

November 2018

PUBLIC VERSION

Application to the Minister of Transport pursuant to Part 9 of the Civil Aviation Act 1990 for authorisation of the Air New Zealand and Cathay Pacific Airways North Asia Alliance

1. EXECUTIVE SUMMARY

- 1.1. Air New Zealand and Cathay Pacific seek authorisation from the Minister to continue to implement their Alliance through the North Asia Alliance Agreement (**NAAA**).
- 1.2. The Alliance enables Air New Zealand to maintain its Pacific Rim strategy through the sustainable operation of services between New Zealand and Hong Kong, with a partner which has an unparalleled network into strategically important markets. The Alliance therefore ensures Air New Zealand passengers can connect into a wider range of destinations and at better prices than they could without the Alliance. The Alliance also helps Air New Zealand market New Zealand as a tourist destination in Hong Kong.
- 1.3. For Cathay Pacific, the Alliance continues to provide increased network reach into New Zealand and increased flow through its Hong Kong hub from two entry points within New Zealand.
- 1.4. The Alliance has not had any detrimental impact on competition. There has been an unprecedented rise in competition and capacity to New Zealand from Hong Kong and the wider Pearl River Delta region since the Alliance commenced in February 2013, and particularly since re-authorisation was granted in August 2015. The increase in competition has included:
 - (a) **New direct service on Hong Kong - Auckland:** in November 2016, Hong Kong Airlines began operating services between Auckland and Hong Kong. Hong Kong Airlines' entry demonstrates that the Alliance does not act as a barrier to entry for carriers, especially those well placed to take advantage of the strong inbound (Hong-Kong=>Auckland) demand on the route;
 - (b) **Increased direct services from Chinese carriers:** since the Alliance was re-authorised, China Southern has introduced a year-round direct service from Guangzhou to Christchurch and increased its overall capacity from Guangzhou to New Zealand by over 48%. In addition, Hainan Airlines has introduced a year-round direct service from Shenzhen to Auckland. Guangzhou and Shenzhen airports are both within two hours of Hong Kong. These direct services from nearby competing gateways create further and significant competitive constraint on the Alliance. The Alliance has reacted to this increased competition by further reducing fares. The entry has also meant that Air New Zealand has had to diversify its traffic mix on connecting journeys to ensure it continues to grow and sustain the connecting feed to support the route;
 - (c) **One-stop carriers:** one-stop carriers have continued to constrain the Alliance with multiple carriers operating one-stop services between Auckland and Hong Kong. In particular, Qantas has increased its capacity by approximately 28% between Hong Kong and Brisbane, Melbourne and Sydney since re-authorisation and has actively chased traffic from New Zealand to support its Hong Kong services. Virgin Australia has also introduced services to Hong Kong from both Sydney and Melbourne since re-authorisation.
- 1.5. The Alliance is now operating in a significantly more competitive environment than prior to the re-authorisation. Passengers travelling between Hong Kong and New Zealand have substantially more travel options now than when the Alliance commenced in 2013. The Alliance has responded to this competition and delivered substantial benefits to New Zealand:
 - (a) **Greater capacity:** the Alliance has grown capacity between New Zealand and Hong Kong by 11% from the period before re-authorisation¹ due to Cathay Pacific aircraft upgrade from A340s to A350s, and the introduction of a new seasonal route from Christchurch to Hong Kong;
 - (b) **New seasonal route to Christchurch:** as above, the Alliance introduced a new seasonal service from Hong Kong to Christchurch in the IATA Northern Winter 2017 season. This new

¹ For ease of comparison of the data, we refer to the period of pre-reauthorisation as being Year 2 of the Alliance (i.e. 1 February 2014 – 31 January 2015) given the previous application was submitted within Year 2 (in November 2014). We have compared this period against Year 5 of the Alliance (1 February 2017 – 31 January 2018) to assess the impact of the Alliance since re-authorisation

service has substantially increased Alliance traffic to and from the South Island and further ensures the tourism benefits of the Alliance are distributed throughout New Zealand. This direct service will continue into future Northern Winter seasons;

- (c) **Increase in passenger volumes:** the Alliance has grown point to point traffic on Alliance service between Hong Kong and Auckland [REDACTED] since the Alliance was re-authorized. Moreover, since Hong Kong Airlines entry, the Alliance has been able to maintain point-to-point passenger numbers despite the significant additional capacity introduced by Hong Kong Airlines. In addition, total passenger numbers travelling on all Alliance services has increased [REDACTED] since re-authorization;
 - (d) **Improved connectivity:** the Alliance has continued to provide Air New Zealand passengers with access to Cathay Pacific's extensive network in Asia and Europe. The parties have further revised the SPA leading to more destinations and lower connecting fares. Air New Zealand has increased the total number of passengers connecting from Air New Zealand services onto Cathay Pacific's network [REDACTED] since re-authorization (and is up [REDACTED] since the Alliance commenced). Likewise, the number of Cathay Pacific's passengers connecting onto Air New Zealand's network has continued to grow over the course of the Alliance [REDACTED] since re-authorization creating significant benefits for regional New Zealand;
 - (e) **Lower average fares:** following re-authorization, before Hong Kong Airlines entry, average fares fell [REDACTED] from Hong Kong point-of-sale and New Zealand point-of-sale, respectively. Following Hong Kong Airlines entry, average fares decreased further as the Alliance naturally responded to the additional increase in competition. Overall, average point-to-point fares from both New Zealand and Hong Kong point of sales decreased [REDACTED] since the Alliance commenced. On beyond journeys, the Alliance continues to incentivise the parties to provide each other with better and cheaper access to each other's network resulting in more competitive pricing on connecting fares as demonstrated through a revised SPA;
 - (f) **Stimulation of tourism:** the Alliance has contributed to a growing number of tourists travelling to New Zealand from Hong Kong. Since re-authorization, Hong Kong visitors to New Zealand have grown by over 90%.² As above, the Alliance has increased point-to-point and total passenger numbers using the Alliance services. The Alliance ensures that a growing number of these tourists to New Zealand are travelling to regions outside of the main cities due to the incentives the Alliance creates for Air New Zealand to open its domestic network to Cathay Pacific passengers. Connectivity to the regions has increased [REDACTED] since re-authorization³. The Alliance has also continued to provide opportunities for the parties to promote New Zealand as a destination to Cathay Pacific's customer base. For example, the parties coordinated a joint marketing campaign as part of the launch of the seasonal direct service to Christchurch in Northern Winter 2017 and have recently launched a similar campaign in October 2018 for the upcoming Northern Winter season;
 - (g) **Loyalty and customer benefits:** Air New Zealand customers have earned a substantial amount of additional Airpoint Dollars between New Zealand and Hong Kong over the course of the Alliance due to capacity growth and the Christchurch service;
 - (h) **Continued competition in cargo:** the Parties have continued to compete for air freight which continues to be a benefit of having both Cathay Pacific and Air New Zealand operating the route.
- 1.6. The MOT's reservations on certain aspects of the Alliance recorded in its 2015 Report have not materialised - the Alliance has grown capacity, increased passenger traffic (both point-to-point and total), introduced a new seasonal direct route to Christchurch, reduced average fares and improved connectivity all in the face of a substantial increase in competition. Moreover, the MOT's concern that *"the alliance provides a competitive advantage that no other carrier could reasonably be*

² From Stats NZ data on an MAT basis from the period between January 2015 and August 2018.

³ Connectivity on routes not including AKL-CHC or AKL-WLG.

*expected to replicate*⁴ has not been borne out as Hong Kong Airlines has entered the route and competed effectively with the Alliance.

Authorisation Sought

- 1.7. The Minister's discretion to authorise the Alliance is provided for in Section 88(2) of the Act. The Applicants believe the Alliance meets the test for authorisation and the Minister should exercise his discretion to reauthorise the Alliance pursuant to section 88 of the Act for a further period.
- 1.8. The Applicants have sought reauthorisation until 31 October 2024 (being a five-year period, ending at the end of the 2024 IATA Northern Summer season). The first re-authorisation period was three-years and nine months. The Minister approved a short term because it was of the view that there were "*considerable risks*" the Alliance would "*take advantage of their market position by restricting supply or increasing fares*"⁵. The Minister was also concerned that the Alliance would reduce Cathay Pacific's incentives to operate a service to Christchurch.
- 1.9. As summarised above and set out further below, these concerns have not materialised:
 - (a) Alliance capacity has increased by 11% since re-authorisation;
 - (b) Average fares have fallen across all fare classes since re-authorisation; and
 - (c) the Alliance introduced a seasonal Christchurch route in Northern Winter Northern Winter 2017 which will continue to be operated in Northern Winter 18 and beyond. This service has substantially increased the amount of Alliance passengers travelling to and from the South Island and further ensures the benefits of the Alliance are spread to the regions through New Zealand;
- 1.10. The above illustrates that the Alliance has been "*responsive to market conditions and acted in a competitive manner in setting capacity*"⁶ and has set fares at "*competitive levels*" in the face of an unparalleled increase in competition.
- 1.11. A longer authorisation period would:
 - (a) provide the parties with greater stability and sufficient certainty and confidence to: implement additional benefits; assist with capacity planning; and provide further opportunity for the parties to explore increased connectivity;
 - (b) reflect the key benefits of the Alliance that have accrued and will continue to accrue for New Zealand and New Zealand passengers; and
 - (c) reflect the increased, sustained and ongoing competitive environment faced by the Alliance and the challenges that this presents (particularly given the inbound nature of the route and the size of the competing carriers).

