# CONSOLIDATED RESPONSE TO 29 MAY 2013 INFORMATION REQUEST

**Q1 For each individual flight operated by Air New Zealand or Virgin Australia, on SYD-WEL, BNE-WEL, and BNE-DUD in the NS2010, NW2010, NS2012 and NW2012 provide the following:**

**a. the flight designation;**

**b. the scheduled flight departure date and time;**

**c. total seat numbers by fare class;**

**d. passenger numbers by fare class;**

**e. the revenue yield for the flight; and**

**f. the flight's fare schedule.**

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**Q2 Has the Seats to Suit program changed as a result of the formation of the Alliance?**

Air New Zealand implemented its Seat to Suit program and fare structures on the Tasman and this fare and product structure was adopted by the Alliance. The formation of the Alliance has not changed the Seats to Suit program offering except to the extent that under the Alliance it is able to be offered across a larger range of services. Air New Zealand has only made one change to the Seat to Suit offering on the Tasman since the Alliance and this change involved offering the Seats to Suit model on the Auckland to Perth sector effective for sales and travel from 19 September 2011.

The Works Deluxe offering was withdrawn from this service effective for sales from 6 June 2012 and travel from 3 September 2012 as a result of introducing the 777 aircraft on to this sector. The Works Deluxe product was withdrawn from services on this sector due to the 777 aircraft having a Premium Economy cabin and Air New Zealand being able to consistently offer an Air New Zealand Premium Economy product similar to the Works Deluxe offering.

**Q3 Provide any planning or strategy documents, not already provided, that refer to the changes or potential change to the Seats to Suit program since April 2011.**

When Air New Zealand initially launched Seats to Suit, direct services between Auckland and Perth were excluded from this offering. However, under the Alliance it was subsequently decided to offer Seats to Suit on this sector. This change was effective for sales and travel from 19 September 2011.

Confidential attachments were also provided to the Commission as part of this response.

**Q4 For each month of the financial years ended 30 June 2011 and 30 June 2012 respectively what were the percentages of seats sold for each of the four categories of the Seats to Suit program.**

The Commission noted that a response to this question was not required.

**Q5 Provide all documents held by Virgin Australia, Air New Zealand and the Alliance that refer to the Alliance fare schedules, tactical pricing or other price setting activity on the following routes:**

**a. SYD-ZQN;**

**b. OOL-AKL; and**

**c. CNS-AKL.**

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**Q6 All documents held by Virgin Australia created in the 12 month period ending 30 April 2013 that consider the reallocation of aircraft from the Alliance to other non-Trans Tasman routes;**

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Virgin Australia notes that, in fact, it has grown capacity on the Tasman by 6.4% during this period compared to the same period in the previous year.

**Q7 All documents held by Air New Zealand created in the 12 month period ending 30 April 2013 that consider the reallocation of aircraft from the Alliance to other non-Trans Tasman routes**

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**Q8 The Alliance submission of 8 March 2013 states that the capacity conditions imposed on it are distortive and costly. For each of the following statements made in that submission, provide detailed explanation and evidence of particular events where these distortions have occurred over the operation of the Alliance:**

**a. the conditions constrain the applicants' ability to make efficient fleet and network planning decisions;**

The capacity conditions have resulted in the Applicants' deploying excess capacity onto sectors where there is insufficient demand to warrant the required level of growth. Absent the capacity conditions the Applicants' would have the discretion to deploy capacity where there is the most passenger demand, which ultimately creates stronger public benefit.

This is particularly important in peak demand periods such as Christmas and school holidays [**CONFIDENTIAL**]. In these periods, sectors vie for capacity and the Applicants must assess which sectors have the most demand and warrant additional capacity. While the Applicants have sufficient aircraft capacity to meet demand throughout the year an airline's capacity will always be stretched over peak demand periods. It would be uneconomic for airlines to purchase sufficient aircraft to fully meet peak period demand as these aircraft would be unutilised for the remainder of the year.

[**CONFIDENTIAL**].

A confidential graph was provided to the Commission as part of this response.

**b. distortive effects are likely to be caused by competitor and supplier driven knowledge of the applicants' obligation to operate according to the conditions.**

Capacity conditions by their nature can hinder the competitive market forces of supply and demand. It is for this reason that capacity conditions are best avoided if unnecessary – and if necessary, why capacity conditions need to be well-considered and maintain as much flexibility as possible while still achieving their aim.

Capacity conditions have the potential to act as a disincentive to entry and expansion. Knowledge that the Alliance is bound to provide a specified amount of capacity regardless of the demand by passengers could have the effect of discouraging potential competitors from expanding onto or entering those routes. This is particularly a problem where demand is not sufficient to meet capacity and load factors are relatively low, as on several Wellington routes.

However, the distortive effects of conditions are not limited to their ability to alter the business case and incentives for new entry or expansion by competitors. It is also possible that existing competitors could choose to exit a route because existing capacity exceeds demand and load factors are low, making the costs of operating that route too high. In the long run, this would have the effect of providing less capacity on the route, not more.

