

Qantas/Emirates Alliance Reauthorisation 2023

Ministry of Transport Analysis

March 2023

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

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Executive Summary

- 1 In November 2022, Qantas Airways and Emirates applied for reauthorisation by the Minister of Transport of their Restated Master Coordination Agreement ('MCA' or 'Agreement'), pursuant to section 88 of the Civil Aviation Act 1990 (the Act).
- 2 Te Manatū Waka Ministry of Transport recommends that the Minister of Transport authorise the Restated Agreement for a period of five years.
- 3 We believe there are public benefits in authorising the Restated Agreement, as it will provide improved connectivity and improved scheduling for passengers travelling to and from New Zealand. We consider the Alliance will assist Emirates and Qantas as they continue to re-build their networks and schedules post COVID-19.
- 4 We do have some concerns about the trans-Tasman market for air services, and the lack of competition on these routes. These concerns were echoed by stakeholders, and the Australian Competition and Consumer Commission (ACCC). However, we do not believe that declining authorisation will alleviate these concerns in any material way.
- 5 Both Emirates and Qantas have an overlapping trans-Tasman service: Christchurch-Sydney. We believe, consistent with our previous reauthorisation, that the Alliance does result in a reduction in competition on this route, which runs the risk of negative outcomes for consumers in the form of higher airfares, and less choice.
- 6 Given the effective duopoly¹ between the alliance and Air New Zealand on the Christchurch-Sydney route, there is a perceived risk of price coordination and scheduling decisions across their respective networks, raising airfares above competition levels. However, this is not apparent from our analysis.
- 7 In considering the benefits and detriments, we believe that on balance, the Alliance delivers benefits (both real and potential) to New Zealand, over and above the potential detriments.
- 8 On balance we have determined that the state of competition on the Tasman, particularly during pandemic recovery conditions, is unlikely to be better without the Alliance (ie, if authorisation was declined).
- 9 We also conclude that the Restated Master Coordination Agreement meets the statutory conditions allowing it to be authorised under section 88 of the Civil Aviation Act.

Introduction

- 10 This report provides a detailed summary of the Ministry's analysis of the application from Qantas and Emirates (the Applicants) for reauthorisation of their airline Alliance, under their Restated Master Coordination Agreement (the Restated Agreement).

¹ Between Qantas/Emirates alliance and Air New Zealand

INTRODUCTION

- 11 The effect of authorisation would be that the provisions of the Restated Agreement are exempt from the provisions of the Commerce Act 1986 that prohibit arrangements substantially lessening competition.
- 12 The Applicants are currently working under an agreement which was authorised by the Minister of Transport in 2013 and reauthorised in March 2018. That authorisation expires on 31 March 2023.
- 13 The Minister of Transport is responsible for authorising or declining to authorise arrangements pursuant to the Civil Aviation Act 1990. The Ministry provides advice to the Minister on whether authorisation would be in the public interest and consistent with the criteria set out in the Act.

Background on airline agreements

- 14 Airline alliances are a common feature of international aviation but require authorisation in many jurisdictions to ensure the benefits outweigh the risk of lessening competition.
- 15 International aviation is governed by a network of thousands of bilateral air services agreements. These agreements often restrict the destinations airlines are able to serve and the capacity (number of seats of flights) they are able to provide. Many of these agreements also require airlines to be majority owned by nationals of their home state. This makes it difficult for airlines to merge or establish cross border joint ventures in the same way that most other businesses can.
- 16 No single airline can operate every possible route in the world. But with alliance arrangements, airlines can expand their reach by effectively combining their networks.
- 17 In order to overcome the restrictions imposed in bilateral air services agreements, and the inability to serve all routes with their own aircraft, airlines have developed several means of working with one another to expand their global reach. Cooperation between airlines generally takes a number of forms.
 - “Interline” arrangement: in which one airline buys tickets for travel on another airline at a pre-determined price.
 - Code-share arrangement: an agreement through which an airline is effectively given the ability to sell seats on flights operated by another airline as if it were operating that flight with its own aircraft. Code-share agreements are relatively common and, without additional cooperation rarely raise competition issues.
 - Revenue-sharing alliance: an extensive commercial agreement in which two or more airlines agree to cooperate on all aspects of pricing, scheduling and service delivery in a particular market. These arrangements are generally subject to a much higher level of regulatory scrutiny as they have the potential to reduce competition. The agreement which the Applicants are currently working under, and the Restated Agreement, have a degree of cooperation similar to those of a revenue sharing alliance.
 - Global airline alliance: many airlines are members of one of three global alliance groups - Star, Oneworld and Skyteam. Members of global alliances work together to provide services to consumers, by cooperating in areas such as marketing, scheduling, ticketing, and frequent flier schemes. The level of cooperation differs between

members; however, it is common for members of the same groups to enter into interline and code-share agreements with one another. Qantas is a member of the Oneworld Alliance. Emirates is unusual for a large airline in that it does not belong to a global alliance.

- 18 Alliances can result in benefits to consumers, for example, better access to connecting flights, more choices of routes, and the ability to earn and redeem frequent flyer points across the networks of all participating airlines. Alliances also have the potential to reduce costs for airlines, which in competitive markets results in lower fares for consumers.
- 19 However, alliances can carry significant risk as they typically result in a reduction in competition, which can lead to higher fares or reduced services.

The New Zealand context

- 20 In principle, we have taken the view that alliances are a necessary tool for airlines (particularly those with small and remote home markets, such as Air New Zealand) to overcome restrictions imposed on them by bilateral air services agreements. However, each alliance agreement carries different risks and needs to be carefully scrutinised to ensure that it delivers benefits that counteract any negative impacts that may result from a reduction in competition.
- 21 A number of airline alliances have been authorised in New Zealand under the Act. One significant alliance is between Singapore Airlines and Air New Zealand, which allows for varying levels of cooperation on flights from New Zealand connecting through Singapore and beyond. Another was the seven-year alliance between Air New Zealand and Virgin Australia, which ended in 2018, which allowed for full cooperation on routes across the Tasman, including those connecting with domestic services in Australia and New Zealand.

The Applicants

Qantas

- 22 Qantas was incorporated in 1920 and is Australia's largest domestic and international airline. Qantas, prior to the pandemic, operated over 4,500 flights per week in Australia and over 730 international flights a week. Qantas also operates airline related businesses including airport support services, catering, freight operations, loyalty programmes and engineering.
- 23 The international destinations which Qantas currently serves (from Australia) are set out in the Table 1 below:

Table 1 Qantas International Destinations (ex Australia) as at March 2023

Region	Destinations
New Zealand and Pacific	Apia, Auckland, Christchurch, Dili, Nadi, Norfolk Island, Noumea, Nuku'alofa, Port Moresby, Queenstown, Wellington
Asia	Bangkok, Bengaluru, Delhi, Denpasar, Hong Kong, Jakarta, Manila, Seoul, Shanghai (currently closed to foreign tourists), Singapore, Tokyo Haneda

THE APPLICANTS

Region	Destinations
Europe	London Heathrow, Rome
Americas	Dallas/Fort Worth, Honolulu, Los Angeles, New York JFK (from June 2023), San Francisco (from March 2023), Santiago, Vancouver
Africa	Johannesburg

- 24 As at 30 June 2022, across its domestic and international operations, Qantas operates a total passenger fleet of 235 aircraft, comprising ten Airbus A380s, 28 Airbus A330-200/300s, 75 Boeing 737-800s, 11 Boeing 787-9s, 20 Boeing 717-200s, 50 Q200/300/400s, 12 E190s (under a wet lease arrangement with Alliance Airlines), 18 F100s and 11 Airbus A320-200s. Jetstar's fleet comprises 76 aircraft, including 65 Airbus 320/A321-200s and 11 Boeing 787-8s. On 2 May 2022, Qantas announced the purchase of additional aircraft to service its domestic and international networks, including 12 Airbus A350 aircraft to be deployed on long-haul international services from 2025.
- 25 Qantas subsidiary Jetstar operates low-cost services in domestic Australia and New Zealand and to international destinations as set out in the Table 2 below.

Table 2 Jetstar International Destinations (ex Australia) as at March 2023

Region	Destinations
New Zealand and Pacific	Auckland, Christchurch, Nadi, Rarotonga, Queenstown, Wellington
South East Asia	Bangkok, Denpasar, Ho Chi Minh City, Phuket, Singapore
North East Asia	Osaka, Seoul, Tokyo-Narita,
Americas	Honolulu

- 26 The Jetstar Group, founded in 2004, operates the following:
- domestic Australia and New Zealand services (operated by Jetstar Airways), with Jetstar's domestic New Zealand operations currently servicing Auckland, Christchurch, Dunedin, Wellington and Queenstown;
 - international services from Australia to destinations in Asia, the Pacific and New Zealand (operated by Jetstar Airways); and
 - services within and between various countries in Asia under the Jetstar business model, currently operated by the following joint ventures:
 - Jetstar Asia Airways Pte Limited (Jetstar Asia), in which the Qantas Group has a 49 per cent interest, which is incorporated in Singapore and operates flights from Singapore to various destinations in Asia; and
 - Jetstar Japan Co Ltd (Jetstar Japan) in which the Qantas Group has a 33.32 per cent shareholding. Jetstar Japan is incorporated in Japan and operates flights within Japan and internationally.

- 27 The Alliance covers coordination between Qantas, Emirates, Jetstar and Jetstar Asia but does not cover coordination between Emirates and Jetstar Pacific or Jetstar Japan.
- 28 The Australian Competition and Consumer Commission (ACCC) authorised coordination between the Qantas Group and the various Jetstar-branded joint ventures in March 2013 and reauthorised it in February 2018. The Qantas Group is currently seeking reauthorisation of those arrangements until 31 March 2033. Pre-pandemic, the Jetstar Group operated over 5,000 weekly flights to 58 destinations in 18 countries or territories.

Emirates

- 29 Emirates is a Dubai-based corporation established by Decree No 2 of 1985 (as amended) and is wholly owned by the Investment Corporation of Dubai, which is ultimately wholly owned by the government of Dubai. Emirates is the world's largest international carrier by revenue passenger kilometres (RPKs). It operates more than 2,700 flights per week across six continents from Dubai.
- 30 Emirates is not a member of any global marketing alliance. The Investment Corporation of Dubai also wholly owns flyDubai, a low-cost carrier based in Dubai, which is a related body corporate of Emirates. Flydubai is not part of the Restated MCA, and not covered by this application.
- 31 The destinations to which Emirates currently operates are set out in the Table 3 below.

