

**SUBMISSION TO THE COMMERCE COMMISSION
IN RESPECT OF THE APPLICATIONS OF AIR NEW
ZEALAND LIMITED AND QANTAS AIRWAYS
LIMITED**

20 JUNE 2003

DR IAN PRIOR ONZM ON BEHALF OF SAVE AIR NEW ZEALAND

INTRODUCTION:

1. The Save Air New Zealand group wishes to congratulate the Commerce Commission on its draft report. We felt that it represented a victory for common sense and underlined the independence of the Commissioners, who obviously would have been aware of politicians expressing opinions on both sides of the Tasman.

We note that it is apparently intended to change the operation of the ACCC to make its consideration of such transactions more akin to the approach followed by the Commission.

2. Nevertheless, there are a small number of points that we feel warrant note by the Commission in its deliberation on the next stage. This submission contains these points.

SUBMISSION

3. The over-riding submission of the Save Air New Zealand group is that Air New Zealand and New Zealand are both going to be better off for the transaction not occurring.

We submit that recent events have underlined the advantages of Air New Zealand not going into the Alliance with Qantas.

4. Almost as a matter of course the airline industry seems to have ongoing "issues of the moment". Of late these have been economic stagnation, SARS and the Iraq war.

For a number of reasons these events, and perhaps other less conspicuous developments, have left Air New Zealand relatively unscathed while Qantas has issued a number of profit warnings.

We note that since the Airlines lodged their original application with the Commission in December 2002, Air New Zealand has retained its value in the sharemarket while Qantas has seen an approximately A\$500 million fall in value.

The so called "vulnerability" of Air New Zealand may have been a fact a year ago, but whether due to management initiatives, luck, or the market niche occupied, it is now apparent that Air New Zealand's "failing firm" claim is itself failing.

5. A key feature of any assessment of the Alliance must be the impact on tourist flows to New Zealand. We note the Commission's dismissal of the airlines' assertion that their Alliance would result in an extra 50,000 inbound tourists (about half the growth of an average year). We are, however, disappointed that more work has not gone into assessing the cost of Air New Zealand leaving the Star Alliance.

◇ Given that Qantas and British Airways have just renewed their links it is, we understand, extremely unlikely that Qantas would withdraw from Oneworld. Therefore, Air New Zealand would have to withdraw from Star. As this is almost certain, the Commission should factor this into its analysis.

- ◇ We understand that Air New Zealand would incur a US\$50 million penalty from withdrawing and this cost should be noted.
- ◇ From www.travelbusinessanalyst.com we note that Star is by far the best airline alliance. If Air New Zealand were to shift to Oneworld it would not be costless for the airline. This is in addition to the national costs of losing links to one of the two main airline groupings.
- ◇ Market share of international RPKs of airline alliances:

%	2002	1998	1993
Star	24.8	23.2	23.9
Oneworld	18.6	20.2	20.6
Skyteam	11.9	11.4	12.0
Wings	6.6	7.1	7.6

6. Over recent times Air New Zealand and Qantas have clearly been in a "holding pattern" with respect of competition. Nevertheless there are some interesting points to note:
 - ◇ On the domestic trunk routes Qantas has been matching Air New Zealand's fares, yet has also been offering "full service" as opposed to Air New Zealand's cup of tea and biscuit. Yet Air New Zealand has achieved much higher loadings. Clearly New Zealanders would prefer to fly with Air New Zealand, so long as there is not a financial penalty.
 - ◇ Air New Zealand has had lower loadings on some Tasman services than Qantas, yet has not engaged in price competition to increase its market share.
 - ◇ From the respective websites of Qantas, Freedom Air and Air New Zealand it is apparent that there are a number of airfare pricing anomalies. Not least that Australians pay more to fly to and from New Zealand than do New Zealanders going the other way. The Tasman is, by in large an expensive route.

7. The proposition that Air New Zealand divest Freedom Air to allow competition would clearly reduce Air New Zealand's ability to strengthen its position in the growing "value" market.

All evidence (eg. financial results, forecasts, sharemarket performance, growth plans of Ryanair, easyJet, Southwest, JetBlue, etc) clearly points to the "value" model being successful on short haul links.

On its own web site Air New Zealand notes that Freedom Air is achieving its cost of capital providing services on the Tasman. This notwithstanding Air New Zealand's admission that Freedom is not operated to profit maximize but is used as a "fighting brand".

