

2 July 2003

The Chair
The Commerce Commission
PO Box 2351
WELLINGTON

Dear Sir

We have met with Air New Zealand and discussed a range of issues including the proposed Air New Zealand / Qantas Alliance and questions over Air New Zealand operating routes if the Alliance does not proceed.

THL is committed to the support of Air New Zealand as a valued partner and our recognition of the fact that clearly Air New Zealand has a major influence in the fortunes of our visitor industry from our major markets.

THL, as you know, is a substantial owner and operator of tourism plant and services on the ground within New Zealand (and to a lesser extent in Australia and Fiji). Our primary markets however are based within Europe, predominantly Germany and the United Kingdom, the USA and Japan.

We were very concerned to hear that Air New Zealand might consider withdrawing from its London service to Auckland over Los Angeles if the Alliance does not proceed. We consider that would have very significant adverse effects on the NZ Tourism industry.

Our experience following Air New Zealand's withdrawal from Frankfurt has not been good. Whilst we appreciate more recent negative economic indicators from this market we would argue that overall the make up of the German traveler to a destination like New Zealand is more resilient to economic and consumer confidence setbacks.

It is interesting to note that in this instance at the time of Air New Zealand's withdrawal from the route in March 2001 year end visitor numbers to New Zealand were tracking at 53,842 arrivals, up 11.7 percent on the previous year, now for the same period ended March 2003 arrivals sit at only 50,441. The table below demonstrates this in a little more detail.

March 2001 y.e.	53,842	plus	11.7 %
2002 y.e.	49,282	minus	8.5 %
2003 y.e.	50,441	plus	2.4 %

Since that service withdrawal our key wholesale clients continuously raise with us their difficulty in finding adequate one stop air capacity to New Zealand despite the range of connections available through Air New Zealand's code share agreements.

For example, we are currently working through a very successful television media selling campaign in the market, BigXtra, and over the May – August period for Australia this year we have generated close to AU\$1 million in new Motorhome hire revenue. Our media partners who usually sell short haul travel packages have used this Australian Motorhome campaign as a trial for long haul sales through TV selling and have been impressed with its success. As such they have for some months been eager to extend this to New Zealand. Due to limited seat availability and frankly interest by your airline partners this opportunity at present appears lost.

On another front the market simply misses the much-reduced energy previously put into promoting New Zealand by Air New Zealand with the travel trade and at times direct with consumers. This has dramatically reduced overall exposure for New Zealand and in our view is stunting longer-term growth potential from Germany.

It is interesting to note that through the international visitor forecasting exercise undertaken by the Tourism Research Council that the forward outlook is expected to be grim with hardly any growth in numbers anticipated. Much of the attitude that drove this market prognosis, I understand, was driven by the impact of the loss of Air New Zealand's efforts in the market and difficult air capacity access.

This brings me to the question of London. The UK market has continued to be a very steady state star performer for New Zealand. As at March 2003 we have had a full year of just over 240,000 visitors from that market, up 6 percent on last year despite some more recent knocks with the likes of war on Iraq and even SARS in its infancy.

Going back ten years the market delivered roughly half that number and has consistently delivered an average growth of 9 %. Right now there is every reason to believe that that we will double that number again to 480,000 visitors over the next ten years.

Air New Zealand's presence in the UK is vital to the New Zealand tourism industry and indeed our trade partners in the markets. Irrespective of day-to-day challenges over your commercial arrangements with industry partners in the market, they are very reliant on Air New Zealand support and service.

From our commercial perspective and an industry emotional perspective we need Air New Zealand to remain on the route and would indeed argue that if anything Air New Zealand should be looking to expand its London operation. Current performance at present in a very difficult market environment must surely attest to that.

It is essential that Air New Zealand continues to operate its international network and, if the Alliance with Qantas is necessary to ensure that, then we urge the Commission to approve it.

Kind regards

Dennis Pickup
MANAGING DIRECTOR