

**PUBLIC VERSION**  
**RESTRICTION OF PUBLICATION OF PART CLAIMED**

**Application to the  
New Zealand Minister of Transport  
pursuant to  
Part IX of the Civil Aviation Act 1990**

**Qantas Airways Limited  
(ABN 16 009 661 901)  
and  
Emirates  
Master Coordination Agreement**

**10 September 2012**

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## 1 INTRODUCTION AND EXECUTIVE SUMMARY

Qantas Airways Limited and Emirates and their related bodies corporate (together, the **Applicants**)<sup>1</sup> seek authorisation from the Minister of Transport (**Minister**) under section 88 of the *Civil Aviation Act* 1990 (**CAA**) to coordinate their operations (**Proposed Conduct**) pursuant to a Master Coordination Agreement (**Coordination Agreement**).

The Proposed Conduct will create a seamless premium global air services operation that better connects New Zealand to Australia, Europe, including the United Kingdom (**UK**), and the Middle East and Northern Africa (**MENA Region**), as well as other potential regions in the future (subject to air traffic rights), by bringing together two world-class complementary brands, networks and business models.

The Applicants seek authorisation for the entire Coordination Agreement on the basis that all of its provisions relate directly or indirectly to the fixing of tariffs, the application of tariffs or the fixing of capacity. A summary of each of the provisions and how they do so forms Confidential Annexure C to this application. The Applicants request that the Minister exercise his discretion to authorise the Proposed Conduct because it:

- a) is capable of authorisation by the Minister under section 88 of the CAA;
- b) will result in significant and substantiated public benefits to New Zealand;
- c) will have no adverse impact on consumers – to the contrary, it will have pro-competitive effects and be beneficial for consumers, particularly because the Applicants are willing to commit to maintain (lock in) their combined trans-Tasman capacity; and
- d) does not breach any of the specific provisions in section 88(4)(a)-(f) of the CAA.

The Minister's power to authorise such arrangements reflects:

- a) the unique nature of the aviation industry and in particular its underlying international characteristics;
- b) the need for speed and flexibility in approving international airline arrangements; and
- c) the Ministry's competence in developing and administering New Zealand aviation policy, in particular, the familiarity with New Zealand's obligations under international aviation agreements and the requirement of the Minister to consider the effects on international comity between New Zealand and other states.

The Applicants seek to implement the Proposed Conduct by April 2013 to ensure that the resultant benefits are available to the public for the International Air Transport Association (**IATA**) Northern Summer 2013 scheduling period.

The Proposed Conduct is a measured and balanced response to the economic realities of the highly dynamic and competitive international aviation industry. It will deliver significant benefits to New Zealand consumers, including eliciting competitive responses from competitors that will further stimulate competition to and from New Zealand.

By aligning its globally respected brand with Qantas, Emirates will also be able to improve its offering to high-yielding corporate and government travellers in New Zealand and deliver exceptional levels of service in terms of network reach and connectivity, frequent flyer rewards and seamless premium end-to-end customer service. Emirates' long-term growth strategy in New Zealand and Australia will be materially enhanced and expedited by the Proposed Conduct for the benefit of New Zealand consumers. Emirates is hopeful that the New Zealand Government's new International Air Transport

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<sup>1</sup> See Annexures A and B for details about each of Qantas and Emirates.

Policy announced on 30 August 2012 (**Policy**), which promotes far-reaching liberalisation under reciprocal open skies agreements, will likely ease the capacity restrictions currently imposed by the Air Services Agreement between New Zealand and the UAE<sup>2</sup> (**NZ-UAE ASA**), through formal consultations with the UAE in the near future, which would assist Emirates' ability to grow its presence in New Zealand in the long term.

At the same time, the Proposed Conduct will arrest the terminal decline of the international operation of Qantas (**Qantas International**). It is clear that it is no longer possible for Qantas International to sustainably 'go it alone' as an international network carrier. For many years Qantas International has been supported by the other profitable Qantas businesses (Qantas Domestic, Qantas Frequent Flyer (**QFF**) and Jetstar) but its losses have continued to grow – culminating in a \$450 million loss in fiscal year 2012 compared with a loss of \$216 million in 2010-2011.<sup>3</sup> The growing magnitude of losses cannot continue.

It is not that Qantas International is a bad airline – it operates one of the safest premium full service airlines in the world. The issue is that Qantas International operates in a highly competitive and dynamic industry without the geographic, regulatory and economic advantages enjoyed by many other international airlines.

Firstly, full service carriers based at mid-point hubs such as Singapore, Hong Kong, the Middle East or locations in China have an immediate and significant geographic advantage over end-of-line carriers like Qantas International and Air New Zealand by virtue of their accessibility to the hundreds of millions of consumers in close proximity to their hub and their ability to aggregate passengers from multiple cities and take them to multiple destinations.

Secondly, most mid-point carriers have strategic economic advantages associated with low or no tax, government funded infrastructure and access to developing economy labour costs resulting in sustainably and substantially lower operating costs than Qantas International. These structural advantages can never be replicated by Qantas.

Given these structural constraints, Qantas International does not have the ability to compete effectively. Qantas has attempted over many years to negotiate an alliance with various carriers, including Air New Zealand and structurally advantaged mid-point carriers Singapore Airlines, Cathay Pacific and Malaysia Airlines. For numerous reasons, it has not been possible to negotiate an appropriate commercial agreement with any of these airlines and, as a result, Qantas International has continued to lose money and contract. At this point, Qantas International only operates three daily services from Australia to Europe – two to London and one to Frankfurt (compared to five daily services six months ago). Qantas will discontinue its Frankfurt service irrespective of whether the Proposed Conduct proceeds. In addition, absent the ability to coordinate with one of the mid-point carriers, Qantas International's current European network will contract further, with the possible withdrawal of one of the daily London services in the short term. In the long term, Qantas International will only invest in new aircraft and operate to those ports where it can make an appropriate return on capital – this will not include Europe.

Despite all the legacy issues and structural disadvantages, Qantas remains an extraordinary global brand with highly efficient and successful business components, prestigious history, a high-quality product, domestic and international assets and access to important bilateral agreements. For these reasons, it has significant value to add to a strategic alliance with another carrier.

In some respects, the financial position of Air New Zealand over a considerable period of time is not dissimilar to that of Qantas International. Notably, Air New Zealand acknowledged the structural supremacy of mid-point carriers as early as 1997 when it entered into a close alliance with Singapore

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<sup>2</sup> Agreement between the Government of The United Arab Emirates and the Government of New Zealand on Air Services dated 1 March 1998.

<sup>3</sup> Qantas Group CEO Alan Joyce Speech, Qantas Group Full Year Financial Results, 23 August 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/aug-2012/5441/global/en> and Qantas Group ASX Announcement, Qantas Group Profit Update, 5 June 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/jun-2012/5406/global/en>

Airlines. Indeed, Singapore Airlines was a 'cornerstone' shareholder in Air New Zealand from April 2000 to October 2004. That shareholding and alliance were severely impacted by the events of 11 September 2001 and the subsequent collapse of Ansett. Since that time, Air New Zealand has entered into an authorised alliance with Virgin Australia, who in turn has authorised alliances with each of Etihad Airways (**Etihad**) and Singapore Airlines.

In this context, the Proposed Conduct is an urgent strategic imperative for Qantas. Emirates represents an excellent fit. Its global network complements Qantas' international and domestic network, both airlines share the same strong focus on premium customer service, and both have iconic and widely recognised brands which are synonymous with a quality product and customer offerings. Emirates is the world's largest international carrier and has a proven record in profitably growing its international services from its strategically located Dubai hub. Emirates is a fully commercial, unsubsidised business which is independently managed and audited. It enjoys significant strategic advantages via its efficient 24 hour Dubai hub, a substantially lower cost base compared to Qantas, government funded infrastructure to facilitate the development of the region and no income tax.<sup>4</sup>

In circumstances where the counterfactual is the withdrawal of further Qantas International services and where there will continue to be effective competition on all relevant routes, there can be no lessening of competition. In terms of the trans-Tasman, the Proposed Conduct is pro-competitive because the parties will commit to maintaining existing levels of capacity.

The Applicants therefore seek authorisation of the Proposed Conduct on the basis that it will have no effect on competition and will result in substantial benefits to New Zealand consumers. These benefits include:

- a) a significantly expanded global network, improved connectivity and greater choices for Qantas passengers and freight customers to seamlessly travel from New Zealand to Australia, Europe and the MENA Region (and potentially additional regions in the future, subject to air traffic rights);
- b) improved connectivity for Emirates' passengers and freight customers to the Qantas Group's domestic, trans-Tasman and other international services;
- c) materially and instantly enhancing the benefits for members of both parties' frequent flyer programs, by significantly increasing the earning and redemption opportunities across the combined networks;
- d) establishing a long term business model to optimise the operating performance of both Qantas and Emirates including by reducing operating costs; and
- e) generating a number of other public benefits including enhancing customer experiences and increasing product innovation, increasing tourism and employment, promoting international trade and enhancing and expediting Emirates' growth in New Zealand and Australia.

## **2 INTERNATIONAL AVIATION INDUSTRY**

### **2.1 Overview**

The Proposed Conduct will take place in the context of the unique economic and structural characteristics of the international aviation industry, including:

- a) high sensitivity to demand shocks, high fixed costs and lumpy, time-lagged investments;
- b) excess capacity;

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<sup>4</sup> See further 'Rulers of the New Silk Road' in *The Economist* 5 June 2010.

- c) high barriers to exit;
- d) high barriers to consolidation; and
- e) government ownership and assistance.

These characteristics are detailed further in Annexure D.

## 2.2 Mid-Point Carriers Are The Key Drivers Of Competition

The international aviation industry is highly dynamic and competitive. The last decade has seen midpoint carriers based in Asia and the MENA Region use geographic, regulatory and economic advantages over other airlines to emerge as the key drivers of competition on a global and regional scale. These mid-point carriers include:

- a) Singapore Airlines and Cathay Pacific which are the large incumbent carriers;
- b) Etihad, Qatar Airways and the Chinese carriers (namely, China Southern Airlines (**China Southern**), China Eastern Airlines (**China Eastern**) and Air China) which are new and rapidly expanding carriers;
- c) Japan Airlines (**JAL**), Malaysia Airlines, Thai Airways, Korean Air and other competitive carriers; and
- d) increasingly, long-haul low cost carriers (**LCCs**) such as Scoot and AirAsia X.

Detailed information on these carriers is set out in Annexure F.

Mid-point carriers have been able to:

- a) maintain and grow more expansive global networks, including the number of one-stop connections offered by virtue of being within relatively short flying distances of the world's major population centres;
- b) take advantage of economies of density, which make hub and spoke operations the most efficient way to offer as broad a range of interconnecting destinations as possible;
- c) take advantage of economies of scale by operating larger and younger fleets as well as make larger orders for new aircraft; and
- d) build on their ability to access low cost bases and modern and expanding airport infrastructure allowing them to more readily meet growing passenger traffic and expand their network reach and connectivity, compared to 'legacy' airports such as London Heathrow, Frankfurt, Charles De Gaulle and JFK, which are increasingly capacity constrained and have limited ability to continue to expand.<sup>5</sup>

Significant population growth in and around Asia and the MENA Region, coupled with rising incomes, will continue to dramatically transform the key sources of demand in the international aviation industry in the future. The World Bank forecasts<sup>6</sup> the following population growth over the period 2010 to 2050:

- a) 3.54 billion to 4.29 billion in Asia (an increase of 750 million people); and

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<sup>5</sup> See 'Rulers of the New Silk Road' in *The Economist*, 5 June 2010.

<sup>6</sup> The World Bank, Population Projection Tables by Country and Group. Available: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTHEALTHNUTRITIONANDPOPULATION/EXTDATASTATISTICS/HP/EXTHNPSTATS/0,,contentMDK:21737699~menuPK:3385623~pagePK:64168445~piPK:64168309~theSitePK:3237118~isCURL:Y,00.html> (accessed 6 August 2012).

b) 331 million to 516 million in the MENA Region (an increase of 185 million people).

In addition, average income and wealth in Asia and the MENA Region are expected to increase. Salaries in China, for example, are expected to grow at 14% per annum over the ten years from 2010 to 2019.<sup>7</sup>

The population and wealth increases in Asia and the MENA Region are expected to stimulate demand for air travel in these regions. It is estimated that between 60 and 80% of growth in air traffic can be attributed to growth in income and that air traffic itself facilitates income growth such that together, the two create a virtuous circle of increasing income and increasing air traffic.<sup>8</sup> For example, total air traffic in the Asia Pacific region is forecast to grow at 6.7% per annum over the next 20 years.<sup>9</sup>

With such growth in mind, most governments in Asia and the MENA Region use the ownership of airlines as an instrument of industry policy, underwriting the expansion of airline services to their country to support tourism and local businesses. In this way, airlines and airports are used as a tool for regional economic development. As discussed further below, the global strategy of many successful carriers includes capitalising on the spill-over or externality effects of passenger traffic through hub ports.<sup>10</sup>

Full service carriers based at mid-point hubs such as those in Singapore, Hong Kong, China or the Middle East have immediate and significant geographic advantages by virtue of their accessibility to the hundreds of millions of consumers in close proximity to their hub and their ability to aggregate passengers from multiple cities and take them to multiple destinations. For those airlines, hubbing offers the ability to provide better connectivity and higher frequencies, improved load factors, better fleet utilisation and efficiencies. For airports in those regions, asset utilisation is improved because traffic is captured from diverse markets which, in turn, helps to build the airport and regional brand. Hub airports can promote the socio-economic development of the catchment region in which they operate, with further benefits flowing through to the global economy through the promotion of international investment and tourism and people flow.<sup>11</sup>

For example, due to its strategic position between Asia, India and the Middle East, Singapore is a major aviation hub.<sup>12</sup> Around 100 airlines operate some 5,500 weekly flights from Changi Airport to more than 200 cities in approximately 60 countries.<sup>13</sup> Likewise, Hong Kong, geographically located at the centre of eastern Asia, is also a major airline hub<sup>14</sup> with around 95 airlines flying from Hong Kong to 165 destinations, including 45 destinations in mainland China.<sup>15</sup>

Similarly, Dubai's strategic geographic location – sitting at the crossroads of Asia, the MENA Region and Europe means that it is eight hours or less from 75% of the world's population.<sup>16</sup> As an entrepreneurial, trading city state – like Singapore – Dubai has always pursued open trade with as few barriers to a free market as possible. At the core of the Dubai Government's policy for aviation is an unambiguous 'open skies' policy that is one of the most liberal worldwide. This has led to 150

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<sup>7</sup> 'Delivering the Future: Global Market Forecast 2011-2030', Airbus, p 76. Available:

[http://www.airbus.com/company/market/forecast/passenger-aircraft-market-forecast/?elD=dam\\_frontend\\_push&docID=18803](http://www.airbus.com/company/market/forecast/passenger-aircraft-market-forecast/?elD=dam_frontend_push&docID=18803)

<sup>8</sup> Boeing Current Market Outlook 2011 – 2030, p 6. Available:

[http://www.boeing.com/commercial/cmo/pdf/Boeing\\_Current\\_Market\\_Outlook\\_2011\\_to\\_2030.pdf](http://www.boeing.com/commercial/cmo/pdf/Boeing_Current_Market_Outlook_2011_to_2030.pdf)

<sup>9</sup> *Ibid*, p 15.

<sup>10</sup> See 'Rulers of the New Silk Road' in *The Economist*, 5 June 2010.

<sup>11</sup> See 'Super-Duper-Connectors from the Gulf' in *The Economist*, 5 June 2010; 'Explaining Dubai's Aviation Model' A report for Emirates and Dubai Airports, Oxford Economics, June 2011; 'Economic Impacts of Hub Airports' British Chamber of Commerce July 2009; 'The Social and Economic Impact of Airports in Europe', Airports Council International (Europe) and York Aviation, January 2004; 'Hub-and-Spoke System In Air Transportation And Its Implications To Regional Economic Development – A Case Study of the United States' in *Chinese Geographical Science* 16(3) 2009, pp 211-216.

<sup>12</sup> 'Asia's aviation centre of choice' Singapore Economic Development Board. Available:

[http://www.edb.gov.sg/content/future\\_ready/future\\_ready\\_today/articles/asias\\_aviation\\_centre\\_of\\_choice.html](http://www.edb.gov.sg/content/future_ready/future_ready_today/articles/asias_aviation_centre_of_choice.html)

<sup>13</sup> *Ibid*.

<sup>14</sup> Hong Kong International Airport Master Plan 2030 Technical Report, p 19. Available:

[http://vps.hongkongairport.com/mp2030/TR\\_24May\\_Eng\\_Full.pdf](http://vps.hongkongairport.com/mp2030/TR_24May_Eng_Full.pdf).

<sup>15</sup> Hong Kong International Airport. Available: [http://www.hkairport2030.com/en/masterplan/hkhkia\\_engine.html](http://www.hkairport2030.com/en/masterplan/hkhkia_engine.html)

<sup>16</sup> Emirates Annual Report 2011-2012, p 13. Available:

[http://www.emirates.com/au/english/about/investor\\_relations/investor\\_relations.aspx](http://www.emirates.com/au/english/about/investor_relations/investor_relations.aspx)

scheduled airlines now operating to and from Dubai from all six continents (which is more than at London Heathrow, Charles De Gaulle, Frankfurt, Hong Kong, Singapore or JFK airports).<sup>17</sup> Being a leading global hub has delivered substantial economic benefits. In June 2011, Oxford Economics released a report, commissioned by Emirates and Dubai International Airport, which showed that the aviation sector contributed around 19% of total employment in Dubai and 28% of its GDP.<sup>18</sup> Dubai International Airport is projected to grow at such a rate that by 2020 it will be the world's busiest international airport.<sup>19</sup> Other Middle Eastern ports, particularly Abu Dhabi and Doha, have followed Dubai's lead and taken advantage of their geographic positions to develop international aviation hubs.

The hub model has delivered important benefits to carriers based in those ports. Those carriers have the ability to aggregate traffic from various origins/destinations to achieve scale on flights both to and from their mid-point hub. This advantage is evident from a cursory examination of any mid-point carrier's route map. For example, Singapore Airlines can fly passengers from any South-East Asian destination to Singapore and then on to multiple destinations in Europe. Despite Singapore having a relatively small population of around 5.2 million people, Singapore Airlines is the thirteenth largest international airline in the world<sup>20</sup> and is estimated to have carried over 17.2 million passengers in the 12 months ending 31 March 2012.<sup>21</sup>

Mid-point carriers also take advantage of economies of density and economies of scale as evidenced by their expanding global networks, their large and young existing fleet, their large order books and the increasing number and size of airports and passenger volumes. Most mid-point carriers have now established global networks as set out in Annexure F – for example:<sup>22</sup>

- a) Singapore Airlines operates to 63 destinations across Europe, Africa, Asia and America and it has announced plans to increase capacity to Australia and various destinations, including London Heathrow;
- b) Cathay Pacific operates to 49 destinations across Asia, Europe, Africa, the Middle East and North America and it has announced that it will continue to expand its network and frequencies;
- c) Etihad operates flights to 73 destinations across the Middle East, Africa, Europe, Asia and North America and it has announced plans to increase the breadth and depth of its network, including significant expansion into Australia and other emerging markets;<sup>23</sup>
- d) Qatar Airways operates to 112 destinations across Europe, the Middle East, Africa, South Asia, Asia Pacific, North America and South America. During 2010, it launched flights to 10 new destinations, in 2011 it launched flights to 15 new destinations and by the end of 2012 it will have launched flights to 11 new destinations. Most recently Qatar Airways announced that it will start operating services to Warsaw and Belgrade by the end of 2012.<sup>24</sup> It averages 30% growth year on year<sup>25</sup> and has over 250 aircraft on order books worth more than US\$50 billion;<sup>26</sup>

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<sup>17</sup> *Explaining Dubai's Aviation Model A report for Emirates and Dubai Airports*, Oxford Economics, June 2011.

<sup>18</sup> Ibid p 4.

<sup>19</sup> Dubai Airports, 5 August 2012. Available: <http://www.dubaiairport.com/en/media-centre/facts-figures/Pages/factsheets-reports-statistics.aspx?id=>

<sup>20</sup> By Available Seat Kilometres (ASKs). Singapore Airlines Profile, CAPA. Available:

<http://www.centreforaviation.com/profiles/airlines/singapore-airlines-sq>

<sup>21</sup> 'High Fuel Prices and Increasing Yield Weigh Heavily on Group Earnings' Singapore Airlines News Release, 9 May 2012. Available: <http://www.singaporeair.com/pdf/Investor-Relations/Financial-Results/News-Release/nr-q4fy1112.pdf> (accessed 14 August 2012)

<sup>22</sup> Based on information available at CAPA (4 September 2012).

<sup>23</sup> Etihad website. Available: [www.etihad.com](http://www.etihad.com) (accessed 23 August 2012).

<sup>24</sup> 'Qatar Airways to start flying to Serbia and Poland by end of 2012', 15 August 2012, Qatar Airways website: [http://www.qatarairways.com/english\\_global/press-release.page?pr\\_id=pressrelease\\_pressrelease\\_20120815&CSRT=9304334403157376091](http://www.qatarairways.com/english_global/press-release.page?pr_id=pressrelease_pressrelease_20120815&CSRT=9304334403157376091)

<sup>25</sup> CEO Message, Qatar Airways. Available: <http://www.qatarairways.com/au/en/ceo-message.page> (accessed 28 August 2012)

<sup>26</sup> 'Qatar Airways Fact Sheet, August 2012. Available: <http://www.qatarairways.com/iwov-resources/temp-docs/press-kit/Qatar%20Airways%20Fact%20Sheet.pdf> (accessed 28 August 2012)

- e) China Southern operates to 173 destinations across Asia, the Middle East, the Americas and Europe. Its key stated priorities are strategic transformation and internationalisation, which includes increased services to New Zealand;
- f) Air China operates to 149 destinations across Asia, the Middle East, the Americas and Europe. In 2011, Air China expanded its international route capacity by 9.21% and intends to increase it by another 12% in 2012;
- g) China Eastern operates to 168 destinations across Asia, Europe, North America, and the Middle East. In 2012 it announced several new international routes, including further services to Australia;
- h) JAL operates to 72 destinations across Asia, Europe and North America. JAL has announced an intention to increase its capacity on international routes by 25% over the next 5 years;
- i) Thai Airways operates to 71 destinations across Europe, North America and Asia. In June 2012, the airline announced expansion plans for services to Europe, including potential new routes to Manchester, Berlin and Vienna; and
- j) Korean Air operates to 109 destinations across Asia, the Middle East, Europe and America. Korean Air has been expanding its network, including new services to London Gatwick, Urumqi and Nairobi in the first half of 2012.

By contrast, Qantas International currently operates flights to 21<sup>27</sup> destinations in the Pacific, Asia, Europe, the Americas and Africa and, as described further below, is continuing to contract its network.

The mid-point carriers all have large and growing fleets as evidenced by Table 1 below:<sup>28</sup>

**Table 1: Fleet Size And Firm Aircraft Orders Of Mid-Point Carriers**

Carrier	Fleet Size	Order Book
Singapore Airlines	102	64 aircraft on firm order
Cathay Pacific	134	95 aircraft on firm order
Etihad	65	92 aircraft on firm order
Qatar Airways	110	184 aircraft on firm order
China Southern	382	134 aircraft on firm order
Air China	287	186 aircraft on firm order
China Eastern	309	136 aircraft on firm order
Malaysia Airlines	115	27 aircraft on firm order
JAL	127	44 aircraft on firm order
Thai Airways	93	35 aircraft on firm order
Korean Air	148	57 aircraft on firm order

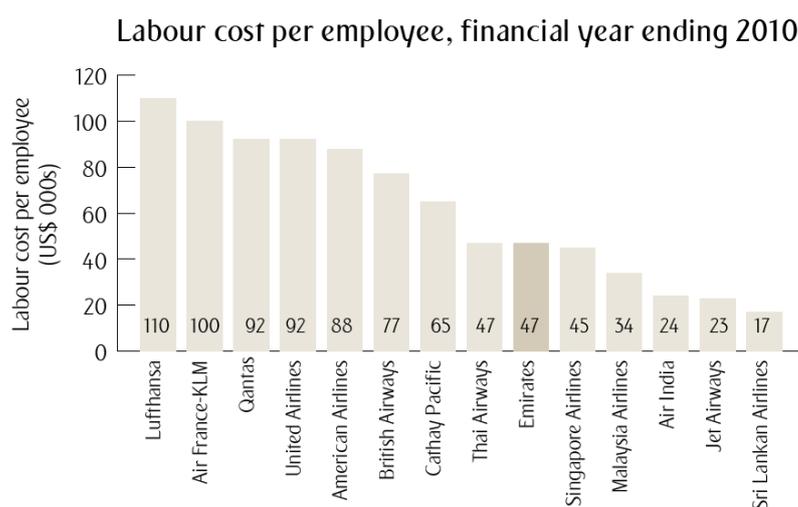
<sup>27</sup> If Jetstar is included then the total number of international destinations serviced is 26.

<sup>28</sup> See competitor summaries in Annexure F.

Carrier	Fleet Size	Order Book
Garuda Indonesia	81	40 aircraft on firm order

Another major advantage of mid-point carriers in Asia and the MENA Region is the ability to operate with materially lower labour costs. There are significant regional differences between the shares of labour costs within total operating costs. Figure 1 below shows average labour costs per employee for 14 airlines, including Emirates and Qantas. This highlights the disparities between airlines based in Europe, North America and Australia, on the one hand, and Asia and the Middle East on the other.<sup>29</sup>

**Figure 1: Labour Cost Per Employee Of Selected Carriers, Financial Year Ending 2010**



Source: Oxford Economics, airline annual reports

Labour costs averaged US\$94,575 per employee for the first six airlines from Europe. Australia and North America, with labour costs averaging around half this amount for the remaining eight airlines (US\$49,510).

An alternative measure of the labour cost disparity is the proportion of labour costs as a percentage of total revenue or operating costs. For the financial year ending 31 March 2012, Emirates' labour costs accounted for only 13% of total revenue,<sup>30</sup> while Qantas' comprised 25.1%.<sup>31</sup>

Table 2 below shows that in 2008 labour accounted for 22-25% of airline operating costs in North America and Europe, but only 14.7% in Asia Pacific, reflecting the relatively lower wage level in that region.<sup>32</sup>

<sup>29</sup> 'Airlines and subsidy: our position', Emirates, p. 17, [www.emirates.com/us/english/about/public\\_affairs/subsidy\\_myths\\_facts.aspx](http://www.emirates.com/us/english/about/public_affairs/subsidy_myths_facts.aspx) (accessed 7 August 2012).

<sup>30</sup> For the financial year ending 31 March 2012, calculated as labour costs as a percentage of total revenue (AEDm) from Emirates Annual Report 2011-2012, p 13. Available: [http://www.emirates.com/au/english/about/investor\\_relations/investor\\_relations.aspx](http://www.emirates.com/au/english/about/investor_relations/investor_relations.aspx)

<sup>31</sup> For the financial year ended 30 June 2011, calculated as labour costs against total revenue and other income from the Qantas Annual Report 2011.

<sup>32</sup> IATA Economic Briefing: Airline Fuel and Labour Cost Share, February 2010. Available: [www.iata.org/whatwedo/Documents/economics/Airline\\_Labour\\_Cost\\_Share\\_Feb2010.pdf](http://www.iata.org/whatwedo/Documents/economics/Airline_Labour_Cost_Share_Feb2010.pdf) (accessed 7 August 2012).

**Table 2: Labour Costs As A Share Of Airline Operating Costs By Region**

Region	2001	2008
North America	36.2%	21.5%
Europe	27.2%	24.8%
Asia Pacific	17.2%	14.7%
All Major Airlines	28.3%	20.1%

These various structural advantages enable mid-point carriers to be highly competitive and commercially viable despite the challenging characteristics of the global aviation industry.

### 2.3 Proliferation Of Alliances

As described in Annexure D, the international aviation industry is characterised by high fixed costs, persistent excess capacity and returns below the cost of capital. While such characteristics would ordinarily compel firms to consolidate or exit, there are reasons why neither outcome eventuates. The regulatory impediments to consolidate (or exit), coupled with the regulatory framework and the economic need to offer a broad network proposition in an increasingly competitive industry, have resulted in a growing number of international airlines forming strategic alliances.

The following recent airline arrangements involving Australasian carriers and services demonstrate that airline cooperation is a legitimate and essential way for airlines to remain viable in the face of rising costs and intense global competition:

- a) a joint venture between the Virgin Blue Group and Delta covering trans-Pacific routes in 2009;<sup>33</sup>
- b) the Restated Joint Services Agreement (**JSA**) between Qantas and British Airways (**BA**)<sup>34</sup> in 2010;<sup>35</sup>
- c) an alliance between Virgin Blue and Air New Zealand covering New Zealand and Australia in 2011;<sup>36</sup>
- d) an alliance between Virgin Blue and Etihad in 2011;<sup>37</sup>
- e) a Joint Business Agreement between Qantas and American Airlines (Inc) in relation to trans-Pacific routes in 2011;<sup>38</sup>

<sup>33</sup> ACCC Determination in relation to a Applications for Authorisation lodged by Virgin Blue Group and Delta Air Lines Inc in respect of a joint venture between the applicants (A91151, A91152, A91172 & A191173), 10 December 2009.

<sup>34</sup> The parent company of BA is International Airlines Group (IAG), which also owns Iberia. The JSA will cease before the commencement of Qantas services to Europe via Dubai. It is possible that Qantas may continue to codeshare on certain services operated by BA to ports to which Emirates does not operate, however there will not be any price or capacity coordination between Qantas and BA in respect of any routes following the termination of the JSA.

<sup>35</sup> ACCC Determination in relation to Applications for Authorisation lodged by Qantas and British Airways plc in respect of a Joint Services Agreement between the applicants (A91195 & A91196), 31 March 2010.

<sup>36</sup> See 'Trans Tasman alliance gets green light' Minister of Transport Media Release 21 December 2010. Available: <http://www.beehive.govt.nz/release/trans-tasman-air-alliance-gets-green-light> See also: ACCC Determination in relation to Applications for Authorisation lodged by Virgin Blue Airlines Pty Ltd and Others in respect of an alliance between the applicants (A91227 & A91228), 16 December 2010.

<sup>37</sup> ACCC Determination in relation to Applications for Authorisation lodged by Virgin Blue Airlines Pty Ltd and Others in respect of an alliance between the applicants (A91247 & A91248), 3 February 2011.

<sup>38</sup> As authorised by the Minister on 26 September 2011. See also: ACCC Determination in relation to Applications for Authorisation lodged by Qantas and American Airlines in respect of a Joint Business Agreement between the applicants (91265 & A91266), 29 September 2011.

- f) an alliance between Virgin Australia and Singapore Airlines in relation to Australia-Singapore services in 2011;<sup>39</sup>
- g) a commercial cooperation agreement between Etihad and airberlin PLC in 2012;<sup>40</sup>
- h) an affiliation agreement between Emirates and flydubai in 2012;<sup>41</sup> and
- i) arrangements between the Star Alliance members to coordinate in relation to conventions and corporate dealing in 2012.<sup>42</sup>

Virgin Australia's strategic alignment with Air New Zealand and two mid-point carriers in Singapore Airlines and Etihad has created a 'virtual network' which addresses the disadvantages of being an end-of-line carrier and the regulatory restrictions in the aviation industry described in Annexure D.

The Proposed Conduct will take place in the context of these global industry trends.

### 3 RATIONALE FOR THE PROPOSED CONDUCT

#### 3.1 Emirates' Rationale

New Zealand is a key part of the Emirates network, which is connected via Dubai to many destinations and regions not directly served by any New Zealand carrier. Emirates launched services to New Zealand in August 2003 and currently operates three daily services from Dubai to Auckland and one daily service to Christchurch, all via points in Australia, which also assists with optimising utilisation of Emirates' fleet and the achievement of cost efficiencies. In the period 2008-2009 to 2011-2012, Emirates carried over 3 million passengers on its New Zealand flights.<sup>43</sup> In 2010-2011, New Zealand traffic grew by 7% to over 791,000 passengers, while freight volumes increased to over 38,600 tonnes. Total expenditure by Emirates in New Zealand topped NZ\$668 million at the end of financial year 2010-2011.

The Proposed Conduct will materially facilitate scheduling optimisation and increased connectivity on Emirates' trans-Tasman services and will enable Emirates to build on the Qantas Group's business in New Zealand and frequent flyer proposition by accessing high-yielding New Zealand domestic corporate and government travellers. This will be facilitated by creating the ability for Emirates to market to Qantas Frequent Flyer (QFF) members (over **[RESTRICTION OF PART OF PUBLICATION CLAIMED]** of whom are New Zealand residents) and for QFF high value members to fly Emirates while still benefitting from the QFF program. The Proposed Conduct will give Emirates' worldwide sales force better access to sell to and from New Zealand, particularly by being able to offer more seamless travel to cities served by Qantas and Jetstar, such as Wellington, Dunedin and Queenstown.

The Proposed Conduct will allow Emirates to place its code on Qantas' trans-Tasman services, meaning that Emirates will be able to market a larger number of New Zealand destinations to international travellers and will effectively increase its frequencies across the Tasman. In particular, the Proposed Conduct will enable Emirates to sell and market services to Wellington via the codeshare on Qantas operated services to that port – Emirates cannot operate services to Wellington as larger aircraft such as the A380 cannot land at that airport.

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<sup>39</sup> ACCC Determination in relation to Applications for Authorisation lodged by Virgin Blue Airlines Pty Ltd and Singapore Airlines in respect of an alliance between the applicants (A91267 and A91268), 1 December 2011.

<sup>40</sup> ACCC Determination in relation to Applications for Authorisation lodged by Etihad Airways and airberlin in respect of a commercial alliance (A91307 and A91308), 25 July 2012.

<sup>41</sup> ACCC Determination in relation to Applications for Authorisation lodged by Emirates and flydubai in respect of an affiliation agreement (A91298 and A91299), 25 July 12.

<sup>42</sup> ACCC Determination in relation to Application for Authorisation lodged by Air New Zealand on behalf of the members of the Star Alliance in respect of Star Alliance's Corporate Plus, Conventions Plus and Meetings Plus Programs (A91300-A91306), 25 July 2012.

<sup>43</sup> Emirates - A Friend of New Zealand, 2011.

The Proposed Conduct will also enable Emirates to actively promote secondary cities within New Zealand (which are served by the Qantas Group-operated domestic services) under the Emirates brand, particularly in the MENA Region where Qantas has limited reach today. This additional capability will be key for developing corporate business opportunities in New Zealand secondary cities.

Emirates has long held the view that joining one of the three established airline marketing alliances (Star Alliance, oneworld or SkyTeam) would not suit its purposes or business model. This remains the case. However, this does not mean that Emirates is opposed to codeshares or cooperation arrangements at a bilateral level, particularly in key countries with large geographies, populations or other unique market characteristics. In fact, Emirates sees important differences between membership of global marketing alliances and more focused, targeted bilateral relationships like the Proposed Conduct. Such bilateral relationships can benefit consumers, providing more seamless travel by connecting smaller cities to major routes and hubs.

Over the longer term, the Proposed Conduct will also result in operational efficiencies and cost savings which will allow Emirates to enhance and expedite its long term capacity growth in New Zealand and Australia than would otherwise be the case.

### 3.2 Qantas' Rationale

In light of the competitive dynamics of the international aviation industry and the structural advantages enjoyed by mid-point carriers outlined above, Qantas International is simply unable to compete or operate profitably in the markets where these mid-point carriers operate. Qantas International has embedded structural cost disadvantages compared to other international carriers, which benefit from favourable tax regimes, lower labour costs and government funded infrastructure.

For many years Qantas International has been in terminal decline and has been supported by the other profitable Qantas businesses (Qantas Domestic, QFF and Jetstar) but its losses have continued to grow, with a A\$450 million loss in fiscal year 2012.<sup>44</sup> The growing magnitude of the losses cannot continue.

Route specific EBIT reports show that trans-Tasman routes are among those making significant losses, as set out in Confidential Figure 2 below.

#### **Confidential Figure 2: Underlying EBIT For Selected Qantas International Routes, Financial Year Ending 30 June 2012**

#### **[RESTRICTION OF PART OF PUBLICATION CLAIMED]**

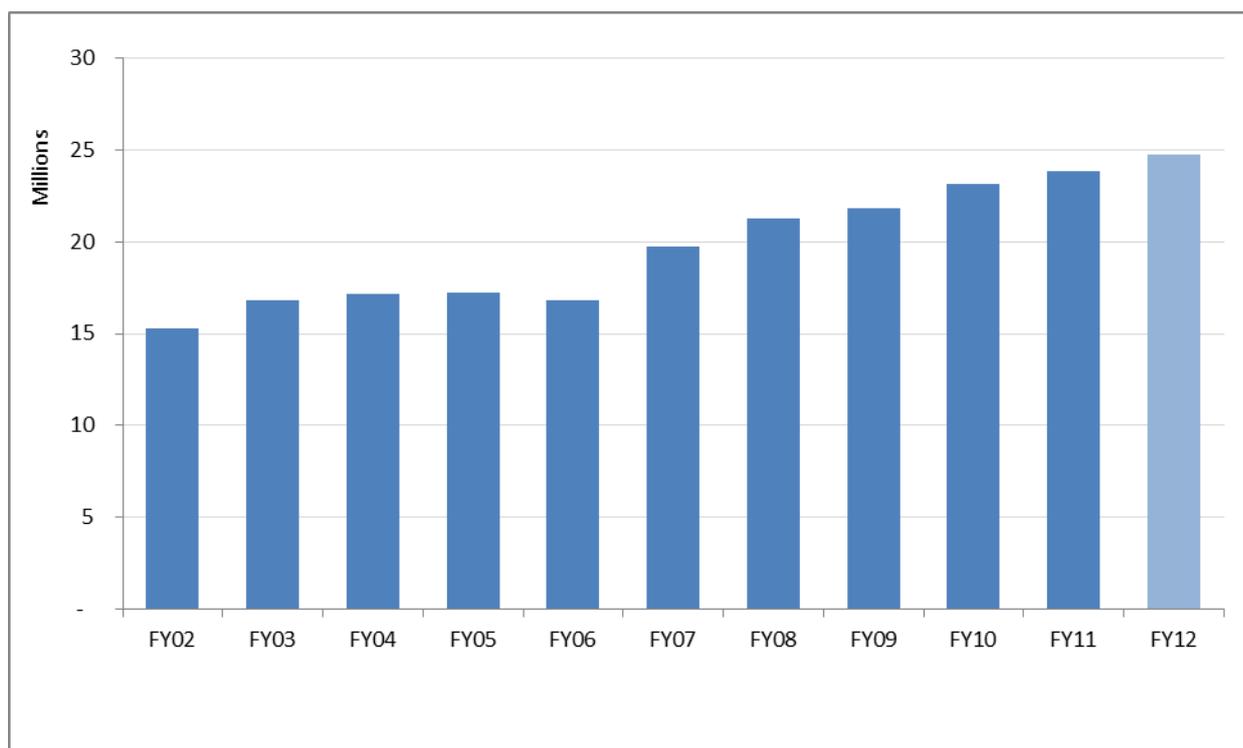
Qantas International operates in a highly competitive and dynamic industry without the geographic, regulatory and economic advantages enjoyed by many other international airlines. Unlike the mid-point ports outlined above, Australia has no natural hub or geographic advantage. Similarly, New Zealand is a considerable distance from larger markets and is not a hub to any other destination. Apart from the trans-Tasman and the Pacific Islands, almost all international services from Australia and New Zealand are considered to be long or ultra-long haul operations. The aircraft required to operate these services are the largest, most expensive twin aisle aircraft. In particular, to service destinations in Europe, it is necessary to operate via a mid-point to pick up fuel and new operating crew. Given these structural disadvantages, Qantas has continued to contract its international operations.

As the Figures below demonstrate, despite international passenger traffic to and from Australia growing, the Qantas Group's share has declined while those of Cathay Pacific, Emirates, Etihad, Virgin Group, China Southern and China Eastern have all increased.

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<sup>44</sup> Qantas Group CEO Alan Joyce Speech, Qantas Group Full Year Financial Results, 23 August 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/aug-2012/5441/global/en> and Qantas Group ASX Announcement, Qantas Group Profit Update, 5 June 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/jun-2012/5406/global/en>

**Figure 3: Growth In International Passengers To/From Australia**



Source: BITRE. Note that the compound annual growth rate to end of financial year 2012 is 5%.

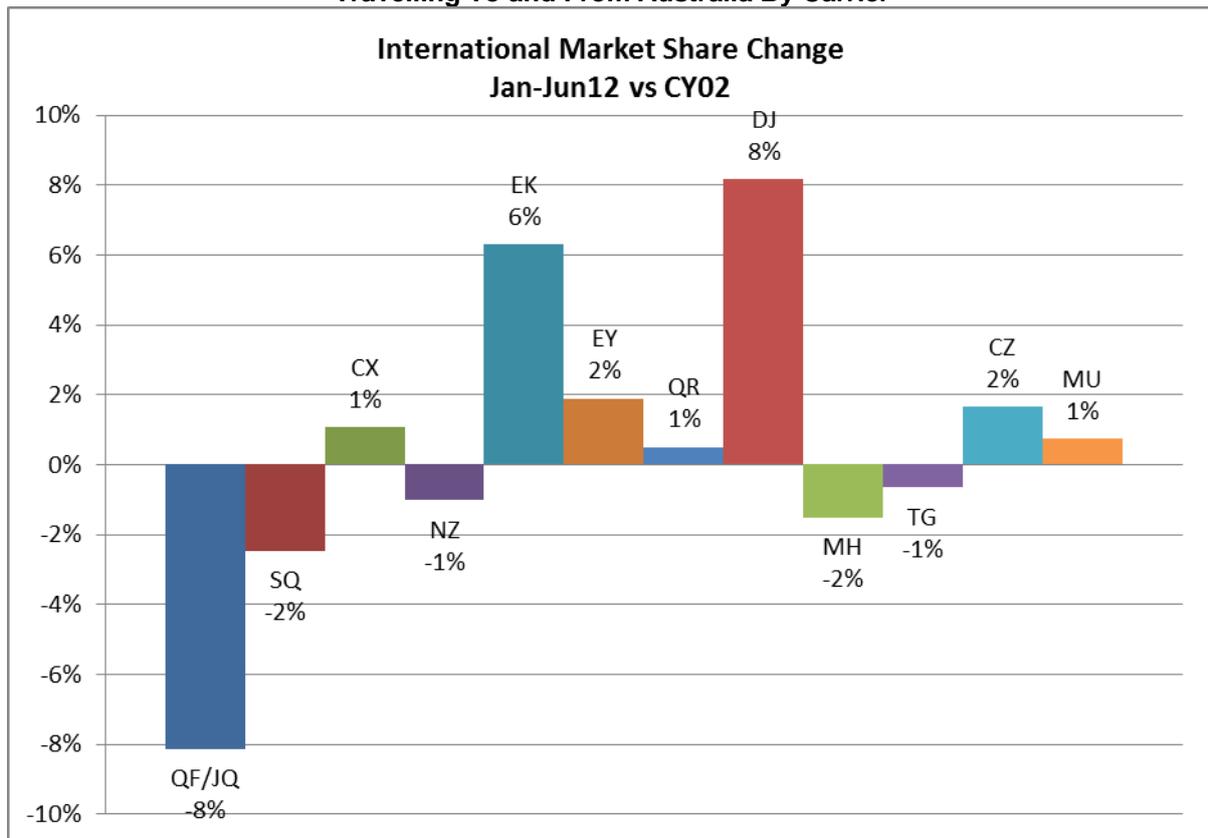
**Table 3: Share of International Passengers Travelling To and From Australia By Carrier**

Carrier	CY02	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jan-Jun12
<b>Qantas International</b>	36%	33%	31%	29%	29%	28%	26%	22%	20%	19%	19%
<b>Jetstar</b>	0%	0%	0%	0%	2%	5%	6%	8%	8%	8%	8%
<b>Singapore Airlines*</b>	12%	11%	10%	10%	11%	11%	11%	10%	9%	9%	9%
<b>Cathay Pacific</b>	4%	4%	4%	4%	5%	5%	5%	5%	5%	5%	5%
<b>Air New Zealand*</b>	9%	9%	8%	9%	9%	9%	9%	8%	8%	8%	8%
<b>Emirates</b>	2%	3%	5%	6%	7%	7%	7%	8%	8%	8%	8%
<b>Etihad*</b>	0%	0%	0%	0%	0%	0%	1%	2%	2%	2%	2%
<b>Virgin Group*</b>	0%	0%	2%	2%	3%	3%	4%	7%	9%	9%	8%
<b>Malaysia Airlines</b>	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%	4%
<b>Thai Airways</b>	4%	4%	4%	3%	3%	4%	4%	4%	3%	3%	3%
<b>China Southern</b>	0%	0%	0%	1%	1%	1%	1%	1%	1%	2%	2%
<b>China Eastern</b>	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b>Other</b>	28%	30%	31%	30%	25%	22%	21%	22%	22%	22%	21%

Source: BITRE. Note: Jetstar includes Jetstar Asia. Virgin includes V Australia, Pacific Blue and Polynesian Blue

\*Virgin Australia has bilateral cooperation arrangements with each of Air New Zealand, Etihad and Singapore Airlines. This provides Virgin Australia with a virtual global network.

**Figure 4: Change In Share of International Passengers Travelling To and From Australia By Carrier**



Source: Based on BITRE data. Note: Jetstar includes Jetstar Asia. Virgin includes V Australia, Pacific Blue and Polynesian Blue.

While Qantas has been successful in expanding its Jetstar low cost model internationally, including in some instances entering routes previously or concurrently operated by Qantas (for example, the trans-Tasman), this does not address the disadvantages of Qantas International's business model, given that it is a full service carrier which aims to appeal to high yielding corporate, government and premium leisure traffic.

Various measures to improve Qantas International's offering (such as the launch of more flagship A380 aircraft, investment in new international lounges and in-flight entertainment systems) have not halted the loss of passenger share.

In August 2011, Qantas announced a range of cost saving measures including withdrawing from loss-making routes, transforming Qantas Engineering operations and reducing capital investment. Key structural and operational changes, designed to improve profitability, included:<sup>45</sup>

- a) replacing Sydney-Buenos Aires services with Sydney-Santiago services in March 2012;
- b) replacing Qantas operated London-Bangkok and London-Hong Kong services with BA operated services in March 2012;
- c) withdrawing Singapore-Mumbai and Auckland-Los Angeles services in May 2012;

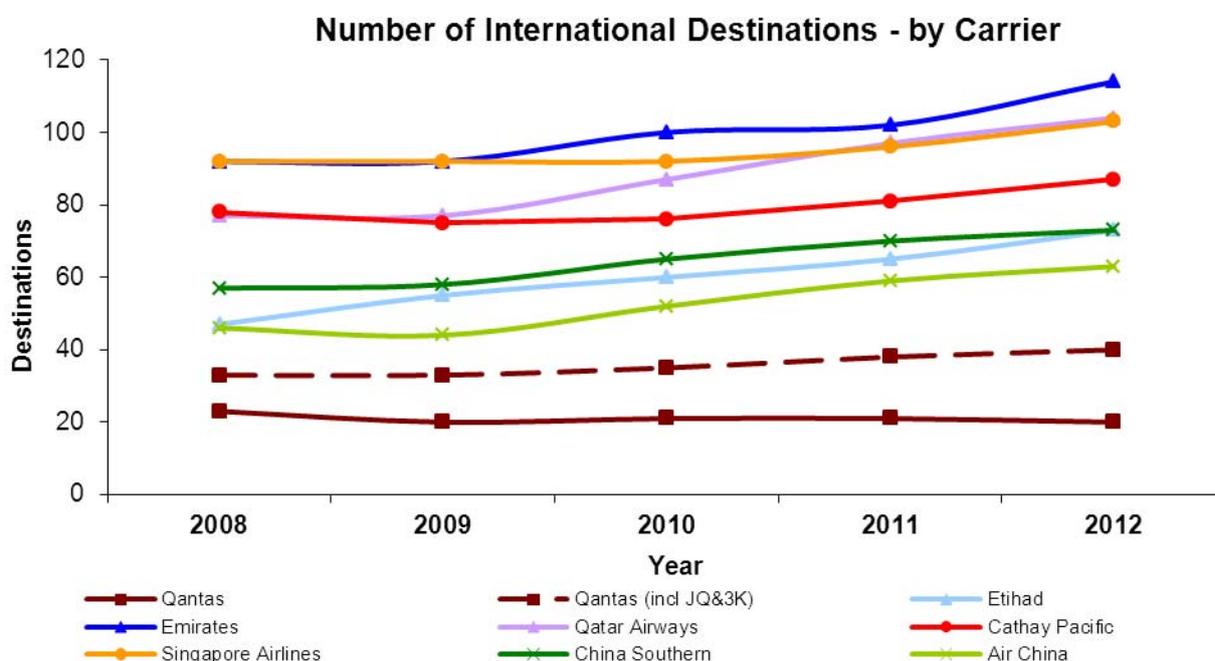
<sup>45</sup> Qantas Group: Qantas Airways Ltd Half-Year Results, 16 February 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/feb-2012/0000/global/en>

- d) replacing Boeing B747 aircraft with Airbus A330 aircraft on Sydney-Bangkok services in June 2012;
- e) replacing Airbus A330 aircraft with Boeing B737-800 aircraft on Sydney-Auckland services in May 2012; and
- f) retiring two Boeing B747s in addition to the four that retired in April 2012.

Qantas has since taken further steps to reduce capital expenditure by A\$400 million in 2012-2013 in addition to the A\$500 million reduction announced in February 2012,<sup>46</sup> to be achieved through changes to the Qantas Group's fleet plan, including deferring delivery of two Airbus A380s previously intended for delivery in early 2013.<sup>47</sup> In August 2012, Qantas announced a restructured fleet plan and the cancellation of orders for 35 Boeing B787-9 aircraft, as a way of further reducing capital expenditure.<sup>48</sup> Notwithstanding these initiatives, increasingly negative returns continue to threaten the Qantas International business.

During this time, the Qantas International business has continued to lose money and contract. As Figure 5 below demonstrates, Qantas International has reduced its network reach, while other mid-point carriers have expanded.

**Figure 5: Qantas' International Network Relative To Other Carriers**



Source: Internal Qantas Estimates, July 2012. Note Cathay Pacific includes Dragonair and Singapore Airlines includes SilkAir and Scoot.

If Qantas International cannot reach appropriate commercial arrangements with structurally advantaged alliance partners, it will have no choice but to continue to materially contract its operations and will, over time, only operate to a very small number of ports where it is competitive and can make an appropriate return on capital. This will not include Europe.

<sup>46</sup> Qantas Group: Qantas Group Strategy Update, 4 May 2012. Available: <http://www.qantas.com.au/travel/airlines/media-releases/may-2012/5393a/global/en>

<sup>47</sup> These aircraft will now be delivered in 2016-2017.

<sup>48</sup> 'Qantas Group Restructures Fleet Plan', Qantas Media Release, 23 August 2012. Available: <http://www.asx.com.au/asxpdf/20120823/pdf/4286925t854j6x.pdf>

At this point, Qantas International only operates three daily services to Europe, two to London and one to Frankfurt (compared to five daily flights six months ago). Qantas will discontinue its Frankfurt service irrespective of whether the Proposed Conduct is implemented. Absent the ability to coordinate with one of the mid-point carriers, Qantas International's current European network will continue to contract, with one of the daily London services possibly being withdrawn in the short term. In addition, unless Qantas has the ability to recover its cost of capital over an appropriate period, it will not be possible to invest in new aircraft for Qantas International. If Qantas International can no longer sustain its network because of low returns, then this has potential to undermine its ability to compete as a legitimate network airline.

In this context, the Proposed Conduct is an urgent strategic imperative for Qantas. Emirates has a proven record of profitably growing its international services from its strategically located hub in Dubai. Its significant advantages over Qantas include its advantageous geographic location, 24 hour Dubai hub and its considerably lower cost base.

Emirates' network will provide Qantas passengers with far greater opportunities to earn and redeem frequent flyer points, in addition to improving connectivity and choice when travelling to Europe or the MENA Region. Qantas will also benefit from more non-Australasian passengers connecting to the Qantas Group's domestic, trans-Tasman and other international services.

Without the Proposed Conduct, Qantas is likely to become increasingly marginalised, with its only option to exit from more underperforming routes. In the absence of authorisation, it is likely that in the medium to long term Qantas will retreat to a 'virtual network' rather than an operating network.

#### **4 THE PROPOSED CONDUCT**

The Applicants entered into the Coordination Agreement on 6 September 2012 (see Confidential Annexure G). Under the Coordination Agreement, the Applicants will cooperate across their global networks for an initial term of ten years. The Coordination Agreement provides for the Applicants to co-ordinate broadly across their passenger and freight operations, 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;
- d) codeshare and interline arrangements;
- e) control of inventories and yield management functions;
- f) frequent flyer programs;
- 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) potentially joint offices for sales activities;

- l) potentially other aspects of operations including ground handling, catering, joint procurement and flight operations;
- m) where appropriate and mutually agreed, making joint applications to authorities on operational matters; and
- n) services and activities that are required to facilitate any of the matters referred to in any of paragraphs (a) to (m).<sup>49</sup>

The exact scope of the Proposed Conduct will evolve and may be altered from time to time. The Applicants have broadly identified certain routes in relation to which flying operations will be coordinated from the outset – these are defined as Trunk, Codeshare and Interline Routes. The Proposed Conduct may also include interlining and, at a later stage, codesharing on Jetstar-branded services where appropriate.

For the avoidance of any doubt, the parties will engage in price and capacity coordination in relation to all of the Trunk, Codeshare and Interline Routes.

The Trunk Routes (which will be subject to benefit transfer payments and may vary from time to time) are set out in Tables 4 and 5 below.

**Table 4: Coordination Agreement – Qantas Trunk Routes**

Route Type
Australia to any destination (via Dubai), including Sydney-Dubai-London Heathrow and Melbourne-Dubai-London Heathrow
Australia to Dubai (including via any intermediary point)

**Table 5: Coordination Agreement – Emirates Trunk Routes**

Route Type
Dubai to any point in Australia (including via any intermediary point)
Dubai to any destination via Australia, including Dubai-Sydney-Auckland, Dubai-Brisbane-Auckland, Dubai-Melbourne-Auckland and Dubai-Bangkok-Sydney-Christchurch

Where possible, Qantas and Emirates will enter into freesale codeshare arrangements. The intention of the Applicants is that they will sell tickets on codeshare services without preference for which Applicant is the operating carrier, provided that each marketing carrier communicates to potential consumers the identity of the operating carrier.<sup>50</sup> In relation to any route on which it is not legally possible to codeshare, the Applicants will enter appropriate interline agreements.

The model of coordination will optimise the operating performance of both Qantas and Emirates under the Coordination Agreement and will help to optimise the Applicants' financial performance. As described further below, over the longer term efficiencies and cost savings will be generated where selling is conducted on the basis of metal neutrality, schedules and airport slots are coordinated, inventory and yield management is integrated and load factors are optimised.

<sup>49</sup> See clause 2.3 of the Coordination Agreement in Confidential Annexure G.

<sup>50</sup> See clause 7.2(b) of the Coordination Agreement in Confidential Annexure G.

## 5 APPROPRIATE FRAMEWORK FOR COMPETITION ASSESSMENT

### 5.1 Introduction

The Applicants operate in a highly competitive industry in which carriers (independently and through alliances) aggressively pursue global strategies. The critical question for the competition assessment is whether the Proposed Conduct would hinder competitors, in any way, from pursuing their regional or global strategies. For the reasons set out in this application, the answer is that it would not. For example, in commenting on media speculation regarding the Proposed Conduct, Etihad's CEO James Hogan stated that any potential arrangement between Qantas and Emirates would not derail his airline's expansion plans in Australia.<sup>51</sup>

### 5.2 The Proposed Conduct In The Context Of Global Competitive Dynamics

For the purposes of assessing the Proposed Conduct, it is not necessary to define the relevant market or markets with precision. This is because the fundamental level of competitive activity, or the competitive process, remains unchanged regardless of market boundaries.<sup>52</sup>

The competitive effects of the Proposed Conduct will take place in the context of the following global dynamics and economic realities:

- a) the large expansion of size and reach of many carriers' networks, with the largest expansions by carriers that have the material structural advantages identified in section 2.2;
- b) the large expansion of fleet size and order books of many carriers, with the largest order books being for carriers that have the material structural advantages identified in section 2.2. Of all IATA member airlines worldwide, 4,944 aircraft are on order for delivery from 2013 (of which 179 are wide-bodied Airbus A380 aircraft and 705 are new generation Boeing 787 aircraft), with delivery of 798 aircraft due in 2012 alone.<sup>53</sup> Asia Pacific airlines account for the largest share of aircraft orders;<sup>54</sup>
- c) the increasing numbers and sizes of airports and passenger volumes. For example, Beijing Capital Airport is expanding rapidly and is currently ranked as the world's second largest airport, with a total of 77.4 million passengers, 4.7% more than in 2010.<sup>55</sup> Other Chinese airports are also expanding rapidly. The Civil Aviation Administration of China reportedly says the country plans to build 80 new airports by 2017 to speed up air transport development.<sup>56</sup> The plan comes on the back of a blueprint issued by the Chinese State Council, which aims for the country to have 230 airports by the year 2017, with the majority in regional centres. More than 80% of China's population of over 1.3 billion will live within 100km of an airport once completed;<sup>57</sup>
- d) the increasing competition between mid-point hubs and mid-point carriers. As discussed in section 2.2 above, there are a number of strategic advantages for airlines and airports due to geographic location, including the number of one-stop connections that mid-point carriers are able to offer by virtue of being within relatively short flying distances of the world's population centres;

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<sup>51</sup> Etihad CEO James Hogan cited in 'Foreign Airlines Up Pressure On Qantas With More Flights' in *Sydney Morning Herald*, 16 August 2012. Available: <http://www.smh.com.au/business/foreign-airlines-up-pressure-on-qantas-with-more-flights-20120815-248zv.html> (accessed 16 August 2012).

<sup>52</sup> In relation to the market definition for international air freight transportation services, without prejudice to any current or future court proceedings, the Applicants are prepared to proceed in this application on the basis that the relevant markets for air freight services are the regional markets between New Zealand and Australia, Europe, the MENA region and other regions that may be relevant to the Proposed Conduct (eg Asia).

<sup>53</sup> *World Air Transport Statistics 56<sup>th</sup> Edition 2011*, IATA, July 2012, p 57.

<sup>54</sup> 'Global Aviation Trends: Airlines' in *Aviation Intelligence Report*, InterVistas, June 2012, p 3.

<sup>55</sup> *World Air Transport Statistics 56<sup>th</sup> Edition 2011*, IATA, July 2012, p 45.

<sup>56</sup> '80 new China airports' in *Travel Daily* 26 July 2012.

<sup>57</sup> *Ibid.*

- e) economies of density, which make hub and spoke arrangements the most efficient way to offer as broad a range of interconnecting longer-haul locations as possible. Mid-point hubs and mid-point carriers are best placed to take advantage of economies of density; and
- f) technological developments and innovation that make non-stop long-haul commercially viable. For example, using ultra long-range aircraft such as the Boeing B777-200LR, it is possible for mid-point carriers to serve New Zealand non-stop at competitive unit costs from their hubs.

These global factors drive competition between international airlines on a day to day basis and have a direct bearing on regional and local operations and business models. Detailed summaries of the operations, expansion plans, partnerships and alliances of Qantas and Emirates' key international competitors are set out in Annexure F.

In addition, various alliance and codeshare arrangements enable many of the carriers mentioned above to connect with multiple airline partners who do not directly serve various New Zealand destinations. For example, Lufthansa and SAS both connect to New Zealand services operated by Singapore Airlines from Singapore. Other carriers that serve New Zealand via codeshares rather than operating direct services include American Airlines, Air Canada, British Airways, Etihad, KLM, Lufthansa, Asiana Airlines, Turkish Airlines, United Airlines, All Nippon Airways, Austrian Airlines and Air China.

In this global context, the Proposed Conduct will have no detrimental impact on real competitive dynamics.

### 5.3 Limited Utility Of Market Share Data

In a fast changing industry like international aviation, market share data is backward looking, static and often quickly out-dated such that it does not reflect the true state of competition. This is particularly the case given the significant changes that have occurred in the aviation industry over the last 18 months.

Moreover, when assessed in isolation, relatively large market shares on particular city pair routes present a misleading impression of the true state of competition. As the Australian Competition and Consumer Commission (**ACCC**) and the Australian Competition Tribunal (**Tribunal**) have both acknowledged, while market share is an important element of any competition assessment, it does not necessarily reveal (in and of itself) that firms holding such shares will be able to act in a way to cause competitive detriment.<sup>58</sup>

The Tribunal has noted:

*'It is a simple exercise to take a snapshot of a market at a moment in time and see a combined market share of 80 per cent. However, such a snapshot tells us nothing about the conduct in the market leading to that market share, or about the potential interaction in that market with other competitors within the market who have either recently entered it or who have recently commenced an expansion of their activities in it.'*<sup>59</sup>

*'Market share tells us nothing about future competitive initiatives and outcomes in the market.'*<sup>60</sup>

*'Further, although market share can be a significant factor in determining the extent of competition in a market, we believe that prime attention must be paid to market conduct. A structuralist approach that focuses heavily on an increase of market power by using market share as a proxy to assess market power fails to assess the whole picture. If competition is a*

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<sup>58</sup> ACCC Draft Determination in relation to Applications for authorisation lodged by Qantas Airways Limited and Air New Zealand Limited in relation to the Tasman Networks Agreement (A91001, A91002 and A91003) dated 3 November 2006 (**Draft Air New Zealand/Qantas Determination**), para 9.15.