⁴ See paragraph 125, of the MOT's 2015 Report

⁵ Minister of Transport's proposal to re-authorise the Alliance, paragraph 30

⁶ See *Ibid*, paragraph 32 where the Ministry stated that these were factors that it would "specifically consider in assessing any subsequent application."

PUBLIC VERSION

- 2.1 Air New Zealand is New Zealand's national flag carrier and offers air services in New Zealand and internationally. The Air New Zealand Group operates a global network that provides air passenger services and cargo transport services to, from and within New Zealand to more than 15 million passengers a year.
- 2.2 The New Zealand Government owns approximately 52% of Air New Zealand, with the remainder owned by private investors. Air New Zealand is listed on the New Zealand and Australian stock exchanges.
- 2.3 Cathay Pacific is a Hong Kong based airline with its hub at Hong Kong International Airport, where it is the largest operator. Cathay Pacific⁷ has a fleet of 175 aircraft as of 31 October 2018, with a passenger network covering 207 destinations in 53 countries

The Alliance

- 2.4 On 18 October 2012 the Minister granted Air New Zealand and Cathay Pacific authorisation pursuant to section 88 of the Civil Aviation Act 1990 (the **CAA**) to make and give effect to the North Asia Alliance Agreement (**NAAA**), the Code Share Agreement and related agreements contemplated in the NAAA (together, the **Alliance**). On the 15 August 2015, the Minister re-authorised the Alliance.
- 2.5 The NAAA provides for varying levels of coordination between the parties in relation to:
 - (a) **Alliance Routes**, being sectors operated by either airline between New Zealand and Hong Kong (i.e. Auckland – Hong Kong and Christchurch – Hong Kong); and
 - (b) **Feeder Routes**, being the domestic New Zealand sector of an international route comprising an Alliance Route plus a domestic New Zealand sector connecting to an Alliance Route as part of an international itinerary.
- 2.6 The Alliance provides for broad scheduling, pricing and capacity coordination on both the Alliance Routes and the Feeder Routes. The Alliance also provides for a free-sell codeshare and revenue allocation on the Alliance Routes only. The parties do not code on beyond destinations. The Alliance is supported by several "Implementing Agreements". These include a Special Prorate Agreement (**SPA**) which provided new and more favourable rates on connecting flights to certain "beyond" destinations within the Applicant's respective networks.
- 2.7 In Northern Winter Northern Winter 2017, Cathay commenced a new direct seasonal Alliance service between Hong Kong and Christchurch which falls within the scope of the NAAA. The

⁷ Including wholly owned subsidiaries Hong Kong Dragon Airlines Ltd (trading as Cathay Dragon).

Alliance now directly services two New Zealand cities from Hong Kong. The current schedule is set out in Table 1.

Table 1: Alliance flight schedule for Northern Winter 2018/9⁸

Flight No	Days of operation	Flight departs	Flight arrives	Flight duration	
Auckland to Hong Kong					
NZ087 (CX7402)	MTWTFSS	2345	0600 ⁺¹	11h15m	
CX198 (NZ4995)	MTWTFSS	1500	2115	11h15m	
CX118 (NZ4993)	MTWTFSS (from 02/12/18 to 01/03/19 only)	0855	1510	11h15m	
Hong Kong to Auckland					
NZ080 (CX7401)	MTWTFSS	1755	1000 ⁺¹	10h55m	
CX113 (NZ4994)	MTWTFSS	2125	1330 ⁺¹	11h05m	
CX199 (NZ4992)	MTWTFSS (from 01/12/18 to 28/02/19 only)	1520	0725 ⁺¹	11h15m	
Christchurch to Hong Kong (from 01DEC18 to 28Feb19 only)					
CX126 (NZ4999)	M...T...	1430	2110	11h40m	
CX126 (NZ4999)S.	0835	1510	11h35m	
Hong Kong to Christchurch (from 30NOV18 to 27FEB19 only)					
CX123 (NZ4998)	..W...S	2045	1310 ⁺¹	11h25m	
CX123 (NZ4998)F..	1450	0715 ⁺¹	11h25m	

2.8 Operational changes since re-authorisation include:

- (a) For the IATA Northern Summer season schedule, Air New Zealand has shifted the departure time of its NZ080 service from Hong Kong from 1910 to 1810 (from March 2018). This was to provide more separation from Cathay Pacific's service (which departs Auckland at 2105pm), to reduce the ground time that aircraft spent in Hong Kong and to improve connections from Europe and the United Kingdom and beyond Auckland – a direct consumer benefit;
- (b) as above, the Alliance introduced a direct seasonal Christchurch-Hong Kong service in Northern Winter 17 (between December and February) which will continue in Northern Winter 18;
- (c) Cathay Pacific has made some changes to its fleet since re-authorisation. As discussed in the last application, over the December 2014 to February 2015 period, Cathay Pacific up gauged its CX197 and 198 flights from the A340-400 which has 265 seats to the Boeing 777-300ER which has 340 seats resulting in an increase of 9% capacity for that period.
- (d) From June 2016, Cathay Pacific replaced its A340s with A350s resulting in 10950 more seats per year (a 4% increase in capacity).

Commercial Rationale

⁸ CX117 and CX118 are the additional services that operate over the peak Northern Winter periods (not during Northern Summer), and NZ0800 will return to a 1920 departure.

- 2.9 The commercial rationale for the Alliance has not materially changed since the Applicant's 2014 application (the **2014 Application**). For Air New Zealand, this has been to sustainably maintain and grow Air New Zealand's presence in a strategically important Asian market in line with Air New Zealand's Pacific Rim strategy.
- 2.10 The Alliance provides Air New Zealand with greater access and connectivity on Cathay Pacific's extensive beyond network. The Alliance incentivises Cathay to provide better rates and access to Air New Zealand because it obtains a share of the revenue of every extra passenger that travels on the Alliance route. Therefore, through the Alliance, Air New Zealand obtains favourable interline rates on both Cathay Pacific and Cathay Dragon for services beyond Hong Kong which are then passed onto Air New Zealand passengers. The Alliance also gives Air New Zealand access to Cathay Pacific's distribution network within Hong Kong to enable it to market and promote New Zealand as a tourism destination.
- 2.11 **[REDACTED]** – it is strongly inbound and characterised by connecting traffic (approximately **[REDACTED]** of passengers connect beyond Hong Kong). The route, therefore, favours carriers which have a strong presence in Hong Kong and beyond markets who can leverage their network to feed traffic onto the route. **[REDACTED]**.
- 2.12 For Cathay Pacific, the Alliance continues to provide increased network reach into New Zealand. The Alliance also incentivises Air New Zealand to provide Cathay with access to more inventory and lower pricing for domestic New Zealand sectors under the SPA. The Alliance has also allowed Cathay Pacific to better compete for passengers from New Zealand travelling to beyond Hong Kong destinations by allowing it to use Air New Zealand operated services when those services have better connectivity with its own services into mainland China and North Asian destinations.
- 2.13 Finally, the Alliance allows the parties to compete effectively with other carriers. This has become an increasingly important commercial driver since re-authorisation and since the entry of Hong Kong Airlines. As discussed further below, there has been a substantial increase in competition since the Alliance was re-authorised. Hong Kong Airlines has entered the route and has been able to leverage its home network in Hong Kong and beyond to drive feed onto the point-to-point route to support direct competition with the Alliance. There has also been aggressive expansion of direct services into New Zealand by Chinese carriers (in particular, by China Southern from Guangzhou and Hainan Airlines from Shenzhen who have both substantially increased supply into New Zealand). Finally, one-stop carriers have continued to constrain the Alliance, in particular, Qantas has grown capacity to Hong Kong from the east coast of Australia and continues to chase New Zealand traffic to support their service.⁹
- 2.14 Further detail on each party's rationale for the Alliance is set out in their confidential submissions.

