

COMMERCE ACT 1986: BUSINESS ACQUISITION
SECTION 66: NOTICE SEEKING CLEARANCE

Date: 21 November 2007

The Registrar

Market Structure Team

Commerce Commission

PO Box 2351

WELLINGTON

Pursuant to s66(1) of the Commerce Act 1986 notice is hereby given seeking **clearance** of a proposed business acquisition.

PART I: TRANSACTION DETAILS

1. What is the business acquisition for which clearance is sought?

DFS Group Limited (**DFS**), or any interconnected body corporate of DFS, seeks clearance to acquire 100 per cent of the shares in, or the assets of, the New Zealand operations of The Nuance Group (**Nuance**, trading principally as **Regency**), or any interconnected body corporate of Nuance, (the **Acquisition**).

The person giving Notice

2. Who is the person giving this Notice?

This Notice is given by:

DFS Group Limited (Auckland)

Tom Pearce Drive
Mangere
Auckland

Attention: Stephen Timms
Position: Managing Director Oceania
Telephone: (09) 275 0429
Facsimile: (09) 275 0986
Email: stephen.timms@dfs.com

All correspondence and notices in respect of this Notice should be directed in the first instance to:

Bell Gully

Vero Centre
48 Shortland Street
PO Box 4199
Auckland 1140

Attention:	Phil Taylor	Jane Petersen
Position:	Partner	Solicitor
Telephone:	(09) 916 8940	(09) 916 8730
Fax:	(09) 916 8801	(09) 916 8801
Email:	phil.taylor@bellgully.com	jane.petersen@bellgully.com

Confidentiality

3. Do you wish to request a confidentiality order for:

3.1 The fact of the proposed acquisition?

Confidentiality is not sought for the fact of the Acquisition.

3.2 Specific information contained in or attached to the notice?

Confidentiality is sought in respect of the information in this Notice that is contained in square brackets in the "Public" copy of this Notice.

Confidentiality is sought under section 100 of the Commerce Act 1986 and under section 9(2)(b) of the Official Information Act 1982 on the grounds that:

- the information is commercially sensitive and contains valuable information which is confidential to DFS; and
- disclosure is likely to give an unfair advantage to DFS' competitors and unreasonably prejudice the commercial position of DFS.

DFS also requests it is notified of any request made to the Commerce Commission (the **Commission**) under the Official Information Act for the confidential information, and that the Commission seeks DFS' view as to whether the information remains confidential and commercially sensitive at the time those requests are being considered.

The foregoing applies equally in respect of any additional information provided to the Commission that is expressed to be confidential.

Details of the participants

4. Who are the participants (i.e. the parties involved)?

4.1 Participants

The participants are DFS and Nuance.

The participants request that all correspondence in respect of this matter be addressed in the first instance to Bell Gully.

5. Who is interconnected to or associated with each participant?

5.1 Acquirer group/associates

DFS

DFS (http://www.dfsgalleria.com/Galleria/English/Global/Global_About_DFS.html) was established in 1960 and today is jointly owned by LVMH Mœt Hennessy Louis Vuitton and one of the original founders of DFS, Mr Robert Miller.

DFS started operations in Hong Kong, and now has operations in Europe and the Asia-Pacific region. Corporate headquarters continue to be based in Hong Kong, but DFS' Global Merchandising division is based in San Francisco, and the Global Finance and Information Technology division is based in Singapore.

In New Zealand, DFS operates through DFS New Zealand Limited.

For clarity, all references to "DFS" in this Notice are to DFS' New Zealand operations, unless otherwise indicated.

5.2 Target company group/associates

The Nuance Group

Nuance (<http://www.thenuancegroup.com/aboutus/operations>) is owned jointly by GECOS/Gruppo PAM SpA (one of the leaders in Italian food retailers, with an annual turnover of 2.2bn) and Stefanel SpA (a listed Italian clothing manufacturer and retailer). It has 85 years' experience of serving the travelling customer.¹

¹ <http://www.thenuancegroup.com/aboutus/shareholders/>

Nuance's head office is based at Zurich Airport, Switzerland. Nuance has operations on five continents and globally is active in all sales channels including in-flight, on ferries, downtown, by mail order, over the Internet and from border shops. Nuance is the sole duty free operator at Sydney, Melbourne and Brisbane airports.

In New Zealand, Nuance operates through Regency Duty Free Stores Limited, Made in New Zealand Limited, From New Zealand With Love Limited, Discover New Zealand Limited, Chocovino and The Cellar, principally trading as Regency.

For clarity, all references to "Nuance" or "Regency" in this Notice are to Nuance's New Zealand operations, unless otherwise indicated.

6. **Does any participant, or any interconnected body corporate thereof, already have a beneficial interest in, or is it beneficially entitled to, any shares or other pecuniary interest in another participant?**

Neither DFS nor any of its interconnected bodies corporate has any beneficial interest in, or are beneficially entitled to, any shares or other pecuniary interest in any other participant.

DFS understands that neither Nuance nor any of its interconnected bodies corporate has any beneficial interest in, or are beneficially entitled to, any shares or other pecuniary interest in any other participant.