<sup>59</sup> *Re Qantas Airways* [2004] ACompT9 (12 October 2004), para 430 (**Re Qantas Airways Limited**).

<sup>60</sup> *Ibid*, para 431.

*process, then there must be significant, and on one view primary, focus on conduct and behaviour. Strategic behaviour is thus a significant analytical tool for market analysis...*<sup>61</sup>

*'In particular competition analysis demands an assessment of what barriers to entry and expansion exist in a market in order to discover what constraints operate to affect the behaviour of participants in the market.'*<sup>62</sup>

Competition is a long-run phenomenon and in a competition assessment 'significant consideration should be given to predictions of dynamic changes and competitive initiatives in the future by rival firms.'<sup>63</sup>

## **6 NO ADVERSE IMPACT ON CONSUMERS**

### **6.1 Overview of Relevant Routes**

The Applicants operate largely complementary networks. In respect of New Zealand, the Applicants operate overlapping, direct services from:

- a) Auckland to Sydney, Melbourne and Brisbane; and
- b) Christchurch to Sydney.

The Proposed Conduct will not result in a lessening of competition on the trans-Tasman. The analysis below highlights that there will be no competitive detriment arising from the Proposed Conduct in respect of either passenger or freight (belly hold freight and dedicated freighter aircraft) services because:

- a) the Proposed Conduct will have pro-competitive effects because it will prompt a further round of competitive responses from rivals, incentivise and expedite Emirates' growth in New Zealand and Australia and assist Qantas to maintain services that would otherwise be marginal and/or withdrawn;
- b) the Applicants will continue to be disciplined by rivals who are already acting as effective constraints on highly competitive routes;
- c) the Applicants will remain constrained by low barriers to entry and expansion; and
- d) the conditions for coordinated effects between competing airlines or alliances are absent.

Both Qantas and Emirates will also fly from New Zealand to London,<sup>64</sup> Singapore and Bangkok but these are indirect services via Australia (being a two-stop service via Sydney or Melbourne and Dubai in the case of London, a one-stop service via Melbourne or Brisbane in the case of Singapore, and a one-stop service via Sydney in the case of Bangkok). Jetstar Asia flies between Auckland and Singapore.

In relation to services between New Zealand and Europe, these routes are highly competitive and operated by a number of carriers via various mid points, often on one-stop itineraries (including Air New Zealand via either Hong Kong or Los Angeles, Singapore Airlines via Singapore, Cathay Pacific via Hong Kong, Malaysia Airlines via Kuala Lumpur and Korean Air via Seoul).

In relation to New Zealand-Singapore services, direct services are provided by Singapore Airlines (between each of Auckland and Christchurch to Singapore) and indirect services are provided by other carriers including Cathay Pacific flying via Hong Kong and Malaysia Airlines via Kuala Lumpur).

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<sup>61</sup> Ibid, para 438.

<sup>62</sup> Ibid, para 305.

<sup>63</sup> Ibid, para 431.

<sup>64</sup> Although services to Frankfurt are a current overlap, they have not been included given that Qantas' services to Frankfurt will cease irrespective of the Proposed Conduct.

Similarly, in relation to New Zealand-Thailand services, direct services are provided by Thai Airways between Auckland and Bangkok. There is relatively limited network demand for services between New Zealand and Singapore and Thailand evidenced by the fact that even Air New Zealand does not operate services.

For these reasons, New Zealand-Europe and New Zealand-South East Asia services are not considered further in this application.

The Proposed Conduct will result in Qantas and Emirates coordinating on overlapping services between New Zealand and Dubai (via Australia). However, because these are not services which, absent the Proposed Conduct, Qantas operates or would operate, the Proposed Conduct can only facilitate a pro-competitive expansion of capacity on those routes and there cannot be any detriment. Services between New Zealand and Dubai (via Australia) are not considered in further detail in this application other than in the context of the public benefits that this aspect of the Proposed Conduct will deliver.

As described above, the Coordination Agreement contemplates the Applicants cooperating on a global, network wide basis. However, the exact nature and scope of cooperation may change from time to time. In future, the Proposed Conduct may therefore involve coordination between the Applicants on other routes where there are indirect operating overlaps on indirect services (such as between New Zealand and the United States (**US**) or New Zealand and South America). Qantas will continue to operate its authorised joint business with American Airlines on Australia/New Zealand-US routes on a bilateral basis, as authorised by the Minister on 26 September 2011. Qantas will also maintain its bilateral block space codeshare operations with both LAN (to Santiago) and South African Airways (to Johannesburg).

Nevertheless, to preserve maximum flexibility in a rapidly changing international environment, in this application Qantas and Emirates seek authorisation to implement the Proposed Conduct globally, including potentially to the US and South America. Any potential future coordination between Qantas and Emirates to any of these regions will have no competitive detriment in New Zealand, given that:

- a) neither Qantas nor Emirates fly directly from New Zealand to the US or South America and the Proposed Conduct does not in any way alter their ability or incentive to do so; and
- b) any indirect services offered by Qantas and Emirates from New Zealand to the US or South America are not substitutable with each other. While New Zealand passengers may choose to fly to the US or South America via Australia on Qantas operated services, they would not be likely to fly on Emirates operated services to the US or South America via Australia and Dubai.

Accordingly, no competition concerns arise from any such indirect operating overlaps and these routes are not considered further in this application.

## **6.2 Trans-Tasman Overview**

The trans-Tasman routes are:

- a) Auckland-Sydney;
- b) Auckland-Melbourne;
- c) Auckland-Brisbane;
- d) Auckland-Adelaide;
- e) Auckland-Cairns;
- f) Auckland-Perth;
- g) Auckland-Gold Coast;

- h) Auckland-Maroochydhore;<sup>65</sup>
- i) Christchurch-Sydney;
- j) Christchurch-Melbourne;
- k) Christchurch-Brisbane;
- l) Christchurch-Gold Coast;
- m) Wellington-Sydney;
- n) Wellington-Melbourne;
- o) Wellington-Brisbane.
- p) Dunedin-Brisbane;
- q) Hamilton-Brisbane (note that the only operator on this route, Virgin Australia, will cease services from 27 October 2012);
- r) Queenstown-Sydney;
- s) Queenstown-Melbourne;
- t) Queenstown-Gold Coast;
- u) Queenstown-Brisbane; and
- v) Rotorua-Sydney.<sup>66</sup>

As set out above, Qantas and Emirates will only overlap on services between Brisbane, Sydney and Melbourne to Auckland and on services between Sydney and Christchurch.

The trans-Tasman is one of the most open aviation corridors in the world.<sup>67</sup> It was set up as a Single Aviation Market (**SAM**) pursuant to the agreement between the Australian and New Zealand Governments, which has been in operation since 1996. Once an airline has been authorised as a SAM airline, there are no restrictions on capacity, frequency or routes that airlines of either country can operate to, within or beyond the two countries.

Various criteria must be met before an airline can be authorised as a SAM. The carrier must be structured such that:

- a) Australian and/or New Zealand nationals hold at least 50% ownership and effective control;
- b) at least two thirds of the Board members are Australia and/or New Zealand nationals;
- c) the Chairperson of the Board is an Australian or New Zealand national;
- d) the airline's head office is in Australia or New Zealand; and
- e) the airline's operational base is in Australia or New Zealand.

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<sup>65</sup> Seasonal service only from 1 July 2012 – 18 September 2012.

<sup>66</sup> Seasonal services are also operated between Queenstown and each of Melbourne, Brisbane and the Gold Coast.

<sup>67</sup> National Aviation Policy Green Paper. December 2008, p 13, p 104. Available: [http://www.infrastructure.gov.au/aviation/nap/files/Aviation\\_Green\\_Paper.pdf](http://www.infrastructure.gov.au/aviation/nap/files/Aviation_Green_Paper.pdf)

Air New Zealand, Virgin Australia, Qantas and Jetstar operate on the trans-Tasman as SAM airlines.

Fifth freedom carriers (**FFCs**) are permitted to operate on the trans-Tasman under Air Services Agreements (**ASAs**) with Australia and New Zealand. Emirates began operating on the trans-Tasman in August 2003 as a FFC. As noted earlier, Emirates currently operates four daily services on the trans-Tasman.

LAN and China Airlines also operate on the trans-Tasman as FFCs. A number of other carriers, including Singapore Airlines and Etihad, have unexercised fifth freedom rights to operate on the trans-Tasman. Some, such as Thai Airways, Malaysia Airlines and Royal Brunei, have previously operated on the trans-Tasman route and it is reasonable to anticipate that those carriers would consider re-entry given sufficient incentive (such as any exercise of market power by the incumbents). As set out below, by far the most likely new entrants are Etihad and/or Qatar Airways.

### **6.3 Previous Consideration**

Qantas has sought to enter into alliance arrangements on the trans-Tasman in the past.

In 2002, Qantas and Air New Zealand sought authorisation from the ACCC in relation to a proposed acquisition by Qantas of a minority interest in Air New Zealand. The ACCC denied authorisation in September 2003, though this was set aside on appeal to the Tribunal in 12 October 2004. On 23 October 2003, the New Zealand Commerce Commission denied the parties' application for authorisation, a finding that was upheld on appeal to the New Zealand High Court on 17 September 2004. As the parties could not obtain regulatory approval in New Zealand, the alliance was not implemented. Subsequently, in April 2006, Qantas and Air New Zealand sought authorisation from the ACCC for an alliance which envisaged the parties co-operating on all aspects of their respective trans-Tasman networks.<sup>68</sup> The ACCC issued a draft determination in November 2006, proposing to deny authorisation. The parties withdrew the applications in mid November 2006.

The Proposed Conduct can be clearly distinguished from the previous proposals for coordination between Qantas and Air New Zealand, because it does not involve alignment of two otherwise independent SAM carriers who currently impose significant competitive discipline on each other.

### **6.4 Emirates' Limited Presence On The Trans-Tasman**

Emirates' entry on the trans-Tasman has had a pro-competitive effect and improved customer choice, particularly given that it is the only airline to offer wide-bodied, three-class services and particularly given its heavy investment in advertising on both sides of the Tasman.<sup>69</sup>

However, Emirates imposes limited constraint on the Qantas Group on the trans-Tasman. Even with the recent and upcoming additions of A380 capacity, Emirates' relatively small passenger share and low number of destinations and frequencies means that there is limited price competition between Qantas and Emirates. As discussed below, the real competitive rivalry exists between Qantas/Jetstar and Air New Zealand/Virgin Australia.

Emirates is constrained from adding further capacity and frequency to the trans-Tasman because of the scheduling windows for its long haul flights from Australia, the fact that larger long haul aircraft are less suitable for short haul flights (due to the relatively higher operating costs including fuel and cabin crew) and the fact that larger aircraft such as the A380 cannot land at Wellington Airport. Such factors inhibiting further expansion mean that it would at best take some period of time before Emirates could be a viable alternative for time-sensitive passengers.<sup>70</sup> In conditionally approving the

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<sup>68</sup> See generally: Air New Zealand/Qantas Draft Determination.

<sup>69</sup> ACCC's Draft Determination in relation to Applications for authorisation A91001, A91002 and A91003 lodged by Qantas Airways Limited and Air New Zealand Limited in relation to the Tasman Networks Agreement dated 3 November 2006, para 9.203.

<sup>70</sup> ACCC's Draft Determination in relation to Applications for authorisation A91001, A91002 and A91003 lodged by Qantas Airways Limited and Air New Zealand Limited in relation to the Tasman Networks Agreement dated 3 November 2006, para 9.204.

Air New Zealand/Virgin Australia alliance, the ACCC considered that although Emirates acted as a competitive constraint on the alliance, its ability to do so going forward was limited.<sup>71</sup>

The Proposed Conduct will not cause any competitive detriment on non-overlapping routes because it will not alter any incentive that Emirates currently has to operate those routes.

## 6.5 The Proposed Conduct Is Pro-Competitive

The Proposed Conduct is a competitive response to an increasingly challenging and competitive industry particularly given Virgin Australia's new alliances with Air New Zealand, Etihad, Singapore Airlines and Delta and the continued expansion of Singapore Airlines, Cathay Pacific, Etihad, Qatar Airways and the Chinese carriers more generally.

Rather than diluting competition, the Proposed Conduct will elicit a further round of competitive activity. Rather than reducing capacity or decelerating growth, the Proposed Conduct will enable Emirates to extend its network in a way and at a speed that is not otherwise possible. In particular, over the longer term, operational efficiencies and cost savings will expedite Emirates' growth plans, while also assisting Qantas International to maintain capacity where it would otherwise be further rationalised or withdrawn. For example, by increasing domestic feeder traffic options the Proposed Conduct will materially assist Emirates' Melbourne-Auckland services, and may potentially also enable the Applicants to introduce new services from Auckland to Adelaide.

Trans-Tasman services from secondary ports in Australia have historically been marginal at best. By working together, the Applicants can ensure the continued viability of these services. More generally, the Proposed Conduct will facilitate competition by enabling the Applicants to improve service levels and increase frequencies and capacity.

In this way, the Proposed Conduct will enhance the Qantas Group's ability to compete more effectively against Air New Zealand and Virgin Australia (and its partners Etihad and Singapore Airlines) as well as Cathay Pacific, China Southern, China Eastern and Air China. Existing competition between carriers and competing mid-point hub ports will continue once the Proposed Conduct commences. The dynamic growth by major carriers, as outlined above and in Annexure F, shows that they will be able to swiftly respond to the Proposed Conduct with their own competitive offering.

Each percentage share of passengers lost to a competing carrier or competing hub has significant profit implications. The Proposed Conduct will therefore elicit a strong, pro-competitive response from carriers who will fight to retain share that might otherwise be gained by the Applicants' new ability to offer improved services across a wider network at sustainably competitive prices. This will result in more efficient, better quality and lower priced services.

The rivalrous behaviour in the airline industry, and the likelihood that cooperation will trigger a competitive response from other carriers, has been recognised by regulators.<sup>72</sup> For example, the ACCC has recently confirmed that:

*'Generally the ACCC considers that aviation alliances can stimulate competitive responses amongst rivals in the international air passenger transport services market(s) where the alliance enhances the alliance partners' products and results in lower fares (to the extent that the cost savings and other efficiencies...are passed through to customers).'*<sup>73</sup>

This sentiment was repeated in more recent determinations in respect of Etihad/airberlin<sup>74</sup> and the Star Alliance corporate dealing arrangements. In respect of the latter, the ACCC again stated that:

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<sup>71</sup> ACCC Determination Air New Zealand/Virgin Australia Alliance, para 5.266 and para 5.292.

<sup>72</sup> See for example the ACCC Etihad/airberlin Determination, para 3.18-3.20; Star Alliance Determination, para 3.22 -3.24.

<sup>73</sup> Singapore Airlines/Virgin Australia Determination, para 4.61.

<sup>74</sup> Etihad/airberlin Determination, paras 3.18-3.20.

*'The ACCC considers that the enhanced service offering of Star Alliance members under the Programs has the potential to trigger a competitive response from Qantas (and its oneworld alliance partners)...'*<sup>75</sup>

The Proposed Conduct is expected to provoke more competitive fares and product/service offerings from rival carriers on the trans-Tasman, particularly Air New Zealand and Virgin Australia. As the Tribunal has acknowledged in respect of previous coordination proposals, competition for the marginal passenger is likely to benefit the entire trans-Tasman passenger base:

*'The competition for the customer at the margin does not stay with that customer, but those fares necessary to attract the marginal customer will be available to all buyers in the market. The competition for an extra 1% of market share has an advantage and benefit for all passengers who are within a similar passenger profile as the marginal passengers. All customers have the ability to get the same advantage and benefit. Therefore, the competition for the marginal passenger spreads throughout the market.'*<sup>76</sup>

As described further in section 7.6 below, in addition to eliciting increased carrier-carrier and alliance-alliance competition, the Proposed Conduct will also generate increased competition between mid-point hubs, which will in turn benefit New Zealand consumers.

## **6.6 Effective Competitive Constraints**

The trans-Tasman routes are highly competitive. The Applicants will continue to remain constrained by Air New Zealand (whether alone or in conjunction with Virgin Australia), the FFCs and the threat of new entry. For example, the Applicants consider that Qatar Airways could be a potential entrant on trans-Tasman routes in the future, as it has a history of operating multi-sector itineraries.<sup>77</sup> Etihad is another potential entrant on trans-Tasman services, if it amends its current flight schedule.

Air New Zealand is a strong competitor on the trans-Tasman and consistently sets the competitive benchmark for Qantas and Jetstar.

Air New Zealand has commented that its alliance with Virgin Australia has been 'tremendously effective' with its Australian passenger numbers increasing from 100 to 300 passengers per day in 12 months.<sup>78</sup> In July 2012, Air New Zealand and Virgin Australia significantly boosted capacity on direct services between Auckland and Perth, by introducing a larger Boeing B777 aircraft featuring premium economy and lie-flat business seating.<sup>79</sup> In July 2012, Air New Zealand commenced direct, twice weekly seasonal flights between Auckland and Maroochydore.<sup>80</sup>

On 30 August 2012, Air New Zealand announced that it expects to more than double its earnings in 2013 (to NZ\$71 million), and that it 'has delivered the most consistent and best relative financial performance of any Australasian airline over the past three years'.<sup>81</sup> The airline will invest NZ\$1 billion in new fuel-efficient aircraft and in modernising its existing fleet.<sup>82</sup> Air New Zealand is keen to develop an increasingly closer, more effective, relationship with its trans-Tasman partner Virgin Australia (in which Air New Zealand holds a 19.99% equity interest),<sup>83</sup> and believes there is 'still significant untapped potential in the alliance'.<sup>84</sup> As a member of the Star Alliance, Air New Zealand is

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<sup>75</sup> Star Alliance Determination, para 3.23.

<sup>76</sup> *Re Qantas Airways Limited*, para 429.

<sup>77</sup> For example in July/August 2012 Qatar Airways extended its Doha-Nairobi sector to Doha-Nairobi-Kilimanjaro.

<sup>78</sup> 'Air New Zealand claims alliance with Virgin 'tremendously' effective,' CAPA, 26 July 2012.

<sup>79</sup> 'Significant capacity boost for Auckland-Perth alliance services,' Air New Zealand Media Release, 9 May 2012. Available: <http://www.airnewzealand.com.au/press-release-2012-significant-capacity-boost-for-auckland-perth-alliance-services>

<sup>80</sup> 'NZ touches down at MCY' in *Travel Daily*, 2 July 2012.

<sup>81</sup> 'Air New Zealand expects to more than double earnings in 2013', Air New Zealand Media Release, 30 August 2012. Available: <https://www.nzx.com/files/attachments/162497.pdf>

<sup>82</sup> *Ibid.*

<sup>83</sup> *Ibid.*

<sup>84</sup> 'Air New Zealand sees more potential with partner Virgin', *The Australian*, 30 August 2012.

also able to coordinate with fellow alliance members (such as Singapore Airlines and Thai Airways) in relation to corporate dealing in Australia.<sup>85</sup>

The Applicants will also remain constrained by the other FFCs operating on the route (including China Airlines, which will commence four-weekly Airbus A330-300 services on the Auckland-Sydney route from 28 October 2012).<sup>86</sup> The prospect of new entry, particularly by other FFCs who are expanding their long haul services to Australia, imposes a further constraint. For example, Etihad and Qatar Airways, subject to amending their flight schedules, could utilise aircraft on the tarmac in Australia to serve trans-Tasman routes. New entry by China-based and South East Asian carriers will also be encouraged by the New Zealand Government's new policy on international air transport, which was released on 30 August 2012.<sup>87</sup>

## 6.7 Trans-Tasman Data

Sydney-Auckland has the largest number of operating carriers of any trans-Tasman route, with Qantas, Jetstar, Air New Zealand, Virgin Australia, Emirates and LAN providing services. As at May 2012:

- a) Qantas and Jetstar operated 41 services per week;
- b) Air New Zealand operated 27 services per week;
- c) Virgin Australia operated 5 flights per week;
- d) Emirates operated 7 flights per week;
- e) LAN operated 6 flights per week; and
- f) Aerolineas Argentinas operated 3 flights per week.

Aerolineas Argentinas ceased operating on this route on 2 July 2012.

From 28 October 2012, China Airlines will also commence operating four-weekly Airbus A330-300 services on this route.<sup>88</sup>

Melbourne-Auckland services are provided by Qantas, Jetstar, Air New Zealand, Virgin Australia and Emirates. As at May 2012:

- a) Qantas and Jetstar operated 25 services per week;
- b) Air New Zealand operated 14 services per week;
- c) Virgin Australia operated 7 services per week; and
- d) Emirates operated 7 services per week.

Five carriers operate on the Brisbane-Auckland route: Qantas, Air New Zealand, Virgin Australia, Emirates and China Airlines. As at May 2012:

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<sup>85</sup> Star Alliance Determination, paras 3.12-3.13.

<sup>86</sup> 'AKL applaud China Air', in *Travel Daily*, 6 August 2012.

<sup>87</sup> See discussion at section 6.8 below.

<sup>88</sup> 'AKL applaud China Air', in *Travel Daily*, 6 August 2012.

- a) Qantas operated 14 services per week;
- b) Air New Zealand operated 13 services per week;
- c) Virgin Australia operated 13 services per week;
- d) Emirates operated 7 services per week; and
- e) China Airlines operated 3 services per week.

Five carriers operate on the Sydney-Christchurch route: Qantas, Jetstar, Air New Zealand, Virgin Australia and Emirates. As at May 2012:

- a) Qantas and Jetstar operated 14 services per week;
- b) Air New Zealand operated 7 services per week;
- c) Virgin Australia operated 1 service per week; and
- d) Emirates operated 7 services per week.

Annexure H sets out the total passenger numbers on trans-Tasman services. The data shows that Emirates' share of trans-Tasman traffic is only 8.8%. As explained above, while Emirates offers wide-bodied, three-class services on Airbuses A380 aircraft,<sup>89</sup> it has a relatively low share due to its limited destinations and frequencies. The Proposed Conduct will result in Qantas/Jetstar and Emirates having a combined share of 39.6% of total passenger traffic on the trans-Tasman routes. This is roughly equivalent to Air New Zealand's standalone 40.9% share. It is far less than the combined share of 56.7% of Air New Zealand/Virgin Australia.

Annexure I sets out freight shares on trans-Tasman services. The data shows that Qantas/Jetstar and Emirates would have a combined share of 44%, with Air New Zealand/Virgin Australia having a combined share of 37%. However, as explained above, market share data presents a misleading impression of the state of competition. The Applicants acknowledge that Qantas operates a dedicated freighter on the trans-Tasman and that Emirates' use of wide body aircraft means that it is well suited to the carriage of freight. However, as for passenger services, the Applicants will remain constrained by the significant presence of Air New Zealand, Virgin Australia, China Airlines and LAN. In addition, three dedicated freighters – operated by Singapore Airlines, Federal Express and Tasman Air Cargo Services – compete with the Applicants on the trans-Tasman. The presence of Singapore Airlines is particularly significant given its commitment to the Australasian region, as detailed in Annexure F. In its consideration of the Air New Zealand/Virgin Australia alliance, both the Ministry<sup>90</sup> and the ACCC<sup>91</sup> noted the availability of indirect route options, with the ACCC also noting the FFCs and specialist freight operators on the trans-Tasman.<sup>92</sup>

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<sup>89</sup> Air New Zealand/Qantas Draft Determination, para 9.203.

<sup>90</sup> See for example 'Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance,' Ministry of Transport Public Report, para 313. Available:

<http://www.transport.govt.nz/ourwork/air/Documents/Analysis%20of%20Air%20New%20Zealand%20-%20Virgin%20Blue%20application%20for%20authorisation%20of%20a%20trans-Tasman%20alliance%20pdf.pdf>

<sup>91</sup> Air New Zealand/Virgin Australia Determination, para 5.463.

<sup>92</sup> Air New Zealand/Virgin Australia Determination, para 5.463.

## 6.8 Low Barriers To Entry And Expansion

The trans-Tasman routes are characterised by low barriers to entry and expansion, meaning that the Applicants will remain constrained by the prospect of new entrants and the expansion of existing carriers. For example, carriers such as Qatar Airways, Etihad and others could potentially begin operating trans-Tasman services, as long as they have sufficient ground time in east coast Australian ports (which could be achieved by amending their flight schedules) and the additional revenue earned from providing air passenger and cargo transportation services exceeds the direct operating costs on the trans-Tasman sector.

As set out above, the trans-Tasman is one of the most liberal aviation corridors in the world. New Zealand's bilateral arrangements and open skies deals with certain countries result in low barriers to entry. New Zealand's open skies approach is also starting to be reciprocated by increasingly liberal arrangements at the other 'end of the line' as well as intermediate points in Asia or the MENA Region. In addition to other Australasian airlines potentially entering, the carriers all remain constrained by other FFCs, including those who have unexercised rights to fly on trans-Tasman routes and therefore present a real threat of potential entry or re-entry (by far the most likely new entrants are Etihad and/or Qatar Airways).

The New Zealand Government's new Policy will further liberalise the New Zealand airline industry, recognising the vital importance to the New Zealand economy of increasing international aviation connectivity to the rest of the world.<sup>93</sup> Under the Policy, New Zealand will continue to pursue reciprocal open skies agreements (except where they are adverse to the country's national interest). Under the reciprocal open skies approach, New Zealand will seek to put in place agreements that provide for:

- a) no restrictions on routes, capacity or traffic rights (including seventh freedom and cabotage – eight and ninth freedom – rights);
- b) no regulation of tariffs, except to prevent anticompetitive behaviour;
- c) liberal arrangements for granting operating authorisations following receipt of designation; and
- d) provisions facilitating regulatory cooperation by civil aviation authorities on matters such as trade in aviation goods and services – which has potential to increase opportunities for air freight transportation services.

Where the other country will not agree to a full open skies agreement with New Zealand, the provisions that are in New Zealand's best interest (taking into account the overall arrangement) will be agreed, by balancing the exchange of sufficient capacity for services that airlines' plan to offer in the short to medium term, with the long-term objective of open skies.

The Policy will further reduce barriers to entry on trans-Tasman services and the Applicants anticipate this will encourage more rapid entry on trans-Tasman routes, particularly Christchurch services, where the Government will 'give favourable consideration to authorising operation by foreign airlines' until June 2017, to encourage economic recovery for the region, following a series of earthquakes in 2010-2011.

The Policy seeks in particular to foster New Zealand's closer relationship with ASEAN countries, and has removed foreign ownership restrictions on New Zealand-based carriers (other than the national flag carrier Air New Zealand). The Transport Minister has announced that New Zealand is 'exploring negotiations with Thailand and Indonesia' in relation to increasing connectivity, and has already completed successful negotiations with Japan and China, and is progressing negotiations with Brazil.<sup>94</sup>

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<sup>93</sup> International Air Transport Policy Statement, 30 August 2012.

<sup>94</sup> Minister Gerry Brownlee, 'New policy gives kiwis better global access,' Media Release, 30 August 2012.

From a freight perspective, the barriers to entry and expansion on the trans-Tasman are also low, and will also be further reduced by the Policy. Freight capacity, particularly dedicated freight capacity, tends to quickly and closely follow demand. This means that freight services are often either introduced or cancelled on a week to week or day to day basis depending on load factors. Given that most dedicated freight services operate at non-peak time slots, obtaining landing rights is generally not an issue for new or returning operators.

## **6.9 No Coordinated Effects**

While the Proposed Conduct will result in two major airline cooperative arrangements on the trans-Tasman (ie the Applicants and Air New Zealand/Virgin Australia), the conditions which are conducive to coordinated effects will not arise.

The potential for sustainable coordination is greatest where:

- a) firms have the ability and incentive to settle on terms (not necessarily by communication or active coordination) that are profitable for all;
- b) firms can detect deviations from the consensus;
- c) the threat of retaliation from other firms involved is sufficiently costly to act as a deterrent to deviation; and
- d) the consensus is not undermined by competitive constraints.

These conditions are not present in respect of the trans-Tasman. To the contrary, the ability for carriers to engage in coordinated conduct is lessened or eliminated by:

- a) the highly competitive and dynamic nature of the global aviation industry within which the Proposed Conduct will take place;
- b) low barriers to entry and expansion, which encourage independent firms to enter and undermine any coordination and reduce the ability for any concerted attempts to raise prices or lower service quality;
- c) the various carriers within each cooperative arrangement having different cost bases and business models, which means that they are less likely to have aligned interests. All the relevant carriers within the two cooperative arrangements have vastly different characteristics and geopolitical objectives. Some are full service airlines with relevant network, frequency and scheduling considerations driving their operations and local distribution models via travel agents (Qantas, Emirates and Air New Zealand), another is a LCC with a particular focus on leisure passengers (Jetstar) and one has an evolving business model with a focus on a 'virtual' rather than operational international network (Virgin Australia<sup>95</sup>);
- d) the lack of pricing transparency, which makes it difficult for carriers to detect any 'cheating' by otherwise co-ordinating carriers. Once capacity is determined, airlines use yield management systems to maximise revenue and overall route profitability. Such systems are sophisticated and mean that rivals only have limited visibility over pricing structures and strategies. This lack of transparency, coupled with each carrier's incentive to 'cheat' on any collusion in order to maximise their own route profitability, means that co-ordination is both practically difficult and economically less attractive;

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<sup>95</sup> Virgin Australia announced a move away from being a LCC business in 2005 and signalled an intention to become a 'New World Carrier'. As part of its 'game change' strategy Virgin Australia seeks to attract higher yield corporate and business passengers while remaining attractive to leisure passengers: Singapore Airlines/Virgin Australia Determination, paras 2.7-2.8.

- e) the degree of product differentiation, which means that there is less likely to be any stagnation or false comfort that service and price competition can deteriorate through a collective exercise of market power, without repercussion;
- f) the price sensitivity of the majority of trans-Tasman passengers (as the Tribunal has previously recognised<sup>96</sup>), which means that all carriers lack the ability – whether individually or in concert – to raise prices without suffering significantly reduced load factors;
- g) the fact that of the 22 trans-Tasman routes, there are only four on which the two cooperative arrangements would overlap; and
- h) substantial excess capacity, which will be preserved pursuant to the commitment referred to in section 6.10 below, meaning that either cooperative arrangement would have the opportunity to quickly absorb extra passengers in the event of a price rise by another, which removes the ‘comfort’ otherwise co-ordinating firms might have. This feature will become more apparent when Emirates introduces its A380 services between Melbourne and Auckland in October 2012, in line with its existing Sydney-Auckland A380 services.

### 6.10 Trans-Tasman Capacity Commitment

The Applicants are committed to continuing to provide services on the trans-Tasman. The Proposed Conduct will not lead to any substantial lessening of competition on the trans-Tasman routes or any coordinated effects. Instead, it will provoke pro-competitive responses and stimulate market growth, which is likely to lead to an expansion of capacity and frequencies.

Nevertheless, to address any potential residual concern that the Proposed Conduct might lead to reduced capacity on the trans-Tasman, the Applicants are willing to offer formal commitment not to reduce overall trans-Tasman capacity, on the draft basis set out in Annexure J.

The commitment relates to actual total trans-Tasman capacity and should alleviate any residual concerns because:

- a) unlike the Air New Zealand/Virgin Australia alliance which resulted in those parties being the sole operators on two routes (Brisbane-Wellington and Brisbane-Dunedin), the Proposed Conduct will not result in either Qantas International, Jetstar and/or Emirates being the sole operator(s) on any routes;
- b) unlike the Air New Zealand/Virgin Alliance which resulted in the combination of two Australasian carriers who otherwise have unrestricted freedoms to fly across the Tasman and actively compete against each other in terms of frequency, capacity and destinations flown, the Proposed Conduct only involves the combination of one Australasian carrier (Qantas/Jetstar) with one FFC (Emirates) and will not remove any incentive for Emirates to expand further on any trans-Tasman routes; and
- c) unlike the Air New Zealand/Virgin Australia alliance which resulted in a current combined share of total trans-Tasman passenger traffic of approximately 56.9%, the Proposed Conduct will only result in a combined share of approximately 39.6%.

This commitment is significant because it will provide New Zealand consumers with certainty that would not be possible without the Proposed Conduct. In addition, as the Ministry recognised in recommending the authorisation of the Air New Zealand/Virgin Australia alliance, the capacity commitment will:

*‘break one of the key links between an increase in market power and an increase in price, namely a reduction in quantity. Maintaining or increasing capacity which the applicants need to sell will constrain their ability to increase price.’<sup>97</sup>*

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<sup>96</sup> Re Qantas Airways Limited, para 390.

In order to achieve the significant benefits possible pursuant to the Proposed Conduct, it is critical that the commitment only relates to total trans-Tasman capacity, rather than specific city pair routes. If this is accepted, the Applicants envisage that they may be able to offer potential new direct services between Auckland and Adelaide (currently only operated by Air New Zealand).

These potential new services would be a material and direct result of the Proposed Conduct.

## **6.11 Counterfactual**

Without the Proposed Conduct, the above pro-competitive benefits will not be realised on the trans-Tasman. The likely counterfactual is Emirates continuing to having a limited presence and a limited ability to act as a true constraint on the Air New Zealand/Virgin Australia alliance.

While in the absence of the Proposed Conduct Qantas and Jetstar would maintain a significant presence on the trans-Tasman, expansion of capacity will be less likely and the Qantas Group's ability to constrain Air New Zealand/Virgin Australia will be likely to deteriorate.

## **7 PUBLIC BENEFITS**

### **7.1 Overview**

The Proposed Conduct is inherently pro-competitive and efficiency enhancing and will deliver the following public benefits:

- a) a significantly expanded global network, improved connectivity and greater choices for Qantas passengers and freight customers to seamlessly travel from New Zealand to Australia, Europe and the MENA Region, as well as for Emirates passengers and freight customers connecting to the Qantas Group's domestic, trans-Tasman and other international services;
- b) materially and instantly enhancing the benefits for members of both parties' frequent flyer programs, by significantly increasing the earning and redemption opportunities across the combined networks;
- c) enhanced customer experiences and increased product innovation;
- d) improved competitive offerings from rival carriers in response to the Proposed Conduct;
- e) cost savings and enhanced economic efficiencies, including from economies of scale and joint purchasing, which will contribute to optimising the operating performance of both Applicants;
- f) increased tourism and employment;
- g) promotion of international trade; and
- h) economic benefits of enhanced and expedited Emirates growth in New Zealand and Australia. For example, improved connectivity between regional points in New Zealand and Emirates' gateway points on either side of the Tasman will increase passenger and cargo flows in both directions, further strengthening and diversifying the regional New Zealand economy. Emirates' international network can also facilitate increased feeder traffic to the Applicants'

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<sup>97</sup> Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance,' Ministry of Transport Public Report, para 15. Available: <http://www.transport.govt.nz/ourwork/air/Documents/Analysis%20of%20Air%20New%20Zealand%20-%20Virgin%20Blue%20application%20for%20authorisation%20of%20a%20trans-Tasman%20alliance%20pdf.pdf>

combined trans-Tasman services from destinations not directly served by Qantas (such as traffic from Kuala Lumpur).

These benefits are detailed further below.

## **7.2 Expanded Qantas Network, Improved Connectivity And Greater Customer Choice**

By combining the global network of Emirates and the international and domestic networks of the Qantas Group, the Proposed Conduct will provide unprecedented global coverage and flexibility on itineraries between New Zealand/Australia and numerous destinations in Europe and the MENA Region for consumers who wish to fly Qantas.

Offering Qantas customers in New Zealand access to a true global network will provide significant benefits, not only through the greatly enhanced ability to earn and redeem frequent flyer points (as described below), but also by increasing service frequencies, reducing transit times and improving travel comfort, convenience and itinerary choice. Oxford Economics has found that improvements in connectivity enhance the performance of the wider economy, by enhancing overall productivity.<sup>98</sup>

The Proposed Conduct will enable the Applicants to offer new services that would otherwise not be offered or not be offered as quickly. For example, as a result of the Proposed Conduct the Applicants may also be in a position to offer potential new direct services between Auckland and Adelaide (currently only operated by Air New Zealand). These potential new services would be a material and direct result of the Proposed Conduct.

The Ministry has previously acknowledged that the introduction of new direct services would give rise to public benefits through increased convenience for passengers.<sup>99</sup> In this case, it is highly likely that the introduction of these potential new services to Auckland would trigger a competitive response from Air New Zealand/Virgin Australia. Further, as a result of the Proposed Conduct, existing marginal services will become more sustainable in the long term.

As a result of the Proposed Conduct, Qantas passengers from New Zealand will have unprecedented access to a far bigger range of two-stop connections using Emirates' broad range of non-stop services from Dubai into Africa (14 destinations), the Middle East (17 destinations) and Europe (32 destinations). This includes locations not currently served through Qantas' codeshare arrangements with BA (such as Athens, Dublin, Lisbon, Moscow, St Petersburg and Birmingham).

The Proposed Conduct will result in improved connections and flight times. For example, the Proposed Conduct will enable Emirates to place its code on Qantas' trans-Tasman flights, and actively market and link New Zealand destinations such as Wellington and Queenstown to Emirates' operated flights. This will allow routings such as Wellington-Sydney-Dubai-Continental Europe, without having to 'backhaul' via London Heathrow to access continental Europe (as would be the case under Qantas' current JSA with BA).

As a result of the Proposed Conduct, Qantas' new services from Sydney/Melbourne to Europe via Dubai will provide another daily frequency (afternoon departure) to Dubai and beyond on Emirates' services to the primary cities in Europe and the MENA Region (which Emirates serves with at least three flights a day from Dubai) including the following destinations:

- a) Europe:
  - i. London (Heathrow and Gatwick);

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<sup>98</sup> See further *Explaining Dubai's Aviation Model – A Report For Emirates and Dubai Airports*, Oxford Economics, June 2011, p 65.

<sup>99</sup> Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance,' Ministry of Transport Public Report, para 167. Available: <http://www.transport.govt.nz/ourwork/air/Documents/Analysis%20of%20Air%20New%20Zealand%20-%20Virgin%20Blue%20application%20for%20authorisation%20of%20a%20trans-Tasman%20alliance%20pdf.pdf>

- ii. Manchester;
  - iii. Paris;
  - iv. Frankfurt; and
  - v. Milan;
- b) Middle East:
- i. Doha;
  - ii. Kuwait;
  - iii. Bahrain; and
  - iv. Saudi Arabia.

In the absence of the Proposed Conduct, Qantas would not provide services from Australia to Dubai and Emirates alone could not provide a one-stop itinerary from Melbourne or Sydney to the European destinations mentioned above (via Dubai) with a four daily frequency. One of the services that will become available as a result of the Proposed Conduct includes an early morning arrival time in Europe, which is important for business purpose travellers. New Zealand passengers on Qantas and Emirates trans-Tasman services will seamlessly connect to these new routings from Australia.

Table 6 below indicates the substantially improved connectivity (on two-stop itineraries) and schedule optimisation that will result from the Proposed Conduct.

**Table 6: Improved Connectivity And Schedule Optimisation**

Pre-cooperation			Post-cooperation		
<i>QF operated services only</i>			<i>QF and EK operated services only</i>		
Origin	Destination		Origin	Destination	
Auckland, Christchurch, Wellington	<b>Europe via Australia and Singapore</b>	London Heathrow, Frankfurt	Auckland, Christchurch, Wellington	<b>Europe via Australia and Dubai</b>	London Heathrow, London Gatwick, Manchester, Birmingham, Newcastle, Glasgow, Dublin, Paris, Nice, Frankfurt, Munich, Düsseldorf, Hamburg, Rome, Milan, Venice, Madrid, Barcelona, Lisbon, Amsterdam, Copenhagen, Zurich, Geneva, Prague, Vienna, Larnaca, Athens,, Moscow, St Petersburg, Lyon and Warsaw

Pre-cooperation			Post-cooperation		
	<b>MENA Region/West Africa</b>	None		<b>MENA Region/West Africa via Australia and Dubai</b>	Tunis, Tripoli, Casablanca, Cairo, Khartoum, Muscat, Bahrain, Doha, Kuwait, Jeddah, Riyadh, Dammam, Medina, Sana'a, Baghdad, Basrah, Erbil, Tehran, Beirut, Amman and Istanbul, Lagos, Accra, Dakar

As a result of the Proposed Conduct, Qantas passengers from New Zealand will be able to achieve reduced travel times on services to Europe. For example, current travel time for Qantas passengers from Auckland to Amsterdam is approximately 32 hours (including a 1 hour 50 minute connection in Sydney and a 1 hour 55 minute connection at London Heathrow), and approximately 33 hours and 30 minutes flying Auckland to Milan (including a 1 hour 50 minute connection in Sydney and an 2 hour 30 minute connection at London Heathrow). Current travelling time for Qantas passengers from Wellington to Milan is 38 hours and 15 minutes (including a 3 hour and 55 minute connection in Auckland, a 1 hour and 35 minute connection in Sydney and a 2 hour and 20 minute connection at London Heathrow). However, as a result of the Proposed Conduct, Qantas passengers from Auckland and Wellington will be able to arrive at most European destinations with an average total journey time of approximately 29 hours and 30 minutes (including an average 3 hour connection at Dubai).

Qantas passengers from Queenstown will also experience time savings. For example, current travel time for Qantas passengers flying from Queenstown to Milan is 31 hours and 55 minutes (including a 1 hour and 25 minute stop in Sydney, a 1 hour and 35 minute stop in Singapore and a 1 hour and 20 minute stop in London). The Proposed Conduct would result in Queenstown passengers' travel time to Milan being reduced by up to 2 hours.

Qantas passengers from New Zealand wishing to travel to the UK will also have far greater options. From 1 February 2013, Emirates will operate A380 aircraft six times a day from Dubai to London Heathrow. This will complement the two daily services that Qantas will also operate from Dubai to London Heathrow. Qantas passengers from New Zealand will also now be able to access new gateways to the UK because Emirates also offers direct services to London Gatwick, Birmingham, Glasgow, Manchester and Newcastle from Dubai. For example, currently Qantas passengers from New Zealand would undertake a three-stop journey to reach Glasgow on a Qantas/BA codeshare service (ie Auckland/Christchurch/Wellington-Sydney-Singapore-London Heathrow-Glasgow), while as a result of the Proposed Conduct passengers will save travel and transit time and associated inconvenience on a two -stop journey (ie Auckland/Christchurch/Wellington-Sydney-Dubai-Glasgow).

Emirates passengers from New Zealand will also experience improved connectivity to the Qantas Group's domestic services in Australia and other international services out of Australia. The Proposed Conduct will optimise international/domestic feeder traffic flows by aligning the Applicants' respective international and domestic networks. At present, flight times are set by each airline without coordination. The result is that inbound Emirates passengers from New Zealand may face a lengthy wait for an Australian domestic or onward international connection.

The expanded network reach, enhanced interconnectivity and integration of international and domestic routes will also deliver benefits to freight customers. For example, the closely aligned and shared schedules of the Applicants will improve the transit of time-sensitive freight such as perishable items. The Proposed Conduct will shorten air freight journeys by removing a stopover when transporting goods between New Zealand and Dubai. For example, as a result of the Proposed Conduct, it will be possible to transport time-sensitive goods between Wellington and Dubai on a one

stop routing (Wellington-Sydney-Dubai) instead of a two-stop journey (Wellington-Auckland-Sydney-Dubai). The Proposed Conduct will also facilitate streamlined customs duty processes and remove the need for repackaging and relabeling of freight as it will be transported via one combined network.

### 7.3 Frequent Flyer Benefits

One of the key public benefits of the Proposed Conduct will be that members of both Emirates and Qantas' frequent flyer programs will immediately have significantly more opportunities to earn and redeem points across the combined Qantas and Emirates networks.

The alignment of frequent flyer programs will give New Zealand consumers access to a world leading points proposition, which is important in the context of the increasingly competitive and international nature of loyalty programs. Members of Emirates' frequent flyer program in New Zealand, known as Skywards, will be able to earn on the Qantas international network and Australian domestic legs of international itineraries and redeem their reward points on the entire Qantas network. Over **[RESTRICTION OF PART OF PUBLICATION CLAIMED]** QFF members resident in New Zealand, including a substantial number of high yielding business and corporate travellers, will be similarly able to earn and redeem their QFF rewards points on Emirates' global network.<sup>100</sup>

For QFF members in New Zealand in particular, the Proposed Conduct provides material and immediate benefits because they will have unprecedented access to international services to and from New Zealand and Australia, whilst retaining all the benefits of remaining a QFF member. This is a significant benefit relative to the counterfactual position, in which QFF members will have a reduced ability to earn and redeem points on international travel.

QFF members will not only be able to earn and redeem points on potential new services from Auckland to Adelaide but will also be able to earn and redeem points on Emirates' substantial global network. In many instances this will mean utilising fewer points due to a one-stop connection over Dubai instead of current two-stop connections. Emirates has recently upgauged aircraft and/or increased frequencies to popular destinations including Rome, Paris, Munich, Riyadh, Amman, Venice, Milan and Newcastle which are all routes not served by Qantas.

QFF members in New Zealand will benefit from Emirates' growth in a way which would not be possible without the Proposed Conduct. Each year, Emirates adds another three to twelve new points to its route network – in the past twelve months alone Emirates has added destinations including Basra, Geneva, Copenhagen, St Petersburg, Baghdad, Dublin, Lusaka, Harare, Barcelona, Lisbon and Erbil. The majority of these are daily non-stop services from Dubai, hence a two-stop journey to/from New Zealand.

The Proposed Conduct will not only expedite this growth, but it will mean that more New Zealanders can take advantage of the increased connectivity and network benefits when using their QFF points. QFF members will also be able to earn status credits whilst travelling on Qantas codeshare services on Emirates operated flights (and vice versa). This will mean that QFF members can earn credits in more ways in order to contribute to elevating their membership status

Skywards members, including those based in New Zealand, will benefit from an expanded range of earning and redemption opportunities from Qantas. In addition, as a result of the Proposed Conduct, Skywards will introduce a new tier to its program, which will be the equivalent of Qantas' 'platinum' level, bringing benefits to Skywards members that are not currently available.

Both QFF and Skywards members will have reciprocal benefits (depending on membership tier) including access to airport lounges, additional baggage allowance and priority baggage, priority check-in, preferential seat availability and fast tracked immigration and security processing on Qantas/Emirates operated flights.

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<sup>100</sup> Subject to the terms and conditions of each program.

#### **7.4 Qantas Fare Reductions and Improved Reciprocal Inventory Access**

As a result of the Proposed Conduct, Qantas would adjust its point of sale New Zealand fares to certain destinations in Europe (through a process of zone re-classification). This will mean that in the case of six destinations – Athens, Istanbul, Larnaca, Casablanca, St Petersburg and Tunis – Qantas fares would reduce by approximately NZ\$400.

New Zealand customers not based in Auckland and Christchurch will benefit from the collaboration between Qantas and Emirates, as the Proposed Conduct will likely facilitate lower overall fares on multi-sector itineraries connecting Qantas' New Zealand domestic services and Emirates' international services to Europe (via Australia).

The Applicants will offer each other preferential booking class access.<sup>101</sup> This refers to the ability for a carrier to access additional inventory to support pricing activity that would otherwise be compromised because of limited or nil seat availability. Currently, if either carrier is selling a journey that involves carriage on the other's aircraft, fares can only be offered if seats are available on both carriers in the same booking class – if there is no availability, then the fare gets 'mapped up' the inventory hierarchy to a higher fare level where there is matched availability. Preferential booking class arrangements would mean that the cheaper original fare can still be sold notwithstanding that the same booking class is unavailable on the other carrier. Initial modelling by the Applicants indicates that this may result in fare savings on certain routes. In addition, such access would mean that sale fares are able to be offered across broader travel periods.

#### **7.5 Enhanced Customer Experiences And Product Innovation**

Qantas and Emirates are premium full service airlines, with highly complementary but unique brands and a shared commitment to excellence across the spectrum of their activities. By working together through the Proposed Conduct the Applicants will inform and learn from each other, leading to further product and service improvements.

The Proposed Conduct will facilitate the cross fertilisation of ideas and expertise. This will allow the Applicants to learn from each other in developing and investing in more sophisticated systems for the delivery of premium end-to-end services to consumers.

A central objective of the Proposed Conduct is to coordinate the Applicants' product and service offerings to ensure a world class, seamless premium end-to-end service to New Zealand customers including through:

- a) reciprocal lounge access – the Applicants will provide reciprocal lounge access for premium class passengers (including high tier frequent flyers) to their respective airport lounges at main international airports, with Qantas premium customers being able to access new lounge facilities at Dubai, considered to be among the world's most luxurious;
- b) improved customer service and disruption handling – all itineraries will be included on the same ticket and fare rules and commercial policies will be aligned. This will enable customers to benefit from improved customer disruption handling. Agents will be able to manage customers in the same manner irrespective of whether they fly on an Emirates or Qantas itinerary, resulting in a seamless and flexible joint offering to customers. Without the Proposed Conduct, a Qantas passenger travelling on an Emirates' aircraft as an interline passenger is likely to be subject to inconsistent fare rules;
- c) additional premium services – premium class passengers (including high tier frequent flyers) travelling on either of the Applicants' services to key international destinations will benefit from a range of premium services including priority check-in and boarding, chauffeur airport transfers (at selected destinations) and priority baggage handling; and

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<sup>101</sup> Note that this does not apply to award bookings.

- d) joint corporate dealing/corporate travel procurement – in addition to increased network reach, connectivity and lounge access which will significantly benefit corporate and government travellers, the Applicants will jointly offer a range of corporate travel options to New Zealand based corporate and government travellers, convention organisers and professional travel managers. This will include offering joint corporate travel contracts, a single corporate services account manager and joint marketing and advertising.

## 7.6 Competitive Response From Rivals

The Proposed Conduct will also benefit consumers by provoking competitive fares and product/service offerings from rival carriers. In particular, the Applicants expect a strong, pro-competitive response from Air New Zealand and Virgin Australia in relation to the trans-Tasman. Given that the loss of any percentage of passenger share has profit implications for a carrier, it is expected that there will be intensified competition for the marginal passenger on all relevant routes. This is likely to spread across the whole market to the benefit of the entire passenger base.<sup>102</sup>

In addition to stimulating carrier and alliance-based responses, the Proposed Conduct will also generate increased competition between mid-point hubs. By shifting Qantas' European flying from Singapore to Dubai, the Proposed Conduct will spur innovative responses from other mid-point ports such as Singapore, Hong Kong, Bangkok, Abu Dhabi, Doha, Beijing, Guangzhou, Shanghai, Kuala Lumpur, Jakarta and Seoul as they compete to attract Australasian passengers en route to Europe.

Competition between mid-point hubs has intensified, given the wide ranging and substantial economic benefits that flow from hub connectivity. The use of longer haul aircraft has also meant that hub competition spans a wider geographic area.<sup>103</sup> Hub competitiveness is driven by frequency of connections, price and service quality.<sup>104</sup> To attract carriers, hubs compete not just on their geographic location, which defines flight times for passengers, but also in respect of offering liberal open skies policies, competitive landing charges and quality infrastructure that moves people and luggage efficiently and quickly. To attract passengers, hubs compete by offering improved customer experiences, such as lounges, shopping and eating facilities at airports as well as being sought-after destinations in their own right for stop over traffic.

Airports actively compete to attract more through-traffic. For example, Changi Airport in Singapore has developed 'hop on hop off' facilities to improve the experience for transit passengers and offers a free city tour to transit passengers who have a stopover of five hours or more. Kuala Lumpur Airport offers similar services. Hong Kong International Airport has developed a strategic plan to help address the potential loss of traffic between Europe and Australasia,<sup>105</sup> particularly given the competition from Singapore and Dubai.<sup>106</sup>

New Zealand and Australian consumers will be the direct beneficiaries of this intensified competition.

## 7.7 Enhanced Economic Efficiencies

As the coordination contemplated by the Proposed Conduct matures, it will result in the Applicants being able to achieve aircraft higher utilisation and generate cost savings and improve operational efficiencies. These efficiencies will ultimately provide more competitive fares for consumers or other forms of public benefits, by enabling the Applicants to compete sustainably and invest in improved facilities, better aircraft and other customer enhancements.

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<sup>102</sup> *Re Qantas Airways Limited*, para 429.

<sup>103</sup> 'Dubai overtakes Singapore in passenger volume' 29 February 2012. Available: <http://airlinesairports.wordpress.com/category/changi-airport/>

<sup>104</sup> 'Hub competitiveness in a changing world' in *Open Sky The Public Affairs Journal of Emirates*, Issue 11, October 2011, p 4.

<sup>105</sup> Hong Kong International Airport Master Plan 2030 Technical Report, p 60. Available: [http://vps.hongkongairport.com/mp2030/TR\\_24May\\_Eng\\_Full.pdf](http://vps.hongkongairport.com/mp2030/TR_24May_Eng_Full.pdf)

<sup>106</sup> *Ibid.*

Cost savings will be achieved across the spectrum of business activities including higher utilisation of significant fixed costs including aircraft, crew and airport facilities (due to the flexibility to operate the routes using either Qantas or Emirates at either end).

The respective aircraft fleets of Qantas and Emirates are largely complementary. Whereas the Qantas Group has a full spectrum of different sized aircraft, the Emirates fleet is exclusively composed of wide body long-haul aircraft. Indeed, Emirates is the world's largest customer of both the A380 (the world's largest commercial passenger aircraft, with Emirates offering 489 and 517 seating configurations) and the Boeing 777 (266 to 428 seats). With the phasing out of older A330, A340 and early Boeing 777 type aircraft, the Emirates fleet will soon be comprised of Boeing 777, A380 and the new generation A350-XWB aircraft and will remain one of the world's youngest, with an average age of about six years.

The Proposed Conduct will enable Qantas to leverage Emirates' current fleet and route network. Where Qantas and Emirates have parallel operations on routes such as the trans-Tasman, the Proposed Conduct will enable the carriers to select aircraft to service joint passenger demand, thereby exploiting economies of scale in aircraft size and reducing unit costs. With increased feeder opportunities resulting from the Proposed Conduct, the Applicants anticipate increases in passenger volumes and therefore both Emirates and Qantas are more likely to up-gauge their aircraft on growing trans-Tasman routes in the future. An improved range of flight destinations and frequencies will likely stimulate passenger demand for Qantas and Emirates services.

Economies of scale for airlines exist in terms of both aircraft size and sector length. When a larger aircraft is used, the average cost per passenger is reduced since the fixed costs incurred in operating a flight (such as pilot wages, airport landing costs and charges) are spread over a larger number of passengers. Further, larger aircraft are more efficient than smaller ones so that fuel costs per passenger are lower.<sup>107</sup> Economies of density exist because an airline's unit costs decrease as the number of passengers travelling on a particular route increases. A larger passenger base gives airlines the opportunity to service the route with larger aircraft, with a correspondingly lower unit cost. Also, the greater the number of flights on a route, the greater number of passenger journeys over which to spread the fixed cost of operating on that route (such as the costs of office rentals, staff overheads and ticketing services at each end). Newer aircraft also operate more efficiently than previously and Emirates maintains a modern fuel-efficient fleet, which results in lower fuel burn and therefore lower overall cost.

In addition, cost savings and efficiencies will be delivered from having shared distribution platforms, IT systems and common marketing and sales activities

## **7.8 Increased Tourism**

By engaging in joint advertising campaigns to leverage Qantas' overseas profile and Emirates' significant sales and marketing presence in Europe and the MENA Region, the Applicants expect inbound tourism to New Zealand to increase considerably as a direct result of the Proposed Conduct. For example, the Proposed Conduct will likely stimulate growth in inbound tourism from Malaysia, by providing a link between New Zealand and Malaysia (via Melbourne) on combined Emirates and Qantas services (Qantas does not operate direct services between Australia and Malaysia, while Emirates operates a daily Kuala Lumpur-Melbourne service).

The Proposed Conduct will directly benefit tourism in New Zealand by providing a vastly expanded network of end-point destinations for inbound visitors. Specifically, tourism in New Zealand will be stimulated by a greater number of tourists from Europe and the MENA Region who will be able to travel to New Zealand with only two stops via Dubai and Australia. As the Ministry has previously acknowledged, 'dual destination tourism' is particularly important to New Zealand given the fact that large numbers of international visitors combine trips to Australia and New Zealand.<sup>108</sup>

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<sup>107</sup> Berry, S., Carnall, M. and Spiller, P 'Airline hubs: costs, markups and the implications of customer heterogeneity', in *NBER Working Papers*, no. 5561, 1996 p 27

<sup>108</sup> See for example 'Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance,' Ministry of Transport Public Report, para 258. Available:

As Emirates continues to expand its global network (as demonstrated by the number of new points added in 2012), this will facilitate enhanced two-stop access to New Zealand for inbound tourism and investment and outbound travel and trade. As the New Zealand Government has recognised, good air links attract visitors in both directions, with UAE nationals having long enjoyed visa free entry to New Zealand and New Zealanders being regular visitors to the UAE, whether for business or leisure.<sup>109</sup>

The tourism industry is an important part of the New Zealand economy. Airline services are a significant contributor to the tourism value chain. As the Minister is aware, each year around 2.5 million visitors arrive in New Zealand (the vast majority by air), contributing nearly nine billion dollars to the New Zealand economy.<sup>110</sup>

Qantas spends considerable time and funds promoting New Zealand as an inbound tourism destination for international tourists. New Zealand is featured in all marketing or tactical sales activity sponsored by Qantas' overseas Sales regions. In May 2012, Qantas concluded an MOU with Tourism New Zealand that allocates more than NZ\$4 million to marketing and advertising to attract international visitors to New Zealand.<sup>111</sup> Emirates has also played a pivotal role in stimulating inbound tourism to New Zealand. Emirates has invested over NZ\$8.75 million in promoting New Zealand as a destination in key and emerging markets and in 2010-2011 added a further NZ\$11 million in promoting the New Zealand IRB Rugby World Cup 2011.<sup>112</sup>

With the additional traffic the Proposed Conduct will stimulate, combined overall contribution to passenger numbers to New Zealand will increase. This will have important spill over effects within the wider New Zealand economy, particularly by generating more employment within the tourism sector. The tourism industry directly and indirectly employs nearly one in ten New Zealanders - 179,800 total full-time equivalent jobs.<sup>113</sup> Official numbers released by Statistics New Zealand in August 2012 showed that international visitor arrivals to New Zealand were up 6 per cent in the year ending July 2012 compared with July 2011.<sup>114</sup> This kind of growth would be accelerated and enhanced by the Proposed Conduct.

In addition, Emirates' long-haul traffic feed to Qantas/Jetstar-operated 'beyond' destinations in New Zealand and the South Pacific will also increase the number of transit passengers at New Zealand airports (leading to increased airport revenues and utilising New Zealand airports as 'mini hubs' for South Pacific services).

## 7.9 Promotion Of International Trade And Business

The Proposed Conduct will strengthen the bilateral relationship between New Zealand and the UAE. The UAE is currently New Zealand's largest trading partner in the MENA Region, with bilateral trade totalling approximately NZ\$1.209 billion in 2010. Bilateral relations between New Zealand and the UAE are growing rapidly, being fortified by strong trade relations as well as face-to-face contacts arising from the extensive growth of air links.

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<http://www.transport.govt.nz/ourwork/air/Documents/Analysis%20of%20Air%20New%20Zealand%20-%20Virgin%20Blue%20application%20for%20authorisation%20of%20a%20trans-Tasman%20alliance%20pdf.pdf>  
<sup>109</sup> 'Exporter Guide – United Arab Emirates – Country Brief', New Zealand Trade and Enterprise, April 2011. Available: <http://www.nzte.govt.nz/explore-export-markets/middle-east-and-africa/doing-business-in-the-united-arab-emirates-uae/documents/uae-country-brief-april-2011.pdf> (Accessed 22 August 2012). August 2012).  
<sup>110</sup> 'Key Strategies and Plans – Air', New Zealand Ministry of Transport. Available: <http://www.transport.govt.nz/ourwork/air/> (accessed 24 August 2012).  
<sup>111</sup> See further: 'Four Million Dollars to Boost Visitor Arrivals to New Zealand on Qantas' Tourism New Zealand Media Release 9 May 2012. Available: <http://www.tourismnewzealand.com/news-and-features/latest-tourism-news/2012/05/four-million-dollars-to-boost-visitor-arrivals-into-new-zealand-on-qantas/>  
<sup>112</sup> Emirates - A Friend of New Zealand, 2011.  
<sup>113</sup> 'Key Tourism Statistics,' Tourism Association of New Zealand. Available: <http://www.tianz.org.nz/main/key-tourism-statistics/>  
<sup>114</sup> International Travel and Migration: July 2012 – Statistics New Zealand Media Release, 21 August 2012. Available: [http://www.stats.govt.nz/browse\\_for\\_stats/population/Migration/IntTravelAndMigration\\_MRJul12.aspx](http://www.stats.govt.nz/browse_for_stats/population/Migration/IntTravelAndMigration_MRJul12.aspx)

Trade figures show New Zealand exports to the Gulf Region have grown from US\$695 million in 2009 to US\$1.2 billion in 2011 which is a 71% increase over the two year period.<sup>115</sup> While New Zealand is well known as a food and beverage exporter, increasingly its exports to the Middle East are diversifying away from just food and beverages to include information technology, education and consultancy and specialised manufacturing.<sup>116</sup>

The Proposed Conduct will enable New Zealand exporters to more readily access the Applicants' combined network and significantly increase international trade opportunities for New Zealand. Emirates is the first and so far only carrier to link New Zealand and the Middle East, and throughout its operations in FY2010-2011 it carried over 38,600 tonnes of high-value and time-sensitive New Zealand exports on its flights. Emirates works closely with New Zealand exporters to provide supply chain certainty for their markets in the UAE, the MENA Region and across Emirates' wider global network. As Emirates continues to expand its global network (as demonstrated by the number of new points added in 2012), this will facilitate enhanced two-stop access to New Zealand for inbound investment and outbound trade.