Decisions by competitors as to how much capacity to assign to routes subject to an Alliance capacity condition are also affected by the knowledge of how much capacity the Alliance is compelled to make available. This is unavoidable where capacity on a route is specified and subject to a specified growth rate.

Capacity conditions also mean that all of the Alliance's relevant suppliers are aware that the Alliance is compelled by the conditions of authorisation to provide a specified amount of capacity. This gives them the ability to raise prices, impose onerous conditions or reduce service without the Alliance being able to respond as it otherwise could in a competitive environment without conditions. This is particularly true in relation to the airports serving the capacity condition routes, which are assured of a certain amount of capacity.

While certain airports and regional suppliers are assured of a certain level of business via the capacity conditions, other airports, regional suppliers, consumers wishing to travel to those airports and economies stand to lose the benefits of capacity that the Alliance might otherwise have directed in their direction if the capacity conditions were not in place.

The Applicants consider that the benefits of the Alliance have now been proven and that the capacity conditions are unnecessary in these circumstances. However, if the Commission decides to impose capacity conditions, the Alliance notes that non-route specific capacity conditions would at least enable the parties to redistribute capacity to meet demand and maintain some degree of flexibility. In addition, the Applicants consider that growth factors should not be automatic and assured, but instead, to the extent possible, should be dependent upon demand.

The Applicants do not have any specific evidence of this distortion occurring in practice. The Applicants are not privy to the capacity making decisions of its competitors or potential competitors, nor the price-setting decisions of airports or other suppliers.

**Q9 In the response to Q3 of the data request of 22 April 2013, the Alliance provided data underlying Confidential Annexure H – Average Alliance fares by sector. Further information is required in order to assess the weight that can be placed on this Annexure:**

**a. how are the average airfares underlying the table calculated (include a discussion on the way in which these average airfares may have any weighting applied to them);**

The average airfares by sector for Virgin Australia, Air New Zealand and the Alliance provided in Confidential Annexure H to the Applicants submission in support of the application for reauthorisation dated 8 March 2013 were calculated as follows using the Alliance definition of Net Passenger Revenue:

Net Passenger Revenue / Number of Passengers = Average Airfare

When calculating average airfares, the Alliance does not carry out any weighting exercise.

To illustrate, we have provided a practical (simplified) example. On a one-way journey from Auckland to Sydney, the ticketed airfare for passenger A is $200, for passenger B is $220 and for passenger C is $250. The average fare calculation is as follows.

Net Passenger Revenue = $200 + $220 + $250 = $670

Number of Passengers = 3

Average Fare = $670 / 3 = $223.33

For the purposes of this example, it is assumed that the passengers have booked direct with the airline, and there are no applicable third party commissions paid.

[CONFIDENTIAL].

**b. some routes are provided with the Australian city listed first and the New Zealand city listed second (i.e. MEL-WLG), whereas others are provided in the reverse order (i.e. DUD-MEL). Do each of the routes provided consider average fares for both route directions (i.e. MEL-WLG includes the average fare for WLG-MEL)? If not, provide these for all routes;**

The data provided by the Alliance in response to question 3 of the data request dated 22 April 2013 is non-directional. Each specified route (eg, MEL-WLG) includes data for both route directions (ie, MEL-WLG as well as WLG-MEL).

Some routes were provided with the Australian city first and others with the New Zealand city first because the cities in each pair are listed in alphabetical order.

All data that has been provided by the Applicants is non-directional unless otherwise specified.

**c. the proportion of tickets sold in Australian dollars for each route;**

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**d. where tickets were sold in New Zealand dollars please provide detail as to how these ticket prices were converted into Australian dollars for the purpose of the Appendix;**

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**e. provide the figures in the table separated by fare class;**

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**f. provide the figures in the table on a per month basis; and**

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**g. provide detail as to how the Alliance's fuel costs changed through the base year, year 0 and year 1.**

In response, the Applicants have provided the **attached** spread sheet which contains snapshots across the Base Year, Year 0 and Year 1 of the Singapore Jet Kerosene and Brent Crude price per barrel sourced from Bloomberg. As the table below highlights, these market prices have increased substantially between the Base Year and Year 1, with the lowest price increasing approximately 35% over that period. The Alliance's fuels costs have also increased dramatically over this period following these market price movements. To assist the Commission in assessing the impact on the cost per passenger (and the resulting impacts on profitability based on recovering cost increases through fares), the Applicants have also calculated an indicative fuel cost per passenger using CASA published fuel burn rates for a 737-800 flying with an 80% load factor. Under this calculation, the cost per passenger has moved from USD $40-50 per passenger in the Base year to USD $54-70 per passenger in Year 1, an increase of 35%-45%.

