

SUBMISSION TO

**THE AUSTRALIAN COMPETITION & CONSUMER
COMMISSION**

REGARDING

**PROPOSED QANTAS AIRWAYS & AIR NEW ZEALAND
STRATEGIC ALLIANCE**

FROM

THE AUSTRALIAN TOURISM EXPORT COUNCIL



FEBRUARY 2003

THE AUSTRALIAN TOURISM EXPORT COUNCIL

The Australian Tourism Export Council (ATEC), as the peak body representing the interests of Australia's tourism export industry, is the very mechanism that facilitates and drives bottom line advantages for Australia's export earnings. Through its strong and diverse membership base, ATEC is an active contributor to the success and international competitiveness of Australia on the world stage.

Tourism is in itself a multi-faceted industry, with many sectors, segments and stakeholders. Throughout its 30-year history ATEC has represented the best of Australia's export-ready tourism operators: Accommodation houses; Inbound tour operators; Attractions; Tour operators; Retailers; Airlines; Cruise lines; Transport operators; and food and beverages outlets. Not to mention a wide variety of support services organisations and corporate firms keen to be a part of Australia's fastest growing export industry.

With more than 1100 direct member companies from across the country, employing over 300,000 Australians, the strength and depth of the ATEC membership is evident. ATEC's strong branch network - which facilitates industry growth at the grassroots level - is critical to the success of the organisation and its members. With nine branch offices across Australia, ATEC is well equipped to deliver a co-ordinated and representative view on behalf of the country's tourism exporters.

SUBMISSION BACKGROUND

The proposed strategic alliance between Qantas Airways and Air New Zealand will deliver a significant change to the regional aviation and tourism landscapes, providing both positive and potentially negative impacts upon the \$17 billion Australian tourism export industry.

In order to assess the implications from an industry perspective, ATEC implemented a survey of its members across Australia to seek responses as to the perceived strengths, weaknesses and threats of the proposed alliance for the tourism export industry in Australia.

An analysis of the results delivers a cautiously supportive view from the Australian tourism export industry, along with a call for some further assurances to protect the long-term interests of the industry as outlined below.

FEEDBACK FROM THE AUSTRALIAN TOURISM EXPORT INDUSTRY

The following considerations and concerns have been defined following an analysis of feedback received from members of the Australian Tourism Export Council in response to a survey assessing the strengths and weaknesses of the proposed alliance:

- A sustainable aviation sector that delivers growth and opportunity to Australia's tourism export industry is the fundamental consideration of the Australian tourism export industry.
- Given the current turbulent aviation climate, Australia requires a carrier that is sustainable in the long-term. The consequences of Air New Zealand exiting the market would be quite adverse for Australian tourism, impacting negatively upon traffic feed from a carrier operating globally (eg USA traffic via AKL). The disadvantage is not only for New Zealand but also equally for Australia.

- A general nervousness expressed regarding the potential for monopoly pricing of air seats, which may impact negatively upon Australia's competitiveness as an international travel and business destination.
- A general view that the increased market power of the alliance may benefit New Zealand inbound industry at the expense of the Australian inbound industry. This issue is emphasised when considering the attractiveness of New Zealand's visa free arrangements for some international markets.
- The proposal to increase marketing efficiencies requires careful consideration. Although increased marketing effectiveness is the suggested outcome, qualifications are sought by the Australian tourism export industry to ensure that the change in marketing emphasis driven by a joint marketing strategy will not erode the focus on Australia.
- Concern expressed regarding the potential for less dispersment of air traffic outside the major gateways, thus negatively impacting upon tourism growth throughout regional Australia;
- A possible negative impact resulting from the major shift by Qantas Holidays to future promotions of New Zealand only, or New Zealand and Australia jointly which may erode potential inbound tourism values as international visitors may reduce their length of stay in Australia in favour of also visiting NZ.
- The suggestion that the alliance will deliver an additional 28,000 arrivals by year three is welcome, however the view of the industry is that this is a very small increase which would probably be exceeded if the Government commits to better funding for international marketing and the world economy improves from 2004/05 onwards.
- Increasing industry support for the view that Virgin Blue will enter the trans Tasman market if the alliance proceeds, hence providing additional capacity and price variation that will deliver a positive for the Australian industry. However, unless Virgin Blue flights become available on CRS systems worldwide and they have in place interline agreements with non-One World carriers, the entry of a VBA on the Tasman route will not be of great significance to the tourism export industry.
- The potential impact of a cessation of United Airlines services to Australia would of course have significant implications for the Alliance. In our view the ACCC should consider this scenario and ensure appropriate undertakings are put in place such that both fares and capacity on the Pacific route are maintained at competitive and adequate levels respectively.
- The considerable increase in market power of Qantas Holidays and Air New Zealand Holidays and the ability of these business units to monopolise distribution of air and ground products in Australia and New Zealand.
- The ability of the alliance partners to provide airfares to their own leisure holiday divisions and not to make the same airfares / conditions / capacity available to other wholesale distributors of Australian and New Zealand tourism products and services.

