney-Wellington, Auckland-Brisbane, Queenstown-Sydney, and Brisbane-Dunedin) in line with the greater of the most recent economic growth or growth in Trans Tasman passenger demand for the term of the authorisation.

5.3 There is also a requirement that the Applicants provide an independently audited report to the ACCC confirming their compliance with the Conditions within 25 business days of the end of each scheduling season.

5.4 The Applicants considered that the Alliance would result in compelling public benefits. Although the Applicants were confident that the Alliance would lead to passenger stimulation and strong price and service competition on the Tasman such that the Applicants would not have the ability or the incentive to unilaterally raise prices or reduce capacity on the Tasman, or on any individual route, the ACCC expressed concern that on a number of individual routes the Applicants would be likely to unilaterally raise fares. The Applicants proposed the capacity conditions in order to address this concern.

5.5 In its Final Determination, the ACCC concluded that the benefits and detriments associated with the Alliance were likely to be finely balanced. It considered that the Alliance would be likely to result in anti-competitive detriment on routes to and from Wellington and on Brisbane-Dunedin.

It further said that "based on the information currently available, the ACCC considers that the effect of the Alliance on competition on the Auckland-Brisbane and Queenstown-Sydney routes is uncertain."[60] The ACCC accepted the proposed capacity conditions on the basis that the combination of public benefits and conditions were likely to be sufficient to outweigh any anti-competitive detriment on the identified routes or on the Tasman as a whole.

5.6 The Alliance has now been operational for approximately 18 months. Even in this short period of time, it is clear that the Alliance has resulted in compelling public benefits and that there have been strong competitive responses to the Alliance and new entry and expansion, including on the individual routes subject to the Conditions. The competitive response to the Alliance and the experience of the Alliance's implementation to date demonstrate that there is no ongoing requirement for the Conditions. As such, the Applicants submit that the Alliance should be reauthorised without any capacity conditions.

The Alliance has not and will not result in any route specific anti-competitive effects

5.7 In the Applicants initial submissions in support of authorisation and in response to the Draft Determination, the Applicants provided a detailed analysis of the competitive conditions on specific Trans Tasman routes. In its Draft Determination, the ACCC expressed concern, to varying degrees, in respect of specific identified routes. These routes were subsequently the subject of the Conditions. The responding submission addressed in detail the route specific competitive dynamics on the Condition routes, Auckland-Brisbane, Brisbane-Dunedin, Brisbane-Wellington, Melbourne-Wellington, Sydney-Wellington and Sydney-Queenstown. The analysis of route specific competitive dynamics has been updated at **Annexure I**.

5.8 In addition to the presence of FFCs, the responding submission to the Draft Determination identified the presence of Jetstar and Qantas on the Condition routes, or at least as operating into each of the airports on the Condition routes, and the lack of constraint on their ability to switch or expand capacity onto the identified routes as enough, in and of itself, to provide sufficient constraint on the Applicants. It was anticipated that Jetstar in particular would respond to the competitive threat represented by the Alliance through increased capacity. Since the implementation of the Alliance, there has been entry, expansion and exit of FFCs on the Trans Tasman and Jetstar and Qantas have expanded capacity by 5.2% and 2.1% respectively, notwithstanding the difficult market conditions.

5.9 In particular, the Applicants note that:

- China Airlines have commenced services on Auckland-Brisbane and there is potential for further FFC entry on this and other Trans Tasman routes;
- total and competitor capacity on Auckland-Brisbane has increased substantially between the Pre-Alliance Year and Year 1;
- Auckland-Coolangatta is a substitutable route should the Applicants increase prices or decrease capacity on Auckland-Brisbane;
- Jetstar has demonstrated its ability to move quickly to deploy capacity in response to market opportunities. In the one year period from the Pre-Alliance Year to Year 0, Jetstar increased capacity by 16.7%. As a result, any anti-competitive behaviour by the Alliance would only encourage Jetstar's entry;
- Jetstar has commenced services on Queenstown-Sydney since the Final Determination;

[60] Final Determination at ii.

- Jetstar also boosted flights from Australia to Queenstown including Queenstown-Sydney when it increased its New Zealand based fleet from 8 to 9 Airbus 320 aircraft from 15 November 2012;[61] and

- on each of the Condition routes, there has been a reduction in the combined Alliance average fare (with the exception of Sydney-Wellington where the average fare increased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**])[62] from the end of the Pre-Alliance Year to the end of Year 1.

5.10 The experience to date under the Alliance supports the Applicants' submission that there is unlikely to be any adverse competitive effects on any Trans Tasman route.

The Conditions are distortive and costly to both the Applicants and consumers

5.11 Since the authorisation came into effect, the Applicants have complied diligently with the Conditions. This compliance has been confirmed by the independent compliance audit reports that have been provided to the ACCC. The external audit services to monitor compliance with the Conditions are currently costing the Alliance in excess of [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] per annum.

5.12 The Conditions effectively set an output floor for the Alliance on the Tasman as a whole and on an escalating basis for particular routes. As such, the Applicants are concerned that the Conditions have the potential to create significant distortions and inefficiencies in the provision of Trans Tasman air passenger services which may not only result in compliance costs for the Applicants but in fact be to the detriment of consumers.

5.13 The Conditions reduce the ability of the Applicants to respond flexibly to adjust supply (ie, capacity) to demand because the Conditions artificially allocate capacity on the basis of a rigid formula that was determined in December 2010. This rigidity and artificial distortion to the dynamic air passenger services market comes at a cost.

5.14 For example, as a result of the February 2011 Christchurch earthquake, the Applicants experienced a material fall in demand for travel to/from Christchurch. Due to the Conditions the Applicants were unable to fully react to this change in market conditions until a variation to compliance with the Conditions was granted by the ACCC on 27 July 2011 and by the MOT on 2 August 2011. This approval was obtained almost 6 months after the Christchurch earthquake. The long booking curve (up to 12 months) on the Tasman meant that even after the Conditions were varied it was difficult to adjust capacity as required. This lack of flexibility resulted in the Applicants operating sub-optimal capacity over this period and additional passenger disruption as adjustments to capacity were made later in the booking curve than desired.

5.15 During the short operation of the Alliance, the Applicants have had to apply to the ACCC and the MOT three times for variation to the Conditions in response to exceptional circumstances:

- The application on 3 June 2011 to vary compliance with the Conditions as a result of the February 2011 earthquakes in Christchurch, New Zealand for NS11 and NW11. The ACCC made the variation on 27 July 2011.

- The application on 1 July 2011 to further vary compliance with the Conditions as a result of the June 2011 Chilean volcanic ash cloud activity over Australia and New Zealand. The ACCC made the variation on 4 August 2011.

[61] "Jetstar spreads its wings in New Zealand" available at: http://www.jetstar.com/mediacentre/latest-announcements/detail?Id=dda88062-1400-4919-a992-260fc926dc5b&language=en

[62] The increased average fare on this route was due to the exceptionally high demand from the Rugby World Cup 2011.

- The application on 21 March 2012 to vary compliance with the Conditions as a result of the continued impact of the February 2011 Christchurch earthquakes and aftershocks. The ACCC made the variation on 31 May 2012.

5.16 Considerable management time and external legal fees were also required to prepare and submit these requests for variation, and no doubt significant cost and resources were also invested by the ACCC and the MOT to consider and promptly respond to these requests.

5.17 There have been several other examples of market distortions caused by the application of the Conditions. For instance, during the NS11 season the Applicants experienced a higher level of operational (eg weather, engineering) cancellations than expected on the Brisbane-Wellington and Sydney-Wellington routes. As a consequence, the Applicants were obliged to add last minute capacity on these sectors to meet the Conditions. While the Applicants did everything possible to ensure the additional capacity was added at attractive timings for the public, the last minute nature of this capacity meant that the flights were added at times when additional capacity was not needed. The short lead time meant the flights took off with low seat factors. When combined with lower than average fare levels the revenue for these flights was insufficient to cover costs.

5.18 [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

5.19 [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

5.20 The Conditions also constrain the Applicants' ability to make efficient fleet and network planning decisions. For example, when considering the new route of Auckland-Sunshine Coast the Applicants were very mindful that this service would attract passengers who would otherwise fly to Brisbane and drive to the Sunshine Coast. With this traffic likely to divert from the Brisbane service to the Sunshine Coast service, the network planning teams would ordinarily look to whether some capacity should be redeployed from Brisbane to service the Sunshine Coast route. The net result in terms of matching capacity to demand would be neutral, but the Sunshine Coast bound passengers would be better off as they would be offered a direct service to their destination rather than having to drive to the Sunshine Coast from Brisbane and the new service would stimulate tourism. Despite these clear consumer benefits, compliance with the Conditions on the Auckland-Brisbane route meant that the Applicants were constrained by the Conditions which could have prevented the Applicants from choosing the best outcome for the market and the customer. Further, if it were not for [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] which offset this effect, the Applicants would not have launched this new service.

5.21 [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

5.22 Furthermore, the Conditions could also have the unintended consequence of making entry or expansion more difficult. The Tasman air passenger services market is characterised by a history of substantial capacity relative to passenger numbers. Under the Conditions, the Alliance cannot reduce its capacity (and must grow capacity over time) regardless of whether there is excess capacity on Condition routes. This regulated capacity is likely to discourage new entrants and make new entry more difficult. The ACCC acknowledged this in its recent draft determination on the proposed Qantas/ Emirates alliance.[63] This distortion would be exacerbated if the Qantas-Emirates alliance is approved and conditions are placed on approximately 95% of Tasman routes.

[63] QF/Emirates Determination at par 478, p100.

5.23 Further distortive effects are likely to be caused by competitor and supplier knowledge of the Applicants' obligation to operate according to a rigid, formula-driven, capacity floor per scheduling season. Specifically, the Conditions will influence the capacity deployment and pricing decisions of competitors as well as negotiations surrounding supplier charges (eg, airport aeronautical charges). The Conditions create an environment where suppliers including airports can raise prices, knowing that the relevant airlines are unable to adjust capacity.

5.24 The issues described above are ultimately detrimental to consumers as it forces the Applicants to either pass on these additional costs or absorb them into their cost base. If costs are passed on, the price of air travel rises and demand decreases. If the costs are absorbed without reducing capacity, either returns are lower or the Applicants must raise prices in other markets to compensate.

The Conditions are not needed to satisfy the public benefits test

5.25 The ACCC has now had the opportunity to observe the effect of the Alliance and the impact of the Conditions. The Conditions were introduced to address the ACCC's concern at the time of authorisation that the detriments/benefits might be finely balanced.

5.26 Short term or initial capacity conditions may be justifiable in cases which are finely balanced. However, the Alliance has clearly demonstrated that it has resulted in net public benefits and as discussed above, reauthorisation will result in further and deeper benefits from the Alliance without any material public detriment, including on any individual route. It cannot be considered that the public benefits and detriments from the Alliance are finely balanced. It is submitted that the Alliance experience of the past two years should address any concerns which existed at the time of the initial authorisation.

5.27 The core rationale of the Alliance is to stimulate passengers on Alliance services. It has been structured in a way to incentivise capacity growth, not capacity reduction, and the Alliance has triggered significant increases in passenger numbers on Alliance services through its enhanced product offering. The combined Alliance average fares have decreased and there has been no anti-competitive reduction in capacity on any Trans Tasman route. In particular, the competitive dynamics on the Condition routes are such as to remove any need for the Conditions.

