



Ms Isabelle Arnaud
Director Adjudication Branch
Australian Competition & Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Ms Arnaud

Qantas Airways Ltd (Qantas) and Air New Zealand Limited (Air NZ) – Tasman Networks Agreement (TNA)

I refer to your letter dated 19 April 2006 seeking written submissions to the applications for authorisation to the Australian Competition and Consumer Commission (ACCC) by Qantas Airways Limited (Qantas) and Air New Zealand (Air NZ) and their subsidiaries (Jetstar and Freedom Air respectively) in relation to a Tasman Networks Agreement (TNA).

The Government of Western Australia (WA Government) would be pleased if the ACCC would accept this submission with regard to the proposed TNA.

1. Background - Global Situation

The WA Government recognises the uncertainty of the global aviation environment stemming from recent market shocks caused by the terrorist attacks of September 11, the Bali, Madrid and London bombings, the war in Iraq, SARS and more recently spiralling fuel prices.

The introduction of Low Cost Airline (LCA) services around the world during the same timeframe has changed the competitive landscape and forced Full Service Airlines (FSA) such as Qantas and Air NZ to change their business models in order to remain viable and competitive.

The WA Government contends that it is important to have strong local network carriers to maintain business and tourism linkages, particularly to regional Australian destinations. Closer co-operation between carriers, global and regional alliances and mergers are likely to be the way of the future.

Qantas has to date been able to survive and prosper in this difficult and uncertain global aviation market and Air NZ has largely recovered from the financial crises caused by the collapse of Ansett Australia in 2001. However there remains further uncertainty in the industry that could dramatically impact upon the viability of both businesses.

The WA Government supports Qantas being able to compete more effectively in the global marketplace and the TNA will not only serve to strengthen its ability to be more competitive, but will also allow it to remain competitive in an increasingly uncertain environment.

The WA Government supported the proposed strategic alliance between Qantas and Air NZ in 2003 and it likewise supports the proposed TNA on the basis that it is in the national interest to have a strong and viable Qantas. By improving the carrier's financial performance on loss making trans-Tasman routes, it will strengthen the overall viability of the airline to withstand future uncertainty in the industry.

2. Trans-Tasman Market Overview:

Despite having regulatory approval until the early 1990's, Trans-Tasman routes have been economically marginal for many years with Qantas and Air NZ historically co-ordinating capacity and other commercial aspects on secondary routes such as Wellington/Melbourne.

Competition on major trans-Tasman routes has grown significantly in recent years with the introduction of Pacific Blue and Emirates services and it is expected to remain intense on these routes under the proposed TNA with opportunities presented to those carriers for further expansion.

The ability for carriers such as Emirates and Singapore Airlines to operate marginally costed trans-Tasman routes, utilising aircraft that would otherwise be idle in Australia, is a significant factor in driving the need for a TNA by the Applicants.

The overall market is still relatively small by world standards to be supporting competition from so many airlines on so few routes. Consolidation or withdrawal is an inevitable outcome unless agreements such as the proposed TNA are approved by regulators.

On minor routes where there is currently little or no competition, there are arguments for and against the TNA, however benefits arising from the operation of joint services are more likely to outweigh the negatives.

The WA Government expects additional benefits to be realised on minor routes such as the Perth/Auckland route where no non-stop competition currently exists and frequency levels remain less than daily on a year-round basis.

3. Public Benefits:

The WA Government has developed long-term strategic aviation objectives based on the provision of daily non-stop services to its major markets in the region.

New Zealand is viewed as an emerging market providing significant growth opportunities for inbound tourism and the Government has worked closely with Air NZ to expand non-stop services on the Perth/Auckland route with a view to achieving a daily schedule on a year-round basis in the medium-term.

WA inbound tourism visitation ex New Zealand grew by 14.0% year ending December 2005 (source: Tourism Research Australia IVS) aided by the continuation of daily Air NZ services for the Northern Winter schedule which commenced in 2004.

The WA Government is of the view that a co-operative approach between Qantas and Air NZ on the Perth/Auckland route, as proposed under the TNA, provides the most realistic opportunity for sustainable non-stop services on the route for the foreseeable future and that such an arrangement is likely to lead to year-round daily services in the shortest possible timeframe.

