

OPAANZ-C

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Mr John MacIlree
Ministry of Transport
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Wellington

BY EMAIL: j.macilree@transport.govt.nz

Monday 31 July 2006

Dear Mr Macilree

Re: Qantas and Air New Zealand Tasman Network Agreement (TNA) application

I have been asked to write expressing concerns about the proposed TNA on behalf of the 20 international chain and privately-owned hotels that are Wellington members of the New Zealand Hotel Council (NZHC). To background:

1. New Zealand Hotel Council Inc

NZHC is an industry association representing 85% of all hotels and 100% of the large hotels in Auckland, Rotorua, Wellington, Christchurch and Queenstown. Collectively members employ over 9300 people, have a capital value of almost \$3 billion and last year recorded revenue in excess of \$800 million. NZHC collects the only statistics that specifically relate to large hotels and has the most comprehensive, accurate data of any sector in the tourism industry. NZHC has a board of elected regional chairs and the heads of the major international chains.

2. Commercial Realities

While we appreciate the competitive and cost pressures that airlines operate under (as do all businesses) and the importance of securing sustainable commercially-viable air links, we also understand the growth potential of the trans-Tasman market. As Air New Zealand and Qantas are the only airlines operating between Melbourne-Wellington and Sydney-Wellington, their actions are critical to the future growth of the Wellington-Australia market.

3. The Wellington tourism market

Wellington is a distinct market for the trans-Tasman. It is a short-haul market that requires convenient, direct services. It is increasingly used for one-day return trips for business purposes. It is also the main growth prospect for the Wellington Region tourism industry. NZHC members are active - both independently and in conjunction with Positively Wellington Tourism (PWT) - in campaigns to attract Australian visitors to the

region. As a group, we regard this market as our most important and, at a time when visitor numbers from other overseas destinations are slowing and local inventory is increasing. Growing this market is a priority. Flight frequency, capacity and competitive pricing is essential to building a competitive marketing offer and therefore to continued growth.

4. NZHC Wellington region concerns

- Any reduction in the number of direct services and/or capacity between Wellington and Australia. There is a large body of research which shows that the number of available seats on a route has a direct bearing on traffic volumes ie a reduction or expansion in the number of seats available will inevitably decrease or increase passenger numbers.
- Reduced investment in destination marketing that will result in a lower profile and visitor awareness for Wellington (as well as other NZ centres). We are confident that increased destination marketing (which NZHC members partner with PWT, Air New Zealand, Wellington Airport, Te Papa) has established a growing, positive awareness of this region.
- Unreasonable fare increases or the reduction of promotional, competitive fares. We understand that Air New Zealand and Qantas will agree “benchmark Fares”. We see this as little more than monopoly price fixing and it will inevitably lead to higher fares generally.
- Ongoing surety of operations. While capacity, frequency and price are critical in growing the number of Australian visitors flying to Wellington, so is the surety of service and airlines that are committed to flying the routes. We respect any airline’s ability to make commercial decisions to remain profitable and therefore able to invest in growing frequency and capacity. This should not include being able to act as a monopoly.
- The process that the TNA will be subjected to will be transparent and inclusive. We believe that as the scale and potential impact of the TNA may have significant ramifications, not only for the Wellington region but for the tourism industry going forward, it is essential that its consideration is open, transparent and independent. As part of this, NZHC would like to see expert analysis of the impact the TNA will have for consumers and trans-Tasman competition at an overall market and city-pair level. Given there has been no consultation with stakeholders to date, we would also like the opportunity to respond to this information and advice from independent experts and officials that pertain to the TNA.

5. Conclusion

NZHC Wellington region entirely appreciates the right of any business to act in its own best interest. However, where such action is monopolistic in nature and likely to have significant ramifications on members’ own activities and profitability, as is the case with the TNA, we seek assurances that consideration will be rigorous, transparent and consultative.

If one were to suggest that our own industry “code share” (ie rate fix), the Commerce Commission would take immediate action. When asked recently why Air New Zealand

was against the idea of the matter being considered by the Commerce Commission, the Chief Executive of Air New Zealand was bluntly honest. "We are unlikely to get the answer we are looking for".

For these reasons we believe the TNA should not be considered by the Ministry of Transport but, rather, be referred to the Commerce Commission where a much wider range of effects can be properly considered.

NZHC would appreciate being kept informed of the process from this point.

Thank you for your consideration.

Yours sincerely

Chris Parkin
Wellington Region Chair.