5.28 The Applicants submit that the Conditions are no longer justified because they are unnecessary to satisfy the public benefits test, and, they also create market distortions, inflexibility, inefficiency in resource allocation and therefore result in unnecessary costs being incurred by the Applicants, the regulators and consumers.

6 Application for reauthorisation

Unconditional reauthorisation sought

6.1 The Applicants are seeking authorisation to continue to give effect to the Alliance under ss 88(1A) and 88(1) of the *Competition and Consumer Act 2010* (Cth).

6.2 The Applicants submit that:

- the ACCC should authorise the Alliance for a period of no less than 5 years from 31 December 2013 (the expiry date of the current authorisation); and
- the authorisation should be free from any conditions, for the reasons outlined above.

6.3 An initial expiry date of 31 December 2013 was put in place by the ACCC, rather than allowing authorisation of the Alliance for the 5 year period sought by the Applicants. This was done to allow an opportunity for early review of developments as the ACCC perceived there to be a fine balance of benefits and detriments. A significant role was to be played by the Conditions in that balance.

6.4 The operation of the Alliance has demonstrated that there is not a fine balance of benefits and detriments and that the Conditions are not required to deliver a net public benefit. As set out above, in the two years since the authorisation came into effect, the Alliance has delivered substantial public benefits and has not resulted in any anti-competitive detriment on the Tasman as a whole or on any individual route. These public benefits will continue to increase in scope and substance, and it is likely that additional public benefits will become available, if the Alliance is reauthorised.

Implementation costs

6.5 The Applicants have incurred substantial costs in establishing and implementing the Alliance. Reauthorisation is not only required to continue the expansion of public benefits but also to realise the financial benefits of this investment. The combined costs of establishing the Alliance, including the costs of negotiating and documenting the Alliance and of obtaining authorisation in Australia and New Zealand, have already amounted to over [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. This does not include the considerable internal resources dedicated to drafting the submissions required for the authorisation and compliance process and the Alliance agreements. To complete those tasks, internal resources have been engaged over a period of more than 12 months.

6.6 Since the implementation of the Alliance, each of Virgin Australia and Air New Zealand has incurred substantial capital and operational costs in moving to fully establish the Alliance. This has included process design, training, and issue resolution across all areas of each operation in order to establish business as usual processes. Affected operational areas include web site teams, contact centres, trade support teams, airport teams, cabin crew, guest relations, revenue and network management, sales and finance.

6.7 Air New Zealand has spent [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] implementing the Alliance and has recently spent a further [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] on system changes in connection with Virgin Australia's move to SabreSonic. The [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] consists of capital expenditure on IT systems for Loyalty [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**], reservation system integration ([**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]), sales and distribution channels ([**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]), airports ([**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]) and approximately [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] on additional set up costs.

6.8 Virgin Australia's capitalised information technology costs in implementing the Alliance to date are approximately [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Virgin Australia would not have incurred these costs absent the Alliance. In addition, Virgin Australia has incurred internal resourcing costs involving design and implementation of new Alliance processes of [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] as well as other Alliance implementation costs.

Counterfactual

6.9 The Applicants require reauthorisation in order to continue to realise and expand on the public benefits set out above.

6.10 If reauthorisation were not granted, the Applicants would immediately take steps to unwind the Alliance. In particular, each Applicant would:

- remove its code from the other's services and terminate or renegotiate the interline pricing for access to its domestic network;
- review its network with a view to adjusting capacity where necessary to reflect the likely reduced demand due to the loss of connectivity and distribution provided by their former Alliance partner;
- retime services to maximise load factors on its own services even though that may result in wingtip flying with their former Alliance partner;
- take steps to secure access to slots that were surrendered during the term of the Alliance;
- terminate their former Alliance partner's access to its lounges; and
- renegotiate access to reciprocal frequent flyer benefits with their former Alliance partner. This would involve less favourable commercial terms which would impact the overall benefit to consumers.

6.11 While there may be opportunities for limited cooperation to continue (such as limited interline and disrupt arrangements) the incentive to cooperate in any significant way would be lost as each party reverts to protecting the financial performance of its own Tasman services. Consequently, the pro-rate pricing, access to inventory and terms of any such co-operation without the Alliance would be much less favourable than under the Alliance.

6.12 Virgin Australia passengers would immediately lose access to the frequencies and choice on the Tasman that they enjoyed through the Alliance as well as codeshare connectivity to domestic New Zealand. Air New Zealand passengers would immediately lose codeshare connectivity to domestic Australia and accordingly would remain at a competitive disadvantage to the Qantas-Jetstar Group in competing for passengers requiring access to or from points behind the main Australian gateways. Passengers from both airlines would suffer a reduction in their lounge and frequent flyer benefits.

6.13 The termination of the Alliance would make it significantly more difficult for Virgin Australia to compete with the Qantas-Jetstar Group for corporate and government accounts, as high frequencies on the Trans Tasman along with lounge networks and the ability to earn and burn frequent flyer points over a broad network is important to Australian and New Zealand business travellers. Under this scenario, the Qantas-Jetstar Group would revert to being the only market participant able to offer a comprehensive Australian and Tasman network which serves both the high yield or corporate passengers as well as the low cost leisure traveller. If the Qantas alliance with Emirates is also given final approval in relation to the Tasman this situation will become even worse for the Applicants.

6.14 In addition, each airline would also face significant write-off of capital expenditure, due to the large investment made by each airline in implementing the Alliance.

Conclusion

6.15 For the reasons set out above, the Applicants submit that the ACCC should grant unconditional reauthorisation of the Alliance for a period of not less than 5 years.

7 Glossary

ADL	means Adelaide Airport
AKL	means Auckland Airport
Applicants	means Virgin Australia and Air New Zealand
BITRE	means Bureau of Infrastructure, Transport and Regional Economics
BNE	means Brisbane Airport
CHC	means Christchurch International Airport
City pair	means two cities connected by a direct flight or connecting flights.
CNS	means Cairns Airport
Code sharing	means a special kind of interline arrangement whereby one airline's designator code is assigned to a flight operated by another airline
Customer Facing Products and Systems	include, but are not limited to: conditions of carriage, fare names, fare inclusions, fare rules (eg, cancellations and refunds), non airfare charges (eg, card payment fees), check-in processes, baggage handling processes, on board announcements, on board products, on board food and beverage, in-flight entertainment, high value customer benefits and any other products and systems deemed to be such by the Alliance Revenue Team from time to time
Day of the week clash	refers to sectors where both Air New Zealand and Virgin Australia operated less than 7 trips per week each. A day of week clash is where both carriers operate on the same day and leave another day with zero services
DIAC	means The Department of Immigration and Citizenship
DUD	means Dunedin International Airport
EK	means Emirates
FFP	means frequent flyer points
Fifth Freedom	means the right of an airline of one country to carry traffic between 2 foreign countries as long as the flight originates or terminates in its own country
FFC	refers to a carrier utilising Fifth Freedom rights
Free sale (code share)	means a direct sale of seats on the other carrier's aircraft, with no obligation to pre-purchase any volume of seats

FSA	means full service airline
HLZ	means Hamilton International Airport
Interline arrangements, agreements or partnerships	means arrangements, agreements or partnerships relating to the carriage of passengers and/or freight between two points using more than one airline under an arrangement which typically involves baggage check through and the honouring of tickets between airlines with a rate agreed by each carrier payable by the other carrier for such carriage
JQ	means Jetstar Airways
LA	means LAN Airlines
LCC	means low cost carrier
Load factor	means % of seats sold
MEL	means Melbourne Airport
Metal Neutrality	means a state of events in which each Party will be incentivised to treat all flying, regardless of carrier, within the scope of any of the provisions of this Agreement as flying on its own network and in which customers also will become neutral as to the choice among the Parties as carriers and among itineraries on any given route
Net Passenger Revenue	comprises of the following: Tasman passenger revenue (including revenue from FFP and OAL and revenue from any baggage and product upgrades). Note for Air New Zealand this excludes staff and duty travel. Plus: YQ Collections (fuel surcharges) Less: Standard commissions paid (commissions retained at the point of sale by the selling agent/ retailer)
Network Alliance Route	means any Trans Tasman Sector plus any domestic Australian or New Zealand sectors connecting to a Trans Tasman Sector as part of an international itinerary
NS	means the scheduling season for Northern Summer from 1 April to 31 October of any year
NW	means the scheduling season for Northern Winter from 1 November to 31 March of any year
NZ	means Air New Zealand
OOL	means Gold Coast Airport
Operating Carrier	means the party to a code share operating a code share flight with its own or leased aircraft

PER	means Perth International Airport
Pre-Alliance Year	means the period from 1 November 2009 to 31 October 2010. It is the year prior to the authorisation of the Alliance and is used throughout the submission as a reference point for comparison
QF	means Qantas Airways
ROT	means Rotorua Airport
Seat capacity	means the number of seats operated. Air New Zealand uses marketing seats (seats available for sale) Virgin Australia uses actual capacity (ie, the number of seats physically on the aircraft). This aligns with the data provided in the original application
Sector	means a non-stop flight leg between 2 points
SYD	means Sydney Airport
Trans Tasman Sectors	means any sectors between a point in Australia and a point in New Zealand, including when the ultimate destination of the service is another point in Australia, New Zealand or another country
Velocity	means Virgin Australia's loyalty program
VFR	means visiting friends and relatives
Wingtip flying	refers to when there are 2 flights, on the same sector, and they both depart in the same morning or afternoon or less than 3 hours apart. When there are more than two flights per day on a given sector, wingtip flying is defined as any flights that depart within 1 hour of each other
WLG	means Wellington International Airport
Year 0	means the period from 1 November 2010 to 31 October 2011. During Year 0, authorisation of the Alliance came into effect and some cooperative activities also commenced at different points throughout year.
Year 1	means the period from 1 November 2011 to 31 October 2012, being the first full year of data available with optimised schedules, the application of codeshare sales on certain sectors and certain other cooperative activities in place. It is used throughout the submission in comparison with Pre-Alliance Year data to provide some analysis of the impact of the Alliance since implementation
Year 2	means the period from 1 November 2012 to 31 October 2013
ZQN	means Queenstown Airport

Confidential Annexure A - Executed Agreements

[RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS]

Annexure B - Virgin Australia Group

RESTRICTION OF PUBLICATION CLAIMED IN PART

B1 Introduction

The Virgin Australia Group (**Virgin Australia**) commenced operations in Australia in August 2000. Virgin Australia Holdings Limited (**VAH**) is listed on the Australian Stock Exchange.[1] Virgin Australia currently operates 110 aircraft on approximately 3000 flights per week to 51 Australian and international destinations under the following brands.

- Virgin Australia; and
- Virgin Samoa (a joint venture with the Samoan Government).

B2 Brief history of the airline's transformation from Virgin Blue to Virgin Australia

Virgin Australia was initially launched as Virgin Blue, a Low Cost Carrier (**LCC**) serving a small number of domestic Australian routes. It then grew to include a short haul international airline branded Pacific Blue, a long haul international airline branded V Australia and a joint venture with the Samoan government branded Polynesian Blue.

