

S. 9(2)(a)

KAPITI

28 July 2006

Mr. John Macllree,
Ministry of Transport,
PO Box 3175,
WELLINGTON 6140

Dear Sir,

Re: Proposed Qantas/Air New Zealand Code Sharing Agreement

I am writing in response to your organisation's invitation for submissions on the above matter.

I am responding as a frequent trans-Tasman business traveller and senior manager of a company with a significant Australasian organisation. Please note that I am making this submission personally and not on behalf of my employer.

My experience over some 20 years has mainly been with routes originating and ending in Wellington. Currently, the only serious operators from and to Wellington covering multiple routes are Qantas and Air New Zealand. I understand that the TNA applicants have publicly signalled their intention to reduce capacity on certain routes including Wellington should the TNA be granted.

Competition on the Wellington Routes

Freedom Air (subsidiary of Air New Zealand) operates only to Gold Coast and Pacific Blue operates direct flights only to Brisbane. While Jetstar may operate on the Wellington routes at some future time, this operator is in a similar position to Freedom Air, being a subsidiary of one of the two major trans-Tasman airlines.

Furthermore, Freedom Air and Pacific Blue are clearly catering for the leisure traveller, with each airline operating only two weekday flights per week.

This means that the business traveller and anyone requiring direct connections from Wellington to Melbourne or Sydney must fly either Qantas or Air New Zealand.

I believe that pricing for peak travel times provides a useful insight into what would occur with the rationalisation and code-sharing plans proposed by Qantas and Air New Zealand – capacity constraints inevitably lead to higher prices for the consumer.

I have no doubt that this would occur should the Authorisations be granted. Businesses would have no option but to pass these cost increases on directly or indirectly to their customers, further impacting on our high-inflation economy.

In my view, capacity and pricing are inextricably linked – it is like any other supply and demand situation.

I am particularly concerned about the impact of the TNA on business airfares. Past experience has shown that these airlines are capable of forcing high prices onto business travellers through measures such as requiring Saturday night stays in order to qualify for reasonable fares. This encourages the development of the leisure travel market while extracting much higher margins from mid-week business travellers. This was the situation in the not-too-distant past where \$1,000.00-plus return trans-Tasman airfares were common for weekday travel.

It is agreed that other carriers may be in a position to constrain pricing on the Auckland route. Given that Pacific Blue only operates direct flights from Wellington to Brisbane and Emirates does not operate from Wellington however, unless additional services are provided by these or other carriers it is difficult to imagine adequate constraints existing for services into or out of Wellington.

Impact on the Wellington Economy

From past experience, if capacity and schedules on the Wellington routes were reduced this would have a very adverse effect on the Wellington economy. For example, Australian-based businesses who may otherwise favourably consider Wellington as a base for their New Zealand operations would discount Wellington as an option if it was not well serviced in terms of flight schedules and capacity. Such was the case some years ago on the Melbourne – Wellington route.

Of course this could also lead to existing businesses withdrawing from Wellington if capacity and schedules were reduced.

Quantifying the Public Benefits

The details of any public benefits are currently less than clear. Air New Zealand has stated “Benefits to the consumer would include better loyalty programme advantages, a better spread of schedules, better connections to onward flights and the retention of low fares.”

Given the discussions about reducing capacity on Wellington routes, I find it very difficult to believe that there will be a better spread of schedules with better connections for Wellington flights.

If “better loyalty programme advantages” is intended to mean more award seats becoming available then this is rather pointless unless award points are awarded for

"low-cost" air fares. Currently Air New Zealand does not award points ("Airpoint Dollars") for its lowest-cost "Tasman Smart Saver" fares.

Likewise, Qantas has stated that the granting of the TNA would result in "sustainable low fares, a better spread of departure times, new destination opportunities and Frequent Flyer benefits". Again, it is difficult to believe that any improvements will be made to flight schedules and that low fares will be maintained on routes where capacity is likely to be reduced.

Flying Under the Radar

In summary, I believe that the granting of the TNA would be a highly regressive step from a competitive perspective. I firmly believe that approval will lead to decreased capacity and increased pricing on routes such as Wellington if not in the short-term then certainly in the medium to long-term.

It seems to me that granting of the TNA would be tantamount to government sanctioning of collusion between two formerly competitive organisations which effectively operate as a duopoly. This application could be considered by many to be nothing more than an attempt to obtain the benefits that the rejected merger application would have brought to Qantas and Air New Zealand had it been approved.

The airlines have stated repeatedly that the Tasman route generates very significant losses, however no externally audited financial data to support this seems to have been forthcoming. To me this information cuts to the heart of the application and must be provided if any consideration is to be given to an issue such as this which has the potential to negatively impact so many individuals and businesses.

I trust that this submission provides the Ministry with an insight from a frequent trans-Tasman business traveller's perspective.

Yours faithfully,

S. 9(2)(a)