2015 Authorisation

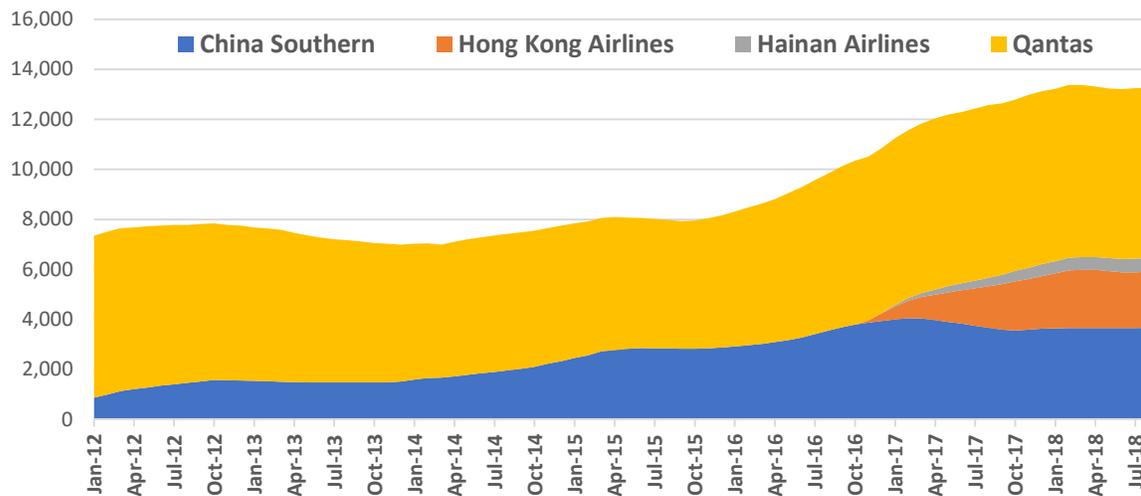
- 2.15 The Alliance received re-authorisation from the MOT on 15 August 2015. As part of the authorisation, the parties committed to re-applying for, and obtaining, a new authorisation for the Alliance by 31 October 2019.
- 2.16 The Applicants are now seeking re-authorisation from the Minister under Section 88 of the Act to give effect to the Alliance for a further period of five years.

Key market developments since reauthorisation

- 2.17 Since the Alliance was re-authorised, there has been unprecedented increase in competition and supply of capacity to New Zealand from Hong Kong and the wider Pearl Delta region driven by aggressive airline entry and expansion. Figure 1 demonstrates the increase in capacity by competing carriers since re-authorisation (this includes capacity increases by Hong Kong Airlines as well the increases in capacity by Hainan Airlines from Shenzhen to New Zealand, and by China Southern from Guangzhou to New Zealand. It also includes increases in capacity by Qantas from Australia to Hong Kong). This is discussed in further detail at section 4

⁹ See Appendix A for an example of Qantas promotional material targeting NZ passengers

Figure 1: capacity increases by competing carriers over the course of the Alliance
Source: Star Diio Data



- 2.18 The increasing competitive environment has added further competitive pressure on the Alliance. Since Hong Kong Airlines entered the route, total direct capacity on the route has increased by 52% and in Year 5 of the Alliance, Hong Kong Airlines held 32% of the capacity share on the route.¹⁰ While the Alliance has competed hard with Hong Kong Airlines to defend its passenger share (as demonstrated by the fact that Hong Kong Airlines only has a 29% share of point-to-point passenger traffic – 3% less than its fair share based on capacity), Hong Kong Airlines continues to be a competitive constraint on the Alliance.
- 2.19 In addition, the expansion of Chinese carriers flying directly to New Zealand from gateways that compete with Hong Kong has put pressure on the parties' ability to source connecting traffic to support the route. The performance of the route relies heavily on connecting traffic as approximately **[REDACTED]** of Air New Zealand passengers connect beyond Hong Kong. The new services provided by these Chinese carriers provide more options for passengers who may have previously used Hong Kong as a connecting hub into mainland China. This makes it more difficult for the applicants to sustainably increase capacity themselves. Therefore, while China remains an important market for Air New Zealand given its size, the expansion of these Chinese carriers has meant Air New Zealand has had to continue to grow connecting traffic from and to other regions in order to support the Hong Kong - Auckland route.¹¹
- 2.20 Finally, one-stop carriers continue to act as a competitive constraint to the Alliance. Qantas, in particular, has increased capacity by approximately 28% on its direct services to Hong Kong from Sydney, Melbourne and Brisbane since re-authorisation and is actively sourcing passengers from New Zealand.
- 2.21 As shown in Table 2 below, point-to-point passenger traffic, total passenger numbers and capacity have all grown from pre-Alliance levels.

¹⁰ Hong Kong Airlines has recently announced a reduction in capacity for 2019:

<https://www.routesonline.com/news/38/airlineroute/281354/hong-kong-airlines-2019-auckland-service-reductions/>

¹¹ As the Ministry is aware, the Alliance does not extend to "beyond" routes and the parties do not coordinate connecting journeys beyond Hong Kong. Therefore, the parties continue to compete with each other for beyond destinations as well as competing with Hong Kong Airlines, and a large number of other airlines which operate through Hong Kong and competing gateways (in particular, Hainan from Shenzhen and China Southern from Guangzhou).

Table 2: Alliance capacity and passenger traffic since the Alliance commenced

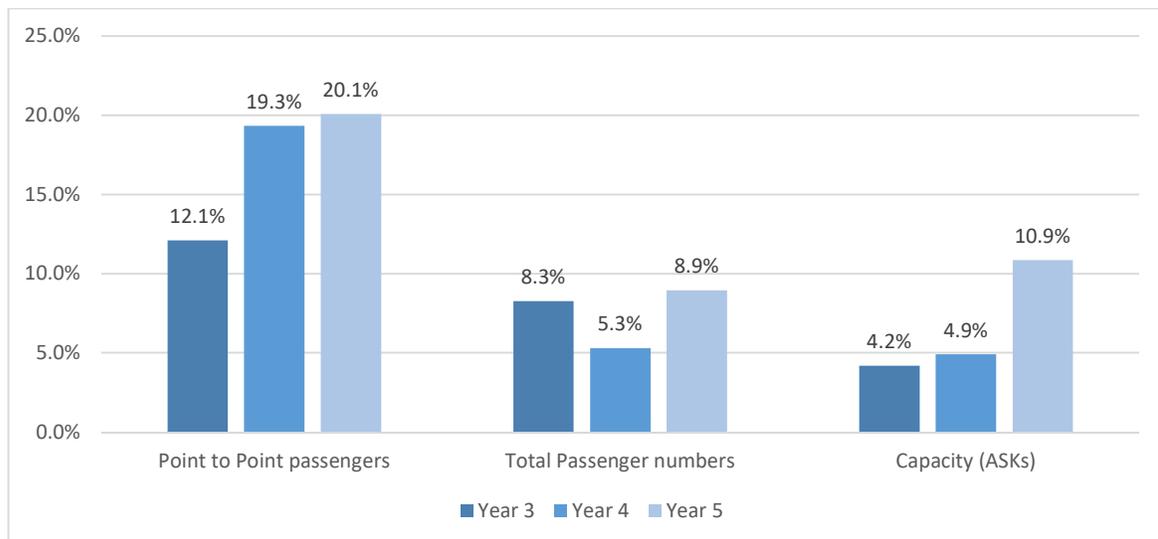
Source: Stats NZ data and Air NZ Data

	Pre Alliance Feb12-Jan13	Year 1 Feb13-Jan14	Year 2 Feb14-Jan15	Year 3 Feb15-Jan16	Year 4 Feb16-Jan17	Year 5 Feb17-Jan18
Point to Point passengers ¹²	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Passenger numbers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Capacity (ASKs)	4,315,567,704	4,328,164,368	4,241,814,648	4,419,803,042	4,450,020,420	4,702,844,031

2.22 In addition, as shown in Figure 2 below, Alliance capacity, total passenger numbers and point-to-point passenger traffic have all been above pre-re-authorization levels in each year following re-authorization.¹³

Figure 2: Alliance capacity and passenger traffic % increases compared to reauthorisation (i.e. baseline Year 2)

Source: Air NZ Data



¹² Passenger numbers are based on “sectors” travelled by passengers rather than individual passenger numbers. E.g. if a passenger travels to New Zealand – Hong Kong return on Alliance services, this will be counted in the Air NZ data as two sectors travelled.