Since its entry nearly 13 years ago, Virgin Australia has made a number of changes to its business model in order to take account of changing conditions in the Australian (and global) aviation industry and to pursue opportunities to increase its share of passengers and its profitability.

In late November 2005, Virgin Blue re-defined its business model and announced its move towards becoming a New World Carrier (**NWC**). A NWC is a low cost, high value airline that aims to attract a broader cross-section of passengers than the traditional LCC model, through leveraging the airline's low cost foundations and adding valuable new products which appeal to higher yielding passengers. This NWC strategy allowed Virgin Blue to continue low cost operations while strengthening yields and profitability. As part of this strategy, Virgin Blue introduced additional services including Velocity, The Lounge, self check-in kiosks, premium economy, Corporate Plus fares and Blue Holidays. Virgin Blue also expanded its network reach by purchasing new aircraft and adding new destinations to its network as well as commencing interlining arrangements with other airlines.

Since John Borghetti's appointment as CEO in May 2010 Virgin Australia has pursued its 'Game Change' strategy, designed to attract higher yield corporate and business passengers while remaining attractive to leisure passengers. Virgin Australia's Game Change strategy is to improve its network and product in order to expand its passenger base and challenge its closest competitor Qantas across more market segments, providing enhanced choice and competition for all Australian passengers.

On 4 May 2011, the Virgin Australia name and brand was introduced for the airline's domestic operations as part of its Game Change strategy. The brands Virgin Blue, Pacific Blue and V Australia were replaced by the single brand Virgin Australia and Polynesian Blue was renamed Virgin Samoa.

[1] Virgin Australia's international airlines are held by Virgin Australia International Holdings Pty Ltd, which is owned by VAH shareholders and comprehensively serviced and funded by VAH.

B3 Game Change Strategy

The Game Change Program[2] involves a vision of Virgin Australia:

- as the airline of choice by 2012;
- as Australia's best customer led organisation; and
- doing for corporate travellers what it did for leisure travellers.

The vision has been implemented by reference to five key strategic pillars:

1. maximise Virgin Australia's network to use its planes more productively;
2. establish an international network of airline partners to offer global flight coverage;
3. grow Virgin Australia's share of the corporate and government markets;
4. maintain Virgin Australia's strong presence in the leisure market; and
5. enhance Virgin Australia's strong and trusted brand by improving the look and feel of its service.

During the last two years, Virgin Australia has made significant progress in its goal to create a seamless, first-rate experience for customers, both in the air and on the ground. A key part of this was updating the look and feel of the product in line with the new Virgin Australia identity and the introduction of a range of new service initiatives designed to enhance the end-to-end customer experience. This saw Virgin Australia overhaul the interiors of its aircraft, launch new airport lounges and commence the refurbishment of key airport terminals.

Figure B1: New Virgin Australia livery

[2] The Game Change Program was launched following the appointment of John Borghetti as CEO. For more information see: ASX release, *Virgin Blue Announces John Borghetti New CEO,* 2 March 2010; ASX release, *The Virgin Blue Group of Airlines Announces First Phase of Network Review,* 16 August 2011; ASX release, *Virgin Blue Confirms Positive 2010 Results in Line with Forecast,* 26 August 2010.

Figure B2: New Boeing B737 interiors

As part of its Game Change Strategy, Virgin Australia has also undertaken the following initiatives in order to improve its product and service offering and ensure that it appeals to the full range of travellers.

- The **launch of Business Class** across the majority of the domestic network. Following the implementation of Business Class across trans-continental services on 28 September 2011 and across the domestic network on 18 January 2012, Virgin Australia carried double the number of Business Class passengers it carried in the prior corresponding period.

- The **migration to a single reservation system – SabreSonic** (from the existing dual platforms of Amadeus and Navitaire) in January 2013.[3] Use of a single integrated technology platform for managing reservations and revenue will provide enhanced guest recognition and enable seamless integration with partner airlines. Virgin Australia is now able to adopt consistent, streamlined industry standard (**IATA**) practices and processes. As part of this transfer, Virgin Australia now operates under a single IATA designator.[4]

- The **realignment of Virgin Australia's aircraft fleet** – with the exit of the Embraer 170 aircraft, the exit of the majority of the B737-700 aircraft, the introduction of ATR-72 turbo prop operations and the arrival of new wide-bodied Airbus A330 aircraft.

- The **launch of mobile functionality** – in 2012, Virgin Australia introduced mobile boarding passes and a 'flight specials' app.[5]

- The **relaunch of the Velocity Frequent Flyer loyalty program** early in the 2012 financial year to offer global coverage, a range of new partners and unique benefits for members. Since then, the program has gone from strength to strength, growing to [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] members at the end of the 2012 financial year, up from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] at the end of the previous year. Virgin Australia also has frequent flyer agreements with Air New Zealand, Delta Air Lines, Skywest, Virgin Atlantic, Virgin America,

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3 Virgin Australia media release, *Virgin Australia Enhances Guest Experience with Sabre*, 23 November 2011; Virgin Australia media release, *Virgin Australia Transitions to New Sabre Checking and Booking System*, 14 January 2013.

4 From 14 January 2013, all Virgin Australia flights have been designated with the IATA code 'VA'. This is a change from the code 'DJ' which has been used by Virgin Blue / Virgin Australia and Pacific Blue since foundation. Previously only Virgin Australia's international limb used the 'VA' IATA code.'

5 Virgin Australia media release, *Virgin Australia launches Mobile Boarding Passes and New Flight Specials App for iPhone,* 5 July 2012. See website: www.virginaustralia.com/au/en/about-us/media/2012/FLIGHT-SPECIALS-APP

Etihad, and Singapore Airlines. In addition, Virgin Australia has partnered with a range of non-airline partners, including Westfield (discussed further below).

- The **expansion of the Virgin Australia network**. Since the initial authorisation of the Alliance in December 2010, Virgin Australia has:
  - expanded its international flight network through strategic alliances with Air New Zealand, Delta Air Lines, Etihad Airways and Singapore Airlines enabling Virgin Australia to cover all key international markets with four of the best airlines in the world; and
  - grown its regional network with the 'wet leasing'[6] of up to 18 new turboprop aircraft operated by Skywest and a corporate alliance and codeshare relationship with Skywest, enabling Virgin Australia to service additional regional destinations.[7]
- The **continued growth in services to new domestic and regional leisure destinations** including the introduction of services to Ayers Rock (Uluru), and growth in services to Hamilton Island and Queenstown.
- More recently, Virgin Australia has sought to expand its presence in the provision of corporate and government travel through the **acquisition of Skywest Airlines**.
- Virgin Australia has also **sought to expand its operations by manner of a joint venture with Tiger Airways**.
- **Simplification of the fare classes** on domestic and short haul international services including Saver, Flexi or Premium (Premium Economy / Business) fares. This provides more transparency and better value across the fare classes.[8] The Flexi fare family, which is fully inclusive of food and beverage and in-flight entertainment, was introduced in 2011.
- For Business passengers and Velocity Platinum and Gold members, **priority check-in** is now available at most airports, as well as priority boarding and screening.
- **The revision of on-board food and beverage services** including the:
  - introduction of complimentary tea, coffee and water across all services; complimentary beer and wine on selected mainline services; the redesign of the "buy on board" catering offering; as well as fully inclusive food and beverage offerings to all guests on regional, trans-continental and intra-WA services.
  - introduction of an exclusive food and beverage menu designed by celebrity chef Luke Mangan for both domestic and international services, with a focus on fresh Australian produce.
- **The refresh of lounge interiors and lounge product designs**, as well as new lounges in Coolangatta and Mackay.
- **The introduction of Australia's first premium valet service** and direct lounge entry at Sydney Domestic airport, offering premium guests a streamlined, hassle-free experience. A similar product, Brisbane Premium Valet, was introduced in March 2012 and offers kerbside valet parking on a pay-per-use basis.

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6 A wet lease is a leasing arrangement whereby one airline (lessor) provides an aircraft, complete crew, maintenance, and insurance to an airline (the lessee), which generally pays by hours operated.

7 Virgin Blue media release, *Virgin Blue and Skywest sign 10 year strategic alliance to create regional network*, 10 January 2011, http://www.virginaustralia.com/au/en/about-us/media/2011/D_020243/.

8 Virgin Australia media release, *Proudly Introducing New Fares from Virgin Australia,* 23 May 2011, http://www.virginaustralia.com/au/en/about-us/media/2011/D_020268/.

- The introduction in 2011 of **stylish new uniforms** for all staff who deal with guests.

B4 Success of the Game Change Strategy

Virgin Australia has received positive feedback from customers as a result of this transformation and this is reflected in the awards that it has won over the past year.

At the 2012 Skytrax World Airline Awards, Virgin Australia won “Best Airline” and “Best Airline Staff Service” in the Australia-Pacific region, the latter award for the second consecutive year. Additionally, Virgin Australia’s international operations won Best in Region (Asia and Australasia), Best Food and Beverage and Best Inflight Entertainment User Interface at the 2011 Airline Passenger Experience Association Passenger Choice Awards.

B5 Operations and fleet

Virgin Australia Group operates services to 34 Australian and 17 international destinations including the USA, UAE, New Zealand, Indonesia, Thailand, Papua New Guinea, Fiji, Samoa, Solomon Islands, Tonga, Vanuatu and the Cook Islands.

Figure A3: Virgin Australia fleet

Aircraft type	Number in fleet	Seats
A330-200	5	278 / 279
B737-700	4	128
B737-800	68	170 / 176 / 180
B777-300ER	5	361
Fokker 100	2[9]	100
Embraer 190	18	98
ATR72-500	8[10]	68
Total	***110***	

(a) Long haul international operations and virtual international network

Virgin Australia’s international flight network has recently seen significant expansion through authorised alliances with Air New Zealand, Etihad Airways, Delta Air Lines and Singapore Airlines, connecting passengers to Europe via the Middle East and Singapore, to destinations throughout Asia and onwards to India, Africa and the Middle East, to numerous cities within the US and beyond to Canada and Mexico and providing access to more Trans Tasman frequencies and destinations.

Virgin Australia’s long haul international airline was launched as a full service carrier in 2009, offering services on the rans-Pacific and to the Middle East, on the following routes:

- Sydney-Los Angeles currently daily (commenced February 2009).

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9 Operated by Alliance airlines under wet lease (to be returned February 2013).

10 Operated by Skywest under the ARAN.

- Brisbane-Los Angeles currently four flights per week (commenced April 2009).
- Melbourne-Los Angeles currently three flights per week (commenced December 2009).
- Sydney-Abu Dhabi currently three flights per week (commenced February 2011).

Virgin Australia currently operates a fleet of five Boeing B777-300ER aircraft for its international services. The Boeing 777-300ER aircraft offers 361 seats - 33 Business Class lie-flat beds, 40 Premium Economy club seats and 288 Economy seats configured as follows:

- **International Business Class**, a 2-3-2 configuration with a fully horizontal 6'2" flat bed. This class offers a personal work station with laptop power, USB slot and 12.1" touch screen for in-flight entertainment.
- **International Premium Economy Class**, a 2-4-2 configuration with 38" seat pitch, 20" seat width and recline of up to 9". The seats are leather and have adjustable head and footrests. This class also offers a personal work station with laptop power, USB slot and 10.6" touch screen for in-flight entertainment.
- **International Economy Class**, a 3-3-3 configuration with 32" seat pitch, 18.8" seat width and recline of up to 6". It offers USB power and a 9" touch screen for in-flight entertainment.