Table 3 Emirates Destinations as at March 2023

Region	Destinations
New Zealand and Pacific	Perth, Brisbane, Adelaide (temporarily suspended), Melbourne, Sydney, Auckland, Christchurch (planned to recommence in March 2023)
Asia	Bangkok, Phuket, Kuala Lumpur, Singapore, Jakarta, Ho Chi Minh City, Manila, Hong Kong, Guangzhou, Shanghai (temporarily suspended), Beijing, (temporarily suspended) Seoul, Osaka, Tokyo, Dhaka, Kolkata, Hyderabad, Chennai, Colombo, Malé, Thiruvananthapuram, Kochi, Bengaluru, Mumbai, Ahmedabad, Delhi, Lahore, Islamabad, Karachi, Peshawar, Phnom Penh (temporarily suspended), Hanoi, Yangon (temporarily suspended), Cebu, Clark, Bali, Taipei, Kabul (temporarily suspended), Sialkot
Europe	Glasgow, Dublin, Birmingham, London, Manchester, Newcastle, Lisbon, Madrid, Barcelona, Paris, Lyon, Nice, Zürich, Geneva, Milan, Venice, Munich, Vienna, Prague, Warsaw, Frankfurt, Düsseldorf, Amsterdam, Hamburg, Copenhagen, St. Petersburg, Moscow, Rome, Malta, Athens, Istanbul, Larnaca, Bologna, Budapest, Brussels, Oslo, Stockholm, Edinburgh (temporarily suspended), Porto (temporarily suspended)
Americas	Seattle, Los Angeles, San Francisco, Dallas, Houston, Toronto, New York, Washington DC, Buenos Aires (from 2 November 2022), Rio de Janeiro (from 2 November 2022), São Paulo, Newark, Orlando, Chicago, Boston, Miami, Mexico City
Africa	Cairo, Khartoum, Addis Ababa, Entebbe, Nairobi, Dar Es Salaam, Lusaka, Harare, Johannesburg, Durban, Seychelles, Mauritius, Cape Town, Luanda, Lagos (resumed 11 September 2022), Accra, Abidjan, Dakar, Casablanca, Tunis, Conakry

OUTLINE OF THE PROPOSAL

Region	Destinations
Middle East	Muscat, Jeddah, Madinah, Beirut, Amman, Riyadh, Dammam, Kuwait City, Basra, Bahrain, Doha (temporarily suspended), Erbil (temporarily suspended), Baghdad, Tehran, Tel Aviv

Qantas and Emirates play an important role connecting New Zealand to the world

- 32 Qantas has a strong market presence in both Australia and New Zealand. Aside from its large domestic network in Australia, it offers trans-Tasman services to four destinations in New Zealand, and through its subsidiary Jetstar, offers domestic services from five New Zealand airports.
- 33 Qantas has been operating to New Zealand since 1961. It is the second largest carrier on trans-Tasman routes. Since resuming services to New Zealand post COVID, the airline has rapidly committed to expanding service, with capacity now over 100,000 seats per month. Pre-COVID, Qantas capacity was an average of 148,000 seats per month in 2019.
- 34 Qantas is the major carrier connecting Australia to the rest of the world and connects directly into the One World airline alliance. There are spill-over benefits to New Zealand through the onward travel of international visitors from Australia. Fifty percent of all passengers arriving on Qantas flights have originated at some point beyond Australia.
- 35 Qantas has announced it will commence a Sydney-Auckland-New York (JFK) service, operating three time per week from June 2023. The route provides an alternative to and competition for the Air New Zealand direct Auckland-New York service that launched in September 2022.
- 36 Since 2003, Emirates has been a key airline connecting New Zealanders and travellers to and from long haul destinations. Emirates has significant presence in international markets, where it operates a large network via its hub in Dubai to destinations in Asia, UK/Europe, Middle East and Africa.
- 37 During the pandemic Emirates demonstrated continued support to the New Zealand market and was the only feasible airline for New Zealanders returning from many places abroad.
- 38 From 26 March 2023 when it recommences Sydney-Christchurch services, Emirates will be back to pre pandemic capacity into New Zealand.

Outline of the proposal

- 39 The original Master Coordination Agreement was entered into on 6 September 2012, authorised in 2013. The MCA was restated in 2017 and authorised 2018.
- 40 On 4 October 2021 the Restated MCA was extended without any material change to the commercial terms and is the basis of this application.

Intended scope of the alliance

- 41 Under the Restated Agreement, the Applicants will continue to coordinate and cooperate across their global networks, including in relation to:
- a planning, scheduling, operating and capacity;
 - b sales, marketing, advertising, promotion, distribution strategies, reservation priority and pricing (including fares, rebates, incentives and discounts) for passengers, freight customers and agents;
 - c connectivity and integration of certain routes with the objective of offering customers a true global network using Qantas and Emirates' networks;
 - d codeshare and interline arrangements for passenger services and cargo on passenger flight services;
 - e control of inventories and yield management functions;
 - f frequent flyer programs with the objective of optimising earning and redemption opportunities for customers;
 - g all passenger-related aspects to provide a superior, consistent level of service to customers including ground services and lounge access;
 - h harmonising service and product standards in order to provide a seamless product to passengers;
 - i harmonising IT systems;
 - j joint airport facilities;
 - k joint offices for sales activities;
 - l potentially other aspects of operations including ground handling, carriage of cargo on dedicated freighter flight services, engineering services, joint procurement and flight operations;
 - m where appropriate and mutually agreed, making joint submissions to authorities on operational matters; and
 - n services and activities that are required to facilitate any of the matters referred to above.

Scope of authorisation

- 42 The Act allows for the authorisation of provisions which relate to the fixing of tariffs (fares), the application of tariffs, or the fixing of capacity, or any combination thereof. Therefore, the Applicants have not sought authorisation for the sections of the Restated Arrangement which relate to ground handling, engineering and joint procurement.
- 43 More information regarding how the Restated Agreement relates to these provisions can be found in Annex 2 of this report.
- 44 The Restated Agreement covers bodies corporate related to the Applicants, including Qantas subsidiaries Jetstar Airways and Jetstar Asia Airways. § 9(2)(b)(ii)

RELATIONSHIP WITH OTHER JURISDICTIONS

s 9(2)(b)(ii)

Relationship with other jurisdictions

- 45 Given the Restated Agreement covers a number of routes to, from and through Australia, we are primarily concerned with the authorisation regime in Australia.
- 46 In Australia, collaborative arrangements in international air services are considered by the Australian Competition and Consumer Commission (the ACCC).

Approval of original agreement

- 47 On 27 March 2013, the ACCC issued a determination giving approval to the arrangements for five years. Following discussions between New Zealand Ministry officials and Qantas, the Applicants agreed to apply for reauthorisation in New Zealand at the same time as in Australia.
- 48 The ACCC's authorisation in 2013 was subject to a condition that the Applicants commit to maintaining a minimum level of capacity (seats) on a bundle of the four overlapping routes across the Tasman. These were:
- Sydney-Auckland
 - Melbourne-Auckland
 - Brisbane-Auckland
 - Sydney-Christchurch
- 49 These minimum levels were based on capacity offered by the Applicants in the year prior to authorisation of the original agreement.
- 50 Capacity conditions were not included in the New Zealand authorisation of the original agreement s 9(2)(h)

The ACCC reauthorised in 2018 without capacity constraints

- 51 The ACCC released its final determination on the reauthorisation of the Alliance on 23 March 2018. In its final determination, the ACCC reauthorised the Applicants' proposed conduct, for a further period of five years, without capacity constraints.
- 52 The ACCC was concerned about the Sydney-Christchurch route, which from 25 March 2018 was the only overlapping route the Applicants will operate on the Tasman. The ACCC noted that on this route, the Alliance reduced the number of independently operating competitors from three to two (Emirates/Qantas and Air New Zealand/Virgin Australia).

- 53 Despite its concern, the ACCC did not impose capacity conditions on the Sydney-Christchurch route. It suggested that imposing such a condition on only one route may risk unintended consequences. It notes:
- a capacity condition set too high risks having excess capacity on the route, which may crowd out other potential competitors and raise barriers to entry
 - capacity conditions on one route may result in an inefficient allocation of capacity. This could artificially restrict growth on other routes, and limit the Applicants' flexibility to best match capacity with demand, and overinflate growth on the route where capacity is required to be maintained.
- 54 In its final determination, the ACCC set a requirement for the Applicants to report for each six-month scheduling season on the number of seats flown, route specific costs, revenues and average fares on the Sydney-Christchurch route. The information was to enable an assessment of whether the Applicants were reducing capacity in order to raise fares on the Sydney-Christchurch route. If the ACCC believed this was happening, it could choose to impose capacity conditions.
- 55 We note that assessing this data and the underlying reasons for capacity changes is complicated during the current assessment period due to the impacts of COVID-19.

The ACCC is considering reauthorising the Alliance

- 56 In November 2022, the Applicants also applied to the ACCC for reauthorisation of the Restated MCA. The ACCC publicly indicated they expected to have issued a draft determination by February/March 2023.
- 57 On 23 March 2023, the ACCC released a decision to grant interim authorisation in respect of the application. The interim authorisation enables the Applicants to continue their coordination under the Restated MCA, while the ACCC assessment of the substantive application continues. The interim authorisation commences immediately and remains in place until the date the ACCC's final determination is made.
- 58 The interim authorisation was granted with the condition that the Applicants continue to be subject to reporting obligations regarding their operation on the Sydney-Christchurch route.
- 59 The ACCC granted the interim authorisation for the following reasons:
- The ACCC's final determination in this matter is unlikely to come into effect before the current authorisation expires on 31 March 2023.
 - Interim authorisation preserves the status quo and will not alter the existing market dynamics, as the Applicants have been coordinating their services under the alliance.
- 60 While the ACCC did not release a draft determination or indicate a position on the substantive issues, we anticipate the ACCC will likely focus on similar factors to that in 2018 and in line with our analysis.

COMMERCIAL RATIONALE FOR THE ALLIANCE

Commercial rationale for the alliance

- 61 In their application, the Applicants set out the commercial rationale for renewing the original agreement. This is summarised below. In general, the Applicants claim that leveraging off their respective network strengths has allowed both airlines to grow their networks in a sustainable way, with associated public benefits.
- 62 As stated earlier the Restate MCA was extended without any changes to commercial arrangements.

Emirates

- 63 As with the original agreement, the Restated Agreement helps Emirates access a larger number of New Zealand passengers, in order to support its international services. The Restated Agreement allows Emirates to market a larger number of travel options to New Zealand and overseas travellers, by accessing the domestic and trans-Tasman networks of Qantas and Jetstar. This extends the Emirates network and helps feed its international services through its Dubai hub. The Applicants argue this provides New Zealanders with an alternative route to Dubai and other destinations beyond.
- 64 The Applicants also state that the Alliance has helped Emirates sell more flights to high-yielding Australian and New Zealand business travellers, through the Qantas Frequent Flyer Programme.
- 65 The Applicants also note that Emirates non-stop services link into Jetstar's domestic network.

Qantas

- 66 As an "end of line" carrier, Qantas argues that it is disadvantaged relative to airlines based at mid-point hubs such as Singapore, Hong Kong, the Middle East or China. Airlines operating from these hubs have the benefit of aggregating passengers from a number of sources through their hubs, resulting in advantages in density and economies of scale. The Applicants assert that most end-of-line carriers have continued to struggle on routes between Australia and New Zealand and the UK/Europe during the last five years.
- 67 In its original application of 2012, Qantas International stated it was difficult to compete with these mid-point carriers. Qantas noted that its international business had been in "terminal decline" for a number of years, losing AUD\$450 million in 2012. Since 2012, Qantas has made a number of changes to its international business, resulting in underlying before-tax earnings of AUD\$512 million in 2016, and AUD\$327 million in 2017. Emerging from the financial impact of COVID-19, Qantas announced an underlying before-tax earning of AUD\$1.43 billion to 31 December 2022. This followed AUS\$7 billion of losses during the pandemic.
- 68 The Applicants state that cooperation with Emirates has helped Qantas compete more successfully with mid-point carriers, by leveraging off the Emirates international network, through its mid-point hub in Dubai.

- 69 The Applicants state that the alliance helps support restoring capacity to UK/Europe, Middle East and Northern Africa and Asia from Australia and New Zealand.

Consultation

- 70 On 8 December 2022, the Ministry asked for submissions from stakeholders on the proposed authorisation of the Restated Agreement. Submissions were received from Auckland International Airport Limited, the NZ Airports Association, and Tourism Industry Aotearoa (TIA).

NZ Airports Association

- 71 NZ Airports is of the view that reauthorising the agreement for five years would be of benefit to consumers, but that the Minister should, as always, carefully scrutinise the benefits to ensure they are in New Zealand's interests.
- 72 NZ Airports remains concerned the effect the Alliance has on competition on the Tasman market. Air capacity and a competitive airline environment are the major enablers for maintaining and growing trans-Tasman tourism.
- 73 NZ Airports requests that consideration be given to implementing appropriate controls to ensure the claimed benefits are realised and for a fair and equitable market structure on the Tasman during the term of the new agreement.

Auckland International Airport Limited (AIAL)

- 74 Auckland Airport acknowledged there is currently no network overlap between the Applicants on their Auckland routes, meaning they do not compete on routes to Auckland. As a result, Auckland Airport has no current concerns that this agreement, if extended for a further five years, would risk either airline significantly reducing capacity on the routes they fly to Auckland.
- 75 AIAL shared NZ Airports comments regarding scrutiny of claimed benefits.

Tourism Industry Aotearoa

- 76 While TIA did not provide a formal submission, they indicated they had no concerns as the reauthorisation sought is a continuation of previous authorisations in 2013 and 2018.

