Tourism New South Wales

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Ms Isabelle Arnaud
General Manager
Adjudication Branch
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

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Dear Isabelle

RE: QANTAS AND AIR NEW ZEALAND PROPOSED TASMAN NETWORKS AGREEMENT (TNA)

Thank you for the opportunity to provide a submission to the ACCC's assessment of the proposed agreement between Qantas and Air New Zealand.

Tourism New South Wales (TNSW) primary objective is to grow the New South Wales tourism economy for the benefit of the people of New South Wales.

The New Zealand market is very significant to NSW, second only to the United Kingdom in terms of visitor numbers. In 2005 over 365,000 visitors spent at least one night in NSW, up 2.9% on 2004 figures, however down on the 13.5% growth in New Zealand visitors between 2003 and 2004 (*IVS*). This growth was due mainly to aviation developments, including lower airfares and new services provided by new entrant "Fifth Freedom Carriers", most significantly Emirates and Low Cost Carriers such as Pacific Blue.

On balance TNSW supports the proposed TNA, primarily because Low Cost Carriers and Fifth Freedom carriers have established themselves on the route as a competitive check on unreasonable fare increases by the current full service carriers. Current capacity on the route is unsustainable and this oversupply does not seem to be detrimental to the new entrants. Increased efficiency moves by Qantas and Air New Zealand e.g. reducing "wingtip flights" as proposed in the TNA should enable the over supply to be reduced, without necessarily increasing fares.

Tourism House Level 2 55 Harrington Street The Rocks Sydney NSW 2000
GPO Box 7050 Sydney NSW 2001 Australia Telephone 61 2 9931 1111 Facsimile 61 2 9931 1490 www.tourism.nsw.gov.au

Since the ACCC last considered (and rejected) an alliance between Qantas and Air New Zealand in 2003, a number of dynamic influences has impacted in the Trans-Tasman aviation environment. These include:

- The growth and establishment of new independent entrants on the Tasman routes including Emirates (commenced in 2003), Pacific Blue (commenced in 2004). These airlines have grown in three years to currently command approximately 16% market share (*BTRE*);
- The consolidation of Air New Zealand with rationalisation of services, cost cutting in maintenance and new aircraft acquisition and upgrades and the benefits of continued government majority share holding;
- The impact of rising oil prices on ticket prices across the aviation industry. As an indicator of these impacts, Qantas expects its fuel bill to rise by A$1.1bn in 2006/07 or twice its annual net profit;
- The establishment of the Qantas subsidiary Jetstar (commenced Trans-Tasman operations late 2005). This airline will expand its International route network considerably in 2007 and will expand its fleet through new aircraft acquisitions.

Increased competition on the Tasman routes has also reduced the market dominance of Qantas and Air New Zealand. The combined market share of these airlines and their low cost subsidiaries (Jetstar and Freedom Air respectively) has reduced from approximately 92% in 2002 to 80% in 2005 (*BTRE*). It is undoubted that the new entrants have had an immediate and ongoing impact on the Full Service Carriers, even though Qantas and Air New Zealand's market share is still considerable.

Other "Fifth Freedom" carriers have come in and out of the Tasman routes primarily dropping the route when financial pressures come to play. According to the BTRE, these airlines had 4% market share in 2005 down from 7.7% in 2002. Malaysia Airlines ceased operations in 2004. Thai Airways International withdrew in 2005 after having approximately 4% of the market in 2001. Singapore Airlines does not currently serve the route but could at any time. The current fifth freedom carrier with considerable share is Emirates with approximately 9% of the market. This carrier is in a financially strong position and appears committed to an Australian/ New Zealand market presence.

The recent growth in New Zealand visitors is not expected to be sustained over the medium term with the Tourism Forecasting Council expecting average annual growth from 2006-10 of 1%, down from an average annual growth of 8.5% from 2001-05. Australia's share of total New Zealand outbound travellers decreased in 2005 to 52 per cent, with losses in market to the Pacific Islands, USA, UK and emerging destinations such as Dubai, South Africa, and India. With a high proportion of New Zealanders being repeat visitors the maintenance of attractive pricing, (including airfares) and effective marketing of alternative destinations is a key to success in this market.

Although supporting the proposed TNA, TNSW believes that given the volatility in the aviation market it would be appropriate to monitor and review the authorisation after an initial period to assess the impact on average benchmark fares, particularly if the market share of the Qantas and Air New Zealand Groups climbs back toward pre new entrant levels.

Yours sincerely

John Bates
A/ Director
Strategic Operations