7. **Identify any links, formal or informal, between any participant/s including interconnected bodies corporate and other persons identified at paragraph 5 and its/their existing competitors in each market.**

Both DFS and Nuance are members of various industry associations and tourism industry groups in New Zealand (and Australia) including the Duty Free Association of Australia.

8. **Do any directors of the 'acquirer' also hold directorships in any other companies which are involved in the markets in which the target company/business operates?**

No directors of DFS hold directorships in any other companies that are involved in the sale of duty free in New Zealand.

9. **What are the business activities of each participant?**

DFS

DFS has operations at Auckland and Christchurch international airports (**AIAL** and **CIAL** respectively). It operates DFS Galleria in downtown Auckland, DFS Galleria in downtown Christchurch and accepts orders placed via a toll free telephone line.

Nuance

Nuance operates in New Zealand as Regency and the small speciality stores listed at 5.2. It currently has 'general' duty free operations at AIAL and at Wellington International Airport Limited (**WIAL**). It operates a specialty store at CIAL (Discover New Zealand), and has internet-based and toll-free telephone ordering capabilities.

Regency previously operated a 'downtown' store in the Auckland CBD, but determined to close that store as part of its 'winding down' in light of its failure to secure an AIAL licence post August 2009 (discussed at 10 below).

10. **What are the reasons for the proposal and the intentions in respect of the acquired or merged business?**

On 11 May 2007 AIAL requested, and was provided with, tenders from DFS and Nuance for the right to operate a (general) duty free concession at AIAL. No other party was invited to tender. DFS was successful and its new licence will take effect from 1 April 2009 and run for 7 years and 9 months. Nuance's existing licence will expire on 3 August 2009.

While AIAL retains the right to grant additional general duty free licences at any time, including before and after July 2009, it is understood that currently AIAL intends to appoint only one general duty free licence holder at AIAL.² There are approximately 130 other retailers selling duty free goods in Auckland: approximately 30 of which are "on-airport" and 100 of which are "off-airport" utilising an on-airport "collection point" at AIAL.

Assuming all conditions of the sale and purchase agreement for the Acquisition ([CONFIDENTIAL]) are satisfied on or about February 2008, the period in which there is overlap vis-à-vis the counterfactual is only 17 months (i.e. between February 2008 and July 2009 (inclusive)). From August 2009, DFS will in any event be the only general duty free operator at AIAL by virtue of it being awarded the general duty free concession for the airport. As the only general duty free operator, DFS will be able to expand the size of its current operations in New Zealand, while offering customers greater choice through an enhanced product range. The same advantages arise through the Acquisition. In addition, from DFS' perspective, the Acquisition allows for a streamlined transition into a single concession. From an operational perspective, being in a position to start that transition from the earliest point in time is would be advantageous for DFS.

² The potential for AIAL to appoint additional Licensees at AIAL should be considered equally available in the post-Acquisition period leading up to August 2009, and the period following that.

PART II: IDENTIFICATION OF MARKETS AFFECTED

Horizontal aggregation

11. Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?

11.1 Aggregation

- **Auckland:** The Acquisition gives rise to aggregation between DFS and Nuance/Regency's general duty free operations at AIAL during the period from the date of the Acquisition until July 2009 when DFS will become the sole concession holder.
- **Wellington:** DFS has no operations in Wellington and so there is no overlap.
- **Christchurch:** Nuance has no operations at CIAL, other than a small, specialty store, *Discover New Zealand*.

As noted above, both companies offer consumers the option of ordering by telephone (and via the internet in the case of Regency) and picking the products up at collection points at airports and therefore there is overlap in respect of these operations. However, large numbers of retailers offer duty free shopping at locations other than the airport (i.e. off-airport). Given the large number of competitors offering similar services any competitive impact as a result of the "loss" of Nuance in this respect is minimal. Accordingly, DFS makes no further comment about the overlap that occurs as a result of DFS and Regency's off-airport (i.e. telephone and internet) operations.

Nuance's Discover New Zealand store at CIAL is a specialist store offering New Zealand destination merchandise including the brands Made in New Zealand, Line 7 and From New Zealand with Love. Nuance's specialty stores at AIAL are listed at 5.2. Given the nature of the products sold at these particular stores, no further comment is made on specialty stores. Further information can be provided to the Commission if requested.

11.2 Duty free goods market

A 1987 High Court decision³ records that the Commission has previously taken the view that competition occurs between retailers of duty free goods located at airports and in the local city. The Australian Competition and Consumer Commission (the **ACCC**) has also adopted this view of the relevant geographic market, concluding that airport duty free operators compete in the same market as off-airport operators.

- In *City International Duty Free/M.S. McLeod Holdings Limited, trading as Downtown Duty Free* (1995), the ACCC said:

"Although the acquisition will remove an effective competitor from the market, there are other dedicated duty free chains that compete in the same industry. Further, travellers may choose to buy products from inflight duty free services or at their international destination. Moreover, about 740 retailers around Australia offer sales tax free services to travellers. Collectively, these retailers represent a competitive threat to dedicated duty free chains."