Applicants' response

- 77 The Applicants acknowledged and welcomed the submissions from Auckland Airport and NZ Airports, noting that both stakeholders supported reauthorisation of the proposed conduct for a period of five years, subject to the Ministry assessing the public benefits and detriments. The applicants continued to reinforce in their view, the proposed conduct would continue to result in real and substantial benefits and result in no competitive detriment.
- 78 We also asked the Applicants for their response if either of the following situations occurred:

FRAMEWORK FOR OUR ANALYSIS

- The restated MCA is reauthorised in Australia but not reauthorised in New Zealand
- The restated MCA is reauthorised in New Zealand but not reauthorised in Australia

79 Both applicants stated that if the restated MCA was not reauthorised in Australia, the Alliance would not continue at all without authorisation in Australia; and therefore, not continue for New Zealand alone. Emirates noted that the trunk routes are primarily concerned with UK/EU and Australia routes; and unlikely would continue just for the New Zealand market, if authorised only for New Zealand.

80 In the second scenario, Emirates stated they would be forced to re-evaluate the capacity deployed on the Sydney-Christchurch extension and potentially forced to withdraw from it entirely.

Framework for our analysis

81 Our analysis relating to the proposed authorisation of the Restated Agreement includes both an analysis of whether the Restated Agreement meets the strict statutory criteria in the Civil Aviation Act, as well as a public interest assessment.

Statutory analysis

82 The applicants have applied for authorisation in accordance with section 88 of the Act. The Act provides for an exemption for cooperative arrangements between international airlines, from certain prohibitions in the Commerce Act 1986.

83 Section 88 of the Act sets out a number of statutory pre-conditions that need to be met by all provisions of the arrangements for which authorisation is being sought.

84 We undertook detailed analysis of the provisions of the Alliance agreements against the statutory criteria set out in the Act in providing advice on previous applications and found that the agreements do not breach any of the Act's criteria. There have been no changes which affect this conclusion.

Public interest analysis

85 s 9(2)(h) [Redacted text block]

86 Therefore, we have undertaken a comprehensive analysis of the proposed alliance to determine whether, on balance, authorisation is in the public interest in New Zealand. This consists of:

- an analysis of how the Alliance affects competition in relevant air services markets
- a consideration of the benefits claimed by the applicants.

- a consideration of the likely detriments that authorisation would entail for New Zealand as a whole
- a consideration of the counterfactual scenario (ie, what is likely to occur if authorisation is declined)
- an overall conclusion drawing together the factors described above.

Impact on markets

- 87 Despite airline alliances' major advantages, in certain circumstances they may increase market power. Exercising market power through alliances is enhanced when partners together account for a significant market share.
- 88 Qantas has a strong market presence in both Australia and New Zealand. Aside from its large domestic network in Australia, it offers trans-Tasman services to four destinations in New Zealand, and through its subsidiary Jetstar, offers domestic services from five New Zealand airports. Refer to Table 1 (page 3) for more information on the destinations Qantas flies to.
- 89 Emirates on the other hand has significant presence in international markets, where it operates a large network via its hub in Dubai to destinations in Asia, UK/Europe, Middle East and Africa. Check Table 3 (page 5) for more information on the destinations Emirates flies to.
- 90 The Applicants' networks are largely complementary. We have defined the relevant primary market as being directly and indirectly overlapping destinations to which both Applicants offer services from New Zealand. For each of these overlaps, we analyse the impact of the Alliance on market shares based on the percentage of passengers and airfares to determine whether the Alliance is likely to affect competition in these markets.
- 91 As the direct and indirect service offerings of alternative providers are close substitutes, we assessed all routes between origin and destination, including via intermediate points in other regions.
- 92 In this analysis, airfares are shown in USD dollars. We also use the nominal price when looking at the historical airfares for specific routes. We have data for the average base fare (USD) from all classes of passengers. In our analysis we will refer to the average base fare and the "airfare". We compare this airfare range offered by Emirates and Qantas to the median airfare for other operating airlines on the route.
- 93 All this data is sourced from Sabre Market Intelligence (SMI) database. SMI provides a wide range of flight-related data, including flight schedules, flight numbers, departure/arrival times, and other relevant information. Note that we have used the operating airline in our analysis rather than the marketing airline.
- 94 It should be noted that since calendar year 2020 the impacts of the pandemic have led to significant variances in market shares and airfares. The pandemic affected carriers' approaches and capabilities to operate amid government-imposed travel restrictions and their rebuild capacity in the recovery stage. It also caused big variation in passenger numbers and created operational differences and challenges between carriers. Given these variables and volatility in operating conditions, market share figures between 2020 and 2022,

IMPACT ON MARKETS

should not be seen as reflective of competition dynamics and conditions going forward. For these reasons, the Application and analysis focusses on pre-pandemic market shares and airfares.

Trans-Tasman market**Historically two alliances dominate in the trans-Tasman market**

- 95 The trans-Tasman market was previously dominated by two alliances Emirates/Qantas/Jetstar and Air New Zealand/Virgin Australia. This created an effective duopoly across the Tasman. The alliance between Air New Zealand and Virgin Australia was suspended in 2018. Virgin Australia suspended its trans-Tasman services in 2020 in the face of COVID and being put into administration. It has only recently re-started limited services to Queenstown.
- 96 The remaining passenger market is made up of fifth freedom carriers (which carry passengers between countries as part of services connecting to the airline's own country). These include China Airlines, AirAsia X and Lan Chile.
- 97 In 2018, Emirates stopped operating trans-Tasman services to Auckland, replacing them with a non-stop Dubai-Auckland service. From 25 March 2018, the only flight that Emirates operated across the Tasman was its daily Christchurch-Sydney service.
- 98 Emirates withdrew from the Christchurch-Sydney route during the pandemic. The service is scheduled to recommence in March 2023. When it does, it will be the only overlapping Alliance route to New Zealand.
- 99 In the meantime, Qantas has been restoring services across the Tasman following the easing of entry restrictions into New Zealand and is providing additional Sydney-Christchurch services until Emirates services resume.

Christchurch to Sydney is the main direct overlapping route for the Alliance

- 100 The Qantas/Emirates/Jetstar alliance has dominated the Sydney-Christchurch market and had a relatively steady market share before the pandemic of around 70%.
- 101 This could potentially lead to the Qantas/Emirates/Jetstar alliance having market power on the Christchurch to Sydney route in the future.
- 102 As the only over-lapping route, Christchurch to Sydney is worth of the closest examination and where we have naturally focussed our analysis. The Ministry previously had concerns about the alliance reducing competition on this route.
- 103 Although Air New Zealand is a strong competitor on the trans-Tasman as a whole, it had a significantly smaller market share of around 25-30% on Sydney-Christchurch pre-pandemic. While Air New Zealand currently has a higher market share, we cannot forecast how much this will change once Emirates schedules resume from 26 March 2023.

Concern about dominant position required more reporting

- 104 In the last reauthorisation application, the ACCC did not impose capacity conditions as the only overlapping route was Christchurch to Sydney. We anticipate the ACCC is unlikely to impose capacity conditions due to the nature of post-pandemic recovery.

- 105 However, the ACCC did have concerns that the applicants could use their dominant position on this route to reduce capacity and increase fares. It required the Applicants to report for each 6-month scheduling season on the number of seats flown, route specific costs, revenues and average fares on the Auckland-Australia and Sydney-Christchurch routes. Although the Applicants argued that this is unnecessary the ACCC could impose these same reporting conditions.
- 106 We do not have the ability to impose such conditions but can request the Applicants provide us with the same information they provide the ACCC, if required to do so.

Effects of COVID-19 pandemic

- 107 Virgin Australia suspended its Tasman services due to the impact of the pandemic in 2020. The airline was subsequently placed in administration and is Virgin Australia has started limited services (three services per week to/from Queenstown). It is unclear at this stage if or when Virgin might offer additional services.
- 108 The applicants assert that reauthorisation will support restoration of their networks
- 109 In particular, Emirates' views the Alliance as important for supporting its Christchurch-Sydney service.
- 110 The pandemic has significantly impacted the aviation industry including Qantas and Emirates airlines. Although demand is returning, IATA forecasts that global passenger traffic will only recover to pre-pandemic levels by 2024 at the earliest.
- 111 We note that the aviation industry is facing aircraft and crew availability issues in rebuilding their schedules. We agree that the Alliance will assist Emirates and Qantas in rebuilding their networks to pre-pandemic levels.

Trans-Tasman air freight during covid

- 112 The trans-Tasman market for air freight is a very important market for New Zealand.
- 113 Emirates has been particularly valuable for New Zealand's connectivity. The carrier transports a significant portion of New Zealand's medical exports (including ventilators and medicines). It also plays a key role in moving seasonal meat products into Europe over summer. Emirates' Maintaining International Air Connectivity (MIAC) agreement from 1 June to 31 October 2021 had a maximum contract value of s 9(2)(b). The actual spend over the period was approximately s 9(2)(b). This supported 88 flights (3 combination passenger/cargo services to Auckland and 1ⁱ⁾ cargo service to Christchurch) carrying s 9(2)(b) i) tonnes.
- 114 Qantas received support under the International Airfreight Capacity agreement from March 2020 to March 2021, the funding agreement supported 4 flights per week on a B767F, one way Auckland-Christchurch-Sydney.
- 115 Qantas' under the International Airfreight Capacity agreement enabled s 9(2) tonnes of imports and exports to be moved (largely lamb, chilled meat and fish) at a total cost of s 9(2)(b)(ii) over 189 flights.

IMPACT ON MARKETS

No apparent effect of effective duopoly dominance on prices

- 116 By the standards of international aviation, here are low barriers to entry into the trans-Tasman market between Australia and New Zealand. New Zealand and Australia both have ‘Open Skies’ policies. There are no limits on capacity for Australian or New Zealand airlines. Airlines from a large number of third countries also have the right to operate on the Tasman. This makes it easier for new airlines to enter the market.
- 117 Given the effective duopoly on the Christchurch-Sydney route, there is a theoretical risk of price coordination and scheduling decisions across their respective networks, raising airfares above competition levels. However, this isn’t apparent in our analysis.