**Published prices of Singapore Jet Kerosene during each year (USD per barrel)**

| | Lowest price in period | Highest price in period | Average price in period |
|---|---|---|---|
| Base year | 78 | 99 | 87 |
| Year 0 | 94 | 143 | 122 |
| Year 1 | 106 | 138 | 127 |

**Q10 Does Virgin Australia have plans to deploy more aircraft on the trans-Tasman in the next 6 to 18 months? If yes, which routes? Provide documents which record the commercial consideration for any decision whether to employ additional aircraft.**

**Q11 Does Air New Zealand have plans to deploy more aircraft on the trans-Tasman in the next 6 to 18 months? If yes, which routes? Provide documents which record the commercial consideration for any decision whether to employ additional aircraft.**

Under the Alliance, Air New Zealand and Virgin Australia jointly plan capacity on the Tasman. As a result, the Applicants have provided a joint response to questions 10 and 11 set out above.

The Applicants' have previously provided the Commission with Alliance planned capacity up to October 2013. This data was set out in the Applicants' response to question 3 of the ACCC data request dated 22 April 2013.[1] Following from this period the Applicants plan to grow total trans-Tasman capacity by [CONFIDENTIAL]% for Northern Winter 2013 [CONFIDENTIAL].

A confidential attachment was provided to the Commission with this response detailing the Applicants' current capacity plan for Northern Winter 2013 (November 2013 to March 2014).

The planned growth is based on analysis by the Applicants of data relating to future passenger demand as well as historical monthly performance. The Applicants intend to provide this increased capacity by [CONFIDENTIAL].

[1] See Confidential data for Year 2.

The planned trans-Tasman capacity growth provided by the Applicants will predominately be delivered on routes between the East Coast of Australia and Auckland and Queenstown, and on the commencement of new services between Perth and Christchurch.

Planned capacity is subject to change and may vary if passenger demand is weaker or stronger than anticipated. The planned capacity increases by the Applicants are also based upon continued authorisation of the Alliance.

Planning for Northern Summer 2014 (April 2014 to October 2014) will commence in July 2013. Consequently, the Applicants are unable to provide capacity plans beyond March 2014. The following section outlines the capacity planning process followed by the Applicants and provides further detail as to why the capacity plans beyond March 2014 cannot be provided.

**Schedule and capacity planning process**

The Applicants plan capacity in accordance with the IATA scheduling seasons. The Applicants' planning process is based on timelines set by IATA and the availability of market demand information. The following table outlines the process and indicative timeframes that the Applicants follow when planning capacity for each IATA season.

**Table 1: Alliance planning process and timeframes**

| Planning process | Northern Winter (Nov-Mar) | Northern Summer (Apr-Oct) |
|---|---|---|
| Planning commences | February | July |
| Initial slot filing with Airports | Mid May | Mid October |
| Airports respond to initial slot filing | Early June | Early November |
| Finalisation of slots | 3rd week June | 3rd week November |
| Season commences | Last Sunday October | Last Sunday March |

The Applicants utilise passenger, capacity and fare information based on the preceding Northern Winter (Northern Summer) season to plan for the following Northern Winter (Northern Summer) season. For example, Northern Winter 2013 (November 2013 – March 2014) planning commences in February 2013 and Northern Summer 2014 (April 2014 – October 2014) planning commences in July 2013. By these points in time, [**CONFIDENTIAL**].

As per the planning process outlined above, the Applicants have planned capacity up until the end of Northern Winter 2013 (ie, until March 2014). Planning for Northern Summer 2014 (April 2014 to October 2014) will commence in July 2013.

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| **Q12** | **For the calendar year ended 31 December 2012, please indicate what percentage of Virgin Australia's total operations were accounted for by Virgin Australia's trans-Tasman operations, using the following measures:** |
| **a.** | **number of flights;** |
| **b.** | **seats flown;** |
| **c.** | **passengers carried;** |
| **d.** | **revenue; and** |
| **e.** | **profit.** |

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| **Q13** | **The January 2011 Joint Alliance Scorecard under Sector analysis refers to more detail in Appendix 1. Provide Appendix 1 for the January 2011 Scorecard and each Scorecard provided to the ACCC.** |

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| **Q14** | **Provide a copy of the 'initial Tasman alliance network plan' referred to in the Applicant's response dated 14 May 2013 to the ACCC's request for information dated 17 April 2013.** |

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| **Q15** | **In Air New Zealand's response to Q2 of the ACCC's request for information dated 17 April 2013, the documents refer to 'capacity leaders'. What do Air New Zealand and/or the Alliance mean by this term?** |

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| **Q16** | **The Applicants' response to Q4(b) of the ACCC's request for information dated 17 April 2013 refers to 'structural tariffs that are publically filed'. What does this term cover?** |

Airlines typically distribute fares through clearing houses such as ATPCo (Airline Tariff Publishing Company), which can then be accessed via GDS systems. These fares may be publically available to all users, or may be made available only to a closed group of users – for example specific corporate clients, or specific agents or trade partners. Generally, there will be a 'long term' or 'structural' tariff which applies to all flights and remains in the market year-round and changes infrequently, or perhaps on a seasonal basis. This will be separate from tactical or 'sale fares' which may only be released for short periods and may apply only to specific date ranges. Tactical fares are used for stimulating demand or reacting to competitor activity. The term 'structural tariffs that are publically filed' refers to the long term non-tactical fare structure that is filed for general public access across all channels.