The New Zealand Government estimates that there are around 4,000 New Zealand nationals who work and reside in the UAE.<sup>117</sup> As a fast growing export market, there are around 40 New Zealand businesses based in the UAE.<sup>118</sup> For example:

- a) Fonterra uses the UAE as a base for its regional business, Pultron Composites recently set up a composite rebar manufacturing plant in Jebel Ali, and Burgerfuel has established outlets with a strong New Zealand theme;
- b) New Zealand companies are supplying professional services in areas of public sector reform, education and architecture, while a major New Zealand law firm opened an office in Abu Dhabi in 2010; and
- c) a group of New Zealand companies is also co-located in the New Zealand Technology Oasis at Dubai Internet City, adding to the diversity of New Zealand's footprint in the UAE.<sup>119</sup>

All of these businesses will directly benefit from the Proposed Conduct due to improved and increased services between New Zealand and the MENA Region. By granting New Zealand exporters greater access to Emirates' expansive network, as well as facilitating Qantas services direct from Australia to Dubai, the Proposed Conduct will deliver a significant increase in international trade opportunities for New Zealand exporters, together with increased supply chain certainty.

## **7.10 Economic Benefits From Enhanced And Expedited Emirates Growth In New Zealand**

The Proposed Conduct would strengthen and expedite the platform for Emirates' progressive capacity growth in New Zealand. The Proposed Conduct will further incentivise Emirates to grow and invest in New Zealand and this will directly lead to more benefits sooner for New Zealand and New Zealand consumers. Indeed, in framing the terms of the Coordination Agreement, the Applicants have been clear to ensure that the coordination will in no way restrain or inhibit Emirates' ability to expand in Australasia.

Emirates has made a substantial contribution to the New Zealand economy since it first commenced services to New Zealand in 1996. It has delivered on a long term commitment to develop and invest in New Zealand. Importantly, its core philosophy is to maintain long term investments and it rarely

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<sup>115</sup> Steve Jones, NZ Consul General and Trade Commissioner for Middle East and Africa cited in 'NZ Companies in 2011 Middle East Trade Boom', New Zealand Trade and Enterprise, 31 January 2012. Available: <http://business.newzealand.com/emea/en/news-and-events/news/nz-companies-in-2011-middle-east-trade-boom/> (Accessed 22 August 2012).

<sup>116</sup> Ibid.

<sup>117</sup> 'Exporter Guide – United Arab Emirates – Country Brief', New Zealand Trade and Enterprise, April 2011. Available: <http://www.nzte.govt.nz/explore-export-markets/middle-east-and-africa/doing-business-in-the-united-arab-emirates-uae/documents/uae-country-brief-april-2011.pdf> (Accessed 22 August 2012).

<sup>118</sup> Ibid.

<sup>119</sup> Ibid.

withdraws from routes. This contrasts with many other offshore carriers who might otherwise make only cyclical, less permanent investments which deliver far more limited local benefits and are more easily retracted. As mentioned above, Emirates invested more than NZ\$11 million in promoting the 2010 IRB Rugby World Cup. It also provides other sponsorships, such as to Team New Zealand, which in total are valued at over NZ\$2.3 million. The Emirates Group employs over 370 New Zealand nationals worldwide.

In 2011-2012, Emirates' direct expenditure through its procurement of New Zealand goods and services was worth over US\$83 million.

The Proposed Conduct will also build on Emirates' position as a domestic employer within the New Zealand travel, logistics, hospitality and related services industries. Increases in Emirates' passenger volumes to and from New Zealand resulting from the Proposed Conduct will also further incentivise Emirates to continue sponsoring a wide range of high profile New Zealand events including Team New Zealand which in turn can create significant event-related employment opportunities for New Zealanders.

## **8 NO LEGAL REASONS FOR THE MINISTER REFUSING TO AUTHORISE THE PROPOSED CONDUCT**

### **8.1 Overview**

The Proposed Conduct meets the test for authorisation and the Minister should exercise his discretion to grant authorisation section 88(2) of the CAA.

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. As discussed in this application:

- a) none of the reasons set out in sections 88(3) and (4) apply in respect of the Proposed Conduct; and
- b) furthermore, declining authorisation would have an undesirable effect on international comity between New Zealand and Australia, Australia and the UAE and New Zealand and the UAE and accordingly, section 88(5) provides a distinct reason for the Minister to exercise his discretion in favour of authorising the Proposed Conduct.

### **8.2 No Infringement of Section 88(3)**

In considering whether to grant authorisation under subsection (2) of this section, the Minister must ensure that granting authorisation will not prejudice compliance with any relevant international convention, agreement or arrangement to which the Government of New Zealand is a party.

The Minister's authorisation of the Proposed Conduct will not prejudice New Zealand's compliance with any relevant international conventions, agreements or arrangements. Conventions and agreements which may be relevant include:

- a) the Open Skies Air Service Agreement between New Zealand and Australia (as negotiated by the Ministry) dated 8 August 2002 (the **NZ-Australia ASA**);
- b) the SAM Arrangements between New Zealand and Australia dated 19 November 1996;
- c) the NZ-UAE ASA and the Agreement between the Government of The United Arab Emirates and the Government of Australia relating to Air Services dated 8 September 2002 (**Australia-UAE ASA**); and
- d) bilateral agreements between New Zealand and other countries.

The New Zealand/Australia ASA expressly contemplates authorisations of the type sought in this application and therefore any authorisation cannot be said to prejudice compliance with that agreement. Specifically, Article 14 provides that:

*The competition laws of each Party, as amended from time to time, shall apply to the operation of the airlines of both Applicants. Where permitted under those laws, a Party or its competition authority may, however, unilaterally exempt commercial agreements between airlines (including block-space, code share and other joint service agreements) from the application of its domestic competition law.*

The SAM arrangements reflect a desire on the part of the Australian and New Zealand Governments to achieve an efficient, integrated Australasian aviation market. The Proposed Conduct will generate substantial benefits for consumers and will deliver economic efficiencies to the benefit of the airlines themselves and New Zealand and Australia. This will deliver a better value proposition for consumers in both countries and be mutually beneficial to each country's economy.

Clause 15 (1) provides:

*All aviation activities (including terminal access) under these arrangements will take place in a manner consistent with competition law as it applies in the relevant jurisdiction.*

Therefore, an authorisation of the Proposed Conduct which is consistent with the CAA regime (and therefore the *Commerce Act 1986*) and the Australian *Competition and Consumer Act 2010* (Cth) will not prejudice compliance with the SAM.

Additionally, nothing in the Proposed Conduct will prejudice compliance with the NZ-UAE ASA or the Australia-UAE ASA or any bilateral agreements between New Zealand and other countries.

### **8.3 No Infringement of Section 88(4)**

The Minister cannot decline to authorise the Proposed Conduct under section 88(4) as the Proposed Conduct includes no provision that would infringe section 88(4)(a)-(f):

- a) No Infringement of Section 88(4)(a)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that provides that any party to it may directly or indirectly enforce it through any form of action by way of fines or market pressures against any person, whether or not that person is a party to the contract, arrangement, or understanding.

The Proposed Conduct makes no provision for either Applicant to directly or indirectly enforce the Coordination Agreement through any form of action by way of fines or market pressures against any person.

- b) No Infringement of Section 88(4)(b)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that has the purpose or effect of breaching the terms of a commission regime issued under section 89 of the CAA.

The Applicants understand the only commission regimes issued by the Minister which are currently in force under section 89 of the CAA are the Civil Aviation (Passenger Agents' Commission Regime) Notice 1983 and the Civil Aviation (Cargo Agents' Commission Regime) Notice 1983. The Proposed Conduct does not have the purpose or effect of breaching the terms of either of these commission regimes.

- c) No Infringement of Section 88(4)(c)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that unjustifiably discriminates between consumers of international air services in the access they have to competitive tariffs.

The Proposed Conduct does not contain any provision which discriminates between consumers in the access they have to tariffs. In fact, the Proposed Conduct is likely to enhance the availability of competitive fares on the trans-Tasman. For reasons set out

above, the Proposed Conduct will improve outcomes for consumers of international air services as it will provide for preferential availability ensuring more availability for discounted fares across a broader travel period.

Currently, consumers have wide access to competitive fares from Air New Zealand and other competitors. Each of the Applicants sets fares having regard to existing and potential competition from other carriers on all routes on which they operate – ie, they set ‘competitive fares’ and makes those fares widely available.

The Applicants will continue to face competitive pressure from other competitors and will continue to offer competitive fares. The Applicants will have no greater ability (or incentive) to discriminate between consumers in the access those consumers have to competitive tariffs. To the contrary, consumers are more likely to have greater access under the Proposed Conduct because:

- i. the Applicants will continue to set fares having regard to existing and potential competition from other carriers on all routes on which they operate – ie, they will continue to set ‘competitive fares’;
- ii. the Applicants will continue to make those fares widely available – their distribution strategy will be determined having regard to existing and potential competition and the costs and benefits of various distribution channels. Indeed, rather than restricting access, the Proposed Conduct will enhance the availability of fares for travel on the trans-Tasman as the Applicants will coordinate their marketing and sales activities; and
- iii. a larger inventory of seats in the lower booking classes will be made available under the Proposed Conduct.

Accordingly, neither the Proposed Conduct viewed as a whole nor any provision of the Coordination Agreement will undermine consumers’ wide access to competitive fares either from the Applicants or their competitors on any relevant routes. Indeed, the opposite is the case.

- d) No Infringement of Section 88(4)(d)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that so far as it relates to tariffs, has the effect of excluding any supplier of international carriage by air from participating in the market to which it relates.

Section 88(4)(d) sets a high threshold – it requires that the provision has the effect of excluding a supplier from participating in the market. The Proposed Conduct has no impact on the ability of any supplier of international carriage by air from participating in the provision of services on any relevant routes.

The continued entry and expansion of carriers on routes to, from and within Australasia indicates that tariffs are not today, and have not been in the past, set in a way so as to exclude any airline from operating on those routes.

The tariff provisions which will operate as a result of the Proposed Conduct will not have the effect of excluding any airline from operating on the trans-Tasman (or any other route) because:

- i. the Applicants will continue to set tariffs having regard to existing and potential competition from other carriers on all routes on which they operate. Authorisation will not have any flow-on impact in terms of ASAs or other regulatory conditions that would impact another airline’s access to the trans-Tasman (or any other routes); and
- ii. given the low barriers to entry and expansion on the trans-Tasman and the existence of strong international competitors such as Air New Zealand and Virgin Australia, the Applicants will have no incentive to set tariffs so as to exclude any person from

providing international air services on any of the trans-Tasman routes (or any other routes).

- e) No Infringement of Section 88(4)(e)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that has the purpose or effect of preventing any party from seeking approval, in terms of section 90 of the CAA, for the purpose of selling international carriage by air at any other tariff so approved.

The New Zealand/Australia ASA removes any requirement that tariffs be filed with the aeronautical authorities of either Australia or New Zealand. Under the UAE/New Zealand ASA and the UAE/Australia ASA, tariff filing is not mandatory but may be required.

In any event, the Proposed Conduct does not prevent any party from seeking the Minister's approval of any tariff under section 90 of the CAA.

- f) No Infringement of Section 88(4)(f)** Authorisation shall not be given under this section to any provision of any contract, arrangement, or understanding that prevents any party from withdrawing without penalty on reasonable notice from the contract, arrangement, or understanding.

Clause 14 of the Coordination Agreement provides that it will operate for a period of 10 years from the implementation date unless terminated earlier. As discussed further below, this reflects the significant long-term investments required for global implementation of the Proposed Conduct. The Coordination Agreement can be terminated by either party in specific circumstances. Given the significant investments involved in implementing the Proposed Conduct, this is not an unreasonable period for an agreement of this nature (as previously recognised by the Ministry in other contexts).<sup>120</sup>

#### **8.4 International Comity**

If the Minister considers, contrary to the Applicants' view, that the Proposed Conduct does not comply with any of section 88(4)(a)-(f) of the CAA, he can nevertheless authorise the Proposed Conduct under section 88(5) if declining authorisation would have an undesirable effect on international comity between New Zealand and another state.

Declining authorisation would have an undesirable effect on international comity between New Zealand and Australia and between New Zealand and the UAE. Accordingly, international comity provides a distinct reason for the Minister to exercise his discretion in favour of authorising the Proposed Conduct.

As discussed above, arrangements between carriers are consistent with the SAM and the New Zealand/Australia ASA. The Applicants have applied to the ACCC for authorisation of the Proposed Conduct and believe authorisation should be granted in that jurisdiction on the basis that the Proposed Conduct creates net public benefits for Australian consumers.

In those circumstances, declining authorisation for the Proposed Conduct would prevent Australia from realising these net public benefits from an arrangement that is expressly contemplated in the New Zealand/Australia ASA.

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<sup>120</sup> Analysis of Air New Zealand/Virgin Blue application for authorisation of a trans-Tasman alliance,' Ministry of Transport Public Report, para 136. Available: <http://www.transport.govt.nz/ourwork/air/Documents/Analysis%20of%20Air%20New%20Zealand%20-%20Virgin%20Blue%20application%20for%20authorisation%20of%20a%20trans-Tasman%20alliance%20pdf.pdf>

## 9 TERM OF AUTHORISATION

The Applicants seek authorisation of the Proposed Conduct to reflect the initial term of the Coordination Agreement, namely ten years. This reflects the long term nature of the proposed arrangements and the need to make significant long-term investments to implement the Proposed Conduct on a global basis, including shifting Qantas' European flying from Singapore to Dubai and synchronising complex IT systems.

For example, Qantas estimates that start-up costs associated with implementing the Proposed Conduct will be in the range of **[RESTRICTION OF PART OF PUBLICATION CLAIMED]**, with significant components including staff training, marketing launch costs, developing and rolling out IT systems (such as for commercial reporting, reciprocal inventory access and revenue accounting data exchange), setting up new joint offices and costs associated with downscaling operations in Singapore.

Without long term certainty that the Proposed Conduct can be implemented globally, the potential for all benefits being realised for New Zealand consumers will be jeopardised. While some public benefits (such as the frequent flyer benefits) will flow immediately as a result of the Proposed Conduct, the full potential of others are only likely to eventuate through an unequivocal long term commitment to coordinate operations.

The Proposed Conduct will facilitate expansion and, in the case of the trans-Tasman, provide a commitment to maintain capacity that would not otherwise exist. Therefore, rather than capacity contraction the Proposed Conduct will necessarily provoke a series of competitive responses from rival carriers. Given that no anti-competitive detriment will result from the Proposed Conduct and yet real and substantial public benefits will be generated, the Applicants seek authorisation of the Proposed Conduct for ten years.

## 10 CONFIDENTIALITY

The Applicants claim confidentiality over Confidential Annexures C and G to this application and also the information in this Application and enclosed in square brackets (**Confidential Information**) pursuant to section 9(2)(b) of the *Official Information Act* 1982. A public version with Confidential Information redacted will be provided separately. The Confidential Information is commercially sensitive and valuable to the Applicants and disclosure would be likely unreasonably to prejudice the commercial position of one, or both, of the Applicants.

The Applicants request that they be notified of any request made under the *Official Information Act* for release of the Confidential Information and that the Minister seeks their views as to whether the Confidential Information remains confidential and commercially sensitive at the time responses to such requests are being considered.

This request for confidentiality is not intended to constrain the Minister and the Ministry of Transport from disclosing information to other government departments for the purposes of seeking relevant expert advice. However, the Applicants request that the Minister ensure any such departments maintain the same full confidentiality as requested above.

## ANNEXURE A

### THE QANTAS GROUP

Qantas was incorporated in Queensland, Australia in 1920 and is Australia's largest domestic and international airline. The Qantas Group employs approximately 35,000 people worldwide and operates more than 6,400 domestic and 920 international flights each week<sup>1</sup> using two complementary airlines: Qantas - a full service airline offering domestic and international services; and Jetstar - a low cost carrier offering domestic and international services, predominantly focussed on servicing price sensitive consumers. Qantas also operates airline related businesses including airport support services, catering, freight operations, loyalty programs, defence support services and engineering.

The international destinations to which Qantas currently operates are set out map below.

**Table 1: Qantas International Destinations (Ex Australia), As At August 2012**

Region	Destinations (ex Australia)
Pacific	Auckland, Christchurch, Wellington, Queenstown, Noumea, Port Moresby
Asia	Bangkok, Hong Kong, Jakarta, Manila, Shanghai, Singapore, Tokyo
Europe	Frankfurt, London
Americas	Dallas/Fort Worth, New York, Los Angeles, Honolulu, Santiago
Africa	Johannesburg

As at August 2012, the Qantas Group operated a total passenger fleet of 286 aircraft, comprising Boeing 747s, 767s, 737s and 717s, Airbus A380s, A330s, A320s and A321s, Bombardier Dash 8s and Bombardier Q400s.<sup>2</sup>

The Qantas Group is currently a party to the following alliances:

- a) the JSA with BA;
- b) an alliance with American Airlines pursuant to a Joint Business Agreement which was authorised by the Minister on 26 September 2011 and by the ACCC on 29 September 2011; and
- c) the **oneworld** marketing alliance.

The JSA with BA will cease prior to Qantas commencing operations to Europe through Dubai. It is possible that Qantas may continue to codeshare on certain services operated by BA to ports to which Emirates does not operate, however there will not be any price or capacity coordination between Qantas and BA in respect of any routes following the termination of the JSA. BA may codeshare on Qantas operated services between Singapore, Bangkok and Hong Kong, and Australian ports, however there will not be any price or capacity coordination between Qantas and BA in respect of these services.

Qantas will also cease its current codeshares on Cathay Pacific Airlines' (**Cathay Pacific**) services between Hong Kong and Rome, Air France's services between Singapore and Paris, Kenya Airways'

<sup>1</sup> Qantas, *The Australian Way*, August 2012.

<sup>2</sup> Ibid.

services between Bangkok and Nairobi and Iberia's services within Europe<sup>3</sup>. Like the JSA, these codeshares will all be terminated prior to Qantas commencing to operate services to Europe via Dubai.<sup>4</sup>

The Qantas Group's alliance with American Airlines will remain unaffected.

Jetstar is a vital part of the Qantas Group's domestic and international operations. It operates low-cost, value based services in domestic Australia and to the following international destinations from a number of cities in Australia:

**Table 2: Jetstar International Destinations (Ex Australia), As At August 2012**

Region	Destinations (ex Australia)
Pacific	Auckland, Christchurch, Queenstown, Nadi
South East Asia	Bangkok, Phuket, Bali (Denpasar), Jakarta, Manila, Singapore
North East Asia	Osaka, Tokyo, Beijing
Americas	Honolulu

Since its establishment in 2004, the Jetstar Group has evolved into a mature and successful low cost carrier with an expanded brand presence as follows:

- a) domestic Australia and New Zealand services (operated by Jetstar Airways);
- b) international services from Australia to destinations in Asia, the Pacific and New Zealand (operated by Jetstar Airways); and
- c) services within and between various countries in Asia under the Jetstar business model, operated by the following joint ventures:
  - i. Jetstar Asia Airways Private Limited (**Jetstar Asia**) of which the Qantas Group has a 49% shareholding through its shareholding of Jetstar Asia's parent company, Newstar Investment Holdings Pte Ltd (a Singapore company) (Newstar) which is incorporated in Singapore and operates flights from Singapore to various destinations in Asia;<sup>5</sup>
  - ii. Jetstar Pacific Airlines Joint Stock Aviation Company (**Jetstar Pacific**) of which the Qantas Group has a 30% shareholding. Jetstar Pacific is incorporated in Vietnam and operates flights within Vietnam and may, subject to regulatory approvals, operate international services from Vietnam to various destinations in Asia in the future;
  - iii. Jetstar Japan Co Ltd (**Jetstar Japan**) of which the Qantas Group has a 33% shareholding. Jetstar Japan is incorporated in Japan and began operating flights within Japan from 3 July 2012 and, subject to regulatory approvals, will operate from Japan to various destinations in Asia from early 2013; and
  - iv. Jetstar Hong Kong Limited (**Jetstar Hong Kong**) of which the Qantas Group proposes to have up to a 50% shareholding. Jetstar Hong Kong will be incorporated in Hong Kong and proposes to operate flights from Hong Kong to China and various destinations in Asia. Subject to regulatory approvals, Jetstar Hong Kong proposes to launch operations in 2013.

<sup>3</sup> Iberia will continue to codeshare on Qantas operated services.

<sup>4</sup> Provided, in the case of the Kenya Airways and Cathay Pacific codeshares, that Qantas is able to place its code on Emirates' services to relevant destinations.

<sup>5</sup> References to Jetstar Asia in this application include Valuar, a Singapore-based LCC that is wholly owned by Newstar and operates flights between Singapore and destinations in Indonesia.

On 28 June 2012, Qantas lodged an application with the ACCC for authorisation of coordination between the Qantas Group and the various Jetstar branded franchises.

The Jetstar Group employs over 7,000 staff across the Asia-Pacific region and operates approximately 3,000 weekly flights to 60 destinations in 16 countries or territories with a combined operating fleet of around 90 aircraft.<sup>6</sup> A route map of the services currently provided by the Jetstar Group is set out below.

More information about the Qantas Group is available at [www.qantas.com](http://www.qantas.com).

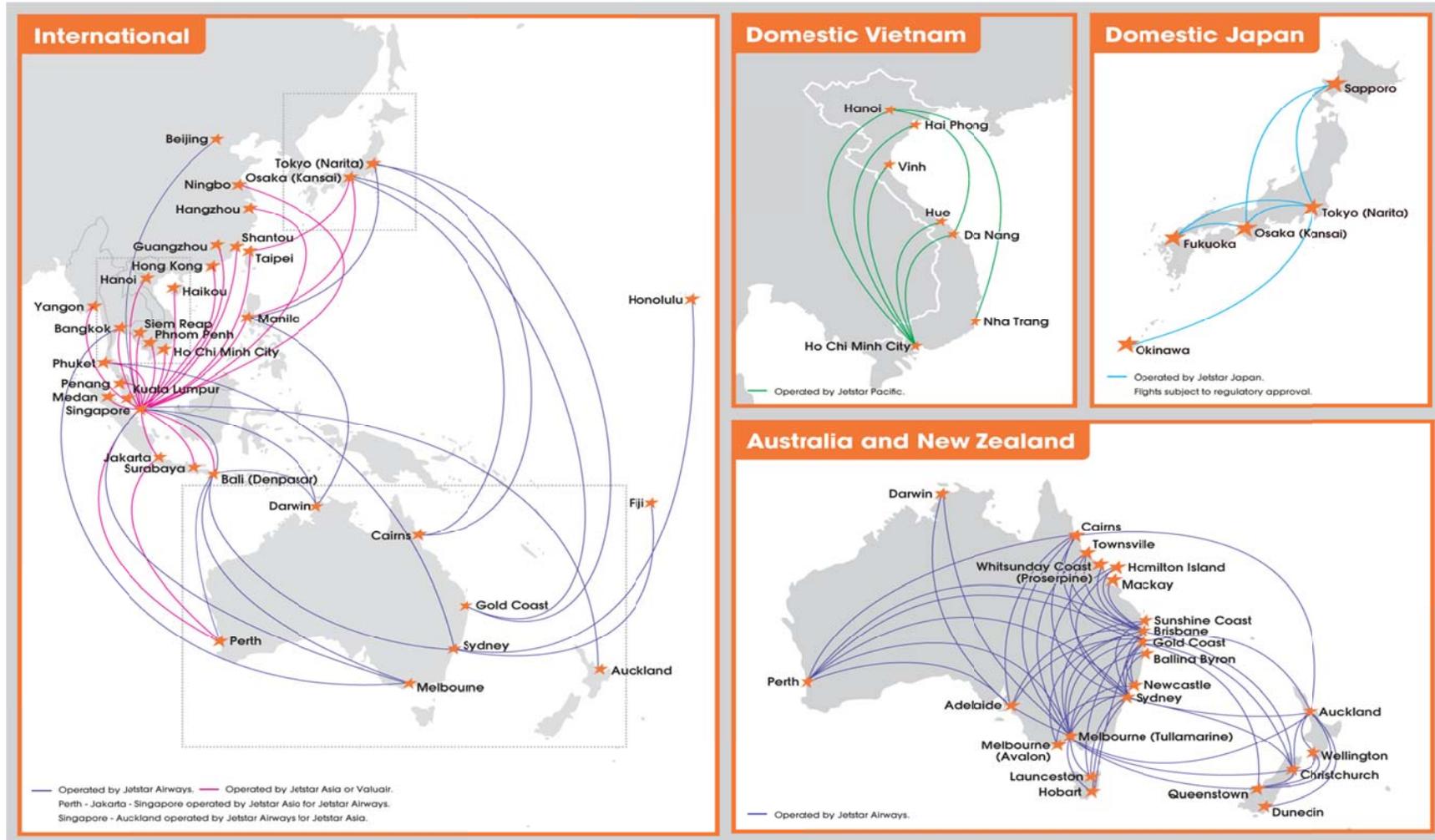
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<sup>6</sup> Jetstar Network – Jetstar Group: <http://www.jetstar.com/mediacentre/facts-and-stats/jetstar-network> (accessed 15 August 2012).

## QANTAS INTERNATIONAL ROUTE MAP



# JETSTAR GROUP ROUTE MAP



## ANNEXURE B

### THE EMIRATES GROUP

Emirates is a full service airline that operates international air passenger transport and air freight services around the world. It is a Dubai based corporation, established in 1985 by government decree, and is wholly owned by the Investment Corporation of Dubai (ICD), which in turn is ultimately wholly owned by the Government of Dubai.<sup>1</sup> Emirates is a fully commercial, consistently profitable and unsubsidised business. It is transparent, disclosing full financial statements each year – with half-yearly updates – independently audited by PricewaterhouseCoopers. Emirates receives no direct financial aid from government.<sup>2</sup> Its financial history dates from 1985, when the Government of Dubai awarded Emirates \$US10 million in start-up seed capital and invested \$US88 million in basic infrastructure. Emirates has not received subsidies since, and has more than repaid its shareholders through dividend payments totalling \$US2.3 billion to date. In addition, Emirates pays the same price for jet fuel as other fully commercial carriers.

ICD's ownership of Emirates is a similar arrangement to other airlines worldwide that operate fully commercially and also have a government shareholding (including in Australasia, South East Asia and Europe). Importantly, ownership does not alter the commercial practices of Emirates, which has a strong history of consistent profitability and dividend payments over more than two decades. Further, Emirates receives no subsidies from its government or shareholder and is fully and independently audited via publicly disclosed annual accounts. Some airlines in the Middle East region – and elsewhere in the world – are not run on a commercial basis, obtain subsidies, lack transparency and therefore can distort markets. This concerns Emirates as much as other fully commercial airlines and Emirates actively campaigns against government subsidies, including bankruptcy protection, direct financial subsidies, subsidised operating costs like fuel or aircraft costs.<sup>3</sup> In Emirates' view the shareholding is irrelevant if the airline is operated on commercial terms, is subsidy-free and transparent.

Emirates is the world's largest international carrier by revenue passenger kilometres (RPKs).<sup>4</sup> In 2011-2012, Emirates carried 34 million passengers worldwide.<sup>5</sup> It operates more than 1,000 flights per week across six continents from Dubai,<sup>6</sup> where it competes with 150 scheduled international airlines.<sup>7</sup> It has one of the largest and youngest fleets in the world,<sup>8</sup> including the largest fleet of A380s (21 aircraft) and the largest fleet of Boeing 777s (102 aircraft).<sup>9</sup>

Emirates continues to expand its services, with new routes to Ho Chi Minh City, Barcelona (from 3 July 2012), Lisbon (from 9 July 2012), Erbil in Iraq (from 12 August 2012), Washington DC (from 12 September 2012) and Warsaw (from 6 February 2013) recently announced. A route map of Emirates' current and recently announced routes is set out below.

As at 6 September 2012, the Emirates fleet comprises 174 passenger aircraft (23 Airbus A380s, 25 Airbus A330s, 18 Airbus A340s and 108 Boeing 777s) and 8 freighters.

Although Emirates is not a member of any global marketing alliances such as **oneworld**, SkyTeam or Star Alliance, it has for many years had successful bilateral relationships with a number of carriers. Emirates has entered into an Affiliation Agreement with flydubai, a LCC similarly based in Dubai. Like

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<sup>1</sup> Emirates Group Annual Report 2011-2012, p 62. Available: <http://www.theemiratesgroup.com/english/facts-figures/annual-report.aspx>

<sup>2</sup> Emirates' financial independent status including the publishing of IFRS compliant financial statements filed with international listing authorities – is confirmed by the leading investment banks and analysts including Deutsche Bank, JPMorgan, Morgan Stanley, RBS and UBS.

<sup>3</sup> 'Airlines and Subsidy: Our Position,' Emirates. Available: [http://www.emirates.com/english/about/public\\_affairs/subsidy\\_myths\\_facts.aspx](http://www.emirates.com/english/about/public_affairs/subsidy_myths_facts.aspx)

<sup>4</sup> CAPA, 2012. Available: <http://centreforaviation.com/data/rankings/>

<sup>5</sup> 'Our Brands' Emirates. Available: <http://www.theemiratesgroup.com/english/our-brands/air-transportation/emirates-airline.aspx>

<sup>6</sup> Ibid.

<sup>7</sup> Dubai Airports' 5 August 2012. Available: <http://www.dubaiairport.com/en/media-centre/facts-figures/Pages/factsheets-reports-statistics.aspx?id=9>

<sup>8</sup> WATS report dated June 2011 cited in Emirates Annual Report 2011-2012, p 51. Available: <http://www.theemiratesgroup.com/english/facts-figures/annual-report.aspx>

<sup>9</sup> Ibid.

Emirates, flydubai is wholly owned by the Government of Dubai and the entities have the same Chairman.<sup>10</sup>

Emirates began operating on the trans-Tasman in August 2003 as a FFC. Emirates currently operates four daily services on the trans-Tasman, three to Auckland and one to Christchurch. All services commence or terminate in Dubai. Emirates' trans-Tasman flights operated with a seat factor of 75% in 2010-2011. Over the last three financial years (2008-2009 to 2011-2012) Emirates has carried over 3 million passengers to and from New Zealand and uplifted over 100,000 tonnes of high-value exports from New Zealand.

dnata, a separate Dubai decree corporation which has common ownership to Emirates, provides services in ground handling, freight, travel, IT solutions and flight catering to Emirates and third parties. In Australia, dnata has entered into a 50-50 joint venture with Toll Holdings to form Toll dnata Airport Services which provides a range of services including aircraft servicing, freight handling, road feeder transport, passenger and customer services and ramp activities.<sup>11</sup> dnata also owns the in-flight catering company Alpha Flight Services, which operates as Alpha Flight Services Pty Limited in Australia and provides meals to Emirates and other third party airlines at nine airports.<sup>12</sup>

dnata World Travel is a separate Dubai decree corporation and sister company to Emirates. dnata World Travel is IATA accredited and offers customers a one-stop travel shop offering global travel services through over 50 outlets in key locations around the UAE. In addition, dnata World Travel operates Agency Support Units in Dubai and the Northern Emirates which cater to travel trade requirements.<sup>13</sup>

More information about the Emirates Group is available at [www.emirates.com](http://www.emirates.com).

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<sup>10</sup> Ibid p 9.

<sup>11</sup> Ibid p 3.

<sup>12</sup> Ibid p 3; 'Emirates and Australia – Partners in Growth,' Emirates, 2011, p 2.

<sup>13</sup> dnata – Travel Services, Available: <http://www.dnata.com/english/travel-services/travel-services.aspx>

# EMIRATES ROUTE MAP



**CONFIDENTIAL ANNEXURE C**

**Confidential Tariff Related Clauses of Coordination Agreement**

**[RESTRICTION OF PUBLICATION CLAIMED]**

## ANNEXURE D

### INTERNATIONAL AVIATION INDUSTRY

#### **Economic Challenges – Demand Sensitivity, High Fixed Costs, Time Lagged Investments**

The international aviation industry has consistently generated poor returns. Negative demand shocks (such as the terrorist attacks of 11 September 2001, various viral outbreaks, the onset of the global financial crisis and natural disasters such as the Icelandic and Chilean volcanic eruptions) have severely compromised profitability. In March 2012, IATA downgraded its forecast for airline profits in 2012 to \$3 billion, a margin of just 0.5%, and has said that a further economic downturn could see a net loss for the sector, particularly given low GDP growth projections.<sup>1</sup>

The airline industry is highly capital intensive requiring large upfront investments in aircraft and associated equipment and facilities. Non-operating costs that are fixed with output include aircraft acquisitions and long-term aircraft leasing contracts as well as airport and fuel contracts which cannot be readily avoided in the short term.

Such high fixed operating costs, combined with other market features described below, make it very difficult for an airline to recover capital costs on international routes. Over the last 15 years international airlines have systematically failed to recover their cost of capital and poor economic performance has forced many carriers into bankruptcy. Major international airlines to file for bankruptcy in the past decade include Japan Airlines, Alitalia, United Airlines, Northwest Airlines, Delta, Air Canada and American Airlines.

In March 2012, IATA observed that to survive through turbulent times and shore-up competitiveness, over the decade to 2010 airlines had collectively improved labour productivity by 67%, increased fuel efficiency by 23%, and cut sales and distribution unit costs by 21% – but despite this, even the best collective margin of the last decade was 2.9% (achieved in 2007 and 2010), which did not cover the cost of capital.<sup>2</sup>

#### **Excess Capacity**

High levels of excess capacity have been key contributors to the industry's poor financial state. Market features often produce high and sustained levels of excess capacity on particular routes. In other words, routes are often serviced by more than the efficient number of carriers.

Carriers may continue to operate on a route despite low load factors and unprofitable results because they:

- a) need to offer their passengers (particularly corporate customers) a broad network proposition. Customer demand for a broad range of destinations and frequency of service means that carriers compete on the network spread they can offer. A full service airline may therefore need to offer a minimum level of services (for example, one flight per day) to make the route attractive to customers. All else being equal, passengers are likely to choose the airline that offers the greatest flight frequency with the quantity of product supplied (flight frequency) a dimension of product quality from the customer perspective.<sup>3</sup> Business customers in particular require regular services – they want to be able to fly on the day of their choosing and have the flexibility to change flights without significant disruptions to their schedules. This produces an 'S-Curve effect' – reflecting that airlines with a higher share of frequencies on a route often have larger market shares – and this leads carriers to try to offer a service schedule that is at least as attractive as its competitors; and
- b) can only alter capacity on a route by several hundred seats at a time (that is, by adding or removing at least an extra aircraft). In this sense, airline capacity is 'lumpy' because increments can only be changed in large 'chunks.'

<sup>1</sup> 'Rising Oil Prices Reduce Profitability – Regional Differences Widen' IATA Press Release, 20 March 2012. Available: <http://www.iata.org/pressroom/pr/pages/2012-03-20-01.aspx>

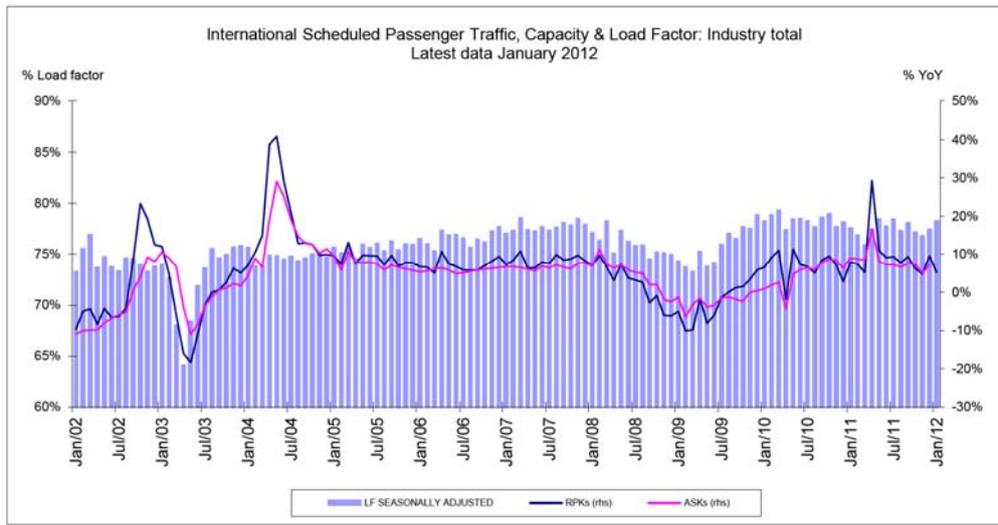
<sup>2</sup> Ibid.

<sup>3</sup> Button, K. 'Empty cores in airline markets', *Paper presented to 5th Hamburg Aviation Conference*, 14-15 February 2002.

These features also mean that the capacity offered by each airline will tend to be large relative to the level of market demand.

Load factor is the industry's standard measure of capacity utilisation and is defined as the ratio of revenue passenger miles flown divided by total seat miles flown. IATA reported that the average passenger load factor for its 240 member airlines in 2011 was 78.1%, well below the maximum of 100%, while the freight load factor was just 45.9%.<sup>4</sup> The average passenger load factor over the period 2002 to 2012 is shown below:<sup>5</sup>

**Figure 1: Average Passenger Load Factor (International Scheduled Passenger Traffic) January 2002-January 2012**



In markets characterised by high fixed costs, persistent excess capacity and returns below the cost of capital, exit or consolidation would ultimately be expected. However, in the international aviation industry, strategic and regulatory barriers to exit and consolidation have resulted in entrenched excess capacity over extended periods.

### Barriers To Exit

Aviation markets are characterised by strategic barriers to exit. Although the number of airlines competing on the route may not be sustainable, no airline wants to be the one to exit (or scale down) operations because to do so will remove the potential for it to achieve returns should the other competitor be the one to exit first. Uncertainty regarding future prices and demand conditions may also lead an airline to continue operating while incurring losses in excess of fixed costs. This is because terminating services and resuming them at a later time is costly, especially if prices recover.<sup>6</sup>

Further, for full service airlines such as Qantas, the decision to exit a route will depend both on the profitability of the route as well as the broader network benefits that accrue to the airline from offering services on that route (for example, increasing the attractiveness of its network to corporate customers). As mentioned above, these 'network effects' mean that in some circumstances it may be economically rational for a full service airline to maintain services on unprofitable routes.

<sup>4</sup> '2011 Ends on a Positive Note - Capacity, Economy Loom as Issues in 2012' IATA Press Release, 1 February 2012. Available: [www.iata.org/pressroom/pr/pages/2012-02-01-01.aspx](http://www.iata.org/pressroom/pr/pages/2012-02-01-01.aspx) (accessed 6 August 2012).

<sup>5</sup> IATA, International Traffic Charts. Available: [www.iata.org/whatwedo/Documents/economics/InternationalTrafficCharts.pdf](http://www.iata.org/whatwedo/Documents/economics/InternationalTrafficCharts.pdf) (accessed 6 August 2012).

<sup>6</sup> Oliver Wojahn, "Explaining Over-Capacity in the Airline Industry", January 2012, [www.iata.org/whatwedo/Documents/economics/Wojahn\\_Jan2012.pdf](http://www.iata.org/whatwedo/Documents/economics/Wojahn_Jan2012.pdf) (accessed 6 August 2012)

Government policies have also created barriers to exit. For example, laws that enable bankrupt companies to continue trading further entrench capacity in markets where competitors would otherwise have exited.

### **Barriers To Consolidation**

As noted above, the international aviation industry is characterised by high fixed costs, persistent excess capacity and returns below the cost of capital. While such characteristics would ordinarily compel firms to consolidate or exit, there are reasons why neither of these outcomes eventuates.

Firstly, government regulations preclude airlines from merging or expanding into international markets to take advantage of economies of scale. Airlines are regulated through bilateral air services agreements (**ASAs**) between countries. ASAs set out the terms and conditions under which airlines from each country can provide air services to the other. Despite the movement to more liberal 'open skies' agreements, restrictions on servicing foreign markets still exist. A carrier will typically only be in a position to offer flights from its home country to 'hubs' in another country. It will not be able to reach a broad range of cities in the destination country without an agreement with a carrier from that country. For example, of Australia's ASAs with 79 economies, none allow Qantas to operate passenger services between two other countries that do not originate or terminate in Australia (known as seventh freedom rights) and only one (with New Zealand) allows Qantas to operate domestic services in the other country (known as cabotage rights). A description of the various types of air freedom rights is set out in Annexure E.

ASAs also generally require that an international carrier must be 'substantially owned and effectively controlled by nationals of the designated country'. Such ownership restrictions prevent airlines from achieving scale and network breadth via acquisition. Moreover, many governments still restrict foreign shareholdings in national airlines via legislation or foreign ownership rules. Governments typically have restrictions on foreign ownership of between 25 to 50% of an airline. For example, no more than 49% of the total value of the issued share capital of an Australian international airline can be held by foreign interests.

These requirements have resulted in it being impossible for significant consolidation to occur in the international aviation industry.

Secondly, airlines have not exited the market as a result of government policy or assistance or on the basis that 'network effects' may make it economically rational to maintain services on unprofitable routes.

### **Government Ownership And Support**

While a number of national airlines have been privatised over recent years, there are still a significant number of major international carriers that are directly or indirectly owned by their respective governments. Government assistance to national carriers comes in many forms (including directly, through the periodic injection of free or subsidised capital, or indirectly through favourable policy settings, such as depreciation allowances for aircraft). Some government owned airlines also receive preferential treatment in their arrangements with airports, ground handling operations and hotels. Such subsidisation is likely to be justified on the basis that there is a strong public interest in having air transport to facilitate trade in goods and services.

As shareholders in or lenders to airlines, governments may not necessarily require a commercial return on their investment, at least in the short- to medium-term. A government owned carrier which operates independently and without subsidies still has greater scope for risk taking and investment decisions - that is, where an airline is exposed to the upside of risk taking behaviour, but not the downside (because they will ultimately be supported by government), the decisions they make will be different (especially investment decisions). These airlines are therefore able to price more keenly and/or expand their networks more broadly than commercially run airlines because the risk profile of doing so can be viewed more favourably.

Some governments use the ownership of airlines as an instrument of industry policy, underwriting the expansion of airline services to their country to support tourism and local businesses. In this way,

airlines and airports may be used as a tool for regional economic development. As discussed further above the global strategy of many successful carriers includes capitalising on the spill-over or externality effects of passenger traffic through hub ports.

**ANNEXURE E**  
**FREEDOMS OF THE AIR**

1. **First freedom rights** - the right to fly over any other country;
2. **Second freedom rights** - the right to stop in a country for refuelling or maintenance on the way to another country, without transferring passengers or freight;
3. **Third freedom rights** - the right for a designated airline to take passengers or freight from its home country to another country;
4. **Fourth freedom rights** - the right for a designated airline to take passengers or freight from another country to its home country;
5. **Fifth freedom rights** - the right for a designated airline as part of a service from its home country to pick up passengers or freight from another country and take them to a third country;
6. **Sixth freedom rights** - the right for a designated airline to use a combination of third and fourth freedom rights under separate ASAs to carry a passenger or freight from one country through its home country to a third country;
7. **Seventh freedom rights** - the right for a designated airline to operate services from a second country to a third country without the service originating in the designated airline's home country;
8. **Eighth freedom rights** (consecutive cabotage) - the right for a designated airline to operate domestic services within another country with continuing service to or from its own country; and
9. **Ninth freedom rights** (stand alone cabotage) - the right for a designated airline to operate domestic services within another country without continuing service to or from its own country.

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COMPETITOR SUMMARIES**

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# SINGAPORE AIRLINES

## 1 KEY FEATURES

- a) Natural mid-point carrier due to geographical location with associated hub advantages.
- b) Extensive route network.
- c) Current focus on expansion in Australia, including through subsidiary Scoot and SilkAir.

## 2 COMPANY OVERVIEW

### 2.1 Overview

- a) Based at Changi Airport, Singapore Airlines Limited is the national carrier of Singapore.<sup>1</sup> Along with its subsidiaries, Singapore Airlines is engaged in passenger and cargo air transportation, airport terminal services, engineering services, training of pilots, air charters, tour wholesaling and other related activities.<sup>2</sup>
- b) Singapore Airlines operates an extensive network to 63 destinations across Asia, Europe, North America, the Middle East and Africa.<sup>3</sup>
- c) Singapore Airlines has a fleet of 102 aircraft with a further 64 on firm order.<sup>4</sup>
- d) Singapore Airlines has one of the youngest fleets of any major airline, with an average age of just over 6 years.<sup>5</sup> Singapore Airlines continues to take delivery of new Airbus A330 and A380 aircraft, in line with its policy of maintaining a young fleet.<sup>6</sup>
- e) For the 12 months ending 31 March 2012, Singapore Airlines carried 17.2 million passengers and SilkAir carried 3 million.<sup>7</sup> Singapore Airlines carried approximately 16.6 million passengers in FY2011<sup>8</sup> and 16.5 million in FY2010.<sup>9</sup>
- f) Singapore Airlines has reported a 73% rise in 2012-2013 first quarter group net profit to \$S78 million (\$60.3m), a 6% rise in revenues, to \$S3.77 billion and a 9.6% improvement in passenger numbers.<sup>10</sup>

### 2.2 Subsidiaries and Other Interests

- a) Singapore Airlines is the parent company to over 20 subsidiaries, covering numerous full-service and low-cost airlines as well as other aviation-related businesses worldwide from cargo to engine overhaul.<sup>11</sup> Singapore Airlines has indicated that it will invest in related businesses, rather than seek to diversify outside of the aviation industry.<sup>12</sup>

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<sup>1</sup> 'Profile on Singapore Airlines', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>2</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p4.

<sup>3</sup> Based on information available at CAPA (4 September 2012).

<sup>4</sup> Ibid.

<sup>5</sup> 'Singapore Airlines', Star Alliance. Available: [http://www.staralliance.com/en/about/airlines/singapore\\_airlines/#](http://www.staralliance.com/en/about/airlines/singapore_airlines/#) (accessed 8 June 2012).

<sup>6</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p19.

<sup>7</sup> 'Profile on Singapore Airlines', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>8</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p5.

<sup>9</sup> 'Airlines in Singapore', Datamonitor, December 2011, p24.

<sup>10</sup> 'Confident Singapore nimble enough to meet market demand', The Australian, 27 July 2012. Available: <http://www.theaustralian.com.au/business/aviation/confident-singapore-nimble-enough-to-meet-market-demand/story-e6frg95x-1226436038998>

<sup>11</sup> 'Profile on SIA Group', CAPA – Centre for Aviation (accessed 13 June 2012).

<sup>12</sup> 'Our subsidiaries', Singapore Airlines. Available: [http://www.singaporeair.com/en\\_UK/about-us/sia-history/sia-subsiidiaries/](http://www.singaporeair.com/en_UK/about-us/sia-history/sia-subsiidiaries/) (Accessed 19 June 2012).

- b) Singapore Airlines' main subsidiaries are:
- i. Singapore Airlines Cargo which operates to destinations around the world with its fleet of B747-400 freighters. It also manages the cargo space on Singapore Airlines' passenger aircraft.<sup>13</sup> Singapore Airlines Cargo and China Cargo Airlines have agreed to operate joint freighter services between Singapore and Shanghai;<sup>14</sup>
  - ii. Singapore Airlines Engineering Company which provides maintenance, repair, overhaul and engineering services to over 85 airlines;<sup>15</sup>
  - iii. SilkAir which is a regional carrier positioned as a premium short- to medium-haul carrier operating in Asia (for further information on SilkAir see below),<sup>16</sup>
  - iv. Tradewinds Tours and Travel which is the tour-operating arm of Singapore Airlines and SilkAir, offering a wide range of tours and travel packages;<sup>17</sup> and
  - v. its low cost long-haul and fully-owned subsidiary, New Aviation Pte Ltd, known as 'Scoot'.<sup>18</sup>
- c) Singapore Airlines has started to invest more in the faster growing lower end of the market as evidenced by its increased involvement in low cost carrier Tiger Airways in 2011 and the launch of Scoot.<sup>19</sup>

### 3 NETWORK AND FLEET

- a) Singapore Airlines operates passenger services to 63 cities across Europe, Africa, the Middle East, Asia, and North America. Singapore Airlines' international routes include:<sup>20</sup>

Country	Destination
Australia	Adelaide, Brisbane, Melbourne, Perth, Sydney
Bangladesh	Dhaka
Brazil	São Paulo
Brunei	Bandar Seri Begawan
China	Guangzhou, Beijing, Shanghai
Denmark	Copenhagen
Egypt	Cairo

<sup>13</sup> Ibid.

<sup>14</sup> 'Singapore Airlines Cargo signs joint service agreement with China Cargo Airlines', CAPA – Centre for Aviation, 26 June 2012.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> 'Outlook for Asia's full-service sector dims as Singapore Airlines reports rare quarterly loss', CAPA – Centre for Aviation, 10 May 2012. Available: <http://centreforaviation.com/analysis/financials/outlook-for-asias-full-service-sector-dims-as-singapore-airlines-reports-rare-quarterly-loss-73424>

<sup>19</sup> Ibid.

<sup>20</sup> 'Where we fly', Singapore Airlines. Available: [http://www.singaporeair.com/en\\_UK/plan-and-book/where-we-fly/](http://www.singaporeair.com/en_UK/plan-and-book/where-we-fly/)

<b>Country</b>	<b>Destination</b>
France	Paris
Germany	Frankfurt, Munich
Greece	Athens
Hong Kong	Hong Kong
India	Delhi, Bangalore, Ahmedabad, Chennai, Mumbai, Kolkata
Indonesia	Jakarta, Denpasar
Italy	Milan, Rome
Japan	Fukuoka, Nagoya, Tokyo Narita, Tokyo Haneda, Osaka
Malaysia	Kuala Lumpur
Maldives	Malé
Netherlands	Amsterdam
New Zealand	Auckland, Christchurch
Philippines	Manila
Russia	Moscow
Saudi Arabia	Jeddah, Riyadh
Singapore	Singapore
South Africa	Johannesburg, Cape Town
South Korea	Seoul
Spain	Barcelona
Sri Lanka	Colombo
Switzerland	Zurich
Taiwan	Taipei
Thailand	Bangkok
Turkey	Istanbul
United Arab Emirates	Dubai, Abu Dhabi
United Kingdom	Manchester, London
United States of America	Houston, Newark, Los Angeles, San

Country	Destination
	Francisco, New York
Vietnam	Ho Chi Minh, Hanoi

## 4 ALLIANCES AND PARTNERSHIPS

### 4.1 Star Alliance and Codeshare Partners

- a) Singapore Airlines has been a Star Alliance member since 1 April 2000.
- b) It has the following codeshare partners: Air Canada; Air New Zealand; All Nippon Airways; Asiana Airlines; Brussels Airlines; EGYPTAIR; Ethiopian Airlines; Garuda Indonesia; LOT Polish Airlines; Lufthansa; Malaysia Airlines; Scandinavian Airlines; SilkAir; South African Airways; Swiss International Airlines; Transaero Airlines; Turkish Airlines; US Airways; Virgin Australia Airlines and Virgin Atlantic Airways.

### 4.2 Tiger Airways

- a) Singapore Airlines and Temasek Holdings (**Temasek**, which is a majority shareholder of Singapore Airlines) collectively own 40.2% of low cost carrier Tiger Airways.<sup>21</sup>
- b) Tiger Airways announced on 4 June 2012 that it has finalised a sale and purchase agreement to acquire 40% of Southeast Asian Airlines for USD 7 million. The stake will be held through Tiger Airways' wholly owned subsidiary Roar Aviation.<sup>22</sup>
- c) Tiger Airways stated that the investment is in-line with its strategy to develop the business into a pan-Asian one that will enable it to leverage on the strength of its Singapore base and scale up the size of its business across the region.<sup>23</sup>

### 4.3 Virgin Atlantic Airways

- a) Singapore Airlines has had a 49% minority shareholding in Virgin Atlantic Airways since 2000.<sup>24</sup>
- b) In January 2011, Singapore Airlines stated that it is considering selling its stake in Virgin Atlantic Airways but 'no decision has been made about an immediate divestment'.<sup>25</sup>

### 4.4 Relationship with US-based Airlines

- a) In December 2011, JetBlue Airways Corporation and Singapore Airlines announced an agreement that will offer customers new travel options from JetBlue destinations in the United States to Europe, Singapore and beyond. Singapore Airlines will offer an all-business class service each day from Newark to Singapore - the world's longest nonstop commercial flight - with onward connections throughout Southeast Asia. Through this partnership, customers are able to book a single combined ticket for

<sup>21</sup> 'Tiger Airways plans to raise USD 132 million in rights issue', CAPA – Centre for Aviation, 26 August 2011. Available: <http://centreforaviation.com/news/tiger-airways-plans-to-raise-usd132-million-in-rights-issue-117452> (accessed 23 August 2012).

<sup>22</sup> 'Acquisition of 40% of the issued shares of Southeast Asian Airlines (SEAir), Inc', Tiger Airways, 4 June 2012. Available: [http://www.centreforaviation.com/files/analysis/75296/Ann\\_Acquisition.pdf](http://www.centreforaviation.com/files/analysis/75296/Ann_Acquisition.pdf) (accessed 10 June 2012).

<sup>23</sup> Ibid.

<sup>24</sup> 'Profile on SIA Group', CAPA – Centre for Aviation (accessed 13 June 2012).

<sup>25</sup> 'New Singapore Airlines CEO considers selling Virgin Atlantic stake', CAPA – Centre for Aviation, 6 January 2011. Available: <http://centreforaviation.com/analysis/new-singapore-airlines-ceo-takes-over-considers-selling-virgin-atlantic-stake-42958> (accessed 23 August 2012).

JetBlue and Singapore Airlines-operated flights with one stop check-in and baggage transfer between the two airlines.

- b) Singapore Airlines has a codeshare cooperation agreement with US Airways which allows US Airways customers travelling to Singapore to connect on a Singapore Airlines nonstop service from Los Angeles. From the Singapore hub, US Airways' customers can connect to destinations in the Asia Pacific region.<sup>26</sup>

#### 4.5 Relationship with Chinese-based Airlines

- a) In December 2010, Singapore Airlines Cargo entered into an agreement to acquire a 16% stake in China Cargo Airlines, which is 70% owned by China Eastern Airlines and 30% by China Ocean Shipping (Group) Company to increase Singapore Airlines' presence in the freight sector in China.<sup>27</sup>
- b) In 2005, Singapore Airlines Cargo, China Great Wall Industry Corporation and Dahlia Investments (a wholly owned subsidiary of Temasek formed a joint venture cargo airline operating in China<sup>28</sup> named Great Wall China Airlines Company Limited. Singapore Airlines Cargo owns 25% (the maximum allowed by a foreign airline investor) and Dahlia Investments owns 24%.<sup>29</sup>

#### 4.6 Relationship with Virgin Australia

- a) In June 2011, Singapore Airlines and Virgin Australia signed an agreement under which the two airlines codeshare on international and domestic flights, offer reciprocal frequent flyer program benefits and lounge access, co-ordinate schedules between Singapore and Australia and beyond, as well as engage in joint sales, marketing and distribution activities.<sup>30</sup>
- b) Singapore Airlines currently codeshares on Virgin Australia's domestic Australian services. Virgin Australia has stated that it will place its code on Singapore Airlines services between Singapore, Adelaide, Beijing, London Heathrow, Melbourne, Shanghai Pudong and Sydney.<sup>31</sup> It commenced codesharing to other destinations on the Singapore Airlines network including Singapore, China and South Africa in March 2012.<sup>32</sup>
- c) On 3 July 2012, Singapore Airlines and Virgin Australia announced the launch of joint Round the World and Circle Pacific fares, allowing customers to travel between Virgin Australia's 31 domestic Australian destinations and across Singapore Airlines' network on a single ticket.<sup>33</sup>
- d) On 28 June 2012, it was reported that Singapore Airlines is already seeing a boost from its alliance with Virgin Australia and is moving to improve connectivity for Australian customers through Changi Airport.<sup>34</sup>

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<sup>26</sup> 'Singapore Airlines Ltd. Report', Capital IQ, 11 June 2012.

<sup>27</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p20.

<sup>28</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p6.

<sup>29</sup> 'SIA Cargo to form a joint-venture cargo airline in China', Singapore Airlines Cargo, 19 May 2005. Available: <http://www.siacargo.com/news190505.asp> (accessed 10 June 2012).

<sup>30</sup> 'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p9.

<sup>31</sup> 'Virgin Australia expands codeshare agreement with Singapore Airlines', CAPA – Centre for Aviation, 16 March 2012.

<sup>32</sup> 'Virgin Australia Commences Codeshare on Singapore Airlines Flights' Virgin Australia Media Release (29 March 2012). Available: <http://www.virginaustralia.com/au/en/about-us/media/2012/VIRGIN-AUSTRALIA-COMMENCES-SQ/>

<sup>33</sup> 'Singapore Airlines and Virgin Australia launch round the world and circle fares,' Virgin Australia Media Release (3 July 2012). Available: <http://www.virginaustralia.com/au/en/about-us/media/2012/SA-VA-ROUNDWORLD-CIRCLEPACIFIC/>

<sup>34</sup> 'Singapore sees Virgin Australia tie-up boost', The Australian, 28 June 2012. Available:

<http://www.theaustralian.com.au/business/aviation/singapore-sees-virgin-tie-up-boost/story-e6frg95x-1226411134223> (accessed 4 July 2012).

#### 4.7 Other Notable Partnerships

- a) Singapore Airlines and Scandanavia Airlines signed a joint venture agreement on 11 May 2012 which will go beyond existing codeshares to include the co-ordination of flight schedules, joint sale activities and enhanced network connectivity. Singapore Airlines expects to expand frequency between Singapore and Copenhagen and add new destinations in Scandanavia as a result of this joint venture.<sup>35</sup>

### 5 EXPANSION

- a) Singapore Airlines plans to increase Australia frequencies from 102 to 112 weekly frequencies by the end of 2012. Singapore Airlines currently operates from Singapore to Brisbane, Sydney, Melbourne, Adelaide and Perth.<sup>36</sup> The regional vice president of Singapore Airlines said the airline is focusing capacity increases in 2012 on its Australian and Chinese networks and 'we see both of these markets as growing in terms of prominence in our network, as well as areas that we have identified as future growth centres.'<sup>37</sup>
- b) The airline's capacity increases into Australia will be mainly on Singapore-Perth, Singapore-Brisbane and Singapore-Adelaide services.<sup>38</sup> Singapore Airlines also plans to increase Singapore-Adelaide frequency from 10 to 12 times weekly during select weeks in winter 2012-2013.<sup>39</sup>
- c) The airline plans to 'operate as many A380s as we can' to Sydney and Melbourne.<sup>40</sup> Singapore Airlines hopes to run a second Airbus A380 on its daily Singapore-Melbourne route by the end of 2012.<sup>41</sup> To this end, Singapore Airlines deployed a second daily A380 service between Singapore and Melbourne on 17 August 2012.<sup>42</sup>
- d) Singapore Airlines plans to increase Singapore-London Heathrow frequency from 3 to 4 times daily from 9 September 2012.<sup>43</sup>
- e) In July 2011, Singapore Airlines and Tourism Queensland signed a four-year agreement to jointly promote Queensland tourism through the airline's services to Brisbane. Under the agreement, Singapore Airlines and Tourism Queensland will jointly fund a range of campaigns and promotional activities aimed at driving tourism to Queensland.<sup>44</sup>
- f) It has been reported that Singapore Airlines medium-term strategy appears to be to remain committed to the premium model, complement it via entry into a major market – Australia – and supplement it by being competitive in a new market segment via a long-haul low-cost subsidiary.<sup>45</sup>

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<sup>35</sup>'SIA and SAS sign joint venture agreement', 14 May 2012, CAPA – Centre for Aviation.

<sup>36</sup>'Singapore Airlines to increase Australian frequencies', CAPA – Centre for Aviation, 26 June 2012.

<sup>37</sup>'Singapore Airlines to increase Australian frequencies', CAPA – Centre for Aviation, 26 June 2012..

<sup>38</sup>'Singapore Airlines to increase Australian frequencies', CAPA – Centre for Aviation, 26 June 2012.

<sup>39</sup>'Singapore Airlines to increase Singapore-Adelaide frequency winter 2012/13', CAPA – Centre for Aviation, 4 July 2012.