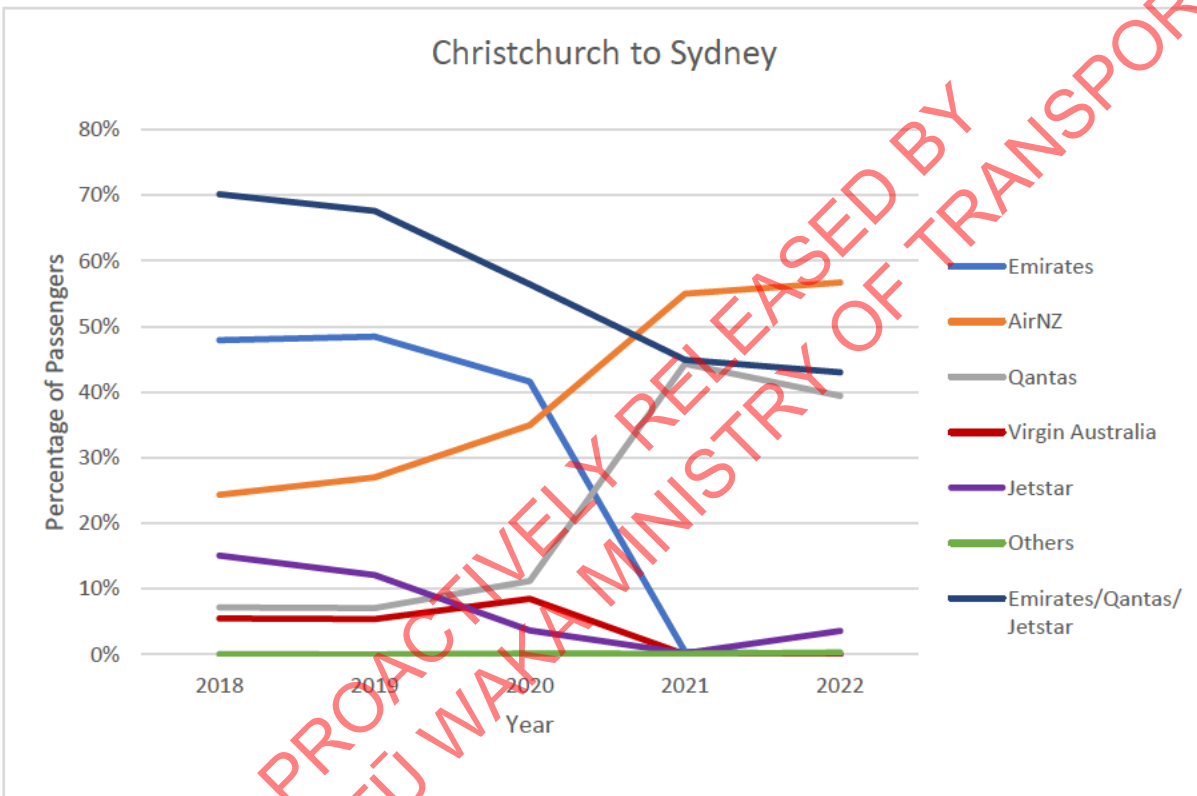


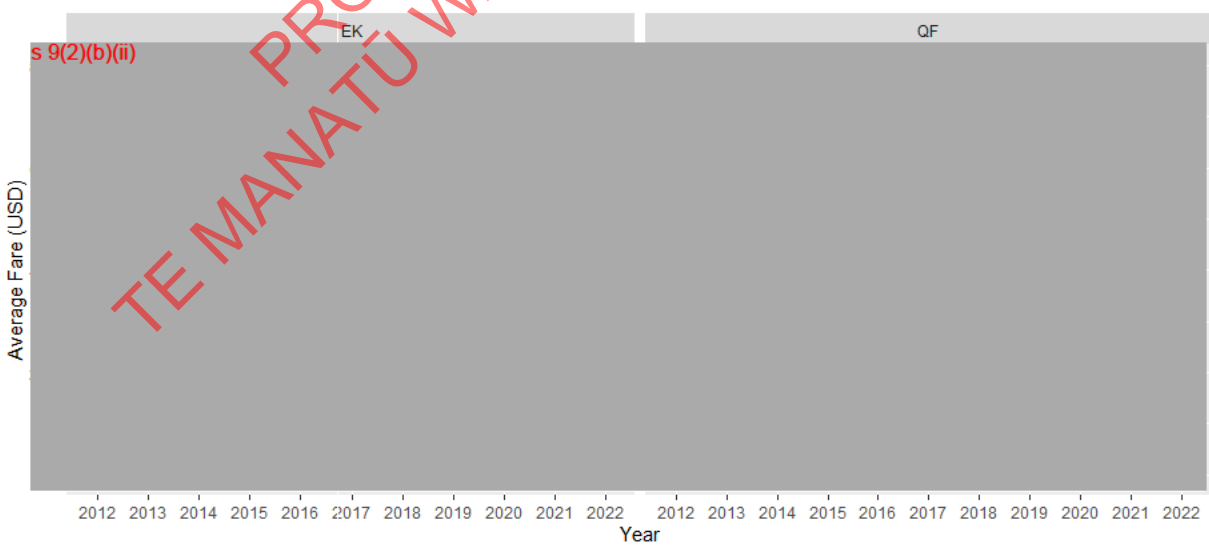
Figure 1 Christchurch to Sydney market shares



Figure 2 Christchurch to Sydney airfares (USD)

Table 4 Christchurch to Sydney median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	\$										
Qantas	\$										
Others	\$										



IMPACT ON MARKETS

Figure 3 Sydney to Christchurch airfares (USD)

Table 5 Sydney to Christchurch median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	\$										
Qantas	\$										
Others	\$										

- 118 The median airfares are higher for Qantas than for Emirates on average. There does not seem to be much differentiation in prices between arrivals and departures to or from Christchurch and Sydney. Although we note that this is a direct flight with the median airfare difference only about \$10-\$40 pre-pandemic once the Alliance was established. The price of Qantas airfares tends to have more variance than that of Emirates. However, between 2016 and 2020 the median airfare for both Emirates and Qantas remained very stable and did not change during this period of time. During this time the median airfare of the industry is between the two airlines prices.
- 119 In general, it does not appear that for most of the time the Alliance has been in operation since 2013 that prices increased, only doing so after the pandemic.

New Zealand to the United Kingdom (UK)

Christchurch-London and Auckland-London are two indirect overlapping routes for the Alliance

- 120 Passengers travelling between the UK and New Zealand have several options available in terms of routes and airlines.
- 121 There are two routes where both airlines operate between New Zealand and the UK. These are Christchurch-London and Auckland-London.

Auckland-London

- 122 On the Auckland-London route, Emirates offers one-stop flights via its hub in Dubai. It previously offered a two-stop Auckland-Bali-Dubai-London service.
- 123 Qantas, meanwhile, operates several two-stop alternatives between Auckland and London, which indirectly overlap with the Emirates flights referred to above. These are detailed below:
- Auckland-Sydney-Singapore-London
 - Auckland-Melbourne-Singapore-London
 - Auckland-Melbourne-Perth-London

Christchurch-London

- 124 Qantas and Emirates both offer two-stop flights connecting Christchurch and London. Emirates offers flights from Christchurch via Sydney and Dubai to London. Qantas

meanwhile offers indirectly overlapping services between Christchurch and London via the below routes:

- Christchurch-Sydney-Singapore-London
- Christchurch-Melbourne-Singapore-London
- Christchurch-Melbourne/Sydney-Perth-London

Sufficiently strong competition between the UK and New Zealand

- 125 Several airlines offer one-stop services from Auckland to London through hubs in the Middle East, North America, Northern Asia and Southeast Asia. A number of two-stop alternatives are also available for consumers on flights connecting through Australia, from five airports in New Zealand. In total we have more than 20 airlines that offer services in these routes.
- 126 Figure 4 and Figure 7 show the five largest market shares of airlines on routes Auckland-London (Air New Zealand, Emirates, Qatar Airways, Singapore Airlines, Qantas Airways) and Christchurch-London (Singapore Airlines, Air New Zealand, Qantas Airways, Cathay Pacific). We are of the view that there are sufficient competitors to prevent any anti-competitive effects from the Alliance.
- 127 Emirates seems to be more expensive on average than Qantas for flights between New Zealand and the UK. Compared to the rest of the industry average, Emirates offers a higher price while Qantas offers a lower price on these routes. This is illustrated by the Auckland to London route in 2019, where median prices with the biggest market share rival – Air New Zealand – sat at █████ USD, while Emirates median prices were higher at █████ USD and Qantas median prices were slightly lower at █████ USD².
- 128 Since the first alliance (in 2013), the airfares have decreased. However, this decline is in line with the trend for other operating airlines until the pandemic affected airlines. More recently airfares have started to increase in a post-pandemic market. (see Figure 5)
- 129 Given these factors, we consider there are sufficiently strong competition on these routes and Qantas/Emirates do not appear to coordinate on prices. We do not believe that Alliance between Qantas and Emirates will have any effect on competition in this market.

² This is possibly explained, in part, by Emirates having more business class capacity and offering first class seats. Our analysis did not differentiate by passenger class.

IMPACT ON MARKETS

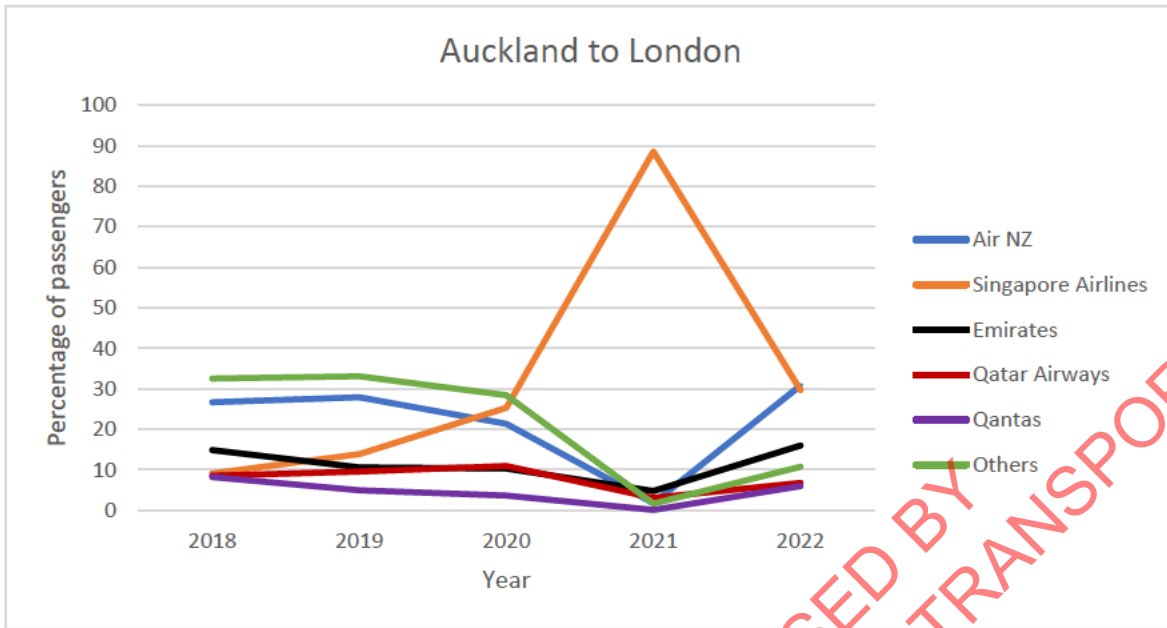


Figure 4 Auckland to London market shares



Figure 5 Auckland to London airfares (USD)

Note

EK- Emirates, QF- Qantas; Red line is the median airfare for other operating airlines on the route.

Table 6 Auckland to London median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates											
Qantas											
Others											

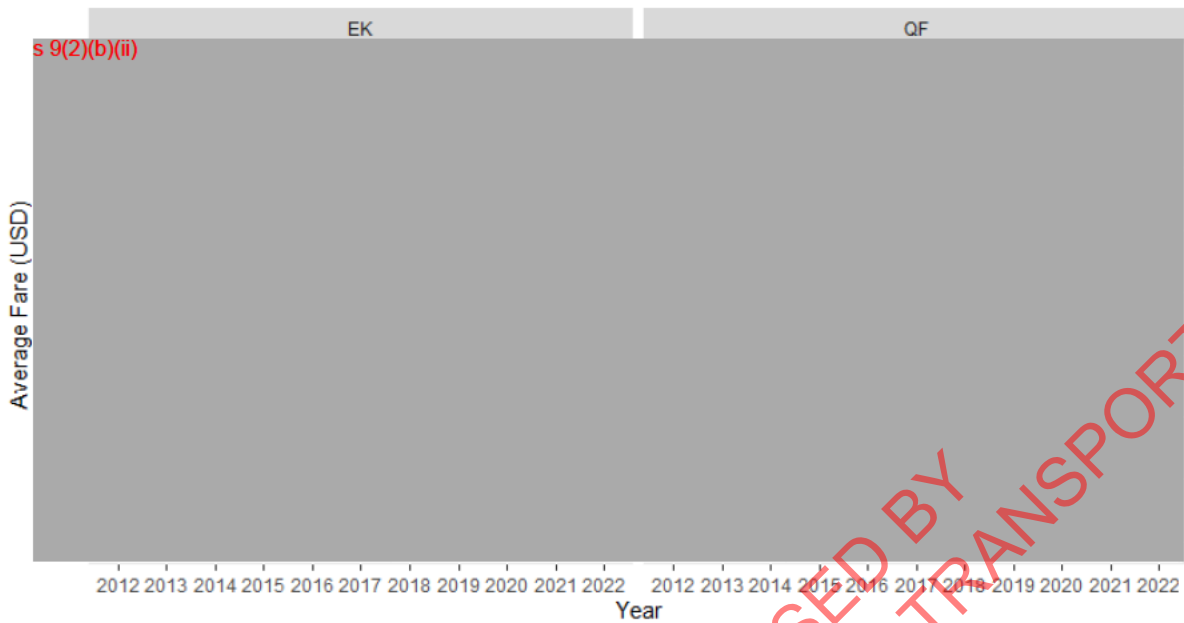


Figure 6 London to Auckland airfares (USD)

Note

EK- Emirates, QF- Qantas; Red line is the median airfare for other operating airlines on the route.

Table 7 London to Auckland median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	s 9(2)										
Qantas	s 9(2)										
Others	s 9(2)										

- 130 Figure 5 and Table 6 describe the Auckland to London airfares and Figure 1 and Figure 4 show the London to Auckland airfares. We compared the price offered by Emirates, Qantas, and the rest in the industry in these routes.
- 131 From looking at the airfares between arrivals and departures to or from Auckland to London revealed that Qantas median airfares were consistent with industry median airfares and Emirates median airfares were higher than industry median airfares.
- 132 Industry airfares have been increasing since 2018 but this could be because of the change to operate the two-stop flight rather than one stop. As airfares between the Alliance are becoming more differentiated indicates that the Alliance does not appear to be coordinating on airfare. The basic analysis did not reveal concerning pricing strategies of this alliance in the past that would have significantly affected customers' welfare or competition.