Virgin Australia currently has arrangements to provide international lounge facilities to International Business Class passengers and Gold Velocity frequent flyer members. Virgin Australia passengers travelling on services to Los Angeles also have access to Air New Zealand Lounges in the Sydney, Brisbane and Melbourne international terminals. Gold Velocity members (and Business Class guests) have access to Delta Lounges in the USA if flying onwards with Delta and also Virgin Atlantic Clubhouses if flying onwards on a Virgin Atlantic flight.

(b) Short haul international operations

Virgin Australia currently has aircraft based in both Australian and New Zealand ports. Virgin Australia operates a fleet of 68 Boeing 737-800 aircraft.

Virgin Australia operates services on Trans Tasman routes between Australia and New Zealand, Fiji, Thailand, Vanuatu, Papua New Guinea, the Cook Islands, the Solomon Islands and Tonga as a designated Australian international carrier. It also operates services to Denpasar.

Virgin Australia also has a joint venture with the Samoan Government to run its national airline Virgin Samoa. It operates between Sydney, Brisbane, Auckland and Apia with capacity equivalent to a single Boeing 737-800.

(c) Domestic operations

Virgin Australia currently operates approximately 2,800 flights a week to 29 Australian destinations from its primary hubs in Brisbane, Sydney and Melbourne. As at 25 October 2012, it operated a fleet of Boeing 737, Embraer E-Jet 190 and A330 aircraft for its domestic services. The Boeing 737 Business and Economy Class interiors that were introduced as part of the new branding have been rolled out across Virgin Australia's current domestic fleet over 2012.

(d) Regional operations

In January 2011, Virgin Australia and Skywest entered into the ARAN, a wet lease agreement, which is part of a long term strategic alliance, in order to service regional Australia.

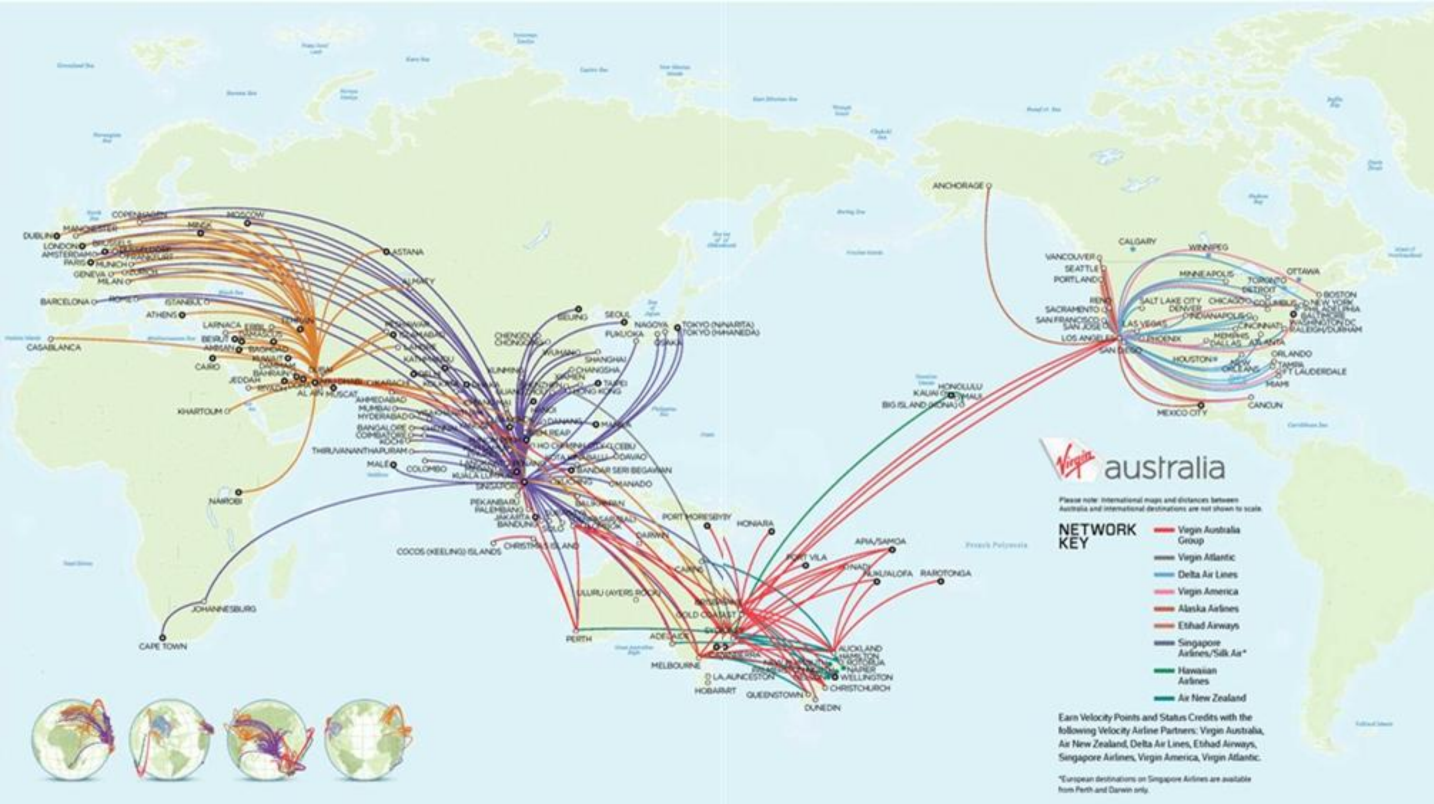
Currently, Skywest operates 8 ATR72 turboprop aircraft for Virgin Australia under the ARAN, which provide regional east coast services.[11]

B6 Codeshare and interline partners

Virgin Australia has entered into a range of codeshare and interline arrangements with partners, which provide travellers with access to a global airline network (see Figure B4). These partners include its strategic Alliance partners Air New Zealand, Delta Air Lines, Etihad, Singapore Airlines, Silk Air and Skywest. Virgin Australia also has interline arrangements with the following carriers for inbound and outbound traffic to/from Australia and New Zealand: Aerolíneas Argentinas, Aircalin, Air Austral, Air Mauritius, Air Tahiti Nui, Airlines PNG, Cathay Pacific/Dragon Air, China Southern, Emirates, Garuda Indonesia, Hawaiian Airlines, Malaysia Airlines, Qatar Airways, Royal Brunei, South African Airways, Singapore Airlines and Silk Air, Thai Airways, Vietnam Airlines and Virgin Atlantic.

[11] A ninth ATR is due to commence service in February and a tenth in March 2013.

Figure B4: Virgin Australia's destinations including codeshare and interline[12]



12 http://voyeur.realviewtechnologies.com/#?startpage=184&iid=72051.

Figure B5: Virgin Australia's Domestic and New Zealand destinations[13]

B7 Velocity Frequent Flyer and the Virgin Australia Lounges

Velocity, Virgin Australia's loyalty program, was launched in November 2005. Velocity allows members to earn and redeem Velocity Points on Virgin Australia Group flights and on a range of products and services with Virgin Australia's Program Partners, as well as global lounge access with Virgin Australia's reciprocal partners. Virgin Australia has frequent flyer agreements with Air New Zealand, Delta Air Lines, Skywest, Virgin Atlantic, Virgin America, Etihad, and Singapore Airlines, Virgin Samoa, Hawaiian Airlines, and Airlines PNG.

The program was relaunched in August 2011. Virgin Australia made changes to the way status credits are earned in preparation of the relaunch and to make the Velocity program easier to compare with other frequent flyer programs around the world:

- status credits are earned based on fare class purchased and miles flown rather than per dollar spent; and
- the number of status credits required to upgrade and maintain the level of membership as well as the rate at which status credits are earned has been adjusted.

As part of the relaunch of Velocity, Virgin Australia ran a promotion offering an instant Velocity 'status match' deal for Qantas frequent flyer members with silver, gold or platinum status. An on-the-spot upgrade was offered to the equivalent level of Velocity membership, valid for 12 months.

Virgin Australia has also expanded the Velocity program's appeal by partnering with a range of non-airline partners, including Westfield, Hilton Worldwide and Europcar.

13 http://voyeur.realviewtechnologies.com/#?startpage=184&iid=72051.

There are currently almost [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] members of Velocity.

Lounge facilities are located at the Sydney, Melbourne, Brisbane, Adelaide, Canberra, Perth, Mackay and Gold Coast domestic terminals. Virgin Australia Business and Premium Economy customers, Velocity platinum and gold and airline partner reciprocal status members receive complimentary access to the Virgin Australia Lounge. Passengers can also benefit from a more stream lined, fast tracked screening and entry process at selected airports including:

- Australia’s first premium valet service and direct lounge entry at Sydney Domestic airport;
- a Melbourne Priority Screening security lane; and
- an Express Entry priority queue in Sydney, Melbourne and Brisbane lounge receptions.

Annexure C – Air New Zealand

AIR NEW ZEALAND

C1 Introduction

Air New Zealand is New Zealand's national flag carrier offering air services in New Zealand and internationally. It also operates business units and subsidiaries providing engineering, ground handling services, travel retailing services, aircraft interior design and domestic and international cargo.

The New Zealand Government owns approximately 75% of Air New Zealand, with the remainder owned by private investors. Air New Zealand is listed on the New Zealand and Australian stock exchanges.

Air New Zealand itself, or via its wholly owned subsidiaries Eagle Airways, Mount Cook and Air Nelson, operates:

- over 500 domestic New Zealand services per day to 26 destinations throughout New Zealand using a mix of A320, B737-300, ATR and other turboprop aircraft;
- services on 18 Tasman routes at various times throughout the year plus codeshare on a further 4 sectors operated by Virgin Australia;
- services to the Pacific Islands (Rarotonga, Fiji, Vanuatu, Samoa, Tahiti, Noumea, Norfolk Island, Tonga, Niue); and
- twice daily services to London and Los Angeles and services to other international ports in the US, Canada, Japan, China, Hong Kong, and Indonesia.

Air New Zealand provides its international services utilising a fleet of aircraft comprising predominantly B777-300, B777-200ERs, B767 and A320 aircraft. Air New Zealand has been progressively phasing out the older B747 aircraft for the more fuel efficient modern aircraft. Air New Zealand has 10 B787-9 aircraft on order which will gradually replace the B747 and B767 fleets and provide capacity growth.

C2 Strategy

Air New Zealand's strategy, internationally, is to be an Australasian airline with a Pacific Rim focus. With this in mind, Air New Zealand has been strengthening its presence in and around the Pacific and prioritising more profitable international routes such as those to North America and Asia.