<sup>40</sup>'Singapore Airlines to increase Australian frequencies', CAPA Centre for Aviation, 26 June 2012.

<sup>41</sup>'As many A380s as we can' - Singapore to beef up Australia flights', Sydney Morning Herald, 26 June 2012.

Available: <http://www.smh.com.au/travel/travel-news/as-many-a380s-as-we-can--singapore-to-beef-up-australia-flights-20120626-20zil.html#ixzz1zc7EghfH> (accessed 4 July 2012).

<sup>42</sup>'SIA to make network adjustments in northern winter schedule,' Singapore Airlines Press Release, 24 July 2012: Available: [http://www.singaporeair.com/jsp/cms/en\\_UK/press\\_release\\_news/ne120724.jsp](http://www.singaporeair.com/jsp/cms/en_UK/press_release_news/ne120724.jsp)

<sup>43</sup>'Singapore Airlines to increase Singapore-London Heathrow frequency in September 2012', CAPA – Centre for Aviation, 8 January 2012.

<sup>44</sup>'Singapore Airlines Limited: Company Profile', Datamonitor, 23 January 2012, p10.

<sup>45</sup>'Singapore Airlines takes wider aim with new strategy moves', Flight Global, 27 June 2011. Available:

<http://www.flightglobal.com/news/articles/singapore-airlines-takes-wider-aim-with-new-strategy-moves-358771/> (accessed 10 June 2012).

## 6 SILKAIR

### 6.1 Overview

- a) SilkAir is a full-service premium airline, a subsidiary of Singapore Airlines.<sup>46</sup> SilkAir is positioned as a short-to-medium haul regional carrier designed for leisure and business travellers in Asia.<sup>47</sup>
- b) SilkAir is minority government owned and listed on the Singapore Stock Exchange.<sup>48</sup>
- c) In 2012, SilkAir will expand capacity at a pace of 23%.<sup>49</sup>
- d) SilkAir carried a total of 2.8 million passengers during the 2011 financial year, an improvement of 17.3% over the previous year.<sup>50</sup>
- e) SilkAir has a fleet of 21 aircraft, comprising fifteen Airbus A320-200 and 6 Airbus A319-100 aircraft,<sup>51</sup> with 4 aircraft currently on order.<sup>52</sup>
- f) SilkAir flies one of the youngest fleets in the Asian region, with an average age of 6 years.<sup>53</sup>
- g) SilkAir is reportedly considering purchasing smaller aircraft such as Embraer E-Jets or Bombardier CSeries.<sup>54</sup>

### 6.2 Network

- a) SilkAir currently flies to 41 destinations<sup>55</sup> across 12 countries<sup>56</sup> including Australia, Cambodia, China, India, Indonesia, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand and Vietnam,<sup>57</sup> offering an extensive network of regional services within Asia.<sup>58</sup>
- b) SilkAir's route network is shown in the diagram below:<sup>59</sup>

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<sup>46</sup> 'Profile on SilkAir', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>47</sup> 'Our Heritage', SilkAir. Available: [http://www.silkair.com/mbe/en\\_UK/content/corporate/heritage.jsp](http://www.silkair.com/mbe/en_UK/content/corporate/heritage.jsp) (accessed 23 June 2012).

<sup>48</sup> 'Profile on SilkAir', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>49</sup> 'SilkAir to grow capacity by 23% in 2012, outpacing growth of 3% at Singapore Airlines', CAPA – Centre for Aviation. 20 May 2012.

<sup>50</sup> Singapore Airlines Annual Report 2011, p29. Available: <http://www.singaporeair.com/pdf/Investor-Relations/Annual-Report/annualreport1011.pdf> (**Singapore Airlines Annual Report 2011**).

<sup>51</sup> 'Our Heritage', SilkAir. Available: [http://www.silkair.com/mbe/en\\_UK/content/corporate/heritage.jsp](http://www.silkair.com/mbe/en_UK/content/corporate/heritage.jsp) (accessed 23 June 2012).

<sup>52</sup> 'Profile on SilkAir', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>53</sup> 'Our Fleet', SilkAir. Available: [http://www.silkair.com/mbe/en\\_UK/content/corporate/fleet.jsp](http://www.silkair.com/mbe/en_UK/content/corporate/fleet.jsp) (accessed 23 June 2012).

<sup>54</sup> 'SilkAir considering purchasing smaller aircraft', CAPA – Centre for Aviation, 23 April 2012.

<sup>55</sup> SilkAir Route Map. Available: [http://www.silkair.com/mbe/en\\_UK/content/destinations/index.jsp](http://www.silkair.com/mbe/en_UK/content/destinations/index.jsp) (accessed 23 June 2012).

<sup>56</sup> 'SilkAir touches down in the top end', CAPA – Centre for Aviation, 26 March 2012.

<sup>57</sup> SilkAir Destinations. Available: [http://www.silkair.com/mbe/en\\_UK/content/destinations/index.jsp](http://www.silkair.com/mbe/en_UK/content/destinations/index.jsp) (accessed 23 June 2012).

<sup>58</sup> 'Profile on SilkAir', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>59</sup> SilkAir Destinations. Available: [http://www.silkair.com/mbe/en\\_UK/content/destinations/index.jsp](http://www.silkair.com/mbe/en_UK/content/destinations/index.jsp) (accessed 23 June 2012).



- c) SilkAir flies from its hub in Singapore to 40 destinations including Chengdu, Kunming, Chongqing, Wuhan, Changsha, Xiamen, Shenzhen, Hyderabad, Bangalore, Coimbatore, Kochi, Thiruvananthapuram, Chennai, Kathmandu, Kolkata, Yangon, Chiang Mai, Koh Samui, Phuket, Penang, Medan, Langkawi, Kuala Lumpur, Penkanbaru, Palembang, Bandung, Solo, Surabaya, Lombok, Hanoi, Da Nang, Siem Reap, Phnom Penh, Cebu, Davao, Kota Kinabalu, Manado, Balikpapan, Kuching and Darwin.<sup>60</sup>
- d) SilkAir launched its first flight to Darwin in Australia on 26 March 2012, which is SilkAir's first destination in Australia. This service operates four times a week.<sup>61</sup>

### 6.3 Alliances and Codeshares

- a) SilkAir's codeshare partners include Bangkok Airways, Garuda Indonesia, Malaysia Airlines, Singapore Airlines and V Australia.<sup>62</sup>
- b) On 2 April 2012, Singapore Airlines and Virgin Australia launched the 'Visit Australia Airpass' which allows passengers to travel on Singapore Airlines and SilkAir's international networks to Australia and then on to domestic services operated by Virgin Australia. The airpass covers 29 Australian cities with 61 domestic routes.<sup>63</sup>

## 7 SCOOT

### 7.1 Overview

- a) New Aviation Pte Ltd, known as 'Scoot',<sup>64</sup> is a low-cost long haul subsidiary of Singapore Airlines based at Changi International Airport, Singapore.<sup>65</sup>
- b) Scoot officially launched on 1 November 2011 and commenced operations in June 2012.<sup>66</sup>

<sup>60</sup> SilkAir Route Map. Available: [http://www.silkair.com/mbe/en\\_UK/content/destinations/index.jsp](http://www.silkair.com/mbe/en_UK/content/destinations/index.jsp) (accessed 23 June 2012).

<sup>61</sup> 'SilkAir touches down in the top end', CAPA – Centre for Aviation, 26 March 2012.

<sup>62</sup> Ibid.

<sup>63</sup> 'Singapore Airlines and Virgin Australia launch Australian airpass', CAPA – Centre for Aviation, 2 April 2012.

<sup>64</sup> 'Outlook for Asia's full-service sector dims as Singapore Airlines reports rare quarterly loss', CAPA – Centre for Aviation, 10 May 2012. Available: <http://centreforaviation.com/analysis/financials/outlook-for-asias-full-service-sector-dims-as-singapore-airlines-reports-rare-quarterly-loss-73424>

<sup>65</sup> 'Profile on Scoot', CAPA – Centre for Aviation (accessed 25 June 2012).

<sup>66</sup> Ibid.

- c) Scoot's current fleet consists of four Boeing 777-200 aircraft,<sup>67</sup> increasing to 14 aircraft by 2016, all of which will be sourced from Singapore Airlines.<sup>68</sup>
- d) Although Scoot is wholly-owned by Singapore Airlines and listed on the Singapore Stock Exchange<sup>69</sup> it reports that it is operated independently and managed separately from Singapore Airlines.<sup>70</sup> Campbell Wilson, founding CEO, has reportedly said that Scoot will service passenger segments different from those targeted by another Singapore Airlines-linked carrier, Tiger Airways.<sup>71</sup>
- e) Singapore Airlines will use Scoot to help it compete in key regions.<sup>72</sup>
- f) Scoot launched its first service from Singapore to Sydney on 5 June 2012. It also has services from Singapore to the Gold Coast and Bangkok. Flights between Tianjin and Singapore commenced in August 2012.<sup>73</sup> Taipei and Tokyo services will be launched later in 2012.<sup>74</sup>

## 7.2 Route Network

- a) Scoot has indicated that it plans to operate to at least 5 cities from Singapore by the end of 2012 as follows<sup>75</sup>:

Country	Destination
Australia	Sydney, Gold Coast
Thailand	Bangkok
China	Tianjin
Taiwan	Taipei Taoyuan
Japan	Tokyo (via Taipei)

- b) Scoot's CEO stated on 11 June 2011 that the airline has no immediate plans to operate to Europe or the US due to high fuel costs and will instead focus on expanding within the Asia-Pacific region. The airline will await the resolution of the European financial crisis before considering launching services to the region.<sup>76</sup>
- c) Scoot is reportedly in discussions with other carriers, including Tiger Airways, regarding possible cooperation to keep its load factors at high levels.<sup>77</sup>

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

<sup>69</sup> Ibid.

<sup>70</sup> 'SIA Appoints CEO for new low-fare airline', Scoot, 18 July 2011. Available:

<http://www.flyscoot.com/index.php/en/media1/press-releases-summary/sia-appoints-ceo-for-new-low-fare-airline.html> (accessed 21 March 2012).

<sup>71</sup> 'Scoot's market segments won't overlap with Tiger Airways: CEO', CAPA – Centre for Aviation, 3 November 2011.

<sup>72</sup> 'Profile on Scoot', CAPA – Centre for Aviation (accessed 25 June 2012).

<sup>73</sup> 'Love is in the air! Scoot's first Singapore-Tianjin flight takes off on Qi Xi' Scoot Media Release (22 August 2012). Available: <http://www.flyscoot.com/index.php/en/pr36-love-is-in-the-air.html>

<sup>74</sup> 'Love is in the air! Scoot's first Singapore-Tianjin flight takes off on Qi Xi' Scoot Media Release (22 August 2012).

Available: <http://www.flyscoot.com/index.php/en/pr36-love-is-in-the-air.html>

<sup>75</sup> 'Scoot plans to operate to at least five cities by end 2012', CAPA – Centre for Aviation, 21 February 2012.

<sup>76</sup> 'Scoot has no immediate plans to operate to Europe or US: CEO', CAPA – Centre for Aviation, 12 June 2012.

<sup>77</sup> Ibid.

# ETIHAD AIRWAYS

## 1 KEY FEATURES

- a) Natural mid-point carrier, transporting passengers between east and west.
- b) Key focus on building partnerships and alliances to expand its global network.

## 2 COMPANY OVERVIEW

### 2.1 Overview

- a) Etihad provides air transportation services for passengers and cargo in the United Arab Emirates (**UAE**) and internationally. The company also provides holiday packages and limousine and coach services. It offers its services through travel agents, its travel offices and retail outlets, contact centres, the internet, interline partners and travel wholesalers.
- b) For most of its modern history, Abu Dhabi played a supporting role in the region's aviation sector as a founding member of Gulf Air. However, in 2003, influenced by the success of the flag carriers of fellow emirates Dubai and Qatar, the Government of Abu Dhabi launched Etihad (**Etihad**) and moved its aviation investment from Gulf Air to Etihad.<sup>78</sup>
- c) Etihad was set up by Royal (Amiri) Decree in July 2003. Etihad is the fastest growing airline in the history of commercial aviation.<sup>79</sup>
- d) In July 2012, Etihad announced a 31% increase in its Q2 2012 revenues to US\$1.25 billion (2011: US\$957 million), contributing to first half 2012 revenues up 30% to US\$2.24 billion (US\$1.73 billion). Passenger numbers leapt to 2.55 million in Q2, up 34%, and to 4.89 million in the half year, attributable to increased overall capacity and improved seat factors.<sup>80</sup>
- e) The first Etihad flights from Sydney to Abu Dhabi took place in March 2007 and since then it has started flights from Brisbane and Melbourne. In total, nearly 2 million passengers have flown with Etihad between Australia and its Abu Dhabi hub.<sup>81</sup>
- f) Etihad has 3 regional offices and a line maintenance facility in Australia, and now employs more than 300 Australian members of staff who are based in Australia, Abu Dhabi and at stations around the world. The airline's aircraft, office, marketing and selling costs have directly contributed more than AUD\$540 million to Australia's GDP.<sup>82</sup>
- g) Etihad has been in a strategic alliance with Virgin Australia since 2010, which now includes 24 flights a week between Australia and Abu Dhabi.<sup>83</sup> The expansion of Etihad's international services to and from Australia is even more likely given that Etihad has now increased its equity interest in Virgin Australia to 10%.<sup>84</sup>

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<sup>78</sup> 'Airlines competition in the gulf: a competitive advantage', S Ladki and A Misk, *International Journal of Business Strategy* 9 (1), January 2009.

<sup>79</sup> 'Our Story', Etihad Airways. Available:

<http://www.etihadairways.com/sites/etihad/au/en/aboutetihad/Pages/etihadstoryposting.aspx> (accessed 9 June 2012)

<sup>80</sup> 'Codeshares and Partnerships Boost Etihad's Q2 Revenues to USD 2.1 billion' Etihad Press Release (4 July 2012). Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3620](http://www.etihadmediacentre.com/file.php?f_ID=3620) (accessed 28 August 2012)

<sup>81</sup> 'Etihad Airways cleared to buy more of Virgin Australia' CPI Financial, 22 July 2012. Available:

<http://www.cpifinancial.net/news/post/14955/etihad-airways-cleared-to-buy-more-of-virgin-australia>

<sup>82</sup> Ibid.

<sup>83</sup> 'Etihad gets government nod to double Virgin stake', Sydney Morning Herald, 19 July 2012. Available:

<http://www.smh.com.au/business/etihad-gets-government-nod-to-double-virgin-stake-20120719-22cem.html>

<sup>84</sup> 'Etihad Airways Increases Stake in Virgin Australia' Etihad Media Release 2 September 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_id=3705](http://www.etihadmediacentre.com/file.php?f_id=3705)

## 2.2 Importance of Etihad to the UAE

- a) According to a recent study completed in April 2011 by Oxford Economics,<sup>85</sup> Etihad plays a crucial role in supporting and driving economic growth in the UAE.<sup>86</sup> Results of the study include the following:<sup>87</sup>
- i. Etihad contributed 2.1% of Abu Dhabi's non-oil GDP (0.8% of total GDP) in 2011.
  - ii. Etihad made an indirect economic contribution of US\$830 million and supported an additional 15,000 jobs in 2011 through fuel purchases, maintenance and repair, airport rental and landing fees, marketing, advertising, IT ventures and communications.
  - iii. An induced GDP contribution of US\$760 million and 13,839 additional jobs can be attributed to money spent during 2011 by people working for Etihad and its suppliers.
  - iv. Etihad played an important role in improving air links between Abu Dhabi and the rest of the global economy and the airline's expanding network was a key factor in encouraging businesses to invest in the Emirate and the UAE. These activities provided a catalytic economic contribution of nearly US\$4 billion, representing 5.3% of Abu Dhabi's non-oil GDP or 2.1% of total GDP and supported nearly 104,000 jobs.
  - v. Based on the airline's current growth projections, Etihad's total economic contribution to Abu Dhabi's GDP is on track to increase by 76% to US\$10.743 billion by 2015, helping to support 162,000 jobs in the UAE.<sup>88</sup>

## 2.3 Growth of Tourism

- a) Etihad was a key contributor to the development and growth of tourism in the UAE. In 2011, the airline carried 8.3 million passengers through its hub in Abu Dhabi. Etihad predicted that in 2012 this figure would increase to 10 million passengers.<sup>89</sup>
- b) This aligns with Etihad's extensive marketing campaign which includes destination marketing programs such as 'Essential Abu Dhabi', which promotes the capital of the UAE as one of the world's top business and tourist destinations.<sup>90</sup>

## 2.4 Government View of Aviation Industry

- a) The aviation industry is critical to the Abu Dhabi Government's 2030 Plan<sup>91</sup> on the basis that a successful airline and airport will promote free-market commercial activity in sufficient volume to underpin a diverse economy, while attracting further investment.<sup>92</sup>
- b) Etihad has a commercial mandate from its owner, the Government of Abu Dhabi, to be safe and profitable and to create the best airline in the world, while fulfilling its role

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<sup>85</sup> The research used the standard methodology for economic impact appraisals, and was based on data from the International Air Transport Association (IATA), the Air Transport Action Group (ATAG), EUROCONTROL, the UK aviation industry and the Civil Aviation Authority of Singapore (CAAS).

<sup>86</sup> Etihad Airways Annual Report 2011, p17.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

<sup>90</sup> Etihad Airways Annual Report 2011, p50.

<sup>91</sup> The Government of Abu Dhabi's "Abu Dhabi 2030: Urban Structure Framework Plan" is a comprehensive plan for the development of the city of Abu Dhabi that will guide planning decisions for the next quarter of a century (<http://gsec.abudhabi.ae/Sites/GSEC/Navigation/EN/publications.did=90378.html>)

<sup>92</sup> Etihad Airways Annual Report 2011, p17.

as a key enabler in the transformation of Abu Dhabi into a world-class trade and tourism centre.<sup>93</sup>

- c) Etihad's mandate is not only growth, but to become a sustainably profitable airline, contributing to the health of the emirate of Abu Dhabi.<sup>94</sup>
- d) Etihad is a beneficiary of more than 100 air services agreements (**ASAs**).<sup>95</sup> Etihad works closely with the Abu Dhabi Department of Transport and the UAE General Civil Aviation Authority on issues that involve the review of existing national air transport policies and procedures, with a view to addressing global aero-political developments, particularly those that have a direct and indirect impact on Etihad's operations.<sup>96</sup>

### **3 AIRPORT, HUB AND NETWORK INFORMATION**

#### **3.1 Abu Dhabi Airport**

- a) Abu Dhabi, the capital of the UAE, is the airline's hub.<sup>97</sup> Etihad attracts many in-transit passengers who are connected to or from the east to the west by Abu Dhabi.
- b) Terminal 3 at Abu Dhabi Airport is an exclusive facility for Etihad and was opened in February 2009. This terminal increases the airport's passenger handling capacity from 5 to 12 million passengers a year.<sup>98</sup>
- c) The second runway at Abu Dhabi Airport, which was officially opened in October 2008, is part of a large-scale AED 25 billion redevelopment and expansion project at the airport.<sup>99</sup> The airport will be capable of handling 40 million passengers by 2030, when the project is completed.<sup>100</sup>
- d) In 2010, Etihad introduced new airport services in Abu Dhabi, such as self-service check-in kiosks, to complement the airline's online check-in options. Etihad is also currently evaluating mobile check-in options for its guests.<sup>101</sup>
- e) With Etihad's growing number of partners (see below) – the largest for a Middle East carrier – it obtains a 'pipeline effect' in which it operates services where partners on both sides of Abu Dhabi feed it traffic while taking some marketing and distribution work off Etihad.<sup>102</sup>
- f) The combination of Etihad's increase in the number of routes and frequency of flights has generated a 30% year on year increase in sub-four-hour-connectivity over the Abu Dhabi hub.<sup>103</sup> Further, the introduction of new approach routes (planned for the third quarter of 2012) and landing procedures in Abu Dhabi will allow for the decrease of each flight path by 33 flight kilometres.<sup>104</sup>

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<sup>93</sup> Etihad Airways Annual Report 2011, p8.

<sup>94</sup> 'Etihad', Airline Leader. Available: [www.airlineleader.com/airline-of-the-month/Etihad](http://www.airlineleader.com/airline-of-the-month/Etihad) (accessed 9 June 2012).

<sup>95</sup> Etihad Airways Annual Report 2011, p37.

<sup>96</sup> Ibid.

<sup>97</sup> 'Our Story', Etihad Airways. Available: <http://www.etihadairways.com/sites/etihad/au/en/aboutetihad/Pages/etihadstoryposting.aspx> (accessed 9 June 2012)

<sup>98</sup> 'Our History', Etihad Airways. Available: <http://www.etihadairways.com/sites/Etihad/global/en/aboutetihad/etihadstory/Pages/EtihadHistory.aspx> (accessed 9 June 2012).

<sup>99</sup> Ibid.

<sup>100</sup> Ibid.

<sup>101</sup> Etihad Airways Factsheet (May 2012), p47. Available: <http://www.etihadairways.com/sites/Etihad/Etihad%20Images/Resources/EY-Factsheet.pdf> (accessed 9 June 2012).

<sup>102</sup> 'Etihad Airways gets springboard into Northern Europe with 2.9% stake in Aer Lingus', CAPA – Centre for Aviation, 3 May 2012. Available: <http://centreforaviation.com/analysis/etihad-airways-gets-springboard-into-northern-europe-with-29-stake-in-aer-lingus-72899>

<sup>103</sup> Etihad Airways Annual Report 2011, p31.

<sup>104</sup> Ibid, p39.

### 3.2 Flights and Routes

- a) On average Etihad currently operates 173 flights per day, 1,211 flights per week, 5,190 flights per month and 63,145 flights per year,<sup>105</sup> serving an international network of 73 destinations across the Middle East, Africa, Europe, Asia, Australia and North America.<sup>106</sup>
- b) As at December 2011, Etihad operated:
- i. 206 services per week from Abu Dhabi to 17 destinations in the Middle East;<sup>107</sup>
  - ii. 90 services per week from Abu Dhabi to 12 destinations within Europe;<sup>108</sup>
  - iii. 21 services per week from Abu Dhabi to Sydney, Brisbane (via Singapore) and Melbourne in Australia;<sup>109</sup>
  - iv. 22 services per week to Northern Asia and 14 services to Eastern Europe from Abu Dhabi;<sup>110</sup>
  - v. 43 flights per week from Abu Dhabi to 8 destinations in South East Asia;<sup>111</sup>
  - vi. 84 services per week from Abu Dhabi to 15 destinations within the South Asian subcontinent;<sup>112</sup>
  - vii. a daily service to Johannesburg and Cape Town in South Africa;<sup>113</sup> and
  - viii. over 17 services per week from Abu Dhabi to the Americas.<sup>114</sup>
- c) Etihad's international routes (not including codeshare destinations) comprise.<sup>115</sup>

Country	Destination
Australia	Brisbane, Melbourne
Bahrain	Bahrain
Bangladesh	Chittagong, Dhaka
Belarus	Minsk
Belgium	Brussels
Brazil	Sao Paulo (from June 2013)
Canada	Toronto

<sup>105</sup> Etihad Airways Factsheet (May 2012), p4. Available:

<http://www.etihadairways.com/sites/Etihad/Etihad%20Images/Resources/EY-Factsheet.pdf> (accessed 9 June 2012).

<sup>106</sup> Based on information available at CAPA (4 September 2012).

<sup>107</sup> Ibid, p14

<sup>108</sup> Ibid, p15.

<sup>109</sup> Ibid, p17.

<sup>110</sup> Ibid, p19.

<sup>111</sup> Ibid, p20.

<sup>112</sup> Ibid, p21.

<sup>113</sup> Ibid, p23.

<sup>114</sup> Ibid, p24.

<sup>115</sup> 'Our Destinations and Route Map', Etihad Airways. Available:

<http://www.etihadairways.com/sites/etihad/global/en/home/Pages/flights-to.aspx> (accessed 9 June 2012)

<b>Country</b>	<b>Destination</b>
China	Beijing, Chengdu, Shanghai
Cyprus	Larnaca
Egypt	Cairo
Ethiopia	Addis Ababa
France	Paris
Germany	Düsseldorf, Frankfurt, Munich
Greece	Athens
India	Ahmedabad, Bengaluru, Chennai, Hyderabad, Kochi, Kozhikode, Mumbai, New Delhi, Thiruvananthapuram
Indonesia	Jakarta
Iran	Tehran
Iraq	Baghdad, Basra, Erbil
Italy	Milan
Japan	Nagoya, Tokyo
Jordan	Amman
Kazakhstan	Almaty, Astana
Kenya	Nairobi
Kuwait	Kuwait
Lebanon	Beirut
Libya	Tripoli
Malaysia	Kuala Lumpur
Maldives	Male
Morocco	Casablanca
Nepal	Kathmandu
Nigeria	Lagos
Oman	Muscat
Pakistan	Islamabad, Karachi, Lahore, Peshawar
Philippines	Manila

Country	Destination
Qatar	Doha
Republic of Ireland	Dublin
Russia	Moscow
Saudi Arabia	Dammam, Jeddah, Riyadh
Seychelles	Seychelles
Singapore	Sydney
South Africa	Johannesburg
South Korea	Seoul
Sri Lanka	Colombo
Sudan	Khartoum
Switzerland	Geneva
Syria	Damascus
Thailand	Bangkok
Turkey	Istanbul
United Kingdom	London, Manchester
United States of America	Chicago, New York, Washington DC (from 2013)

### 3.3 New Routes & Frequencies

- a) Etihad launched 5 new passenger destinations in 2011 – the Maldives, Seychelles, Chengdu, Bangalore and Düsseldorf and in 2012, it launched flights to Tripoli, Shanghai and Nairobi, with Lagos, Basra and Washington DC to follow.<sup>116</sup>
- b) In 2011, an additional 36 frequencies to 12 existing destinations were added. As part of Etihad's European expansion at the beginning of summer 2011, 17 additional weekly frequencies were added across five existing destinations – Paris, Geneva, Milan, Brussels and Manchester.<sup>117</sup>
- c) Etihad stated on 1 July 2012 that it will be deploying 3 Boeing 777-300ER aircraft on its Abu Dhabi-London Heathrow service which will increase capacity by 13%.<sup>118</sup> The additional business capacity will cater for the high demand of business travellers taking the early morning flight from Abu Dhabi to London.<sup>119</sup>
- d) On 9 April 2012, Etihad announced that it is continuing to build its presence in Europe with the expansion of its code share agreement with Belgian carrier Brussels Airlines,

<sup>116</sup> Etihad Airways Annual Report 2011, p8.

<sup>117</sup> Ibid, p31.

<sup>118</sup> 'Etihad Airways 777s to increase London capacity by 13%', CAPA – Centre for Aviation, 4 July 2012.

<sup>119</sup> 'Etihad Airways to deploy three class 777 to London', CAPA – Centre for Aviation, 2 July 2012.

which will now include services to three regional French cities – Lyon, Marseille and Toulouse.<sup>120</sup>

- e) Etihad expects to continue with its approach of additional frequencies to a range of destinations, enabling it to increase the depth and breadth of its network<sup>121</sup> and significant expansion is planned into the emerging markets of China, Africa and the Middle East.<sup>122</sup>
- f) Etihad has announced plans to launch an Abu Dhabi–Sao Paulo service from 1 June 2013 which will be the airline’s first South American destination.<sup>123</sup>

### 3.4 Fleet

- a) Etihad has a fleet of 65 aircraft in total, with 92 more on firm order.<sup>124</sup>
- b) Over the next 10 years, Etihad plans to take delivery of six Airbus A330s by the end of 2011; 20 A320s between 2011 and 2015; 10 Airbus A380s from 2014; 25 A350s between 2017 and 2020; 35 Boeing 787s between 2014 and 2020; and 10 Boeing 777s between 2011 and 2013.<sup>125</sup>

## 4 ALLIANCES

### 4.1 Etihad’s Views on Partnerships/Alliances

- a) Etihad has made partnerships a fundamental feature of its business model<sup>126</sup> and has pursued an effective strategy of forming alliances with carriers around the world to enhance its network and marketing reach<sup>127</sup> as it views them as ‘an enabler of exponential growth’.<sup>128</sup> Etihad has comprehensive agreements with many carriers which include codeshare flights, reciprocal frequent flyer programs, premium lounge access and other customer benefits, depending on the partner.<sup>129</sup>
- b) Etihad’s partnerships provide it with a large virtual network, with gateway access that in some instances could not be achieved without scores of additional assets or markets too small to support direct services.<sup>130</sup>
- c) Etihad’s partnerships and alliances are expected to produce just under \$US500 million in annual revenue, which is why Etihad has stated that it will continue to expand and develop such partnerships and consider new opportunities that arise to extend Etihad’s competitive offering.<sup>131</sup>

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<sup>120</sup> Various media releases available at Etihad Airways Media Centre: <http://www.etihadmediacentre.com/search.php?areas=1&col=1> (accessed 9 June 2012).

<sup>121</sup> Etihad Airways Annual Report 2011, pp8 and 31.

<sup>122</sup> Ibid, p31

<sup>123</sup> ‘Etihad Airways To Fly To Brazil,’ Etihad Press Release (3 June 2012). Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3548](http://www.etihadmediacentre.com/file.php?f_ID=3548) (accessed 28 August 2012).

<sup>124</sup> Based on information available at CAPA (4 September 2012).

<sup>125</sup> ‘Our History’, Etihad Airways. Available: <http://www.etihadairways.com/sites/Etihad/global/en/aboutetihad/etihadstory/Pages/EtihadHistory.aspx> (accessed 9 June 2012).

<sup>126</sup> ‘Middle East network carriers strategies vary on partnerships but both seem to work’, CAPA – Centre for Aviation, 15 March 2012. Available: <http://centreforaviation.com/blogs/aviation-blog/middle-east-network-carriers-strategies-vary-on-partnerships-but-both-seem-to-work-69753>

<sup>127</sup> Etihad Airways Annual Report 2011, p46. Note: this strategy is vastly different to Emirates which “prefer to rely on our product, so we prefer to buy airplanes than airlines” (Mr Antorini).

<sup>128</sup> ‘Middle East network carriers strategies vary on partnerships but both seem to work’, CAPA – Centre for Aviation, 15 March 2012. Available: <http://centreforaviation.com/blogs/aviation-blog/middle-east-network-carriers-strategies-vary-on-partnerships-but-both-seem-to-work-69753>

<sup>129</sup> Etihad Airways Annual Report 2011, p46.

<sup>130</sup> ‘Etihad Airways gets springboard into Northern Europe with 2.9% stake in Aer Lingus’, CAPA – Centre for Aviation, 3 May 2012. Available: <http://centreforaviation.com/analysis/etihad-airways-gets-springboard-into-northern-europe-with-29-stake-in-aer-lingus-72899>

<sup>131</sup> Etihad Airways Annual Report 2011, p9.

## 4.2 Etihad's Partnerships and Codeshare Arrangements

- a) Etihad has a strong portfolio of bilateral and affiliate relationships with other carriers. Etihad currently has over 100 Special Prorate Agreement (**SPA**) relationships.
- b) Etihad is not a member of any global marketing alliance, however it has confirmed it is exploring options for partnership in one of the three major alliances, potentially becoming the first of the 'Big Three' Gulf carriers to join an alliance.<sup>132</sup>
- c) Etihad has codeshare partnerships with Aer Arann, airberlin, Air Astana, Air Malta, Air New Zealand, Air Seychelles, Alitalia, American Airlines, All Nippon Airways, All Nippon Airways, Asiana, Bangkok Airways, bmi, Brussels Airlines, Cyprus Airways, Czech Airlines, flybe, French Railways (SNCF), Jet Airways, Kuwait Airways, Malaysia Airlines, Malev,<sup>133</sup> Middle East Airlines, NIKI, Olympic Air, Philippine Airlines, Royal Air Maroc, Safi Airways,<sup>134</sup> Saudi Arabia Airlines, Siberia Airlines (S7), Sri Lankan Airlines, TAP Portugal, Turkish Airlines, Ukraine International, Virgin Blue, V Australia, Vietnam Airlines and Yemenia.<sup>135</sup>
- d) The airline's codeshare deals with key partners around the world have created a comprehensive virtual network giving customers easy access to destinations not directly served by the Etihad fleet and giving Etihad regional feed. The agreements have also generated considerable revenue for Etihad.<sup>136</sup>
- e) Etihad's codeshare destinations include:<sup>137</sup> Aberdeen, Adelaide, Agadir, Aix en Provence, Amsterdam, Angers St-Laud, Atlanta, Auckland, Austin, Avignon, Ayers Rock, Baltimore, Bamako, Banjul, Barcelona, Basel, Belfast, Berlin, Birmingham, Bordeaux St Jean, Boston, Broome, Bucharest, Buffalo, Cairns, Canberra, Catania, Champagne, Chiang Mai, Christ Church, Cleveland, Coffs Harbour, Columbus, Copenhagen, Cotonou, Covington, Dakar, Dallas, Darwin, Denpasar Bali, Denver, Des Moines, Detroit, Donegal, Dunedin, East Midlands, Edinburgh, El Paso, Errachidia, Exeter, Faro, Fes, Fukuoka, Funchal, Galway, Glasgow, Gold Coast, Gothenburg, Grand Rapids, Graz, Hamburg, Hamilton Island, Hanoi, Hanover, Helsinki, Hervey Bay, Ho Chi Minh City, Hobart, Hong Kong, Houston, Indianapolis, Innsbruck, Inverness, Isle of Man, Jacksonville, Jersey, Johor Bahru, Kazan, Kiev, Knock, Koh Samui, Kosice, Kota Kinabalu, Krabi, Krasnodar, Kuantan, Kuching, Langkawi, Las Vegas, Launceston, Le Mans, Leeds, Lille, Little Rock, Londonderry, Lorraine, Los Angeles, Luang Prabang, Lyon, Lyon Part - Dieu, Mackay, Madrid, Malta, Marrakech, Marseille, Marseille St. Charles, Matsuyama, Memphis, Miami, Minneapolis, Montpellier, Nador, Nantes, Nashville, New Orleans, Niigata, Nîmes, Nottingham, Nouakchott, Okinawa, Oklahoma City, Orange County, Orlando, Osaka, Oslo, Ouagadougou, Ouarzazate, Ouja, Penang, Perth, Phnom Penh, Phoenix, Phuket, Pittsburgh, Poitiers, Porto, Queenstown, Raleigh/Durham, Rennes, Rhodes, Rochester, Rockhampton, Rome, Rotorua, Salt Lake City, Salzburg, Samara, San Antonio, San Diego, San Francisco, Sanaa, Sapporo, Seattle, Sligo, Sofia, Southampton, St Louis, St. Petersburg, St-Pierre des Corps, Stansted, Stockholm, Strasbourg, Stuttgart, Sunshine Coast, Syracuse, Tampa, Tangier, Thessaloniki, Tirana, Toulon, Toulouse, Townsville, Trat, Tucson, Tulsa, Valence, Venice, Vienna, Warsaw, Wellington, Yangon, Zurich.
- f) On 21 March 2012, Etihad announced that it had signed a memorandum of understanding (**MOU**) with China Eastern Airlines which encompasses joint route and

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<sup>132</sup> 'Etihad', Airline Leader. Available: [www.airlineleader.com/airline-of-the-month/Etihad](http://www.airlineleader.com/airline-of-the-month/Etihad) (accessed 9 June 2012).

<sup>133</sup> Ended operations in 2012.

<sup>134</sup> 'Etihad signs codeshare agreement with Safi Airways', Etihad Airways – Archived News, 18 May 2012. Available: <http://www.etihadairways.com/sites/Etihad/my/en/aboutetihad/mediacenter/newslisting/newsdetails/Pages/Etihad-signs-codeshare-agreement-with-Safi-Airways-May12.aspx?fromNewsListing=true> (accessed 9 June 2012).

<sup>135</sup> Etihad Airways Factsheet (May 2012), p2. Available:

<http://www.etihadairways.com/sites/Etihad/Etihad%20Images/Resources/EY-Factsheet.pdf> (accessed 9 June 2012).

<sup>136</sup> Etihad Airways Annual Report 2011, p46.

<sup>137</sup> Etihad Airways Route Maps. Available:

<http://www.etihadairways.com/sites/etihad/global/en/planatrip/routemaps/Pages/RouteMap.aspx>

schedule coordination, codesharing between the UAE and China and in future on each other's networks, full frequent flyer reciprocity, reciprocal airport lounge access, joint product development and technical and cargo cooperation, subject to regulatory approval.<sup>138</sup> Etihad has stated that this is an important development in Etihad's China strategy as it will allow Etihad to extend its reach into the Chinese market.<sup>139</sup>

### 4.3 Virgin Australia Equity Investment

- a) An agreement in August 2010 between Etihad and Virgin Australia (**Virgin**), allows Etihad customers to fly to 44 new destinations in Australia, New Zealand, the Pacific Islands, Asia and to Los Angeles and allows Virgin Australia customers to access Etihad's network of 65 destinations across North America, Europe, Asia, the Middle East and the Indian subcontinent. The agreement allows for full integration of frequent flyer programs, reciprocal lounge access and codesharing.<sup>140</sup>
- b) The expansion of Etihad's international services to and from Australia is even more likely given that Etihad has now increased its equity interest in Virgin Australia to 10%.<sup>141</sup> This is expected to lead to 'further revenue-generating opportunities' for those carriers.<sup>142</sup> Virgin Australia's CEO has recently confirmed that the alliance with Etihad is 'a very beneficial relationship'<sup>143</sup> and it has been reported that Etihad's stake in Virgin Australia may ultimately increase to 19%.<sup>144</sup>
- c) In August 2012, Etihad announced a significant increase in the frequency of its Brisbane-Abu Dhabi (via Singapore) service to a daily service from 1 February 2013.<sup>145</sup> Etihad's CEO stated that the increased services reflected a 'game changing' move and the strategic importance of Australia to the carrier.<sup>146</sup> In August 2012, Etihad also opened a new line maintenance facility in Melbourne.<sup>147</sup>

### 4.4 Aer Lingus Equity Investment

- a) Etihad's 2.99% stake in Aer Lingus, which it acquired in May 2012,<sup>148</sup> has the potential to give Etihad a springboard into the UK codesharing on Aer Lingus' wide Ireland-UK network.<sup>149</sup> The Aer Lingus deal could make UK/Ireland the highest strategic saturation point for Etihad.<sup>150</sup>
- b) In July 2012, Etihad and Aer Lingus announced codeshare agreements under which Etihad will place its 'EY' code on Aer Lingus flights between Dublin, Manchester and London Heathrow, and destinations in Ireland, the British Isles, the Channel Islands, Portugal, the Netherlands and the US. In return, Aer Lingus will place its 'EI' code on Etihad flights between Abu Dhabi and Dublin and have full access to flights across

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<sup>138</sup> 'Etihad Airways signs MoU with China Eastern Airlines', Etihad Airways, 21 March 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3413](http://www.etihadmediacentre.com/file.php?f_ID=3413) (accessed 9 June 2012).

<sup>139</sup> 'Etihad signs MOU with China Eastern', Etihad Press Release (21 March 2012). Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3415](http://www.etihadmediacentre.com/file.php?f_ID=3415) (accessed 28 August 2012)

<sup>140</sup> 'Etihad and Virgin Blue announce major new partnership', Etihad Airways. Available: <http://www.etihadairways.com/sites/etihad/au/en/home/pages/etihad-announcement.aspx> (Accessed 9 June 2012).

<sup>141</sup> 'Etihad Airways Increases Stake in Virgin Australia' Etihad Media Release 2 September 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_id=3705](http://www.etihadmediacentre.com/file.php?f_id=3705)

<sup>142</sup> 'Etihad Airways Cleared to Buy More of Virgin Australia', Etihad Press Release, 19 July 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3645](http://www.etihadmediacentre.com/file.php?f_ID=3645) (accessed 20 July 2012).

<sup>143</sup> 'Virgin flying high with Etihad, says chief' in *Business News Herald Sun*, 23 July 2012, p30.

<sup>144</sup> 'EY eyes 19% VA stake' in *Travel Daily* 23 July 2012.

<sup>145</sup> 'Etihad Airways boots Brisbane flights to daily', Etihad Press Release, 16 August 2012. Available: <http://www.etihadairways.com/sites/etihad/au/en/aboutetihad/mediacenter/newslisting/newsdetails/Pages/etihad-airways-boots-brisbane-flights-to-daily-aug12.aspx?fromNewsListing=true>

<sup>146</sup> Ibid.

<sup>147</sup> 'Etihad Airways opens new Melbourne line maintenance facility' Etihad Press Release (15 August 2012). Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3675](http://www.etihadmediacentre.com/file.php?f_ID=3675) (accessed 28 August 2012).

<sup>148</sup> 'Etihad Airways confirms 2.987% stake in Aer Lingus', CAPA – Centre for Aviation, 1 May 2012.

<sup>149</sup> 'Etihad Airways gets springboard into Northern Europe with 2.9% stake in Aer Lingus', CAPA – Centre for Aviation, 3 May 2012. Available: <http://centreforaviation.com/analysis/etihad-airways-gets-springboard-into-northern-europe-with-29-stake-in-aer-lingus-72899>

<sup>150</sup> Ibid.

the network beyond Abu Dhabi, to points including Australia, Asia-Pacific, the Indian Subcontinent and the Middle East.<sup>151</sup>

- c) Etihad has indicated it may pursue Aer Lingus' London Heathrow slots which may become available as a result of BA's acquisition of bmi.<sup>152</sup>
- d) Etihad has also reportedly expressed interest in acquiring the Irish Government's 25% holding in Aer Lingus, which is slated to be sold.<sup>153</sup>

#### 4.5 Air Berlin Equity Investment

- a) Etihad increasing its stake in airberlin from 2.99% to 29.2% on 19 December 2011 signalled the start of a long-term partnership linking airberlin's European hubs with Abu Dhabi.<sup>154</sup> This will provide Etihad with increased access to the German domestic market, Austria and Switzerland and points across Europe into North America,<sup>155</sup> adding 157 destinations. It gives Etihad access to 35 million new passengers.<sup>156</sup> Etihad views this investment as 'smarter than buying 10 more aircraft to crack the German market'.<sup>157</sup>
- b) The partnership sees Etihad codeshare on a number of airberlin destinations, some geographically convenient with minimal extra travelling distance, while others involve backtracking for European connections.<sup>158</sup> For example, airberlin is providing codeshare services from Berlin Tegel and Dusseldorf via Abu Dhabi, and to Brisbane, Melbourne and Sydney. The two airlines will share infrastructure, pool maintenance, develop joint training programmes and streamline purchasing activity for engines, rotables, avionics and in-flight entertainment systems, besides working jointly on product development for the new aircraft type.
- c) On 4 June 2012, Etihad and airberlin announced the launch of a joint marketing campaign designed to focus on the Abu Dhabi hub and connectivity advantages for travellers. The campaign also highlights airberlin and Etihad's networks to/from Abu Dhabi.<sup>159</sup>
- d) Etihad and airberlin were granted authorisation by the Australian Competition and Consumer Commission to coordinate international air travel services between Germany and Australia via Abu Dhabi under a commercial alliance on 25 July 2012.<sup>160</sup>
- e) The year-one revenue prediction arising from the partnership is in the order of USD50 million for each airline. Unlocking efficiencies is also a key focus for the two airlines.<sup>161</sup>

#### 4.6 Air Seychelles Equity Investment

- a) In January 2012, Etihad acquired a 40% stake in the national carrier of the Seychelles. The remaining shares are held by the Government of Seychelles. In addition to the capital investment and loan, this long-term strategic agreement makes

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<sup>151</sup> 'Etihad Airways and Aer Lingus Unveil Codeshare Details,' Etihad Press Release (30 July 2012). Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3658](http://www.etihadmediacentre.com/file.php?f_ID=3658)

<sup>152</sup> Ibid.

<sup>153</sup> 'Etihad indicates interest in acquiring Irish Government's Aer Lingus stake', CAPA – Centre for Aviation, 6 July 2012.

<sup>154</sup> Etihad Airways Annual Report 2011, p14.

<sup>155</sup> Ibid, p46.

<sup>156</sup> Ibid, pp8-9.

<sup>157</sup> 'Middle East network carriers strategies vary on partnerships but both seem to work', CAPA – Centre for Aviation, 15 March 2012. Available: <http://centreforaviation.com/blogs/aviation-blog/middle-east-network-carriers-strategies-vary-on-partnerships-but-both-seem-to-work-69753>

<sup>158</sup> Etihad Airways Annual Report 2011, p14.

<sup>159</sup> 'airberlin and Etihad Airways launch joint marketing campaign', CAPA – Centre for Aviation, 5 June 2012.

<sup>160</sup> See further Etihad/Air Berlin Determination.

<sup>161</sup> Etihad Airways Annual Report 2011, p14.

provision for a five year management contract that will see the implementation of strategic measures to encourage Air Seychelles' long-term commercial growth and sustainability.<sup>162</sup>

The two airlines now operate eight return services a week between Abu Dhabi and Seychelles, four by Air Seychelles and four by Etihad.<sup>163</sup>

#### **4.7 Joint Ventures**

- a) Etihad has entered into a number of joint ventures with other companies and its subsidiaries in relation to call centre functions, distribution systems, housing and recreational services for employees, travel management services and transport services.<sup>164</sup>

### **5 OPERATIONS**

#### **5.1 Future Plans**

- a) Etihad has stated that it will continue to invest in network, aircraft and infrastructure in 2012, expanding in Asia and Africa, adding aircraft to the fleet and looking for opportunities to make profitable alliances in 2012.<sup>165</sup>
- b) In order to meet Etihad's predicted fleet, passenger and destination growth by 2020 – which plans for more than 25 million passengers to fly to more than 100 destinations aboard a fleet of 150 planes – the airline will need a workforce of approximately 27,000 people.<sup>166</sup>

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<sup>162</sup> Ibid, pp46 and 48.

<sup>163</sup> 'Air Seychelles launches codeshare flights to Italy with Etihad Airways', CAPA – Centre for Aviation, 21 June 2012.

<sup>164</sup> Etihad Airways Annual Report 2011, p48.

<sup>165</sup> Ibid, p12.

<sup>166</sup> Etihad Airways Factsheet (May 2012), p39. Available: <http://www.etihadairways.com/sites/Etihad/Etihad%20Images/Resources/EY-Factsheet.pdf> (accessed 9 June 2012).

# QATAR AIRWAYS

## 1 KEY FEATURES

- a) Significant route and fleet expansion plans.
- b) Key for development and expansion of Doha.
- c) Natural mid-point carrier, transporting passengers between east and west.
- d) One of the industry's youngest fleets with an average aircraft age of under 4years.

## 2 COMPANY OVERVIEW

### 2.1 Overview of Business

- a) Qatar Airways, which is headquartered in Doha, Qatar, operates as a commercial airline company. It provides passenger and cargo air transportation services and also has a corporate jet subsidiary, Qatar Executive.
- b) After several years of modest performance the airline was relaunched in 1997 under the mandate of the country's leader The Emir, His Highness Sheikh Hamad bin Khalifa Al Thani, who outlined a vision to turn Qatar Airways into a leading international airline.<sup>167</sup> It was relaunched with a new and more aggressive management under CEO, Akbar Al Baker (**Al Baker**).<sup>168</sup>
- c) Qatar Airways averages 30% growth year on year.<sup>169</sup> It currently operates a modern fleet of 110 aircraft to 112 destinations in Europe, the Middle East, Africa, South Asia, Asia Pacific, North America and South America.<sup>170</sup> During 2010, it launched flights to 10 new destinations, in 2011 it launched flights to 15 new destinations and by the end of 2012 it will have launched flights to 11 new destinations. By 2013 Qatar Airways intends to operate over 120 aircraft to over 120 destinations.<sup>171</sup> It has over 250 aircraft on order books worth more than US\$50 billion.<sup>172</sup>

### 2.2 Government Influence

- a) The state of Qatar has directed the airline to expand and stimulate trade, tourism and investment,<sup>173</sup> with 'country building' being a principal driver for the airline.<sup>174</sup>
- b) The Government of Qatar appointed Al Baker as the CEO of Qatar Airways and also as the official head of Qatar Civil Aviation, along with the directorship of the Qatar Tourism Authority.<sup>175</sup> Al Baker is also CEO of the new Doha International Airport.<sup>176</sup>

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<sup>167</sup> 'The Qatar Airways Story', Qatar Airways, July 2011. Available:

<http://www1.qatarairways.com/global/en/newsroom/presskits/gr-story-jul11.pdf> (accessed 10 June 2012).

<sup>168</sup> 'Qatar Airways: ownership restructure ahead of privatisation', CAPA – Centre for Aviation, 27 March 2009.

<sup>169</sup> CEO Message, Qatar Airways. Available: <http://www.qatarairways.com/au/en/ceo-message.page> (accessed 28 August 2012)

<sup>170</sup> Based on information available at CAPA (4 September 2012).

<sup>171</sup> 'Qatar Airways in Australia' Qatar Airways. Available: <http://www.qatarairways.com/au/en/qatar-airways-australia.page>

<sup>172</sup> Qatar Airways Fact Sheet, August 2012. Available: <http://www.qatarairways.com/iwov-resources/temp-docs/press-kit/Qatar%20Airways%20Fact%20Sheet.pdf> (accessed 28 August 2012)

<sup>173</sup> 'Qatar Airways seeks stake in European carrier to help it to land a global role', The National, 14 March 2011.

Available: <http://www.thenational.ae/business/aviation/qatar-airways-seeks-stake-in-european-carrier-to-help-it-to-land-a-global-role> (accessed 10 June 2012).

<sup>174</sup> 'Akbar Al Baker, Qatar Airways', Flight Global – Interview. Available:

<http://www.flightglobal.com/page/interviews/Akbar-Al-Baker/The-Interview/> (accessed 10 June 2012).

<sup>175</sup> 'Airlines competition in the gulf: a competitive advantage', S Ladki and A Misk, *International Journal of Business Strategy* 9 (1), January 2009.

<sup>176</sup> 'Qatar Airways will not operate from the new Doha International Airport this year', CAPA – Centre for Aviation, 1 May 2012.

## 2.3 Interaction Between Qatar Airways and Qatar's National Objectives

- a) Qatar Airways' development has been central to Qatari ruler Emir Sheikh Hamad Bin Khalifa Al Thani's vision of sustainable growth for a country with a plentiful and sustainable flow of cash from its vast natural gas deposits.<sup>177</sup>
- b) Qatar Airways does not release financial results. It was previously thought to be generating sizable negative income as the carrier pointed to 2011-2012 as the timeframe for achieving profitability.<sup>178</sup> However, in the 12 months to 31 March 2011, Qatar Airways reported a net profit of US\$205million.<sup>179</sup>

## 3 OPERATIONS

### 3.1 Fleet

- a) Currently, Qatar Airways has modern fleet of 110 aircraft and 184 further aircraft are on firm order.<sup>180</sup>
- b) Qatar Airways has one of the industry's youngest fleets with an average aircraft age under 4 years.<sup>181</sup>

### 3.2 Doha International Airport

- a) To cope with the airline's growth strategy, more than USD1 billion is being invested in infrastructure improvements at Doha International Airport, Qatar Airways' operational hub.<sup>182</sup>
- b) This includes a new transit terminal, extension of the existing premium terminal for Qatar Airways' first and business class passengers,<sup>183</sup> a new arrivals terminal, a new terminal for foreign airlines and additional aircraft parking bays.<sup>184</sup>
- c) Phase one of the development of the new Doha International Airport, located 4 kilometres from the existing airport, is scheduled to open on 12 December 2012<sup>185</sup> at a cost of USD15.5 billion with an initial capacity of 28 million passengers per year. Construction work began in January 2005. Once fully developed beyond 2015, the airport is expected to handle up to 50 million passengers a year. One of the project's key features is that 60% of the site is built on reclaimed land from the Arabian Gulf.<sup>186</sup>
- d) Qatar Airways will manage the new airport, designed to help shape Doha as a key regional and global aviation hub.<sup>187</sup>
- e) Qatar Airways also manages Doha International Airport Aviation airlines.<sup>188</sup>

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<sup>177</sup> 'Akbar Al Baker, Qatar Airways', Flight Global – Interview. Available:

<http://www.flightglobal.com/page/interviews/Akbar-Al-Baker/The-Interview/> (accessed 10 June 2012).

<sup>178</sup> Ibid.

<sup>179</sup> 'Qatar Airways 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

<sup>180</sup> Based on information available at CAPA (4 September 2012).

<sup>181</sup> Ibid.

<sup>182</sup> Ibid.

<sup>183</sup> QATAR AIRWAYS operates the world's only dedicated commercial passenger terminal exclusively for its First and Business Class passengers at Doha International Airport which includes facilities such as sit-down check-in for First and Business Class passengers, a spa and Jacuzzi and has been expanded in 2009 to accommodate over 80% additional seating space. ('The Qatar Airways Story', Qatar Airways, July 2011. Available: <http://www1.qatarairways.com/global/en/newsroom/presskits/gr-story-jul11.pdf> (accessed 10 June 2012).

<sup>184</sup> 'The Qatar Airways Story', Qatar Airways, July 2011. Available:

<http://www1.qatarairways.com/global/en/newsroom/presskits/gr-story-jul11.pdf> (accessed 10 June 2012).

<sup>185</sup> 'Qatar Airways will not operate from the new Doha International Airport this year', CAPA – Centre for Aviation, 1 May 2012.

<sup>186</sup> 'The Qatar Airways Story', Qatar Airways, July 2011. Available:

<http://www1.qatarairways.com/global/en/newsroom/presskits/gr-story-jul11.pdf> (accessed 10 June 2012).

<sup>187</sup> Ibid.

<sup>188</sup> 'Airlines competition in the gulf: a competitive advantage', S Ladki and A Misk, *International Journal of Business Strategy* 9(1), January 2009.

### 3.3 Routes and Flights

- a) Qatar Airways' international routes are shown in the map below (includes codeshare routes but note that the map does not reflect operations from Perth launched in July 2012):<sup>189</sup>



- b) During 2010, Qatar Airways launched flights to 10 new destinations including Bengaluru (Bangalore), Tokyo, Ankara, Copenhagen, Barcelona, Sao Paulo, Buenos Aires, Phuket, Hanoi and Nice.<sup>190</sup>
- c) In 2011, the carrier launched flights to 15 destinations with expansion focusing on Europe – Bucharest, Budapest, Brussels, Stuttgart, Venice, Oslo and Sofia. Other new routes included the Syrian city of Aleppo – the carrier's milestone 100th destination – Shiraz (Iran), Medina (Saudi Arabia), Kolkata (Calcutta), Benghazi (Libya), Entebbe (Uganda), Chongqing (China) and its entry to Canada with thrice-weekly flights to Montreal.<sup>191</sup>
- d) In 2012, Qatar Airways has or will expand its operations to further destinations – Baku (Azerbaijan), Tbilisi (Georgia), Zagreb (Croatia), Perth (Australia), Kigali (Rwanda), Mombasa (Kenya), Kilimanjaro (Tanzania), Yangon (Myanmar), Baghdad (Iraq), Erbil (Iraq)<sup>192</sup> and will increase the frequencies of many of its existing routes.<sup>193</sup> Most recently Qatar Airways announced that it will start operating services to Warsaw and Belgrade by the end of 2012.<sup>194</sup>
- e) In June 2012, the Japan Ministry of Land, Infrastructure, Transport and Tourism announced that Japan and Qatar had concluded a revised bilateral ASA which increases the number of flights between Tokyo and Qatar.<sup>195</sup>

<sup>189</sup> Qatar Airways Route Map. Available: <http://www1.qatarairways.com/global/en/routemap.html>

<sup>190</sup> 'The Qatar Airways Story', Qatar Airways, July 2011. Available: <http://www1.qatarairways.com/global/en/newsroom/presskits/qr-story-jul11.pdf> (accessed 10 June 2012).

<sup>191</sup> Ibid.

<sup>192</sup> Ibid.

<sup>193</sup> Qatar Airways Fact Sheet, August 2012. Available: <http://www.qatarairways.com/iwov-resources/temp-docs/press-kit/Qatar%20Airways%20Fact%20Sheet.pdf> (accessed 28 August 2012)

<sup>194</sup> 'Qatar Airways to start flying to Serbia and Poland by end of 2012', 15 August 2012, Qatar Airways website: [http://www.qatarairways.com/english\\_global/press-release.page?pr\\_id=pressrelease\\_pressrelease\\_20120815&CSRT=9304334403157376091](http://www.qatarairways.com/english_global/press-release.page?pr_id=pressrelease_pressrelease_20120815&CSRT=9304334403157376091)

<sup>195</sup> 'Japan and Qatar conclude revised bilateral air service agreement', CAPA – Centre for Aviation, 4 June 2012.

- f) In July 2012, Qatar Airways commenced services to Tanzania. The daily flights operate via the Tanzanian capital Dar es Salaam, with the carrier saying Kilimanjaro 'signifies the importance Qatar Airways places in looking at airports around the world where capacity is limited yet passenger demand is strong.'<sup>196</sup>

### 3.4 Australian Routes and Expansion

- a) Qatar Airways operates daily non-stop flights from Melbourne to Doha and onwards to more than 100 destinations.
- b) Qatar Airways launched a 3 times weekly Doha to Perth service on 3 July 2012 and confirmed plans to increase to daily frequency from 2 December 2012.<sup>197</sup> To coincide with the launch, Qatar Airways has embarked on a AUD1.2 million joint tourism promotional campaign with the Government of Western Australia.<sup>198</sup> The two year agreement involves Qatar Airways and Tourism Western Australia undertaking joint marketing activities to promote attractions of the state.<sup>199</sup>
- c) Qatar Airways has held meetings with Western Australia Premier Colin Barnett and the Western Australian Chamber of Commerce and Industry to discuss new trade, business and investment opportunities in Western Australia.<sup>200</sup>
- d) Press reports suggest that Qatar Airways has capacity and frequency allowances which it may utilise to serve Brisbane and Sydney in the next few years.<sup>201</sup> In July 2012, Qatar Airways indicated that direct Sydney-Doha services may be offered in the future.<sup>202</sup>

### 3.5 London Heathrow Development

- a) Qatar Airways officially opened its premium lounge for first and business class passengers at London's Heathrow Airport in January 2012 ahead of the company's increase in capacity on the London Heathrow-Doha route, from four to five flights a day, which started on 25 March 2012.

### 3.6 Passenger Traffic

- a) Qatar Airways' total passenger numbers have been rising each financial year as shown in the chart below:<sup>203</sup>

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<sup>196</sup> 'QR adds Kilimanjaro', *Travel Daily*, 26 July 2012. Available: <http://www.traveldaily.com.au/news/qr-adds-kilimanjaro/118571> (accessed 10 June 2012).

<sup>197</sup> 'Qatar Airways launches Doha-Perth service', CAPA – Centre for Aviation, 3 July 2012.

<sup>198</sup> 'Qatar Airways joins WA tourism push' Western Australian Government Media Release, 4 July 2012. Available: <http://www.mediastatements.wa.gov.au/Pages/Default.aspx?ItemId=150423>

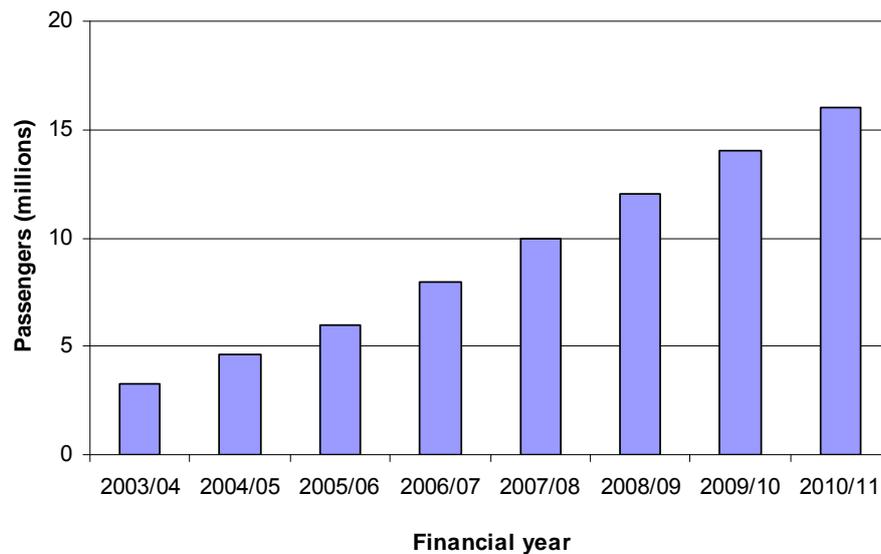
<sup>199</sup> 'Qatar Airways Announces Joint Promotional Campaign with Tourism Western Australia' Qatar Airways Press Release (3 July 2012). Available: [http://www.qatarairways.com/au/en/press-release.page?pr\\_id=pressrelease\\_pressrelease\\_20120704&locale\\_id=en\\_ql](http://www.qatarairways.com/au/en/press-release.page?pr_id=pressrelease_pressrelease_20120704&locale_id=en_ql) (accessed 28 August 2012). See also: 'Qatar Airways joins WA tourism push' Western Australian Government Media Release, 4 July 2012. Available: <http://www.mediastatements.wa.gov.au/Pages/Default.aspx?ItemId=150423>

<sup>200</sup> 'Qatar Airways To Boost Business in Western Australia' Qatar Airways Press Release (3 July 2012). Available: [http://www.qatarairways.com/au/en/press-release.page?pr\\_id=pressrelease\\_pressrelease\\_20120708&locale\\_id=en\\_ql](http://www.qatarairways.com/au/en/press-release.page?pr_id=pressrelease_pressrelease_20120708&locale_id=en_ql) (accessed 28 August 2012).