¹³ These percentages are compared against Year 2 levels,

3. PUBLIC BENEFITS DELIVERED BY THE ALLIANCE:

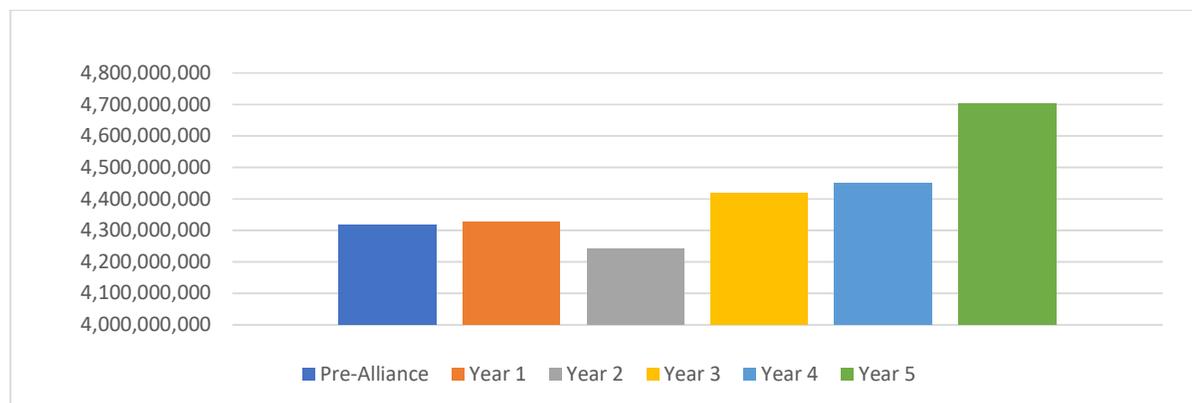
- 3.1 During the first period of authorisation between February 2013 and the end of 2014, the Alliance was able to maintain the number of passengers travelling between Auckland and Hong Kong and the total passenger numbers travelling on Alliance services.¹⁴ This was despite the substantial loss of feeder traffic following Air New Zealand's suspension of its Hong Kong – London service and other capacity reductions which were made independently by the parties and were wholly independent of the Alliance. At the time of re-authorisation, the Alliance was poised to increase capacity after successfully stabilising the services following these independent capacity reductions.
- 3.2 In the second period of authorisation, the Alliance has built on the stability established during the first period and has delivered the following substantial benefits:
- increases in capacity;
 - increases in point-to-point and total passengers travelling on the Alliance services;
 - a new seasonal route to Christchurch;
 - substantially decreased average fares across all fare classes;
 - increased connectivity onto both beyond networks, and
 - increased marketing and exposure of New Zealand in Hong Kong (particularly, in relation to Christchurch).
- 3.3 The Applicant's set out these benefits in more detail below.

Increased Capacity on the Hong Kong route

- 3.4 The Alliance has resulted in substantial increases in capacity between New Zealand and Hong Kong, and a new seasonal service between Hong Kong and Christchurch. This has been achieved in the face of a significant increase in capacity from competitors. Total Alliance capacity has increased by 11% since re-authorisation (i.e. Year 2) as demonstrated by Figure 3 below.¹⁵

Figure 3: Alliance capacity over the course of the Alliance

Source: Air NZ data



¹⁴See page 2 of the parties "Response to the Ministry of Transport draft report on application for authorisation" dated 22 May 2015

¹⁵For ease of comparison of the data, we refer to the period of pre-reauthorisation as being Year 2 of the Alliance (i.e. 1 February 2014 – 31 January 2015) given the previous application was submitted within Year 2 (in November 2014). We have compared this period against Year 5 of the Alliance (1 February 2017 – 31 January 2018) to assess the impact of the Alliance since re-authorisation.

Capacity increases on Auckland – Hong Kong

- 3.5 In 2014, the Applicants submitted that they would increase capacity for the Northern Winter 15 peak season through the up gauge of Cathay Pacific flights CX197 and CX198 from the A340-400 (which has 265 seats) to the B777-300ER (which has 340 seats). This capacity increase occurred and resulted in an increase in Alliance capacity of 9% over the December to February period.
- 3.6 In addition, since re-authorisation there has been further increases in capacity as a result of the following changes:
- (g) Cathay Pacific has replaced its A340 fleet with A350s resulting in 10,950 more seats annually which is an increase in 4% more capacity; and
 - (h) the introduction of the Christchurch – Hong Kong service (discussed further below).

Introduction of Christchurch – Hong Kong service

- 3.7 In its 2015 decision, the MOT was sceptical of the likelihood of the Alliance introducing a new route and considered that “one of the purported benefits of the alliance in 2012 has now been proven to be false”¹⁶. The parties maintained that while a new service to Christchurch was uneconomic in 2014, it was much more likely to be introduced with the Alliance than without it.
- 3.8 On 1 December 2017 the Alliance commenced the new seasonal service between Christchurch and Hong Kong. This service has been enabled by the stability and improved performance that the Alliance has brought to the parties’ Auckland – Hong Kong services. Over 10,000 passengers arrived from Hong Kong to Christchurch on this direct service - a substantial increase in Alliance passengers visiting the South Island. Given the success of the service, the Alliance parties have now confirmed that the route will operate into Northern Winter 19 and beyond.
- 3.9 The introduction of the service shows that the MOT’s reservations have not come to pass, and that the Alliance has not disincentivised the parties to explore new routes where there is an economic business case to do so. Absent the Alliance, the Christchurch – Hong Kong route would be much less likely to be sustainable due to the lack of favourable access that Cathay Pacific would have to Air New Zealand’s domestic network in New Zealand.

Load factors are at or below industry average and not evidence that the parties are restricting supply

- 3.10 As discussed in the last authorisation, there is no clear answer as to what an appropriate load factor for an airline is as it depends on route specifics and seasonal factors. In the last Report, the MOT identified that load factors between the 75-85 percent range are considered typical across the industry. As shown in Figure 4 below, Alliance load factors have been around this range and have fallen from where they were at the time of the last reauthorisation. Moreover, as demonstrated below, over the course of the Alliance, load factors have been consistent with Air New Zealand’s average long-haul load factor.

Figure 4: Year-by-Year comparison of Alliance load factors

Source: Air NZ data

[REDACTED]

- 3.11 In its 2015 Report, the MOT was concerned that the increase in load factors may have been evidence that the Alliance was restricting supply in order to push fares above competitive levels.¹⁷ As discussed above, since re-authorisation, the Alliance has increased capacity. Moreover, average fares have decreased substantially as detailed below. Therefore, the increase in load factors since pre-Alliance is indicative of improved operational efficiency by the applicants rather than a constraint of capacity. These efficiency gains have come about through better seat management - by jointly managing seat capacity, fewer seats are needed to be protected for late booking passengers than if the applicants were acting independently. This has enabled the Alliance to make more lower fares

¹⁶ See paragraph 133 of the MOT’s 2015 Report¹⁷ Ministry of Transport letter to Christopher Luxon

available to passengers (as further evidenced by the increase in passenger numbers travelling on Alliance services).¹⁸

Lower average fares and access to lower fare inventory

- 3.12 As demonstrated by Figures 5 and 6 below, the period since re-authorisation (i.e. since Year 2 as demarked by the dotted lines) has been characterised by a marked decrease in average fares on direct Alliance services across all fare classes from both New Zealand and Hong Kong point's-of-sale even before adjusting for inflation.

Figure 5: Year-by-Year % comparison of Alliance average fares v pre-Alliance period (NZ POS - unadjusted)

[REDACTED]

Figure 6: Year-by-Year % comparison of Alliance average fares v pre-Alliance period (HK POS - unadjusted)

[REDACTED]

- 3.13 After adjusting for inflation, these reductions are even more substantial – with total average fares in real terms decreasing by:

- [REDACTED] from New Zealand point-of-sale and Hong Kong point-of-sale, respectively, since pre-Alliance and
- [REDACTED] respectively, since re-authorisation (i.e. Year 2 of the Alliance).

- 3.14 Total average fares were falling even before Hong Kong Airlines entered the route in November 2016. In the period between November 2014 (when the applicants submitted their application for the first re-authorisation) and November 2016 (when Hong Kong Airlines entered the route) total average fares decreased by [REDACTED] from Hong Kong point-of-sale and New Zealand point-of-sale, respectively.

- 3.15 This reduction in fares demonstrates that even without Hong Kong Airlines on the direct route, the Alliance does not have the ability to exercise market power to increase fares and that it has set fares at competitive levels over the course of the Alliance.

Comparison with similar routes

- 3.16 Comparing fares between routes does not generally lead to meaningful conclusions given the complexity involved in 'normalising' different routes which have different route dynamics (e.g. stage, length, cargo/ payload restrictions, etc.) and a host of other variables. Rather than undertake a comparison of fares, Air New Zealand has reviewed the EBIT performance across its long-haul network. [REDACTED].

Connecting fares

BLS Report

- 3.17 In 2015/16 Air New Zealand commissioned a major economic study of all its alliance activity to undertake a quantitative analysis of the price effects of all of Air New Zealand's existing alliances at that time (the "**BLS Report**"). This analysis also sought to isolate and quantify the price benefits of alliances for connecting travellers. The study used actual pricing data from Air New Zealand's alliances with Cathay Pacific as well as Virgin Australia and Singapore Airlines. A full copy of the report was provided as part of Singapore Airlines/ Air New Zealand authorisation application. Despite extensive economic literature on the effects of airline cooperation, the BLS Report was the

¹⁸Expert Statement of Dr Michael W. Tretheway, see page 18.

first published study extending the empirical approach of airline cooperation to the analysis of the price effect of airline revenue sharing alliances. The analysis has attracted substantial interest within the airline community as the first of its kind to empirically establish the benefits of revenue share alliances.