- In *Nuance Ltd/Allders International Pty Ltd* (1996) the ACCC said:

"Consumers of duty free goods in Australia are generally categorised in two groups with slightly different buying behaviour, being Australian residents travelling overseas and foreign

³ *Compass Tax and Duty Free Shopping Ltd v Mills DFS Ltd* (1987) 2 TCLR 32 High Court, Auckland (CP 440/87)

tourists travelling in Australia. Their opportunities to purchase duty free goods include dedicated duty free chain stores such as Nuance and Allders, duty free products available for purchase at overseas destinations, and inflight retail services. In Australia, it is also possible to buy cameras, electrical goods and jewellery, which are the major lines of duty free retailers, sales tax free from ordinary domestic retailers. These substitutes pose some constraint on Swissair's pricing behaviour post-acquisition. **There was evidence that duty free goods sold in Singapore, New Zealand and Europe currently influence the price of duty free goods sold in Australia.**

There are two sectors of the duty free market in Australia – sales from duty free shops in CBDs and shopping centres, and sales from duty free concessions at international airports. The Federal Airports Corporation currently administers the operation of duty free concessions, and requires that **airport concession holders set prices comparable with those duty free goods sold at off-airport stores.** The Commission kept the FAC informed of its consideration of the competition issues arising from this merger.” [Emphasis added]

Indeed, as discussed in more detail at section 16 below, DFS monitors and competes with a range of retailers that offer duty free goods. These retailers include general and specialty on-airport duty free stores within and outside New Zealand, the large number of off-airport retailers that sell duty free goods (such as Smith and Caughey in Auckland) and duty free operators with an internet presence. In order to ensure it remains competitive with these competitors, DFS carries out regular price comparisons, which frequently take into account pricing at Nuance in Australia, duty free stores in Asia, high street retailers and pricing available to internet customers, as well as Regency at AIAL.

DFS therefore considers that the relevant product market is that for the retail supply of duty free goods. The relevant functional level is retail.

In terms of the geographic dimension of the market, again, DFS monitors and competes with on and off-airport duty free operators, based within and outside New Zealand. In Auckland alone there are approximately 100 retailers in a range of categories that sell duty free goods for collection at AIAL (see **Appendix 2** to this application). Indeed, its licence with AIAL (discussed at section 36) specifically requires it to [CONFIDENTIAL

].

In *ARA v Mutual Rental Cars*⁴ the High Court adopted AIAL as the relevant geographic dimension of the market. That case has been subject to some criticism in a subsequent case (*McDonald Motors Ltd v Christchurch International Airport Ltd*⁵ (1991) 4 TCLR 407 (1991) 4 TCLR 407).

First, as Holland J in *McDonald Motors* observed, a new definition of “market” had been introduced into the Commerce Act since the *ARA* decision. The new definition makes the concept of economic substitutability explicit. Secondly, as Holland J noted, it is difficult to reconcile the *ARA* decision and the Australian Federal Court’s decision in *Trade Practices Commission v Ansett Transport Industries (Operations) Pty Ltd*. In the *Ansett Transport* decision, the Federal Court had rejected the submission that there was a separate “market” for services at the airport and found that the relevant market was the Australian car rental market. As Holland J observed, although the *Ansett* decision was a merger case, the issue before Barker J in the *ARA* decision (i.e. exclusive dealing) necessarily determined consideration of the relevant market and as such, Barker J (in the *ARA* case) should have considered the *Ansett Transport* decision. Thirdly, as Holland J noted, it appeared that Barker J in *ARA* defined a submarket, as distinct from a “market” which is required under section 47 of the Act.

DFS believes that the relevant market includes both on and off-airport retailers. DFS’ view is that if it were to increase price at AIAL by, say, 4-5% for a one year period it would lose sufficient

⁴ *ARA v Mutual Rental Cars* [1987] NZLR 647

⁵ *McDonald Motors Ltd v Christchurch International Airport Ltd* (1991) 4 TCLR 407 (1991) 4 TCLR 407

sales to other operators that the price increase would be rendered unprofitable. Its monitoring of other off-airport retailers in Auckland, the pricing and service constraint they impose, coupled with “commercial common sense”, means it believes the relevant market is that for the retail supply of duty free goods in Auckland.

The Commerce Act limits a market to a market “in New Zealand”. Accordingly, DFS accepts that offshore duty free retailers *technically* cannot form part of the formal “market”, although they have a very important role to play in the assessment of the competitive effects of the Acquisition.⁶

Differentiated product markets

12. **Please indicate whether the products in each market identified in question 11 are standardised (buyers make their purchases largely on the basis of price) or differentiated (buyers make their purchases largely on the basis of product characteristics as well as price).**

The parties’ products are not differentiated in any meaningful way. Further, the tax free nature of “duty free” sales necessarily means that consumers are driven by price in their purchasing decisions.

13. **Information relating to differentiated product markets**

N/A

Vertical integration

14. **Will the proposal result in vertical integration between firms involved at different functional levels?**

The Acquisition will not result in vertical integration between firms involved at different functional levels. DFS understands that Nuance makes some sales to airlines and to offshore retailers. DFS makes no such sales, and hence the Acquisition will not result in vertical integration between firms involved at different functional levels.