Currently Qantas uplifts Perth/New Zealand traffic one-stop via its East Coast hub cities in competition with Air NZ's non-stop Perth/Auckland services. Air NZ struggles to attract sufficient corporate market on the route (higher yielding customers) with business and leisure customers often enduring the inconvenience of the one-stop Qantas services in order to maintain the benefits of the carrier's frequent flyer program.

Air NZ's capability to provide a viable daily non-stop service on the Perth/Auckland route, on a year-round basis, is thus inhibited.

Both corporate and leisure customers will benefit from the proposed TNA by obtaining the convenience of non-stop services on the Perth/Auckland route whilst also retaining the benefits of the Qantas frequent flyer program.

Increased demand for non-stop services on the Perth/Auckland route will lead to a speedier expansion to daily services on a year-round basis, than would otherwise be possible under the current arrangements.

It is widely accepted in the aviation industry that 'home carriers' have access to a more comprehensive sales distribution network in the respective 'home markets', therefore it is logical to contend that code share services provided by bilateral airlines on 'thinner' routes are likely to result in more sustainable financial outcomes in terms of route profitability.

Adding the Qantas code to the Perth/Auckland non-stop services is also likely to increase inbound tourism visitation to WA, with the destination expected to benefit from increased marketing exposure in New Zealand via the Qantas brand.

Tourism WA currently directs most of its co-operative marketing funds in New Zealand towards Air NZ due to that carrier being the sole provider of non-stop services to Perth, however under the TNA, funds will be directed towards both carriers and will thus significantly expand the State's overall marketing exposure.

The TNA is likely to generate a much better traffic mix and directional balance than currently exists on the Perth/Auckland route and thus create a more sustainable financial and operating environment.

4. Barriers to Entry

Whilst on the surface there appears to be no barriers to entry on trans-Tasman routes, the contention by the Applicants (page 28 and repeated) that there are no problems for a carrier such as Virgin Blue gaining access to facilities including terminals, counter space and slots needs to be further tested by the ACCC.

Peak period trans-Tasman slots at major airports in Australia and New Zealand could be lost to other destinations if they were not protected for a reasonable timeframe to allow a new entrant or existing carrier sufficient time to gear up for new or increased trans-Tasman flying.

For example, the Applicants cite the removal of overlapping flights (page 53, 11.14) on the Auckland/Sydney route under the TNA, which effectively vacates a peak-period arrival slot in Sydney and departure slot in Auckland.

Unless these slots were protected via some form of 'ring-fencing' for future trans-Tasman flights, the slots in all likelihood would be lost to trans-Tasman flying to other destinations and thus decreasing the potential for further competition on trans-Tasman routes.

The WA Government believes that carriers such as Pacific Blue and Emirates must be able to operate and develop competition on trans-Tasman routes on reasonable terms and to be given fair access to all related facilities including terminals and slots in both Australia and New Zealand

5. Impact on Pricing and Average Fares

The WA Government broadly supports the view of the Australian Competition Tribunal findings of 2004 that Virgin Blue and Emirates act as 'Mavericks' on major trans-Tasman routes and would thereby keep the Applicants on a continual competitive alert, both proactively and reactively. Both carriers have the ability to constrain the Applicants in terms of pricing and the situation remains equally valid under the proposed TNA.

6. Competitive Impact

On the major trans-Tasman routes, competition is expected to remain intense despite the operation of the TNA, however as stated previously, new and incumbent carriers need to be given reasonable access to terminals and slots should these be vacated by the Applicants under the TNA.

On minor routes such as Perth/Auckland, the increased public benefits and prospect of expansion of services under the TNA is more likely rather than being reliant on the introduction of head-to-head competition that would, in all likelihood, be economically marginal at best.

7. Summary

The WA Government supports the proposed TNA as we believe it will enable Qantas and Air NZ to curtail losses on trans-Tasman routes and become more viable and competitive in the global marketplace.

It is suggested that the TNA be approved for a period of 5 years, with further authorisation required by the Applicants to extend beyond that timeframe.

A co-operative approach between Qantas and Air NZ on the Perth/Auckland route, as proposed under the TNA, provides the most realistic opportunity for sustainable non-stop services on the route for the foreseeable future and that such an arrangement is likely to lead to year-round daily services in the shortest possible timeframe.

Carriers such as Pacific Blue and Emirates must be able to operate and to develop competition on trans-Tasman routes, including Perth to/from New Zealand on reasonable terms and be given fair access to all related facilities including terminals and slots in both Australia and New Zealand.

Yours sincerely



Greg Martin
Director General

18/5/2006