14 February 2003

The Chairman
NZ Commerce Commission
PO Box 2351
WELLINGTON

Dear Sir

Air New Zealand and Qantas co-operation agreement

The Hospitality Association appreciates the opportunity to add its comments to the Commerce Commission's enquiry into the application by Air New Zealand and Qantas to act co-operatively.

The Hospitality Association's interests in this matter reflect the views of its 1,900 hospitality members who are key components in servicing New Zealand's growing tourism industry. This membership traverses café bars, restaurants, taverns, country hotels and large accommodation providers. All have an intense interest in ensuring that the New Zealand tourism industry, both domestic and international, continues to grow.

The Association recognises the critical role played by Air New Zealand as our national carrier, not only as a key carrier of tourists, but also as a pre-eminent marketing vehicle for New Zealand as a tourism destination. Equally important is Air New Zealand's domestic marketing with its consequent positive impact on driving domestic tourism.

The Association also recognises the fragile state of international airline business and the importance of long-term viability and profit.

In discussion with its membership, two key concerns have emerged with respect to greater co-operation between Air New Zealand and Qantas. These are capacity and price.

<u>Capacity</u>
Post September 11, Air New Zealand along with all the other international airlines reduced capacity. While there has been some bounce-back and we are seeing more capacity provided, anecdotal evidence from members suggests that there are still constraints on international travellers being able to travel to New Zealand when they wish to do so. Members are concerned that co-operation between Air New Zealand and Qantas will further exacerbate the capacity on international and Trans-Tasman routes.

With regard to domestic travel, Air New Zealand's *express class* seems to be having a positive impact on domestic tourism with cheaper domestic fares making domestic tourism destinations more accessible for New Zealanders. There have been however some concerns expressed about the future ability of Origin Pacific to survive without their current linkage into Qantas.

Pricing

The Association's members have expressed concerns that constraints on capacity will ultimately result in increased pricing. While it is appreciated that pricing needs to reflect actual costs to ensure long-term viability, there are concerns that without significant competitive pressure, upward price movement will not be controlled.

Competition

Given that cooperation between Air New Zealand and Qantas will undeniably reduce competition it is vital that easy access is provided to any would be competitors. This issue is very important given the inherent influence Air New Zealand/Qantas will have not only over the provision of airline services but by default over the infrastructure. This includes landing rights, airports, ticketing, terminals, transfers, lounges, fees and so on. Any agreement for greater cooperation must actively preclude Air New Zealand and Qantas from using these and other means to prevent or frustrate the entry of a new competitor.

Conclusion

The Commerce Commission has a difficult task in wrestling with the realism of today's international aviation market and the importance of maintaining a strong viable New Zealand carrier against legitimate concerns that reduced competition will have on capacity and pricing. The Association encourages the Commission to be innovative in endeavouring to allow greater co-operation to ensure viability but preserve the benefits of competition and the opportunity for it to emerge in the future.

Yours sincerely

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