15. **Acquisitions in the last three years**

- 15.1 **Acquisitions notified to the Commission**

There have been no such acquisitions in or affecting a New Zealand market.

- 15.2 **Any other acquisitions**

There have been no such acquisitions in or affecting a New Zealand market.

⁶ The relevance of competitive constraints from outside a “market” as defined was discussed in *Brambles New Zealand Ltd v Commerce Commission & Anor* (2003) 10 TCLR 868.

PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION

16. Existing competitors

Post-Acquisition, DFS will continue to compete with and will be sufficiently constrained by:

- (i) Nuance stores at Australian airports, in particular, at Sydney, Melbourne and Brisbane;
- (ii) duty free operators in other countries (especially Asian countries);
- (iii) other duty free retailers at AIAL;
- (iv) off-airport duty free retailers in Auckland (and Sydney and other overseas and cities);
- (v) internet-based duty free operators, including Duty Free Stores New Zealand;
- (vi) airlines that offer in-flight duty free goods; and
- (vii) discount retailers of liquor, perfume and cosmetics.

The constraint imposed by each of these is discussed as follows:

(i) Nuance

Nuance is described at section 5.2 of this Notice. Further to that description, it is relevant to note that the Swiss-based Nuance operates 340 shops across 57 airports and 17 countries worldwide. In addition to its duty and tax free operations, the Nuance portfolio comprises a large number of specialist shops as well as food and beverage operations, in-flight services and shops in other travel retail channels.⁷

Currently, Nuance (in Australia and at AIAL) competes with DFS' AIAL store. In the counterfactual, Nuance will continue to compete with DFS' AIAL store. The sole difference is that Nuance will have a presence for 17 months at AIAL in the counterfactual. The Acquisition *does not result in the removal of a competitor*, but rather a particular presence the competitor has at a particular location.

Further, the removal of Nuance's presence at AIAL for the 17 month period falls short of what should properly be considered as "substantial" in the context of the substantial lessening of competition test. Competition is a long-run process. As the Commission's *Mergers and Acquisitions Guidelines* state:

When the impact of market power is expected to be predominantly upon price, for the lessening, or likely lessening, of competition to be regarded as substantial, the anticipated price increase relative to what would otherwise have occurred in the market has to be both material, and **able to be sustained for a period of at least two years**. [Emphasis added]

The Commission also take timeliness into account in considering the time it might take to achieve new entry in order to preclude a substantial lessening of competition. In that regard, the Commission's *Mergers and Acquisitions Guidelines* consider two years to be a "reasonably short timeframe" and state that:

If it is to alleviate concerns about a substantial lessening of competition, entry must be feasible within **a reasonably short timeframe, considered to be two years**, from the point at which market power is first exercised. [Emphasis added]

⁷ http://www.thenuancegroup.com/main_static.asp

It is relevant in that the Commission's usual and prescribed approach is that any affect on competition with a duration of less two years is unlikely to amount to a substantial lessening of competition.

Nuance is the sole duty free operator at Sydney, Melbourne and Brisbane airports, and a high proportion of all traffic passing by DFS at AIAL is traffic to/from these three airports. Nuance also operates at Perth and Cairns airports and has city stores in Canberra, Sydney and Perth. It has established relationships with suppliers. It offers a full range. It is an experienced duty free retailer.

Despite being the sole operator at key, *inter alia*, Australian ports, Nuance is very aggressive. This is because Nuance has to compete with duty free operators at key destination airports, where travellers are equally able to purchase duty free products. Indeed, it has a pricing policy that guarantees to offer a lower price on selected stocked items at airports in Singapore, Bangkok, Hong Kong, London (Heathrow), Dubai and Auckland. If the customer finds a lower price on any such products within seven days of purchase from Sydney airport, Nuance will refund the customer double the difference. In response, DFS came up with its own price pledge, and now guarantees to meet selected Nuance prices. The price pledge extends to Nuance's stores in Australia and in New Zealand.

The mere existence of these guarantees and the extent to which they are promoted confirms that operators take into account the ability of consumers to acquire from other origin/destination international airports, and factor these international constraints into their pricing and service levels.

Putting aside the ability to purchase online or over the phone, or at an off-airport retailer, customers pass by and have at least *four* opportunities to purchase duty free products on a single round trip at an airport (arrival and departure at their home airport, and arrival and departure at the destination airport), and at least *two* if they do not wish to carry their purchases during their time overseas. As a result, customers are able to, and do, compare pricing at the different airports. Customers frequently make comments to DFS staff at AIAL about products and prices that they have seen at another airport such as Sydney, which indicates that customers are indeed taking the opportunity to compare range and pricing as they pass through their originating and destination airports. Although some customers might (for whatever reason) prefer to do their duty free shopping at AIAL rather than at an Australian or other international airport, DFS cannot identify and price differently, to these customers.

As the above indicates, New Zealand customers are not captive to DFS at AIAL. For example, the vast majority of New Zealanders travelling to Australia are exposed to Nuance's pricing (and those travelling to Cairns or the Gold Coast are exposed to Duty Free Stores' pricing). Therefore, Australia-bound travellers have the opportunity to acquire from DFS' competitors at least twice (once inbound and once outbound). In both instances travellers have already seen the DFS price when departing Auckland and so can compare that price with that on offer overseas. They can then determine to acquire upon arrival in, or departure from, Australia.