RECOMMENDATIONS

The Australian Tourism Export Council cautiously supports the submission by Qantas Airways and Air New Zealand for the formation of the proposed Strategic Alliance subject to the comments set out below.

ATEC accepts that the proposed alliance has the capacity to deliver a financially stronger international carrier network to service the Australian marketplace but also believes that this network will benefit the New Zealand market more than the Australian market.

ATEC believes that the ACCC should take into consideration the behaviour of Qantas and British Airways in relation to the JSA on the London-Australia route, where fares have remained at extremely low levels and are in fact lower than when the JSA was introduced on that route.

ATEC also believes the ACCC should take into account the likely entrant of a Value Based Airline on the Trans Tasman route but also believes that on-line carriers to Australian and New Zealand should be granted 5th and 6th Freedom traffic rights on the trans Tasman route.

ATEC also recommends an assessment of the implications upon the inbound industry resulting from the different visa issuance policies of each country, and the perceived negative impact upon the Australian industry resulting in a competitive disadvantage compared with New Zealand.

Whilst the proposal provides long-term opportunity for the Australian tourism export industry, it also has the potential to deliver negative impacts, hence the need for additional undertakings to be considered including;

1. A review of the proposed undertakings regarding price monitoring to guarantee that critical inbound leisure market capacity and air fares remain competitive and that the undertakings are enforceable;
2. A commitment from the alliance partners to contribute to a marketing support fund to specifically market Australia for the coming five years;
3. The continued support by the Commonwealth for a regulatory and policy framework that encourages a competitive aviation environment which enables bilateral agreements to flourish, thus delivering long-term opportunities for Australia.
4. An undertaking from the alliance partners to report on a regular basis to the ACCC and the Australian tourism export industry on alliance marketing activities
5. A commitment from the partners that they will provide equal and fair access to wholesale fares both domestically and internationally to wholesale distribution partners and will not provide wholesale discount fares on an exclusive basis to their own holiday divisions (Qantas Holidays and Air New Zealand Holidays).
6. A commitment from the partners that they will not use the market power of their combined holiday divisions (Qantas Holidays and Air New Zealand Holidays) to negotiate prices or availability from ground suppliers that significantly undercut other wholesale and inbound distributors of ground products in Australia and New Zealand.

CONCLUSION

The Australian Tourism Export Council supports the proposal for a Strategic Alliance between Qantas Airways and Air New Zealand as put forward under the current proposal before the ACCC.

ATEC believes the public interest will be best served by allowing the further development of a commercially viable and sustainable aviation market that will guarantee the Australian public and the tourism industry quality, reliable and competitively priced air travel both domestically and internationally.

ATEC believes that Qantas' good corporate record in relation to the operation of the JSA should be taken into account.

ATEC believes the ACCC should require the parties to provide reasonable undertakings in relation to pricing and the use of market power, including the use of market power by the parties' distribution businesses, Qantas Holidays and Air New Zealand Holidays.

end

Submitted on behalf of the Australian Tourism Export Council by

A handwritten signature in black ink, appearing to read 'Peter Shelley', with a stylized flourish at the end.

Peter Shelley
Managing Director, ATEC