Since the authorisation of the Alliance, Air New Zealand has:

- updated its fleet of aircraft to improve efficiency and fleet commonality including the introduction of 777-300 onto its long haul network and the introduction of ATR72-600 and Airbus A320 onto its domestic fleet;
- increased fleet capacity with the addition of new ATR72-600 aircraft, the upgrading of 133 seat B737 aircraft to 168 seat Domestic A320's and the introduction of one new Shorthaul A320 into the fleet;
- reduced airport waiting time by an average of 45 minutes with new kiosks and a streamlined check-in process for international passengers. In November 2012, Air New Zealand introduced Kiosk check-in in Sydney - the first airline in Australia to offer kiosk check-in for international flights. In the first half of 2013, Air New Zealand plans to also roll out kiosks to Melbourne airport;

- reconfigured the Airbus A320 Tasman, Pacific and short haul fleet to one class with 168 seats. In the Applicants original submission on 4 May 2010, Air New Zealand was planning to reconfigure the A320 short haul fleet from 152 seats to 171 seats. However, Air New Zealand listened to customer feedback on the proposed changes and chose to reconfigure the A320 short haul fleet to 168 seats;
- continued to introduce new product enhancements including pre-paid Baggage and pre-paid Seat Select which was introduced in November 2012; and
- won the ATW Airline of the Year award in January 2012 becoming the first airline to win the award twice in 3 years.

C3 Alliances

In November 2012, Air New Zealand received authorisation for its revenue sharing alliance with Cathay Pacific, alongside FFP and lounge arrangements for the alliance's customers travelling between New Zealand and Hong Kong. This relationship creates a strong network beyond Hong Kong providing greater frequency and broader access to passengers travelling to or from mainland China, Europe and India.

Air New Zealand has been a member of the Star Alliance since March 1999. The Star Alliance is the world's largest global marketing alliance with some 27 members, including airlines such as Air Canada, Air China, ANA, Asiana Airlines, Lufthansa, Singapore Airlines, SAS, South African Airways, Thai Airways, Turkish Airlines, United Airlines and US Airways. The Star Alliance provides valuable network and loyalty benefits to customers.

The Star Alliance has no member airline with an Australian domestic presence. Air New Zealand has code share agreements with several Star Alliance members, including United Airlines, Air Canada, Continental and Lufthansa with whom Air New Zealand creates considerable interline revenue from passengers flying on the combined network of the Star Alliance members.

Air New Zealand also has code share or partnering arrangements with a limited number of other airlines outside the Star Alliance including Virgin Atlantic, Etihad Airways and a number of Pacific carriers.

C4 Operations and Fleet

Air New Zealand currently operates the following fleet:

Figure C1: Air New Zealand fleet

Aircraft type	Number in Fleet	Seats
B747-400	2	46 Business Premier, 39 Pacific Premium Economy, 294 Pacific Economy
B777-300ER	5	44 Business Premier, 44 Pacific Premium Economy, 244 Pacific Economy
B777-200ER	8	26 Business Premier Class, 18 Pacific Premium Economy, 269 Economy (Pacific) Class
B767-300ER	5	24 Business Class, 210 Economy (Pacific) Class
Airbus A320 - Shorthaul	13	168 Economy (Pacific) Class
Airbus A320 - Domestic	4	171 Economy (domestic New Zealand)
B737-300	13	133 Economy (domestic New Zealand)
ATR72-500/-600	13	68 Economy Class
Q300	23	50 Economy Class
Beech 1900D	18	19 Economy Class
Totals	***104***	

C5 Tasman and Pacific Islands product and network

Air New Zealand operates services on 18 direct Tasman routes, 14 on an annual basis, with services from Auckland to Maroochydore and from three Australian destinations to Queenstown operating at peak holiday seasons. These Tasman sectors, plus 9 Pacific Island sectors, connect to and from 26 New Zealand domestic destinations and Air New Zealand's long haul network, in particular North America and the United Kingdom.

Air New Zealand operates a mix of A320, B777-300, B777-200 and B767 aircraft. This variety of fleet types means Air New Zealand can offer passengers a spread of flight times to meet the needs of travellers. For example, by operating widebody services on certain frequencies Air New Zealand can offer business class seats and better serve cargo customers, and also maintain frequency on each sector, while maintaining high utilisation of those aircraft between long haul sectors.

Air New Zealand offers passengers increased choice with the Seats to Suit suite of products whereby passengers can select a Seat, Seat+Bag, Works or Works Deluxe product depending on their needs. It also operates International airport lounges in Brisbane, Sydney, Melbourne, Nadi and Rarotonga.

C6 Domestic New Zealand product and network

Air New Zealand operates over 500 flights per day to 26 centres throughout New Zealand using a mix of A320, and B737-300 jet aircraft operating the main trunk routes between Auckland, Christchurch, Wellington, Dunedin and Queenstown, and turbo prop aircraft serving the regional network. Services are operated either by Air New Zealand or via wholly owned subsidiaries Air Nelson, Mount Cook Airlines and Eagle Airways.

From November 2011, Air New Zealand adapted the successful Trans Tasman Seats to Suit product onto its domestic New Zealand services by offering passengers the option of Seat or Seat+Bag fares.

It operates Koru Lounges in Auckland, Wellington, Christchurch, Dunedin, Hamilton, Napier, New Plymouth, Palmerston North, Nelson, Invercargill and Queenstown.

C7 International Network

Air New Zealand operates its Boeing widebody fleet to 10 long haul destinations including London, Los Angeles, San Francisco, Vancouver, Honolulu, Bali, Osaka, Tokyo, Shanghai and Hong Kong.

On these sectors passengers have the choice of 3 class cabins with Economy Class, Premium Economy (not available on the B767), B767 Business Class or Business Premier on the B777 and B747 aircraft. The B777-300 also offers the Premium Economy Spaceseat and the Economy Skycouch which are award-winning innovations only available on Air New Zealand aircraft.

Annexure D – Trans Tasman Operators

D1 Qantas Jetstar Group:

(a) Introduction

The Qantas-Jetstar Group positions itself as dominant in the corporate space whilst also having a competitive offering in the low cost space. As stated by Alan Joyce in 2010:

> *"We operate Jetstar when a route is only marginally profitable for Qantas. Out of Australia, Virgin Blue is our major competitor. They have a good brand and a good cost base. But Jetstar is dominant in the low-cost space and Qantas dominant in corporate space. That combination squeezes Virgin strategically."*[14]

Qantas is the national flag carrier of Australia. It has a premium, full-service domestic and global network and has a leading airline loyalty program that has 8.6 million members and more than 500 partners.[15] Qantas frequent flyer membership increased 9% from June 2011 to June 2012, averaging more than 2000 new members a day.[16] It also operates airline related businesses including airport support services, catering, freight operations, defence support services and engineering.[17] Qantas has the largest market share, broadest frequent flyer program and largest proportion of premium and corporate travellers of airlines operating within and to or from Australia.

Jetstar is positioned as the Qantas-Jetstar Group's low fares airline that operates in New Zealand, Australia and the Asia-Pacific. It began operating Australian domestic services in May 2004, Trans Tasman services in December 2005, other international services in November 2006 and New Zealand domestic services in June 2009.[18] Jetstar is a low cost carrier with a direct sales model, simplified fleet and self-service or user-pays offerings.[19] Unlike other low cost carriers, Jetstar is able to rely on the Qantas' network presence and brand to improve its own competitive position at little cost to itself. For example, customers travelling on Jetstar services can connect to the Qantas network and are able to earn Qantas frequent flyer points on Jetflex fares. Qantas Club members can also use Qantas lounge facilities when flying on Jetstar. There has been significant expenditure on Jetstar brand promotion.

According to the Qantas Annual Report for 2011, the Qantas-Jetstar Group's network comprises 208 destinations in 46 countries including Australia and those served by codeshare partner airlines. Domestically, Qantas, QantasLink and Jetstar operate more than 5,700 flights per week. Jetstar also operates more than 200 domestic flights per week in New Zealand. Internationally, Qantas and Jetstar operate more than 970 flights per week.[20]

[14] Siva Govindasamy, Interview: Qantas chief executive Alan Joyce, *Airline Business*, 23 March 2010 at http://www.flightglobal.com/articles/2010/03/23/339759/interview-qantas-chief-executive-alan-joyce.html.

[15] Qantas Annual Report 2012 at p 24.

[16] Qantas Annual Report 2012 at p 24.

[17] QF/EK Draft Determination at par 11, p 9.

[18] March 2010, Qantas Fact File at 5, available at (http://www.qantas.com.au/travel/airlines/company/global/en).

[19] Qantas Annual Report 2009 at p 29.

[20] Qantas 2011 Annual Report at p 15.

(b) Trans Tasman presence

Qantas offers both business and economy class Trans Tasman services. According to the Diio Mi database,[21] Qantas' northern winter 2012 direct flight schedule includes Trans Tasman services between:[22]

- Auckland-Brisbane;
- Auckland-Melbourne;
- Auckland-Sydney;
- Christchurch-Sydney;
- Melbourne-Wellington;
- Queenstown-Sydney; and
- Sydney-Wellington.

According to the Diio Mi database, Jetstar's northern winter 2012 direct flight schedule includes Trans Tasman services between:

- Auckland-Gold Coast;
- Auckland-Melbourne;
- Auckland-Sydney;
- Christchurch-Gold Coast;
- Christchurch-Melbourne;
- Christchurch-Sydney;
- Melbourne-Queenstown; and
- Queenstown-Sydney.

(c) Fleet

The Qantas Group has taken delivery of 114 new aircraft over the past three years.[23] By the end of 2013, Qantas will operate 32 new aircraft configured with 12 Business and 156 Economy seats.[24] These new aircraft will operate on the Trans Tasman and on domestic routes. The Qantas Group shows no signs of slowing its fleet expansion, having committed capital investment worth around US$23 billion to next generation aircraft such as the Airbus A380, Boeing 787 Dreamliner and Airbus A320 neo. These next generation aircraft will offer the additional advantage of being more fuel-efficient, thus lowering costs.

[21] Diio Mi (formerly APGDat) is an online aviation data portal that extracts data from Official Airline Guide (including its airline schedule database) and can be used to obtain the latest airline schedules and data on capacity for network planning purposes. Both Virgin Australia and Air New Zealand subscribe to Diio Mi.

[22] Qantas route maps available at http://www.qantas.com.au/travel/airlines/route-maps/global/en.

[23] Qantas Annual Report 2012 at p 8, available at http://www.qantas.com.au/infodetail/about/investors/2012AnnualReport.pdf.

[24] Qantas Fleet Developments available at http://www.qantas.com.au/travel/airlines/fleet-developments/global/en#boeing-737-800.

