

Submission to the
Australian Competition and Consumer Commission
by the
Australian Consumers' Association

Applications for Authorisation A30220, A30221, A30222, A90862, A90863
QANTAS, Air New Zealand, Air Pacific
Strategic Alliance and Cooperation Agreement.

The Australian Consumers' Association contends that these proposed arrangements will result in a substantial lessening of competition in regional air services that will not provide sufficient, if any, countervailing consumer benefit to warrant their acceptance by the Commission.

In fact, the trans-Tasman market requires even more competition to provide the level and cost of services consumers deserve and which would be comparable to the Australian domestic market.

While routes between Australian centres and Auckland demonstrate a reasonable range of options for consumers, presumably due to low cost add-on travel for large aircraft transiting Auckland on the way to North America, routes to Wellington and Christchurch for instance exhibit no competition and price gouging. Air New Zealand and QANTAS schedule flights in parallel, mere minutes apart and charge almost exactly the same fares with the same conditions.ⁱ

Clearly from the statements supplied by the applicants it is they who would be the winners if these arrangements were to be authorised. There is no undertaking to share the benefits with the consumers of airline services. The cost efficiencies alluded to would be kept as increased profits. For consumers there would be no better choice of services, possibly even less available seats, and no price reductions.

The applicants claim their trans-Tasman operations will be challenged by 'value based airlines' as one justification for their agreement, however, representatives of Virgin Blue, while indicating their interest in entering the trans-Tasman market, have indicated that they would need special treatment in turn, particularly from the NZ government, to do so if this arrangement goes ahead.ⁱⁱ That is, Virgin Blue sees the market dominance of a QANTAS-ANZ partnership locking out new entrants. Prior to this partnership proposal, in October 2002, Virgin Blue announced they fully intended to enter the trans-Tasman market in 2003.ⁱⁱⁱ

While many in the travel sector have been advocating an open skies policy and urging other regional airlines to help make the trans-Tasman market competitive, it seems likely that regardless of changes to government policies if this agreement were to proceed there would be very much less likelihood of other airlines taking a risk and entering this market – especially at this time when so many airlines' profits are fragile (if not negative), except, of course, for QANTAS.

Claimed Public Benefits by Proponents

Cost efficiencies – undoubtedly these are true and likely, the implication is that these will accrue to the benefit solely of the proponents. There is no suggestion that the public will benefit from lower fares and freight charges, currently too high.

Scheduling efficiencies – currently QANTAS and ANZ operate close parallel schedules, in the main, on trans-Tasman routes. If a greater diversity of flights were to become available this would provide some tangible public benefit, although in practice, due to the time difference between Australia and New Zealand, times for flights around those now used are most suitable for most travellers, so the effective benefit is probably minor for consumers.

Improved freight services – again, the issue of cost is critical, if the proponents genuinely intend to lower the substantial air freight costs across the Tasman then this may result in increased usage, but if all they intend is cooperative promotion and management with all benefits retained by them, there is no real public benefit.

Increased international competitiveness – while there is no doubt that the international aviation market is tough it is QANTAS that is one of the few airlines operating very profitably. Increased cooperation as proposed is more likely to shore up QANTAS' position through blocking competitors access and reducing potential consumer benefit through alternative competitive services.

QANTAS/ANZ/Air Pacific Cooperation

This further arrangement is based upon the QANTAS/ANZ strategic alliance agreement. Presently QANTAS does not fly to Fiji, but uses Air Pacific flights on a code-share basis.

As with flights to New Zealand, flights to Fiji do not operate at market competitive prices for travel of similar distance – only slightly further from Sydney than New Zealand.^{iv}

Clearly the QANTAS/ANZ/Air Pacific agreement is aimed at lowering costs and minimising competition between the partners. There can be no consumer benefit derived from allowing this agreement to operate.

Conclusion

The proponents already demonstrate strong non-competitive behaviour and a willingness to align “public benefit” with corporate profit. Regional aviation and its consumers will benefit from increased competition, lower fares and freight costs, stimulating activity and thus providing increased benefits to business and holiday travellers and businesses and consumers moving freight. This will better stimulate sideline economic activity in tourism and in regional business activity and provide a much broader and real “public benefit”.

The Commission must not allow either of these proposals to proceed and take all appropriate steps possible to ensure that regional air markets become and remain more competitive, through new entrants, more diverse services, and lower charges.

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ⁱ At the time of writing it was possible to book a flight on QANTAS from Sydney to Perth, 4-5 hours flying time each way, for \$483.01 return including taxes; whereas a QANTAS flight from Sydney to Wellington, 3-4 hours flying time each way, costs \$587.46 IF you stay away over a Saturday night, or \$1,449.46 return including taxes if you do not stay away over a Saturday night! At the same time it is possible to fly from Sydney to London and return with Lauda airlines for \$1,629. Booking enquiries made on www.qantas.com.au and www.travel.com.au on 30 January 2003 for travel commencing 6 February 2003.

ⁱⁱ Travelbiz.com.au 3 December 2002.

ⁱⁱⁱ AFR 21 October 2002.

^{iv} QANTAS offers return fares to Fiji start from \$1,242.18 for departures on 6 February 2003 for 6 days. Air Pacific operates the flights, though this is not entirely obvious to the uninitiated. Ref www.qantas.com.au 31 January 2003. However through www.travel.com.au the cheapest fare to Fiji on that day is offered via QANTAS at just \$987 for a minimum 5-day stay or \$1,873 for shorter stays. There is no indication on that website that the flight is not operated by QANTAS. As with Sydney-Perth flights quoted above, Brisbane-Hobart is a similar distance and QANTAS quotes just \$510.71 return for that journey at this time. London-Athens return (3:45h-4:00h journey) on British Airways costs \$367 as quoted on www.travelocity.com on 4 February 2003. A less common, perhaps, fare from Stockholm to Barcelona and return is quoted as \$756 and is similar duration. All prices quoted in AU\$.