AIR NEW ZEALAND TEAMS WITH UNITED AIRLINES TO HELP FEND OFF QANTAS CHALLENGE

News / Airlines

Air New Zealand and United Airlines have launched a pre-emptive strike against the Qantas and American Airlines trans-Pacific alliance, with United announcing it will begin flying Boeing 787 Dreamliners from Auckland to San Francisco from July.

Qantas has been pressuring its Kiwi rival with the launch of Jetstar regional domestic flights in New Zealand, and by announcing this week new flights from Auckland to the Cook Islands. The Australian carrier has also deepened its trans-Pacific alliance with American, in a move that led to a drop in the Air NZ share price.

But the new United flights will deepen the partnership between Air NZ and United and make it less attractive for American's potential entry into the Auckland-Los Angeles route. Air NZ has a monopoly on flights between Auckland and the mainland Unitd States that has allowed it to charge relatively higher fares than Australian and U.S. carriers are able to on flights between Australia and the mainland U.S.

Air NZ and United already have anti-trust immunity from regulators on flights between New

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Zealand and the U.S., and Air NZ chief sales and commercial officer Cam Wallace said they would now consider revenue sharing, either on the single Auckland-San Francisco route, or on multiple routes. Air NZ flies from Auckland to Los Angeles, San Francisco, Honolulu, and from December, to Houston, Texas, and to Vancouver in Canada.

"We're working towards a deeper relationship," Mr Wallace said. "What shape that takes, we are mapping out as we speak."

The partnership between Air NZ and United means United is unlikely to cut its fares in a way that would damage Air NZ, whereas the entry of American could lead to a price war. The new United flights will begin three times a week from Auckland to San Francisco with a 787-8 in July before moving to a daily flight with a larger 787-9 in November 2016.

Blocks emerging

Mr Wallace said it was clear there were three "blocks" emerging in the trans-Pacific market, including the Air NZ-United alliance, the Qantas-American partnership and Virgin Australia's alliance with Delta Air Lines.

Air NZ is the largest shareholder in Virgin and has a board seat and a trans-Tasman alliance with the carrier, but they compete on routes to the U.S. and Pacific islands.

Mr Wallace said in the medium to longer term, Air NZ would consider expanding its alliance with United to cover flights between Australia and the U.S., where they now compete for traffic. United flies from Melbourne to Los Angeles and from Sydney to Los Angeles and San Francisco. Air NZ offers one-stop flights to its U.S. destinations via Auckland.

United passengers can codeshare on Air NZ trans-Tasman flights if they want to visit New Zealand and Australia on the same trip, but a revenue-sharing arrangement covering Australia could be complicated by Air NZ's trans-Tasman alliance with Virgin.

Mr Wallace said he believed there was sufficient demand for flights between Air NZ's hub in Auckland and United's hub in San Francisco to fill the large amount of capacity that will come on the market next year. He said demand from passengers in New Zealand and Australia for trans-Pacific travel was slowing alongside the depreciating currencies, but more Americans were now on board the flights.

"Our flights are still well loaded and the yield is still good," he said. "But the mix is coming from different regions."

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