

## **Qantas Airways Limited and Emirates Master Coordination Agreement**

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### **TNZ Comments:**

- In general, Tourism New Zealand sees the proposed agreement as being a positive step given the circumstances of Qantas's current operations and the potential options this will open up for improved connections for New Zealand. The agreement will lead to a number of changes to the market that will be important to monitor.
- It's a positive indication that Qantas (and Jetstar) and Emirates are committing to 'at least maintain' their current level of trans-Tasman capacity throughout the 10 year term of the agreement.
- The agreement will contribute to a clear differential being developed between the Asian and Middle Eastern routes. In terms of visitor profile to New Zealand it will be important to monitor assess mono/dual destination/stop-over strategies.
- The agreement would strengthen Emirates position ahead of a possible push from Qatar airlines (NB: There was a request by Qatar CAA to negotiate an ASA earlier this year).
- There is a strong reliance in the proposal from Emirates/Qantas that if the agreement doesn't proceed, Qantas will pull services from Europe anyway. In TNZ's view, if the agreement did not proceed then QF would likely reduce services from Europe but may not withdraw completely.
- If approved, this agreement will result in two alliances that supply almost all trans-Tasman travel. Qantas (QF), Emirates (EK) and Jetstar (JQ) will make up 36.5% of the market and Air NZ/Virgin Aus 60% essentially creating a duopoly on trans-Tasman travel. The alliances will co-ordinate their own pricing, increasing the potential for non-competitive activity (despite the arguments put forward in the agreement proposal).
- The agreement is likely to improve or create several additional routes that will benefit NZ, e.g.:
  - o Emirates operate a daily Kuala Lumpur-Melbourne which can then link up with QF flights into NZ. At present, EK passengers have to stay in Melbourne overnight before onward flights to NZ are available (its approx. 7 hours currently). TNZ would hope to see improved connectivity with the coordination agreement in place.
  - o Opportunity for Emirates flights to connect through to QF flights into Wellington is a boost as the emirates planes are too big for WLG airport.
  - o Prospect of Qantas flying from Adelaide and Perth to Auckland would be a potential boost for travel to New Zealand. Air NZ has been enjoying monopoly on those routes for some time now.

### **Long haul**

- The arrangement may slightly increase the possibility of either Qantas or Emirates reconsidering the Auckland/Los Angeles route. That would be a hugely significant development (and will also be something capturing the attention of Air NZ). It may also encourage Qantas to put more focus into South America.
- This agreement effectively gives EK/QF access to round the world routes via Sydney/LAX. If this adds to the completion on this route (pricing) the current monopolistic (AirNZ) LA/Akl sector may appear relatively more expensive.
- From Europe, the arrangement puts greater emphasis on the Middle East and away from the cluttered Asian gateways. Tourism NZ's UK/Europe strategy will need to be updated accordingly.

The new alliance could potentially have as much or greater importance to NZ tourism than existing partnerships with Singapore Airlines, Qantas and Air NZ.

- A reduction in Qantas presence in Europe will eliminate a strong trade partner on the ground. Emirates are not as 'destinationally engaged' in this space. However, the Emirates multiple gateways will provide NZ with greater entry points across Europe, which aligns with a more sector (youth, premium) and less geographical strategic approach. This helps especially in emerging markets (e.g. Russia).
- QF UK went to great lengths to also point out the benefits that the Emirates regional centres in the UK and Ireland brought to the equation, rather than the traditional Heathrow central approach. These gateways helped fuel NZ growth 05-08.
- Given Qantas have withdrawn from the India Singapore route and Emirates have good links from India to Dubai, there is potential for improved connections to India.
- Similarly, if Qantas have services terminating in Singapore, QF may look to increase marketing in Singapore and neighbouring markets to fill seats currently filled by European travellers. This may increase opportunities for TNZ to work with QF more closely in the region.

### **Trans-Tasman**

- A significant impact to be assessed is how it affects our mono business and relationship with Australia. This new arrangement will no doubt result in a very strong Australia push across Europe, potentially to New Zealand's detriment. The recently announced Tourism Australia and Emirates MOU worth \$14.3m (Aus) \$18.1m (NZD) over the next three years adds weight to this idea.
- Important that Qantas (and Jetstar) and Emirates are committing to 'at least maintain' their current level of trans-Tasman capacity throughout the 10 year term of the agreement, unless certain conditions occur e.g. loss of profit, introduction of new player to market. The mix of airlines delivering that capacity could change.
- However the prospect of Qantas flying from Adelaide and Perth to Auckland would be a potential boost for travel to New Zealand. Air NZ has been enjoying monopoly on those routes for some time now.
- The Tasman remains a very competitive route in global terms so the partnership is unlikely to have any significant impact on pricing, especially as it will be closely monitored by ACCC.
- As the Emirates New Zealand services connect through Australia to Dubai there are unlikely to be any significant changes in scheduling. Qantas may look to adjust schedules to complement Emirates but Qantas has much better connections for business travel and they wouldn't want to upset their core market.

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