IMPACT ON MARKETS

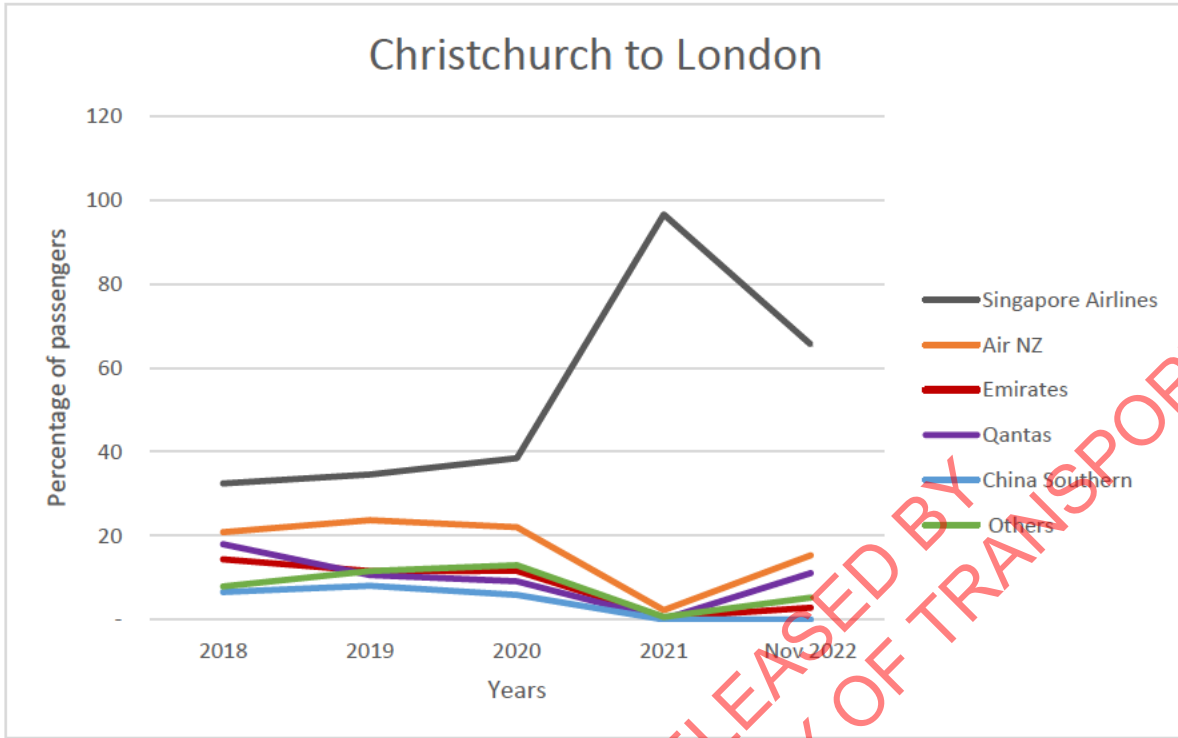


Figure 7 Christchurch to London market shares



Figure 8 Christchurch to London airfares (USD)

Note

EK- Emirates, QF- Qantas; Red line is the median of average airfare of others operating airline in this route.

Table 8 Christchurch to London median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	s 9(2)	█	█	█	█	█	█	█	█	█	█

IMPACT ON MARKETS

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Qantas	s 9(2)										
Others	s 9(2)										



Figure 9 London to Christchurch airfares (USD)

Note

EK- Emirates, QF- Qantas; Red line is the median airfare for other operating airlines on the route.

Table 9 London to Christchurch median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	s 9(2)										
Qantas	s 9(2)										
Others	s 9(2)										

- 133 Figure 8, Table 8 and Figure 9, Table 9 illustrate the airfares for the Christchurch to London and London to Christchurch routes.
- 134 In this market, airfares tend to be more expensive for Emirates than Qantas. However, compared to the rest of the industry, Emirates median airfares are mostly consistent with the median industry airfares of the market with Qantas being slightly cheaper than the market on average (pre-pandemic). This pattern in prices is also consistent across arrival and departure median airfares.
- 135 Our basic analysis did not reveal concerning pricing strategies from the Alliance. However, this was unlikely given that neither airline holds a large market share.

IMPACT ON MARKETS

New Zealand to rest of the Europe

Auckland – Rome is the main indirect overlapping route for the Alliance

- 136 Both Emirates and Qantas offer services connecting New Zealand to Rome. However, there are nearly 20 airlines offering services on these routes. In this market, Emirates is holding the biggest market share (around 30% in 2018-2019), followed by Qatar Airways with around 22% (2018-2019).
- 137 In contrast, Qantas has a very low market share on this route and did not even operate it in 2021 because of the pandemic. On 25th June 2022, Qantas launched direct flights between Perth and Rome, and now holds about a 6% market share (see Figure 10).
- 138 As with the rest of the industry, airfares offered by Emirates and Qantas on Auckland-Rome routes are generally lower than before the alliance (see price ranges for 2012 and 2013 in Figure 11). However, we note that Qantas and Emirates prices have increased more than the industry average, post pandemic.
- 139 Despite the indirect overlaps in services on the Auckland-Rome route, we are of the view that there is sufficient market presence from other competitors to prevent any anti-competitive effects from the Alliance.

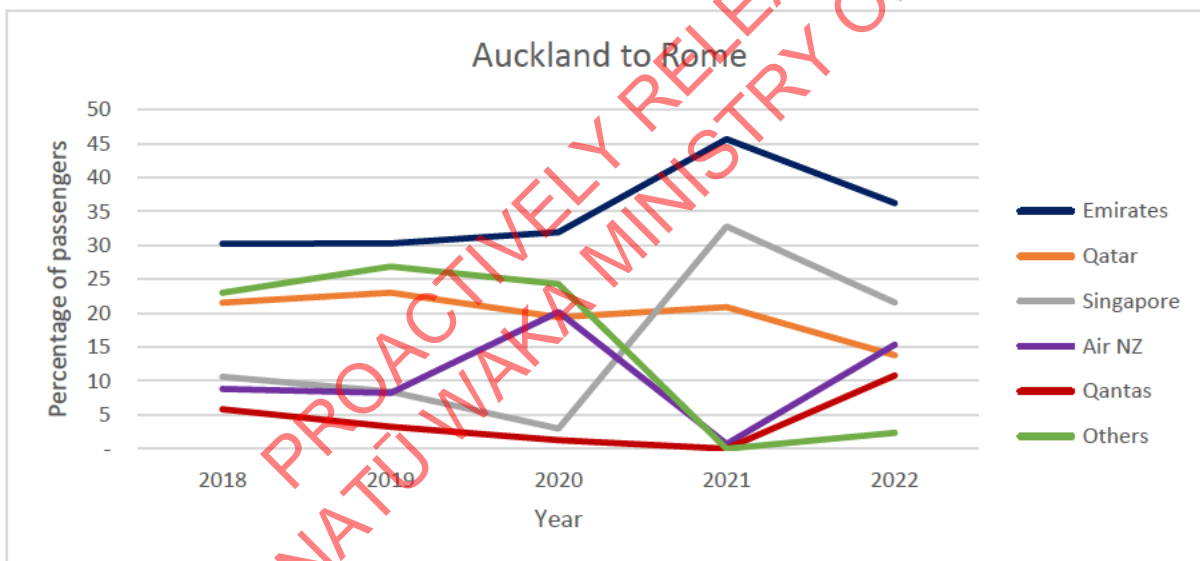


Figure 10 Auckland to Rome market shares



Figure 11 Auckland to Rome airfares (USD)

Table 10 Auckland to Rome median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	s 9(2)										
Qantas	s 9(2)										
Others	s 9(2)										



Figure 12 Rome to Auckland airfares (USD)

Note

IMPACT ON MARKETS

EK- Emirates, QF- Qantas; Red line is the median of average airfare of others operating airline in this route.

Table 11 Rome to Auckland median airfares (USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Emirates	s 9(2)										
Qantas	s 9(2)										
Others	s 9(2)										

- 140 Figure 11 and Table 10 show the Auckland to Rome airfares (USD) while Figure 12 and Table 11 show the Rome to Auckland airfares (USD).
- 141 The median airfares across arrivals and departures between Auckland and Rome seem to be relatively consistent and within about \$100 of each other. In general, airfares are higher for Emirates than for Qantas on average in this market. Qantas has a median airfare which is on par with the rest of the industry in this market. However, since 2016, Emirates has a higher median airfare than the industry on average. The basic analysis did not reveal concerning pricing strategies that would lead to coordination on prices.
- 142 Although airfares for Emirates are generally more expensive, the difference between the median airfare for Emirates and the rest of the industry has held at about the same over 2016-2020.

New Zealand to Dubai

Emirates has a dominant position in this small market.

- 143 Emirates is operating direct flights from Auckland to Dubai. At around 90% it holds a dominant market position on this route. This is because it provides the only direct route to passengers travelling between Dubai and New Zealand.
- 144 However, New Zealand-Dubai is a relatively small market and compared to other routes, people usually use Dubai as a transit airport to go to other places (such as in Europe). The nature of airline economics, and the advantages of an airline at its home base mean that it is difficult for smaller airlines to compete on services to ports like Dubai. Given these factors, we do not believe the Alliance affects the competition on this route.

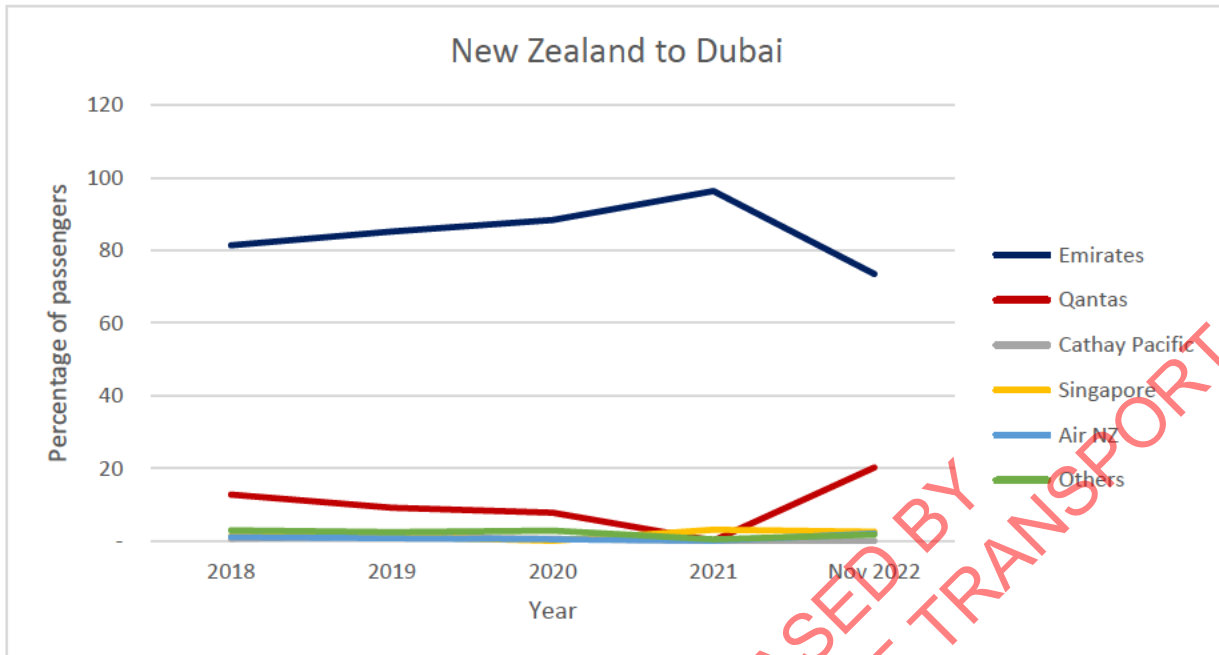


Figure 13 New Zealand to Dubai market shares

New Zealand to sub-Saharan Africa

145 The majority of passengers that travel between New Zealand and sub-Saharan Africa are departing from, or travelling to, South Africa. Other countries in Africa only have small flows to and from New Zealand. The only place Qantas flies to in Africa is Johannesburg, South Africa. However, Emirates operates to several countries in this market.