<sup>201</sup> Air Transport Intelligence, News, 'Qatar Airways orders five more 777s', 6 April 2011. See also 'Chian southern Qatar airline snubs Melbourne to fly to Sydney', *Sydney Morning Herald*. Available: <http://www.smh.com.au/business/qatar-airline-snubs-melbourne-to-fly-to-sydney-20090306-8rfe.html>

<sup>202</sup> Qatar Airways CEO Akbar Al Baker cited in 'QTR SYD fits possible' in *Travel Daily*, 5 July 2012.

<sup>203</sup> 'The Qatar Airways Story', Qatar Airways, July 2011. Available: <http://www1.qatarairways.com/global/en/newsroom/presskits/qr-story-jul11.pdf> (accessed 10 June 2012).



## 4 ALLIANCES AND PARTNERSHIPS

### 4.1 View on Partnerships and Alliances

- a) The airline has indicated it would be interested in a strategic tie-up with a strong partner. Al Baker has expressed that Qatar Airways is interested in acquiring a smaller European airline, but also in developing a strategic alliance with a strong European player like Lufthansa or British Airways.<sup>204</sup> It would also consider 'an airline that has big potential and a solid management structure, but needs a strong partner like us to take an equity share'.<sup>205</sup>

### 4.2 Codeshare Arrangements

- a) Qatar Airways' codeshare partners include All Nippon Airways, Asiana Airlines, bmi, Gol, Lufthansa, Malaysia Airlines, Middle East Airlines, Philippine Airlines, SCNF, United Airlines<sup>206</sup> and US Airways.<sup>207</sup>
- b) Qatar Airways' codeshare destinations include: Dublin, Aberdeen, Belfast, Durham Tees Valley, Edinburgh, Glasgow, Jersey, Fukuoka and Sapporo. Within the United States, through its codeshare with United Airlines, Qatar Airways connects to over 60 cities including San Francisco, Los Angeles, Denver and Chicago.<sup>208</sup>

### 4.3 Equity Interest in Cargolux

- a) Qatar Airways acquired a 35% stake in the cargo carrier, Cargolux International Airlines on 9 September 2011. In relation to this deal, Al Baker has reportedly stated that the carrier would continue to look for other agreements in the future.<sup>209</sup> Cargolux is 52.1% owned by Luxembourg's Luxair.<sup>210</sup>

<sup>204</sup> 'Qatar Airways' 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

<sup>205</sup> 'Akbar Al Baker, Qatar Airways', Flight Global – Interview. Available: <http://www.flightglobal.com/page/interviews/Akbar-Al-Baker/The-Interview/> (accessed 10 June 2012).

<sup>206</sup> This codeshare agreement will end from 14 September 2012 ('Qatar Airways and United Airlines end codeshare agreement from Sep-2012', CAPA – Centre for Aviation, 5 June 2012).

<sup>207</sup> Qatar Airways – Codeshare Partners. Available: <http://www1.qatarairways.com/global/en/code-share-partners.html> (accessed 10 June 2012).

<sup>208</sup> Qatar Airways – Route Map. Available: <http://www1.qatarairways.com/global/en/routemap.html>

<sup>209</sup> 'Profile on Qatar Airways', CAPA – Centre for Aviation (accessed 8 June 2012).

<sup>210</sup> 'Qatar Airways' 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

#### 4.4 Strategic Alliance with Flexjet

- a) Qatar Airways entered into a strategic alliance with fractional jet program provider Flexjet on 14 May 2012. The exclusive partnership, managed by the airline's private jet division Qatar Executive enables customers travelling on Qatar Airways' scheduled flights to and from New York, Washington, Houston and Montreal, to book a private premium jet service in a single transaction to cover over 5,000 airports, beyond Qatar Airways' four North American gateways.<sup>211</sup>

## 5 COMPANY STRATEGY AND VIEWS

### 5.1 Growth and Expansion Plans

- a) Aggressive growth has been a key element of Al Baker's strategy, driven by the introduction of new-generation narrow body and wide body aircraft from Airbus and Boeing featuring the latest in-cabin amenities. Al Baker calculates that the compound annual growth rate of the airline's revenues at the EBITDA operating result level has averaged 47% since 1997.<sup>212</sup>
- b) Qatar Airways intends to expand its fleet as part of its growth strategy. Al Baker has said that: 'we will continue the aggressive growth until 2013 – that's over 25% and the addition of 10-12 destinations annually. By then we'll be operating almost 130 aircraft and an equivalent number of destinations, and we will level out to grow at the normal levels of a full-service carrier. So from 2013 we'll maybe add two or three destinations a year and grow at around 10% annually.'<sup>213</sup>
- c) Al Baker has stated that the expansion of Middle Eastern carriers is a natural result of their integration into national interests and their fleet plans are a reflection of their high-efficiency, low-cost approach, which has already been pursued successfully by airlines in the Asia Pacific.<sup>214</sup>
- d) Qatar Airways has stated that it will use its 'strong financial position to explore opportunities where other airlines may not have the financial strength to compete'.<sup>215</sup>
- e) Al Baker indicated the carrier's strategic focus is to serve key business and leisure cities around the world, as well as underserved markets with new direct flights and increased capacity.<sup>216</sup>
- f) The carrier has made Asia Pacific a big part of its growth strategy<sup>217</sup> and it continues to expand in Europe (detailed further below).<sup>218</sup>
- g) In May 2011, Qatar Airways announced that it planned to add more than 3,500 staff annually over the next three years, adding 50% to its headcount by 2014.
- h) Qatar Airways has signed an agreement with Argentinean National Institute of Tourism Promotion to develop a joint strategy to promote regional markets such as Brazil, as well as long-haul markets including India, China and Australia.<sup>219</sup>

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<sup>211</sup> 'Qatar Airways And Flexjet Announce Alliance', Qatar Airways, 14 May 2012: [http://www.qatarairways.com/english\\_global/press-release.page?pr\\_id=pressrelease\\_pressrelease\\_20120514](http://www.qatarairways.com/english_global/press-release.page?pr_id=pressrelease_pressrelease_20120514) (Accessed 10 June 2012).

<sup>212</sup> 'Akbar Al Baker, Qatar Airways', Flight Global – Interview. Available: <http://www.flightglobal.com/page/interviews/Akbar-Al-Baker/The-Interview/> (accessed 10 June 2012).

<sup>213</sup> Ibid.

<sup>214</sup> 'Qatar Airways' 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

<sup>215</sup> 'Qatar Airways: ownership restructure ahead of privatisation', CAPA – Centre for Aviation, 27 March 2009.

<sup>216</sup> 'Qatar Airways seeks stake in European carrier to help it to land a global role', The National, 14 March 2011. Available: <http://www.thenational.ae/business/aviation/qatar-airways-seeks-stake-in-european-carrier-to-help-it-to-land-a-global-role> (accessed 10 June 2012).

<sup>217</sup> 'Airlines competition in the gulf: a competitive advantage', S Ladki and A Misk, *International Journal of Business Strategy* 9 (1), January 2009.

<sup>218</sup> 'Qatar Airways' 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

## 5.2 Cargo Operations

- a) In 2011, Qatar Airways announced its plan to convert 15 A330s from passenger to freighter configuration, to expand its cargo unit. The carrier's A330 fleet is 30-strong and averages between four and seven years old. Additional A330s could be converted if there is sufficient demand.<sup>220</sup>
- b) Qatar Airways has not made clear if the conversion plan is directly related to its Cargolux acquisition, but it is a measure of its ambitions that it plans to be a 'major player' in the cargo market within 4 years.<sup>221</sup>

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<sup>219</sup> 'Qatar Airways signs tourism promotion agreement with Argentina's INPROTUR', CAPA – Centre for Aviation, 13 June 2012.

<sup>220</sup> 'Qatar Airways' 2011 outlook dampened by civil unrest', CAPA – Centre for Aviation, 6 May 2011.

<sup>221</sup> Ibid.

# CATHAY PACIFIC

## 1 KEY FEATURES

- a) Natural mid-point carrier due to geographical location with associated hub advantages.
- b) Gateway to the burgeoning mainland Chinese market.
- c) Widespread operational network with access to almost all destinations in Europe, the US and Australia in less than 12 hours.

## 2 COMPANY OVERVIEW

### 2.1 Overview

- a) Cathay Pacific Airways (**Cathay Pacific**) is an international airline with Hong Kong International Airport as its hub. It offers its business through three segments: air transport passenger services; freight services; and catering, ground and aircraft ramp handling services.
- b) Passenger services are operated through Cathay Pacific and its wholly owned subsidiary short-haul operator, Hong Kong Dragon Airlines (**Dragonair**) (see below for further information on Dragonair).
- c) Cathay Pacific has a strong fleet base which includes wide body Boeing and Airbus aircraft. Cathay Pacific currently operates a fleet of 134 aircraft with 95 aircraft on order.<sup>222</sup>

### 2.2 Ownership Information

- a) Cathay Pacific's major shareholders are currently Swire Pacific Limited, a logistics company (44.97%),<sup>223</sup> and Air China Limited (**Air China**) (29.99%).<sup>224</sup>
- b) Cathay Pacific's strong strategic partnership with Air China includes a cross-shareholding – with Air China holding a 29.99% stake in Cathay Pacific<sup>225</sup> and Cathay Pacific holding a 19.53% interest in Air China.<sup>226</sup> Cathay Pacific and Air China are parties to an operating agreement which primarily covers:<sup>227</sup>
  - i. reciprocal passenger sales representation where Air China will be exclusively responsible for Cathay Pacific's sales in China while Cathay Pacific will be exclusively responsible for Air China's sales in Hong Kong, Macau and Taiwan;<sup>228</sup>
  - ii. extension of codeshare arrangements between Hong Kong and Mainland China;<sup>229</sup>
  - iii. implementation of joint venture routes that will operate under profit sharing arrangements, between Hong Kong and key cities in China,<sup>230</sup> and

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<sup>222</sup> Based on information available at CAPA (4 September 2012).

<sup>223</sup> Cathay Pacific Annual Report 2011, p38. Available:

[http://downloads.cathaypacific.com/cx/investor/annualreports/2011\\_annual-report\\_en.pdf](http://downloads.cathaypacific.com/cx/investor/annualreports/2011_annual-report_en.pdf) (**Cathay Pacific Annual Report 2011**)

<sup>224</sup> Ibid, p39.

<sup>225</sup> Ibid.

<sup>226</sup> Ibid, p13.

<sup>227</sup> 'Changes in shareholding structure builds new aviation partnerships in Greater China', Air China, Cathay Pacific, China National Aviation Company (CNAC), CITIC Pacific and Swire Pacific Joint Media Release, 9 June 2006. Available: [http://downloads.cathaypacific.com/cx/press/JointPressRelease\\_Eng\\_1.pdf](http://downloads.cathaypacific.com/cx/press/JointPressRelease_Eng_1.pdf) (accessed 10 June 2012).

<sup>228</sup> Ibid.

<sup>229</sup> Ibid.

<sup>230</sup> Ibid.

- iv. a cargo joint venture in Shanghai — Air China Cargo,<sup>231</sup> pursuant to which Air China holds a 51% shareholding<sup>232</sup> and Cathay Pacific holds a 49% shareholding (25% through a subsidiary and the remaining 24% through an economic interest).<sup>233</sup>
- c) Cathay Pacific and Air China are also each parties to a joint venture agreement in relation to ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.
- d) Air China plays an increasingly important role in Cathay Pacific's business, having contributed to 31.1% of Cathay Pacific's consolidated profit before tax in 2011.<sup>234</sup>
- e) Cathay Pacific's CEO has reportedly noted that 'Air China is absolutely our number one strategic partner'.<sup>235</sup>

### 2.3 Subsidiaries and Other Interests

- a) In addition to Dragonair, Cathay Pacific has the following wholly owned subsidiaries: Cathay Pacific Catering Services (HK) Limited (**CPCS**), Cathay Holidays Limited, Hong Kong Airport Services Limited (**HAS**) and Vogue Laundry Service Limited.<sup>236</sup>
- b) CPCS is a wholly owned subsidiary of Cathay Pacific and the principal flight kitchen in Hong Kong providing flight catering services to 39 international airlines in Hong Kong.
- c) HAS, a wholly owned subsidiary of Cathay Pacific, provides ramp and passenger handling services in Hong Kong. It provides ground services to 33 airlines, including Cathay Pacific and Dragonair.
- d) In March 2012, Air China and HAS entered into a joint venture agreement with Shanghai Airport Authority and Shanghai International Airport Co Ltd to establish Shanghai International Airport Services Co Ltd as a joint venture company in Shanghai to provide airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. Air China and HAS will hold 24% and 25% of the joint venture company respectively. The joint venture will leverage on the resources and management expertise of each of the shareholders to enhance the hub operations and efficiency of ground handling services at the two Shanghai airports, providing a solid platform for developing Shanghai into a key aviation hub in the Asia Pacific region.<sup>237</sup>
- e) Air China Cargo Limited, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of freight services in mainland China.<sup>238</sup>
- f) Cathay Pacific also has a 60% interest in AHK Air Hong Kong Limited, a dedicated freight carrier which operates express freight services for DHL Express.<sup>239</sup>

<sup>231</sup> Ibid.

<sup>232</sup> Air China Annual Report 2011, p12. Available: [http://www.airchina.com.cn/www/en/html/index/ir/financial\\_informatio/4069/2011h.pdf](http://www.airchina.com.cn/www/en/html/index/ir/financial_informatio/4069/2011h.pdf) (accessed 10 June 2012) (**Air China Annual Report 2011**).

<sup>233</sup> Cathay Pacific Annual Report 2011, p97.

<sup>234</sup> Ibid, p4.

<sup>235</sup> 'Cathay Pacific and Hong Kong benefit from relationship with China', CAPA – Centre for Aviation, 27 June 2012.

<sup>236</sup> 'Subsidiaries and associates', Cathay Pacific. Available:

[http://www.cathaypacific.com/cpa/en\\_BH/aboutus/cxbackground/subsidiaries](http://www.cathaypacific.com/cpa/en_BH/aboutus/cxbackground/subsidiaries) (9 June 2012).

<sup>237</sup> 'Shanghai Airport Authority, Shanghai International Airport Co., Ltd., Air China and Cathay Pacific establish airport ground handling joint venture in Shanghai', Cathay Pacific, 30 March 2012. Available: [http://www.cathaypacific.com/cpa/en\\_INTL/aboutus/pressroomdetails?refID=438e5c0acb266310VgnVCM62000007d21c39](http://www.cathaypacific.com/cpa/en_INTL/aboutus/pressroomdetails?refID=438e5c0acb266310VgnVCM62000007d21c39) (Accessed 9 June 2012).

<sup>238</sup> Cathay Pacific Annual Report 2011, p13.

<sup>239</sup> Ibid, p12.

### 3 HUB AND NETWORK INFORMATION

#### 3.1 Airport and Hub Development

- a) Hong Kong International Airport is Cathay Pacific's main hub. This hub has many natural advantages — approximately 50% of the world's population is located within 5 hours' flying time of the hub and it is ideally located to be a gateway to Southern China and beyond. In addition, Hong Kong International Airport plays a pivotal role in the Hong Kong Government's plans to promote Hong Kong as a logistics hub.
- b) Cathay Pacific has made substantial investments to develop Hong Kong as a leading international aviation hub. In addition to basing its fleet in Hong Kong, Cathay Pacific has invested in catering and ground-handling companies and has its corporate headquarters at Hong Kong International Airport. The airline is building its own cargo terminal in Hong Kong to strengthen Hong Kong's role as an airfreight hub which will begin operations in early 2013.<sup>240</sup> The terminal will add an additional air cargo throughput of 2.6 million tonnes a year and will be open to all cargo carriers using the airport.<sup>241</sup>
- c) Beijing Capital International Airport is also a major hub for Cathay Pacific. Over half of all Cathay Pacific's passengers transfer onto other flights from its hubs of Hong Kong and Beijing.<sup>242</sup>

#### 3.2 Network

- a) Cathay Pacific currently carries approximately one million passengers each month.<sup>243</sup> Cathay Pacific reported 2.5 million passengers in April 2012.<sup>244</sup>
- b) Cathay Pacific has a widespread operational network and geographical reach. It operates its passenger and cargo services to 49 destinations across Asia, Europe, Africa, the Middle East and North America<sup>245</sup> and it services Latin America through code share arrangements.<sup>246</sup> Dragonair operates to 33 destinations in mainland China and elsewhere in Asia.<sup>247</sup>
- c) Cathay Pacific's international routes include:<sup>248</sup>

Country	Destination
Australia	Adelaide, Brisbane, Melbourne, Cairns, Sydney, Perth
Bahrain	Bahrain
Bangladesh	Dhaka [KA]

<sup>240</sup> Cathay Pacific Annual Report 2011, p3.

<sup>241</sup> 'History', Cathay Pacific. Available: [http://www.cathaypacific.com/cpa/en\\_BH/aboutus/cxbackground/history?refID=f5b5b9b4b92eb010VgnVCM1000010d21c39](http://www.cathaypacific.com/cpa/en_BH/aboutus/cxbackground/history?refID=f5b5b9b4b92eb010VgnVCM1000010d21c39) (accessed 9 June 2012).

<sup>242</sup> 'Hub strategy will pay off says Cathay Pacific chief', Flightglobal, 3 September 2007. Available: <http://www.flightglobal.com/blogs/airline-business/2007/09/hub-strategy-will-pay-off-says.html> (accessed 9 June 2012).

<sup>243</sup> 'History', Cathay Pacific. Available: [http://www.cathaypacific.com/cpa/en\\_BH/aboutus/cxbackground/history?refID=9cf4b9b4b92eb010VgnVCM1000010d21c39](http://www.cathaypacific.com/cpa/en_BH/aboutus/cxbackground/history?refID=9cf4b9b4b92eb010VgnVCM1000010d21c39) (accessed 10 June 2012).

<sup>244</sup> 'Cathay Pacific pax numbers up 11.7% but cargo down 11% in Apr-2012, yield continues to decline', CAPA – Centre for Aviation, 17 May 2012.

<sup>245</sup> Based on information available at CAPA (4 September 2012).

<sup>246</sup> 'Profile on Cathay Pacific', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>247</sup> Cathay Pacific Annual Report 2011, p1.

<sup>248</sup> Cathay Pacific – Destinations. Available: [http://www.cathaypacific.com/cpa/en\\_INTL/helpingyoutravel/destinations](http://www.cathaypacific.com/cpa/en_INTL/helpingyoutravel/destinations)

<b>Country</b>	<b>Destination</b>
Brazil	Rio de Janeiro*, Sao Paulo*
Cambodia	Phnom Penh [KA]
Canada	Calgary*, Edmonton*, Halifax*, Kelowna*, Montreal* Ottawa*, Toronto, Vancouver, Winnipeg*
Chile	Santiago*
China (Mainland)	Beijing, Changsha [KA], Chengdu [KA], Chongqing [KA], Fuzhou [KA], Guangzhou [KA], Guilin [KA], Hangzhou [KA], Kunming [KA], Nanjing [KA], Ningbo [KA], Qingdao [KA], Sanya [KA], Shanghai, Wuhan [KA], Xi'an [KA], Xiamen [KA]
Czech Republic	Prague*
Denmark	Copenhagen*
Fiji	Nadi*
Finland	Helsinki*
France	Bordeaux [R], Le Mans [R], Lille [R], Lyon*[R], Montpellier [R], Nantes [R], Nice*, Paris, Poitiers [R], St. Pierre [R], Valence [R]
Germany	Berlin*, Dusseldorf*, Frankfurt, Hamburg*, Munich*, Stuttgart*
Hong Kong	Hong Kong
India	Bengaluru (Bangalore) [KA], Chennai, Delhi, Mumbai
Indonesia	Denpasar (Bali), Jakarta, Surabaya
Italy	Milan, Rome
Japan	Akita*, Aomori*, Asahikawa*, Fukuoka, Hakodate*, Hiroshima*, Izumo*, Kagoshima*, Kochi*, Komatsu*, Kumamoto*, Kushiro*, Matsuyama*, Misawa*, Miyazaki*, Nagasaki*, Nagoya, Obihiro*, Oita*, Okinawa [KA], Osaka, Sapporo, Tokushima*, Tokyo, Ube*
Korea	Busan [KA], Jeju [KA], Seoul
Malaysia	Kota Kinabalu [KA], Kuala Lumpur, Penang
Mexico	Guadalajara*, Mexico City*
Nepal	Kathmandu [KA]

<b>Country</b>	<b>Destination</b>
Netherlands	Amsterdam
New Zealand	Auckland
Pakistan	Karachi
Peru	Lima*
Philippines	Cebu, Clark [KA], Manila
Portugal	Lisbon*
Russia	Moscow
Saudi Arabia	Jeddah, Riyadh
Singapore	Singapore
South Africa	Cape Town*, Durban*, Johannesburg, Port Elizabeth*
Sri Lanka	Colombo
Sweden	Stockholm*
Switzerland	Zurich*
Taiwan	Kaohsiung [KA], Taichung [KA], Taipei
Thailand	Bangkok, Phuket [KA]
United Arab Emirates	Abu Dhabi, Dubai
United Kingdom	London, Manchester*, Newcastle*
United States of America	Atlanta*, Boston*, Charlotte*, Chicago, Cleveland*, Columbus*, Dallas*, Denver*, Detroit*, Honolulu*, Houston*, Kansas City*, Las Vegas*, Los Angeles, Miami*, Minneapolis-St. Paul*, New Orleans*, New York, Orlando*, Philadelphia*, Phoenix*, Pittsburgh*, Portland*, Raleigh Durham*, Salt Lake City*, San Diego*, San Francisco, Seattle*, St. Louis*, Washington DC / Baltimore*
Vietnam	Hanoi [KA], Ho Chi Minh City
<p>Note:</p> <p>* Joint Operating Services or Codeshare Services</p> <p>[R] Railway codeshare</p> <p>[KA] Dragonair ports</p>	

### 3.3 Expansion

- a) In recent years, both Cathay Pacific and Dragonair have made intensive efforts to expand their networks and frequencies, by adding new routes and, where appropriate, strengthening existing services to provide customers with more choice.<sup>249</sup>
- b) In FY2011, Cathay Pacific added 2 new passenger routes to Abu Dhabi and Chicago, increased services to Milan, New York, Toronto, Jakarta, Surabaya, Penang, Singapore and reinstated more flights to Taipei. In November 2011, it converted 3 of the 7 flights per week between Hong Kong and Adelaide into non-stop flights. The other 4 flights continue to operate via Melbourne.<sup>250</sup>
- c) Cathay Pacific's CEO has reportedly stated that: 'we need new planes. They are an integral part of our long-term development plan that involves expanding our network at the same time as maximising the efficiency of our operations.'<sup>251</sup>
- d) Cathay Pacific has indicated that: 'Australia has always been, now and in the future, an important market for Cathay Pacific. It is our third or fourth biggest market in terms of sales after our home market of Hong Kong, North America and China'.<sup>252</sup>
- e) Cathay Pacific is investing \$HK3 billion (approximately \$AU370 million) to introduce its new business, economy and premium economy class products onto flights between Hong Kong and Melbourne, Adelaide, Perth, Brisbane and Cairns during 2012 and early 2013,<sup>253</sup> described as demonstrating the airline's commitment to the region.<sup>254</sup>

## 4 ALLIANCES AND PARTNERSHIPS

- a) Cathay Pacific is a founding member of the **oneworld** global alliance.
- b) Cathay Pacific has codeshare arrangements with Air China, Air Berlin, Air Pacific, Alaska Airlines, American Airlines, British Airways, Dragonair, Finnair, Japan Airlines, LAN Airlines, Malaysia Airlines, Philippines Airlines, Qantas,<sup>255</sup> Vietnam Airlines and WestJet.<sup>256</sup>

## 5 DRAGONAIR

- a) Fully owned subsidiary of Cathay Pacific, Dragonair is the second largest airline based in Hong Kong and provides international passenger and cargo services. Dragonair currently operates to 33 destinations in Asia from its hub in Hong Kong including:<sup>257</sup>

Country	Destination
Bangladesh	Dhaka

<sup>249</sup> Cathay Pacific Annual Report 2011, p6.

<sup>250</sup> Cathay Pacific Annual Report 2011, p6-7.

<sup>251</sup> 'Cathay Pacific has no plans to change order book or delivery schedules', CAPA – Centre for Aviation, 25 June 2012.

<sup>252</sup> Cathay Pacific Regional Manager Dane Cheng cited in 'Cathay Pacific expects positive growth in Australian market despite challenges', CAPA – Centre for Aviation, 2 April 2012.

<sup>253</sup> 'Cathay Pacific to place new business class on more Australian services', CAPA, 12 July 2012.

<sup>254</sup> Cathay Pacific Marketing Communications Manager for South West, Richiko Olrichs cited in 'CX product rollout' in *Travel Daily* 1 July 2012; 'Flight to Comfort', in *The Australian Financial Review*, 10 August 2012.

<sup>255</sup> Qantas' codeshare on Cathay Pacific services between Hong Kong and Rome will be terminated as a result of the Proposed Conduct.

<sup>256</sup> 'Profile on Cathay Pacific', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>257</sup> Based on the Dragonair route map available at [http://www.dragonair.com/da/en\\_INTL/helpingyoutravel/destinations](http://www.dragonair.com/da/en_INTL/helpingyoutravel/destinations) (accessed 23 June 2012).

Country	Destination
Brunei	Bandar Seri Begawan*
Cambodia	Phnom Penh
China	Chongqing <sup>^</sup> , Guangzhou, Kunming, Ningbo, Xi'an, Changsha, Guilin, Qingdao, Shanghai <sup>^</sup> , Tianjin*, Xiamen, Beijing, Chengdu <sup>^</sup> , Dalian*, Fuzhou, Hangzhou, Nanjing, Sanya, Wuhan
Hong Kong	Hong Kong
India	Bengaluru (Bangalore)
Japan	Sendai, Fukuoka, Okinawa
Malaysia	Kota Kinabalu <sup>^</sup>
Nepal	Kathmandu <sup>^</sup>
Philippines	Clark, Manila
South Korea	Busan, Jeju
Taiwan	Kaohsiung, Taipei, Taichung
Thailand	Phuket, Chang Mai <sup>258</sup>
Vietnam	Hanoi
<b>Note:</b> * Joint Operating Service or Codeshare Services <sup>^</sup> Own Service and Codeshares	

- b) Dragonair has an all Airbus fleet of 35 aircraft, comprising 16 Airbus A330-300s, 6 A321-200s and 13 A320-200s<sup>259</sup> with an additional four aircraft on order.<sup>260</sup> The average age of passenger aircraft in service is 9.7 years.<sup>261</sup>
- c) Dragonair's hub is at Hong Kong International Airport.<sup>262</sup>
- d) The airline's network (including codeshare flights) covers 38 destinations in 14 countries and territories<sup>263</sup> across the Asia-Pacific region, including 19 in mainland

<sup>258</sup> Launched 14 July according to [http://www.dragonair.com/da/en\\_INTL/manageyourtrip/schedules](http://www.dragonair.com/da/en_INTL/manageyourtrip/schedules) (accessed 5 July 2012).

<sup>259</sup> 'Introduction', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/aboutus/aboutdragonair/introdragonair](http://www.dragonair.com/da/en_INTL/aboutus/aboutdragonair/introdragonair) (accessed 23 June 2012).

<sup>260</sup> 'Profile on Dragonair', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>261</sup> 'Fast Facts', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/aboutus/aboutdragonair/fastfacts](http://www.dragonair.com/da/en_INTL/aboutus/aboutdragonair/fastfacts) (accessed 23 June 2012).

<sup>262</sup> 'Hong Kong International Airport', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/atairport/hkiasuperhub](http://www.dragonair.com/da/en_INTL/atairport/hkiasuperhub) (accessed 23 June 2012).

<sup>263</sup> 'Factsheet', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/aboutus/factsheet?refID=fc63bf3c5f6ef010VgnVCM10000021d21c39](http://www.dragonair.com/da/en_INTL/aboutus/factsheet?refID=fc63bf3c5f6ef010VgnVCM10000021d21c39) (accessed 23 June 2012).

China.<sup>264</sup> In mid-July 2012, the carrier launched a twice weekly service to Chiang Mai, expanding its network to 39 destinations.<sup>265</sup>

- e) On 1 November 2007, Dragonair became an affiliate member of oneworld. Dragonair's codeshare partners are Air China, Cathay Pacific, Malaysia Airlines and Royal Brunei Airlines.<sup>266</sup>
- f) In 1991, Dragonair acquired a 40% stake in the flight kitchen operated by LSG Lufthansa.<sup>267</sup> In 1992, Dragonair acquired a 30% share of International Aviation Services Co., the third largest ground handling company in Hong Kong.<sup>268</sup>
- g) In January 1994, Dragonair acquired the remaining 70% in IAS, now known as Hong Kong International Airport Services Ltd.<sup>269</sup>
- h) In 1995, Hong Kong Airport Services Ltd, a joint venture company between Dragonair and Cathay Pacific, was set up to take responsibility for all matters relating to ramp handling services.<sup>270</sup>
- i) In 1996, Dragonair and Dah Chong Hong established a joint venture to provide repair and maintenance services on ground support equipment at Chek Lap Kok.<sup>271</sup>
- j) In 1997, Dragonair established its own cargo sales department which replaced Cathay Pacific as general sales agents for the airline's cargo services.<sup>272</sup>

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<sup>264</sup> 'Introduction', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/aboutus/aboutdragonair/introdragonair](http://www.dragonair.com/da/en_INTL/aboutus/aboutdragonair/introdragonair) (accessed 23 June 2012).

<sup>265</sup> 'Dragonair launches Hong Kong-Clark service', CAPA – Centre for Aviation, 29 May 2012.

<sup>266</sup> 'Profile on Dragonair', CAPA – Centre for Aviation (accessed 22 June 2012).

<sup>267</sup> 'History', Dragonair. Available: [http://www.dragonair.com/da/en\\_INTL/aboutus/aboutdragonair/history?refID=2e178fe424d77110VqnVCM10000010d21c39](http://www.dragonair.com/da/en_INTL/aboutus/aboutdragonair/history?refID=2e178fe424d77110VqnVCM10000010d21c39) (accessed 23 June 2012).

<sup>268</sup> Ibid.

<sup>269</sup> Ibid.

<sup>270</sup> Ibid.

<sup>271</sup> Ibid.

<sup>272</sup> Ibid.

## CHINA SOUTHERN

### 1 KEY FEATURES

- a) Natural mid-point carrier due to geographical location with hub advantages.
- b) Current focus on international expansion.
- c) Ideally placed for international expansion given current status as the largest air transport service provider in China.
- d) Large 'domestic' feed due to the rapid economic growth of the Pearl River Delta region.

### 2 OVERVIEW

- a) China Southern Airlines Co Ltd (**China Southern**) is one of China's 'Big Three' state-owned airlines with key international hubs at Guangzhou Baiyun Airport and Beijing Airport and minor hubs at Urumqi and Chongqing airports.
- b) China Southern's business includes air passenger services, air cargo services and other related services. It operates the largest fleet, most developed route network and largest passenger capacity of any airline in China.<sup>273</sup>
- c) China Southern has a number of other operations conducted by its wholly or partially owned subsidiaries in relation to ground and catering services at Guangzhou Baiyun Airport. The details of these operations are set out below.
- d) China Southern also operates air freight and mail services. A significant portion of these services are combined with passenger services. The company has two Boeing 747 freighters and six Boeing 777 freighters, mainly servicing six international routes, Shanghai to Amsterdam, Frankfurt, Vienna, Los Angeles, Chicago, Vancouver and Guangzhou to Amsterdam. China Southern conducts its freight business primarily through its division in Guangzhou and Shanghai.

#### 2.1 History and Ownership

- a) China Southern was established on 1 July 1988 following the restructuring of the Civil Aviation Administration of China (**CAAC**).<sup>274</sup> It was formed from the merging of Xinjian Airlines and China Northern Airlines and the then China Southern Airlines.<sup>275</sup>
- b) China Southern went public on both the New York and Hong Kong Stock Exchanges in 1997 and listed in China's mainland (Shanghai) in 2003.<sup>276</sup> It is majority owned by China Southern Airlines Holding Company, which has a 53.07% shareholding.<sup>277</sup>
- c) China Southern is under the direct management of the State-owned Assets Supervision and Administration Commission of the State Council.<sup>278</sup> The State Council also supervises China Eastern Airlines and Air China.<sup>279</sup>

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<sup>273</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>274</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>275</sup> Ibid.

<sup>276</sup> Ibid.

<sup>277</sup> Ibid.

<sup>278</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>279</sup> 'Central SOEs', State-Owned Assets Supervision and Administration Commission of the State Council (SASAC). Available: <http://www.sasac.gov.cn/n2963340/n2971121/n4956567/index.html> (accessed 10 June 2012).

## 2.2 Fleet

- a) Currently, China Southern has a fleet size of 382, with 134 aircraft on firm order.<sup>280</sup> The average age of its aircraft is 6.2 years.<sup>281</sup>
- b) In October 2011, China Southern took delivery of the first of five A380 aircraft, becoming the first Chinese carrier to operate this type of aircraft.<sup>282</sup> It now has three A380 aircraft in service.<sup>283</sup> China Southern has indicated that it will be using the A380s (and eventually the 787 Dreamliners) to enhance its international product offering, with routes to Australia flagged as a likely focus for deployment.<sup>284</sup> The A380s are part of a fleet growth plan that will see the carrier move to having 465 aircraft by the end of 2015.<sup>285</sup>
- c) In July 2012, China Southern issued a request for proposals as the carrier seeks financing for 51 aircraft. The carrier's capital expenditure in 2012 will reach USD3 billion, an increase of 46.2% year-on-year.<sup>286</sup>

## 3 OPERATIONS

### 3.1 Airports and Hubs

- a) China Southern has Guangzhou Baiyun Airport as its core hub and Beijing Capital International Airport as a major hub, which together connect China with the rest of Asia, Europe, America, Australia and Africa.<sup>287</sup>
- b) In 2010, China Southern expanded on its two international hubs by adding Urumqi and Chongqing airports as western gateway hubs.<sup>288</sup> China Southern deliberately operates a multi-hub system as part of its international strategy.<sup>289</sup>
- c) Baiyun International Airport in Guangzhou has a natural geographical advantage in terms of being a transit hub for services to Oceania and Southeast Asia.<sup>290</sup> It is the airline's central aviation hub for passengers transiting from/to Australasia.<sup>291</sup> China Southern is ultimately planning to position its Guangzhou hub as a key gateway between Australia and Europe.<sup>292</sup> Guangzhou airport ranks fifth in the number of transfer passengers between mainland China and Australia.<sup>293</sup>

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<sup>280</sup> Based on information available at CAPA (4 September 2012).

<sup>281</sup> China Southern Airlines Annual Report 2011, p2. Available: <http://quote.morningstar.com/stock-filing/Annual-Report/2011/12/31/t.aspx?t=XNYS:ZNH&ft=&d=6ae81e53977a048e84143c87ae4ea37f> (China Southern Airlines Annual Report 2011)

<sup>282</sup> 'Airbus delivers China Southern Airlines' First A380', Airbus Press Release, 14 October 2011. Available: <http://www.airbus.com/presscentre/pressreleases/press-release-detail/detail/airbus-delivers-china-southern-airlines-first-a380/>

<sup>283</sup> 'The 3<sup>rd</sup> A380 delivered to China Southern', China Southern Press Release, 2 March 2012. Available: <http://www.csair-a380.com/en/newsdetail.aspx?id=108>

<sup>284</sup> 'China Southern CEO Mr Tan Wangeng cited in 'Airline looks for partner' in *Australian Financial Review*, 16 August 2012 p 12.

<sup>285</sup> Ibid.

<sup>286</sup> 'China Southern issues USD 3.6bn RFP to cover financing of 51 aircraft', CAPA – Centre for Aviation, 4 July 2012.

<sup>287</sup> China Southern Airlines Annual Report 2011, p2.

<sup>288</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>289</sup> Ibid.

<sup>290</sup> 'China Southern Airlines has 31% share of China-Australia traffic', CAPA – Centre for Aviation, 24 May 2012.

<sup>291</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>292</sup> 'China Southern Airlines adds 34 routes this winter. Australia/NZ expansion key to long-haul strategy', CAPA – Centre for Aviation, 8 December 2011.

<sup>293</sup> 'China Southern Airlines has 31% share of China-Australia traffic', CAPA – Centre for Aviation, 24 May 2012.

- d) China Southern's smaller hubs at Beijing and Urumqi offer specific geographical advantages: North Asia traffic can be routed over Beijing; while subcontinent, Eastern Europe and West Africa traffic can be brought over Urumqi.<sup>294</sup>
- e) China Southern signed a cooperation agreement with the Chinese Government in May 2011 to enhance its position at the new Beijing Daxing Airport, which is expected to open in 2016.<sup>295</sup>

### 3.2 International Routes and Network

- a) China Southern operates to 173 destinations across Asia, the Middle East, the Americas and Europe.<sup>296</sup> China Southern's international routes include:<sup>297</sup>

Region	Destination
Australia/New Zealand	Auckland, Brisbane, Melbourne, Sydney, Perth
Asia	Tokyo, Fukuoka, Hiroshima, Sendai, Sapporo, Osaka, Nagoya, Niigata, Toyama, Busan, Ho Chi Minh, Bangkok, Mumbai, Seoul, Singapore, Jakarta, Kuala Lumpur, Kota Kinabalu, Penang, Dhaka, Yangon, Phnom Penh, Siem Reap, Hong Kong, Delhi, Jakarta, Almaty, Bishkek, Osh, Malé, Kathmandu, Saipan, Islamabad, Cebu, Manila, Jeju City, Busan, Daegu, Taipei, Khujand, Dushanbe, Surat Thani, Ashgabat, Tashkent, Hanoi, Da Nang
The Middle East	Dubai, Doha, Cairo, Kuwait, Tehran, Jeddah, Dubai
The Americas	Los Angeles, Chicago, Vancouver, Los Angeles
Europe	Amsterdam, Paris, Moscow, London, Baku, Tbilisi, Novosibirsk, Moscow, Istanbul, London, Milan, Frankfurt, Vienna

- b) An illustration of China Southern's international route network is shown in the diagram below:<sup>298</sup>

<sup>294</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', CAPA – Centre for Aviation, 26 January 2012. Available: <http://centreforaviation.com/analysis/chinese-airlines-sixth-freedom-roles-could-challenge-middle-east-asian-european-hubs-this-decade-66664>

<sup>295</sup> 'Global Competition', ATWonline, 9 Nov 2011. Available: <http://atwonline.com/print/218281> (accessed 7 June 2012).

<sup>296</sup> Based on information available at CAPA (4 September 2012).

<sup>297</sup> 'Profile on China Southern Airlines', CAPA – Centre for Aviation. Available: <http://centreforaviation.com/profiles/airlines/china-southern-airlines-cz> (accessed 26 July 2012).

<sup>298</sup> 'China Southern Airlines route map', Airline Route Maps. Available: [http://www.airlineroutemaps.com/East\\_Asia/China\\_Southern.shtml](http://www.airlineroutemaps.com/East_Asia/China_Southern.shtml) (accessed 15 June 2012).



- c) Since its membership of SkyTeam (see below), China Southern has accelerated the pace of its internationalisation.<sup>299</sup> Through close cooperation with its SkyTeam partner airlines, China Southern's global route network now spans 926 destinations in 173 countries.<sup>300</sup>
- d) China Southern operates 42 weekly flights to Australasia.<sup>301</sup>

## 4 STRATEGY

### 4.1 Increased International Operations

- a) China Southern currently offers a growing set of long-haul destinations, including London, Paris and Los Angeles.<sup>302</sup>
- b) In 2010, China Southern aimed to boost international operations to 30% of total routes by the end of 2011. Its longer term aim was 40% of total routes over the medium term.<sup>303</sup>
- c) In 2011, China Southern opened a number of key international markets with all new (or expanded) services to Auckland, Amsterdam, Tbilisi, Vancouver, Perth, Istanbul and other international cities.<sup>304</sup> In 2011, China Southern saw a rapid increase in share (by passengers) for its international routes to Sydney, Melbourne, Los Angeles, Paris, Brisbane, Auckland and other international cities. Among these routes, services from Guangzhou to Australia and New Zealand increased from 7 to 42 flights per week in 2011.<sup>305</sup>

<sup>299</sup> 'Profile on China Southern Airlines', CAPA – Centre for Aviation. Available: <http://centreforaviation.com/profiles/airlines/china-southern-airlines-cz> (accessed 26 July 2012).

<sup>300</sup> Ibid.

<sup>301</sup> 'China Southern Airlines has 31% share of China-Australia traffic', CAPA – Centre for Aviation, 24 May 2012.

<sup>302</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', CAPA – Centre for Aviation, 26 January 2012. Available: <http://centreforaviation.com/analysis/chinese-airlines-sixth-freedom-roles-could-challenge-middle-east-asian-european-hubs-this-decade-66664>

<sup>303</sup> 'China Southern Airlines adds 34 routes this winter. Australia/NZ expansion key to long-haul strategy', CAPA – Centre for Aviation, 8 December 2011; 'China's airlines likely to turn to international markets as high-speed rail networks roll out', Airline Leader. Available: <http://www.airlineleader.com/this-months-highlights/chinas-airlines-likely-to-turn-to-international-markets-as-high-speed-rail-networks-roll-out> (accessed 4 July 2012).

<sup>304</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

<sup>305</sup> Company Profile, China Southern Airlines. Available: [http://www.csair.com/en/about\\_csn/profiles/profiles.html](http://www.csair.com/en/about_csn/profiles/profiles.html) (accessed 7 June 2012).

- d) During the summer 2012 season (March to October 2012), China Southern plans to add three new international routes, with capacity on the carrier's international routes expected to account for 27.2% of the carrier's total capacity during the season.<sup>306</sup>
- e) China Southern recently announced that it intends to take advantage of the long-term stable economic growth of China and its 'domestic consumption upgrade' to build an international network-oriented airline.<sup>307</sup>
- f) To this end, one of China Southern's stated key priorities in 2012 is strategic transformation and internationalisation, including:
  - i. improved hub route structure and increased hub competitiveness and customer satisfaction;
  - ii. enhanced recognition and attraction of China Southern's transit capability; and
  - iii. a secured presence on the Australian route, more international routes (including to London) further expansion of Southeast Asia routes and enhanced operational capability for international long haul routes.<sup>308</sup>

#### 4.2 Focus on Oceania Expansion

- a) As part of its internationalisation strategy, China Southern is reportedly committed to Oceania expansion, seeing success on its Australian operations as key to its international network development and strategy.<sup>309</sup>
- b) China Southern has stated that 'Australia is one of our fastest-growing markets because of the key role the country is playing in China's energy and resources boom and because tourism between our two countries is growing at an unprecedented rate.'<sup>310</sup>
- c) China Southern intends to be a driving force for travel between Australia and China by increasing its present 35 weekly services to 55 by 2015. China Southern's CEO has stated that 'by 2015, China Southern will carry an estimated 1.2 million passengers between China and Australia, around half of them Chinese travellers coming to Australia for business or leisure.'<sup>311</sup>
- d) For Australia and New Zealand, China Southern plans a fourfold wide body frequency increase by 2015 to 110 weekly services – which will be similar to Cathay Pacific and Singapore Airline levels. According to one analyst, is not improbable that Australia would see 500 Chinese services weekly by 2020.<sup>312</sup>

#### 4.3 New Canton Route

- a) China Southern is currently working to further the development of its 'Canton Routes' (services from Australia to London via the Guangzhou hub in Southern China). This

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<sup>306</sup> 'More subdued outlook for China in short term but some mighty changes afoot', CAPA – Centre for Aviation, 18 April 2012. Available: <http://centreforaviation.com/analysis/more-subdued-outlook-for-china-in-short-term-but-some-mighty-changes-afoot-71891>

<sup>307</sup> 'More subdued outlook for China in short term but some mighty changes afoot', CAPA – Centre for Aviation, 18 April 2012. Available: <http://centreforaviation.com/analysis/more-subdued-outlook-for-china-in-short-term-but-some-mighty-changes-afoot-71891>

<sup>308</sup> China Southern Airlines Annual Report 2011, p12.

<sup>309</sup> 'Chinese carrier pax traffic to exceed 300 million in FY 2012 as double-digit pax growth returns', CAPA – Centre for Aviation, 6 February 2012.

<sup>310</sup> 'China Southern Airlines adds 34 routes this winter. Australia/NZ expansion key to long-haul strategy', CAPA – Centre for Aviation, 8 December 2011.

<sup>311</sup> 'Chinese carrier pax traffic to exceed 300 million in FY 2012 as double-digit pax growth returns', CAPA – Centre for Aviation, 6 February 2012.

<sup>312</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', CAPA – Centre for Aviation, 26 January 2012. Available: <http://centreforaviation.com/analysis/chinese-airlines-sixth-freedom-roles-could-challenge-middle-east-asian-european-hubs-this-decade-66664>

forms part of the carrier's efforts to continue to 'make use of its hubs and increase the proportion of international flights to promote the optimisation of the overall route network'.<sup>313</sup>

- b) China Southern launched its three times weekly Guangzhou-London Heathrow service on 6 June 2012<sup>314</sup> and announced on 11 June 2012 that it plans to increase this to a daily service by late October or early November 2012.<sup>315</sup>
- c) China Southern increased the frequency of 'Canton Route' services from 5 June 2012:<sup>316</sup>
  - i. Guangzhou-Sydney frequency increased from 11 times weekly to twice daily; and
  - ii. Guangzhou-Melbourne frequency increased from daily to twice daily from July 2012.
- d) The additional frequencies have been strategically added on morning departures from Australia which arrive in Guangzhou at night, when regional connections are low but the hub enters full-swing for long-haul departures to Europe and North America.<sup>317</sup>
- e) The carrier officially opened its new regional headquarters for Australia and New Zealand in Sydney in August 2012, the airline's first overseas office<sup>318</sup> and also recently signed a \$9 million agreement with Tourism Australia, state tourism bodies and each of Sydney, Melbourne, Brisbane, Perth and Guangzhou Baiyun airports to develop and market the 'Canton Route'.<sup>319</sup>

#### 4.4 Memorandum of Understanding Between Australia and China

- a) The increased services between Australia and China follow the signing of a bilateral memorandum of understanding (**MoU**) between China and Australia on 8 March 2011. As part of the MoU, up to 8,000 extra seats per week were made available to Australian and Chinese airlines. The new agreement replaced the former cap of 14,500 seats per week between Australia and China.<sup>320</sup>
- b) The MoU also aims to boost traffic at regional airports. The Australian Government stated it would make up to 2,500 additional seats per week available on services into Sydney, Melbourne, Brisbane and Perth if those additional services make stopovers at a regional airport such as Cairns, Broome or Darwin.<sup>321</sup>
- c) Under the MoU, Australian carriers will now also be able to fly to China via an extra four intermediate points and to operate services beyond China to four more destinations of their choosing.<sup>322</sup>
- d) The MoU also contains a shared commitment to negotiating an 'open skies' agreement, an outcome that would remove most, if not all, of the limitations on Australian and Chinese airlines operating between and beyond the two countries.<sup>323</sup>

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<sup>313</sup> 'Chinese carrier pax traffic to exceed 300 million in FY 2012 as double-digit pax growth returns', CAPA – Centre for Aviation, 6 February 2012.

<sup>314</sup> 'China Southern launches Guangzhou-London service', CAPA – Centre for Aviation, 6 June 2012.

<sup>315</sup> 'China Southern looking to grow NZ/Australia-London market share', CAPA – Centre for Aviation, 11 June 2012.

<sup>316</sup> 'Qantas to face competition to London from China Southern Airlines', CAPA – Centre for Aviation, 5 June 2012.

<sup>317</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', CAPA – Centre for Aviation, 26 January 2012. Available: <http://centreforaviation.com/analysis/chinese-airlines-sixth-freedom-roles-could-challenge-middle-east-asian-european-hubs-this-decade-66664>

<sup>318</sup> 'China Southern launches new Australian HQ' in *Travel Daily* 9 August 2012.

<sup>319</sup> '\$13m CZ marketing' in *Travel Daily* 15 August 2012.

<sup>320</sup> 'China Southern Airlines adds 34 routes this winter. Australia/NZ expansion key to long-haul strategy', CAPA – Centre for Aviation, 8 December 2011.

<sup>321</sup> *Ibid.*

<sup>322</sup> *Ibid.*

<sup>323</sup> *Ibid.*

## **5 ALLIANCES AND PARTNERSHIPS**

### **5.1 SkyTeam Alliance**

- a) On 15 November 2007, China Southern joined the SkyTeam aviation alliance becoming the first Chinese airline to join a global airline alliance.<sup>324</sup>

### **5.2 Codeshare Arrangements**

- a) China Southern has code share arrangements with Aeroflot, Air France, Asiana Airlines, China Airlines, China Eastern Airlines, Chongqing Airlines, CSA Czech Airlines, Delta Air Lines, Garuda Indonesia, Japan Airlines, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, Malaysia Airlines, Mandarin Airlines, Pakistan International Airlines, Vietnam Airlines and Xiamen Airlines.<sup>325</sup>
- b) China Southern and China Eastern Airlines announced on 2 July 2012 that they will expand their codeshare agreement with an additional 15 domestic routes, effective July 2012.<sup>326</sup>

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<sup>324</sup> Ibid.

<sup>325</sup> Profile on China Southern Airlines, CAPA – Centre for Aviation, 6 June 2012.

<sup>326</sup> 'China Southern and China Eastern expand domestic codeshare', CAPA – Centre for Aviation, 2 July 2012.

## AIR CHINA

### 1 KEY FEATURES

- a) Natural mid-point carrier due to geographical location with associated hub advantages.
- b) Large 'domestic' feed which allows significant international expansion opportunities.
- c) Equity interests in other established full service airlines including Cathay Pacific.
- d) Operation of ground handling services at Beijing Capital, Shanghai Pudong and Shanghai Hongqiao airports.

### 2 COMPANY OVERVIEW

#### 2.1 Overview of Business

- a) Air China Limited (**Air China**) is one of China's 'Big Three' airlines. It is China's second largest airline after China Southern, with main bases at Beijing Capital and Shanghai Pudong airports.<sup>327</sup>
- b) It is a provider of air passenger, air freight and airline related services such as aircraft maintenance, ground handling services, repair and overhaul services, airport terminal services and air catering services.
- c) As described above, Air China and Cathay Pacific have cross-equity interests and have a joint venture in a Shanghai-based cargo carrier.

#### 2.2 History and Ownership

- a) Air China was established in 1988 following the Chinese government's decision to create separate commercial airlines out of the Civil Aviation Administration of China (**CAAC**). At this time Air China was awarded the title of China's official flag carrier and received the majority of international traffic rights for services out of Beijing and Shanghai.<sup>328</sup>
- b) Air China was incorporated as a joint stock limited company in Beijing on 30 September 2004.<sup>329</sup> On 15 December 2004, it was listed on the Hong Kong and London stock exchanges<sup>330</sup> and it listed on the Shanghai Stock exchange in August 2006.

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<sup>327</sup> 'Profile on Air China', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>328</sup> 'Air China – Giving Wings to Dreams', Etbmice. Available: <http://www.etbmice.com/article.asp?articleid=1808> (Accessed 9 June 2012).

<sup>329</sup> Air China Annual Report 2011, p74. Available: [http://www.airchina.com.cn/www/en/html/index/ir/financial\\_informatio/4069/2011h.pdf](http://www.airchina.com.cn/www/en/html/index/ir/financial_informatio/4069/2011h.pdf) (accessed 9 June 2012) (**Air China Annual Report 2011**).

<sup>330</sup> 'Corporate Social Responsibility Report 2009', Air China, p7. Available: [http://www1.airchina.com.cn/en/ir/financial\\_information/images/2010/06/17/ACC8CC8B8EC6FCF2A67D3AD980173461.pdf](http://www1.airchina.com.cn/en/ir/financial_information/images/2010/06/17/ACC8CC8B8EC6FCF2A67D3AD980173461.pdf) (accessed 6 June 2012).

### 3 INTERESTS IN OTHER COMPANIES

#### 3.1 Subsidiaries

- a) Air China's subsidiaries include China National Aviation Company Limited, Air China Group Import and Export Trading Co., Zhejiang Air Services Co., Ltd., Shanghai Air China Aviation Service Co., Ltd., Air China Development Corporation (Hong Kong) Limited, Beijing Golden Phoenix Human Resource Co., Ltd, Total Transform Group Ltd., Air China Cargo, Chengdu Falcon Aircraft Engineering Services Co., Ltd., and Shenzhen Airlines Co., Ltd among others.

#### 3.2 Cathay Pacific

- a) Air China maintains close strategic relationships with Cathay Pacific and Shenzhen Airlines, as part of its strategy to increase its reach in the southern Chinese market.<sup>331</sup>
- b) Air China has a strong strategic partnership with Cathay Pacific in which Air China holds a 29.99% stake in Cathay Pacific<sup>332</sup> and Cathay Pacific holds a 19.53% interest in Air China.<sup>333</sup> Their operating agreement primarily covers:<sup>334</sup>
- i. reciprocal passenger sales representation where Air China will be exclusively responsible for Cathay Pacific's sales in China while Cathay Pacific will be exclusively responsible for Air China's sales in Hong Kong, Macau and Taiwan;<sup>335</sup>
  - ii. extension of codeshare arrangements between Hong Kong and mainland China;<sup>336</sup>
  - iii. implementation of joint venture routes that will operate under profit sharing arrangements between Hong Kong and key cities in China; and<sup>337</sup>
  - iv. a freight joint venture in Shanghai (Air China Cargo),<sup>338</sup> pursuant to which Air China holds a 51% shareholding<sup>339</sup> and Cathay Pacific holds a 49% shareholding (25% through a subsidiary and the remaining 24% through an economic interest).<sup>340</sup>
- c) Cathay Pacific and Air China are also parties to a joint venture agreement in relation to ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport (see below).

#### 3.3 Shenzhen Airlines

- a) Air China owns a 51% equity stake in Shenzhen Airlines.<sup>341</sup> In 2011, Air China deepened its collaboration with Shenzhen Airlines in various areas, including sales and marketing, maintenance, information technology and central procurement.<sup>342</sup> This alliance has improved its influence in southern China through collaboration in

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<sup>331</sup> 'Profile on Air China', CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>332</sup> Cathay Pacific Annual Report 2011, p39.

<sup>333</sup> Air China Annual Report 2011, p74.

<sup>334</sup> 'Changes in shareholding structure builds new aviation partnerships in Greater China', *Air China, Cathay Pacific, China National Aviation Company (CNAC), CITIC Pacific and Swire Pacific Joint Media Release*, 9 June 2006.

Available: [http://downloads.cathaypacific.com/cx/press/JointPressRelease\\_Eng\\_1.pdf](http://downloads.cathaypacific.com/cx/press/JointPressRelease_Eng_1.pdf) (accessed 10 June 2012).

<sup>335</sup> Ibid.

<sup>336</sup> Ibid.

<sup>337</sup> Ibid.

<sup>338</sup> Ibid.

<sup>339</sup> Air China Annual Report 2011, p12.

<sup>340</sup> Cathay Pacific Annual Report 2011, p97.

<sup>341</sup> Air China Annual Report 2011, p12; Profile on Air China, CAPA – Centre for Aviation, 6 June 2012.

<sup>342</sup> Air China Annual Report 2011, p8

flight schedules and capacity deployment.<sup>343</sup> As at 31 December 2011, Shenzhen Airlines operated a fleet of 110 aircraft in total.<sup>344</sup>

### **3.4 Air Macau**

- a) Air China holds a 66.9% equity interest in Air Macau. As at 31 December 2011, Air Macau operated a fleet of 13 aircraft and operated 19 flight routes, covering 18 cities in Japan, Korea, Singapore, Thailand, Taiwan and mainland China.<sup>345</sup>

### **3.5 Tibet Airlines and Dalian Airlines**

- a) Air China's regional influence continued to grow in 2011 through its investment in Tibet Airlines and the establishment of a joint venture airline, Dalian Airlines in which Air China has an 80% equity stake.<sup>346</sup>
- b) Dalian Airlines will implement its regional aviation hub strategy in Dalian and will strive to establish an air traffic network corresponding to its position to become the gateway in northeast China within 5 years.<sup>347</sup>

### **3.6 Beijing Airlines**

- a) In 2011, Air China established Beijing Airlines which specialises in chartered business jet flights. Air China has a 51% equity stake in the airline.<sup>348</sup> As at 31 December 2011, Beijing Airlines operated a fleet of 9 aircraft.<sup>349</sup>

## **4 NETWORK AND HUB**

### **4.1 Airports and Hubs**

- a) Air China's most important hub is Beijing Capital International Airport. 173 of its aircraft were operating from the hub at the end of 2011. The number of transit passengers at the Beijing hub reached 4.5 million during 2011.<sup>350</sup>
- b) Air China also operates international flights from Shanghai Pudong International Airport. The number of Air China's aircraft serving the Shanghai gateway was 34 in 2011.<sup>351</sup>
- c) The number of Air China's aircraft serving the Chengdu Shuangliu International Airport hub was 47 in 2011. In 2011, Air China secured additional flight schedules, transit counters and lounge facilities for first and business class passengers at the Chengdu hub.<sup>352</sup>

### **4.2 Flights and Network**

- a) Air China has a strong domestic and international transport capacity and an extensive route network. Air China operates to 149 destinations across Asia, the Middle East, the Americas and Europe.<sup>353</sup> In mid 2012, Air China added its 12<sup>th</sup> European city –

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<sup>343</sup> Ibid, p11.

<sup>344</sup> Ibid, p12

<sup>345</sup> Ibid, p13.

<sup>346</sup> Ibid, p8.

<sup>347</sup> Ibid, p13.

<sup>348</sup> Ibid, p8.

<sup>349</sup> Ibid, p13.

<sup>350</sup> Air China Annual Report 2011, p10.

<sup>351</sup> Ibid.

<sup>352</sup> Air China Annual Report 2011, p10.

<sup>353</sup> Based on information available at CAPA (4 September 2012).

Copenhagen – to its route network, and it is looking at launching its first service to Africa.<sup>354</sup>

- a) With the Star Alliance, Air China's network covered around 1,290 destinations in 189 countries (as at 31 December 2011).<sup>355</sup> Air China's international routes include.<sup>356</sup>

Region	Destination
Oceania	Melbourne, Sydney
Asia	Hong Kong, Fukuoka, Hiroshima, Naha, Nagoya, Osaka, Sapporo, Sendai, Tokyo, Macau, Ulan Bator, Pyongyang, Busan, Daegu, Seoul, Taichung, Taipei, Bangalore, Kathmandu, Karachi, Yangon, Jakarta, Kuala Lumpur, Manila, Singapore, Bangkok, Phuket, Ho Chi Minh City, Hefei, Huangshan, Beijing, Chongqing, Wanzhou, Fuzhou, Quanzhou, Xiamen, Dunhuang, Lanzhou, Guangzhou, Shantou, Shenzhen, Zhuhai, Beihai, Guilin, Liuzhou, Nanning, Guiyang, Haikou, Sanya, Harbin, Jiamusi, Qiqihar, Zhengzhou, Wuhan, Xiangfan, Yichang, Changde, Changsha, Zhangjiajie, Nanjing, Wuxi, Changzhou, Nantong, Xuzhou, Ji'an, Jingdezhen, Nanchang, Changchun, Yanji, Chaoyang, Dalian, Dandong, Shenyang, Baotou, Chifen, Hailar, Hohhot, Manzhouli, Ordos, Tongliao, Xilinhot, Yinchuan, Xining, Xi'an, Jinan, Qingdao, Weihai, Yantai, Shanghai, Changzhi, Daton, Taiyuan, Chengdu, Dazhou, Guangyuan, Jiuzhaigo, Luzhou, Mianyang, Panzhihua, Xichang, Yibin, Tianjin, Chamdo/Qamdo, Lhasa, Nyingchi Shigatse, Shiquanhe, Hotan, Kashgar, KorlaUrumqi, Jinghong, Kunming, Lijiang, Hangzhou, Huangyan, Ningbo, Wenzhou
The Middle East	Dubai
The Americas	Vancouver Los Angeles New York San Francisco Sao Paulo
Europe	Paris, Düsseldorf, Frankfurt, Munich, Athens, Milan, Rome, Chita, Moscow, Madrid, Stockholm, London

<sup>354</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', CAPA – Centre for Aviation, 26 January 2012. Available: <http://centreforaviation.com/analysis/chinese-airlines-sixth-freedom-roles-could-challenge-middle-east-asian-european-hubs-this-decade-66664>

<sup>355</sup> Air China Annual Report 2011, cover page.