The relevance of international prices (and indeed domestic retail prices) to domestic duty free prices was acknowledged by AIAL CEO, Don Huse, when announcing the award of the new concession to DFS, where he said:

Independent research tells us that travellers compare on-airport duty free prices to local high street prices, online shopping, parallel import retailers and overseas retailers. A key factor in duty free shopping is price – that is why we, along with DFS, are so committed to price comparisons. This means travellers can be assured of getting great value for money here.⁸

⁸ AIAL media release 10 July 2007, available online at http://www.auckland-airport.co.nz/NewsHistory/press_releases.php?rid=202.

The implications of the above is that Nuance (in Australia) and DFS (in New Zealand) target the other in their promotions. Post-Acquisition it is likely that Nuance Australia will become even more aggressive vis-à-vis DFS in Auckland, because Nuance will no longer have a direct present at AIAL via Regency.

DFS must ensure it is price competitive with domestic and international competitors such as Nuance in Australia (and other overseas airports generally), and that it is offering customers good value for money. In order to do so, it monitors pricing in the domestic market (both at the high street and duty free levels) and at international airport locations by carrying out regular (soon to be monthly) price comparisons. While there will inevitably be some customers for whom the convenience of shopping at AIAL is such that they will not entertain the thought of shopping elsewhere, large numbers of customers do compare price, and do buy elsewhere (hence the price guarantees). As discussed above, importantly, DFS cannot identify, and price differently to, such customers.

(ii) Duty free operators in other countries

DFS also monitors the pricing of, and is constrained by, duty free operators in other countries, such as Hong Kong and Japan. A significant portion of air traffic out of Auckland Airport is destined for countries in Asia and customers have the choice whether to purchase duty free products at Auckland Airport or at their destination. This constraint will remain post-Acquisition.

(iii) Other retailers at AIAL

There are 23 specialty duty free retailers at AIAL (including two retailers which have two separate shops) and 8 souvenir shops, excluding Nuance's specialty stores. These retailers, which are listed at **Appendix 1**, include jewellers, clothing and sunglass retailers. The specialty stores are located throughout AIAL, including in the departures area before and after security and in arrivals area. DFS' small DFS Express store, located in the baggage claim area (and which sells only liquor, confectionary and perfume) is the only store that does not share a space with a range of specialty stores (nor is Regency present in this area). The constraint from relevant specialty stores will remain post-Acquisition.

(iv) Local and international retailers that offer duty free goods

As noted in earlier sections of this Notice, approximately 100 off-airport retailers in Auckland offer duty free goods, excluding DFS and Nuance's off-airport stores (see **Appendix 2**). The local off-airport retailers that offer duty free goods cover between them a very wide spectrum of products, including cosmetics, jewellery, clothing, electronics and souvenirs. The constraint from local international retailers that offer duty free goods will remain post-Acquisition.

(v) Internet-based duty free operators

Duty Free Stores operates duty free outlets at Wellington, Gold Coast and Adelaide airports. It has an internet-based business from which consumers can collect their products at AIAL, CIAL and Palmerston North airport. Orders can be placed online or via an 0800 free phone number.⁹ Duty Free Stores promotes on television and advertises a 20% discount for members. Constraint from internet-based duty free operators will remain post-Acquisition.

(vi) Airlines that offer duty free goods in-flight

DFS also competes with airlines that offer in-flight duty free goods, including Qantas and Air New Zealand. While the selection of duty free goods offered in-flight is not as

⁹ www.dutyfreestores.co.nz

comprehensive as the selection offered by ground-based retailers, airlines do carry a wide selection of products, including alcohol, cosmetics and fragrance. The constraint from airlines that offer in-flight duty free goods will remain post-Acquisition.

(vii) Other discount retailers of liquor, perfume and cosmetics

Local and international discount retailers are able to influence the customer's benchmark perception of pricing and promote their pricing through very aggressive advertising. This constraint will remain post-Acquisition.

Other considerations (question 16.9)¹⁰

DFS does not consider Regency has behaved in such a way as to suggest that it is a 'maverick'.

Conditions of expansion (questions 17 – 22)

Please see section 27.2.

Coordinated market power (questions 23 – 26)

Whether or not the relevant markets currently show signs of tacit collusion, the situation is very unlikely to change post-Acquisition. This is because it is unlikely that the removal of Nuance's on-airport presence at AIAL would in any way facilitate collusion between DFS in Auckland and Nuance at Sydney, Melbourne or Brisbane, or with other competitors. DFS and Nuance remain competitors. The constraint from other duty free retailers within AIAL, overseas, in Auckland and online, is unaffected by the Acquisition.

While, as noted at section 16(i), there is evidence of price matching/price following as a competitive response, this occurs as between DFS and Nuance's duty free stores at AIAL and at Australian airports. The Acquisition will not affect DFS and Nuance in Australia's competition on price – arguably, the Acquisition will only serve to make Nuance in Australia even more aggressive than it is currently. Accordingly, the Acquisition will not increase the risk of coordinated behaviour in the relevant market.