- 3.18 The report found that prices for connecting fares on Air New Zealand's revenue share alliance services are indistinguishable from online fares. An "online fare" is a reference to a connecting journey where the individual legs of that journey are operated by a single carrier. Connecting journeys on two different, non-aligned carriers, are generally inferior to a connecting journey on a single carrier - there is no alignment on schedule and they are more expensive due to double marginalisation¹⁹. However, the BLS Report found that Air New Zealand's connecting alliance fares are similar (better schedule, lower price) to those on a single ("online") carrier, as alliance partners are incentivised to optimise scheduling and share in the revenue benefits of any connecting journeys.²⁰
- 3.19 The analysis provided "clear and unique evidence" that Air New Zealand's alliance strategy provided lower fares for connecting travellers and indicates that alliance partners operate as though they were a single airline, providing substantial fare benefits to customers who make international connecting trips to/from New Zealand (around 75% of total passengers on alliance services). The BLS report found that the closeness of cooperation was the key to these lower fares, i.e., the ability of Air New Zealand and its partners to offer the most efficient, lowest, connecting fares would not be realised outside of a revenue sharing alliance.
- 3.20 Overall, the study provided compelling evidence that prices for international JV (excluding the Tasman) connecting fares are 8.8% to 11.6% lower than traditional interline fares. While this part of the study included all of Air New Zealand's long-haul alliances, the incentives created by the Alliance, including the sharing of revenue and the SPA arrangements, are the same factors identified in the BLS Report as leading to relatively lower fares in revenue sharing alliances. Therefore, the BLS Report provides empirical evidence showing that benefits obtained from the sharing of alliance revenue and more closely aligned SPA arrangements are passed onto consumers.
- 3.21 As discussed further below, the parties have further revised the Special Prorate Agreement (**SPA**) between the parties resulting in further reductions on like-for-like average billing rates on connecting routes which the BLS report shows are passed onto consumers.

Greater connectivity

Introduction

- 3.22 The connectivity benefits brought about by the Alliance are significant. The route continues to be characterised by connecting travel, with **[REDACTED]** of Air New Zealand passengers connecting beyond Hong Kong. The Alliance incentivises Cathay to provide better interline access for these connecting passengers than what would be available absent the Alliance because it obtains a share of the revenue of every extra passenger that travels on the Alliance route. Since re-authorisation, Cathay has made over **[REDACTED]** additional routes available to Air New Zealand. Moreover, average billing rates under the SPA have continued to decline.
- 3.23 As was accepted by the MOT in the 2015 Report, absent the Alliance, Cathay would not be incentivised to provide such favourable access because it would be competing head-to-head with Air New Zealand on the Auckland-Hong Kong route.²¹ The impact that this lack of access would have on Air New Zealand is discussed in more detail in Air New Zealand's confidential submission.

Lower fares for connecting passengers and increased access

¹⁹ Pages 11 and 12 of the BLS Report

²⁰ Page 5 of the BLS Report

²¹ See paragraph 79 of the MOT's 2015 Report.

- 3.24 Since re-authorisation the parties have further revised the SPA. Table 3 below summarises the main differences between the pre-Alliance SPA, the SPA operating at the time of the last authorisation, and the current SPA. In summary:
- (a) the number of additional new routes available to Air New Zealand on Cathay's network since re-authorisation has increased [REDACTED] with substantial increases in routes across all fare classes. Air New Zealand now has access to [REDACTED] routes on Cathay's network;
 - (b) average billing rates on all Cathay like for like routes has continued to decline with a further [REDACTED] reduction in economy rates, [REDACTED] in premium economy and [REDACTED] on Cathay's business class routes;
 - (c) while the number of routes available to Cathay Pacific on Air New Zealand's network has decreased predominantly due to Air New Zealand ceasing to operate certain domestic routes²², average billing rates for like-for-like routes have continued to decline (by [REDACTED] on economy and [REDACTED] on business).

Table 3: Comparison of SPA rates and routes

[REDACTED]

- 3.25 As discussed in paragraphs 3.17 to 3.21 above, the BLS report commissioned by Air New Zealand provides empirical evidence that the benefits obtained from SPA arrangements between Alliance partners are passed onto consumers. This means that the reductions in SPA rates outlined above directly benefit Alliance passengers in the form of lower connecting fares than what would be available absent the Alliance.
- 3.26 The findings of this report are consistent with the submissions made by the parties in the last application and which are still relevant today. Given the number of options available to passengers travelling beyond Hong Kong, there is no way for Air New Zealand to exercise market power in respect of these beyond destinations.
- 3.27 The benefit that passengers receive from the improved connectivity under the SPA is illustrated by the increased number of passengers connecting from Air New Zealand services to the Cathay Pacific network (and vice versa) since the Alliance commenced and since it was re-authorised. Passengers connecting onto Cathay Pacific's network beyond Hong Kong from Air New Zealand services has [REDACTED] since the Alliance commenced and a [REDACTED] since re-authorisation. Likewise, passengers connecting onto Air New Zealand's network beyond Auckland from Cathay Pacific's services has increased [REDACTED] from pre-Alliance levels and [REDACTED] since re-authorisation.
- 3.28 Figure 7 shows that connectivity on both networks has trended upwards during the course of the Alliance including since re-authorisation.

Figure 7: Alliance passengers connecting onto each other's respective network

Source: Air NZ data

[REDACTED]

Destinations beyond Hong Kong

China

- 3.29 The number of Chinese visitors to New Zealand continues to grow with arrivals from China increasing by over 11% in the year to August 2018.²³ In particular, there are significant populations in Southern Chinese cities for which Hong Kong acts as an important gateway to New Zealand.

²² For example, since re-authorisation, Air New Zealand has discontinued services to Kapiti, Vanuatu, and Hamilton

²³ Immigration New Zealand Tourism and Hospitality Data and Insights summary, August 2018.

Access to China therefore remains an important rationale for Air New Zealand in maintaining the Alliance. China still accounts for [REDACTED] of Air New Zealand's passengers connecting to destinations beyond Hong Kong on CX's network. Cathay Pacific and Cathay Dragon have the most comprehensive beyond network of any airline from Hong Kong into China with 23 destinations into China. The Alliance continues to be the best means by which Air New Zealand can achieve connectivity into Southern China to take advantage of the growth from this region.

- 3.30 As the MOT is aware, the parties do not coordinate their fares beyond Hong Kong. Therefore, Air New Zealand competes with Cathay for connecting traffic beyond Hong Kong into China and other destinations. Air New Zealand also competes with Hong Kong Airlines and other carriers offering direct services out of competing gateways in China (Hainan from Shenzhen and China Southern from Guangzhou). This rapid expansion of competing alternatives since re-authorisation has constrained the ability of Air New Zealand to grow beyond traffic into China.
- 3.31 Notwithstanding, the number of passengers connecting into China from Air New Zealand's Auckland - Hong Kong services remains higher than pre-Alliance levels. [REDACTED].
- 3.32 As set out further below, absent the Alliance, Air New Zealand could not achieve the same level of access into Southern China (or to other beyond destinations) on other airlines operating via Hong Kong.

Other Beyond Destinations

- 3.33 Given the challenging competitive environment in China, Air New Zealand has sought to increase connectivity into other beyond destinations in order to support traffic on the Hong Kong route.
- 3.34 [REDACTED].

Figure 8: Air New Zealand passengers connecting onto Cathay Pacific network by region

Source: Air NZ data

Other options are not substitutes for the connectivity that can be achieved under the Alliance.

- 3.35 In its 2015 Report, the MOT considered, absent the Alliance, Air New Zealand would be able to retain a large proportion of its connecting passengers by working closely with other airlines and singled out Air China and Hong Kong Airlines, in particular, as potential options.²⁴ [REDACTED].

