

TTF Australia Ltd | ABN 54 060 035 041
8th Floor | 8-10 Loftus Street | Sydney NSW 2000
PO Box R1804 | Royal Exchange | Sydney NSW 1225
T +61 2 9240 2000 | **F** +61 2 9240 2020
E contact@tff.org.au | **W** www.tff.org.au



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The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Qantas and Air New Zealand applications for authorisation in relation to the
Tasman Network Agreement

TTF Australia (Tourism and Transport Forum) appreciates the opportunity to comment on Qantas and Air New Zealand's (the Applicants) application for authorisation in relation to the proposed Tasman Network Agreement (TNA).

TTF Australia is a national, member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism and infrastructure sectors. Our Membership includes all the major airports in Australia and four of the eight airlines operating trans-Tasman services, all of whom have individual interests in this matter.¹

New Zealand is Australia's largest inbound market representing some 1,098,600 visitors in 2005. It is vitally important to the economic performance of the Australian tourism industry and our economy.

Earlier this year TTF Australia contributed to the Australian Government's wide-ranging review of aviation policy. Our position supports the liberalisation of international air services and the need to improve access to Australia while at the same time ensuring sustainable competition.

The industry therefore recognises that it is in our interest to maintain strong and stable airlines.

In light of rising oil prices, the disproportionate burden levied on aviation in relation to security costs and the volatility in the demand for air travel exacerbated by threats of terror and disease, the TNA will provide the Applicants with much needed cost savings.

However, the TNA will also result in a contraction of capacity.

¹ These include Qantas (and Jetstar), Air New Zealand, Virgin Blue, and Emirates.

The Tourism Forecasting Committee (TFC) has estimated that inbound visitation from New Zealand over the next ten years will stagnate compared to the previous decade (falling from an average growth rate of 7.4 per cent between 1995 and 2005, to 1.5 per cent for 2006 to 2015) and its growth rate will be slower than total arrivals.

This will be driven by a weaker New Zealand economy where consumer spending and business confidence is expected to fall and the NZ dollar is assumed to depreciate against the Australian currency over the short to medium term. Under these conditions the TFC expects a rationalising of capacity.

Since the TNA will reduce excess capacity and use the remaining capacity more efficiently (with regard to schedule spread and aircraft utilisation), TTF considers this an appropriate response to these market conditions, provided that the forecast growth is accommodated by the Applicants.

Our Membership is concerned about the effects of consolidation on several trans-Tasman routes if the TNA is authorised. While several routes have a high number of firms operating air services (most notably BNE/AKL and SYD/AKL) there are several where the Applicants will become the sole operator (including BNE/ZQN, SYD/ZQN, MEL/WLG and ADL/AKL).

A single TNA does not address discreet market segmentation and may disadvantage Melbourne for example, where the Applicants have a high degree of market share (85%) compared to Brisbane and Sydney. Melbourne has only two other airlines which each fly to one New Zealand port respectively (including Pacific Blue MEL/CHC and Emirates which utilises its wide body aircraft on MEL/AKL).

Several air service agreements for third country carrier access over the Tasman nominate a specific Australian or New Zealand city, rather than treating the markets as a whole and leaving points served as a commercial decision by the airline. In nominating specific cities, other cities are therefore excluded from business opportunities.

These restrictions do not facilitate market entry by international carriers on the trans-Tasman. I therefore encourage the ACCC to consider this matter as part of its assessment of the TNA.

Another issue which warrants further consideration is how the TNA will affect the respective global alliances the Applicants are members of (in this case Star and One World). I therefore seek the ACCC's consideration of this issue also.

I recognise that there is a possibility of further market entry particularly by Virgin and Pacific Blue; that substitution between routes can occur; and that the Applicants submit that the TNA will have no impact on existing low fares (1.9).

The TNA will also deliver significant benefits for the tourism industry. This includes a greater choice of departure times (by reducing the level of 'wing tip' flying), better connectivity, a more seamless travel experience (with thru baggage and shared boarding pass products), greater capacity to change itineraries and reduced waiting times.

In a climate where passenger facilitation requires significant improvement, the latter benefit is particularly welcomed by the industry.

TTF also appreciates that there are greater incentives under the TNA to provide consumers with new direct services but the Applicants at present do not forecast doing so.²

In 2003 TTF provided conditional support in relation to the previous proposed alliance between the Applicants. I understand that the TNA differs from that alliance by limiting cooperation between the Applicants to the Tasman and it does not involve an equity component.

With the TNA approved there will be greater certainty and stability for consumers, government and businesses.

While sustainability is important, so too is market based competition. There is a high level of market concentration associated with the proposal particularly in the case of operations from Melbourne.

TTF therefore recommends the ACCC authorise the TNA, taking into consideration the matters raised in this submission, and with the condition that it monitors market competition and outcomes annually for the next three years.

Should you wish to discuss this submission further, please do not hesitate to contact Dr Mark Dimech, National Manager, Aviation, on (02) 9240 2015.

Yours faithfully,



Leslie A. Cassar AM
Chairman

² Gold Coast and Canberra International airports for example support the TNA given its potential to deliver new services (such as CBR/AKL), improve the viability of current services and stimulate increased frequency on some routes.