Air New Zealand Counterfactual to Air New Zealand / Virgin Australia Alliance

Air New Zealand would make a number of operational changes in the counterfactual.

Termination of code share, FFP and lounge arrangements with Virgin Australia

Prior to the Alliance, Virgin Australia and Air New Zealand were direct competitors on the Tasman and as such they did not code share, nor did they have an agreement in relation to FFP benefits and lounge access.

In the counterfactual, Air New Zealand would revert to the pre-Alliance position with effect from 31 December 2013, i.e. it would not continue to sell code share with Virgin Australia, and would cease FFP and lounge co-operation on the Tasman. However, Air New Zealand notes that it would continue to carry Virgin Australia codeshare passengers who had already booked and paid for their travel prior to 31 December 2013, and these passengers will receive their usual FFP and lounge benefits in accordance with their pre-Alliance entitlements.

As regards interlining, Air New Zealand would not offer Virgin Australia an interline/SPA in relation to domestic New Zealand traffic.

Cancellation of direct services and wider capacity reductions

The Alliance allows the parties to leverage the combined feed and presence[1] of each Alliance party. In the absence of these benefits, and of particular relevance to consumers, in the counterfactual Air New Zealand would:

(a) discontinue various routes made possible by the Alliance so far;

(b) reduce frequencies, or down-gauge aircraft on a number of other trans-Tasman routes and exit some poor performing routes either on a year round or seasonal basis;

(c) as soon as possible (having regard to slot allocations, etc.) retime departures to maximize its own revenue (with a consequent increase in wing-tip flying with Virgin Australia and reduced schedule spread for consumers); and

(d) immediately cease analysis of any potential new Alliance services.

The lack of metal neutrality with a partner airline and reduced online connectivity to Australian domestic destinations would make Air New Zealand's Tasman/Australasian offering less attractive. With a forecast significant reduction in demand, Air New Zealand would need to further adjust capacity to reflect this.

Air New Zealand would be at a significant competitive disadvantage to the Qantas/ Emirates Alliance

One of the original drivers for the Air New Zealand/Virgin Australia Alliance was "to enable the Alliance to achieve a better competitive position against the Qantas-Jetstar Group and against Emirates' marginally-priced trans-Tasman services and to generally strengthen each Applicants' position in the broader Australasian and global aviation markets".[2] Absent the Alliance, Air New Zealand has no alternative airlines to partner with on the Tasman. The competitive disadvantage Air New Zealand faces in the counterfactual through a lack of a domestic Australian presence would be significant, especially in light of the Qantas-Emirates alliance, which has been authorised for five years.

[1] "Presence" in this sense results from factors such as strong FFP penetration, high levels of general awareness, strong distribution strength, etc.
[2] Please see Section 2.5 of Air New Zealand Virgin Blue submission dated 4 May 2010.

Air New Zealand's shareholding in Virgin Australia does not alter its incentives to compete in the counterfactual

As at 14 June 2013, Air New Zealand owns a 19.99% shareholding in Virgin Australia Holdings Limited and has agreed, subject to Foreign Investment Review Board (**FIRB**) and ACCC approval, to acquire a further 3% of the shares of Virgin Australia. If approved, this will bring Air New Zealand's total interest in Virgin Australia to 22.99%. Air New Zealand's application to FIRB was made on the basis that it is also considering acquiring up to a further 3% of the shares in Virgin Australia, to the extent it is permitted to do so under the Australian Corporations Act. As recorded in its stock exchange announcement, Air New Zealand is not seeking a position on the Board of Virgin Australia nor does it have the intention of obtaining control of Virgin Australia.[3]

This shareholding in Virgin Australia would not affect the level of competition between Air New Zealand and Virgin Australia on the trans-Tasman should the Alliance not be re-authorised. Nor, would it affect Air New Zealand's incentives regarding code share where Air New Zealand and Virgin Australia are both operating on the Tasman.

- Every revenue dollar won by Air New Zealand from Virgin Australia accrues exclusively to Air New Zealand.
- If Air New Zealand were to cede revenue to Virgin Australia through any lower level of competitive intensity, it would lose 100 percent of that revenue in immediate cash flow. Air New Zealand would arguably indirectly (and eventually) gain its proportional (19.99% or 22.99%) interest in that revenue through any dividend flows, or capital value increase, from Virgin Australia. However Virgin Australia has not paid any dividends to Air New Zealand to date.
- If Air New Zealand did not compete aggressively on the trans-Tasman to maintain its position, it would also run the risk that lost revenue would flow to the Qantas/Emirates alliance.
- Air New Zealand's shareholding in Virgin Australia has not affected its competitive position in non-Tasman markets e.g. Pacific Islands, Bali

[3] 6 June announcement to NZX and ASX.