

**Confidentiality Claimed**

Submission in relation to applications for authorisation (A30220, A30221 and A30222) made to the Australian Competition and Consumer by Qantas Airways Limited and Air New Zealand.

**Confidentiality**

This submission is tendered on the understanding and condition that at all times the author of the submission will remain anonymous.

**Current Status**

Presently Qantas's market share is so large and its position so entrenched in the Australian domestic market that it effectively operates with monopolistic power. The decision of United Airlines to withdraw services from New Zealand leaves Qantas and Air New Zealand as the sole carriers and intensifies concerns of a monopoly in air service Trans Tasman and Trans Pacific.

**International Competitiveness of both airlines**

Most larger carriers are struggling to survive. Prevalent industry sentiment is that United Airlines is unlikely to survive more than 6 months. It is probable that other major global players will fold within the next few years.

In contrast, Air New Zealand has recently announced how profitable it is again with predictions of well over \$200m profit for the year. Qantas, is of course one of the most profitable airlines in the world with a NPAT of \$434m for the year to June 2002, up 45% compared to 2000/2001.

**Barriers to entry**

Under normal circumstances the barriers to entry of new carriers could be prohibitive. Two strong and profitable carriers cooperating on seat, fares and process (effectively running as one carrier) would further discourage and handicap any would be entrant.

**Deceptive and Misleading**

Two carriers, each with distinctive branding and advertising would create a dominant public perception that they were competitors in the market, competing on price, route and customer patronage. This would be an illusion and more than likely to mislead the public into believing that each operated as independent rivals, when in fact collusion on pricing, scheduling and other operational aspects would be taking place.

**Industry Impact**

Travel agencies are readily acknowledged as a valuable provider of travel services to the public and act as an important factor in promoting competition within the industry.

With the international trend of carriers removing agent's commission, by not paying them to distribute their products, many small agents will be forced out of business and add to our unemployment queues.

Any measure that will further reduce competition in the marketplace will compound the problem. It is doubtful that this would be in the best interests of the travelling

public. The public will have less choice and airfares will effectively increase, as agents will be compelled to introduce booking fees to compensate for the removal of commission (80% of fares are sold by Agents).

### **Public Benefits**

Empirical studies support the contention that greater competition has reduced airfares and increased the frequency, variety and quality of services, to the benefit of customers.

The effects of greater competition show significant welfare gains for Australians and New Zealanders.

An inquiry report conducted by the Productivity Commission on International Air Services in 1998 estimates that in 1997, competition from Ansett reduced fares between Australia and Hong Kong by almost 7% and increased traffic by over 5%.

### **Impact on tourism**

Higher airfares reduce the number of inbound foreign tourists and Australia's export of tourism services. Higher airfares also reduce tourist's expenditure on accommodation, shopping, restaurant meals, guided tours and internal transport.

The significant discounting associated with the entry of Freedom Air in 1995 on the Tran Tasman route, despite a mature market, resulted in an increase of 25% of visitors to Australia from New Zealand over a 12 month period.

### **Proposed scheduling and cost efficiencies**

The proponents for merger would argue that it enables airlines to achieve economies of scale and scope by consolidating airline functions. It allows them to consolidate their ground handling, maintenance, IT and various managerial functions.

Alliances are often complex and can be time consuming and extremely costly to manage.

There are viable alternatives that will allow for the capturing of cost efficiencies that do not result in loss of frequency and do not require ownership exchange. Sharing lounges, maintenance facilities, air bridges and check in crew can and do, all happen now.

As was evidenced in the Joint Services Agreement between Qantas and British Airways, the primary impact was greatly reduced services, eg Brisbane went from daily 747 services by BA before the agreement to none a short time later.

### **Present competition levels**

Little or no competition already exists on a number of routes or regions such as North America and South West Pacific. With United Airlines ceasing services to New Zealand, Air New Zealand becomes the main carrier with only Qantas or a Qantas influenced carrier as competition.

Even with the Trans Tasman routes, the only exception to a position of complete domination by Qantas and Air New Zealand is the Auckland to Sydney/Brisbane route. It is quite conceivable, if not probable that Thai Airways, who currently provide the main competition, will cease to fly between Brisbane/Sydney and New Zealand and in future choose to operate direct services to Bangkok.

#### **Competition Guarantees**

The few operators who currently operate in the region are unlikely to continue to do so. Both Garuda and Malaysian Airlines have indicated their future preference would be to focus on direct services to their home bases.

Competition on the Trans Tasman sector cannot be guaranteed.

#### **Less or no competition means higher fares**

Where there is little or no competition, airfares are significantly higher. For example, Rarotonga is only served by Air New Zealand. This 4hour flight costs the same as a 10 hour 30minute flight to Singapore i.e. approximately \$1200 return.

Domestically Air New Zealand fares are always higher on routes that have no competition. For example, from Auckland, Whangarei \$118 return/Wellington \$138 return; Wellington being four times the distance.

Even with United Airlines competing on the route to Los Angeles, this route has traditionally been 50% more expensive than the online South East Asian destinations that are the same flight time.

#### **Locking out competition**

The combined market share of the airlines would be approximately 75% on international and 90% on domestic. Incentives would be put in place that would provide travel agents with little or no option but to favour Qantas and Air New Zealand above other smaller carriers. This would further inhibit and deter potential competitors from entering the market.

Ralph Norris was quoted in the New Zealand Herald ( 9January 2003,pgc2) as saying "It's unrealistic to think that you can have head to head competition in what is a very small market". This statement is confusing and deserving of circumspection as Air New Zealand, who presently compete with Qantas has recently signalled a profit in excess of \$200m. Similarly, Qantas's profit is among the healthiest in the industry.

#### **No competition means less distribution and higher prices**

Air New Zealand has adopted a policy of extending the range of services on which it pays no commission. This does, and will result in a price rise by stealth as agents, including the airlines own outlets, would have no option but to charge a booking fee to make up for the lost commission and revenue.

Profit margins in the travel agent industry are already extremely small, any further reductions will result in smaller agents going out of business. Fewer agents will mean

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a reduction in distribution outlets and consequently less choice and convenience for the public.

**Concluding remarks**

If Australia is to be a global contender in the provision of air services, it is imperative that effective competition be promoted. Effective competition requires prices should be flexible and responsive to forces of supply and demand.

In the absence of independent rivalry, airlines will act in concert and choose their level of profit by giving less and charging more. The result will be less efficient markets and consumer detriment.

Enforceable undertaking relating to price guarantees and barriers to entry that may be offered will prove extremely difficult to monitor due to the complexity of yield management and multiple seating classes.

The Cooney Committee in its 1991 report on Mergers, Monopolies and Acquisitions took the view that the best way to protect against misuse of market power is to prevent it being created in the first place.

Accordingly we would respectfully request that the Commissions decline authorisation for the proposed equity acquisition and collaborative arrangements.

In the alternative, should the Commissions find in favour of the applicants we, as independent travel agents ask that fundamental undertakings be sought by Qantas and Air New Zealand, to include:

1. Commission guarantees to agents at levels no less favourable prior to the merger occurring. This would allow agents to continue not to charge booking fees and would assist in maintaining lower pricing levels.
2. Measures that would allow agents fair and equitable access to all airline products.
3. Future entrant protection and measures that would prevent Qantas and Air New Zealand from handicapping such entrants.