Improved time of day benefits

- 3.36 The applicants have continued to optimise the timing of the Alliance flights in order to achieve the most beneficial flight schedule. In March 2018, Air New Zealand shifted the departure time of its NZ080 service from Hong Kong from 1910 to 1810 for the Northern Summer IATA season. This was to provide more separation from Cathay Pacific's service (which departs Hong Kong at 2105pm), to reduce the ground time that aircraft spent in Hong Kong and to provide improved connections from Europe and the United Kingdom and beyond Auckland.
- 3.37 The level of cross metal sales demonstrates the value that Alliance passengers continue to place on the flight schedules implemented by the Alliance. As was submitted by the Applicant's in the last application and accepted by the MOT²⁵, every cross-metal sale is a benefit to consumers because it demonstrates that passengers are taking advantage of the scheduling benefits to improve their journey. Therefore, every customer that utilises the ability to travel on a cross metal basis, that did not do so prior to the Alliance, is obtaining a benefit from doing so

²⁴ See 2015 MOT report, paragraph 145 (d)

²⁵ See 2015 MOT Report, paragraph 107

Figure 9: Cross-metal sales on New Zealand – Hong Kong vv

Source: Applicant's data

[REDACTED]**Stimulation of tourism to New Zealand**

- 3.38 In its 2015 Report, the Ministry stated that the tourism benefits of an alliance are dependent upon whether the Alliance has increased passenger volumes.²⁶
- 3.39 As set out above, the Alliance has increased point-to-point passenger volumes by 20% since the last application and by 26% since the Alliance commenced. Moreover, while total passenger volumes were flat in the first two years of the Alliance, they have since grown by 9%. Since re-authorisation, total inbound visitors to New Zealand travelling on Alliance services via Hong Kong have increased by 23,506.²⁷ Based on Ministry of Business, Innovation and Employments data, the average tourist expenditure in New Zealand for the year ending December 2017 was \$3190. Therefore, this increase in passengers represents a value of \$75 million to the New Zealand economy.
- 3.40 The Alliance has ensured that the benefits of this increase in tourism are distributed to different geographical regions throughout New Zealand. This is most obviously apparent with the introduction of the new Christchurch – Hong Kong route which has substantially increased Alliance passengers travelling to and from the South Island. Since the introduction of this route, over 10,000 passengers²⁸ have arrived in Christchurch from Hong Kong, representing approximately \$32 million in tourist spend.
- 3.41 The Alliance also stimulates travel to other regions outside Auckland and Christchurch due to the increased incentive that the Alliance creates for Air New Zealand to open its domestic network to Cathay Pacific passengers. Connectivity onto Air New Zealand's network has increased by 49% since re-authorisation - with particular increases in Alliance passengers travelling to the following regional ports (outside of Wellington and Christchurch):²⁹
- **Napier – [REDACTED];**
 - **Nelson – [REDACTED];**
 - **Queenstown – [REDACTED];**
 - **Palmerston North - [REDACTED];**
 - **Dunedin - [REDACTED].**
- 3.42 As demonstrated in Figure 10 below, the number of Hong Kong residents travelling to New Zealand has grown substantially over the course of the Alliance. The increase in total number of Hong Kong residents visiting New Zealand and the increase in passengers using the Alliance services support the view that the Alliance has contributed to the growth of inbound tourism to New Zealand.

²⁶ See 2015 MOT Report, paragraph 120

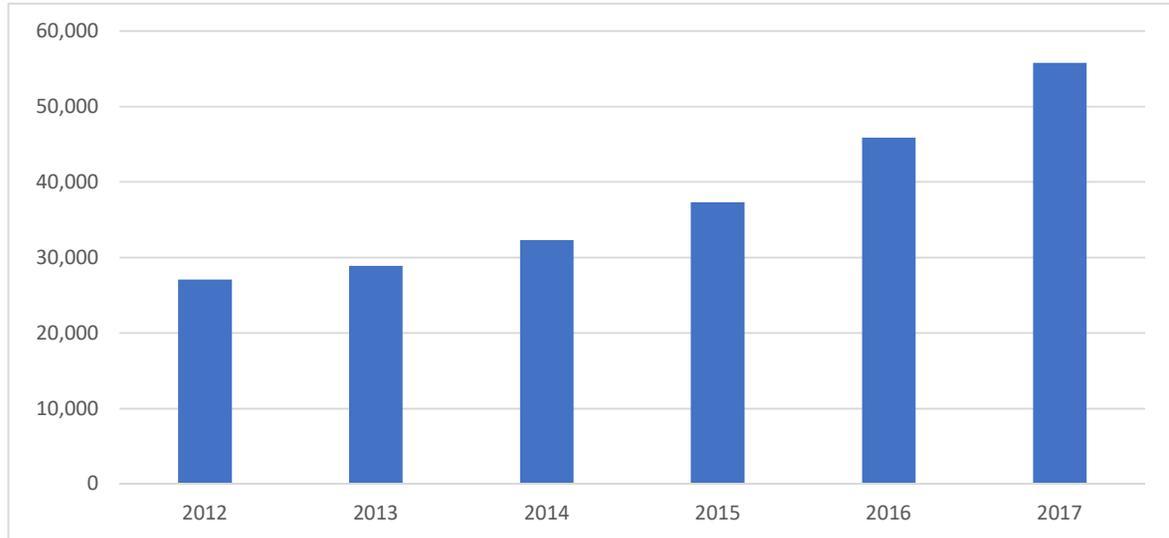
²⁷ From Stats NZ closest port of flight data (Year 5 compared to year 2)

²⁸ From Stats NZ data

²⁹ Applicant's data

Figure 10: Arrival of Hong Kong residents to New Zealand (year-ending December 2017)

Source: Stats NZ data



- 3.43 As set out in the BLS report, passenger flows from the Alliance services onto Air New Zealand's domestic services is important not just for the benefits the passengers themselves bring to their ultimate destination, but it also contributes to the viability of these domestic services themselves given these are often operated on a marginal basis. At the time the study was carried out, approximately 47% of Air New Zealand's passengers travelling on a typical long-haul international flight make a connection behind/beyond Air New Zealand's Auckland hub. The BLS Report concludes that alliances have "served to strengthen Air New Zealand's *domestic network*, thereby helping it to maintain (and in some cases increase) service in domestic markets".³⁰
- 3.44 In its 2015 Report, the Ministry noted that "*the Alliance has incentivised both airlines to coordinate marketing efforts in Hong Kong. In particular, the Alliance enables Air New Zealand to market New Zealand as a destination to Cathay Pacific's base in Hong Kong...*"³¹. This continues to be a benefit of the Alliance. Appendix B sets out the details of a jointly funded promotional campaign run in 2017 which was assisted by the strength of Cathay Pacific's marketing and distribution in Hong Kong.

Premium customer handling, lounge and FFP benefits

FFP accrual and Airpoint Dollars

- 3.45 In the 2014 application, the applicants demonstrated that there had been substantial increases in Airpoint accruals and in the award of Airpoint dollars since the Alliance commenced. In its 2015 Report, the MOT accepted this was a benefit of the Alliance.³² Since re-authorisation, these benefits to Air New Zealand passengers have continued to accrue:
- Actual Airpoint accruals have risen to nearly [REDACTED] in Year 5 representing an increase of over [REDACTED] on pre-Alliance accrual rates (with over [REDACTED] of these on Cathay operated services;
 - The increase in accruals has led to similar increase in total Airpoint Dollars awarded to Air New Zealand Airpoint members with approximately [REDACTED] in Airpoint Dollars awarded in Year 5 of the Alliance (with nearly [REDACTED] awarded for travel on Cathay operated services).

³⁰ BLS Report

³¹ See paragraph 117 of the MOT's 2015 Report

³² See 2015 MOT Report, Appendix IV

PUBLIC VERSION

- 3.46 Overall, Airpoints members are earning substantially more Airpoints Dollars on services to and via Hong Kong than they were prior to the Alliance. These benefits would not have been obtained in the absence of the Alliance.

Lounge Access

- 3.47 Alliance passengers have continued to benefit from access to each parties' respective lounges. The number of Cathay Pacific premium customers using Air New Zealand's lounge in Auckland continues to be [REDACTED]. Access to Air New Zealand's Christchurch lounge has also recently been made available to Cathay Pacific passengers with [REDACTED] passengers using this lounge over the Northern Winter 2017 season. Air New Zealand passengers using the Cathay Pacific lounge in Hong Kong has increased to [REDACTED] passengers per month.

Continuing competition in the freight market

- 3.48 As the MOT is aware, the Alliance does not provide for coordination in the freight market. Under the Alliance, Air New Zealand and Cathay market and price freight capacity independently and the Applicants continue to compete for air freight services on the Auckland – Hong Kong route.
- 3.49 As is the case in the passenger market, the direct services to Guangzhou and Shenzhen have substantially increased competition and there are now greater options for cargo exporters into China. These alternative options have impacted the value and volume of air freight to Hong Kong. However, despite these declining volumes, air freight continues to be important for trade between New Zealand and Hong Kong – representing over 25% of total exports to Hong Kong in 2017 (compared to approximately 22% for New Zealand exports to all destinations). Given the importance of air cargo for trade between New Zealand and Hong Kong, the continuing competition enabled by the Alliance remains a key benefit of the Alliance.

4. COMPETITION CONSIDERATIONS: THE ALLIANCE HAS NOT RESULTED IN ANY DETRIMENT TO COMPETITION

- 4.1 The period since re-authorisation has been characterised by an unprecedented increase in competition and new capacity from carriers operating between Hong Kong and New Zealand. Travellers between Hong Kong and New Zealand and from New Zealand to destinations beyond Hong Kong now have substantially more travel options compared to the period before the Alliance was commenced. The Ministry's concerns regarding the impact of the Alliance on the prospects of competition on the route have not materialised and the Alliance has not created any competitive detriment.
- 4.2 As you would expect in a competitive market, the Alliance has responded to this increased competition. The Alliance has done this by growing the number of point-to-point passengers using the Alliance services every year since re-authorisation, increasing capacity and further reducing average fares. This has ensured that passengers continue to value the Alliance services over competing options.