In November 2012, Jetstar increased its New Zealand based fleet from eight to nine Airbus A320 aircraft. Jetstar announced that the additional aircraft would be used to increase services between New Zealand's three largest cities and boost flights from Australia to Queenstown. David Hall, CEO Jetstar Australia & New Zealand, noted that the additional aircraft and capacity affirms Jetstar's commitment to New Zealand. He said that "Jetstar is now firmly established in New Zealand and these additional services follow strong growth for Jetstar services. According to Jetstar's announcement the ninth aircraft will add up to 36 weekly return flights to domestic and Trans Tasman routes, increasing capacity by up to 50,000 extra seats every month. Mr Hall also noted that Jetstar would offer four direct flights from Melbourne to Queenstown and up to three from Sydney to Queenstown to spur on inbound tourism to the region.[25]

The Qantas Group is a member of the **one**world airline alliance, as well as being a party to an alliance with British Airways pursuant to a Joint Services Agreement,[26] and with American Airlines, pursuant to a Joint Business Agreement. Qantas also has international codeshare arrangements with Cathay Pacific,[27] Iberia,[28] Japan Airlines, LAN Airlines, Aircalin, Air France,[29] Air Niugini, Air North, Air Pacific, Air Tahiti Nui, Air Vanuatu, Alaska Airlines, Asiana, China Eastern, EVA Air, Jet Airways, Kenya Airways,[30] Norfolk Air, South African Airways and Vietnam Airlines.[31]

The Jetstar Group (including, for example, Jetstar Asia and Jetstar Japan) has three codeshare partners on select Jetstar routes, being Qantas, Japan Airlines and American Airlines. The Jetstar Group has 25 interline partnerships on select Jetstar rotes: American Airlines; Aircalin; Air Canada; Air France; Air Niugini; Air Pacific; Air Tahiti Nui; British Airways; Cathay Pacific; Dragonair; Emirates; Etihad; Finnair; Japan Airlines; Jet Airways; KLM; LAN Airlines; Lan Argentina; Lan Ecuador; Lan Peru; Lufthansa; Qantas; Qatar Airways; Royal Jordanian and United.

D2 Emirates

(a) Introduction

Emirates is the world's largest international carrier by revenue passenger kilometres, operating more than 1,000 flights per week to over 120 destinations across six continents.[32] Emirates is a Dubai corporation launched in 1985 and is wholly owned by the Investment Corporation of Dubai, which is wholly owned by the Government of Dubai.[33] It is one of the most profitable airlines in the world with substantial financial resources and significant global strength.[34]

It is a full service carrier and positions itself as being a market leader in the provision of service improvements and top quality offerings. Emirates flies 70 times per week to Australia from its Dubai hub. It operates three times daily services to Melbourne and Sydney, twice daily services to Brisbane

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[25] Jetstar Media Releases, 'Jetstar spreads its wings in New Zealand', 19 September 2012 available at http://www.jetstar.com/mediacentre/latest-announcements/detail?Id=dda88062-1400-4919-a992-60fc926dc5b&language=en.

[26] However Qantas has indicated that this will terminate before March 2013.

[27] The codeshare arrangement with Cathay Pacific for Hong-Kong-Rome will end in March 2013.

[28] Qantas will cease codesharing on Iberia intra-Europe services in March 2013, although Iberia will continue to codeshare on Qantas services.

[29] The codeshare arrangement with Air France for Singapore-Paris will end in March 2013.

[30] The codeshare arrangement with Kenya Airways for Bangkok-Nairobi will end in March 2013.

[31] QF/EK Draft Determination, at par 1 and 19, p10.

[32] QF/EK Draft Determination at par 21, p 11.

[33] QF/EK Draft Determination at par 20, p 11.

[34] Emirates Annual Report 2011/2012 at 8 and 10, available at http://content.emirates.com/english/images/Annual_2011-2012_tcm233-926013.pdf.

and Perth,[35] and is planning to increase its flights to Australia, including an addition to the Adelaide service and plans to offer three services to Perth per day. Under the Australia / UAE Air Services Agreement Emirates can add another 14 frequencies per week to its existing schedule.[36]

(b) Trans Tasman presence

Emirates currently operates four daily return flights on the following Trans Tasman routes[37]

- Auckland-Brisbane;
- Auckland-Melbourne;
- Auckland-Sydney; and
- Christchurch–Sydney.

Emirates has recently upgraded the planes flown on Auckland-Melbourne and Auckland-Sydney to A380s, with 489 seats and a first class cabin with private shower facilities.

On Trans Tasman routes, Emirates utilises fifth freedom rights which allow them to deploy on to the Tasman otherwise idle aircraft that would be waiting on the ground in Australia for the return leg to Dubai. This means that Emirates only has to cover variable costs on these sectors and can accordingly price as a low fare airline whilst offering its high quality FSA service and wide-bodied aircraft. The additional Trans Tasman leg also provides additional “through traffic” for its services to and from Dubai and beyond. The Tasman market is a major market for Emirates in its own right and Emirates operates substantially more capacity across the Tasman than is supported by the demand for its wider service to and beyond the United Arab Emirates. Emirates has provided significant investment and commitment to developing a long-term presence in the Australasian market through the promotion of its brand and Dubai. For example, Emirates is the lead sponsor of Emirates Team New Zealand, the Auckland based sailing team and has for a number of years been the title sponsor of the Emirates Melbourne Cup.

(c) Fleet

Emirates has a fleet of 169 aircraft with a rapid rate of growth and one of the youngest average ages - 77 months.[38] In 2011, the Emirates fleet increased by 22 aircraft, and Emirates increased seat capacity across its network by 10 per cent (measured in Available Seat Kilometres).[39] Emirates has ordered 50 Boeing 777s for US $18 billion with options for an additional 20 aircraft and is the largest operator of Boeing 777s (with a fleet of 102) and Airbus A380s (with a fleet of 21).

Emirates is not a member of any global marketing alliance but has codeshare relationships with Air Malta, Air Mauritius, Japan Airlines, Jet Airways, Jet Blue, Korean Air, Oman Air, Philippine Airlines, South African Airways and Thai Airways International.[40]

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[35] Australia Business Traveller, *Emirates Launches new Adelaide-Dubai flights today,* available at http://www.ausbt.com.au/emirates-launches-new-adelaide-dubai-flights-today.

[36] Australia’s Air Services Agreements/Arrangements, available at: http://www.infrastructure.gov.au/aviation/international/agreements.aspx; http://www.ameinfo.com/223910.html.

[37] Emirates flight schedule available at http://content.emirates.com/english/images/JAN13_tcm233-194611.pdf.

[38] Emirates Annual Report 2011/2012 at p 45 and p 47 available at http://content.emirates.com/english/images/Annual_2011-2012_tcm233-926013.pdf.

[39] Emirates Annual Report 2011/2012 at p 8 and p 10 available at http://content.emirates.com/english/images/Annual_2011-2012_tcm233-926013.pdf.

[40] QF/EK Draft Determination at par 22, p11.

D3 Qantas/Emirates Alliance

On 20 December 2012, the ACCC issued its draft decision to grant a five year conditional authorisation of the proposed Qantas/Emirates Alliance which allows for broad cooperation on passenger and freight operations across their respective global networks, including services between New Zealand and Australia, Asia, North Africa, the Middle East, the UK/Europe and, potentially, Southern Africa, the US and South America. The cooperation may also extend to Jetstar in some markets.

On 20 December 2012, Qantas and Emirates applied for interim authorisation in order to allow implementation of their alliance by April 2013. On 17 January 2013, the ACCC granted interim authorisation of the proposed conduct with the exclusion of Trans Tasman services. The ACCC held a pre-decision conference on 1 February 2013 and a final determination is anticipated at the end of March 2013.

The broad cooperation under the proposed alliance would apply to the overlapping services of Qantas and Emirates on the Trans Tasman including: Auckland–Brisbane, Auckland–Melbourne, Auckland–Sydney and Christchurch-Sydney. Jetstar also operates on Auckland– Melbourne, Auckland–Sydney and Christchurch-Sydney.

D4 China Airlines

China Airlines was founded in 1959 and privatised in 1991. As of 31 December 2012, it flies to 112 destinations in 28 countries and regions including Western Europe, Asia, America, Australia, New Zealand and Taiwan.[41] In January 2011, China Airlines began operating three weekly A330-300 Taipei-Brisbane-Auckland services. It then expanded its Trans Tasman operations by starting four weekly A330-300 Taipei-Sydney-Auckland services in October 2012. Like Emirates, China Airlines can offer high quality service in conjunction with low fares based on marginal cost.

China Airlines has a fleet of 72 aircraft, including 51 passenger jets and 21 freighters. Its fleet is primarily comprised of A330-300s and B747-400s. In 2011, China Airlines became a member of the SkyTeam alliance, giving China Airlines' passengers access to an extensive global network.

D5 Lan Airlines

LAN Airlines is Chile's flag carrier. It serves more than 70 destinations in 20 countries including Latin America, Australasia, Europe and the USA. It is a full service airline with lounge access and the LANPASS frequent flyer program. Like Emirates and China Airlines, LAN Airlines can offer high quality service in conjunction with low fares based on marginal cost.

LAN Airlines currently flies Auckland–Sydney return, six times a week using its Airbus 340 (which seats 263 passengers). These flights are an extension of LAN Airlines' services between Santiago and Auckland. LAN Airlines also has a codeshare agreement with Qantas on the LAN Airlines operated flights to Santiago via Auckland and for other destinations in South America.

LAN Airlines and its subsidiaries currently operate 118 passenger airplanes including: Boeing 787 Dreamliners, Airbus 340-300s and Boeing 767-300ER/ERFs. LAN Airlines is a oneworld member and has several code share agreements with other airlines.

[41] China Airlines Fact Sheet available at http://www.china-airlines.com/en/about/about.htm.

Confidential Annexure E – Alliance passengers, capacity and load factors by sector

[RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS]

Confidential Annexure F – Increased frequencies and other network changes

RESTRICTION OF PUBLICATION CLAIMED IN PART

Adelaide-Auckland

- In their initial application for authorisation, the Applicants submitted that under the Alliance they expected to grow to year round daily services on Adelaide-Auckland from the seasonal schedule of four to six per week". The Applicants proposed daily services from November to and including March and 5 to 6 services weekly from April to October.

- Under the Alliance, frequency on Adelaide-Auckland has grown from 4.6 return trips per week in the Pre-Alliance Year to 5.3 return trips per week in Year 1. While the Parties have not been able to grow frequency on the route as much as anticipated there has been marked growth into Adelaide.

- The Alliance has seen considerable passenger growth on the Adelaide-Auckland sector with passenger numbers growing by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] when comparing Year 1 to Pre-Alliance Year. This growth has come about due to both increased capacity on the route (26.8% compared to Pre-Alliance Year) and price stimulation, with average fares falling [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] from the Pre-Alliance Year to Year 1 to Pre-Alliance Year. Due to the increased capacity on the route the average seat factor has dropped from [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

- In addition to the above growth seen on the direct Adelaide-Auckland service the Applicants have seen sound growth into the Adelaide route with passengers choosing the convenience of other Alliance routing options. The total Air New Zealand sale volumes of passengers travelling between Adelaide-Auckland, including those travelling via Sydney, Brisbane and Melbourne has grown by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] between the Pre-Alliance Year and Year 1.

- The Applicants are committed to continuing to grow the Adelaide-Auckland sector with plans in place to grow capacity by a further [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] over Year 2.

Auckland-Perth

- In their initial application for authorisation, the Applicants proposed year around daily services.

- From the commencement of Northern winter 2011 (Year 1), Air New Zealand moved to between 7 to 9 services per week on the route with the exception of the low season period in May/June when 6 services per week were operated.

- In addition, from September 2012, Air New Zealand commenced daily services replacing B767 services with B777-200 aircraft, on this sector. The B777-200 creates significant additional capacity and provides consumers with an improved product on this sector, including a 'lie-flat' business class product. Total capacity growth on Auckland-Perth was 29.2% due to the above changes. In turn, this has created a [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] growth in passengers.