<sup>356</sup> Air China – Route Map. Available: <http://www.airchina.co.uk/en/managemytrip/routemaps/international.html> (accessed 8 June 2012)

## 5 PARTNERSHIPS AND AGREEMENTS

### 5.1 Codeshare Arrangements

- a) Air China has codeshare relationships with the following airlines - Air Canada, Air Macau, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, Cathay Pacific, Dragonair, EgyptAir, El Al, Ethiopian Airlines, EVA Air, Finnair, LOT - Polish Airlines, Lufthansa, SAS, Shandong Airlines, Shenzhen Airlines, South African Airways, TAM Airlines, TAP Portugal, Turkish Airlines, Uni Airways, United Airlines, US Airways and Virgin Atlantic Airways.<sup>357</sup>
- b) These codeshare arrangements add 211 routes, 4,443 weekly flights to Air China's network, covering 18 countries and 106 cities.<sup>358</sup>

### 5.2 JetBlue Partnership Agreement

- a) On 11 June 2012, Air China and JetBlue Airways, America's largest domestic airline, announced a partnership agreement, which initially offers interline connections between JetBlue's networks at New York JFK as well as at Los Angeles International Airport. Subject to government approval, Air China plans to enter into a codeshare with JetBlue and place its code on JetBlue services, commencing in the Northern autumn 2012.<sup>359</sup>
- b) Passengers can connect from Air China's Beijing flights onto JetBlue flights for cities throughout the United States.<sup>360</sup>
- c) Air China's president and CEO stated that 'the partnership with JetBlue creates many connecting opportunities at Air China's two strategically important U.S. gateways, New York and Los Angeles. It strengthens both our networks and benefits travellers of both countries.'<sup>361</sup>

## 6 STRATEGY AND OPERATIONS

### 6.1 Fleet

- a) Air China has a fleet size of 287 aircraft, with 186 on firm order.<sup>362</sup>

### 6.2 Provision of Ground Services

- a) Air China offers ground services for 35 foreign airlines and 3 domestic aviation groups and airlines at Beijing Capital International Airport, which makes up 55% of ground services at the Airport.<sup>363</sup>
- b) Ground services include passengers' entry, departure and transit services, special passenger services, irregular flight passenger services, passenger luggage services, tarmac load and unload services, cabin cleaning services and supply of various ground equipment and special vehicles.<sup>364</sup>
- c) In March 2012, Air China and Cathay Pacific's wholly owned subsidiary, Hong Kong Airport Services Limited (**HAS**) entered into a joint venture agreement with Shanghai

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<sup>357</sup> Profile on Air China, CAPA – Centre for Aviation, 6 June 2012.

<sup>358</sup> Air China – Partnerships. Available: [http://www.airchina.com.cn/www/en/html/index/about\\_us/airline\\_partners/](http://www.airchina.com.cn/www/en/html/index/about_us/airline_partners/) (Accessed 10 June 2012).

<sup>359</sup> 'JetBlue Airways and Air China Announce Plans to Partner', CAPA – Centre for Aviation, 12 June 2012.

<sup>360</sup> Ibid.

<sup>361</sup> Ibid.

<sup>362</sup> Based on information available at CAPA (4 September 2012).

<sup>363</sup> Company Profile, Air China. Available: [http://www.airchina.com.cn/www/en/html/index/about\\_us/company\\_profile/](http://www.airchina.com.cn/www/en/html/index/about_us/company_profile/) (accessed 10 June 2012).

<sup>364</sup> Ibid.

Airport Authority and Shanghai International Airport Co Ltd to establish Shanghai International Airport Services Co Ltd as a joint venture company in Shanghai to provide airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. Air China and Cathay Pacific will hold 24% and 25% of the joint venture company respectively. The joint venture will leverage on the resources and management expertise of each of the shareholders to enhance the hub operations and efficiency of ground handling services at the two Shanghai airports, providing a solid platform for developing Shanghai into a key aviation hub in the Asia Pacific region.<sup>365</sup>

### 6.3 International Expansion Plans

- a) Air China's business strategy in 2012 includes international development, actively strengthening and expanding domestic and international markets and improving its routes network and accelerating the construction of aviation hubs.<sup>366</sup> Air China plans to expand its European network to 14 destinations and the number of weekly services between mainland China and Europe to 178 to cement its leading position on the China-Europe sector.<sup>367</sup>
- b) In 2011, Air China's international route capacity increased 9.21% over the previous year<sup>368</sup> and the carrier stated it would expand capacity by 12% on international routes in 2012.<sup>369</sup>
- c) Air China is looking at targeting 75 million passengers in 2012, which will be a 7% increase from 2011.<sup>370</sup> It aims to increase international traffic by up to 18% in 2012.<sup>371</sup>
- d) Air China has indicated that it is planning to purchase 12 wide body aircraft in 2012 and expects to take delivery of 59 long-haul aircraft over the next five years as part of its fleet renewal and support international expansion on routes to Europe and the US from Beijing and Shanghai.<sup>372</sup>
- e) Air China has expanded its 'Fast Track' immigration service to include London Heathrow Airport, enabling first/business class and certain other passengers flying between London and Beijing to expedite immigration processes. The expansion into London Heathrow builds on the existing Air China Fast Track offering which is available at eight ports including Sydney, Melbourne, Paris, Narita, Rome, Milan and Bangkok.<sup>373</sup>

### 6.4 Domestic and Regional Plans

- a) In 2011, Air China strengthened its position domestically by increasing its capacity by 17.82%.<sup>374</sup> Air China indicated on 28 March 2012 that it will expand capacity by 8% on domestic routes.<sup>375</sup>

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<sup>365</sup> 'Shanghai Airport Authority, Shanghai International Airport Co., Ltd., Air China and Cathay Pacific establish airport ground handling joint venture in Shanghai', Cathay Pacific, 30 March 2012. Available: [http://www.cathaypacific.com/cpa/en\\_INTL/aboutus/pressroomdetails?refID=438e5c0acb266310VgnVCM62000007d21c39](http://www.cathaypacific.com/cpa/en_INTL/aboutus/pressroomdetails?refID=438e5c0acb266310VgnVCM62000007d21c39) (accessed 10 June 2012).

<sup>366</sup> Air China Annual Report 2011, p14.

<sup>367</sup> 'Chinese carrier pax traffic to exceed 300 million in FY 2012 as double-digit pax growth returns', CAPA – Centre for Aviation, 6 February 2012.

<sup>368</sup> Air China Annual Report 2011, p7.

<sup>369</sup> 'Air China targets 75 million pax in 2012, optimistic of long-term prospects', CAPA – Centre for Aviation, 30 March 2012).

<sup>370</sup> Ibid.

<sup>371</sup> 'Chinese carrier pax traffic to exceed 300 million in FY 2012 as double-digit pax growth returns', CAPA – Centre for Aviation, 6 February 2012.

<sup>372</sup> Ibid.

<sup>373</sup> 'CA LHR VIP fast track', Travel Daily, 26 July 2012. Available: <http://www.traveldaily.com.au/news/ca-lhr-vip-fast-track/118810> (accessed 6 June 2012).

<sup>374</sup> Air China Annual Report 2011, p7.

- b) Air China plans to launch a new airline with the Inner Mongolian government to expand its domestic presence, by establishing a joint venture company subject to CAAC approval. Air China will be the controlling stakeholder of the new entity, which will be based on the assets of Air China's branch company in the Inner Mongolian region. Air China plans to expand routes within the region with more policy support following the investment.<sup>376</sup>

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<sup>375</sup> 'Air China targets 75 million pax in 2012, optimistic of long-term prospects', CAPA – Centre for Aviation, 30 March 2012.

<sup>376</sup> 'Air China to establish JV company in Inner Mongolia', CAPA – Centre for Aviation, 24 May 2012.

## CHINA EASTERN

### 1 KEY FEATURES

- a) Natural mid-point carrier due to geographical location with associated hub advantages.
- b) Current domestic focus, but significant opportunity for international expansion.

### 2 COMPANY OVERVIEW

#### 2.1 Overview of Business

- a) China Eastern Airlines Corporation Limited (**China Eastern**) is one of China's 'Big Three' airlines with hubs at Shanghai's Pudong and Hongqiao airports, as well as Kunming and Xi'an.<sup>377</sup>
- b) The scope of China Eastern's business includes passenger air transportation services, the production and sale of aviation equipment, equipment maintenance, freight services, ground handling, aircraft leasing, aviation training and consulting services.<sup>378</sup>

#### 2.2 History and Ownership

- a) China Eastern was established in 1988 following the Chinese Government's decision to create separate commercial airlines out of the Civil Aviation Administration of China (**CAAC**).<sup>379</sup>
- b) The China Eastern Air Holding Company (**CEAH**), which was founded in April 1996,<sup>380</sup> is the parent company of CEA<sup>381</sup> with a shareholding of 59.94%. Affiliates of CEAH include:
  - i. China Cargo Airlines (51%, since October 1998);
  - ii. Sichuan Airlines (10% through Shanghai Airlines, since August 2002);
  - iii. Joy Air (since 2009);
  - iv. China United Airlines (since February 2010); and
  - v. Jetstar Hong Kong (which will commence operations in 2013, subject to regulatory approval).
- c) China Eastern is supervised by the State Assets Administration Committee of the State Council of China.<sup>382</sup> The State Council also supervises Air China and China Southern.<sup>383</sup>

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<sup>377</sup> Profile on China Eastern Airlines, CAPA – Centre for Aviation (accessed 6 June 2012).

<sup>378</sup> 'About China Eastern', China Eastern Airlines. Available: <http://en.ceair.com/mu/en/gdyh/index.html> (Accessed 8 June 2012).

<sup>379</sup> 'Air China – Giving Wings to Dreams', Etbmice. Available: <http://www.etbmice.com/article.asp?articleid=1808> (Accessed 9 June 2012).

<sup>380</sup> 'About China Eastern', China Eastern Airlines. Available: <http://en.ceair.com/mu/en/gdyh/index.html> (Accessed 8 June 2012).

<sup>381</sup> 'China backs Singapore bid for China Eastern stake', MarketWatch, 3 January 2008. Available: [http://articles.marketwatch.com/2008-01-03/news/30710198\\_1\\_air-china-singapore-bid-singapore-airlines](http://articles.marketwatch.com/2008-01-03/news/30710198_1_air-china-singapore-bid-singapore-airlines) (Accessed 8 June 2012).

<sup>382</sup> 'Company Information', China Eastern Airlines. Available: [http://en.flychinaeastern.com/muovc/main/en\\_HK/Static\\_pages/CompanyInformation.html](http://en.flychinaeastern.com/muovc/main/en_HK/Static_pages/CompanyInformation.html) (Accessed 10 June 2012).

<sup>383</sup> 'Central SOEs', State-Owned Assets Supervision and Administration Commission of the State Council (SASAC). Available: <http://www.sasac.gov.cn/n2963340/n2971121/n4956567/index.html> (Accessed 10 June 2012).

## 2.3 Subsidiaries

- a) In 2010, China Eastern acquired Shanghai Airlines.<sup>384</sup>
- b) In addition, China Eastern holds controlling shares of over 20 other subsidiaries including China Eastern Yunnan Airlines, Cargo Airlines Co. Ltd, China United Airlines, Shanghai Eastern Flight Training, Eastern Airlines Hotel, China Eastern Airlines Development (HK), Shanghai Eastern Airlines Logistics, Shanghai Airlines Hotel Investment Management, Eastern Airlines Hotel and Shanghai International Freight Airlines.<sup>385</sup>

## 2.4 Fleet

- a) China Eastern has a current fleet of 309 aircraft, with 136 new aircraft on firm order.<sup>386</sup>
- b) On 14 May 2012, CEA announced to the Hong Kong stock exchange its agreement with Boeing to purchase 20 B700-300ER aircraft.<sup>387</sup> The aircraft are expected to be delivered in stages from 2014 to 2018.

## 3 OPERATIONS

### 3.1 Airport and Hubs

- a) China Eastern operates most of its flights through its hubs located in eastern, north western and south western China. Shanghai Hongqiao International Airport and Shanghai Pudong International Airport are its main hubs and Xi'an and Kunming are its regional hubs.
- b) China Eastern reported 1.1 million international transit passengers in Shanghai in 2011, an increase of 30.9% year on year.<sup>388</sup>
- c) China Eastern, Shanghai Airport and SkyTeam alliance signed a cooperation agreement on 7 June 2012.<sup>389</sup>
- d) China Eastern has been involved in fostering the construction of hubs in Shanghai, Xi'an and Kunming. It has done this by committing to capacity deployment, an optimised route structure, the introduction of new destinations and increased flight frequency.<sup>390</sup> It has also committed to a strategy of 'three-in-three-out' flight frequency (morning, afternoon and evening) at Shanghai Pudong International Airport to achieve bilateral flight connections for over 25 domestic cities.<sup>391</sup>
- e) Although China Eastern has largely pursued strengthening its position in Shanghai, it may pursue hub opportunities elsewhere.<sup>392</sup>

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<sup>384</sup> 'China Eastern, Shanghai Airlines to merge in share swap deal', China.org, 13 July 2009. Available: [http://www.china.org.cn/business/2009-07/13/content\\_18121931.htm](http://www.china.org.cn/business/2009-07/13/content_18121931.htm); (Accessed 10 June 2012); 'China Eastern Airlines, Shanghai Airlines successfully merged', Eastday, 10 February 2010: <http://english.eastday.com/e/100210/u1a5013035.html> (Accessed 10 June 2012).

<sup>385</sup> 'About China Eastern', China Eastern Airline. Available: <http://en.ceair.com/mu/en/gdjh/index.html> (Accessed 8 June 2012); Profile on China Eastern Airlines, CAPA – Centre for Aviation (Accessed 6 June 2012).

<sup>386</sup> Based on information available at CAPA (4 September 2012).

<sup>387</sup> China Eastern Airlines Corporation Limited – Circular lodged with the Hong Kong Stock Exchange (14 May 2012): <http://www.hkex.com.hk/eng/csm/ShowNews.asp?mkt=hk&FileName=http://www.hkexnews.hk/listedco/listconews/sehk/2012/0511/LTN20120511663.pdf> (Accessed 10 June 2012).

<sup>388</sup> 'China Eastern, Shanghai Airport and SkyTeam sign agreement', CAPA – Centre for Aviation, 8 June 2012.

<sup>389</sup> Ibid.

<sup>390</sup> China Eastern Airlines, *Annual Report 2011*, p14.

<sup>391</sup> Ibid.

<sup>392</sup> 'Chinese airlines' sixth freedom roles could challenge Middle East, Asian, European hubs this decade', 26 January 2012.

### 3.2 Flight Routes and Network

- a) China Eastern operates to 168 destinations across Asia, Europe, North America and the Middle East.<sup>393</sup> After joining the SkyTeam Alliance, the route network of China Eastern expanded to cover more than 926 destinations in 173 countries around the world.<sup>394</sup>
- b) China Eastern's international routes include:<sup>395</sup>

Region	Destination
Asia	Hefei, Huangshan, Beijing, Chongqing, Fuzhou, Wuyishan, Xiamen, Dunhuang, Jiayuguan, Lanzhou, Guangzhou, Shantou, Shenzhe, Zhuhai, Beihai, Guilin, Liuzhou, Nanning, Guiyang, Haikou, Sanya, Shijiazhuang, Harbin, Luoyang, Zhengzhou, Enshi, Wuhan, Yichang, Changsha, Zhangjiajie, Baotou, Chifeng, Hohhot, Ordos, Wuhai, Changzhou, Huai'an, Lianyungang, Nanjing, Nantong, Wuxi, Xuzhou, Yancheng, Ganzhou, Nanchang, Dalian, Shenyang, Yinchuan, Xining, Golmud, Jinan, Qingdao, Yantai, Shanghai, Xi'an, Datong, Taiyuan, Yuncheng, Chengdu, Kangding, Luzhou, Songpan, Yibin, Tianjin, Lhasa, Hotan, Kashgar, Ürümqi, Yining City, Baoshan, Dali, Jinghong, Kunmin, Lijiang, Lincang, Mang City, Pu'er, Shangri-La, Tengchong, Wenshan, Zhaotong, Hangzhou, Ningbo, Taizhou, Wenzhou, Zhoushan, Hong Kong, Fukuoka, Fukushima, Hiroshima, Kagoshima, Komatsu, Matsuyama, Nagasaki, Nagoya, Niigata, Okayama, Okinawa, Osaka, Sapporo, Shizuoka, Tokyo, Busan, Cheongju, Daegu, Jeju, Seoul, Taipei, Dhaka, Delhi, Kolkata, Malé, Kathmandu, Colombo, Mandalay, YangonSiem, ReapBali, Vientiane, Kuala Lumpur, Bangkok, Chiang Mai, Phuket, Singapore, Da Nang, Hanoi, Ho Chi Minh City
Europe	Paris, Frankfurt, Hamburg, Rome, Moscow, London
North America	Vancouver, Honolulu, Los Angeles, New York
Oceania	Cairns, Melbourne, Sydney, Saipan
The Middle East	Dubai

<sup>393</sup> Based on information available at CAPA (4 September 2012).

<sup>394</sup> China Eastern Airlines, *Annual Report 2011*, p18.

<sup>395</sup> China Eastern Airlines – Route Map: [http://hk.ceair.com/muovc/main/en\\_HK/Static\\_pages/RouteMap.html](http://hk.ceair.com/muovc/main/en_HK/Static_pages/RouteMap.html)

- c) China Eastern plans to launch a 3 times weekly Shanghai Pudong to Cairns service on 31 October 2012.<sup>396</sup> China Eastern already operates a Shanghai-Sydney service.<sup>397</sup>
- d) China Eastern increased Shanghai-Pudong-Paris frequency from daily to twice daily from 30 June 2012 and launched 3 times weekly Dailan-Shanghai Pudong – Paris services from 26 July 2012.<sup>398</sup>

### 3.3 Freight Operations

- a) The company's freight and mail business generally utilises the same route network used by its passenger airline business.
- b) China Cargo Airlines, a subsidiary of China Eastern, is expected to become the second Chinese carrier to join the SkyTeam cargo alliance by the end of June 2013.<sup>399</sup>

## 4 PARTNERSHIPS AND ALLIANCES

### 4.1 SkyTeam Alliance

- a) China Eastern joined the SkyTeam Alliance in June 2011<sup>400</sup> which includes China Southern, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air, Vietnam Airlines, China Airlines and Kenya Airways.

### 4.2 Codeshare Partners

- a) China Eastern's codeshare partners include Air France, Alitalia, China Airlines, China Southern, China United Airlines, Delta, Japan Airlines, Joy Air, KLM Royal Dutch Airlines, Korean Air, Mandarin Airlines, Qantas Airways, Shanghai Airlines, Vietnam Airlines, WestJet and Xiamen Airlines.<sup>401</sup>
- b) China Eastern has stated that it will continue to actively expand its codeshare cooperation with existing partners in order to expand its route network.<sup>402</sup>
- c) In February 2012, Delta announced expanded codeshare agreements with China Eastern and China Southern which will allow both Chinese carriers to place their codes and flight numbers on Delta-operated flights. On 21 June 2012, it was announced that China Eastern had entered into a codeshare agreement with WestJet commencing from 1 July 2012. This codeshare allows China Eastern to market and distribute WestJet-operated flights within North America.<sup>403</sup>
- d) Hong Kong Airlines and Hong Kong Express have confirmed they commenced reciprocal codeshare services with China Eastern and Shanghai Airlines on selected routes between Hong Kong and mainland China from 16 July 2012.<sup>404</sup>

<sup>396</sup> 'China Eastern Airlines to launch Shanghai Pudong-Cairns service', CAPA – Centre for Aviation, 9 July 2012.

<sup>397</sup> 'China Eastern Airlines looking at Cairns route', CAPA – Centre for Aviation, 19 June 2012.

<sup>398</sup> 'China Eastern to increase Shanghai-Paris frequency, extend Paris CDG-Shanghai to Dalian', CAPA – Centre for Aviation, 29 June 2012.

<sup>399</sup> 'China Cargo Airlines signs Lol to join SkyTeam Cargo Alliance by Jun-2013', CAPA – Centre for Aviation, 6 June 2012.

<sup>400</sup> 'Profile on China Eastern Airlines', CAPA – Centre for Aviation (accessed 6 June 2012)

<sup>401</sup> Ibid.

<sup>402</sup> 'China Eastern had 12 codeshare partners at the end of Apr-2012', CAPA – Centre for Aviation, 4 May 2012.

<sup>403</sup> 'WestJet and China Eastern Airlines launch codeshare partnership', CAPA – Centre for Aviation, 22 June 2012.

<sup>404</sup> 'Hong Kong Airlines, Hong Kong Express, China Eastern and Shanghai Airlines commence codeshare', CAPA – Centre for Aviation, 19 July 2012.

### 4.3 Strategic Alliances

- a) In March 2012, Etihad and China Eastern signed a memorandum of understanding encompassing joint route and schedule coordination, codesharing on routes between the UAE and China, full frequent flyer reciprocity, reciprocal airport lounge access, joint product development and technical and cargo cooperation.<sup>405</sup> The final agreement may allow China Eastern to operate to and from Etihad's home base in Abu Dhabi.<sup>406</sup>
- b) In March 2012, China Eastern entered a strategic alliance with Qantas to create low cost carrier Jetstar Hong Kong which will commence operations in 2013, subject to regulatory approval.<sup>407</sup>

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<sup>405</sup> 'Etihad Airways signs MoU with China Eastern Airlines', Etihad Airways, 21 March 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3413](http://www.etihadmediacentre.com/file.php?f_ID=3413) (accessed 11 June 2012).

<sup>406</sup> 'Etihad Airways signs MoU with China Eastern', CAPA – Centre for Aviation, 21 March 2012.

<sup>407</sup> 'China Eastern Airlines and Qantas announce Jetstar Hong Kong', Jetstar Airways, 26 March 2012: <http://202.59.42.227/mediacentre/latest-announcements/detail?id=0632ec10-347c-425f-b87d-80742c38b758&language=en> (accessed 11 June 2012).

## MALAYSIA AIRLINES

### 1 KEY FEATURES

- a) Established ancillary businesses at Kuala Lumpur International Airport with favourable cost position relative to other hubs.
- b) By the end of 2012, the average age of its fleet will be 7.7 years, down from 12.2 years in 2011.<sup>408</sup>
- c) Favourable IR environment and low labour costs.

#### 1.1 Company Overview

- a) Malaysian Airline System Berhad operates as Malaysia Airlines (**MAS**) and is the government owned national flag carrier of Malaysia. It was first incorporated as Malayan Airways Limited on 12 October 1937.<sup>409</sup>
- b) MAS flies approximately 37,000 passengers daily to 80 destinations worldwide on four continents.<sup>410</sup> The airline's main hubs are Kuala Lumpur International Airport (**KLIA**) and Kota Kinabalu International Airport.<sup>411</sup>
- c) The airline operates through two business segments: air passenger transport services and freight services. The freight services segment operates aircraft for freight and mail services through its wholly owned subsidiary MASKargo.<sup>412</sup>
- d) In 2011, MAS incurred a net loss of RM1.2billion in the first three quarters.<sup>413</sup> The airline reported that if it maintained its then current business model, it would be bankrupt by the middle of the second quarter of 2012.<sup>414</sup>

#### 1.2 Ownership

- a) MAS is a listed company on the Bursa Malaysia stock exchange.<sup>415</sup>
- b) As at 8 May 2012, Khazanah Nasional Berhad held 66.37% of ordinary shares and 69.77% of redeemable convertible preference shares in MAS.<sup>416</sup> Khazanah Nasional is the investment holding arm of the Malaysian Government entrusted to manage the commercial assets held by the Government and to undertake strategic investments.<sup>417</sup> Except for one share owned by Pesuruhjaya Tanah Persekutuan (the Federal Land Commissioner), all the share capital of Khazanah is owned by the Minister of Finance Incorporated, a corporate body incorporated pursuant to the *Minister of Finance (Incorporation) Act 1957*.<sup>418</sup>

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<sup>408</sup> Malaysian Airline System Berhad Annual Report 2011, p18. Available:

<http://ir.chartnexus.com/mas/doc/ar/ar2011.pdf> (Malaysia Airlines Annual Report 2011).

<sup>409</sup> 'About Malaysia Airlines', ChartNexus. Available: <http://ir.chartnexus.com/mas/index.php> (accessed 10 July 2012).

<sup>410</sup> 'Our Story', Malaysia Airlines. Available: <http://www.malaysiaairlines.com/jp/en/corporate-info/our-story.html> (accessed 10 July 2012).

<sup>411</sup> 'Airport Guide', Malaysia Airlines. Available: <http://www.malaysiaairlines.com.my/my/en/travel-info/airport-guide/klia.html> (accessed 10 July 2012).

<sup>412</sup> Ibid.

<sup>413</sup> 'Business Plan – Our Way Forward, December 2011', Malaysia Airlines. Available:

<http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Malaysia%20Airlines%20Business%20Plan.pdf> (accessed 10 July 2012), p2.

<sup>414</sup> Ibid.

<sup>415</sup> 'Company Overview: Malaysian Airline System BHD', Bursa Malaysia. Available:

[http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock\\_code=3786](http://www.bursamalaysia.com/market/listed-companies/list-of-companies/plc-profile.html?stock_code=3786) (accessed 10 July 2012)

<sup>416</sup> Malaysia Airlines Annual Report 2011, p170–172.

<sup>417</sup> 'History', Kazanah Nasional Berhad. Available: <http://www.khazanah.com.my/history.htm> (accessed 10 July 2012).

<sup>418</sup> Ibid.

- c) Khaznah Nasional also has majority shareholding in Malaysia Airports Holdings Bhd, which is the operator and manager of Malaysia's 38 airports, including Kuala Lumpur International Airport, which MAS uses as its hub.<sup>419</sup>

### 1.3 Fleet

- a) MAS has a current fleet of 115 aircraft, with 27 on firm order.<sup>420</sup>
- b) Between 2011 and 2012, as part of its business recovery plan, MAS will undergo an aggressive fleet renewal program and will be able to reduce the average age of its fleet from 12.2 years at the end of 2011 to 7.7 years by the end of 2012, making it one of the youngest fleets in the region.<sup>421</sup> MAS announced that it will accelerate the withdrawal of its remaining nine Boeing 747 aircraft from its fleet with plans to order the upgraded A330 model by Airbus.<sup>422</sup>

## 2 OPERATIONS

### 2.1 Routes and Hubs

- a) MAS' international routes include:<sup>423</sup>

Region	Destination
Asia	Beijing, Guangzhou, Kunming, Shanghai, Xiamen, Hong Kong, Osaka, Tokyo, Seoul, Taipei, Dhaka, Bangalore, Chennai, Delhi, Hyderabad, Mumbai, Malé, Kathmandu, Colombo, Bandar Seri, Begawan, Yangon, Phnom Penh, Siem Reap, Bali, Jakarta, Medan, Alor Star, Bintulu, Johor Bahru, Kota Bharu, Kota Kinabalu, Kuala Lumpur, Kuala Terengganu, Kuantan, Kuching, Labuan, Langkawi, Miri, Penang, Sandakan Sibul, Tawau, Manila, Singapore, Bangkok, Phuket, Hanoi, Ho Chi Minh City
Europe	Paris, Frankfurt, Milan, Amsterdam, Istanbul, London
North America	Los Angeles
Oceania	Adelaide, Brisbane, Melbourne, Perth, Sydney, Auckland
The Middle East	Jeddah

<sup>419</sup> 'Portfolio Companies', Kazanah Nasional. Available: <http://www.khazanah.com.my/portfolio.htm#com11> (accessed 10 July 2012)

<sup>420</sup> Based on information available at CAPA (4 September 2012).

<sup>421</sup> Malaysia Airlines Annual Report 2011, p18.

<sup>422</sup> Ibid.

<sup>423</sup> Malaysia Airlines – Route Maps. Available: <http://malaysiaairlines.innosked.com/%28S%28y15cfnm4ayjyeh455r02jx45%29%29/Default.aspx>

## 2.2 Route Rationalisation

- a) In December 2011, MAS announced that more than 40% of its routes were loss-making and its cost position was 10–15% above corresponding revenues.<sup>424</sup> As a result of this, MAS is undergoing a major network restructure which began in early 2012.<sup>425</sup>
- b) MAS will concentrate efforts within South-East Asia, South Asia, Greater China and North Asia where the demand outlook is strong, fuelled by a growing middle class and increased intra-regional trade.<sup>426</sup>

## 2.3 New Routes

- a) From 25 March 2012, another daily service was added on the Manila route using Boeing 737-800 aircraft, making the service 3 times daily. At the same time, 2 additional flights per week were added to Jakarta, increasing that service to 6 times daily. Flights to Bangkok increased to 4 a day from 3, while Medan services increased to 2 a day.<sup>427</sup>
- b) Effective from 26 March 2012, MAS increased its turnaround frequency on the existing Kuala Lumpur–Taipei return sector by an additional 3 weekly flights using the B737-800 aircraft. Together with the existing 4 weekly B737-800 flights, MAS now offers direct daily connectivity between KLIA and Taipei, providing an additional capacity of 480 seats (75% increase) in each direction.<sup>428</sup>
- c) From 1 September 2012, MAS plans to increase frequencies on its services to India. It will increase Kuala Lumpur–Chennai frequency from daily to 11 times weekly and Kuala Lumpur–Bengaluru frequency from daily to 10 times weekly.<sup>429</sup> MAS has also announced plans to launch a 3 times weekly Kuala Lumpur–Kathmandu service from 1 September 2012.<sup>430</sup>
- d) On 2 July 2012, MAS launched its first Airbus A380 on its service from Kuala Lumpur to London Heathrow. Initially operating 3 times per week, this service will increase to daily from 12 August 2012.<sup>431</sup>
- e) MAS will launch Airbus A380 services to Australia (Sydney in November 2012<sup>432</sup> and Melbourne in March 2013).<sup>433</sup>

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<sup>424</sup> 'Business Plan – Our Way Forward', Malaysia Airlines, December 2011. Available: <http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Malaysia%20Airlines%20Business%20Plan.pdf> (accessed 10 July 2012), p5.

<sup>425</sup> 'Malaysia Airlines network restructuring in early 2012', Flight Global, 10 November 2011. Available: <http://www.flightglobal.com/blogs/the-networker/2011/11/malaysia-airlines-network-restructuring-in-early-2012.html> (accessed 10 July 2012).

<sup>426</sup> Ibid.

<sup>427</sup> 'Malaysia Airlines network restructuring in early 2012', Flight Global, 10 November 2011. Available: <http://www.flightglobal.com/blogs/the-networker/2011/11/malaysia-airlines-network-restructuring-in-early-2012.html> (accessed 10 July 2012).

<sup>428</sup> 'In the news: Malaysia Airlines increases regional and long haul network frequencies, offering irresistible fares', Malaysia Airlines, 24 March 2012. Available: <http://www.malaysiaairlines.com/jp/en/corporate-info/press-room/latest/malaysia-airlines-increases-regional-and-long-haul-network-frequencies.html> (accessed 10 July 2012).

<sup>429</sup> 'Malaysia Airlines to increase frequencies on Indian routes from September 2012', CAPA – Centre for Aviation, 9 July 2012.

<sup>430</sup> 'Malaysia Airlines to add Kathmandu to network', CAPA – Centre for Aviation, 4 July 2012.

<sup>431</sup> 'Malaysia Airlines moves forward daily London Heathrow A380 service to mid Aug-2012', CAPA – Centre for Aviation, 3 June 2012; 'Newest superjumbo takes off for Malaysia Airlines', Sydney Morning Herald, 2 July 2012. Available: <http://www.smh.com.au/travel/newest-superjumbo-takes-off-for-malaysia-airlines-20120702-21btw.html> (accessed 4 July 2012).

<sup>432</sup> 'Malaysia Airlines sets another Malaysian record with commencement of A380 scheduled service,' Malaysia Airlines Press Release, 1 July 2012. Available: <http://www.malaysiaairlines.com/hq/en/corporate-info/press-room/latest/malaysia-airlines-sets-another-malaysian-record-with-commencement-of-a380-scheduled-service.html>

<sup>433</sup> 'Malaysia Airlines starts daily A380 Melbourne-KL in March?' in *Australian Business Traveller*, 6 August 2012. Available: <http://www.ausbtt.com.au/malaysia-airlines-starts-daily-mas-airbus-a380-melbourne-kuala-lumpur-in-march>. See also 'Melbourne to become fourth A380 destination for Malaysia Airlines after Heathrow, Narita and Sydney', CAPA, 6 August 2012.

## 2.4 Firefly

- a) Firefly is a wholly-owned subsidiary of Malaysia Airlines. It is a full-service Malaysian regional airline with bases at Subang and Penang airports in Malaysia.<sup>434</sup>
- b) Firefly operates services to 18 cities in Indonesia, Malaysia, Singapore and Thailand.<sup>435</sup>
- c) Its fleet consists of 18 aircraft consisting of 10 ATR 72-500s, 2 Boeing 737-400s and 6 Boeing 737-800s.<sup>436</sup>

## 3 CORPORATE STRATEGY AND RECOVERY PLAN

### 3.1 Background

- a) In December 2011 MAS devised a recovery plan to put it back on the path to sustained profitability.<sup>437</sup>
- b) MAS aims to sustain increasing levels of profitability and aspires to generate a profit after tax of over RM900 million by 2016.<sup>438</sup>
- c) On 21 June 2012, MAS' CEO said the airline is targeting a return to profit by 2014 as it moves ahead with a three-year plan to reduce costs by 20%.

## 4 ALLIANCES AND PARTNERSHIPS

### 4.1 Alliances

- a) As mentioned above, MAS was confirmed as an **oneworld** member elect in June 2011 and is expected to become a full member of the alliance in late 2012/2013.<sup>439</sup>

### 4.2 Codeshare Agreements

- a) MAS has codeshare arrangements with a number of airlines including Air Mauritius, All Nippon Airways, Cathay Pacific, Korean Air, Qatar Airways, Thai Airways, Air India, Alitalia, Austrian Airlines, British Midlands, Dragon Air, Garuda Indonesia, KLM Royal Dutch Airlines, Japan Airlines,<sup>440</sup> Myanmar Airways International, Philippine Airlines, Royal Brunei Airlines, Silk Air, Singapore Airlines, South African Airways, Sri Lankan Airlines, Swiss International Airlines, Transaero Airways and Uzbekistan Airways.<sup>441</sup>
- b) The codeshare arrangement between MAS and Cathay Pacific covers MAS flights between Hong Kong and Kuala Lumpur and Cathay Pacific flights between Hong Kong and Kuala Lumpur and Penang.<sup>442</sup>

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<sup>434</sup> 'Profile on Firefly', CAPA – Centre for Aviation: <http://www.centreforaviation.com/profiles/airlines/firefly-fy> (Accessed 10 July 2012)

<sup>435</sup> Ibid.

<sup>436</sup> Ibid.

<sup>437</sup> 'Business Plan – Our Way Forward', Malaysia Airlines, December 2011. Available: <http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Malaysia%20Airlines%20Business%20Plan.pdf> (accessed 10 July 2012), p2.

<sup>438</sup> Ibid, p11.

<sup>439</sup> 'Members Elect: Expanding the oneworld alliance', OneWorld. Available: <http://www.oneworld.com/member-airlines/members-elect/> (accessed 10 July 2012).

<sup>440</sup> Codeshare arrangement launched on 1 July 2012 ('Japan Airlines and Malaysia Airlines begin codeshare partnership from Jul-2012', CAPA – Centre for Aviation, 11 June 2012).

<sup>441</sup> 'Codeshare Partners', Malaysia Airlines. Available: <http://www.malaysiaairlines.com.my/my/en/corporate-info/partner-airlines.html> (accessed 10 July 2012).

<sup>442</sup> 'Alliance and Partnership', Cathay Pacific. Available: [http://www.cathaypacific.com/cpa/en\\_BH/aboutus/cxbackground/partnerships](http://www.cathaypacific.com/cpa/en_BH/aboutus/cxbackground/partnerships) (accessed 10 July 2012).

- c) From 25 March 2012, MAS commenced its codeshare agreement with Bangkok Airways on selected domestic flights and international routes between Thailand and Malaysia. The arrangement allows MAS to place its MH marketing flight code on Bangkok Airways' services for Bangkok–Koh Samui (31 times weekly flights), Bangkok–Phuket (14 times weekly flights), Bangkok–Chiang Mai (14 times weekly flights), Koh Samui–Phuket (14 times weekly flights) and Koh Samui–Kuala Lumpur (daily flight). Bangkok Airways will codeshare on Malaysia Airlines' Kuala Lumpur–Bangkok (27 times weekly) and Kuala Lumpur–Phuket (14 times weekly) services.<sup>443</sup>
- d) In July 2012, Japan Airlines and MAS launched a reciprocal codeshare service between Japan and Malaysia, as well as domestic Japan and Malaysia, plus India, Sri Lanka, Maldives, Korea, Hong Kong, Taiwan and the US.<sup>444</sup>
- e) MAS codeshares with Singapore Airlines on the Singapore–Kuala Lumpur and Singapore–Kuching routes.<sup>445</sup>

### 4.3 AirAsia

- a) A joint venture signed between MAS and AirAsiaX is allowing the carriers to achieve synergies in procurement, aircraft repair and maintenance services.<sup>446</sup>

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<sup>443</sup> 'In the news: Bangkok Airways and Malaysia Airlines begin Code Share', Malaysia Airlines, 27 March 2012. Available: <http://www.malaysiaairlines.com/jp/en/corporate-info/press-room/latest/bangkok-airways-and-malaysia-airlines-begin-code-share.html> (accessed 10 July 2012).

<sup>444</sup> 'JAL / Malaysia Airlines to Launch Codeshare Service from July 2012', Routes Online, 11 June 2012. Available: <http://airlineroute.net/2012/06/11/jlmh-codeshare/> (Accessed 10 July 2012).

<sup>445</sup> 'Singapore Airlines codeshare destinations', Singapore Airlines. Available: [http://www.singaporeair.com/en\\_UK/about-us/psh-codeshare-psh/psh-codeshare-dest/](http://www.singaporeair.com/en_UK/about-us/psh-codeshare-psh/psh-codeshare-dest/) (accessed 10 July 2012).

<sup>446</sup> 'Malaysia Airlines-AirAsia X joint venture allowing for business synergies: Malaysian PM', CAPA – Centre for Aviation, 26 June 2012.

## JAPAN AIRLINES

### 1 KEY FEATURES

- a) Ability to operate as a mid-point carrier due to geographic location.
- b) Large domestic feed.

### 2 COMPANY OVERVIEW

- a) Japan Airlines Co Ltd (**JAL**) is one of Japan's two major flag carriers with hubs at Tokyo's Narita International Airport, Tokyo International Airport, Nagoya's Chubu Centrair International Airport and Osaka's Kansai International Airport.<sup>447</sup>
- b) The airline operates to 72 destinations across Asia, Europe and North America.<sup>448</sup>
- c) JAL's operations are divided into domestic operations (76.6% of capacity) and international operations (23.4% of capacity).<sup>449</sup>
- d) The airline was formed as a private company in 1951 and reorganised in 1953 with its capital being equally split between the Japanese Government and private sources. JAL was privatised in 1987.<sup>450</sup>
- e) In January 2010, JAL filed for bankruptcy with more than US\$25 billion of debt and was granted a government-backed bailout.<sup>451</sup>
- f) In February 2010, the company delisted itself from the Tokyo Stock Exchange, Osaka Stock Exchange and Nagoya Stock Exchange.<sup>452</sup>
- g) The airline came out of bankruptcy in 2011.<sup>453</sup>
- h) JAL has the following subsidiaries:
  - i. JALways (founded in 1990 as an 80% owned subsidiary of JAL, but became 100% owned by JAL in March 2001)<sup>454</sup>;
  - ii. J-Air (wholly owned regional subsidiary established in August-1996);
  - iii. JAL Express (wholly owned subsidiary established in April 1997);
  - iv. Japan Air Commuter (established in 1983 as an affiliate of Japan Air System. JAL acquired a 60% shareholding in 2007); and
  - v. Jetstar Japan (a shareholding of 33.3%, services commenced on 3 July 2012).<sup>455</sup>

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<sup>447</sup> 'Profile on Japan Airlines', CAPA – Centre for Aviation. Available: <http://www.centreforaviation.com/profiles/airlines/japan-airlines-ii> (accessed 10 July 2012).

<sup>448</sup> Based on information available at CAPA (4 September 2012).

<sup>449</sup> Ibid.

<sup>450</sup> 'Airline Review – Japan Airlines', Destination Travel. Available: <http://www.destinationtravel.info/reviews/japanairlines.html> (Accessed 10 July 2012).

<sup>451</sup> 'Japan Airlines plans to relist shares in Tokyo', BBC Business News, 6 January 2012. Available: <http://www.bbc.co.uk/news/business-16436872> (accessed 10 July 2012).

<sup>452</sup> 'Japan Airlines files application to relist shares on Tokyo Stock Exchange', CAPA – Centre for Aviation, 21 June 2012.

<sup>453</sup> 'Japan Airlines plans to relist shares in Tokyo', BBC Business News, 6 January 2012. Available: <http://www.bbc.co.uk/news/business-16436872> (accessed 10 July 2012).

<sup>454</sup> 'JAL changes 80% owned airline subsidiary "JALWAYS" to 100% ownership', Japan Airlines, 17 January 2001. Available: <http://www.jal.com/en/press/2001/011701/011701.html> (accessed 10 July 2012).

<sup>455</sup> Japan Airlines Profile, CAPA – Centre for Aviation: <http://www.centreforaviation.com/profiles/airlines/japan-airlines-ii> (accessed 10 July 2012).

## 2.1 Fleet

- a) JAL has a current fleet of 127 aircraft, with 44 on firm order.<sup>456</sup> In March 2012, JAL took delivery of its first Boeing 787-8 Dreamliner and commenced operation on 22 April 2012 on a new Tokyo Narita-Boston route.<sup>457</sup>
- b) In February 2012, JAL placed a firm order for 10 Boeing 787-9s and converted 10 787-8s it already had on order to 787-9s.<sup>458</sup>

## 2.2 Network

- a) JAL's destinations and codeshare destinations include:<sup>459</sup>

Region	Destination
Asia	Beijing, Dalian, Guangzhou, Shanghai, Tianjin, Hong Kong, Komatsu, Nagoya, Niigata, Hiroshima, Izumo, Okayama, Yamaguchi-Ube, Asahikawa, Hakodate, Kushiro, Obihiro, Ōzora, Sapporo, Kansai, Osaka, Shirahama, Tokyo, Fukuoka, Kitakyūshū, Amami, Ōshima, Kagoshima, Tokunoshima, Kumamoto, Miyazaki, Nagasaki, Ōita, Naha, Akita, Aomori, Hanamaki, Misawa, Yamagata, Kōchi, Matsuyama, Takamatsu, Tokushima, Busan, Seoul, Kaohsiung, Taipei, Delhi, Jakarta, Kuala Lumpur, Manila, Singapore, Bangkok, Hanoi, Ho Chi Minh City
Europe	Dubrovnik, Paris, Frankfurt, Moscow, Ljubljana, London
North America	Vancouver, Boston, Chicago, Los Angeles, New York, San Diego, San Francisco, Honolulu
Oceania	Sydney, Guam

- b) As part of its Mid Term Management Plan for fiscal years 2012 to 2016, JAL announced in February 2012 that it will launch new nonstop services from Tokyo (Narita) to San Diego in December 2012 and to Helsinki in March 2013, utilising the Boeing 787-8 Dreamliner aircraft on both routes.<sup>460</sup> JAL will begin servicing the San Diego route with four flights a week from December 2012 and daily from March 2013 to/from Narita.<sup>461</sup> The Helsinki route will be serviced with four weekly flights from March 2013.<sup>462</sup>

<sup>456</sup> Based on information available at CAPA (4 September 2012).

<sup>457</sup> 'JAL announces delivery date of its First 787 Dreamliner, reveals cabin interior', Japan Airlines, 21 March 2012. Available: <http://press.jal.co.jp/en/release/201203/002069.html> (accessed 10 July 2012).

<sup>458</sup> 'Japan Airlines orders 10 more 787s', Routes Online, 16 February 2012. Available:

<http://www.routesonline.com/news/24/atw/141549/japan-airlines-orders-10-more-787s/> (accessed 10 July 2012).

<sup>459</sup> Japan Airlines – Route Map. Available:

<http://jal.innosked.com/%28S%28mbmj5eefer3qlr45osdskd55%29%29/Default.aspx>

<sup>460</sup> 'JAL expands international network with new services to San Diego and Helsinki', Japan Airlines, 15 February 2012. Available: <http://press.jal.co.jp/en/release/201202/002028.html> (accessed 10 July 2012).

<sup>461</sup> Ibid.

<sup>462</sup> Ibid.

- c) In February 2012, JAL Group's passenger traffic involved transporting 601,881 passengers internationally (with the highest number of passengers travelling on South East Asian and Trans Pacific routes) and 2,306,531 passengers domestically.<sup>463</sup>

### 3 ALLIANCES AND PARTNERSHIPS

#### 3.1 oneworld Alliance

- a) JAL joined the oneworld alliance in 2007.<sup>464</sup>

#### 3.2 Codeshare arrangements

- a) JAL codeshares with oneworld partners American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Malaysia Airlines<sup>465</sup> and Qantas (including Jetstar), and has additional commercial agreements with some 15 other airlines, including Air France, Air New Zealand, China Eastern, China Southern, Emirates, Korean Air and Thai Airways.<sup>466</sup>
- b) JAL launched a new codeshare cooperation with NIKI, a subsidiary of fellow oneworld member airberlin on 1 July 2012. JAL codeshares on NIKI's six times weekly Frankfurt-Vienna service.<sup>467</sup>
- c) A new interline agreement between JAL with Virgin America was announced on 12 June 2012. The agreement will offer travel on the networks of both carriers across their respective North American and Asian routes.<sup>468</sup>
- d) In April 2011, JAL and American Airlines commenced operations pursuant to their joint business agreement on flights between Japan and the United States (and connecting services). As a result, JAL and American Airlines expanded their codesharing to a total of 156 routes.<sup>469</sup>
- e) In March 2010, JAL and British Airways (**BA**) expanded their codeshare agreement adding 13 new codeshare routes. The expansion allowed JAL passengers to travel on BA operated flights carrying the 'JL' code to cities including Madrid, Barcelona, Berlin, Munich, Brussels, Geneva, Dusseldorf, Basel, Stockholm, Copenhagen, Oslo, Prague and Athens.<sup>470</sup> As a result of this expansion, the total number of codeshare flights between the two airlines was expected to be 23, bringing JAL's Europe network to 36 cities.<sup>471</sup>
- f) JAL has a codeshare arrangement with Cathay Pacific which was expanded in November 2011 allowing Cathay Pacific's code to be placed on JAL's domestic flights between Tokyo's Haneda Airport and eight Japanese cities: Izumo, Miyazaki,

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<sup>463</sup> 'JAL Group FY2011 & Monthly (March 2012) Traffic Data', Japan Airlines, 9 May 2012. Available:

<http://press.jal.co.jp/en/release/201205/002119.html> (accessed 10 July 2012).

<sup>464</sup> 'Japan Airlines', Oneworld. Available: <http://www.oneworld.com/member-airlines/japan-airlines-jal/> (accessed 10 July 2012).

<sup>465</sup> Codeshare arrangement launched on 1 July 2012 ('Japan Airlines and Malaysia Airlines begin codeshare partnership from Jul-2012', CAPA – Centre for Aviation, 11 June 2012).

<sup>466</sup> 'Japan Airlines', Oneworld. Available: <http://www.oneworld.com/member-airlines/japan-airlines-jal/> (accessed 10 July 2012).

<sup>467</sup> 'JAL adds Vienna to network through new codeshare with airberlin's NIKI', CAPA – Centre for Aviation, 28 June 2012.

<sup>468</sup> 'Virgin America signs interline agreement with Japan Airlines', CAPA – Centre for Aviation, 13 June 2012.

<sup>469</sup> 'American Airlines and Japan Airlines Joint Business Agreement Overview', American Airlines. Available: [http://www.aa.com/i18n/amrcorp/newsroom/jba\\_aa\\_jal.jsp](http://www.aa.com/i18n/amrcorp/newsroom/jba_aa_jal.jsp) (accessed 10 July 2012).

<sup>470</sup> 'Japan Airlines, British Airways expand Europe codeshare pact', Business Traveller, 25 March 2010. Available: <http://www.businesstraveller.com/asia-pacific/news/japan-airlines.-british-airways-expand-europe-c> (accessed 10 July 2012).

<sup>471</sup> Ibid.

Misawa, Maysuyama, Nagasaki, Oita, Tokushima and Ube.<sup>472</sup> With the new codeshare routes, Cathay Pacific now codeshares on 28 routes operated by JAL.<sup>473</sup>

- g) JAL and Finnair first commenced codeshare flights in December 2005 and now offer passengers services on 3 routes that connect the Finnish capital to Tokyo (Narita), Osaka (Kansai) as well as Nagoya (Chubu) with 20 weekly flights.<sup>474</sup> JAL also sells tickets for Finnair operated flights that carry the 'JL' code, linking 5 European cities - Oslo, Stockholm, Copenhagen, Frankfurt and Amsterdam, with Helsinki.<sup>475</sup> The codeshare agreement was expanded in August 2010 with JAL starting to codeshare on flights operated by Finnair between Helsinki and seven European cities - Berlin, Dusseldorf, Hamburg, Munich, Brussels, Warsaw and Gothenburg.<sup>476</sup> With this extended cooperation, the alliance partners now offer codeshare services to a total of 13 destinations on 15 routes.<sup>477</sup>
- h) In February 2011, JAL and Iberia Airlines finalised a codeshare agreement to connect customers between Japan and Madrid via Europe.<sup>478</sup> As a result, JAL codeshares on flights operated by Iberia between Madrid and two of JAL's online destinations in Europe - London and Frankfurt.<sup>479</sup>
- i) JAL has had a codeshare arrangement with China Eastern since September 2002 and in September 2011 this partnership was expanded to include both the airlines' entire Sino-Japan network.<sup>480</sup> Effective from 8 October 2011, the airlines have been placing their respective flight designators 'JL' and 'MU' on every flight operated by the other, between cities in China and Japan.<sup>481</sup> The partnership expansion added Yantai to JAL's network of 15 Chinese cities, and Shizuoka, Okayama and Nagasaki to CEA's existing network of 12 Japanese cities.<sup>482</sup> The extension of the codeshare scheme to cover the entire China-Japan network is expected to make it easier for customers to understand and more conveniently select from the combined operations of both carriers' 386 weekly flights on 42 routes between the 2 countries.<sup>483</sup>
- j) Aside from the codeshare arrangement between JAL and China Eastern, both airlines have also been offering a reciprocal frequent flyer program (**FFP**) since 1 February 2008. Members of JAL's FFP, JAL Mileage Bank have been able to earn and redeem award tickets when flying domestically in China on CEA.<sup>484</sup>
- k) JAL also has a codeshare arrangement with Thai Airways which was expanded in 2007 to include twice daily domestic flights operated by the Thai airline between Bangkok and Krabi in southern Thailand.<sup>485</sup> JAL also offers domestic connection services from Suvarnabhumi to Chiang Mai, Chiang Rai and Phuket using Thai's operated flights carrying JAL's code.<sup>486</sup>

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<sup>472</sup> 'Cathay Pacific expands codeshare deal with JAL', Business Traveller, 24 November 2011. Available: <http://www.businesstraveller.com/asia-pacific/news/cathay-pacific-expands-code-share-agreement-wit> (accessed 10 July 2012).

<sup>473</sup> 'Cathay Pacific expands JAL Domestic Japan codeshare service', Routes Online, 22 November 2011. Available: <http://airlineroute.net/2011/11/22/cxjl-codeshare-w11/> (accessed 10 July 2012).

<sup>474</sup> 'Japan Airlines and Finnair expand codeshare agreement', Japan Airlines, 20 July 2010. Available: <http://press.jal.co.jp/en/release/201007/001584.html> (accessed 10 July 2012).

<sup>475</sup> Ibid.

<sup>476</sup> Ibid.

<sup>477</sup> Ibid.

<sup>478</sup> 'Japan Airlines and Iberia codeshare again to Madrid', eTN Global Travel Industry News, 23 February 2011. Available: <http://www.eturbonews.com/21332/japan-airlines-and-iberia-codeshare-again-madrid> (accessed 10 July 2012).

<sup>479</sup> Ibid.

<sup>480</sup> 'JAL and China Eastern deepen codeshare partnership', Routes Online, 28 September 2011. Available: <http://www.routesonline.com/news/29/breaking-news/126986/jal-and-china-eastern-deepen-codeshare-partnership/> (accessed 10 July 2012).

<sup>481</sup> Ibid.

<sup>482</sup> Ibid.

<sup>483</sup> Ibid.

<sup>484</sup> Ibid.

<sup>485</sup> 'JAL and Thai Airways codeshare on Suvarnabhumi - Krabi flights', Asia Travel Tips, 26 March 2007. Available: <http://www.asiatraveltips.com/news07/263-KrabiFlights.shtml> (accessed 10 July 2012).

<sup>486</sup> Ibid.

- l) In January 2011, JAL reached an agreement with China Southern to codeshare on China Southern's operation on the route between Tokyo (Narita) and Dalian from 5 January 2011.<sup>487</sup>
- m) In February 2012, JAL reached its first codeshare agreement with airberlin allowing flights between Frankfurt and Berlin operating six times a week by airberlin to be coded with JAL's flight code.<sup>488</sup> This codeshare agreement adds another connection option for JAL customers travelling to Berlin.<sup>489</sup>
- n) In April 2012, JAL announced its codeshare agreement with JetBlue Airways that placed 'JL' code on select JetBlue operated flights that connect New York and Boston with 21 destinations in the US from 22 April, 2012.<sup>490</sup>

### 3.3 Joint Ventures

- a) In April 2012, JAL finalised a joint venture with Qantas, Mitsubishi Corporation and Century Tokyo Leasing Corporation creating a new airline called Jetstar Japan which commenced flying domestically within Japan in July 2012 to Tokyo, Osaka, Sapporo, Fukuoka and Okinawa.<sup>491</sup> Short-haul international flights are expected to start during 2013, subject to regulatory approval.<sup>492</sup>
- b) JAL has finalised a joint venture deal with BA which received Japanese regulatory approval in May 2012.<sup>493</sup> The joint venture will enable the carriers, by late March 2013, to share revenues, jointly set fares and coordinate plans for flights between Japan and the European Union.<sup>494</sup>

### 3.4 Announced Plans

- a) In February 2012, JAL announced its new midterm management plan under which it aims to take off from corporate rehabilitation into a growth trend by doing the following:<sup>495</sup>
  - i. investing 478 billion yen in the purchase of new aircraft over the next 5 financial years including 29 of Boeing's new midsize 787 Dreamliner planes to replace old aircraft;
  - ii. increasing its passenger transport capacity on international routes by 25% over the next 5 financial years, starting in April 2012;
  - iii. cutting transport capacity on domestic routes by 3%, while increasing capacity on medium and long distance international routes; and

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<sup>487</sup> 'JAL starts codesharing with China Southern on Narita-Dalian route', Japan Airlines, 4 January 2011. Available: <http://press.jal.co.jp/en/release/201101/001717.html> (accessed 10 July 2012).

<sup>488</sup> 'JAL and Airberlin enter first codeshare agreement', Japan Airlines, 8 February 2012. Available: <http://press.jal.co.jp/en/release/201202/002022.html> (accessed 10 July 2012).

<sup>489</sup> Ibid.

<sup>490</sup> 'JAL strengthens US East Coast network with new JetBlue Airways codeshare agreement', Japan Airlines, 17 April 2012. Available: <http://press.jal.co.jp/en/release/201204/002093.html> (accessed 10 July 2012).

<sup>491</sup> 'Jetstar Japan's first aircraft touches down', Jetstar Media Centre, 27 April 2012. Available: <http://www.jetstar.com/mediacentre/latest-announcements/detail?Id=0413883E-1601-4EFE-A663-8493312048A6> (accessed 10 July 2012).

<sup>492</sup> Ibid.

<sup>493</sup> 'News Log', Business Travel News, 25 May 2012. Available: <http://www.businesstravelnews.com/Worldwide-Travel/Japanese-regulators-cleared-the-proposed-joint-venture-between-Japan-Airlines-and-British-Airways/?ib=Airlines&a=trans> (accessed 10 July 2012).

<sup>494</sup> Ibid.

<sup>495</sup> 'JAL unveils growth strategy / Aims to leave rehabilitations, stage comeback on international routes', Daily Yomiuri Online, 17 February 2012. Available: <http://www.yomiuri.co.jp/dy/business/T120216006653.htm> (accessed 10 July 2012).

- iv. reinforcing medium and long distance routes flying to and from countries in Europe, North America and Southeast Asia while avoiding competition with low cost carriers which are strong on shorter routes.
- b) JAL aims to achieve a consolidated operating profit rate of 10% or more for the next 5 financial years and to raise its capital adequacy ratio to at least 50% by the end of fiscal year 2016 (March 2017), compared with 16.5% posted at the end of fiscal year 2010.<sup>496</sup>

### **3.5 Freight Operations**

- a) JAL Cargo, a division of JAL, provides freight transportation services within Japan and internationally.
- b) In June 2011, JAL and American Airlines strengthened their international freight operations. The two airlines use Los Angeles, Chicago, Dallas/Fort Worth, New York and Honolulu as key transfer points for freight traffic in the United States and Tokyo, Osaka and Nagoya as transfer points in Japan. The relationship is expected to enable both airlines to provide their respective customers with additional value, while maximising the utilisation of freight capacity for both airlines.<sup>497</sup>

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<sup>496</sup> Ibid.  
<sup>497</sup> Ibid.

# THAI AIRWAYS

## 1 KEY FEATURES

- a) Role in the development of the Thailand economy and tourism sector.
- b) Natural mid-point carrier.
- c) Favourable industrial relations environment and low labour costs.

## 2 COMPANY OVERVIEW

### 2.1 Overview of Business

- a) Thai Airways International Public Company Limited (**Thai Airways**) is the national carrier of Thailand and is headquartered in Bangkok and operates domestic and international flights radiating from its home base in Bangkok.<sup>498</sup>
- b) Thai Airways has a 49% interest in Nok Airlines, which is a budget carrier.<sup>499</sup>
- c) Thai Smile is a part low-cost carrier and full-service regional carrier<sup>500</sup> that operates as a business unit of Thai Airways and is based at Bangkok Suvarnabhumi.

## 3 OPERATIONS

### 3.1 Fleet

- a) Thai Airways' current fleet is 93, with 35 aircraft on firm order.<sup>501</sup>
- b) Thai Airways' overall average fleet age is 11 years.<sup>502</sup>
- c) In 2011, Thai Airways completed drafting its comprehensive long-term plan to acquire 75 new aircraft to join the fleet from 2011-2022 which was by far the largest acquisition plan in Thai Airways' history. In 2012, Thai Airways will take delivery of 12 new aircraft.<sup>503</sup>
- d) Thai Airways has 6 A380s on order and will become the ninth A380 operator once it takes delivery of the aircraft. The airline will use its A380s on some of its European services.<sup>504</sup>

### 3.2 Hubs

- a) Thai Airways is based at Bangkok's Suvarnabhumi Airport, with secondary hubs in Phuket and Chiang Mai.<sup>505</sup>

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<sup>498</sup> 'History', THAI Airways. Available: <http://www.thaiairways.com/about-thai/company-profile/en/history.htm> (Accessed 22 June 2012).

<sup>499</sup> THAI Airways Annual Report 2011, p18. Available: <http://thai-listedcompany.com/misc/ar/20120404-THAI-AR2011-EN.pdf> (THAI Airways Annual Report 2011).

<sup>500</sup> 'Thai settles on unique hybrid model with premium economy and mixed network', CAPA – Centre for Aviation, 30 March 2012.

<sup>501</sup> Based on information available at CAPA (4 September 2012).

<sup>502</sup> THAI Airways Annual Report 2011, p17.

<sup>503</sup> Ibid.

<sup>504</sup> 'Thai A380 shows off colours', Australian Aviation, 26 June 2012. Available: <http://australianaviation.com.au/2012/06/thai-a380-shows-off-colours/> (accessed 4 July 2012).

<sup>505</sup> Profile on Thai Airways, CAPA – Centre for Aviation, 20 June 2012.

- b) Suvarnabhumi Airport in Bangkok is Thai Airways' strategic hub and gateway connecting passengers travelling from Europe to destinations in East Asia and Australia as well as passengers from North America travelling to West Asia.<sup>506</sup>
- c) The Thai Government implemented the construction of Suvarnabhumi Airport with the goal of it being the gateway travel in to Thailand and also a regional aviation hub with service capability equivalent to the world's leading international airports. The airport has been operating since 28 September 2006.<sup>507</sup>

### 3.3 Routes and Flights

- a) Thai Airways operates to 71 destinations across Asia, Europe, North America and Africa. The network includes:
  - i. Asia Pacific: Thai Airways' Asia Pacific Region route network spans 42 destinations in 19 countries with 442 flights per week.<sup>508</sup>
  - ii. Australia and New Zealand: Thai Airways has 47 weekly flights non-stop from Sydney, Melbourne, Brisbane, Perth and Auckland to Thailand with connections through its Bangkok hub to other destinations worldwide.<sup>509</sup>
  - iii. Europe: Thai Airways serves 97 weekly flights to 13 destinations in 11 European countries.<sup>510</sup>
  - iv. Middle East: Thai Airways serves 10 weekly flights to 2 destinations in Muscat and Dubai.<sup>511</sup>
  - v. North America: In 2011, Thai Airways provided a daily direct flight service to Los Angeles, which is the only destination currently being served in North America. However, the total number of destinations served by Thai Airways and its codeshare partners (see below) is 11 destinations in 2 countries.<sup>512</sup>
  - vi. Africa: Thai Airways provides 3 weekly flights to Johannesburg in South Africa.<sup>513</sup>
- b) Thai Airways international routes are shown in the diagrams below:<sup>514</sup>

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<sup>506</sup> THAI Airways Annual Report 2011, p18.