Competition for services between New Zealand and Hong Kong

New Entry on Direct route

- 4.3 In its 2015 Report, the MOT considered that "...the prospects of competition on the route would be higher without the alliance, as the alliance provides a competitive advantage that no other carrier could reasonably be expected to replicate".³³ The applicants considered that while new entry may not have been likely at that time, the Alliance did not create any *additional* barriers to entry.
- 4.4 The entry by Hong Kong Airlines in November 2016 confirms that the Ministry's concerns were misplaced, and, the Alliance does not have an insurmountable competitive advantage over new entrants nor can it be said to possess market power (so as to prevent new entry). Hong Kong Airlines has quickly established a presence on the route, gaining approximately 29% of the non-stop point-to-point passenger traffic. Hong Kong Airlines entry is evidence that the heavily inbound nature of the route favours a carrier with a strong presence in Asia who can utilise their network to drive traffic onto the direct route. Hong Kong Airlines has been able to do this to compete effectively with the Alliance.
- 4.5 Beyond Hong Kong, Hong Kong Airlines has been able to target regions where it has a strong presence and good connectivity. Approximately 74% of Hong Kong Airlines' beyond traffic is sourced from passengers in China, India and Taiwan.³⁴ As discussed above, the entry of Hong Kong Airlines as well as the growth of direct Chinese carriers (discussed below) has put pressure on the ability of Air New Zealand to grow its own traffic from beyond destinations.

Increase in competition from Chinese Carriers travelling direct to New Zealand

- 4.6 Since re-authorisation, there has been a rapid expansion of direct services by Chinese carriers to New Zealand from competing gateways in Southern China. These services provide a viable alternative to passengers travelling to and from New Zealand and exert a significant constraint on the Alliance.
- 4.7 Given the majority of passengers travelling on the New Zealand – Hong Kong route are connecting beyond Hong Kong, the marked increase in competition and capacity from these Chinese carriers makes it increasingly difficult for the Applicants to source connecting traffic from China to support the Alliance services on the route.
- 4.8 Since the year ending 2014, China Southern has increased total capacity on its direct service from Guangzhou to New Zealand by 48% to the year ending 2017. This includes an increase of 15% capacity on its direct service to Auckland and the introduction of a year-round direct service to Christchurch. In December 2016, Hainan Airlines launched a direct service to Auckland from

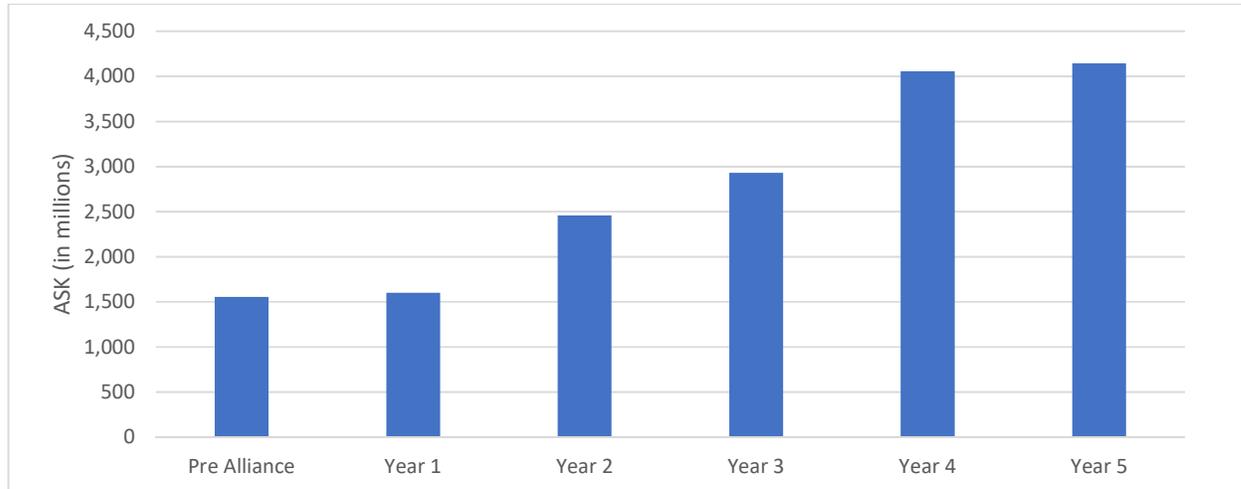
³³ See 2015 MOT Report, paragraph 125

³⁴ This is estimated using Stats NZ and Air NZ data. This does not include Hong Kong Airlines passengers from the Guangdong region as Hong Kong Airlines does not have a connecting service between Guangzhou and Hong Kong.

Shenzhen operating 3 flights per week in each direction over the peak season. As shown in Figure 11 below, total capacity from these two carriers out of Southern China has grown over 1.5 times since re-authorisation and nearly tripled from pre-Alliance levels:

Figure 11: Total Capacity of China Southern and Hainan from Southern China (Guangzhou and Shenzhen)

Source: Star Diio Data



- 4.9 Both Guangzhou and Shenzhen airports are located in the Guangdong province within two hours of central Hong Kong and will both be within one hour of central Hong Kong when the high-speed rail link is opened in 2018.³⁵ Shenzhen in particular is only approximately 20 minutes away from West Kowloon station in Hong Kong. The proximity of these airports to Hong Kong makes them a viable alternative to Hong Kong, particularly for passengers who are travelling from the Guangdong province or for passengers who are connecting from provinces in China which China Southern and Hainan have good connectivity to. China Southern connects to over 75 destinations in China and Hainan connects into 25 beyond destinations.
- 4.10 The new services and increased capacity from China Southern and Hainan have had an obvious impact on the Alliance with passengers connecting from the Guangdong region onto the Alliance services [REDACTED] between Year 4 and Year 5 of the Alliance. This coincides with the entry of Hainan and the substantial increases in capacity by China Southern.
- 4.11 As set out above, the substantial increase in competition from China has meant that Air New Zealand has had to grow connecting traffic from other regions in order to support the Hong Kong - Auckland route.

Continued competition from one-stop carriers

- 4.12 Competition from one-stop services between New Zealand and Hong Kong continues to provide a competitive constraint on the applicants. In particular, since re-authorisation, both Qantas and Virgin Australia have increased capacity from the east coast of Australia to Hong Kong. Virgin Australia has introduced a service from Melbourne to Hong Kong and Qantas has increased capacity from Sydney by over 58%. Other major developments since re-authorisation by one-stop carriers include:
- In addition to a substantial increase of capacity out of Sydney, Qantas has increased capacity out of Melbourne by 10% and kept capacity from Brisbane largely constant;
 - Fiji Airlines has increased capacity by 51% on its Hong Kong – Nadi service;
 - Thai Airways has increased capacity by 36% on Bangkok – Auckland and by 15% between Bangkok and Hong Kong;

³⁵ <https://www.travelchinaguide.com/china-trains/high-speed/hongkong-schedule.htm>

- (d) Korean Airlines has increased capacity by 13% between Seoul – Auckland;
- (e) Malaysia Airlines has slightly increased capacity on its Auckland – Kuala Lumpur service;
- (f) Tianjin Airlines has introduced a one-stop service from Chongqing International airport to Auckland.

Table 4: Share estimates for Hong Kong – New Zealand vv³⁶

Source: Stats NZ via Air NZ database

[REDACTED]

- 4.13 As stated previously, Qantas has actively targeted New Zealand passengers to supplement its direct services to Hong Kong from the east coast of Australia. Qantas has advertised a number of promotional fares for travel to Hong Kong via Australia through New Zealand trade channels (for example, see Appendix A).

Passengers travelling on the point-to-point route have increased under the Alliance

- 4.14 As shown in the table below, the Alliance grew the number of passengers travelling on the Alliance services by **[REDACTED]** between re-authorisation and Year 4 of the Alliance (the year before Hong Kong Airlines began operating an all-year round service between Hong Kong and Auckland). Since Hong Kong Airlines entry, the Alliance has maintained the number of passengers travelling on Alliance services despite a substantial increase in capacity by Hong Kong Airlines. The fact that the Alliance has maintained passenger numbers in the face of new entry and the rapid capacity expansion by Hong Kong Airlines indicates that the Alliance services remain highly competitive and valuable to passengers.

Table 5 – Point-to-point passenger numbers between New Zealand and Hong Kong

Source: Stats NZ via Air NZ database

[REDACTED]

³⁶ Table 4 and Table 5 are based on “sectors” travelled by passengers rather than individual passenger numbers. E.g. if a passenger travels to New Zealand – Hong Kong return on Alliance services, this will be counted in the Air NZ data as 2 sectors travelled. MAT data is up to June 2018.