Melbourne-Wellington

- In their initial application for authorisation, the Applicants proposed daily services from November to and including April, 6 services weekly from July to and including October, and 5 services weekly from May to and including June.

- Since November 2011 Air New Zealand has operated at, or above, the these proposed frequencies. In Year 1 Air New Zealand operated an average of 7.2 return trips per week on Melbourne-Wellington which was up from 6 in Pre-Alliance Year.

Brisbane-Wellington

- In their initial application for authorisation, the Applicants proposed year round double daily services effective from the implementation of the Alliance.

- Under the Alliance, Virgin Australia became the sole Alliance carrier on this route from November 2011. Virgin Australia operated double daily services in all months with the exception of the low season months of May and June 2012. However, these frequencies were moved to the stronger months of July and October with the operation of an additional 2 services per week in July and 1 per week in October. [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Sydney -Wellington

- In their initial application for authorisation, the Applicants proposed double daily services from January to and including April, 13 services weekly from July to and including December and 12 services weekly from May to and including June.

- Air New Zealand became the sole Alliance carrier on the route from November 2011. The Alliance has maintained the frequency outlined above in peak months but has been unable to operate to the 13 weekly and 12 weekly services in shoulder and off peak months between May and September due to soft demand. However, the Alliance has improved the schedule removing wingtip flying from November 2011.

- With the increased passenger numbers that have resulted from the implementation of the Alliance, even in its first full year since implementing network changes, Virgin Australia and Air New Zealand have seen other opportunities arise to expand the network and serve city pairs that previously had no direct flight option.

- For example, the Alliance implemented a new Auckland to Sunshine coast service which commenced on 1 July 2012. The Alliance operated the seasonal service for 12 weeks with 2 flights a week on Tuesdays and Sundays, aimed at the leisure market offering another holiday destination to both Australians and New Zealanders. [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

[**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]

- [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. The Alliance has enabled Virgin Australia to trial this by employing schedules in novel ways in an effort to remove wingtip flying, improve passenger choice and open up new connections in Auckland.

- To achieve maximum efficiency on the Tasman, Virgin Australia has historically designed its schedule so that Virgin Australia's Trans Tasman flights commenced and terminated in New Zealand, which limited the number of morning departures out of Australia and the number of evening departures out of New Zealand. This also created wingtip flying with Air New Zealand flights which did not reflect demand levels.

- Network optimisation enabled by the Alliance has allowed Virgin Australia to commence a morning start up service from Brisbane on the Brisbane-Auckland sector. This gives passengers the choice of a new flight with the earliest departure time of all airlines operating on that route. Passengers have the ability to arrive in Auckland for lunch or to catch connecting flights on Air New Zealand domestic services from early afternoon.

- Any resulting decrease in aircraft utilisation has been more than mitigated by an increase in passengers travelling on the Alliance's services as a result of the improved time of day options. The start-up Brisbane services performed very well between July 2012 and October 2012 and will be continued in northern summer 2013, with the services to be offered on a [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. This is valued by both business and leisure passengers.

- Without the Alliance and its metal neutral revenue sharing mechanisms, Virgin Australia would have had no incentive to introduce these morning services, as the cost of lower utilisation would have outweighed any revenue benefit.

Confidential Annexure G – Stimulation of tourism - examples of joint promotional activity under the Alliance

RESTRICTION OF PUBLICATION CLAIMED IN PART

G1 Stimulation of Tourism - Joint promotion

Marketing initiatives:

- 3 x trade famil groups (max 12 passengers) each year. The purpose of these famils is to take trade agents, product/marketing managers away to experience new destinations.
- 4 x media/journalist tickets to use on mutually agreeable destinations for stories
- Adhoc prize winners/giveaway tickets
- Industry discounted fares for travel to Australia

Other activity promoting New Zealand included:

- The “Just 3 hours away” winter campaigns in 2011 and 2012 and “The Kiwi Sceptics” campaigns in 2012. The work has gained considerable attention in Australia, with Kiwi Sceptics recognised globally in creative awards, and insights telling us that consideration for New Zealand, Air New Zealand and Virgin Australia has grown as a result.
- The Alliance actively works with Tourism New Zealand (**TNZ**) to promote and stimulate tourism to New Zealand. The Alliance advises TNZ of all planned sales so that it is easy for TNZ to leverage off the tactical fares the Alliance has on offer and promote New Zealand to the travelling public. As an Alliance Air New Zealand and Virgin Australia are able to provide TNZ with a greater opportunity to promote New Zealand due to the strength and reach of the combined Alliance network.

Other activity promoting Australia included:

- “Play Melbourne” brand campaign launch with Tourism Victoria during February - April 2012.
- “Tri-State walk about” - an event in May 2012 which showcases SYD, MEL & BNE to the New Zealand trade and they then come together for a 2 day workshop to learn about Australia. At this workshop Air New Zealand & Virgin Australia had a joint booth with representation from both airlines updating the trade on all things Tasman. In addition to this, the Alliance carried over 50% of the 250 attendees to Australia for their ‘tri-state’ famil.
- In conjunction with Tourism Queensland the Alliance ran a 9 week Queensland promotion with the NZ Herald offering the chance to win a Queensland Holiday. The promotion showcased Queensland as a great place to visit with imagery, copy and up & coming events encouraging travel to Queensland.
- The Alliance partnered with Tourism Australia in the TV series ‘Judy Baileys Australia’. This was a 5 week TV show that took the viewer around Australia showcasing different things to see & do. The Alliance carried all cast & crew to film and in return was the call to action for the TV series as well as joint branding & exposure within the shows.
- Both Air New Zealand and Virgin Australia attended the Australian Tourism Exchange in Perth in May. This is a significant event for the tourism industry around the world, showcasing the airlines and all things Australia.

- In June-July 2012 Air New Zealand partnered with Tourism Queensland to run a campaign with Urgent Courier – wrapping all their vans/cars with Sunshine Coast imagery, promoting the non-stop Sunshine Coast services & a competition to win a trip to the Sunshine Coast.
- In September 2012, in conjunction with Tourism Queensland the Alliance will be giving away a trip for a family of 4 to the Gold Coast to promote the new movie Madagascar 3 & to visit Dream World and a VIP “meet the characters” experience.

G2 Joint Promotion of the Alliance - Joint awareness campaigns

- Co-branded and co-funded Alliance launch awareness campaign in market 11 July to 21 August 2011, promoting consumer benefits to leisure and business travellers, with 7 large, outdoor formats using Virgin Australia airport inventory and 21 press insertions in main metropolitan papers. This campaign represented an investment of [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

- Each airline used its own assets to promote the Alliance and advertised the 72 hour launch sale above the line over 11 to 13 July 2011 to stimulate demand.

- Co-branded Alliance trade brochure distributed in July 2011.

- Co-branded activity in market 3 September-31 October in Rugby World Cup press & online media to promote the Alliance being the only Trans Tasman network able to fly Australians to all rugby matches in New Zealand that year. This campaign represented an investment of [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

G3 Joint Promotion of the Alliance - Proactive retail campaigns

New Zealand point of sale	
Date	Sale / Promotion
July 2011	Alliance launch with joint Air New Zealand and Virgin Australia branding and messaging offering special add-ons to points beyond the international gateways.
August 2011	$100 off campaign offering $100 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.
September 2011	48 hour sale with lower fares available online only on selected Air New Zealand coded flights.
October 2011	24 hour sale with lower fares available online only on selected Air New Zealand coded flights.
November 2011	48 hour sale with lower fares available online only on selected Air New Zealand coded flights
December 2011	$150 off campaign offering $150 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.
January 2012	New Year Sale activity
Early February 2012	48 hour sale
Mid February 2012	Network sale including Tasman
Early March 2012	24 hour sale
Late March 2012	$100 off campaign offering $100 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.
Early April 2012	48 hour sale
Late April 2012	$100 off campaign offering $100 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.

New Zealand point of sale	
Early May 2012	24 hour sale
Late May 2012	48 hour sale
June 2012	$150 off campaign offering $150 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.
Mid June 2012	Perth price pointed campaign promoting all products – Seats to Suit, Premium Economy & Lie flat business class beds.
Early July 2012	24 hour sale
Late July 2012	48 hour sale
August 2012	48 hour sale
Early August 2012	Perth product awareness campaign – promoting the 777 operating on the Auckland-Perth route
Late August 2012	Price pointed campaign promoting all products – Seats to Suit, Premium Economy & Lie flat business class beds.
Early September 2012	$150 off campaign offering $150 off any return fare from any Air New Zealand airport in New Zealand to any Virgin Australia airport in Australia.
Late September 2012	24 hour sale
October 2012	48 hour sale
31 October – 7 November 2012	Perth $ off campaign as well as the in-flight product awareness messages

Australia point of sale	
Date	Sale / Promotion
July 2011	Alliance launch fare, 72 hour price point
July 2011	2 week tactical wholesale fare
August 2011	48 hour price point sale
August 2011	72 hour $150 off campaign
August 2011	2 week SYD-CHC tactical wholesale fare
September 2011	24 hour price point sale
September 2011	5 day tactical sale to support the launch of Perth Seats to Suit
September 2011	48 hour price point sale
October 2011	24 hour price point sale, with lower fares available online only on NZ7000 series flights

Australia point of sale	
October 2011	48 hour $100 of campaign
November 2011	9 day wholesale tactical fare
November 2011	48 hour price point sale, with lower fares available online only on NZ7000 series flights
December 2011	48 hour $150 off sale
January 2012	10 day New Year sale
February 2012	4 week early bird Ski wholesale tactical fare
February 2012	48 hour price point sale
February 2012	7 day tactical MCY-AKL fare for launch of new service
March 2012	7 day tactical sale with TNZ
March 2012	72 hour $150 off sale
April 2012	48 hour price point sale
April 2012	48 hour price point sale
May 2012	2 week Wellington tactical fare – free New Zealand domestic add-ons
May 2012	48 hour $100 off sale
June 2012	24 hour $100 off sale
June 2012	48 hour price point sale
July 2012	72 hour $150 off sale
July 2012	2 series of 5 day sales with a PER-AKL tactical fare to support the new 777-200
August 2012	48 hour price point
August 2012	72 hour price point
September 2012	48 hour price point
September 2012	5 day PER-AKL tactical fare
October 2012	72 hour $150 off sale

Confidential Annexure H – Average Alliance fares by sector

[RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS]

Annexure I – Competitive dynamics on specific routes

RESTRICTION OF PUBLICATION CLAIMED IN PART

Route	Competitive Dynamics
Condition routes	
AKL-BNE[42]	There are five carriers currently operating on this route including Virgin Australia, Air New Zealand, Qantas, Emirates and China Airlines. China Airlines entered this route in January 2011 and the Applicants are constrained by the potential for other FFC entry on this route or on AKL-OOL (eg, Eva Airways, Garuda Indonesia, Malaysian Airlines and Thai Airways). There is substantial capacity operating on this route. From the Pre-Alliance Year to Year 1, overall capacity on this route has increased by 25.1% and competitor capacity has increased 40.9%. Over that time period, the capacity of Qantas on AKL-BNE increased by 15.4% and the capacity of Emirates increased by 40.5%. This has been driven by Qantas' upgrade of the aircraft used on this route from a Boeing 737-400 to a Boeing 737-800 and Emirates' upgrade from an Airbus A345 to a Boeing 777-300ER. The Applicants are subject to ACCC conditions on this route which require them the maintain and grow capacity on this route and according to the draft decision to approve the Qantas/Emirates alliance, Qantas and Emirates could also be subject to conditions to maintain and in time grow aggregated capacity on routes including this route. Reauthorisation will allow the Applicants to better compete with the Qantas-Jetstar Group particularly if the Qantas-Emirates alliance is approved on the Tasman. The Applicants have not anti-competitively increased overall fare levels or reduced the number and availability of low fares on this route. In fact, despite the Alliance's improved service offering, and the increased number of premium travellers in the fare class mix, the average fares of the Alliance on this route have decreased [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] from the Pre-Alliance Year to Year 1. AKL-OOL is a viable substitute for this route if there are any material price increases or capacity decreases. The overwhelming majority of passengers on this route are holiday or VFR travellers and, as a result, this route is highly price sensitive. The service and pricing decisions of the Applicants on this route are constrained by the ability of travellers to switch to AKL-OOL. Gold Coast Airport is only around 108km from Brisbane Airport and depending on the ultimate destination of the traveller they may switch to AKL-OOL instead of AKL-BNE. Jetstar operates services on the AKL-OOL route. Jetstar could easily deploy aircraft onto AKL-BNE in the event that the Alliance was to anti-

[42] This route is the subject of conditions under the ACCC authorisation but not the MOT authorisation.