¹⁰ Questions 16.5 – 16.8 are addressed in the previous parts of the response to question 16 as applicable.

PART IV: CONSTRAINTS ON MARKET POWER BY POTENTIAL COMPETITION

27. Conditions of entry and expansion

27.1 Entry (questions 27 – 35)

DFS accepts that *on-airport* operations are dependent on the airport granting such a licence. However, as discussed in further detail at section 36, AIAL has retained the explicit right to appoint other operators, which means that on-airport entry is possible (and also serves to reinforce AIAL's countervailing power, also discussed at section 36). Indeed, on-airport entry is possible and it would occur at AIAL's encouragement, were the combined entity to raise price or lower service or product quality. Simply the knowledge that AIAL retains the right to appoint rival operators would serve to constrain any anti-competitive conduct by the combined entity post-Acquisition.

Aside from the airport licence that is required for on-airport duty free retailing (but not off-airport retailing) DFS does not believe that there are any other conditions of entry that would prevent a competitor from entering the relevant market either on or off-airport. Indeed, DFS considers that barriers to entry are particularly low to establishing an effective off-airport presence, in the sense that there would be very little to prevent a competing operator offering duty free products by utilising the on-airport *collection facility* at AIAL, as over 100 retailers in Auckland have done. That facility can accommodate new entrants and DFS believes such entry could be effected within three months.

(a) Off-airport entry

The entry conditions for off-airport entry (even *de novo* entry) are minimal, given that a prospective retailer of duty free goods would simply need to establish retail premises at a location off the airport, arrange for on-airport collection and achieve Customs accreditation (which is straightforward). Numerous retailers have already done this. As noted above, successful and sufficiently constraining off-airport entry could be effected within three months, should there be an incentive to do enter.

(b) On-airport entry

There is also the potential for on-airport entry at AIAL's encouragement, given its discretion to appoint other duty free operators (in addition to DFS) at any time, including before and after July 2009. An entrant on-airport would need to establish its premises at the airport but this requirement would not be sufficient to deter new entry should AIAL be minded to appoint an alternative general duty free operator at the airport.

There is a range of international duty free operators that DFS considers could take on a general duty free concession at the airport at AIAL's invitation. These entrants include Nuance, Duty Free Stores (New Zealand), JR Duty Free (Australia), Lotte (Korea) and World Duty Free (UK). These firms have duty free retailing businesses (some quite substantial) in other countries and/or via the internet and could easily and profitably extend their operations to AIAL should there be an opportunity and an incentive to enter. The only condition of entry that would be relevant to these firms' potential entry into the relevant market would be the requirement to hold a duty free licence for on-airport retailing, which is within the absolute control of AIAL.

27.2 Expansion (questions 17 – 22)

The conditions that may affect expansion by on-airport duty free operators in the relevant market are closely tied to the discussion regarding entry by such operators at 27.1. That is, expansion would occur subsequent to any entry at the encouragement of AIAL, should there be an incentive by the relevant firm to expand its on- airport operations. Expansion by off-airport operators is

also tied to entry in the sense that it would occur should there be an incentive for such an operator to expand.

(a) Off-airport expansion

Off-airport expansion would not face any barrier. Conditions of expansion would not be material.

(b) On-airport expansion

On-airport expansion would be constrained only in terms of the physical layout of AIAL, which is once again governed by AIAL.

PART V: OTHER POTENTIAL CONSTRAINTS

Constraints on market power by the conduct of suppliers (questions 36 – 38)

36. AIAL

AIAL has overriding countervailing power over DFS in respect of pricing and service standards by virtue of the obligations in the licence agreement granting DFS the ability to offer duty free goods at AIAL.

DFS' new licence with AIAL contains a number of pricing obligations, including obligations on DFS to:

- [CONFIDENTIAL];¹¹
- [CONFIDENTIAL]; and
- [CONFIDENTIAL].

The specific provisions of the current licence agreement that are also included in the new licence state that DFS must:

- [CONFIDENTIAL];
- [CONFIDENTIAL]; and
- [CONFIDENTIAL].

The new licence agreement further provides that DFS must:

- [CONFIDENTIAL].

The addition of the above provision will further preclude any anti-competitive pricing by DFS post-Acquisition. As noted at 11.2 above, the airport's role in controlling prices was a factor observed by the ACCC in its *Nuance Ltd/Alders International Pty Ltd* decision.

¹¹ DFS' (and Regency's) existing licence carries through until July 2009, although DFS will surrender its current licence on the opening of the new AIAL arrivals hall in around April 2009 (and continue through on the terms of the new licence until March 2015. Therefore, the obligations listed above, including the obligation to [CONFIDENTIAL], will come into force in April 2009.

Constraints on market power by the conduct of acquirers (questions 39 – 41)

37. Customers

As discussed above, customers have the ability to purchase duty free goods from a number of different outlets, including:

- online;
- over the phone;
- at local and international off-airport retailers that offer duty free goods;
- at specialty retailers at AIAL;
- inflight; and
- at general duty free stores at AIAL and other airports.