146 The overlapping route between Qantas and Emirates is the Auckland-Johannesburg and Christchurch-Johannesburg routes.

Auckland to Johannesburg

147 On the Auckland-Johannesburg route, Emirates offers one-stop flights via its hub in Dubai.

148 Qantas, meanwhile, operates one-stop flights through Sydney, which indirectly overlap with the Emirates flights referred to above. These are detailed below:

- Auckland-Sydney-Johannesburg
- Auckland-Dubai-Johannesburg

Christchurch to Johannesburg

149 On the Christchurch-Johannesburg route, Qantas offers a one-stop flights via Sydney.

150 Emirates, meanwhile, operates two-stop flights through Sydney and Dubai, which indirectly overlap with the Qantas flights referred to above. These are detailed below

- Christchurch-Sydney-Johannesburg
- Christchurch – Sydney – Dubai - Johannesburg

IMPACT ON MARKETS

Competition in the market dominated by attractive Qantas route

- 151 Given the small size of the sub-Saharan Africa market we have just focussed on the South Africa market as other markets are too small to analyse.
- 152 Figure 14 shows the six largest market shares of airlines on the route Auckland-Johannesburg (Qantas, Emirates, Air New Zealand, Jetstar, Qatar Airways and Singapore Airlines). We are of the view that given the nature of these markets there is not any significant anti-competitive effects from the Alliance.
- 153 Qantas holds a dominant market position on the Auckland - Johannesburg route. This is probably a reflection of the more direct and convenient route that Qantas offers compared to other airlines. Qantas offers a route from Auckland to Johannesburg with one stop in Sydney. However, Emirates also operates a route from Auckland – Dubai – Johannesburg. This route is much longer than the Qantas route and a less attractive option to consumers.
- 154 Although the Alliance effectively removes one competitor from these routes, there are a few alternative competitors which offer services of a similar distance to Emirates. These airlines include Singapore Airlines, Qatar Airways and Cathay Pacific. Qatar Airways and Singapore Airlines held a dominant position in the New Zealand-Johannesburg market in 2021 (note that this is during the COVID-19 pandemic).
- 155 Although the Qantas/Emirates/Jetstar alliance makes up the majority of the market, Emirates is not likely to be a strong competitor in this market due to their route from New Zealand to Johannesburg being much longer (extending via Dubai rather than Australia like Qantas). This is reflected in Figure 14 and Figure 15.

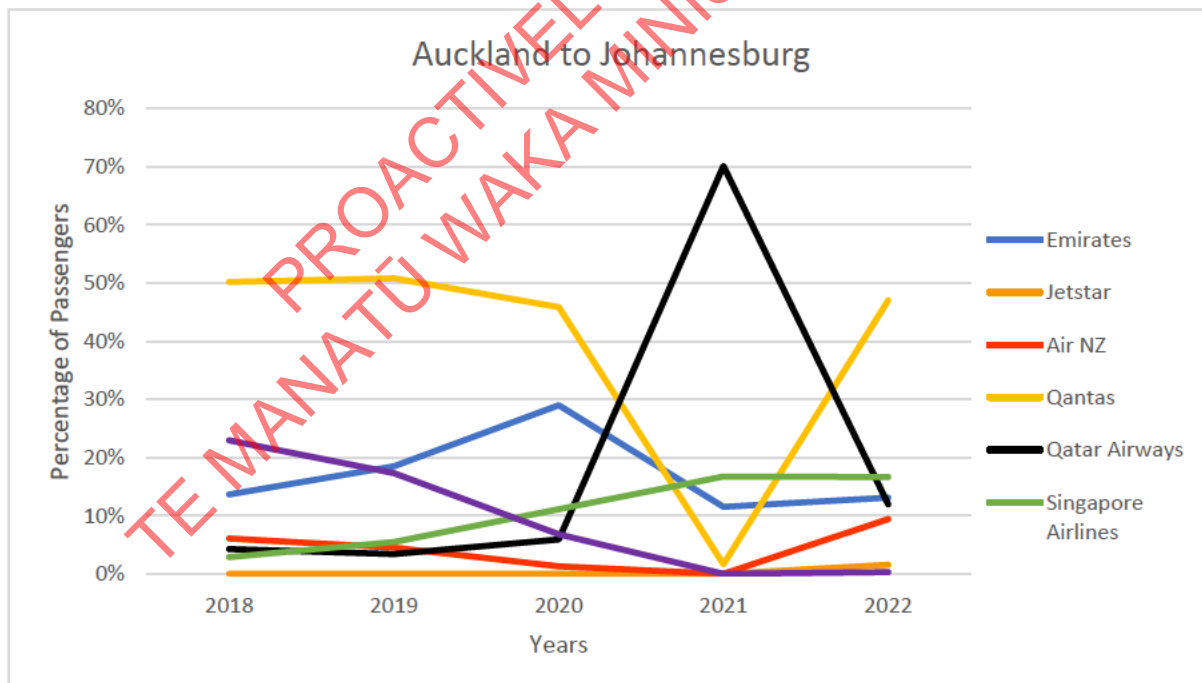


Figure 14 Auckland to Johannesburg market shares

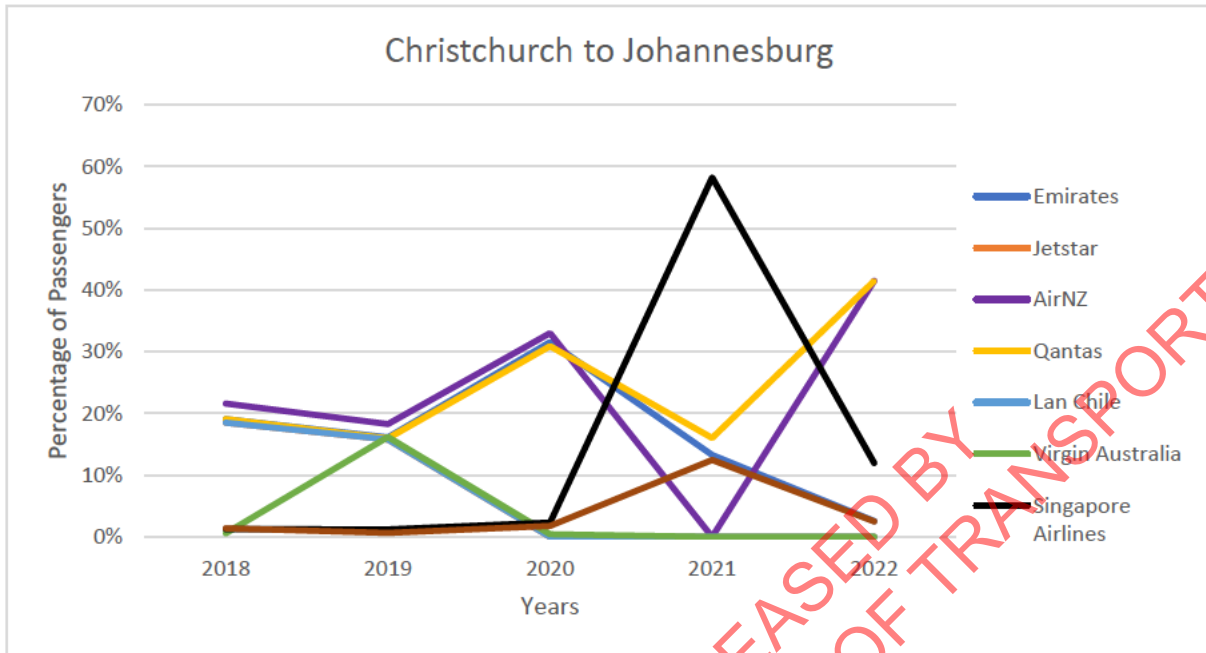


Figure 15 Christchurch to Johannesburg market shares

New Zealand to Asia

New Zealand to China

156 The Alliance has a very small share in the New Zealand – China market.

157 There are few indirect overlaps between Qantas and Emirates on this market. However, the Applicants are not large players in this market. Qantas holds approximately 6% market share while Emirates holds an even smaller share (less than 1%) of the New Zealand to China market. Given the very small share of the New Zealand-China market, the Alliance is unlikely to affect the competition in this market.

New Zealand to Southeast Asia

158 A number of small indirect overlaps exist in the Applicants' network with respect to New Zealand – Southeast Asia. Both Applicants (including Jetstar) operate services to Bali, Bangkok, Singapore as well as (excluding Jetstar) Jakarta and Hong Kong. In most cases on these routes, the Applicants provide one stop services: Qantas through stops in Australia, and Emirates through stops in Dubai.

159 Previously, Emirates did not hold a significant market share on any of these routes. However, since the last reauthorisation, Emirates temporarily entered the Auckland – Bali market where they held a high market share.

160 There are some routes where Qantas and Emirates have high market shares on the overlapping routes. However, there is competition from other airlines such as Air New Zealand, Malaysia Airlines and Singapore Airlines. We do not believe that competition will decrease as a result of the alliance in the New Zealand-Southeast Asia market.

IMPACT ON MARKETS

161 Qantas and Emirates were not present in the market in 2021, due to the impacts of COVID-19.

Auckland-Bali services

162 Emirates previously offered a direct flight from Auckland to Bali. Qantas offers a flight from Auckland to Bali with one-stop in Sydney.

163 Since Emirates entered the market in June 2018, there has been greater capacity between New Zealand and Bali. Air New Zealand is the only other airline on this route which also flies Auckland to Bali directly. There is competition between these two competitors who operate this route directly.

164 Prior to COVID-19, Emirates had the dominant position in the market with about a 50% market share whereas Qantas only had a small market share of about 10%.

165 Emirates was the dominant competitor in this market between when it entered in 2018 and when the pandemic began. Emirates left the market in 2022.

166 s 9(2)(b)(ii) [REDACTED] 3.

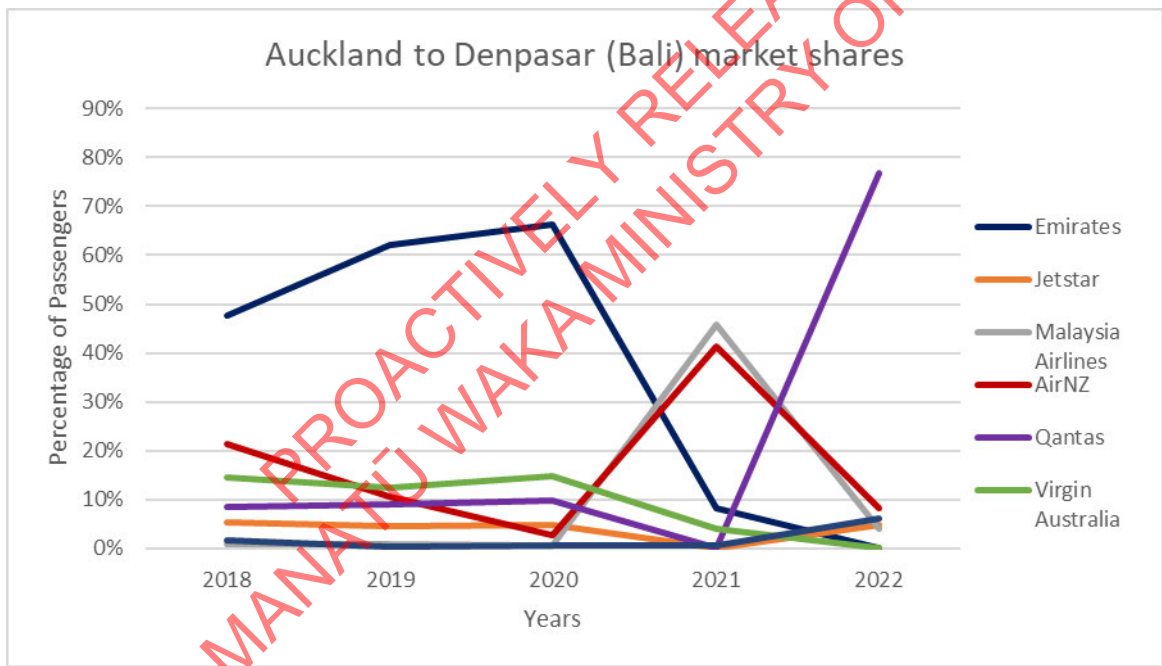


Figure 16 Auckland to Denpasar (Bali) market shares

Auckland to Jakarta

167 Emirates offered this route before the pandemic through one-stop flights through Dubai and during the pandemic through a stop in Kuala Lumpur.