Route	Competitive Dynamics
	competitively raise fares.
BNE-DUD	This is a small route which accounts for only 1.0% of passengers carried on the Tasman. It is not capable of supporting substantial direct operating capacity. The Applicants have increased capacity on this route by 7.2% from the Pre-Alliance Year to Year 1. The Applicants have not anti-competitively increased overall fare levels or reduced the number and availability of low fares on this route. In fact, despite the Alliance's improved service offering and increased number of premium travellers in the fare class mix, the average fares of the Alliance on this route have decreased [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] from the Pre-Alliance Year to Year 1. Jetstar could deploy aircraft onto this route if the opportunity arose.
BNE-WLG	From the Pre-Alliance Year to Year 1, the Applicants have: • increased capacity on this route by 10.6%; • increased frequencies by 2.5%; and • decreased the combined Alliance average fares by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. This is a highly price sensitive route with a large proportion of leisure passengers. Qantas competes indirectly on this route and a significant number of passengers travel indirect between Brisbane and Wellington. There are no barriers to Qantas or Jetstar entering this route: • both Qantas and Jetstar have operations at each of Brisbane and Wellington airports and could readily commence direct services in competition with the Applicants; • the route is three times larger than the Gold Coast–Christchurch route which Jetstar has operated on for some time; • the route is the same size as a number of other Tasman routes that Jetstar services (eg, Auckland-Gold Coast and Christchurch-Melbourne); and • Jetstar has demonstrated its ability to move quickly to deploy capacity in response to any business opportunity. Were the Alliance to reduce capacity/ increase fares, it would only encourage entry from Qantas or Jetstar.
MEL-WLG	From the Pre-Alliance to Year 1, the Applicants have increased capacity on this route by 32.5% and increased frequencies by 19.5%. Qantas also operates on this route and from the Pre-Alliance Year to Year 1 has increased capacity on this route by 21.3%. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].

Route	Competitive Dynamics
SYD-WLG	From the Pre-Alliance Year to Year 1, the Applicants have increased capacity on this route by16.7%, increased frequencies by 10.7% and have been able to make scheduled changes to remove wingtip flying on this route. Qantas also operates on this route and from the Pre-Alliance Year to Year 1 has increased capacity on this route by 16.5%.
SYD-ZQN	There are four carriers that are operating on this route including Virgin Australia, Air New Zealand, Qantas and Jetstar. As anticipated by the Applicants in their initial application for authorisation, Jetstar entered this route in 2012 and has since expanded its services on this route. From the Pre-Alliance Year to Year 1, the Applicants have increased capacity on this route by 18.1% and increased frequencies by 14.8%. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Qantas operates all year round on this route and from the Pre-Alliance Year to Year 1 has increased capacity on this route by 8.2%. Competitor capacity on this sector has increased by 78.1%. This is a small route which accounts for only 1.0% of Trans Tasman traffic.
Routes found unlikely to cause competition concerns in the Final Determination and new Alliance route AKL-MCY	
ADL-AKL	From the Pre-Alliance Year to Year 1, the Applicants have increased capacity on this route by 26.8% and increased frequencies by 15.9%. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Qantas or Jetstar could easily deploy onto this route in the event that the Alliance were to anti-competitively raise fares and Qantas has flown this route in the past.
AKL-CNS	From the Pre-Alliance to Year 1, the Applicants have decreased capacity on this route by 4.5% and increased frequencies by 1.9 %. Jetstar entered this route in April 2011 adding 29,268 additional seats by Year 1. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Qantas competes on this route through connecting services and could readily commence direct services in competition with the Alliance if it were

Route	Competitive Dynamics
	to anti-competitively raise fares.
AKL-MCY	The Applicants started providing services on this route as a result of schedule optimisation under the Alliance. Following discussions with both Sunshine Coast and Auckland Airports, the Alliance launched seasonal services on this route in July 2012. In the past, passengers have been required to travel via Brisbane to access the Sunshine Coast. These new direct services operated by Air New Zealand commenced at 2 per week operating for a 12 week period (through to September 2012). The success of the service is indicated by the fact that the Alliance will again operate 2 services a week in the northern summer 2013 scheduling season for a 17 week period (mid-June to mid-October 2013). This route would be highly price sensitive with a large proportion of leisure travellers and the Applicants services on this route will be constrained by competition for similar passengers on AKL-BNE and AKL-OOL services.
AKL-MEL	There are five carriers currently operating on this route including Virgin Australia, Air New Zealand, Qantas, Jetstar and Emirates. Jetstar entered this route in January 2011 and in Year 1 operated capacity of 116,526 seats. From the Pre-Alliance Year to Year 1, overall capacity on this route has increased by 22.6% and competitor capacity has increased 36.0%. Over that time period, the capacity of Qantas increased by 6.9% and the capacity of Emirates increased by 27.4%. If the Qantas-Emirates alliance is approved, the Applicants would be competing against that alliance and the impact of any capacity conditions, which affect this route. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
AKL-OOL	There are three carriers currently operating on this route including Virgin Australia, Air New Zealand, and Jetstar. From the Pre-Alliance Year to Year 1, Alliance capacity has increased by 2.4%. This route is highly price sensitive and competes with AKL-BNE for passengers.
AKL-PER	From the Pre-Alliance Year to Year 1, Alliance capacity on this route has increased by 29.2% while frequencies have increased by 24.9%. From September 2012, Air New Zealand commenced daily services replacing B767 services with B777-200 aircraft, on this sector. The use of B777-200 aircraft creates significant additional capacity and provides consumers with an improved product on this sector, including a 'lie-flat' business class product. Total capacity growth on Auckland-Perth was 29.2% due to the above changes. In turn, this has created a [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**] growth in passengers.
AKL-SYD	There are seven carriers currently operating on this route including Virgin

Route	Competitive Dynamics
	Australia, Air New Zealand, Qantas, Jetstar, LAN Airlines, Emirates and China Airlines. From the Pre-Alliance Year to Year 1, Alliance capacity on this route has increased by 6%. Over the same time period, the capacity of Emirates increased by 2.3% and the capacity of LAN Airlines increased by 4.2% whilst the capacity of Qantas decreased by 7.4% and Jetstar decreased by 16.9%. China Airlines commenced services on the route in November 2012. From the Pre-Alliance Year to Year 1 the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. The Applicants would be constrained by existing carriers and the threat of entry and expansion by existing and new carriers including FFC entry. If the Qantas-Emirates alliance is approved, the Applicants would be competing against that alliance and the impact of any aggregated capacity conditions on this route.
BNE-CHC	From the Pre-Alliance Year to Year 1, the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. This route is highly price sensitive with a large proportion of leisure travellers. Jetstar used to operate on this route but ceased services at the end of March 2012. Jetstar could re-enter or Qantas could enter this route if the Alliance were to anti-competitively raise fares or in the event that demand returned to pre-earthquake levels. Qantas has flown this route before.
BNE-HLZ	On 14 August 2012, Virgin Australia announced that from the end of October 2012, it would cease operating the Brisbane–Hamilton route as a result of lack of demand for that service. Virgin Australia commenced a Brisbane–Hamilton service in September 2009, operating three flights a week. Despite continued work by Virgin Australia as well as a positive relationship with Hamilton Airport over the past three years, demand for this service continued to deteriorate and the service became unsustainable.
BNE-ZQN	From the Pre Alliance Year to Year 1, Alliance capacity on this route has increased by 35.8% while frequencies have increased by 21%. Qantas also operates on this route on a seasonal basis. From the Pre-Alliance Year to Year 1, the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
CHC-MEL	There are three carriers currently operating on this route including Virgin Australia, Air New Zealand and Jetstar.

Route	Competitive Dynamics
	From the Pre-Alliance Year to Year 1, the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. Jetstar competes strongly on this route and Qantas could easily deploy onto this route in the event that the Alliance were to anti-competitively raise fares. Qantas has flown this route in the past and so has Emirates.
CHC-OOL	There are two carriers currently operating on this route including Air New Zealand, and Jetstar. From the Pre-Alliance Year to Year 1, Alliance capacity on this route has increased by 14.1% and Jetstar's capacity has increased by 64%. Over that time period, the Alliance has increased frequencies by 2.6% while decreasing its average fare on this route by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
CHC-SYD	There are five carriers that are operating on this route including Virgin Australia, Air New Zealand, Qantas, Jetstar and Emirates. From the Pre-Alliance to Year 1, the Alliance has decreased its average fare by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**]. If the Qantas-Emirates alliance is approved, the Applicants would be competing against that alliance and the impact of any aggregated capacity conditions on this route.
DUD-MEL	This route is operated seasonally by the Applicants. From the Pre-Alliance to Year 1, the Applicants have increased capacity on this route by 187.6% and increased frequencies by 142.9%. Over the same time period the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
DUD-SYD	This route is operated seasonally by the Applicants. From the Pre-Alliance to Year 1, the Applicants have increased capacity on this route by 28.9% and increased frequencies by 8.8%. Over the same time period the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
MEL-ZQN	There are three carriers currently operating on this route including, Air New Zealand, Jetstar and Qantas (seasonally) Jetstar entered this route in January 2011 and has increased MEL-ZQN services since November 2012. From the Pre-Alliance Year to Year 1, the Applicants have increased capacity on this route by 55.5% and increased frequencies by 49.1%.

Route	Competitive Dynamics
	Over the same time period the average fares of the Alliance on this route have decreased by [**RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO APPLICANTS**].
ROT-SYD	This is a small route accounting for less than 1% of Trans Tasman traffic. From the Pre-Alliance to Year 1, the Applicants have increased capacity on this route by 9% and increased frequencies by 0.6%.

Air New Zealand Confidential Annexure J – Reduced Pro-rate costs and impact on connecting traffic

[RESTRICTION OF PUBLICATION CLAIMED – CONFIDENTIAL TO AIR NEW ZEALAND]