5. THE ALLIANCE HAS RESULTED IN A SUBSTANTIAL NET BENEFIT TO NEW ZEALAND

- 5.1 As the above demonstrates, the Alliance has generated significant public benefits and there has been no detriment to competition arising from the Alliance. Therefore, even if the MOT considers that some of the benefits have not materialised as expected, the Alliance has still resulted in a substantial net benefit to New Zealand.
- 5.2 We have reproduced the table in Appendix IV of the MOT's 2015 Report to show that all of the benefits outlined in the Applicant's original application in 2012 have now been delivered:

Claimed benefit	Delivery	Comment
Immediate access to more connecting flights	✓	The SPA between the parties has been revised since re-authorisation leading to more overall connecting routes and lower average billing rates. This has meant both airlines continue to sell more tickets on connecting flights operated by the other airline and passengers continue to have more choice from a greater range of flights. (See section 3.22 to 3.28)
Improved flight schedule benefits	✓	The Alliance parties continue to fine tune the schedule to ensure it optimises connectivity benefits. In NS18, Air New Zealand shifted the departure time of its NZ080 service from Hong Kong from 1910 to 1810 to provide more separation from Cathay Pacific's service (which departs Hong Kong at 2105pm), reduce the ground time that aircraft spent in Hong Kong and to provide improved connections from Europe and the UK and beyond Auckland. (See section 3.36 to 3.37)
Frequent flyer and lounge access benefits	✓	Frequent flyer accruals have continued to rise substantially since re-authorisation. Likewise, lounge access continues to be a benefit to passengers. (See section 3.45 to 3.47)
Stimulation of inbound tourism	✓	The Alliance has increased capacity and more passengers are using the Alliance services since re-authorisation, leading to more tourism spend in New Zealand. The new seasonal Christchurch route ensures this spend is distributed across both the North Island and South Island. (See section 3.38 to 3.44)
Access to lower priced inventory	✓	Average fares across all fare classes have dropped substantially since re-authorisation. (See section 3.12 to 3.21)
Cost savings and efficiencies	✓	Load factors have improved over pre-Alliance levels. Coupled with capacity increases, this indicates that the Alliance partners have been able to more efficiently manage seat capacity to make more lower price inventory available to passengers. (See section 3.10 to 0)
Additional capacity	✓	Total capacity has increased since pre-alliance and re-authorisation levels. (See section 3.4 to 3.6)
Opportunities for additional sectors between New Zealand and Hong Kong	✓	The Alliance has introduced a seasonal direct service between Christchurch and Hong Kong which will continue over Northern Winter seasons. (See section 3.7 to 3.9)

6. NO LEGAL REASONS FOR THE MINISTER REFUSING TO AUTHORISE THE ALLIANCE

No Legal Reasons for the Minister Refusing to Authorise the Alliance

- 6.1 Sections 88(3) and (4) of the CAA provide specific reasons for the Minister to decline to authorise, although they are subject to an override in section 88(5) if the Minister believes that to decline authorisation would have an undesirable effect on international comity. For the reasons set out in the Applicant's 2014 application, none of the reasons set out in sections 88(3) and (4) apply in respect of the Alliance.
- 6.2 The 2015 MOT Report accepted that the Alliance did not fall foul of any of the prohibitions set out in sections 88(3) and 88(4) of the CAA, and that the agreements were capable of being authorised under the CAA. We do not consider that there have been any material changes to the Alliance that would warrant a change to the conclusions in the MOT Report.

No infringement of section 88(3)

- 6.3 Nothing has occurred in the period since authorisation which should cause the MOT to depart from its earlier view that authorisation of the Alliance is consistent with the relevant arrangements in section 88(3) and the arrangements will not prejudice compliance with any relevant international convention, agreement, or arrangement to which the Government of New Zealand is a party.

International comity

- 6.4 The Applicants remain of the view that declining authorisation would have an undesirable effect on international comity between New Zealand and Hong Kong and as a result, international comity provides a distinct reason for the Minister to exercise his discretion in favour of authorising the Alliance.

Appendix A – Qantas promotional material

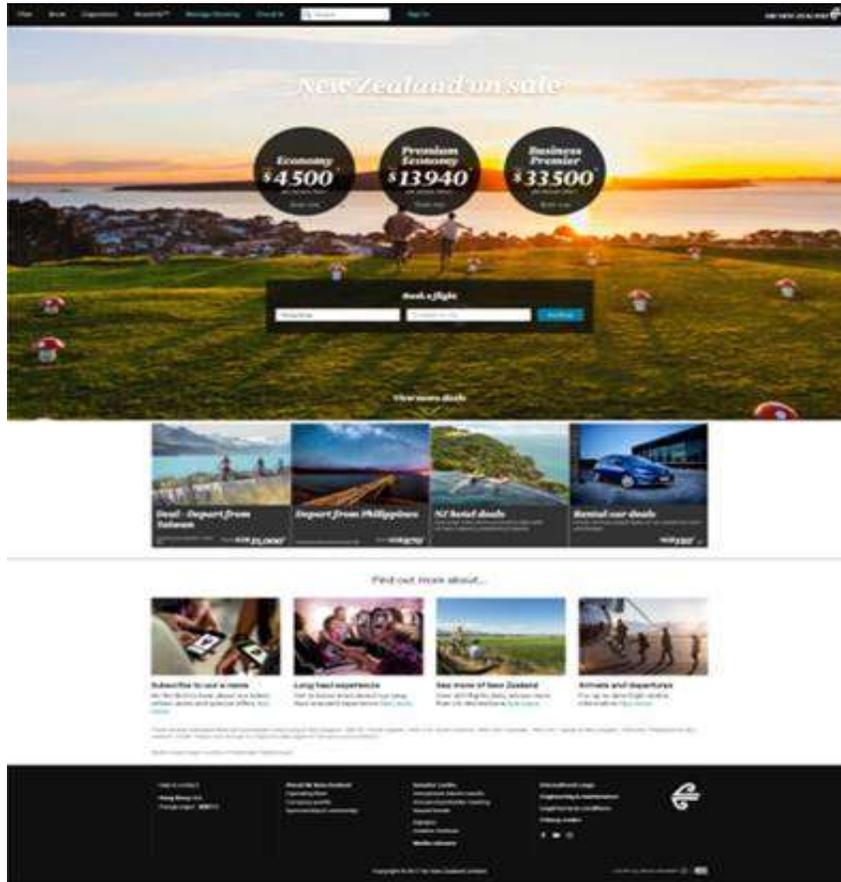
HONG KONG / NEW ZEALAND via AustraliaIssue Date: **5-Sep-18**Index
No: **X187-1****Economy Class Promotional Fare to AUCKLAND****Highlights:**

- *Economy class promotional fare travel HKG/AKL via Australia*
- *Sales period: 05Sep-09Sep18*
- *Ticket validity: 0 -3 months*

Itinerary	Travel Ex HKG	Fare Basis	Class	To Agent	To Pax
HKG/AKL/HKG via Aust	05Sep-13Dec18 13Feb-31Jul19	OHKNZ	O	HKD 3,340	HKD 3,450

Appendix B – Air New Zealand and Cathay Pacific joint marketing campaign

A. Online



The graphic is a promotional advertisement for Air New Zealand. It features a circular callout with the text 'Hong Kong to AUCKLAND/CHRISTCHURCH* Non-stop flights From HK\$4,500* Round-trip Economy 7 days each'. Below this, there is a table with flight details and a price of HK\$4,500. The text 'Embrace the untouched beauty of New Zealand' is prominently displayed. The Air New Zealand logo is in the top right corner.

Booking class	Start period	Start/End	Return period	Returning fare zone
G	24Nov2017 - 30Nov2017	01Nov2017 - 31Dec2017 01Jan2018 - 30Mar2018	05Apr2018 - 30Jun2018	4,500*

* Domestic service. Applies to NZ1000 NZ1000 flight.
* Fare includes applicable taxes and surcharges. CNR, fuel, and carriage apply. @msagent.com.hk

B. Out of home advertising



C. Print

探索新西蘭 擁抱大自然之美
每周24班直飛奧克蘭及基督城*

離開都市喧囂，投入大自然的懷抱。躍上最年輕的火山島，在夕陽中邂逅獨一無二的本土植物；或靜觀一身的月影瀾瀾，繞遊靜謐海岸。感受難得的南半球之夜……新西蘭掌握自然之美，壯麗兼包孕的讚嘆。

由2017年12月1日起，國泰航空增加新西蘭航空，為你帶來提供香港至基督城*直航服務，每周合共24班直飛奧克蘭及基督城；讓你一次旅程，輕鬆遊歷新西蘭南北兩島。只收港幣4,500元*起，你更可選擇乘坐空巴士A350客艙，讓你盡享輕鬆舒適。

詳情請瀏覽 cathaypacific.com.hk 或 airnewzealand.hk，或致電國泰航空2747 3333，新西蘭航空2862 8988或聯絡各大旅行社。

AIR NEW ZEALAND  國泰航空公司
新翼人生