168 Qantas offers this route through one stop in Australia (Brisbane, Melbourne or Sydney).

³ Confidential information from Applicants

169 Prior to COVID-19, Qantas had a dominant position in the market. Currently, Singapore Airlines has the dominant position in the market. These two are the main players in the market.

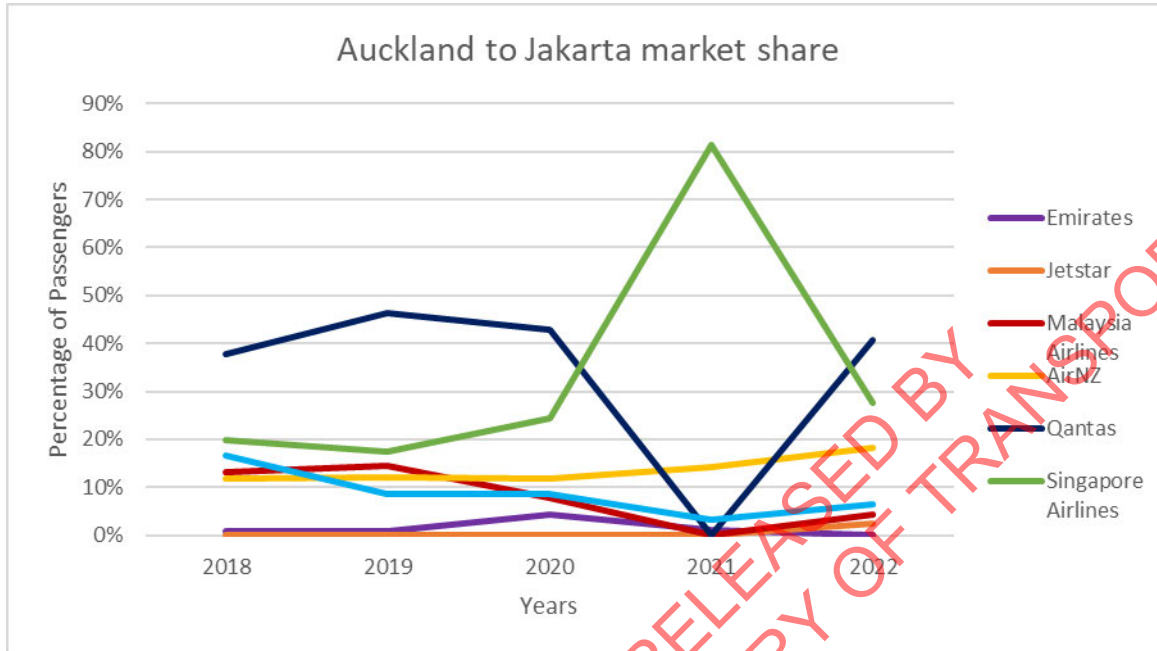


Figure 17 Auckland to Jakarta market shares

Auckland to Singapore

170 The Qantas/Emirates/Jetstar alliance does not hold a significant market share on this route. This route is primarily dominated by Singapore Airlines/Air New Zealand alliance.

171 Emirates flies via its hub in Dubai, Denpasar (Bali) or Australia. Qantas currently operates Auckland – Singapore, with a one-stop connection in Australia (Brisbane, Melbourne, Sydney).

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IMPACT ON MARKETS

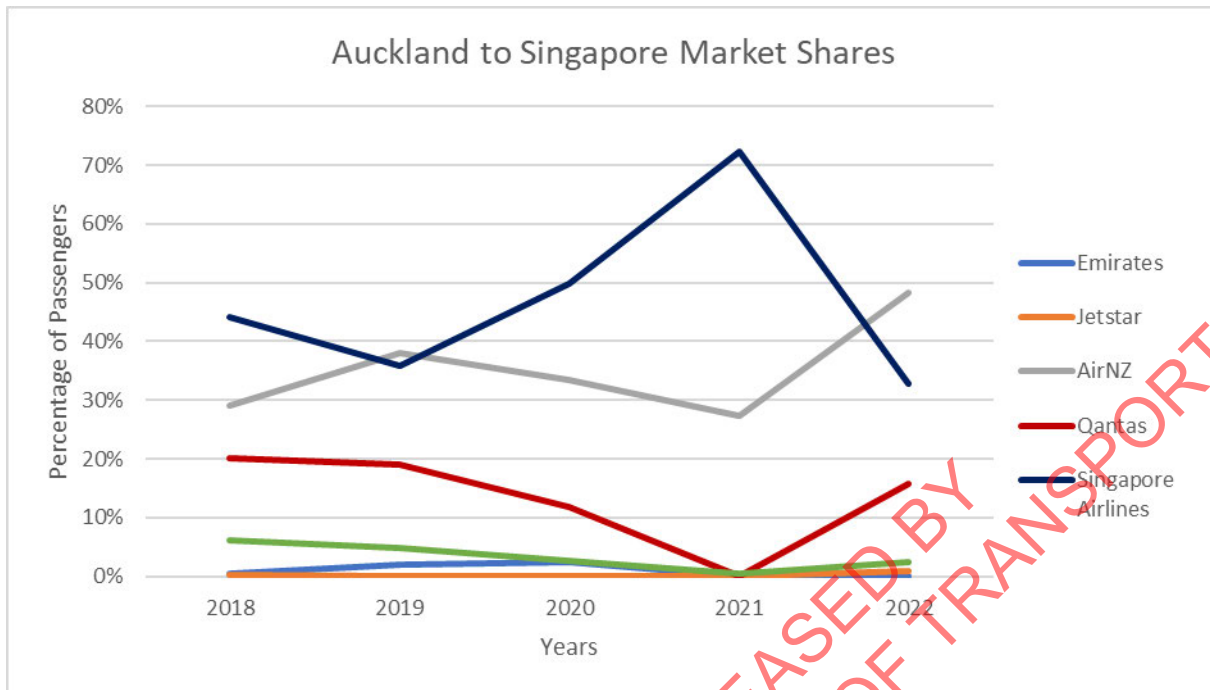


Figure 18 Auckland to Singapore market shares

New Zealand to the United States of America

- 172 There are four indirectly overlapping services between New Zealand and the USA. These are services out of Auckland to Dallas, New York, San Francisco and Los Angeles. These routes are dominated by Air New Zealand, which operates direct flights from Auckland to San Francisco, Los Angeles, New York and Houston (Figure 19, Figure 20, Figure 21 and Figure 22). Emirates offers these flights flying through its hub in Dubai, while Qantas offers these flights via services connecting in Australia. In June 2023, Qantas is to commence a Sydney to New York via Auckland service.
- 173 Between Auckland and Dallas, Emirates operates through one stop in Dubai while Qantas operate via Sydney. However, during 2018-2022, Emirates had an extremely low market share while Qantas accounted for approximately 50% of passengers.
- 174 Emirates does not hold a strong market presence on these routes. This is likely because of the much greater distance for traveling between New Zealand and United States through Dubai. Even though Qantas is an important operator for passengers travelling between Auckland to America, the lack of competition from Emirates in its ordinary offerings for this route, indicates that an anti-competitive behaviour is unlikely between Auckland and America.

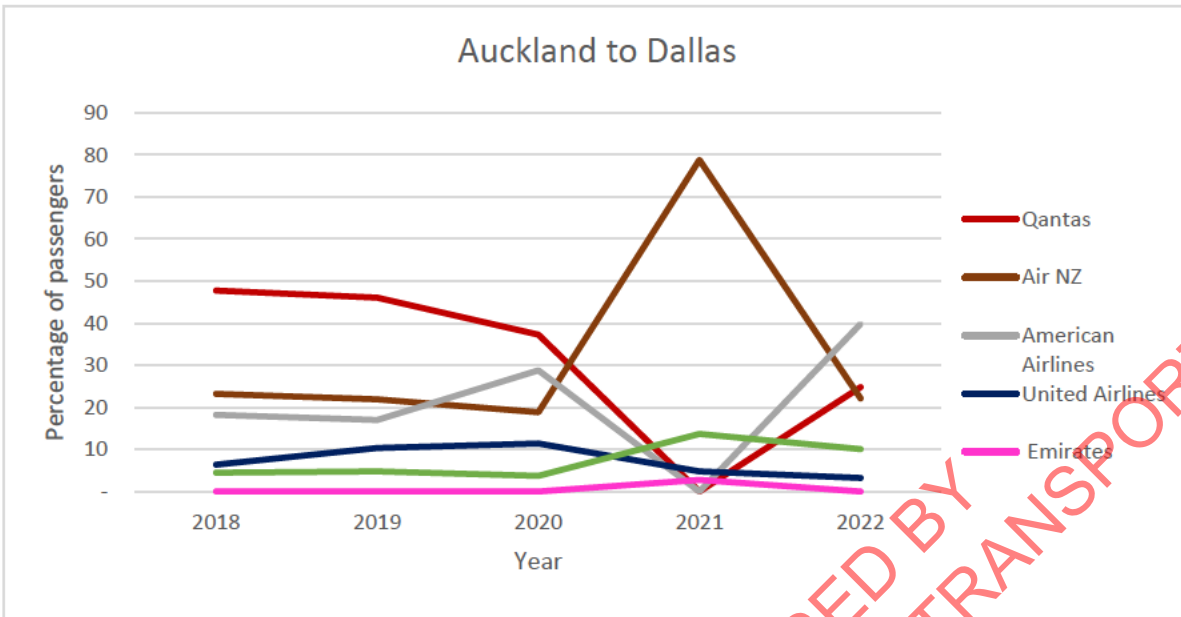
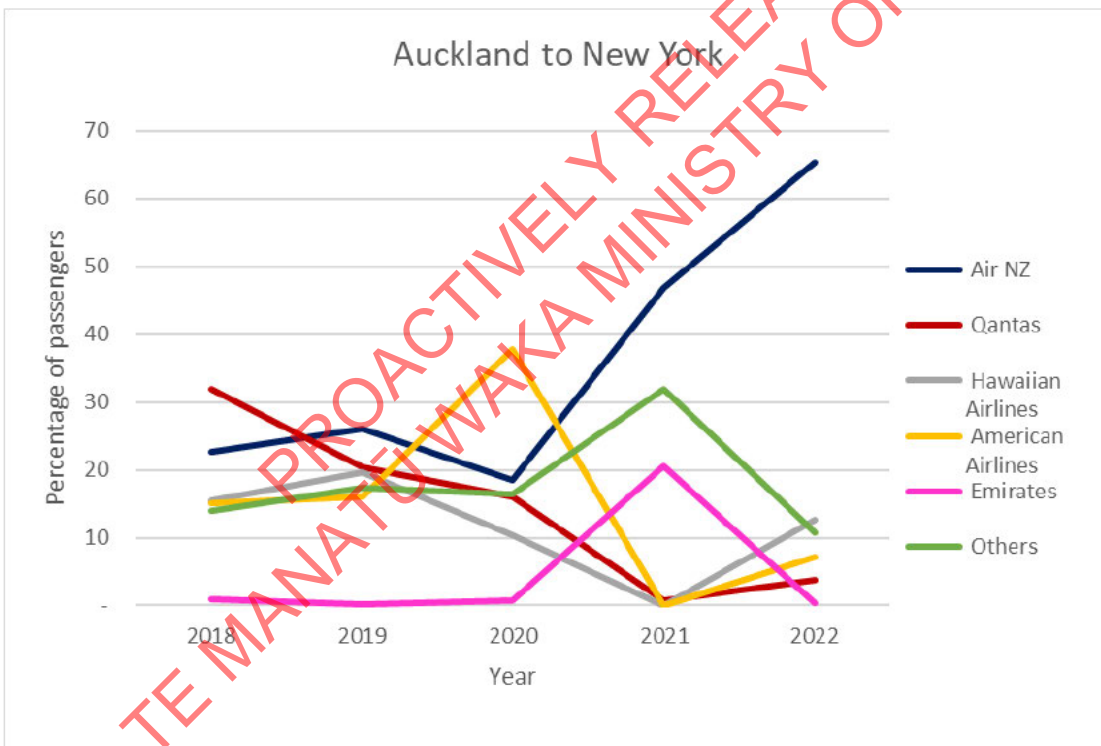