In respect of the latter (and as discussed in more detail at 16(i), customers pass by and have at least *four* opportunities to purchase duty free products at *two* different airports on a single round trip. Customers are able to, and do, compare pricing at the different airports.

Appendix 1 – Specialty retailers at AIAL

(see http://www.auckland-airport.co.nz/Shopping/int_terminal_shopping.php)

- Adidas
- Airways Florist
- Artport (first floor, after security)
- Artport (first floor, departures area)
- beachculture
- Bendon
- Choc Stop
- Guess
- Hardy's Healthy Living
- Line 7
- Merino Discovery
- Natures Window
- Oceanic Arts
- Rip Curl
- Sunglass Hut (first floor, after security)
- Sunglass Hut (first floor departures area)
- The Cellar
- The Collection Point
- Tie Rack
- Time Out
- Walker & Hall Jewellers
- Whitcoulls (ground floor, arrivals area and first floor, departures area)
- Whitcoulls (first floor, after security)

Appendix 2 – AIAL’s list of duty free retailers in Auckland that offer duty free goods
 (see <http://www.auckland-airport.co.nz/Shopping/prtcpte.php>)



TAX & DUTY FREE GUIDE


AUCKLAND

GENERAL DUTY/TAX FREE PURCHASING

<p>AIRPORT (Portable Airt)</p> <p>BEDDINGFIELDS Bed & Table Linen Specialists</p> <p>DFS GALLERIA</p> <p>SOUNDS</p> <p>HAWANA HOUSE CIGARS LTD</p> <p>KIVI DISCOVERY</p> <p>LOUIS VUITTON</p> <p>MADE IN NEW ZEALAND</p>	<p>Auckland International Airport Departures ☎ 09 256 8567</p> <p>239 Parnell Road Parnell ☎ 09 367 6881</p> <p>DFS Galleria at Custom House Cnr Custom & Albert Streets, City ☎ 0800 388 937 Auckland International Airport 1st Floor International Terminal ☎ 0800 388 937</p> <p>Auckland International Airport Level 1, Departures ☎ 09 256 8033</p> <p>Downtown Shopping Centre 11-19 Customs St, Ctr ☎ 09 357 0037</p> <p>Auckland International Airport Level 1, Departures ☎ 09 275 1001</p> <p>99 Queen Street, City Z 09 358 5080 Customhouse Cnr Custom & Albert Streets, City ☎ 09 358 4488</p> <p>Auckland International Airport Level 1, Departures and Passenger only area ☎ 09 256 8592</p>
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<p>MAGPIE SOUVENIRS</p> <p>MUSIC MANIA</p> <p>NEPTUNE COMPUTERS</p> <p>NZ WINEMAKERS CENTRE</p> <p>OCEANIC ARTS</p> <p>REGENCY TAX & DUTY FREE LTD</p> <p>SKY GIFTS & SOUVENIRS LIMITED</p> <p>SONY (NZ) LIMITED</p> <p>STAMFORD PLAZA SHOP</p> <p>THE BEST SOUVENIRS</p> <p>THE CELLAR (Premium Wines)</p> <p>CAMERAS AND ACCESSORIES</p> <p>AUCKLAND CAMERA CENTRE</p> <p>CAMERA & CAMERA LTD</p>	<p>120 Mayoral Drive Auckland City ☎ 358-5035</p> <p>36 Cavendish Drive, Manukau City ☎ 09 262 3419</p> <p>99 West End Road, Heme Bay ☎ 09 376 2681</p> <p>Corner of Victoria & Elliot Street, City ☎ 09 256 8510</p> <p>Auckland International Airport Level 1, Departures ☎ 09 256 8510</p> <p>25 Victoria Street West, City ☎ 09 308 9014 75 Queen Street, City ☎ 09 358 1111 Auckland International Airport Departures & Arrivals ☎ 0800 302 700</p> <p>103 Albert Street Auckland City ☎ 09 377 8160</p> <p>Broadway Centre 255 Broadway Newmarket Auckland ☎ 09 529 5300</p> <p>C/ Stamford Plaza Hotel Albert Street, City ☎ 09 309 5539</p> <p>217-223 Hobson Street Auckland City ☎ 09 377 9510</p> <p>Auckland International Airport Departures ☎ 09 256 8084</p> <p>646 New North Road, Morningside ☎ 09 849 4920</p> <p>162 Queen Street, City ☎ 09 303 1879 350 Queen Street, City ☎ 09 377 8522</p>
