



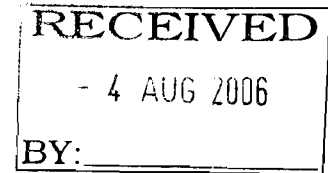
tourism
INDUSTRY
ASSOCIATION NEW ZEALAND

26 July 2006

Hon Pete Hodgson
Minister of the Crown
Parliament Buildings
WELLINGTON

Dear Minister

Air New Zealand/Qantas Application



The Tourism Industry Association New Zealand (TIA) understands the application from Air New Zealand and Qantas for a code-share agreement on the trans-Tasman route will require a statutory decision under the Civil Aviation Act (the Act) 1990. We have been advised that the Minister of Transport, Hon Annette King, has delegated responsibility for making this decision to you. Whilst we recognise that the Act does not include a formal submission or hearing process, your officials have suggested we write to you and set out the views of the tourism industry for consideration.

What we do

TIA advocates for the interests of the tourism industry in New Zealand. The businesses we represent generate more than 85% of New Zealand's tourism related revenue and directly and indirectly employ one in ten New Zealanders in mostly small and medium sized enterprises. The membership of TIA is diverse, ranging from major airlines like Air New Zealand, Qantas and Pacific Blue to small boutique tourist operators such as those in the bed and breakfast sector. As is the case on many tourism issues, the views of TIA members are diverse on this matter and in coming to a position we have attempted to balance these differing views.

Issues to consider

We have sought clarification from Air New Zealand as to their rationale for a code-share arrangement with Qantas on the Tasman route. From the outset, we accept Air New Zealand's position that it needs to remain solvent and competitive to survive so it can continue to play a crucial role in New Zealand's visitor industry. A national carrier that is profitable is one that can grow and extend its network and ensure the koru, of such symbolic value to the New Zealand brand, continues to be seen at major international airports around the globe.

New Zealand's distance from international markets has often been a hurdle in convincing visitors to make the visit here. As a tourist destination, we face increasing challenges from new and emerging destinations in South East Asia, South America, Africa and Eastern Europe, so we need to keep international awareness of New Zealand top of mind. To make this happen, a strong national carrier is critical. TIA also works with Tourism New Zealand (TNZ), the government's crown owned entity,

charged with marketing New Zealand offshore, on initiatives that support the New Zealand brand.

From a global perspective, the rationalisation of international carriers with code-share arrangements is not new and has been the key to their financial sustainability and growth. While most code-share agreements exist between carriers belonging to the same airline groupings, for example, the Star Alliance to which Air New Zealand belongs and One World to which Qantas belongs, there is ample precedent for code-share arrangements between offline carriers. An excellent example is the collaboration between British Airways and British Midland (BMI) on several European routes, even though British Airways belongs to the One World grouping and British Midland, the Star Alliance.

Whilst we offer our fundamental support for the Air New Zealand/Qantas application, we do recognise some concerns, principally that a code-share agreement between Air New Zealand and Qantas has led to an expectation of an increase in airfares, with claims of “higher prices driven by reduced seat availability, reduced competition and price collusion”. Our association understands the objective of the code-share is to reduce the number of aircraft flying, not necessarily the number of flights available. Currently approximately 6300 empty seats or the equivalent of 43 empty Airbus 320 aircraft ply the Tasman each day of which Air New Zealand accounts for between 30% to 40% of that total. A continuation of the status quo is not sustainable for any airline flying the route. A code-share will allow Air New Zealand to make substantial cost savings, lowering its cost base and providing opportunities to sustain lower prices.

We accept Air New Zealand’s assertions that consumer’s interests will be protected and acknowledge their view that any hint of either Air New Zealand or for that matter Qantas raising prices, means competitors, operating in an open skies environment, will jump at any opportunity for market share to drive prices back down again. There is a plethora of airlines flying the route, in addition to Air New Zealand and Qantas, including but not limited to Emirates, Pacific Blue, Thai, Aerolineas Argentinas and Air Tahiti Nui, who could fill this void.

Finally, TIA acknowledges that the code-share agreement has the potential to disproportionately affect some regions and companies more than others. We have been encouraged by Air New Zealand’s determination to spell out these affects to parties concerned and we hope the engagement and consultation process undertaken by the airline will help to allay concerns.

Conclusion

In sum, TIA is in support of the Air New Zealand/Qantas application if it means New Zealand’s only international carrier is to remain sustainable and profitable into the future. Whilst some concern has been expressed that ticket prices may increase, TIA believes that with a number of newcomers to the market, this will be minimised. We appreciate your decision must weigh up the broader public interest and in this regard we think the case has been made for the application to proceed.

As the umbrella organisation for the tourism industry in New Zealand, we invite you and your officials to contact us if we can be of any assistance and we look forward to hearing from you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Fiona Luhrs', written in a cursive style.

Fiona Luhrs
Chief Executive

cc John Macilree, Principal Adviser, Air Services Team, Ministry of Transport,
Wellington