<sup>507</sup> 'Background Project', Suvarnabhumi Airport. Available: [http://www.suvarnabhumiairport.com/ebiz/NBIA.portal?nfpb=true&pageLabel=NBIA\\_page\\_AirportLink](http://www.suvarnabhumiairport.com/ebiz/NBIA.portal?nfpb=true&pageLabel=NBIA_page_AirportLink) (accessed 22 June 2012).

<sup>508</sup> Ibid.

<sup>509</sup> 'THAI's Network', THAI Airways. Available: [http://www.thaiairways.com.au/thai\\_our\\_network.asp](http://www.thaiairways.com.au/thai_our_network.asp) (accessed 22 June 2012); THAI Airways Annual Report 2011, p22.

<sup>510</sup> THAI Airways, *Annual Report 2011*, p21.

<sup>511</sup> Ibid, p20.

<sup>512</sup> Ibid, p21.

<sup>513</sup> Ibid, p22.

<sup>514</sup> 'THAI's Network', THAI Airways. Available: [http://www.thaiairways.com.au/thai\\_our\\_network.asp](http://www.thaiairways.com.au/thai_our_network.asp) (accessed 22 June 2012).



## 4 COMPANY STRATEGY, ANNOUNCEMENTS AND PLANS

- a) Thai Airways is looking at new markets including Manchester, Berlin and Vienna.<sup>515</sup>
- b) Thai Airways has launched an aggressive aircraft replacement plan to meet expected growth in air travel.<sup>516</sup>

### 4.1 THAI Smile

- a) In July 2012, Thai Airways launched 'Thai Smile' as a business unit within Thai Airways. It is a light premium, value for money airline intended to help increase the carrier's market share on domestic and regional routes.<sup>517</sup>
- b) Thai Smile will focus on short-haul routes in the range of 1 to 3 hours<sup>518</sup> and will feature a mix of new and existing Thai Airways Group destinations, where Thai Smile will supplement existing Thai Airways-operated services. 30% of the carrier's capacity will be allocated to domestic routes.<sup>519</sup>
- c) Thai Smile's fleet plan envisages 11 new A320s by 2015 with the first four deliveries coming in 2012.<sup>520</sup> Thai Smile took delivery of its first aircraft, an Airbus A320, on 28 June 2012.<sup>521</sup>
- d) Thai Smile's first route of double daily flights between Bangkok and Macau was launched on 7 July 2012.<sup>522</sup>
- e) There are plans for Thai Smile to operate international routes to China, India and South East Asia by 2013.<sup>523</sup>

## 5 ALLIANCES AND PARTNERSHIPS

### 5.1 Alliances

- a) Thai Airways was a founding member of Star Alliance which was established on 14 May 1997.<sup>524</sup> The 25 current member airlines of Star Alliance include: Adria Airways, Aegean Airlines, Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian, Blue1, Brussels Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, SWISS, TAM Airlines, TAP Portugal, Turkish Airlines, THAI Airways, United Airlines and US Airways.<sup>525</sup> Avianca-TACA, Copa Airlines, EVA Air and Shenzhen Airlines have been announced as future members.<sup>526</sup> Overall, the Star Alliance network offers more than 20,500 daily flights to 1,293 airports in 190 countries.<sup>527</sup>

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<sup>515</sup> 'THAI Airways aiming to maintain European market', CAPA – Centre for Aviation, 19 June 2012.

<sup>516</sup> THAI Airways Annual Report 2011, p22.

<sup>517</sup> THAI Airways Annual Report 2011, p3.

<sup>518</sup> THAI Airways Annual Report 2011, p6.

<sup>519</sup> 'Thai settles on unique hybrid model with premium economy and mixed network', CAPA – Centre for Aviation, 30 March 2012.

<sup>520</sup> Ibid.

<sup>521</sup> 'Thai Smile receives first A320 ahead of 07-Jul-2012 launch, leased from SMBC Aviation Capital', CAPA – Centre for Aviation, 2 July 2012.

<sup>522</sup> 'Thai Smile launches operations with Bangkok-Suvarnabhumi-Macau service', CAPA – Centre for Aviation, 9 July 2012.

<sup>523</sup> 'Profile on THAI Airways', CAPA – Centre for Aviation (accessed 2 July 2012).

<sup>524</sup> STAR Alliance – Thai Airways. Available: <http://www.thaiairways.com/about-thai/company-profile/en/star-alliance-the-airline-network-for-earth.htm> (accessed 22 June 2012).

<sup>525</sup> Ibid

<sup>526</sup> Ibid

<sup>527</sup> Ibid

- b) Cooperation amongst Star Alliance members is among Thai Airways' strategies to counter intense competition from both low cost and traditional airlines by increasing revenue from international business sales through the Star Alliance network.<sup>528</sup>

## 5.2 Codeshare Arrangements

- a) Thai Airways codeshares with the following carriers: Aerosvit Airlines, Air Canada, Air Macau, Air Madagascar, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, Blue1, EgyptAir, El Al, Emirates, Gulf Air, Japan Airlines, Lao Airlines, Lufthansa, Malaysia Airlines, Pakistan International Airlines, Royal Brunei Airlines, SAS, South African Airways, SWISS, TAP Portugal and Turkish Airlines.<sup>529</sup>
- b) Thai Airways has recently announced a new codeshare arrangement with Star Alliance partner Brussels Airlines, with Brussels Airlines placing its code on Thai's thrice weekly flights from Bangkok to the Belgian capital.<sup>530</sup>

## 5.3 Business Units and Affiliates<sup>531</sup>

- a) Thai Airways' main business is the transport of passengers, cargo and mail on regular scheduled flights as well as chartered flights to domestic and international destinations. Thai Airways' operation is separated into its core airline business and business units that directly support the airline business – as follows:<sup>532</sup>
- i. Thai Cargo is a business unit of Thai Airways that currently handles more than 75% of all cargo traffic through Bangkok International Airport. As at 31 December 2011, Thai Cargo and Mail Service served 76 destinations (excluding Bangkok) in 33 countries by way of Thai Airways' passenger route network and four significant destinations (Dubai, Delhi, Frankfurt and Amsterdam) by way of freighter aircraft. The combined revenue of cargo and mail constitutes 15% of Thai Airways' total revenue in 2011.<sup>533</sup>
  - ii. Thai Maintenance conducts aircraft maintenance and provides services for Thai Airways as well as customer airlines.<sup>534</sup>
  - iii. Thai Ground Services provides ground services at major international and domestic airports throughout Thailand.<sup>535</sup> Its services include passenger services, operations control, ramp services, flight operation services, cargo services, catering services, aircraft maintenance services and aviation training services.<sup>536</sup>
  - iv. Thai Catering provides catering and ground-based operations and products serving Thai Airways and over 50 customer airlines.<sup>537</sup>
  - v. Thai Airways also provides aviation training and external customer services training services.<sup>538</sup>

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<sup>528</sup> THAI Airways Annual Report 2011, p23.

<sup>529</sup> 'Profile on Thai Airways', CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>530</sup> 'Thai/SN codeshare', Travel Daily, 26 July 2012. Available: <http://www.traveldaily.com.au/news/thaisn-codeshare/118786>

<sup>531</sup> 'Business Units and Affiliates', THAI Airways. Available: <http://www.thaiairways.com/about-thai/business-units-and-affiliates/en/business-units-and-affiliates.htm> (accessed 22 June 2012)

<sup>532</sup> THAI Airways Annual Report 2011, p13.

<sup>533</sup> Ibid, p39.

<sup>534</sup> 'THAI Maintenance', THAI Airways. Available: <http://www.thaiairways.com/about-thai/business-units-and-affiliates/en/thai-maintenance.htm> (accessed 22 June 2012).

<sup>535</sup> 'Our Vision', THAI Ground Services. Available: <http://www.thaigroundservices.com/vision&mission.html> (accessed 22 June 2012).

<sup>536</sup> 'Our Services', THAI Ground Services. Available: <http://www.thaigroundservices.com/passengerservices.html> (accessed 22 June 2012).

<sup>537</sup> 'About Thai Catering', THAI Catering. Available: <http://www.thaicatering.com/thaicatering/en/about/> (accessed 22 June 2012).

## 5.4 Subsidiaries

- a) **Thai-Amadeus Southeast Asia Company Limited** provides a reservations system for air travel, hotel, car rental and other travel related services. Thai Airways has a 55% shareholding.<sup>539</sup>
- b) **Nok Airlines Company Limited (Nok Air)** is a budget carrier serving domestic routes using Don Mueang Airport as its base of operations.<sup>540</sup> In 2011, Thai Airways acquired an additional 10% of Nok Air shares increasing Thai Airways' interest to 49%. There has been greater cooperation between Thai Airways and Nok Air in regards to Nok Air assisting Thai Airways with passenger service to secondary and less populated domestic destinations.<sup>541</sup>
- c) **WingSpan Services Company Limited** provides manpower-outsourcing services to Thai Airways. Thai Airways holds 49% and Phuket Air Catering Co Ltd holds 51% of its equity.<sup>542</sup>
- d) **Thai Airways Flight Training Company Limited** provides aviation training services. Thai Airways holds 49% and WingSpan Services Co Ltd holds the remaining 51% of its equity.<sup>543</sup>
- e) **Tour Eurng Luang Company Limited** provides travel business and tourism related services. WingSpan Services Co Ltd. holds 49% of the seed capital and Thai individuals hold the remaining 51% of its equity.<sup>544</sup>
- f) **Don Muang International Airport Hotel Company Limited** runs hotel and related services. Thai Airways holds 40% of its equity.<sup>545</sup>
- g) **Phuket Air Catering Company Limited** provides in-flight meal catering for several airlines on international flights from Phuket International Airport. Thai Airways holds 30% of its equity.<sup>546</sup>
- h) **Royal Orchid Hotel (Thailand) Public Company Limited** is a founder of the Royal Orchid Sheraton Hotel. Thai Airways holds 24% of its equity.<sup>547</sup>
- i) **Bangkok Aviation Fuel Services Public Company Limited** provides storage services for aviation fuel and provides aircraft refuelling services at both Suvarnabhumi and Don Mueang Airports. Thai Airways holds 22.59% of its equity.<sup>548</sup>
- j) **Suvarnabhumi Airport Hotel Company Limited** runs a hotel and related service called Novotel Suvarnabhumi Airport Hotel. Thai Airways holds 30% of its equity.<sup>549</sup>
- k) **Thai Airways** holds less than 10% shareholdings in five other companies.<sup>550</sup>

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<sup>538</sup> 'Business Units and Affiliates', THAI Airways. Available: <http://www.thaiairways.com/about-thai/business-units-and-affiliates/en/business-units-and-affiliates.htm> (accessed 22 June 2012).

<sup>539</sup> THAI Airways Annual Report 2011, p50.

<sup>540</sup> Ibid.

<sup>541</sup> Ibid, p18.

<sup>542</sup> Ibid, p50.

<sup>543</sup> Ibid.

<sup>544</sup> Ibid, p51.

<sup>545</sup> Ibid.

<sup>546</sup> Ibid.

<sup>547</sup> Ibid, p52.

<sup>548</sup> Ibid.

<sup>549</sup> Ibid.

<sup>550</sup> Ibid.

## AIR NEW ZEALAND

### 1 KEY FEATURES

- a) End-of-line carrier.
- b) Alliance with Virgin Australia.

### 2 COMPANY OVERVIEW

#### 2.1 Overview of Business

- a) Air New Zealand Limited (**ANZ**) is an airline that provides air passenger and cargo transport services, with international airline operations as its core business. It operates in Australia, the Pacific Islands, China, Japan, Canada, the US and the UK.
- b) ANZ's business units also provide engineering and ground-handling services. ANZ's subsidiaries offer booking systems, travel wholesaling, retailing and consultancy services. ANZ's subsidiaries include Air Nelson Limited, Air New Zealand Aircraft Holdings Limited, Air New Zealand Holidays Limited, Eagle Airways Limited, Mount Cook Airline Limited, Safe Air Limited and TAE Aviation Pty Limited.
- c) ANZ is headquartered in Auckland, New Zealand and employs over 10,000 people.

### 3 OPERATIONS

#### 3.1 Fleet

- a) As at 31 March 2012, ANZ had 101 aircraft in operation and 28 aircraft on order.<sup>551</sup> Of those on order, there are 10 Boeing B787s, 10 Airbus A320s (for domestic flying), one A320 (short-haul) and 7 ATR72-600s.<sup>552</sup>

#### 3.2 Hubs

- a) ANZ's main hub is Auckland International Airport (**AIA**).<sup>553</sup> AIA was established in the 1960s as a joint venture between the New Zealand Government and the Auckland local authorities.<sup>554</sup>
- b) In 1988, AIA was corporatised, with shares held by the New Zealand Government (the largest single shareholder) and individual Auckland local authorities. Over time, the smaller local authorities sold down their shares and the New Zealand Government increased its shareholding to a majority.<sup>555</sup>

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<sup>551</sup> 'Our fleet', Air New Zealand. Available: <http://www.airnewzealand.com.au/fleet> (accessed 22 June 2012).

<sup>552</sup> Ibid.

<sup>553</sup> Star Alliance – Air New Zealand. Available: [http://www.staralliance.com/en/about/airlines/airnewzealand\\_airlines/#](http://www.staralliance.com/en/about/airlines/airnewzealand_airlines/#) (accessed 22 June 2012).

<sup>554</sup> 'History', Air New Zealand. Available: <http://www.airnewzealand.com.au/company-history> (accessed 21 June 2012); John Wilson, 'Short History of Post-Privatisation in New Zealand', December 2010. Available: <http://www.comu.govt.nz/resources/pdfs/mixed-ownership-model/mom-shppnz-wilson-dec10.pdf> (accessed 1 July 2012).

<sup>555</sup> 'Short History of Post-Privatisation in New Zealand', John Wilson, December 2010. Available: <http://www.comu.govt.nz/resources/pdfs/mixed-ownership-model/mom-shppnz-wilson-dec10.pdf> (accessed 1 July 2012).

### 3.3 Routes and Flights

- a) ANZ operates scheduled flights from Auckland, Christchurch and Wellington to various locations in the South Pacific, Asia, North America and Europe. ANZ directly serves 53 cities in 16 countries, including 27 destinations within New Zealand.<sup>556</sup>
- b) ANZ's international routes include:<sup>557</sup>

Country	Destination
Australia	Adelaide, Brisbane, Cairns, Gold Coast, Melbourne, Norfolk Island, Perth, Sunshine Coast, Sydney
Canada	Vancouver
China	Shanghai
Cook Islands	Rarotonga
Fiji	Nadi
French Polynesia	Papeete
Hong Kong	Hong Kong
Indonesia	Denpasar
Japan	Osaka, Tokyo
New Caledonia	Nouméa
New Zealand	Dunedin, Auckland, Christchurch, Queenstown, Rotorua, Wellington
Niue	Alofi
Samoa	Apia
Tonga	Nuku'alofa
United Kingdom	London
United States of America	Los Angeles, Honolulu
Vanuatu	Port Vila

- c) ANZ's top 10 international routes based on capacity between 18 June 2012 to 24 June 2012 are shown in the diagram below.<sup>558</sup>

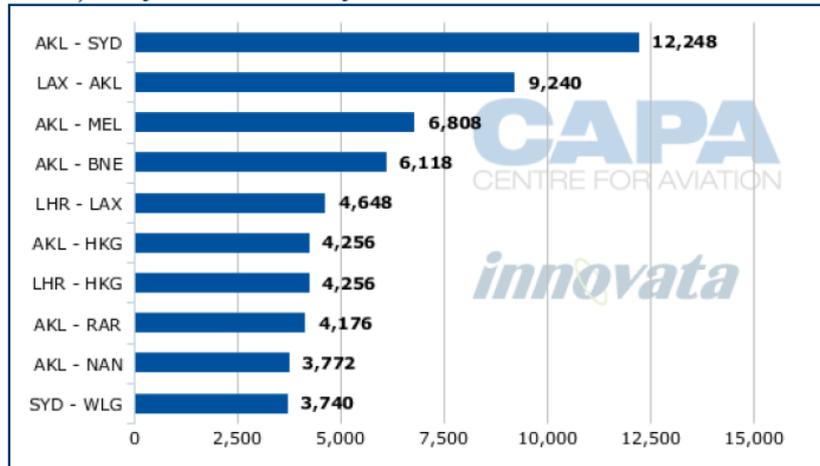
<sup>556</sup> Star Alliance – Air New Zealand. Available: [http://www.staralliance.com/en/about/airlines/airnewzealand\\_airlines/#](http://www.staralliance.com/en/about/airlines/airnewzealand_airlines/#) (accessed 22 June 2012).

<sup>557</sup> Air New Zealand – Route Map. Available:

<http://airnewzealand.innosked.com/headermap.aspx?countrycode=AU&language=EN>

<sup>558</sup> 'New Air New Zealand CEO Christopher Luxon values alliances as airline eyes Asia and US growth', CAPA – Centre for Aviation, 19 June 2012. Available: <http://centreforaviation.com/analysis/new-air-new-zealand-ceo-christopher-luxon-values-alliances-as-airline-eyes-asia-and-us-growth-76299>

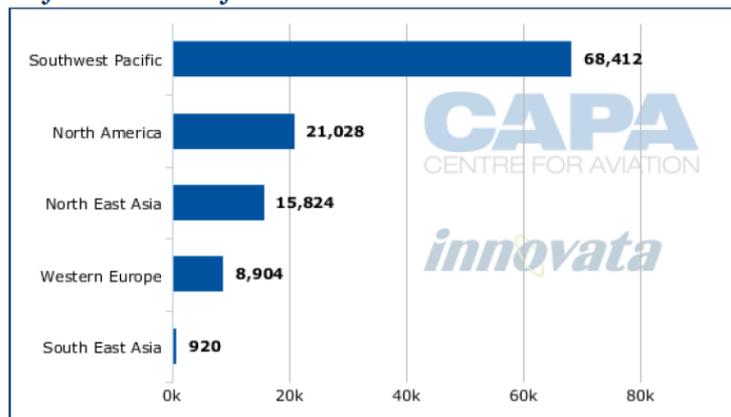
**Air New Zealand top 10 international routes based on capacity (seats per week): 18-Jun-2012 to 24-Jun-2012**



Source: CAPA – Centre for Aviation & Innovata

d) ANZ's international capacity by region is shown in the diagram below:<sup>559</sup>

**Air New Zealand international capacity by region (seats per week): 18-Jun-2012 to 24-Jun-2012**



Source: CAPA – Centre for Aviation & Innovata

e) New Zealand's remote geographic location means the vast majority of its international long haul routes are at least 11 hours in duration.<sup>560</sup>

f) ANZ is currently the only carrier servicing New Zealand to US routes.<sup>561</sup>

### 3.4 Passenger Traffic

a) ANZ carried 13.1 million passengers in 2011.<sup>562</sup>

b) ANZ has 560 daily departures.<sup>563</sup>

<sup>559</sup> 'New Air New Zealand CEO Christopher Luxon values alliances as airline eyes Asia and US growth', CAPA – Centre for Aviation, 19 June 2012. Available: <http://centreforaviation.com/analysis/new-air-new-zealand-ceo-christopher-luxon-values-alliances-as-airline-eyes-asia-and-us-growth-76299>

<sup>560</sup> Air New Zealand Annual Report 2011, p10. Available: <http://www.airnewzealand.co.nz/assets/PDFs/2011-Air-New-Zealand-Annual-Financials-WEB.pdf> (Air New Zealand Annual Report 2011).

<sup>561</sup> 'Air New Zealand looking to launch new US services', CAPA – Centre for Aviation, 15 June 2012.

<sup>562</sup> 'Air New Zealand profit before tax falls sharply in FY2011', CAPA – Centre for Aviation, 25 August 2011.

<sup>563</sup> Star Alliance – Air New Zealand. Available: [http://www.staralliance.com/en/about/airlines/airnewzealand\\_airlines/#](http://www.staralliance.com/en/about/airlines/airnewzealand_airlines/#) (accessed 22 June 2012).

## 4 ALLIANCES AND PARTNERSHIPS

### 4.1 Star Alliance

- a) ANZ has been a member of Star Alliance since March 1999.<sup>564</sup>

### 4.2 Focus on Alliances

- a) ANZ considers that a key part of growth opportunities from the carrier's long-haul services will be through alliances and partnerships, which have taken greater prominence in ANZ's strategy in the past 3 years.<sup>565</sup>
- b) ANZ has noted that the future success of the international long-haul network will include having the right alliance partners to provide reach and frequency and to complement ANZ's existing network, a repositioned business model and a continual focus on operational efficiencies.<sup>566</sup>

### 4.3 Codeshare Arrangements

- a) ANZ codeshares with the following carriers: Air Caledonie International, Air Canada, Air China, Air Pacific, Air Rarotonga, Air Tahiti Nui, Air Vanuatu, Alaska Airlines, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, Etihad, Lufthansa, Singapore Airlines, South African Airways, Thai Airways, United Airlines, US Airways, Virgin Atlantic Airways and Virgin Australia.<sup>567</sup>

### 4.4 Partnership with Virgin Australia

- a) ANZ signed an agreement with Virgin Australia to establish an alliance on the Trans-Tasman and to collaborate on route and product planning, code sharing and frequent flyer programme benefits in 2010.
- b) In FY2011, ANZ purchased a 14.99% stake in Virgin Australia.<sup>568</sup>
- c) On 26 September 2011, ANZ increased its interest in Virgin Australia from 14.99% to 19.99%. This increased investment continues ANZ's strategy to develop scale and reach in the region.<sup>569</sup>
- d) On 9 May 2012, ANZ announced that as part of its alliance with Virgin Australia, the airlines will boost direct flights between Australia and Queenstown by 8% to meet expected high demand from Australian skiers<sup>570</sup> and the airlines would boost capacity on the Auckland-Perth route by more than 20% in the upcoming financial year.<sup>571</sup>

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<sup>564</sup> Star Alliance – Air New Zealand. Available: [http://www.staralliance.com/en/about/airlines/airnewzealand\\_airlines/#](http://www.staralliance.com/en/about/airlines/airnewzealand_airlines/#) (accessed 22 June 2012).

<sup>565</sup> 'New Air New Zealand CEO Christopher Luxon values alliances as airline eyes Asia and US growth', CAPA – Centre for Aviation, 19 June 2012. Available: <http://centreforaviation.com/analysis/new-air-new-zealand-ceo-christopher-luxon-values-alliances-as-airline-eyes-asia-and-us-growth-76299>

<sup>566</sup> Air New Zealand Annual Report 2011, p11; 'Interim Shareholder Review 2012, Air New Zealand, p4. Available: <http://www.airnewzealand.co.nz/assets/PDFs/Air-New-Zealand-Interim-Review-2012.pdf> (accessed 22 June 2012).

<sup>567</sup> 'Profile on Air New Zealand', CAPA – Centre for Aviation, 20 June 2012.

<sup>568</sup> Air New Zealand Annual Report 2011, p7.

<sup>569</sup> 'Air New Zealand increases interest in Virgin Australia – but no takeover intentions', CAPA – Centre for Aviation, 27 September 2011. Available: <http://centreforaviation.com/news/air-new-zealand-increases-interest-in-virgin-australia--but-no-takeover-intentions-121567>

<sup>570</sup> 'Ski-season capacity boost for Queenstown - more Tasman and domestic flights', Air New Zealand, 9 May 2012. Available: <http://www.airnewzealand.com.au/press-release-2012-ski-season-capacity-boost-for-queenstown-more-tasman-and-domestic-flights> (accessed 22 June 2012).

<sup>571</sup> 'Significant capacity boost for Auckland-Perth alliance services', Air New Zealand, 9 May 2012. Available: <http://www.airnewzealand.com.au/press-release-2012-significant-capacity-boost-for-auckland-perth-alliance-services> (accessed 22 June 2012).

- e) Air New Zealand has commented that its alliance with Virgin Australia has been 'tremendously effective' with its Australian passenger numbers increasing from 100 to 300 passengers per day in 12 months.<sup>572</sup>

## 5 COMPANY STRATEGY AND ANNOUNCED PLANS

### 5.1 Long-Haul Routes

- a) In 2011, ANZ announced a restructure of its long-haul division, which was losing in excess of NZD1 million a week on approximately 40,000 weekly seats. However, its restructure was relatively limited with minor adjustments to its North American schedule, consolidating its mainland China presence at Shanghai and switching partners in Japan from Japan Airlines to All Nippon Airways, as it has a larger local distribution network.<sup>573</sup>
- b) The incoming CEO reportedly expects the carrier's growth to come from alliances and the airline's own resources<sup>574</sup> and that the airline will not retreat from flying on long-haul international routes despite the difficulty it has making a profit on them because of high fuel prices and intense competition.<sup>575</sup>
- c) ANZ sees medium and long-term growth opportunities in the Asia-Pacific, where partnerships will be critical to help ANZ's disadvantaged position of a higher cost base and end-of-line positioning.<sup>576</sup>
- d) Alongside ongoing efforts to promote New Zealand as a destination, ANZ has renewed its focus on growing potential inbound markets and earlier this year opened a sales office in Beijing. Direct flights between Auckland and Shanghai are also planned once the necessary regulatory approvals are received.<sup>577</sup>

### 5.2 Other Operations

- a) The engineering services of ANZ are operated through its subsidiary Air New Zealand Engineering Services, a supplier of aircraft, automotive and component maintenance, repair and overhaul services with customers in New Zealand, Australia, Asia, the Americas and Europe.

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<sup>572</sup> 'Air New Zealand alliance with Virgin Australia 'tremendously effective': CFO 'effective,' CAPA, 26 July 2012.

<sup>573</sup> 'New Air New Zealand CEO Christopher Luxon values alliances as airline eyes Asia and US growth', CAPA – Centre for Aviation, 19 June 2012. Available: <http://centreforaviation.com/analysis/new-air-new-zealand-ceo-christopher-luxon-values-alliances-as-airline-eyes-asia-and-us-growth-76299>

<sup>574</sup> Mr Chris Luxon incoming ANZ CEO from 1 January 2013 cited in 'This is one Kiwi who wants to take flight', The Australian, 20 June 2012. Available: <http://www.theaustralian.com.au/business/aviation/this-is-one-kiwi-who-wants-to-take-flight/story-e6frg95x-1226401677436> (accessed 22 June 2012).

<sup>575</sup> 'Next Air NZ boss commits to long-haul', Sydney Morning Herald, 20 June 2012. Available: <http://www.smh.com.au/business/next-air-nz-boss-commits-to-longhaul-20120619-20m2n.html> (accessed 22 June 2012).

<sup>576</sup> 'New Air New Zealand CEO Christopher Luxon values alliances as airline eyes Asia and US growth', CAPA – Centre for Aviation, 19 June 2012. Available: <http://centreforaviation.com/analysis/new-air-new-zealand-ceo-christopher-luxon-values-alliances-as-airline-eyes-asia-and-us-growth-76299>

<sup>577</sup> 'History', Air New Zealand. Available: <http://www.airnewzealand.com.au/company-history> (accessed 21 June 2012).

## VIRGIN GROUP

### 1 KEY FEATURES

- a) Network of airlines operating under a single brand.
- b) Global network through alliances with Singapore Airlines, Etihad, Air New Zealand, Delta and others.
- c) Extensive codeshare network.

#### 1.1 Overview of the Virgin Group

- a) The Virgin Group is a leading international investment group which was established in 1970 by Sir Richard Branson. The Virgin Group has operations in many sectors including mobile telecommunications, travel, financial services, leisure, music, holidays and health.<sup>578</sup>
- b) Virgin Australia, Virgin America and Virgin Atlantic form part of the Virgin Group.<sup>579</sup>

### 2 VIRGIN AUSTRALIA

#### 2.1 Overview

- a) Virgin Australia was launched in 2004 as a domestic low-cost carrier (**LCC**)<sup>580</sup> and has evolved to become a full service airline, targeting higher-yielding corporate traffic, while seeking to maintain its core leisure market share and low-cost base.<sup>581</sup>
- b) Virgin Australia comprises:
  - i. Virgin Australia Holdings Limited (previously named Virgin Blue Holdings Limited)<sup>582</sup> which operates domestic services; and
  - ii. Virgin Australia International Holdings which operates international services and is unlisted.<sup>583</sup>
- c) In 2012, the airline split its domestic and international operations into the two separate companies described above so that the international operations company (Virgin Australia International Holdings) could comply with foreign ownership requirements while the domestic operations company (Virgin Australia Holdings) will face no foreign ownership restriction<sup>584</sup> under Australian laws which allow 100% foreign ownership of domestic airlines (compared to a maximum limit of 49% foreign ownership for an airline which flies both domestic and international routes).<sup>585</sup> The recently completed restructure, which received shareholder approval on 16 March 2012, will open Virgin Australia's share register to more overseas investors.<sup>586</sup>

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<sup>578</sup> 'About us', Virgin. Available: <http://www.virgin.com/about-us> (accessed 25 June 2012).

<sup>579</sup> 'Companies', Virgin. Available: <http://www.virgin.com/company> (accessed 25 June 2012).

<sup>580</sup> Virgin Australia Annual Report 2011, Virgin Australia, p10. Available: <http://www.edocumentview.com.au/vba2/2011/662/default.htm?voting=false#p=1&c=1&v=1> (Virgin Australia Annual Report 2011).

<sup>581</sup> 'Profile on Virgin Australia', CAPA – Centre for Aviation, 20 June 2012.

<sup>582</sup> 'Virgin Australia rebrands its international airlines', CAPA – Centre for Aviation, 7 December 2011.

<sup>583</sup> 'Virgin Australia, buoyed by yield growth, to split company to allow further foreign ownership', CAPA – Centre for Aviation, 23 February 2012. Available: <http://centreforaviation.com/analysis/virgin-australia-buoyed-by-yield-growth-to-split-company-to-allow-further-foreign-ownership-68720>

<sup>584</sup> Ibid.

<sup>585</sup> Ibid.

<sup>586</sup> 'Qantas fears 'going under' by Arab airline', Sydney Morning Herald, 22 June 2012. Available:

<http://news.smh.com.au/breaking-news-national/qantas-fears-going-under-by-arab-airline-20120622-20rg6.html> (accessed 25 June 2012); 'Virgin Australia domestic international split 'a done deal'', The Australian, 17 March 2012. Available: <http://www.theaustralian.com.au/business/aviation/virgin-australia-domestic-international-split-a-done-deal/story-e6frg95x-1226302109273> (accessed 22 June 2012).

## 2.2 Ownership and Changes to Corporate Structure

- a) Virgin Australia Holdings Limited is fully privately owned.<sup>587</sup> It was listed on the Australian Stock Exchange in December 2003.<sup>588</sup>
- b) Etihad has received regulatory approval to increase its stake in Virgin Australia to up to 10%.<sup>589</sup> This is expected to lead to 'further revenue-generating opportunities' for those carriers.<sup>590</sup> Virgin Australia's CEO has recently confirmed that the alliance with Etihad is 'a very beneficial relationship'<sup>591</sup> and it has been reported that Etihad's stake in Virgin Australia may ultimately increase to 19%.<sup>592</sup>
- c) The main shareholders of Virgin Australia are Virgin Group (26%) and ANZ (19.99%).<sup>593</sup>

## 2.3 Virgin Australia History and Rebranding

- a) The establishment of one brand and identity for Virgin Australia's domestic and international operations in 2011 is a key part of the company's 'Game Change Program' in Australia.<sup>594</sup>
- b) Previously Virgin Australia's different brands consisted of:
  - i. Virgin Blue, the domestic arm, which relaunched as Virgin Australia in May 2011,<sup>595</sup>
  - ii. V Australia which was launched in 2009<sup>596</sup> as a long-haul international division of Virgin Australia.<sup>597</sup> It is based in Sydney with secondary hubs in Melbourne and Brisbane<sup>598</sup> and was rebranded as Virgin Australia in December 2011;<sup>599</sup> and
  - iii. Pacific Blue which was launched in 2004<sup>600</sup> as the New Zealand subsidiary<sup>601</sup> and short-haul international subsidiary of Virgin Australia<sup>602</sup>. Pacific Blue originally operated services to New Zealand, Indonesia and the South Pacific.<sup>603</sup> Domestic New Zealand services have now ceased with the airline focusing on boosting its Trans-Tasman capacity and increasing Pacific Blue services to destinations in South East Asia and the Pacific Islands.<sup>604</sup> Pacific Blue was rebranded to Virgin Australia in December 2011.<sup>605</sup>

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<sup>587</sup> 'Profile on Virgin Australia', CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>588</sup> 'Virgin Australia History', Virgin Australia. Available: <http://www.virginaustralia.com/au/en/about-us/company-overview/virgin-australia-history/> (accessed 22 June 2012).

<sup>589</sup> 'Etihad Airways Increases Stake in Virgin Australia' Etihad Media Release 2 September 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_id=3705](http://www.etihadmediacentre.com/file.php?f_id=3705)

<sup>590</sup> 'Etihad Airways Cleared to Buy More of Virgin Australia', Etihad Press Release, 19 July 2012. Available: [http://www.etihadmediacentre.com/file.php?f\\_ID=3645](http://www.etihadmediacentre.com/file.php?f_ID=3645) (accessed 20 July 2012).

<sup>591</sup> 'Virgin flying high with Etihad, says chief' in *Business News Herald Sun*, 23 July 2012, p 30.

<sup>592</sup> 'EY eyes 19% VA stake' in *Travel Daily* 23 July 2012.

<sup>593</sup> 'Profile on Virgin Australia, CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>594</sup> 'Virgin Australia rebrands its international airlines', CAPA – Centre for Aviation, 7 December 2011.

<sup>595</sup> 'Virgin Australia completes re-branding with the introduction of Virgin Samoa', CAPA – Centre for Aviation, 7 December 2011.

<sup>596</sup> 'Virgin Australia History', Virgin Australia. Available: <http://www.virginaustralia.com/au/en/about-us/company-overview/virgin-australia-history/> (accessed 22 June 2012).

<sup>597</sup> Profile on V Australia, CAPA – Centre for Aviation (accessed 21 June 2012).

<sup>598</sup> Ibid.

<sup>599</sup> 'Virgin Australia rebrands its international airlines', CAPA – Centre for Aviation, 7 December 2011.

<sup>600</sup> 'Virgin Australia History', Virgin Australia. Available: <http://www.virginaustralia.com/au/en/about-us/company-overview/virgin-australia-history/> (accessed 22 June 2012).

<sup>601</sup> 'Profile on Pacific Blue Airlines', CAPA – Centre for Aviation (accessed 21 June 2012).

<sup>602</sup> 'Profile on Virgin Australia', CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>603</sup> Ibid.

<sup>604</sup> Virgin Australia, Annual Report 2011, p18.

<sup>605</sup> 'Virgin Australia rebrands its international airlines', CAPA – Centre for Aviation, 7 December 2011.

## 2.4 Other Virgin Branded Airlines

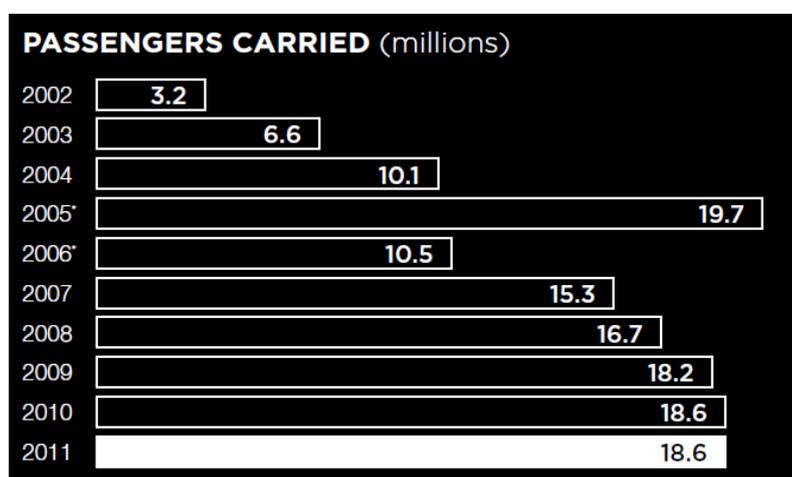
- a) **Virgin Samoa** is a joint venture between Virgin Australia and the Samoan Government which operates scheduled services to Samoa from the east coast of Australia.<sup>606</sup>
- b) **Polynesian Blue** was launched on 30 October 2005.<sup>607</sup> It is owned by Virgin Australia (49%), the Samoan Government (49%) and Samoan business interests (2%).<sup>608</sup> The airline was rebranded from Polynesian Blue to Virgin Samoa in December 2011.<sup>609</sup>

## 2.5 Fleet

- a) Virgin Australia has a fleet of 85 aircraft, consisting of Airbus A330s, Boeing 737s and Embraer 190s, with 48 aircraft on order.<sup>610</sup>

## 2.6 Passenger Traffic

- a) Virgin Australia traffic figures for FY2011 are shown in the graph below:<sup>611</sup>



## 2.7 Route Network

- a) Virgin Australia operates flights to 54 destinations<sup>612</sup> in Australia, the Asia-Pacific, Europe, the Middle East and North America.<sup>613</sup>

<sup>606</sup> 'Profile on Virgin Australia', CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>607</sup> 'Virgin Australia History', Virgin Australia. Available: <http://www.virginaustralia.com/au/en/about-us/company-overview/virgin-australia-history/> (accessed 22 June 2012).

<sup>608</sup> 'Virgin Australia completes re-branding with the introduction of Virgin Samoa', CAPA – Centre for Aviation, 7 December 2011. Available: <http://centreforaviation.com/blogs/southern-contrails/virgin-australia-completes-re-branding-with-the-introduction-of-virgin-samoa-64233>

<sup>609</sup> Ibid.

<sup>610</sup> Profile on Virgin Australia, CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>611</sup> Ibid, p2.

<sup>612</sup> Virgin Australia Annual Report 2011, p24.

<sup>613</sup> Destination Guides – Virgin Australia. Available: <http://www.virginaustralia.com/au/en/plan/destinations/destination-guides/> (accessed 22 June 2012).

b) Virgin Australia's international routes (including codeshare services) include:<sup>614</sup>

Country/Region	Destination
Australia	Adelaide, Emerald, Mildura, Albury, Fraser Coast (Hervey Bay), Mount Isa, Ayers Rock (Uluru), Gladstone, Newcastle, Ballina/Byron Bay, Gold Coast, Newman, Brisbane, Hamilton Island, Perth, Broome, Hayman Island, Port Hedland, Cairns, Hobart, Port Macquarie, Canberra, Kalgoorlie, Rockhampton, Christmas Island, Karratha, Sunshine Coast, Cocos (Keeling) Island, Kununurra, Sydney, Coffs Coast, Launceston, Townsville, Darwin, Mackay, Whitsunday Coast, Derby, Melbourne
New Zealand	Auckland, Hamilton, Christchurch, Queenstown, Dunedin, Wellington
Pacific Islands	Apia, Nuku'Alofa, Honiara, Port Vila, Nadi, Rarotonga
Papua New Guinea	Port Moresby
Asia	Bali Denpasar, Beijing, Phuket, Shanghai
United States of America	Atlanta, Fort Lauderdale, New Orleans, Baltimore, Honolulu, New York, Boston, Houston, Orlando, Chicago, Indianapolis, Phoenix, Cincinnati, Kona, Philadelphia, Colorado Springs, Las Vegas, Salt Lake City, Dallas, Los Angeles, San Francisco, Denver, Memphis, Tampa, Detroit, Miami, Washington
Canada	Montreal, Toronto, Ottawa, Vancouver
South Africa	Cape Town, Johannesburg
Europe	Brussels, Paris, Frankfurt, Athens, Dublin, Milan, Moscow, Geneva, Istanbul, London, Manchester
Middle East	Manama, Abu Dhabi, Dubai, Amman

## 2.8 Hub and Network Plans

- a) In 2010, Virgin Australia conducted a network-wide review, which resulted in:<sup>615</sup>
- i. a decision to consolidate its long-haul international network to two strategic hubs in Abu Dhabi and Los Angeles;
  - ii. exit from the airline's least profitable routes;

<sup>614</sup> Ibid.

<sup>615</sup> Virgin Australia Annual Report 2011, p18.

- iii. an international alliance strategy; and
  - iv. expansion of the carrier's regional presence in Australia through its partnership with Skywest Airlines.
- b) Virgin Australia is focusing on the Trans-Pacific Los Angeles route and Abu Dhabi route to service its new gateway to Europe, Africa and the Middle East. The hubs of Abu Dhabi and Los Angeles enable Virgin Australia to service two of the most important outbound and inbound markets for Australia, which are supported by its strategic alliances with Etihad and Delta Air Lines.<sup>616</sup>

## 2.9 Alliances and Codeshares

- a) Virgin Australia codeshares extensively<sup>617</sup> with the following partners: Air New Zealand, Delta Air Lines, Etihad, Singapore Airlines, Skywest Airlines, Virgin Atlantic Airways,<sup>618</sup> Virgin America,<sup>619</sup> Hawaiian Airlines and SilkAir.<sup>620</sup>
- b) Virgin has re-iterated that it will continue to forge niche alliances to serve leisure and business destinations.<sup>621</sup> Virgin Australia recognises that alliances are important to:
- i. support its international network;
  - ii. drive international traffic to cities around Australia, including regional centres; and
  - iii. promote Australia abroad through various airlines.<sup>622</sup>
- c) **Etihad:** Virgin Australia's codeshare with Etihad commenced in October 2010, enabling Virgin Australia's customers to fly to more than 30 destinations in Europe and the Middle East with one-stop service through Abu Dhabi. As part of the alliance, Virgin Australia launched its inaugural flight to Abu Dhabi in February 2011, becoming the first Australian carrier to operate in the Middle East in 20 years. Together, Etihad and Virgin Australia offer 24 weekly services between Abu Dhabi and Australia.<sup>623</sup> The agreement between the airlines allows for full integration of frequent flyer programs, reciprocal lounge access and codesharing.<sup>624</sup> Etihad has acquired 10% equity in Virgin Australia.
- d) **Singapore Airlines:** in December 2011, the Commission authorised Virgin Australia and Singapore Airlines to enter into an integrated network aviation alliance which allows the airlines to cooperate on all aspects of their Australia–Singapore services and any international and domestic connecting routes, including joint pricing and scheduling and joint marketing and sales.<sup>625</sup> In June 2012, Virgin Australia requested authorisation from the International Air Services Commission to codeshare with Singapore Airlines on Singapore Airlines' services to Paris and Amsterdam. The airlines currently codeshare on Australia-Singapore services.<sup>626</sup> On 3 July 2012, Singapore Airlines and Virgin Australia announced the launch of joint Round the

<sup>616</sup> Ibid.

<sup>617</sup> 'Profile on Virgin Australia', CAPA – Centre for Aviation (accessed 20 June 2012).

<sup>618</sup> Ibid.

<sup>619</sup> Commenced on 17 July 2012.

<sup>620</sup> 'Profile on V Australia', CAPA – Centre for Aviation (accessed 21 June 2012).

<sup>621</sup> 'Virgin Australia, buoyed by yield growth, to split company to allow further foreign ownership', CAPA – Centre for Aviation, 23 February 2012. Available: <http://centreforaviation.com/analysis/virgin-australia-buoyed-by-yield-growth-to-split-company-to-allow-further-foreign-ownership-68720>

<sup>622</sup> Virgin Australia Annual Report 2011, p19.

<sup>623</sup> Ibid, p20.

<sup>624</sup> 'Etihad and Virgin Blue announce major new partnership', Etihad Airways. Available: <http://www.etihadairways.com/sites/etihad/au/en/home/pages/etihad-announcement.aspx> (accessed 9 June 2012).

<sup>625</sup> 'ACCC authorises alliance between Virgin Australia and Singapore Airlines', ACCC,

1 December 2011: <http://www.accc.gov.au/content/index.phtml/itemId/1019999> (accessed 25 June 2012).

<sup>626</sup> 'Virgin Australia requests codeshare with Singapore Airlines to Europe', CAPA – Centre for Aviation, 26 June 2012.

World and Circle Pacific fares, allowing customers to travel between Virgin Australia's 31 domestic Australian destinations and Singapore Airlines' network on a single ticket.<sup>627</sup>

- e) **Air New Zealand:** the alliance between Virgin Australia and Air New Zealand which was launched in July 2011, offers reciprocal codeshare on the trans-Tasman and on connecting domestic sectors in New Zealand and Australia.<sup>628</sup>
- f) **Delta:** under the alliance, Virgin Australia and Delta will codeshare on each other's services to Los Angeles and beyond. It will also give Virgin Australia customers access to over 250 destinations around the US, Canada and Mexico.<sup>629</sup> Virgin Australia stated that its joint venture with Delta has enabled it to 'leverage Delta's distribution strength in the United States to draw passengers onto our international and domestic services'.<sup>630</sup>
- g) **Skywest:** in December 2011, Virgin Australia expanded its codeshare relationship with Skywest Airlines, resulting in the addition of 6 new destinations to the carrier's domestic network from December 2010.<sup>631</sup>
- h) **Hawaiian Airlines:** Virgin Australia began codesharing with Hawaiian Airlines in October 2011<sup>632</sup> on its Sydney-Honolulu service as well as flights beyond Honolulu to surrounding Hawaiian islands.<sup>633</sup> Both carriers are seeking to deepen the alliance, with Hawaiian Airlines planning to codeshare on Virgin Australia's domestic routes and Virgin Australia planning to codeshare on Hawaiian Airline's recently launched Brisbane-Honolulu service.<sup>634</sup>
- i) **Virgin America:** Virgin Australia announced on 4 July 2012 the launch of its codeshare agreement with Virgin America, which will commence from 17 July 2012. The agreement, which allows Virgin Australia to codeshare on Virgin America services, builds upon the 2009 interline agreement between the two airlines.<sup>635</sup>
- j) **Virgin Atlantic:** Virgin Australia codeshares on Virgin Atlantic's daily direct service from Sydney to Hong Kong which commenced on 16 April 2012.<sup>636</sup>

### 3 VIRGIN ATLANTIC AIRWAYS

#### 3.1 Overview

- a) Virgin Atlantic Airways Limited (**Virgin Atlantic**), which was established in 1984, is a private airline company and is one of the largest British long-haul international airlines.
- b) Virgin Atlantic is 51% owned by the Virgin Group and 49% owned by Singapore Airlines.<sup>637</sup> In 1999, Richard Branson signed an agreement to sell a 49% stake in Virgin Atlantic to Singapore Airlines to form the global partnership.<sup>638</sup>

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<sup>627</sup> 'Singapore Airlines and Virgin Australia launch two new combination fares', CAPA – Centre for Aviation, 3 July 2012.

<sup>628</sup> Virgin Australia Annual Report 2011, p20.

<sup>629</sup> Ibid, p21

<sup>630</sup> 'Virgin Australia's alliance strategy developing', CAPA – Centre for Aviation, 23 February 2012.

<sup>631</sup> Virgin Australia Annual Report 2011, p21.

<sup>632</sup> 'Virgin Australia's alliance strategy developing', CAPA – Centre for Aviation, 23 February 2012.

<sup>633</sup> 'Hawaiian boosts Aust presence', Ninemsn, 24 June 2012. Available:

<http://news.ninemsn.com.au/article.aspx?id=8488804> (accessed 25 June 2012).

<sup>634</sup> 'Hawaiian Airlines seeking deeper ties with Virgin Australia', CAPA – Centre for Aviation, 3 July 2012.

<sup>635</sup> 'Virgin Australia launches codeshare agreement with Virgin America', CAPA – Centre for Aviation, 4 July 2012.

<sup>636</sup> 'Virgin Australia codeshare with Virgin Atlantic to Hong Kong now on sale', CAPA – Centre for Aviation, 17 April 2012.

<sup>637</sup> Ibid, p3-4.

<sup>638</sup> Ibid, p5.

- c) Virgin Atlantic also operates the business units: Virgin Atlantic Cargo and Virgin Holidays which were both established in 1984.<sup>639</sup>
- d) Virgin Atlantic is a 49% shareholder in Virgin Nigeria. The remainder of the company (51%) is owned by private Nigerian investors.<sup>640</sup>
- e) Virgin Atlantic transports more than five million passengers annually.<sup>641</sup>
- f) The airline has bases at London's Gatwick and Heathrow airports and at Manchester airport.

### 3.2 Routes and flights

- a) Virgin Atlantic operates long haul services to over 30 global destinations in Europe, including 10 routes to the US, 6 routes to the Asia Pacific, 4 routes to Africa, 1 route to the Indian Ocean, 1 route to the Middle East and 8 routes to the Caribbean.<sup>642</sup>
- b) The company operates long-haul services from Heathrow to New York (Newark and JFK), Los Angeles, San Francisco, Washington, Boston, Miami, Tokyo, Hong Kong, Johannesburg, Cape Town, Shanghai, Delhi, Lagos, Accra, Sydney, Dubai, Chicago & Nairobi. Virgin also operates services from Gatwick to Orlando, Barbados, St Lucia, Antigua, Las Vegas, Grenada, Tobago, Cuba, Puerto Rico and Montego Bay & Kingston in Jamaica. It also operates a service from Manchester to Orlando, Las Vegas and Barbados.<sup>643</sup>
- c) In 2006, the company agreed to a new reciprocal codeshare deal with Air China to allow Virgin Atlantic passengers to travel between London Heathrow and Beijing, complementing Virgin Atlantic's daily flights to Shanghai. Virgin Atlantic also commenced services between London Heathrow and Dubai in 2006.

### 3.3 Codeshare and Partnerships

- a) Virgin Atlantic has the following codeshare partners: Air China, Air New Zealand, All Nippon Airways, bmi, Cyprus Airways, Jet Airways, Singapore Airlines, South African Airways, US Airways, V Australia and Virgin Australia.<sup>644</sup>
- b) **Singapore Airlines:** under the global partnership in which Singapore Airlines acquired a 49% stake in Virgin Atlantic, the two airlines have developed codeshare arrangements, reciprocal frequent flyer arrangements and complementary route networks. Both airlines have maintained their independent management teams but Singapore Airlines has some representation on the Virgin Atlantic Board of Directors.<sup>645</sup> The codeshare agreement with Singapore Airlines provides Virgin Atlantic with services from both London Heathrow and Manchester to Singapore and allows Virgin Atlantic passengers to travel between both London and Manchester to Sydney, Melbourne, Adelaide, Brisbane and Perth.<sup>646</sup>
- c) **bmi:** Virgin Atlantic's partnership with bmi includes flights from Dublin, Berlin, Vienna and Hanover and domestic connections to and from Aberdeen, Belfast, Edinburgh,

<sup>639</sup> Ibid.

<sup>640</sup> Virgin Atlantic – FAQs. Available: <http://www.virgin-atlantic.com/en/gb/allaboutus/pressoffice/faq/virginnigeria.jsp> (accessed 10 July 2012).

<sup>641</sup> Ibid, p4.

<sup>642</sup> Ibid.

<sup>643</sup> Press Information Kit, Virgin Atlantic Airways, May 2012, p2. Available: <http://www.virgin-atlantic.com/content/dam/VAA/Documents/Press%20office/PRESS-INFORMATION-KIT.pdf> (accessed 25 June 2012).

<sup>644</sup> Profile on Virgin Atlantic Airways, CAPA – Centre for Aviation, 20 June 2012.

<sup>645</sup> Press Information Kit, Virgin Atlantic Airways, May 2012, p16-17. Available: <http://www.virgin-atlantic.com/content/dam/VAA/Documents/Press%20office/PRESS-INFORMATION-KIT.pdf> (accessed 25 June 2012).

<sup>646</sup> Ibid, p17.

Glasgow and Manchester via Heathrow. Passengers can also fly from Amman, Beirut, Tehran, Yerevan and Damascus onto Virgin Atlantic services worldwide.<sup>647</sup>

- d) **South African Airways:** Virgin Atlantic's codeshare agreement with South African Airways enables passengers to connect between Virgin Atlantic services to and from Johannesburg, and South African services between Johannesburg and Cape Town, Durban, Port Elizabeth and East London. Both airlines codeshare on each other's London-Cape Town service.<sup>648</sup>
- e) **US Airways:** Virgin Atlantic's codeshare agreement with US Airways enables customers to connect between Virgin Atlantic services from Los Angeles, San Francisco and Las Vegas, onto US Airways services to Phoenix.<sup>649</sup>
- f) **JetBlue:** Travellers can connect from London, Glasgow and Manchester on Virgin Atlantic onward to JetBlue's domestic services serving destinations including Baltimore, Maryland; Charlotte, North Carolina; Chicago, Illinois; San Diego, California; San Juan, Puerto Rico; and Tampa, Florida.<sup>650</sup>
- g) **Virgin Australia:** Virgin Atlantic's codeshare agreement with Virgin Australia enables customers to connect between Virgin Atlantic services to and from Sydney with Virgin Australia flights between Brisbane, Adelaide, Cairns, Melbourne, Canberra and Gold Coast.<sup>651</sup>
- h) **Air China:** Virgin Atlantic's codeshare agreement with Air China enables customers to purchase flights between London Heathrow and Beijing, complimenting Virgin Atlantic's daily flights into Shanghai. Air China will codeshare on Virgin Atlantic's daily services between London Heathrow and Shanghai.<sup>652</sup>
- i) **All Nippon Airways:** Virgin Atlantic's agreement with All Nippon Airways offers customers a double daily Heathrow to Tokyo Narita service.<sup>653</sup>
- j) **Jet Airways:** Virgin Atlantic codeshares on Jet Airways double daily service from Heathrow to Mumbai. This allows good connections between Mumbai and Virgin Atlantic's US network.<sup>654</sup>

## 4 VIRGIN AMERICA

### 4.1 Overview

- a) Virgin America is a privately owned, non-listed, American LCC, owned by VAI Partners and The Virgin Group. Virgin America operates a network of domestic services along the US west coast, as well as between major cities on the east and west coasts of the US.<sup>655</sup>
- b) Virgin America's largest base is at San Francisco International Airport.<sup>656</sup>
- c) Virgin America flies from San Francisco, Los Angeles, Boston, Cancun, Chicago, Dallas-Fort Worth, Fort Lauderdale, Las Vegas, Los Cabos, New York, Orlando, Palm

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<sup>647</sup> Ibid.

<sup>648</sup> Ibid, p 18.

<sup>649</sup> Ibid

<sup>650</sup> Ibid

<sup>651</sup> Ibid

<sup>652</sup> Ibid

<sup>653</sup> Ibid, p 19.

<sup>654</sup> Ibid

<sup>655</sup> Profile on Virgin America, CAPA – Centre for Aviation, 21 June 2012.

<sup>656</sup> Ibid.

Springs, Puerto Vallarta, San Diego, Seattle, Washington D.C., Philadelphia and Portland.<sup>657</sup>

#### **4.2 Alliances**

- a) On 12 June 2012, Virgin America announced a new interline agreement with Japan Airlines offering travel on the networks of both carriers across their respective North American and Asian routes.<sup>658</sup>
- b) In addition to the new JAL agreement, Virgin America has interline agreements with Virgin Australia, Virgin Atlantic, Air New Zealand, Emirates, Korean Air, Singapore Airlines, Cathay Pacific, South African Airways, El Al, Qantas, China Airlines, Ethiopian Airlines, Hawaiian Airlines and Air Pacific.<sup>659</sup>

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<sup>657</sup> 'About us', Virgin America. Available: <http://www.virginamerica.com/about/airline-company.html> (accessed 25 June 2012).

<sup>658</sup> 'Virgin America signs interline agreement with Japan Airlines', CAPA – Centre for Aviation, 13 June 2012.

<sup>659</sup> Ibid.

## KOREAN AIR

### 1 KEY FEATURES

- a) One of the four founding partner airlines of the SkyTeam alliance.
- b) Geographic hub home port in Seoul.

### 2 COMPANY OVERVIEW

#### 2.1 Overview

- a) Korean Air is a full service carrier with its main areas of business in: passenger, cargo, catering, hotel, in-flight sales and limo service. It is the flag carrier and largest airline of South Korea.
- b) The airline is also involved in aerospace research and manufacturing through its Air Aerospace Division.
- c) Korean Air is currently the 20<sup>th</sup> largest airline in the world as measured in ASKs.<sup>660</sup>
- d) Korean Air also wholly owns a low cost airline subsidiary, Jin Air.

#### 2.2 History

- a) Korean Air's history began with the establishment of Korea National Airlines (**KNA**), a private company in 1948. However, it went bankrupt in 1962. Korean Air was then founded in 1962 as an intergovernmental enterprise before being re-established as a private airline on 1 March 1969. In nearly 35 years, it has grown 150 times and is poised to continue that growth.<sup>661</sup>
- b) Long-haul freight operations were introduced on 26 April 1971, followed by passenger services to Los Angeles International Airport on 19 April 1972.<sup>662</sup>

#### 2.3 Ownership Information

- a) Korean Air Lines Co Ltd is a publicly listed entity on the Korean Stock Exchange. Korean Air's major shareholder is the Hanjin Group (owning 25.6%<sup>663</sup>), a conglomerate that is also listed on the Korean Stock Exchange. The group is a holding company that includes Hanjin Shipping (including Hanjin Logistics), and Korean Air, which was acquired in 1969.

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<sup>660</sup> CAPA – Korean Air company profile: <http://centreforaviation.com/profiles/airlines/korean-air-ke>

<sup>661</sup> Korean Air – Company Info / History: [http://www.koreanair.com/local/na/gp/eng/au/ci/eng\\_au\\_ci\\_ht.jsp](http://www.koreanair.com/local/na/gp/eng/au/ci/eng_au_ci_ht.jsp)

<sup>662</sup> Korean Air.com – Company Info / History: [http://www.koreanair.com/local/na/gp/eng/au/ci/eng\\_au\\_ci\\_ht.jsp](http://www.koreanair.com/local/na/gp/eng/au/ci/eng_au_ci_ht.jsp)

<sup>663</sup> Hyundai Research – Company Analysis (2 February 2012) - Korean Air: <http://equity.co.kr/upfile/issue/2012/02/03/1328234025152.pdf>

## 2.4 Subsidiaries

- a) On 5 June 2007, Korean Air announced that it would create a new low-cost carrier called Jin Air to compete with Korea's KTX high-speed railway network system, which offers cheaper fares and less stringent security procedures compared to air travel. Jin Air began its scheduled passenger service from Seoul to Jeju on 17 July 2008. Korean Air announced that some of its B737s and A300s would be given to Jin Air.

## 2.5 Fleet

- a) Korean Air's fleet comprises 148 aircraft, with 57 on firm order.<sup>664</sup> The carrier is scheduled to take delivery of two passenger aircraft – one A380 and one 737 – in the second half of 2012, with an additional 747F also scheduled for delivery.<sup>665</sup>
- b) On May 2011, the carrier took delivery of its first Airbus A380, and signed a deal with Amadeus IT Group that outsourced the carrier's reservation and passenger processing systems.<sup>666</sup> Korean Air's A380s currently serve Paris, Frankfurt, Hong Kong, New York, and Los Angeles from Incheon.<sup>667</sup>
- c) Korean Air is the first Airbus A380 customer to dedicate the entire upper deck to business class passengers.

## 3 ALLIANCES AND PARTNERSHIPS

### 3.1 Codeshare arrangements

- a) Korean Air has codeshare arrangements with Aeroflot, Aeromexico, Air Caledonie International, Air France, Air Macau, Alaska Airlines, Alitalia, China Airlines, China Eastern Airlines, China Southern Airlines, CSA Czech Airlines, Delta, Emirates, Garuda Indonesia, Hainan Airlines, Hawaiian Airlines, Japan Airlines, Kenya Airways, KLM Royal Dutch Airlines, LAN Airlines, Malaysia Airlines, MIAT Mongolian Airlines, Rossiya – Russian Airlines, Shanghai Airlines, Uzbekistan Airways, Vietnam Airlines, WestJet and Xiamen Airlines.

## 4 NETWORK AND HUB INFORMATION

### 4.1 Airport and Hub Development

- a) Operated by Incheon International Airport Corp, Incheon International Airport is the largest airport in South Korea and one of the largest airports in the world. Hosting regional and international passenger and cargo services for over 40 airlines, Incheon is a hub for airlines including Korean Air, Asiana Airlines and Polar Air Cargo.
- b) Incheon International Airport reported transit passenger numbers at the airport increased 17.2% year-on-year to a record 3.2 million in the first six months of 2012, (which was 320,000 more transfer passengers than Tokyo Haneda Airport), with Incheon targeting 6.5 million transit passengers for 2012.<sup>668</sup> Incheon International Airport was most recently awarded the SKYTRAX World's Best Airport award for 2012, being the second time the airport has won the award after first receiving it in 2009.<sup>669</sup>

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<sup>664</sup> Based on information available at CAPA (4 September 2012).

