Submission of the Importers Institute of New Zealand to the New Zealand Commerce Commission and the Australian Competition and Consumer Commission on the Air New Zealand / Qantas authorisation applications.

The IMPORTERS INSTITUTE is an informal national association of New Zealand importing companies. We aim to keep our members informed on topical issues of interest and to represent importers' interests before policy makers and the public.

The Importers Institute is opposed to the proposed transaction. We believe that it would have the effect of reducing capacity and increasing freight rates. It would entrench Qantas and Air New Zealand into a dominant position in the New Zealand domestic and trans-Tasman aviation markets, to an extent that would deter future competitors from entering those markets.

A reduction in capacity is not a mere incidental of the proposal - it is the main rationale behind it. The airlines said, "97. Current capacity, costs,load factors and fares in the Australasian markets mean that it is impossible to generate long-term economic rates of return for two locally based network carriers. Tasman routes have traditionally been insufficient to cover the cost of capital and the current limited profitability is not sustainable as more capacity flows onto those routes."

At the same time, however, the airlines claim that capacity will increase. These two irreconcilable positions are reconciled by using the device of comparing current capacity against a worst-case scenario (the "counterfactual"), based on confidential data. The airlines have, in fact, put up a straw man, against which their preferred scenario looks that much better.

In the application, the airlines said, "113. There are no airlines that have indicated a willingness to enter into a strategic alliance which can resolve the strategic imperatives for Air New Zealand discussed above in respect of the counterfactual." This statement is demonstrably untrue. Singapore Airlines, for one, was keen to inject a large sum of capital into Air New Zealand. At the time (June 2001), that must have met the "strategic imperatives" of Air New Zealand, since its board approved a proposal from Singapore Airlines for a 25 percent holding, through a stock placement of NZ$1.37 a share.

However, this is not the only other possible counterfactual. It is perfectly possible for the current owners (the New Zealand government) to sell the airline to any other company that can run it better than its current management, while increasing competition in the domestic and trans-Tasman markets. Any reluctance on the part of the New Zealand government to pursue that course would be political, not commercial. That government has the alternative option of continuing to sink large amounts of taxpayers' dollars into a failed business, should it decide that it is too politically unpalatable to sell it. Either course carries political risks, but those flow inevitably from that government's initial decision to become involved in the airline business.

The option of selling the airline may be inconceivable to some politicians, who fear the political fall-out from their earlier bad commercial decisions, and those who are currently employed as directors and managers of Air New Zealand, who understandably fear the disappearance of their jobs. That is not the same as to say that it is inconceivable.

The airlines appear to be saying that they are unable to operate profitably, unless they are allowed to reap the benefits of monopoly pricing. They said, "101. Securing a strong home base is essential to place

Qantas on a more even footing with its main international competitors and contribute to the sustainability of Qantas as a global competitor." A similar argument used to be advanced by local manufacturers when they demanded tariffs to shelter them from imports, against the premise that a strong domestic market
(meaning the ability to exploit local consumers) was a prerequisite for them to become internationally competitive. The argument made no sense in that context; it is equally patent self-serving nonsense, when applied to airlines.

The airlines contend that a reduction in competition is the price that New Zealanders and Australians have to pay to allow them to continue to operate in their preferred business model. They would rather sell to protected markets than withstand the rigours of open competition. As societies, we have opted for competition against central planning and appointed bodies like the New Zealand Commerce Commission and the Australian Competition and Consumer Commission to prevent anti-competitive collusion between businesses.

The Importers Institute asks both agencies to do the job for which they were set up and reject this proposal.

Yours sincerely

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