Figure 19 Auckland to Dallas market shares



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IMPACT ON MARKETS

Figure 20 Auckland to New York market shares

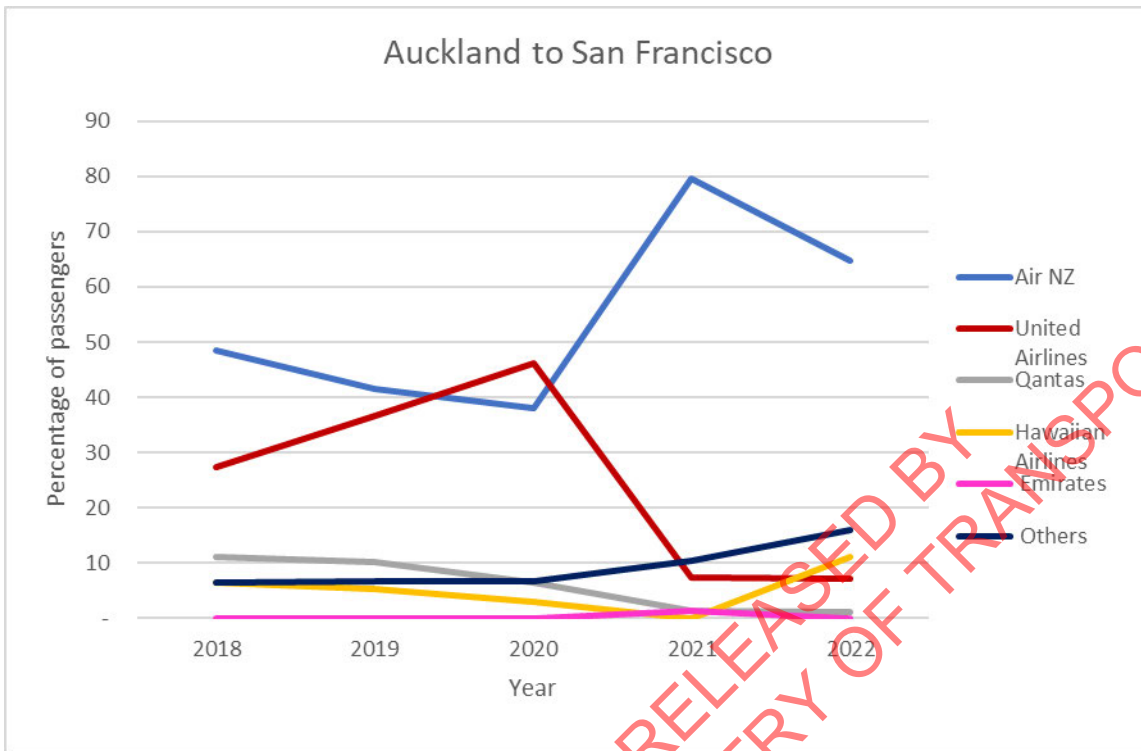


Figure 21 Auckland to San Francisco market shares

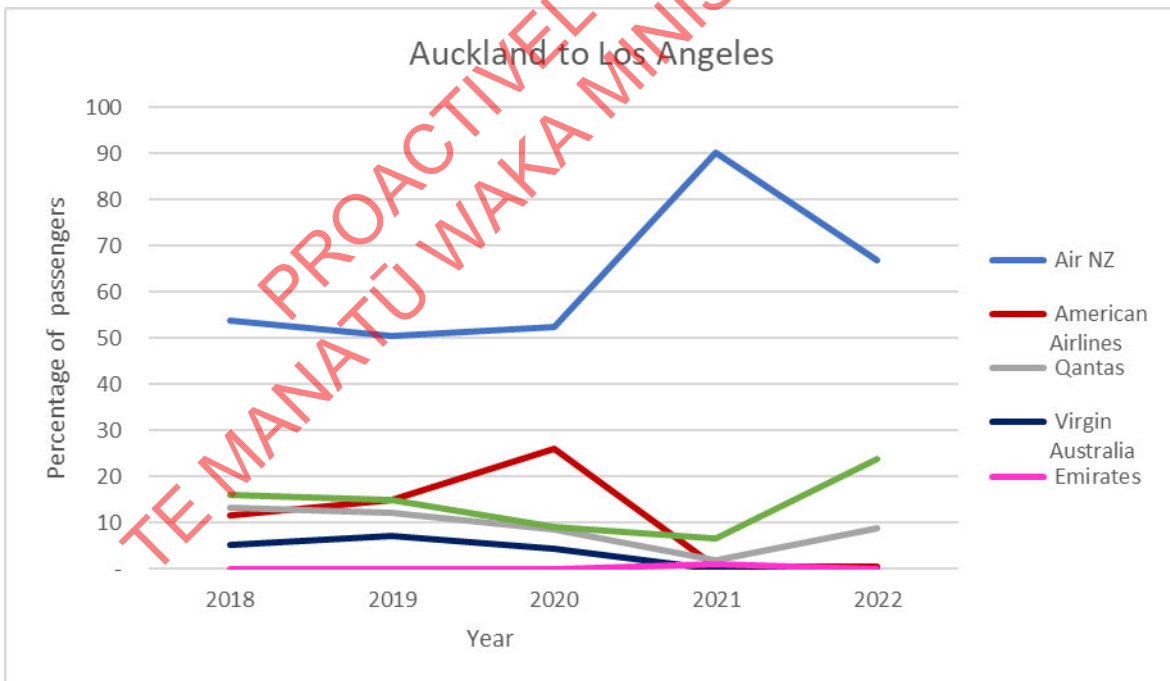


Figure 22 Auckland to Los Angeles market shares

Data limitation

175 In this report, the flight schedule information has been sourced from the Sabre Market Intelligence (SMI) database. While Sabre Market Intelligence's flight schedule database is a valuable resource, there are some limitations:

- Data accuracy: Although Sabre Market Intelligence's database is regularly updated, there may still be instances where data inaccuracies occur, such as flight delays or cancellations that are not reflected in real time.
- Limited coverage: While the database covers a wide range of airlines and flight schedules, it may not have complete coverage of every airline or route. Additionally, some airlines may not participate in the Sabre system, which can limit the scope of data available.
- Historical data limitations: While Sabre Market Intelligence provides real-time flight schedule data, historical data may be limited or not available.

Public benefits

176 The Applicants claim a number of benefits which arise from the Alliance. The main benefits claimed are outlined below, and our analysis of the extent to which they have been realised.

Cost savings

177 Since the Alliance was authorised in 2013 and the start of the pandemic, we have seen a decline in average nominal airfares. There are many possible reasons for this, but it is consistent across different markets in our analysis.

Increasing Tourism and Promotion of International Trade and Business

178 The Applicants note that the Alliance will support post-pandemic recovery by reconnecting New Zealand trade and tourism markets to the world.

179 This includes connecting New Zealand secondary cities and regional centres, while also providing the certainty and incentives to underpin consideration of additional services, investment and customer benefits over the longer term.

180 We agree that the Alliance is likely to support trade and tourism in New Zealand to help aid post-pandemic recovery. These benefits occur by providing better options for travellers through the greater choice and connectivity offered. This means there is a larger combined network with the Alliance that allows better connectivity with the rest of the world.

Improved scheduling, connectivity, capacity expansion and greater consumer choice

181 Qantas and Emirates, for the most part, are complementary networks. As the Applicants outlined, the Alliance will continue to give customers (including New Zealand customers)

PUBLIC BENEFITS

more options to continue to travel on either airline (or on a combination of both) to a vast range of destinations.

- 182 This allows for Emirates to have greater access to customers in the trans-Tasman markets and for Qantas customers to gain greater access to the Dubai network along with associated destinations in the Middle East and Europe. The combined Qantas and Emirates network improves connectivity and schedule spread.
- 183 As outlined in the application for reauthorisation, the Applicants have pointed to the fact that the Alliance has allowed customers access to 74 destinations served by Qantas but not Emirates and 67 destinations in the UK/Europe and Middle East and North Africa region that are served by Emirates but not Qantas. The number of destinations is likely to increase in the coming years as suspended routes recommence.
- 184 We agree that the Alliance has provided public benefits to consumers to allow customers access to more destinations, greater connectivity and improved scheduling. This is one of the main public benefits of the Alliance.
- 185 In the absence of the Alliance, the Applicants would have no incentive to work together to unlock network connectivity and give customers more options.

Additional direct flights

- 186 Not only does the Alliance offer a greater coverage of destinations around the world but between the two airlines there is a greater range of direct flights across their two respective networks. This is done through an extended suite of destinations offered through the Alliance.
- 187 This is a modest benefit to consumers as they always have options to travel on direct flights on airlines outside the Alliance.

Engineering Services and Maintenance

- 188 The Applicants state that they will continue to cooperate across their global networks with the objective of enhancing offerings to passengers including potentially other aspects of operation including ground handling, engineering services, joint procurement and flight operations. These matters are not covered by authorisation under the Act.
- 189 We note that these give very small benefits to consumers.

Frequent Flyer Benefits

- 190 The Alliance allows Emirates customers to gain access to Qantas Frequent Flyers (QFF) across the combined Qantas and Emirates network.
- 191 The Applicants also note that customers will gain access to reciprocal airport lounges and 'top tier' member benefits (eg, priority check-in, additional baggage allowance and preferential seating)
- 192 Data provided by the Applicants in their reauthorisation application shows that the frequent flyer program is valued by millions of members, including some **s 9(2)(b)(ii)** QFF members who are residents in New Zealand.

- 193 In the absence of the alliance, there would be no or significantly reduced flexibility and scope for respective frequent flyer members to earn and redeem their points on both carriers.

Public detriments

- 194 The Alliance is likely to significantly impact competition on the trans-Tasman market, and in particular the Christchurch-Sydney route. We believe that the Alliance potentially reduces competition on this route, which may have negative outcomes for consumers.

Counterfactual

- 195 A key part of our analysis is the counterfactual. This is the likely scenario that would eventuate if the Alliance were not authorised
- 196 The Applicants believe that the public benefits delivered through the Alliance would not be possible in the counterfactual and that there would be a significant detriment to consumers, including New Zealand customers.
- 197 The Applicants have provided their own analysis on the likely scenario, should the Restated Agreement not be authorised. Without reauthorisation, they state “The Applicants would have little ability or incentive to coordinate their schedules to allow customers more options in terms of routes and timings across their respective networks and that therefore most of the public benefits would not arise.”
- 198 Under this scenario, the Applicants would lack any ability or incentive to share broad access to each other’s network and inventory, resulting in fewer booking options for consumers.
- 199 s 9(2)(b)(ii) [REDACTED] There would be no incentive for Qantas and Emirates to work together to unlock network connectivity and collaborate in relation to customer innovations and product initiatives, which greatly benefit the customer.
- 200 s 9(2)(b)(ii) [REDACTED]
- 201 The Applicants note that there is a risk s 9(2)(b)(ii) [REDACTED] We believe this would be a big plausible risk if the alliance was not to be reauthorised.
- 202 In some respects, the trans-Tasman market is simpler today in a post pandemic environment, than when the Alliance was first entered into over a decade ago.
- 203 The question central to the counterfactual is whether Emirates would operate additional services or more capacity on the Tasman without the Alliance? We do not believe so.

CONCLUSION

204 Given the importance of the trans-Tasman market to New Zealand, even if the risk of Emirates leaving the Christchurch-Sydney route were to eventuate, then we would expect that another airline would add capacity to supply the existing demand. The post-COVID market suggests that there is enough competition tension between the remaining two key players to allay any previously held concerns.

Conclusion

- 205 In considering the above benefits and detriments, and the counterfactual scenario, we believe that on balance, the Alliance delivers benefits (both real and potential) to New Zealand, over and above any potential detriments.
- 206 We also note that the Alliance meets the statutory conditions allowing it to be authorised under section 88 of the Civil Aviation Act.
- 207 In light of this, we recommend that the Restated Agreement be authorised.
- 208 We recommend that authorisation should be for a period of five years to 31 March 2028. This is the period applied for by the Applicants, and allows for a further reassessment of the Alliance after an appropriate interval. If it grants authorisation the ACCC is also likely to do so for a period of 5 years.

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Qantas/Emirates Alliance
Reauthorisation 2023

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