<sup>665</sup> CAPA: Korean Air fleet comprises 148 aircraft as at 30 June 2012, three deliveries scheduled for 2H2012 (20 July 2012): <http://centreforaviation.com/news/korean-air-fleet-comprises-148-aircraft-as-at-30-jun-2012-three-deliveries-scheduled-for-2h2012-165519>

<sup>666</sup> 'Korean takes delivery of first A380', *Australian Aviation*, 27 May 2011:

<http://australianaviation.com.au/2011/05/korean-takes-delivery-of-first-a380/>

<sup>667</sup> Ibid

<sup>668</sup> CAPA: Seoul Incheon International Airport transit pax up 17% in 1H2012 (13 July 2012):

<http://centreforaviation.com/news/seoul-incheon-international-airport-transit-pax-up-17-in-1h2012-164640>

<sup>669</sup> SKYTRAX World Airport Awards 2012: [http://www.worldairportawards.com/Awards\\_2012/Airport2012.htm](http://www.worldairportawards.com/Awards_2012/Airport2012.htm)

## 4.2 Flights and Routes

a) Korean Air operates to 109 destinations, including.<sup>670</sup>

Country	Cities
Korea	Incheon, Seoul, Busan, Jeju, Gwangju, Daegu, Yeosu, Ulsan, Pohang, Jinju, Gunsan, Cheongju, Wonju
Australia	Brisbane, Sydney, Melbourne
Austria	Vienna
Brazil	Sao Paulo
Cambodia	Phnom Penh, Siem Reap
Canada	Toronto, Vancouver
China	Beijing, Tianjin, Qingdao, Shanghai, Guangzhou, Xiamen, Shenyang, Wuhan, Kunming, Jinan, Hangzhou, Tunxi, Weihai, Mudanjiang, Yanji, Shenzhen, Dalian, Changsha, Zhengzhou, Xi'an, Hongkong, Urumqi
Czech Republic	Prague
Egypt	Cairo
England	London
Fiji	Nadi
France	Paris
Germany	Frankfurt
India	Mumbai
Indonesia	Denpansar, Jakarta
Israel	Tel Aviv
Italy	Rome, Milan
Japan	Tokyo, Osaka, Nagoya, Fukuoka, Kagoshima, Niigata, Okayama, Sapporo, Aomori, Oita, Akita, Komatsu, Hakodate, Nagasaki, Shizuoka
Kenya	Nairobi
Malaysia	Kuala Lumpur, Kota Kinabalu
Mongolia	Ulaanbaatar

<sup>670</sup> Korean Air: Destinations / Korean Air Flights Information:  
[http://www.koreanair.com/local/na/gp/eng/tp/wd/eng\\_wd\\_page.jsp](http://www.koreanair.com/local/na/gp/eng/tp/wd/eng_wd_page.jsp)

Country	Cities
Nepal	Kathmandu
Netherlands	Amsterdam
New Zealand	Auckland
Palau	Koror
Philippines	Manila, Cebu
Russia	Moscow, St.Petersburg, Vladivostok, Irkutsk
Singapore	Singapore
Spain	Madrid
Switzerland	Zurich
Taiwan	Taipei
Thailand	Bangkok, Phuket, Chiangmai
Turkey	Istanbul
UAE	Dubai
USA	Guam, L.A, New York, Chicago, Atlanta, Dallas, San Francisco, Seattle, Washington D.C, Honolulu, Las Vegas
Uzbekistan	Tashkent
Vietnam	Hanoi, Ho Chi Minh City, Da Nang

### 4.3 Flights and Routes

- a) The governments of South Korea and Indonesia signed a bilateral ASA to increase Jakarta-Seoul Incheon flights from 10 to 23 weekly services from March 2013 due to strong demand from the market.<sup>671</sup>
- b) Korean Air launched twice weekly Busan-Yanji charter service on 26 June 2012 and twice weekly Cheongju-Yanji and Daegu-Yanji charter services on 27 June 2012.<sup>672</sup>
- c) Korean Air stated that from 28 June 2012, Middle East Airlines will become a FFP partner of the carrier. The move coincides with Middle East Airlines joining the SkyTeam alliance on the same date.<sup>673</sup>
- d) On 31 May 2012, Korean Air introduced a new FFP partnership with Saudi Arabian Airlines, effective 29 May 2012.<sup>674</sup>

<sup>671</sup> CAPA: Indonesia and South Korea sign expanded bilateral air services agreement (10 July 2012):

<http://centreforaviation.com/news/indonesia-and-south-korea-sign-expanded-bilateral-air-services-agreement-163851>

<sup>672</sup> CAPA: Korean Air expands to China's Yanji (3 July 2012): <http://centreforaviation.com/news/korean-air-expands-to-chinas-yanji-162472>

<sup>673</sup> Middle East Airlines becomes new FFP partner for Korean Air (28 June 2012):

<http://centreforaviation.com/news/middle-east-airlines-becomes-new-ffp-partner-for-korean-air--161664>

- e) Korean Air established a new interline agreement with Virgin America, covering connection options between Asia and the US. The agreement allows connecting passengers to purchase interline tickets for travel between the US, Japan, Brazil, South Korea and beyond. The interline partnership offers connections to Virgin America at Los Angeles, San Francisco, Seattle-Tacoma and Las Vegas McCarran to several other Virgin America destinations from Seoul Incheon.<sup>675</sup>
- f) JetBlue Airways and Korean Air announced on 28 February 2012 an interline partnership covering services between JetBlue's network in the Americas and Korean's network throughout Asia Pacific. Korean Air offers daily non-stop service from New York, Washington and Los Angeles to the carrier's hub at Seoul Incheon International Airport, with onward connections to 12 Korean cities, more than two dozen Chinese cities, and a number of major cities in Asia Pacific.<sup>676</sup>

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<sup>674</sup> Korean Air introduced new FFP partnership with Saudi Arabian Airlines (1 June 2012):

<http://centreforaviation.com/news/korean-air-introduces-new-ffp-partnership-with-saudi-arabian-airlines-157916>

<sup>675</sup> CAPA: Korean Air signs interline agreement with Virgin America (12 March 2012):

<http://centreforaviation.com/news/korean-air-signs-interline-agreement-with-virgin-america-145219>

<sup>676</sup> CAPA: JetBlue and Korean Air announce new interline agreement (29 February 2012):

<http://centreforaviation.com/news/jetblue-and-korean-air-announce-new-interline-agreement-143468>

## AIR ASIA GROUP

### 1 KEY FEATURES

- a) LCC with a network of joint venture airlines throughout Asia.
- b) Natural mid-point carrier due to geographical location with associated hub advantages.
- c) Favourable industrial relations (**IR**) environment and low labour costs.

### 2 OVERVIEW OF THE AIR ASIA GROUP

#### 2.1 Overview

- a) The AirAsia Group is a multi-national airline group headquartered in Kuala Lumpur, Malaysia.<sup>677</sup>
- b) The group now operates a network of low-cost carriers throughout Asia and retains significant oversight and equity holdings in its franchises. All member airlines use the 'AirAsia' brand, employ identical low-cost business models and operate a single-type fleet of Airbus A320 aircraft (except for AirAsiaX).<sup>678</sup>
- c) The AirAsia Group is the first airline group in the region to build an affiliate structure under the same brand. This allows AirAsia to set up its low-cost business model overseas while having local partners run the business in their home country.<sup>679</sup>

#### 2.2 Members of the AirAsia Group

- a) The AirAsia Group members include:<sup>680</sup>
  - i. AirAsia (since December 2001);
  - ii. Thai AirAsia (since February 2004);
  - iii. Indonesia AirAsia (since December 2005);
  - iv. AirAsia X (since November 2007);
  - v. AirAsia Philippines (since October 2011); and
  - vi. AirAsia Japan (launched August 2012).

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<sup>677</sup> Profile on AirAsia Group, CAPA – Centre for Aviation (accessed 5 July 2012).

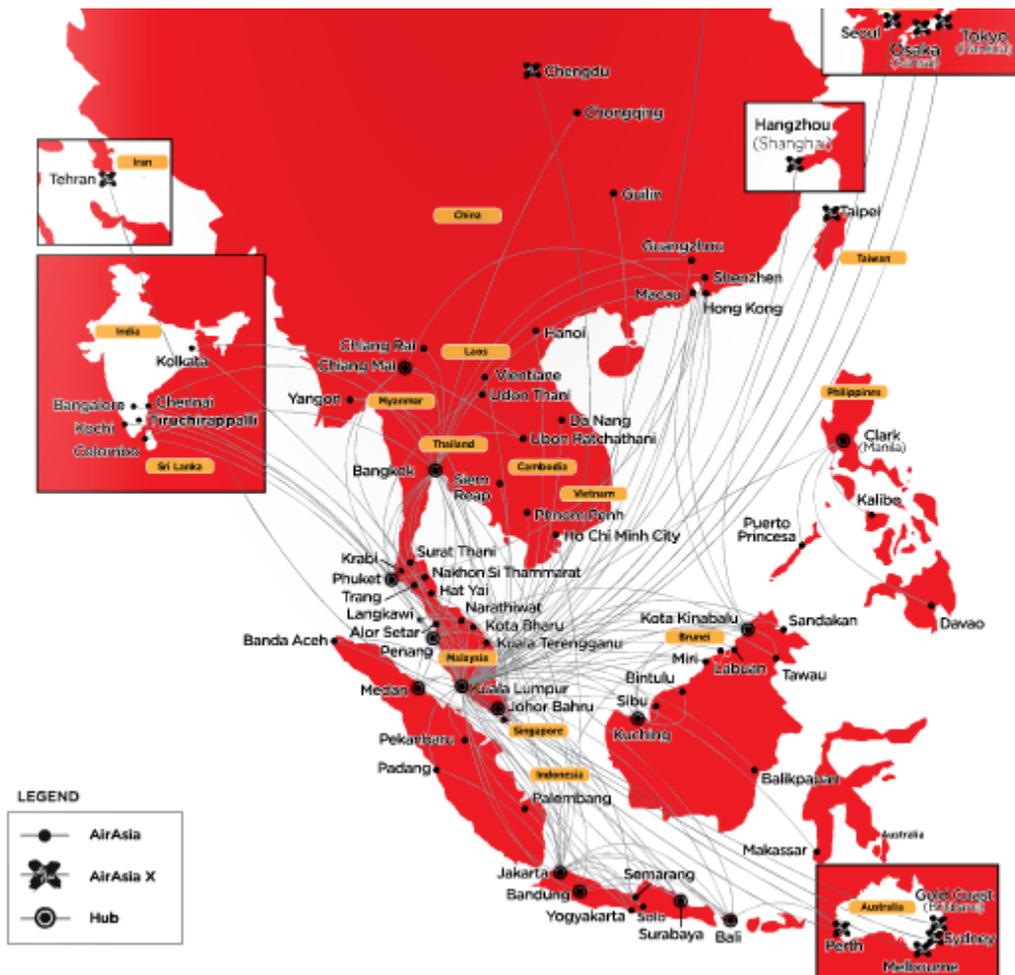
<sup>678</sup> Ibid.

<sup>679</sup> AirAsia Annual Report 2011, p24. Available: <http://www.airasia.com/my/en/corporate/irannualreport.page> (AirAsia Annual Report 2011)

<sup>680</sup> 'Profile on AirAsia Group', CAPA – Centre for Aviation (accessed 5 July 2012).

### 2.3 Route Network and Hubs

- a) The AirAsia Group has a network of 142 routes and serves 70 destinations, which connects 10 ASEAN nations.<sup>681</sup> Since January 2011, the AirAsia Group has introduced at least 21 routes.<sup>682</sup>
- b) AirAsia X has a network of 12 routes serving 10 destinations in Asia, Oceania and Europe.<sup>683</sup>
- c) The AirAsia Group route network is shown in the diagram below:<sup>684</sup>



- d) The AirAsia Group reports that it has 14 hubs in Malaysia, Indonesia, Thailand and the Philippines. Now that AirAsia Japan has commenced, new hubs will be added in Japan.<sup>685</sup>
- e) AirAsia's hubs are important to its group strategy of flying within a four-hour flight radius.<sup>686</sup>

<sup>681</sup> AirAsia Annual Report 2011, p24.

<sup>682</sup> Ibid, p103.

<sup>683</sup> Ibid.

<sup>684</sup> Ibid, p111.

<sup>685</sup> Ibid, p24.

<sup>686</sup> Ibid.

## 2.4 Fleet and passengers

a) The table below summarises the fleet for the AirAsia Group:

Group member	Current Fleet	Announced Plans
AirAsia <sup>687</sup>	59	274
AirAsia X <sup>688</sup>	11	30
Thai AirAsia <sup>689</sup>	25	0
Indonesia AirAsia <sup>690</sup>	18	0
AirAsia Philippines <sup>691</sup>	2	0
AirAsia Japan <sup>692</sup>	5	N/A

b) With 100 Airbus A320 aircraft, the AirAsia Group has the largest fleet among all LCCs in Asia.<sup>693</sup> It expects delivery of 20 Airbus A320 in 2012 and another 13 in 2013.<sup>694</sup> AirAsia has already secured financing for these deliveries. These aircraft will be distributed among all AirAsia's operations in Malaysia, Thailand, Indonesia, the Philippines and Japan.<sup>695</sup>

c) AirAsia has announced that it has capacity to take up to 500 new aircraft.<sup>696</sup>

d) In 2011, the AirAsia Group flew 29.9 million passengers.<sup>697</sup>

## 3 OVERVIEW OF AIR ASIA

### 3.1 Overview

a) AirAsia Berhad (**AirAsia**) is a low-cost short haul airline based at Kuala Lumpur International Airport, Malaysia.<sup>698</sup>

b) The shareholding of the company as at 9 May 2012 was as follows:

- i. Tune Air (23.06%);
- ii. Tan Sri Dr. Anthony Francis Fernandes (approximately 23.2% through direct and indirect interests);
- iii. Dato' Kamarudin bin Meranun (approximately 23% through direct and indirect interests);

<sup>687</sup> 'Profile on AirAsia', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>688</sup> 'Profile on AirAsia X', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>689</sup> 'Profile on Thai AirAsia', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>690</sup> 'Profile on AirAsia Indonesia', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>691</sup> 'Profile on AirAsia Philippines', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>692</sup> 'Profile on AirAsia Japan', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>693</sup> AirAsia Annual Report 2011, p25.

<sup>694</sup> Ibid, p107.

<sup>695</sup> Ibid.

<sup>696</sup> 'AirAsia Orders 200 Airbus A320neo Aircraft, becomes Airbus' Largest Airline Customer to Date', AirAsia, 23 June 2011. Available: <http://goholiday.airasia.com/my/en/corporate/pressrelease.html> (accessed 6 July 2012).

<sup>697</sup> AirAsia Annual Report 2011, p24.

<sup>698</sup> Profile on AirAsia, CAPA – Centre for Aviation (accessed 5 July 2012).

- iv. Employees Provident Fund Board (approximately 9% through direct and indirect interests); and
- v. Wellington Management Company, LLP (9.49%).<sup>699</sup>

### 3.2 Routes and Flights

- a) AirAsia's extensive domestic and regional network includes Malaysian domestic services and services to China, Southeast Asia and the Subcontinent. Its network consists of 57 destinations (15 domestic and 42 in the Asia Pacific).<sup>700</sup>
- b) AirAsia's international routes, together with the international routes of all other AirAsia Group airlines, include:

Air Asia	
Indonesia	Jakarta, Balikpapan, Banda Aceh, Bandung, Denpasar, Padang, Palembang, Pekanbaru, Makassar, Medan, Surabaya, Solo, Semarang, Yogyakarta
India	Kolkata, Kochi, Bangalore, Chennai, Tiruchirapalli
Laos	Vientiane
Macau	Macau
Hong Kong	Hong Kong
China	Hangzhou, Guilin, Guangzhou, Chengdu, Shenzhen
Cambodia	Phnom Penh, Siem Reap
Brunei	Bandar Seri Begawan
Malaysia	Labuan, KuchingKuala, Terengganu, Kuala Lumpur, Kota Kinabalu, Kota Bahru, Johor Bahru, Bintulu, Alor Setar, Sandakan, Penang, Langkawi, Miri, Sibul, Tawau
Myanmar	Yangon
Philippines	Clark
Singapore	Singapore
Sri Lanka	Colombo
Thailand	Krabi, Hat Yai, Bangkok, Chiang Mai, Phuket, Surat Thani

<sup>699</sup> 'Investor Relations – Substantial shareholders', AirAsia. Available: <http://www.airasia.com/my/en/corporate/irmajorshareholders.page> (accessed 6 July 2012).

<sup>700</sup> 'Profile on AirAsia', CAPA – Centre for Aviation (accessed 5 July 2012).

Vietnam	Ho Chi Minh City, Hanoi, Da Nang
<b>Air Asia X</b>	
Iran	Tehran
Japan	Osaka, Tokyo
China	Hangzhou, Chengdu, Chongqing, Beijing
Australia	Gold Coast, Melbourne, Perth, Sydney
Nepal	Kathmandu
Malaysia	Kuala Lumpur, Penang
South Korea	Seoul
Taiwan	Taipei
<b>Thai AirAsia</b>	
Cambodia	Phnom Penh
China	Chengdu, Chongqing, Shenzhen
Hong Kong	Hong Kong
India	Kolkata, Chennai
Indonesia	Denpasar
Macau	Macau
Myanmar	Yangon
Sri Lanka	Colombo
Singapore	Singapore
Thailand	Krabi, Hat Yai, Bangkok, Chiang Mai, Chiang Rai, Phuket, Nakhon Phanom, Nakhon Si Thammarat, Narathiwat, Surat Thani, Udon Thani, Ubon Ratchathani, Trang
Vietnam	Ho Chi Minh City, Hanoi
Malaysia	Kuala Lumpur, Penang
<b>Indonesia AirAsia</b>	
Australia	Perth
Singapore	Singapore

Thailand	Bangkok, Phuket
Malaysia	Kuala Lumpur
Indonesia	Jakarta, Banda Aceh, Bandung, Denpasar, Medan, Surabaya, Solo, Semarang, Yogyakarta
<b>AirAsia Philippines</b>	
Malaysia	Kuala Lumpur
Macau	Macau
Philippines	Kalibo, Clark, Davao, Puerto Princesa
Hong Kong	Hong Kong
<b>AirAsia Japan</b>	
Japan	Fukuoka, Okinawa, Sapporo, Tokyo

- c) In 2011, AirAsia added 9 new routes, most of them connecting from Malaysia to cities in Indonesia.<sup>701</sup>
- d) AirAsia launched a twice weekly Kuala Lumpur-Kathmandu service on 3 July 2012.<sup>702</sup>
- e) AirAsia expects to move to a new LCC Terminal at the Kuala Lumpur International Airport by the end of 2013 which is expected to be the largest purpose-built LCC terminal in the world with a capacity of up to 45 million passengers per annum.<sup>703</sup>
- f) In 2011, AirAsia carried just under 18 million passengers<sup>704</sup> over 124,853 flights.<sup>705</sup>
- g) In the first quarter of 2012, AirAsia carried 4.3 million passengers.<sup>706</sup>

### 3.3 Fleet

- a) AirAsia has a fleet of 59 A320-210 aircraft and 274 aircraft (200 Airbus A320-200 neo and 74 Airbus A320-210) on order as at 5 July 2012.<sup>707</sup>
- b) In June 2011, AirAsia announced that it had placed a firm order for 200 Airbus A320 neo aircraft which reportedly made it the largest airline customer of Airbus in history.<sup>708</sup>
- c) AirAsia's CEO reportedly said of the order with Airbus: 'This is an important milestone in our growth, and this solidifies our position as the world's best low-cost airline. The new order is to cater to expansion plans in the Philippines, Vietnam and other parts of Asia. We have the capacity to take up to 500 aircraft. AirAsia has been hugely

<sup>701</sup> AirAsia Annual Report 2011, p103.

<sup>702</sup> 'AirAsia launches Kuala Lumpur-Kathmandu service', CAPA – Centre for Aviation, 4 July 2012.

<sup>703</sup> AirAsia Annual Report 2011, p107.

<sup>704</sup> 'AirAsia Group subsidiaries report mixed profit results in 4Q2011', CAPA – Centre for Aviation, 23 February 2012.

<sup>705</sup> 'Profile on AirAsia', CAPA – Centre for Aviation. Available:

<http://www.centreforaviation.com/profiles/airlines/airasia-ak> (accessed 26 June 2012).

<sup>706</sup> 'AirAsia reports record revenue in 1Q2012', CAPA – Centre for Aviation, 24 May 2012.

<sup>707</sup> 'Profile on AirAsia', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>708</sup> 'AirAsia Orders 200 Airbus A320neo Aircraft, becomes Airbus' Largest Airline Customer to Date', AirAsia, 23 June 2011. Available: <http://goholiday.airasia.com/my/en/corporate/pressrelease.html> (accessed 6 July 2012).

successful, increasing its annual passenger volume from 200,000 when we launched it as a low-cost airline in 2001 to an estimated 31 million this year. With the introduction of the Airbus A320neo, AirAsia guests can look forward to more exciting routes from AirAsia as we can now explore more destinations with the enhanced range presented by the new-gen aircraft ... This confirmation of order for 200 Airbus A320neo aircraft is in line with our rapid expansion plans and our long term vision to grow our associates throughout the region.<sup>709</sup>

- d) AirAsia plans to increase capacity by 10% from 2012 to 2014 to prepare the LCC in the run-up to ASEAN open skies in 2015 through new aircraft, new routes and frequency increases.<sup>710</sup>

## 4 OVERVIEW OF AIR ASIA X

### 4.1 Overview

- a) AirAsia X Sdn Bhd (**AirAsia X**) is a low-cost medium to long-haul airline based in Kuala Lumpur, Malaysia.<sup>711</sup>
- b) AirAsia X was launched in 2007 and originated from Fly Asian Xpress Sdn Bhd (**FAX**) (a private company). FAX reportedly signed a memorandum of understanding with AirAsia over the franchising of the AirAsia brand to the airline AirAsia X.<sup>712</sup>
- c) Unlike the other AirAsia joint venture carriers (discussed below), AirAsia X is a separate sister airline company<sup>713</sup> and flies medium- to long haul flights.<sup>714</sup>
- d) AirAsia X franchises the AirAsia brand and technically the two companies have separate operations.<sup>715</sup>
- e) AirAsia X's customer value proposition is that it has 30-50% lower fares that are sustained through the world's lowest unit cost at 3.6 US cents per available-seat-kilometre in 2011.<sup>716</sup>

### 4.2 Ownership

- a) The overlap in ownership of AirAsia and AirAsia X comprises a direct overlap (AirAsia owns 16% of AirAsia X) and an indirect overlap, with Aero Ventures Sdn Bhd (a company owned by Tony Fernandes, Air Canada's Robert Milton and other Malaysians) owning 52%. The other AirAsia X shareholders are Bahrain's Manara and Japan's Orix (and previously Virgin Group).

### 4.3 Routes

- a) AirAsia X flies to 13 destinations within Asia as well as Oceania and Europe from its main base at Kuala Lumpur International Airport.<sup>717</sup> Destinations include Huangzhou, Chengdu and Tianjin in China, Taipei in Taiwan, the Gold Coast, Perth, Melbourne and Sydney in Australia, Seoul in South Korea, Tehran in Iran and Tokyo and Osaka in Japan.<sup>718</sup>

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<sup>709</sup> 'AirAsia Orders 200 Airbus A320neo Aircraft, becomes Airbus' Largest Airline Customer to Date', Air Asia, 23 June 2011. Available: <http://goholiday.airasia.com/my/en/corporate/pressrelease.html> (accessed 6 July 2012).

<sup>710</sup> 'AirAsia to increase capacity by 10% from 2012 to 2014: CEO', CAPA – Centre for Aviation, 4 July 2012.

<sup>711</sup> 'Profile on AirAsia X', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>712</sup> 'X-citing deal for air travellers', The Star, 6 January 2007. Available: <http://thestar.com.my/news/story.asp?file=/2007/1/6/nation/16493788&sec=nation> (accessed 6 July 2012).

<sup>713</sup> 'After launching Sydney, AirAsia X focuses on higher frequencies and more intro-Asia services', CAPA – Centre for Aviation, 17 January 2012.

<sup>714</sup> 'Profile on AirAsia X', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>715</sup> AirAsia Annual Report 2007, p37. Available: <http://www.airasia.com/my/en/corporate/irannualreport.page>

<sup>716</sup> AirAsia Annual Report 2011, p120.

<sup>717</sup> 'Profile on AirAsia X', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>718</sup> AirAsia Annual Report 2011, p121.

- b) In 2011, AirAsia X suspended services to Europe and northern India. This was in line with its strategy to deploy its capacity to routes and markets where it enjoys the best scale advantages to gain market leadership and drive profitability. This is why the airline has expanded its network in Australia with the opening of the Kuala Lumpur-Sydney route and why it is increasing frequencies to Tokyo from thrice weekly to daily, to Taipei from daily to 11 times weekly and Melbourne and Perth from daily to nine times weekly.<sup>719</sup>

#### 4.4 Fleet

- a) AirAsia X has 11 aircraft<sup>720</sup> with 30 on order as at 5 July 2012.<sup>721</sup>
- b) The company aims to add 14 new aircraft to its current fleet by the end of 2014.<sup>722</sup> Of the added capacity, most will be deployed in its existing core markets.<sup>723</sup>
- c) It has one of the youngest wide body fleets in the world at 5.1 years, including the first LCC with flatbeds.<sup>724</sup>

#### 4.5 Passenger Traffic

- a) AirAsia X is now the third largest low-cost airline in Asia in terms of passenger traffic, with 14.1 billion revenue passenger kilometres.<sup>725</sup>
- b) Given the airline has a penetration rate of less than 20% across Asia, compared to over 40% in Europe, it reportedly still has more room for growth.<sup>726</sup>

#### 4.6 Announced Plans

- a) The carrier is planning to expand its China network to leisure destinations including Huangzhou, Wuhan, Xian and Chongqing – it already services Beijing, Chengdu and Hangzhou.<sup>727</sup>
- b) AirAsia X is reportedly evaluating additional destinations in existing markets, with potential destinations being Adelaide in Australia; Fukuoka, Nagoya and Sapporo in Japan; Busan in South Korea; and cities with a population of over five million in China.<sup>728</sup>

### 5 THAI AIRASIA

#### 5.1 Overview

- a) Established in February 2004, Thai AirAsia is a joint venture between AirAsia (49%) and Thailand's Asia Aviation (**AAV**) (51%).<sup>729</sup>

<sup>719</sup> Ibid.

<sup>720</sup> 'AirAsia X to launch IPO at end of 2012/early 2013: CEO', CAPA – Centre for Aviation, 4 July 2012.

<sup>721</sup> Profile on AirAsia X, CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>722</sup> 'AirAsia X to launch IPO at end of 2012/early 2013: CEO', CAPA – Centre for Aviation, 4 July 2012.

<sup>723</sup> AirAsia Annual Report 2011, p121.

<sup>724</sup> Ibid, p120.

<sup>725</sup> Ibid.

<sup>726</sup> Ibid, p121.

<sup>727</sup> 'AirAsia X to expand China network', CAPA – Centre for Aviation, 4 July 2012.

<sup>728</sup> 'AirAsia X continues concentration theme with Christchurch withdrawal as ultra long haul loses favour', CAPA – Centre for Aviation, 16 March 2012. Available: <http://centreforaviation.com/blogs/aviation-blog/airasia-x-continues-concentration-theme-with-christchurch-withdrawal-as-ultra-long-haul-loses-favour-70010>

<sup>729</sup> Annual Report 2010, AirAsia, page 25. Available: <http://www.airasia.com/my/en/corporate/irannualreport.page>; 'Asia Aviation sets Thai AirAsia IPO price', CAPA – Centre for Aviation, 18 May 2012.

- b) Thai AirAsia operates a network of domestic and regional services throughout Thailand and Asia using a fleet of 25 Airbus A320-210.<sup>730</sup> Thai AirAsia plans to expand its fleet to 50 A320s by 2016.<sup>731</sup>

## 5.2 Hubs

- a) Thai AirAsia has its main base at Bangkok's Suvarnabhumi Airport with secondary hubs at Phuket International Airport<sup>732</sup> and Chiang Mai.<sup>733</sup>
- b) Thai AirAsia plans to launch new hubs at Hat Yai and Udon Tjani in 2013 and 2014 respectively.<sup>734</sup>

## 5.3 Routes

- a) Thai AirAsia flies 37 routes to 29 destinations.<sup>735</sup>

## 5.4 Passenger Traffic

- a) In 2011, Thai AirAsia carried 6.9 million passengers.<sup>736</sup>
- b) In the first quarter of 2012, Thai AirAsia carried 2.1 million passengers.<sup>737</sup>

# 6 INDONESIA AIR ASIA

## 6.1 Overview

- a) Indonesia AirAsia is a joint venture between AirAsia (49%) and Indonesian interests.<sup>738</sup>
- b) Indonesia AirAsia is based in Jakarta Soekarno-Hatta International Airport<sup>739</sup> and also has hubs in Bali, Medan, Surabaya and Bandung.<sup>740</sup>
- c) Indonesia AirAsia flies to 7 cities across Indonesia, 6 cities in four other Asean countries and one city in Australia.<sup>741</sup>
- d) In 2011, Indonesia AirAsia launched 3 new routes, 2 of which are domestic.<sup>742</sup>
- e) In 2011, the airlines introduced the Medan–Bangkok route and increased the frequency of high demand routes such as Medan–Kuala Lumpur and Perth–Bali.<sup>743</sup>

## 6.2 Fleet

- a) Indonesia AirAsia operates a fleet of 18 Airbus A320-210s.<sup>744</sup>
- b) The airline will receive 4 more Airbus A320 aircraft in 2012 and is planning to grow its fleet aggressively in the next few years to meet demand.<sup>745</sup>

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<sup>730</sup> 'Profile on Thai AirAsia', CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>731</sup> 'Thai AirAsia plans to expand fleet to 50 aircraft by 2016', CAPA – Centre for Aviation, 2 April 2012.

<sup>732</sup> 'Profile on Thai AirAsia', CAPA – Centre for Aviation, 5 July 2012.

<sup>733</sup> AirAsia Annual Report 2011, p103.

<sup>734</sup> *Ibid.*, p107.

<sup>735</sup> *Ibid.*, p112.

<sup>736</sup> 'AirAsia Group subsidiaries report mixed profit results in 4Q2011', CAPA – Centre for Aviation, 23 February 2012.

<sup>737</sup> 'AirAsia reports record revenue in 1Q2012', CAPA – Centre for Aviation, 24 May 2012.

<sup>738</sup> Profile on Indonesia AirAsia, CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>739</sup> Profile on Thai AirAsia, CAPA – Centre for Aviation (accessed 5 July 2012).

<sup>740</sup> AirAsia, Annual Report 2011, p116.

<sup>741</sup> *Ibid.*

<sup>742</sup> *Ibid.*, p104

<sup>743</sup> *Ibid.*, p116.

<sup>744</sup> 'Profile on Indonesia AirAsia', CAPA – Centre for Aviation (Accessed 5 July 2012).

<sup>745</sup> AirAsia Annual Report 2011, p118.

- c) Indonesia AirAsia plans to operate a fleet of 34 A320s by 2015.<sup>746</sup>

### 6.3 Passenger Traffic

- a) In 2011, Indonesia AirAsia carried 5 million passengers, an increase of 28% from the previous year. The carrier was also responsible for carrying the largest number of international passengers into Indonesia, contributing to 3.6 million international arrivals.<sup>747</sup>
- b) In the first quarter of 2012, Indonesia AirAsia carried 1.3 million passengers.<sup>748</sup>
- c) Removal of the fiscal tax for overseas travel in January 2011 has reportedly contributed to a 15% increase in the number of Indonesia AirAsia's international passengers. As a result, Jakarta and other hubs posted strong passenger growth for international flights in FY2011.<sup>749</sup>
- d) The removal of the fiscal tax also serves as impetus for Indonesia AirAsia to connect to more cities via its secondary hubs in order to achieve larger penetration. Air penetration in the country is still among the lowest in Asia, with the population base far exceeding aircraft capacity.<sup>750</sup>

## 7 AIRASIA PHILIPPINES

### 7.1 Overview

- a) AirAsia owns 40% of AirAsia Philippines equity, through AA International, with the remaining 60% held in equal partnership by private parties.<sup>751</sup>
- b) It is based at Diosdado Macapagal International Airport in Central Luzon.<sup>752</sup>

### 7.2 Routes

- a) The airline commenced operations on 28 March 2012 with services from Clark to Davao and Kalibo.<sup>753</sup>
- b) The airline operates domestic and short-haul international services to five cities including Singapore, Hong Kong, Bangkok, Macau and Seoul.<sup>754</sup>
- c) The Clark-Hong Kong service will be launched on 19 July 2012.<sup>755</sup>
- d) The airline also plans to launch a Manila-Taipei service within 12 months.<sup>756</sup>

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<sup>746</sup> 'Indonesia AirAsia to operate fleet of 34 A320s by 2015', CAPA – Centre for Aviation, 7 March 2012. Available: <http://www.centreforaviation.com/news/indonesia-airasia-to-operate-fleet-of-34-a320s-by-2015-144597> (accessed 14 June 2012).

<sup>747</sup> AirAsia Annual Report 2011, p116.

<sup>748</sup> 'AirAsia reports record revenue in 1Q2012', CAPA – Centre for Aviation, 24 May 2012.

<sup>749</sup> AirAsia Annual Report 2011, p118.

<sup>750</sup> Ibid.

<sup>751</sup> 'Profile on AirAsia Philippines', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>752</sup> Ibid.

<sup>753</sup> AirAsia Annual Report 2011, p104.

<sup>754</sup> 'Profile on AirAsia Philippines', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>755</sup> 'AirAsia Philippines to launch Clark-Hong Kong service on 19-Jul-2012', CAPA – Centre for Aviation, 14 June 2012.

<sup>756</sup> 'AirAsia Philippines to launch a Manila-Taipei service within a year', CAPA – Centre for Aviation, 5 July 2012.

### 7.3 Fleet

- a) The carrier's initial fleet of two A320 aircraft are sourced from AirAsia. AirAsia Philippines has announced that it plans to operate seven A320s by the end of 2012<sup>757</sup> and that it plans to increase to nine aircraft within four years of operation.<sup>758</sup>

### 7.4 Announced Plans

- a) The airline plans to employ 54 new staff including 20 pilots as it takes delivery of 2 new A320 aircraft by the end of 2012. The airline currently has 171 employees including 94 cabin crew and flight crew.<sup>759</sup>

## 8 AIRASIA JAPAN

### 8.1 Overview

- a) AirAsia Japan is a low-cost carrier that commenced domestic services on 1 August 2012.<sup>760</sup>
- b) The airline is a joint venture between All Nippon Airways (67%) and AirAsia (33%).<sup>761</sup>

### 8.2 Fleet

- a) It is based at Tokyo Narita International Airport, operating an initial fleet of 5 A320 aircraft.<sup>762</sup>
- b) AirAsia Japan announced that it took delivery of its first A320 aircraft on 8 June 2012.<sup>763</sup>

### 8.3 Routes

- a) The airline will operate domestic services from Tokyo to Fukuoka and Sapporo from 1 August 2012 and from Tokyo to Okinawa from 3 August 2012,<sup>764</sup> as well as short-haul international services to Seoul and Busan from 1 October 2012.<sup>765</sup>
- b) AirAsia Japan also plans to operate a service from Tokyo Haneda to Taipei Taoyuan at the end of 2012, followed by a Kaohsiung-Japan service in 2013.<sup>766</sup>
- c) AirAsia Japan also plans to commence long-haul international services to Thailand, Indonesia and Singapore with A330 aircraft.<sup>767</sup>

### 8.4 Passenger Traffic

- a) AirAsia Japan aims to carry 10 million passengers annually within 5 years of operation.<sup>768</sup>

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<sup>757</sup> 'Bullish AirAsia reports 2011 profit and accelerates expansion', CAPA – Centre for Aviation, 23 February 2012. Available: <http://www.centreforaviation.com/analysis/financials/bullish-airasia-reports-2011-profit-and-accelerates-expansion-68729> (accessed 11 April 2012).

<sup>758</sup> 'Profile on AirAsia Philippines', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>759</sup> 'AirAsia Philippines to employ 54 new staff by the end of 2012', CAPA – Centre for Aviation, 15 June 2012.

<sup>760</sup> 'Profile on AirAsia Japan', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>761</sup> 'ANA and AirAsia to form 'AirAsia Japan': New joint venture the first low-cost carrier based at Narita International Airport, Tokyo', ANA All Nippon Airways, 21 June 2011. Available:

<http://www.ana.co.jp/eng/aboutana/press/2011/110721.html> (accessed 6 July 2012).

<sup>762</sup> 'Profile on AirAsia Japan', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>763</sup> 'AirAsia Japan takes delivery of first A320', CAPA – Centre for Aviation, 11 June 2012.

<sup>764</sup> Ibid.

<sup>765</sup> 'Profile on AirAsia Japan', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>766</sup> 'AirAsia to operate Tokyo Haneda-Taipei Taoyuan at the end of 2012, Kaohsiung service in 2013', CAPA – Centre for Aviation, 4 July 2012.

<sup>767</sup> 'Profile on AirAsia Japan', CAPA - Centre for Aviation (accessed 5 July 2012).

<sup>768</sup> Ibid.

## TIGER AIRWAYS

### 1 KEY FEATURES

- a) LCC and minority-owned by Singapore Airlines.
- b) Focuses on the Asia-Pacific region.
- c) Equity interests in other Asia-Pacific airlines to grow its network.

### 2 COMPANY OVERVIEW

#### 2.1 Overview of Tiger Airways Group

- a) Founded in 2003, Tiger Airways Holdings Limited (**Tiger Airways**) is an airline holding company based in Singapore. Tiger Airways operates a pan-Asian network of domestic and international low-cost air transport services from its bases in Singapore and Melbourne. Member airlines share common 'Tiger Airways' branding, aircraft type and business model.<sup>769</sup>
- b) Tiger Airways is headquartered at Changi International Airport and listed on the Singapore Exchange<sup>770</sup> in January 2010.<sup>771</sup>
- c) In FY2010/11, a record 6 million passengers flew with Tiger Airways, an increase of 22.5% over the previous year.
- d) Tiger Airways wholly owns:
  - i. Singapore-based low-cost carrier Tiger Airways Singapore Pte Lte (100%, since 2003) (Tiger Airways Singapore); and
  - ii. Australian-based Tiger Airways Australia Pty Ltd (100%, since 2007) (**Tiger Airways Australia**).<sup>772</sup>

#### 2.2 Ownership

- a) Currently, the largest shareholders in Tiger Airways<sup>773</sup> are Singapore Airlines Limited (32.84%), Citibank Nominees Singapore Pte Ltd (14.37%), DBSN Services Pte Ltd (7.93%) and Dahlia Investments Pte Ltd (7.37%).<sup>774</sup>
- b) As at 16 June 2011, approximately 50.5% of Tiger Airways' shares are publicly held.<sup>775</sup>
- c) Tiger Airways' substantial shareholders include Singapore Airlines, Indigo Partners Singapore and RyanAsia Limited.<sup>776</sup>

#### 2.3 Overview of Tiger Airways Singapore

- a) Tiger Airways Singapore operates a fleet of 22 Airbus A320-230s, with 36 on order as at 28 June 2012.<sup>777</sup>

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<sup>769</sup> CAPA, *Profile on Tiger Airways Holdings* (28 June 2012).

<sup>770</sup> Ibid.

<sup>771</sup> Tiger Airways, *Annual Report 2011*, p. 4.

<sup>772</sup> CAPA, *Profile on Tiger Airways Holdings* (28 June 2012).

<sup>773</sup> That is, those with a shareholding greater than 5%.

<sup>774</sup> Tiger Airways, *Annual Report 2011*, p. 107; Tiger Airways, *About Us*: [http://www.tigerairways.com/au/en/about\\_us.php](http://www.tigerairways.com/au/en/about_us.php) (Accessed 28 June 2012).

<sup>775</sup> Tiger Airways, *Annual Report 2011*, p. 108.

<sup>776</sup> CAPA, *Profile on Tiger Airways* (28 June 2012).

<sup>777</sup> Ibid.

- b) Tiger Airways Singapore operates an extensive network of services throughout Asia and to Australia from its hub at Singapore Changi Budget Terminal.<sup>778</sup> It flies to 27 destinations consisting of one domestic destination and 26 destinations in the Asia-Pacific.<sup>779</sup>
- c) During FY2011, Tiger Airways Singapore increased frequencies to numerous destinations from Singapore, most notably to Bangkok, Ho Chi Minh City, Hong Kong, Jakarta and Kuala Lumpur.<sup>780</sup> It also introduced services between Singapore and Manila, Tiruchirapalli (Trichy), Trivandrum and Taipei.<sup>781</sup>
- d) Due to under-performance, services between Singapore and Langkawi, and Singapore and Bangalore were suspended during the financial year.<sup>782</sup>

## 2.4 Overview of Tiger Airways Australia

- a) Tiger Airways Australia commenced domestic Australian operations in November 2007.<sup>783</sup> It operates a fleet of 10 Airbus A320-230s with no additional aircraft currently on order.<sup>784</sup>
- b) Tiger Airways Australia is based at Melbourne Tullamarine Airport<sup>785</sup> and it launched a crew base at Melbourne (Avalon) airport in November 2010.<sup>786</sup>
- c) Tiger Airways Australia recently established a second Australian base in Sydney which commenced operations on 1 July 2012. This will see the operation of up to 10 additional daily return services across Australia. Tiger Airways Australia will base A320 aircraft at Sydney progressively from 1 July 2012, 1 August 2012 and 1 September 2012.<sup>787</sup>
- d) The carrier has also launched its first television advertising campaign in a move to increase its profile in Australia<sup>788</sup> and recover post-grounding.

## 3 OTHER INTERESTS

### 3.1 Interest in SEAir

- a) On 4 June 2012, Tiger Airways finalised a sale and purchase agreement to acquire a 40% stake in the Philippines based Southeast Asian Airlines Inc (**SEAir**) which will be acquired from existing foreign shareholders for approximately USD7 million. The investment will be held through Tiger Airways' wholly owned subsidiary, Roar Aviation II Pte. Ltd.<sup>789</sup>
- b) Under a partner airline program, Tiger Airways leases Tiger-branded aircraft to SEAir, which SEAir operates using its own pilot and cabin crew. Seats are sold and marketed by Tiger Airways for SEAir. The partnership began with international flights departing from Clark to Singapore (December 2010), Hong Kong (March 2011) and

<sup>778</sup> Ibid.

<sup>779</sup> Ibid.

<sup>780</sup> Tiger Airways, *Annual Report 2011*, p5.

<sup>781</sup> Ibid

<sup>782</sup> Ibid

<sup>783</sup> CAPA, *Profile on Tiger Airways Holdings* (28 June 2012).

<sup>784</sup> Ibid.

<sup>785</sup> Ibid.

<sup>786</sup> Tiger Airways, *Annual Report 2011*, p5.

<sup>787</sup> CAPA, "Tiger Airways Australia launches base in Sydney" (2 July 2012).

<sup>788</sup> Ibid.

<sup>789</sup> Tiger Airways, *Press Release: "Tiger Airways Holdings Limited ("Tiger") today finalised a sale and purchase agreement to acquire a 40% stake in Southeast Asian Airlines ("SEAir"), Inc. This stake will be acquired from existing foreign shareholders at US\$7 million"* (4 June 2012): <http://www.tigerairways.com/news/20120604a.pdf>. (Accessed 28 June 2012).

Macau (May 2011), and later from Clark to Kota Kinabalu (from 1 May 2012). The partnership was expanded to domestic flights from Manila to Cebu and Davao.<sup>790</sup>

- c) SEAir will adopt Tiger Airways' business model. This includes offering attractive fares to international and domestic destinations within a 5 hour flying radius from the Philippines.<sup>791</sup>
- d) Tiger Airways has stated that the acquisition is in line with its strategy to grow its business network into a pan-Asian one (as stated in its prospectus which was issued in connection with its initial public offering in January 2010).<sup>792</sup>

### 3.2 Interest in Mandala Airlines

- a) Tiger Airways recently entered the Indonesian market after it completed a 33% investment in Indonesian carrier, Mandala Airlines on 30 January 2012.<sup>793</sup> Mandala Airlines will use the Tiger Airways business model and operate a common fleet of A320 aircraft.<sup>794</sup>

## 4 NETWORK AND OPERATIONS

### 4.1 Network

- a) Tiger Airways' route network is in the diagram below.<sup>795</sup>

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<sup>790</sup> CAPA, "Tiger Airways Group outlines fleet and network status and plans" (5 August 2011).

<sup>791</sup> Tiger Airways, *Press Release: "Tiger Airways Holdings Limited ("Tiger") today finalised a sale and purchase agreement to acquire a 40% stake in Southeast Asian Airlines ("SEAir"), Inc. This stake will be acquired from existing foreign shareholders at US\$7 million"* (4 June 2012): <http://www.tigerairways.com/news/20120604a.pdf>. (Accessed 28 June 2012).

<sup>792</sup> Tiger Airways, *Press Release: "Announcement – Acquisition of 40% of the issued shares of Southeast Asian Airlines, Inc."* (4 June 2012): <http://www.tigerairways.com/news/20120604.pdf> (Accessed 28 June 2012).

<sup>793</sup> Tiger Airways. *Press Release* (30 January 2012): <http://www.tigerairways.com/news/20120130a.pdf> (Accessed 20 March 2012).

<sup>794</sup> CAPA, *Profile on Tiger Airways Holdings* (28 June 2012).

<sup>795</sup> Tiger Airways, *Where we fly*: [http://www.tigerairways.com/au/en/destination\\_map.php](http://www.tigerairways.com/au/en/destination_map.php) (Accessed 29 June 2012).



b) Tiger Airways Singapore flies from Singapore to:<sup>796</sup>

Country	Destination
Australia	Perth
Bangladesh	Dhaka
Cambodia	Phnom Penh (from 1 Oct 2012) <sup>797</sup>
China	Guangzhou, Haikou and Shenzhen
Hong Kong	Hong Kong
India	Bangalore, Kochi, Chennai, Thiruvananthapuram, Tiruchirapalli and Hyderabad (from 28 Sep 2012) <sup>798</sup>
Indonesia	Jakarta and Medan
Macau	Macau
Malaysia	Kuching, Kuala Lumpur and Penang
Philippines	Cebu, Clark (Manila), Davao and Manila

<sup>796</sup> Based on the route table and flight search function available at [http://www.tigerairways.com/au/en/destination\\_map.php](http://www.tigerairways.com/au/en/destination_map.php) (Accessed 29 June 2012).

<sup>797</sup> CAPA, 'Tiger Airways to launch Singapore-Phnom Penh service from on 01-Oct-2012' (4 July 2012).

<sup>798</sup> CAPA, 'Tiger Airways to launch Singapore-Hyderabad service on 28-Sep-2012' (3 July 2012).

Country	Destination
Sri Lanka	Colombo
Taiwan	Taipei
Thailand	Bangkok, Hat Yai, Phuket and Krabi
Vietnam	Hanoi and Ho Chi Minh City

c) Tiger Airways Australia flies between the following cities:<sup>799</sup>

Origin	Destination
Brisbane	Melbourne and Sydney
Cairns	Melbourne
Gold Coast	Melbourne and Sydney
Melbourne	Brisbane, Cairns, Gold Coast, Perth, Sydney and Hobart (1 Nov 2012) <sup>800</sup>
Perth	Melbourne
Sydney	Brisbane (1 August), Melbourne and Gold Coast (1 July) <sup>801</sup>

d) SEAir flies between the following cities:<sup>802</sup>

Origin	Destination
Clark (Manila)	Singapore, Bangkok, Hong Kong, Kota Kinabalu and Kalibo (Boracay)
Manila	Singapore, Iloilo, Bacolod, Cebu, Davao, Kalibo (Boracay), Puerto Princesa and Tacloban

e) Mandala Airlines flies between the following cities:<sup>803</sup>

Origin	Destination
Jakarta	Medan, Kuala Lumpur, Bangkok
Medan	Singapore

<sup>799</sup> Based on the route table and flight search function available at [http://www.tigerairways.com/au/en/destination\\_map.php](http://www.tigerairways.com/au/en/destination_map.php) (Accessed 29 June 2012).

<sup>800</sup> CAPA, "Tiger Airways to resume Melbourne-Hobart service on 1 Nov 2012" (20 April 2012).

<sup>801</sup> CAPA, "Tiger Airways Australia to expand Sydney network from Jul-2012" (8 March 2012).

<sup>802</sup> Based on the route table and flight search function available at [http://www.tigerairways.com/au/en/destination\\_map.php](http://www.tigerairways.com/au/en/destination_map.php) (Accessed 29 June 2012).

<sup>803</sup> Based on the route table and flight search function available at [http://www.tigerairways.com/au/en/destination\\_map.php](http://www.tigerairways.com/au/en/destination_map.php) (Accessed 29 June 2012).

## 4.2 Growth Strategy

- a) Whilst Tiger Airways will continue to evolve its existing airline businesses in Singapore and Australia, Tiger Airways has announced its intention to establish a presence in Thailand, the Philippines and Indonesia, in order to further expand the Tiger Airways 'paw print' in Asia.<sup>804</sup>
- b) In August 2010, Tiger Airways announced its intent to establish a low cost airline in Thailand to be called Thai Tiger Airways (**Thai Tiger**), in partnership with Thai Airways International Public Company Limited and RyanThai Limited. Tiger Airways has signed a Shareholders Agreement and is progressing with the necessary regulatory approvals.<sup>805</sup>
- c) By seeking to establish a presence in Thailand, the Philippines and Indonesia (through Tiger Airways' interests in SEAir and Mandala Airlines) and evolving its existing businesses in Singapore and Australia, Tiger Airways intends to position itself as a major player in the Pan-Asian low cost aviation market.<sup>806</sup>
- d) To support its growth initiatives, Tiger Airways is planning to increase its fleet by nine aircraft in FY2011/12, taking the Group's fleet to 35 aircraft by the end of the financial year, an increase of 34.6% from the 26 aircraft it had as at March 2011.<sup>807</sup>
- e) Tiger Airways has also stated that it is committed to increasing its fleet size to 68 by December 2015.<sup>808</sup>

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<sup>804</sup> Tiger Airways, *Annual Report 2011*, p. 4.

<sup>805</sup> Ibid.

<sup>806</sup> Ibid.

<sup>807</sup> Ibid.

<sup>808</sup> Tiger Airways, *Press Release* (30 January 2012): <http://www.tigerairways.com/news/20120130a.pdf> (Accessed 20 March 2012).

**CONFIDENTIAL ANNEXURE G**

**COORDINATION AGREEMENT**

**[RESTRICTION PUBLICATION CLAIMED]**

**ANNEXURE H  
TRANS-TASMAN DATA**

**Figure 1: Total Passengers On Trans-Tasman Services**

<b>Carrier</b>	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
<b>NZ</b>	44.8%	41.6%	35.7%	31.4%	31.9%	35.4%	36.3%	38.9%	40.4%	37.1%	41.2%	40.9%
<b>QF</b>	36.4%	37.6%	39.3%	38.9%	33.0%	28.5%	24.4%	22.8%	22.3%	20.4%	20.0%	20.2%
<b>DJ</b>	0.0%	0.0%	0.0%	3.2%	7.6%	8.2%	8.9%	9.9%	15.5%	17.5%	15.3%	16%
<b>EK</b>	0.1%	0.1%	0.1%	5.4%	9.3%	9.1%	10.2%	11.1%	10.6%	9.8%	9.7%	8.8%
<b>SJ</b>	9.1%	10.7%	16.1%	14.8%	12.6%	10.3%	8.9%	5.7%	0.0%	0.0%	0.0%	0.0%
<b>JQ</b>	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	7.3%	7.7%	7.8%	11.6%	10.5%	10.6%
<b>TG</b>	3.5%	4.0%	4.3%	3.2%	2.0%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
<b>LA</b>	0.0%	0.0%	0.2%	0.4%	0.5%	0.7%	1.0%	1.0%	0.9%	0.9%	0.7%	0.8%
<b>BI</b>	0.0%	0.0%	0.0%	0.5%	1.0%	0.9%	0.7%	0.7%	0.7%	0.6%	0.0%	0.0%
<b>AR</b>	0.1%	0.3%	0.3%	0.2%	0.4%	0.6%	0.7%	0.7%	0.4%	0.6%	0.5%	0.5%
<b>Other</b>	6.0%	5.6%	3.8%	2.1%	1.7%	1.8%	1.6%	1.3%	1.3%	1.5%	1.9%	2.1%
<b>Total</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: ABS

Note: Aerolineas Argentinas (AR) ceased operating the Sydney-Auckland route on 2 July 2012. From 28 October 2012, China Airlines will commence operating four-weekly A330-300 services between Sydney and Auckland.

**ANNEXURE I  
FREIGHT DATA**

**Table 1: Total Freight To/From Australia And New Zealand**

Scheduled Operator	Year					
	2007	2008	2009	2010	2011	2012
Aerolineas Argentinas	1%	1%	1%	1%	1%	1%
Air New Zealand	34%	35%	36%	37%	36%	36%
Cargolux Airlines	2%	2%	1%	0%	0%	0%
China Airlines	0%	0%	0%	0%	1%	1%
Emirates	20%	20%	20%	21%	22%	21%
Jetstar	0%	0%	1%	1%	1%	1%
LAN Airlines	0%	0%	1%	1%	1%	1%
Qantas	33%	30%	28%	25%	20%	22%
Royal Brunei	0%	1%	1%	0%	0%	0%
Singapore Airlines	3%	4%	5%	7%	10%	9%
Tasman Cargo Airlines	0%	5%	5%	6%	7%	7%
Virgin Australia	1%	1%	1%	1%	1%	1%
Asian Express Airlines	6%	0%	0%	0%	0%	0%

Source: BITRE

Note: Aerolineas Argentinas (AR) ceased operating the Sydney-Auckland route on 2 July 2012.

## ANNEXURE J - PROPOSED DRAFT CAPACITY COMMITMENT

### 1. DEFINITIONS

**Annual Period:** a 12 month period from 1 July to 30 June.

**Applicants:** Qantas Airways Limited and Emirates, and their Related Bodies Corporate.

**Base Year:** the 12 month period from 1 July 2011 to 30 June 2012.

**Conditions:** mean these conditions (including Schedule A) on which the Applicants submit that the Ministry should grant authorisation for the Proposed Conduct.

**Conduct:** means the coordination established by the Master Coordination Agreement between the Applicants dated 6 September 2012 and the subject of these applications for authorisation.

**Exceptional Circumstances:** include but are not limited to:

- (a) force majeure events including natural disasters, national emergency, insurrection, riot, war, pandemic, industrial action, fleet grounding, airport closure and exceptional cancellation for an operational issue; or
- (b) events or factors outside of the control of the Applicants such that the Applicants cannot or reasonably anticipate that they cannot practically comply with the Conditions or which have or are reasonably anticipated to have a material adverse impact on the demand for travel on the Applicants' services or the Applicants' service operating costs (including, but not limited to, unforeseen mandatory regulatory maintenance requirements or safety concerns).

**Material Adverse Financial Performance:** includes an actual decline in profit performance (whether the result is a profit or a loss) for the Proposed Conduct on:

- (a) a Route;
- (b) a group of Routes; or
- (c) the Trans-Tasman;

when compared to the financial performance of the Applicants in the Base Year.

**Material Change in Market Conditions:** means a material change to the market conditions on:

- (a) a Route;
- (b) a group of Routes; or
- (c) the Trans-Tasman.

**Ministry:** means the New Zealand Ministry of Transport and includes any external legal advisers, consultants or agents engaged by the Ministry to assist it to assess compliance with the Conditions or to undertake work or provide services in relation to the Proposed Conduct.

**Proportionate Capacity Reduction:** has the meaning given in clause 5.

**Related Body Corporate:** has the meaning given in section 4A of the *Competition and Consumer Act 2010* (Cth).

**Route:** air travel between a particular Australian location and a particular New Zealand location.

**Trans-Tasman:** the group of all Routes between Australia and New Zealand.

**Trans-Tasman Base Year Seat Capacity:** the Applicants' combined total seat capacity in the Base Year for the Trans-Tasman as set out in Schedule A to the Conditions and, for the avoidance of doubt, means the aggregated total number of seats for the Applicants across the Trans-Tasman, without any seat capacity being attributed to any specific carrier or Route.

## **2. MINIMUM SEAT CAPACITY CONDITIONS**

The Applicants will make available in respect of each Annual Period, not less than 100% of the Trans-Tasman Base Year Seat Capacity.

## **3. EXEMPTION FROM THE CONDITIONS**

- (a) The Applicants will be exempted from compliance with the Conditions upon the occurrence of any of the Exceptional Circumstances, for the duration of the Exceptional Circumstances.
- (b) The Applicants must notify the Ministry in writing within 21 days of the occurrence of the Exceptional Circumstances, indicating that the Applicants are unable to comply with the Conditions.
- (c) For the avoidance of doubt, the Applicants are exempted from compliance with the Conditions from the date of the occurrence of the Exceptional Circumstances, as specified in the notice given under clause 3(b).
- (d) If the Exceptional Circumstances persist for more than 30 days, the Applicants are deemed to have applied for a variation of the Conditions under clause 4.
- (e) Where an application for a variation of Conditions is deemed to have occurred under clause 3(d), the Applicants will continue to be exempted under this clause 3 until:
  - (i) the Ministry makes a decision in accordance with clause 4 (at which point the varied Conditions will apply); or
  - (ii) until the Exceptional Circumstances cease;

whichever occurs first.

- (f) In addition to the foregoing paragraphs of this clause 3 and as an overriding exemption, the Applicants and the Ministry accept that any divergence of up to 2% of the Trans-Tasman Base Year Seat Capacity in any Annual Period shall be classified as de minimis and the Applicants shall be exempted from compliance with the Conditions in such circumstances.

## **4. VARIATION TO THE CONDITIONS**

- (a) The Applicants may apply in writing to the Ministry for a variation to the Conditions, in the following circumstances:
  - (i) Material Change in Market Conditions; or
  - (ii) Material Adverse Financial Performance.

- (b) Any application by the Applicants to the Ministry for a variation to the Conditions must state the nature of the variation and must be accompanied by such information as required by the Ministry to assess the request for variation.
- (c) Within 7 days of an application to vary the Conditions, the Ministry will consult with the Applicants in good faith concerning whether or not such variation to the Conditions is necessary.
- (d) Within 14 days of an application to vary the Conditions, the Ministry may undertake any further consultation as it considers necessary to consider any such request for a variation to the Conditions including inviting submissions within a specified period from any person who appears to the Ministry to be interested in the variation.
- (e) In undertaking an assessment of an application to vary the Conditions, the Ministry may publish or otherwise make publicly available the Applicants' written submission in support of their request for variation.
- (f) After considering an application to vary the Conditions and any submissions received in respect of such an application, the Ministry may vary the Conditions or dismiss the application for variation. The Ministry will not unreasonably withhold granting a variation.
- (g) The Ministry may vary the requirement to comply with the Conditions either permanently or on a temporary basis.
- (h) The Ministry will advise the Applicants in writing of its decision in respect of an application for variation under clause 4(a) within four weeks of the application to vary the Conditions or such other period advised to the Applicants by the Ministry which is not in excess of eight weeks of the application to vary the Conditions.
- (i) In the event that the Ministry consents to a variation to the Conditions, the variation will be effective from the date of the Ministry decision under clause 4(h).

## 5. ENTRY OR EXPANSION BY OTHER CARRIERS

- (a) Where one or more carrier other than Virgin Australia or Air New Zealand ('Relevant Carriers') increase capacity of air passenger transportation services on a particular Route whether by new entry or expansion), the Applicants (jointly or severally, as the case may be) may reduce their capacity on that Route by a number of seats that is no more than the increase in the number of seats introduced by the Relevant Carriers (**Proportionate Capacity Reduction**).
- (b) The Applicants must notify the Ministry in writing no later than 21 days prior to implementing the Proportionate Capacity Reduction, stating:
  - (i) the extent of the Proportionate Capacity Reduction; and
  - (ii) the date on which the Proportionate Capacity Reduction will take effect.
- (c) Where the Applicants implement a Proportionate Capacity Reduction in accordance with clause 5(b) and the Relevant Carriers subsequently reduce capacity on the same Route, within 12 months the Applicants must increase their capacity on that Route to ensure that the total Proportionate Capacity Reduction is equal to or less than the increase in the number of seats introduced by the Relevant Carriers on that Route.

- (d) For the purposes of clause 5(c), the Applicants must implement any change to total Proportionate Capacity Reduction and notify the Ministry of such change within 21 days of the Relevant Carriers increasing capacity.

## SCHEDULE A – TRANS-TASMAN BASE YEAR CAPACITY

The Trans-Tasman Base Year Seat Capacity set out below has been derived by reference to the actual seat capacity of the Applicants on the Trans-Tasman for the Base Year.

<b>Trans-Tasman Base Year Seat Capacity</b>	<b>Base Year Seats</b>
Qantas	1,871,410
Jetstar	799,233
Emirates	1,132,300
<b>Total</b>	<b>3,802,943</b>

For the avoidance of doubt, the above figures include both inbound and outbound seat capacity on the Trans-Tasman.