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<p>DIGITAL ENTERPRISES LIMITED</p> <p>ETOWN DIGITAL</p> <p>PHOTO WAREHOUSE</p> <p>RIEGER'S APPLIANCES</p> <p>CHINA & GLASSWARE</p> <p>GALTONS OF PARNELL</p> <p>THE STUDIO OF TABLEWARE LIMITED</p> <p>CLOTHING</p> <p>BAST/LEATHERWEAR</p> <p>BONZ NEW ZEALAND</p> <p>CUBE</p> <p>ERMENEGILDO ZEGNA</p> <p>GLOBAL CULTURE</p> <p>KEITH MATHESON</p> <p>RJB DESIGN</p>	<p>Ground Floor, Penrose Business Park 45 O'Rourke Road, Penrose, Auckland ☎ 09 580 0495</p> <p>160 Broadway Newmarket Auckland ☎ 09-523-4100</p> <p>175 Great North Road, Ponsonby ☎ 09 303 2148 ☎ 09 309 0715</p> <p>244 Dominion Road, Mt Eden ☎ 09 630 4115</p> <p>287 Parnell Road Auckland ☎ 09 379 2371</p> <p>475 Mt Eden Road Mt Eden, Auckland ☎ 09 638 8082</p> <p>Shop 9 Queens Arcade Queen Street, City ☎ 09 303 1745</p> <p>Auckland International Airport Departures ☎ 09 256 9300 30 Queen Street ☎ 09 373 2248</p> <p>14 Courthouse Lane, City ☎ 09 359 1100</p> <p>171 Queen Street ☎ 09 373 5545</p> <p>Auckland International Airport Departures ☎ 09 275 0422</p> <p>41 High Street, City ☎ 09 379 7919 277 Broadway, Newmarket ☎ 09 529 2249 246 Queen Street, City ☎ 09 357 0582</p> <p>428 High Street, Auckland ☎ 09 309 1932</p>
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<p>T CLARK LTD</p> <p>GOLF & SPORTS EQUIPMENT</p> <p>W.S. LAURIE & CO LTD</p> <p>SPORT FISHING SPECIALISTS</p> <p>PRO TENNIS LTD</p> <p>JEWELLERY — OPALS — WATCHES — ANTIQUES</p> <p>ABOUT TIME</p> <p>ANVIL JEWELLERY (1996) LTD</p> <p>AUCKLAND RING COMPANY</p> <p>BIKEY & CO JEWELLERS</p> <p>BROWNSONS JEWELLERS</p> <p>CHARLTON JEWELLERS</p> <p>COLORDIAMONDS</p> <p>COLTMANS JEWELLERS 1883 LTD</p> <p>DAVID KEEFE MANUFACTURING JEWELLERS</p>	<p>Queens Arcade, 34 Queen Street Auckland ☎ 09 379 8486</p> <p>26 Nelson Street</p> <p>Auckland ☎ 09 303 4033</p> <p>Vodafone Tennis Park 69 Merton Road, Glen Innes ☎ 09 528 9782 ASB Tennis Centre ☎ 2 Stanley Street, Parnell ☎ 09 373 3623</p> <p>197 Broadway, Newmarket ☎ 09 524 6645</p> <p>147 Victoria Street West, Auckland ☎ 09 366 0081</p> <p>272 Te Aitu Road Te Aitu South, Auckland ☎ 09 834 8272</p> <p>407 Remuera Road, Remuera ☎ 09 524 6453 or 0800 BIKEY</p> <p>Shop 142 Level 1 Westfield, West City Henderson Auckland ☎ 09-838-1988</p> <p>Shop 277, Westfield Shopping Town Glendfield ☎ 09 444 7243 Shop 149, Millford Shopping Centre Millford ☎ 09 489 2388</p> <p>Z 09 302 3493 31 Hurstmere Road, Takapuna ☎ 0800 663 227</p> <p>Shop 10, Strand Arcade 233 Queen Street, Auckland ☎ 09 379 0871</p> <p>3058 Great North Road New Lynn ☎ 09 827 3325</p>
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<p>DIAMOND & TIME</p> <p>FIFTH AVENUE JEWELLERS</p> <p>GALLERY PACIFIC</p> <p>GARY MAHAN FINE ANTIQUES & JEWELLERY</p> <p>HARTFIELDS GOLDSMITHS</p> <p>HERB MERKLE</p> <p>HIGHLAND PARK JEWELLERS</p> <p>HOWICK VILLAGE JEWELLERS</p> <p>JADE FACTORY & GIFT CENTRE</p>	<p>St Lukes Shopping Centre 451 St Lukes Road, Mt Albert ☎ 09 846 3324</p> <p>Westfield Shore City Takapuna Auckland ☎ 09-486-6377</p> <p>The Pavilion Botany Town Centre Botany Auckland ☎ 09-271-1199</p> <p>Centre Race Mall Hamilton ☎ 07-834-2555</p> <p>Shore City Galleria, Takapuna ☎ 09 489 8461</p> <p>105 Queen Street, Auckland ☎ 09 308 9231</p> <p>Shop 3, Queens Arcade, 34 Queens Street, Auckland City ☎ 09-308-9231</p> <p>3C/2 Queen Street Auckland</p> <p>Gordon Jewellers 20 Link Drive Wairoa Park North Shore ☎ 09-441-6214 ☎ 09 309 0199 327 Parnell Road, Parnell ☎ 09 373 2472</p> <p>30 High Street, Auckland ☎ 09 309 9654</p> <p>Shop 1, Highland Park Centre Pakuranga Road, Pakuranga ☎ 09 537 5656</p> <p>98 Picton Street, Howick ☎ 09 534 7404</p> <p>26 Queen St, Auckland ☎ 09 373 5431</p>
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