The Secretary
Commerce Commission
44-52 the Terrace
Wellington

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30 January 2003,

Qantas / Air new Zealand merger

Dear Secretary,

Please could you convey my letter to members of the Commerce Commission currently contemplating the merger of Qantas and Air New Zealand.

I am actively preparing to create a trans-Tasman airline to resolve the desperate need of South Island and Wellington exporters for more airfreight capacity. I noticed comments reported in newspapers, that these two airlines have pledged to provide sufficient terminal access to new entrants. As an interested party, the Commission might value my imput ?

I am a former Air New Zealand baggage handler familiar with gates and congestion at Wellington airport. When Ansett NZ was operating, Ansett's baggage room operation was squeezed into a space equivalent to 25% of the baggage room. Air New Zealand was loathe to share weighing scales in the baggage area. These were vitally needed to determine the weight and distribution of loads on aircraft.

An overloaded aircraft, or one with badly distributed weight can crash on take-off. Use of facilities in baggage rooms must be legally guaranteed to a new entrant airline. When I was at Air New Zealand managerial ground staff were openly hostile to sharing facilities with Ansett NZ and the other provider of ground handling, Aviation Ground Services which I also worked for in 2002. These were facilities necessary for the provision of airline competition and aviation safety.

Gate access: Airport gates correspond to marked aircraft turning circles. Some are designed for larger jets with aircraft docking piers. Others are smaller aircraft spaces for regional, propellor aircraft, whose passengers must walk to their aircraft. At busy times, all large jet docking piers can be occupied by scheduled Air New Zealand and Qantas aircraft. To guarantee fair distribution of gate access, there must be a fair chronological sharing of gate access too.

There is no point just offering to share gates at off peak times. There must be genuine sharing at busy times.

Air New Zealand at Wellington airport made sure to buy up all ground support equipment when Ansett NZ collapsed. There is a severe shortage of space to accomodate service vehicles tugs and baggage trollies etc from any new airline.

Any new entrant is almost forced to use Air New Zealand's ground handling (terminal services). I urge the Commission if this is the case to do one of two things or both. To make Air New Zealand split off Terminal services as a stand alone neutral business unit and sell these business units to their respective airport companies and/or oblige Terminal Services to offer ground handling for a new entrant at the same price as it does for Qanatas and Air New Zealand.

Check-in counters: At Wellington Air New Zealand controls half of the check-in counters whilst Qantas another 25%. It is not feasible to simply find spare floor space and create new counters. Check-in counters back on to conveyer systems linked to the baggage rooms. Better use of counters could be made if some check-in counters here airline neutral and able to change their signage to meet ebbs and flows of services. Air New Zealand sometimes provide counter staff for Qantas, but for reasons of commercial sensitivity a new entrant must not be forced to use Air New Zealand staff and counters.

It is an emerging trend overseas for airports to offer their own aircraft handling services independent of airlines.

In my view, as someone planning to create a new operation in the near future, undertakings given by Air New Zealand and Qantas must be in the form of a legally enforcable contract between this airline group and the Commerce Commission which the public may view at libraries and on the internet.

My greatest concern is if new entrants are forced to use existing ticketing and ground handling services, existing innefficient overheads (eg employment contracts) are passed on to a new entrant aswell.

New entrant airlines face an uphill battle to create their own ticketing and ground handling infrastructures. This is especially so at commencement of services when a new airline has low capital reserves and low flight frequency. Too few flights make it unviable for a new entrant to create their own infrastructure pool of vehicles and staff.

I propose one solution would be to levy Air New Zealand and Qantas to provide a venture capital fund for new airlines, to be held in trust and funds to be reinvested at commercial rates of interest. This fund to be shared and used through regional development agencies and chambers of commerce to ensure the regions are not left behind, such as the current airfreight capacity crises in southern regions.

I hope my ideas provide some food for thought. Presently I have difficulty raising venture capital because investors are scared of Air New Zealand's market dominance. I have been instructed by "Invest Wellington" they will not fund a freight service to Australia if I offer passenger services, because Investment Manager Mr David Kiddey and Wellington regional Councils do not want me buying a fight with Air New Zealand.

This should not be a commercial consideration for obtaining finance. The commercial reality is that freight prices for outbound perishable cargo are viable, but inbound dry goods can fly more cheaply via Auckland than a freight airline can provide a service. The only viable option to restore freight capacity needed at Wellington is a "combi" passenger/freight operation. A puire freight service is unviable.

Incidentally Wellington and Christchurch lost their freight capacity because of anti-competitive practices by Qantas and Air New Zealand to keep Virgin Blue off Tasman routes.

Airline economics can't be altered to fit the desire of regional development investors to avoid competition with Air New Zealand. A new entrant like myself should be free to create the kind of service most viable and likely to succeed. Not the kind least likely to offend Air New Zealand.

In passing I wish to register this letter as a complaint that regional bodies offering development funds from rates and taxes do place anti competitive restrictions on the use of these funds. My letter is accompanied by one from Invest Wellington which establish my credentials as a prospective new entrant airline operator.

This venture capital fund levy on Air New Zealand and Qantas is the best possible way the Commerce Commission can help a new entrant. Admittedly I have some self inerest suggesting it, but I know two other prospective start up airlines are also in the wings looking for venture capital. Some existing New Zealand airlines also seek capital to take on Qantas and Air New Zealand.

This venture capital fund would ensure the best chance for Kiwi operators to take on the Air New Zealand monopoly and create locally relevant solutions. We don't need Virgin Blue to solve New Zealand problems. Virgin's only advantage is it has the capital many Kiwi entreprenuers are starved of.

In my opinion, if the Commerce Commission addressed all the points raised herein, a merger between Air New Zealand and Qantas could be approved.

I hope this assists the Commission from the perspective of a prospective new entrant.

Yours Faithfully

Simon Gunson

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To: Exporters, importers and freight operators
in the Wellington region.

Investigation into air freight volumes in and out of Wellington

This letter is to introduce Simon Gunson who is investigating the demand for air freight in and out of Wellington.

Invest – Wellington Region is aware that there is a demand for more air freight out of Wellington and supports this investigation as a first step towards remedying the situation. Mr Gunson has agreed that any information you give him will be treated in confidence and used only in aggregated form, so that no individual or company can be identified from it.

Any assistance you can give will be appreciated. Please telephone me if you have any enquiries.

Yours sincerely

David Kiddey

David Kiddey
General Manager
Investment Services