8. We have read with interest the initial submissions to the Commission, the Commission's report and subsequent releases. In particular we note:

- ◇ The Commission's analysis and that of Professor Hazledine on the modelled national benefits and costs. In our view such modelling work needs to be treated with scepticism (even if it supports our arguments). We continue to believe that the "point estimates" inherent in such modelling work make even very rough valuations of benefit/cost of dubious probability.
 - ◇ Of the specific matters noted, we particularly regard the airline case that the Alliance would result in more tourists coming to New Zealand as fundamentally wrong if not actually absurd.
 - ◇ We also note that "gross" benefits (such as how much Qantas pays to Air New Zealand for engineering services) are not "net" benefits, which is what matters.
9. We enclose a separate paper which has been prepared on the plausibility of Air New Zealand's claim that it will be obliged to withdraw to domestic operations if it cannot do its desired deal with Qantas. The airline's claim does not stand up to scrutiny.
10. We note that after the Commission released its draft determination there were a number of comments from Air New Zealand and some Government Ministers that Air New Zealand needs Qantas' money. It was also suggested that the Commission seemed to think there was a fairy godmother willing to provide the capital if Qantas was disallowed. We note:
- ◇ Air New Zealand and Qantas both have similar equity/total asset ratios, especially if equity is valued at sharemarket capitalisation. There is no compelling case that Qantas has \$500 million of cheap capital to provide Air New Zealand. Nor is there compelling evidence that Air New Zealand needs \$500 million.
 - ◇ In its most recently reported six months, Air New Zealand provided free cashflows (after financing costs) of over \$300 million.
 - ◇ No one can believe that the capital markets will fail to fund a convincing business plan that shows a reasonable prospect of providing a satisfactory return on capital employed. In particular "value" airlines have recently shown an ability to raise equity capital. There is little doubt that Air New Zealand could raise equity for Freedom Air were it were to decide to not raise equity for the parent company.
11. In our initial submission we queried how organisations that benefit from Airline sponsorship or "social" support would fare if the Alliance progresses. We note that the Commission seems not to have evaluated this matter as yet.

THE HISTORY OF NEW ZEALAND AVIATION

12. The Commission's analysis does not seem to allow for "the human" or "emotional" factors to be considered in its national benefit analysis. We recognise the difficulty of giving weight to such factors, but that should not exclude them from the Commission's analysis.

New Zealand's aviation history is very impressive, starting as it does with possibly the world's first ever manned powered flight. The current level of achievement has been brought about by entrepreneurial, and hard, work.

The current management of Air New Zealand may have had a burst of enthusiasm for an Alliance with Qantas, but the emasculation of a large part of the New Zealand aviation industry would be a shame.

Air New Zealand's management's cry that "its all too hard", misses the point. It has always been hard and it always will. Perhaps it is just a symptom of their lack of airline experience and their greater familiarity with oligopolistic or monopolistic businesses? from which a number of Air New Zealand's senior managers have only recently moved.

13. We wish to draw your attention to a number of books on this matter, in the hope that the Commission will take the time to get more familiar with the history of New Zealand aviation. A history the current senior crew at air New Zealand seems willing to terminate.

Conquering Isolation: The First 50 Years of Air New Zealand

Neil Rennie 1990 Octopus Publishing Group (NZ)

ISBN 0-7900-0120-9

Wings of the Nation: A History of the New Zealand National Airways Corporation, 1947-78

Peter Aimer

Bush Press on behalf of the NAC Fiftieth Anniversary committee in 2000

ISBN 0-908608-86-1

AIRLINE: A History of the New Zealand National Airways Corporation, 1947-78: The making of a national flag carrier

Ian H Driscoll

Shortland Publications Auckland 1979

ISBN 0-86867-031-6

WHY NEW ZEALAND SHOULD OPPOSE THE ALLIANCE BETWEEN AIR NEW ZEALAND AND QANTAS

Air New Zealand wishes to form an alliance with Qantas to enable it to maintain its international operations. Is a monopolistic or duopolistic airtravel market within and into New Zealand a price worth paying? Will the deal even be good for Air New Zealand?

- Air New Zealand's domestic operations are profitable and provide a more than satisfactory return on capital.
- Air New Zealand's Freedom services on the Tasman are profitable and provide a satisfactory return on capital.
- Air New Zealand and Qantas are already the only carriers linking New Zealand with Los Angeles and Japan.
- The transaction would entail Air New Zealand leaving the Star Alliance, which carries 22% of world air traffic. New Zealand would cease to have Star links with most of the world. All Star generated traffic from North America would cease.
- Air New Zealand would be locking itself into the "big" airline model at a time when flexibility may be the hallmark of success.

The deal doesn't make sense for Air New Zealand it doesn't make sense for New Zealand.

REGULATORY POSITION

Air New Zealand's Australian economic advisers argued that the transaction would benefit New Zealand by \$1,300million over the next five years. The Commerce Commission found annual net detriments of \$156million to \$402million.

Over the next few months regulatory agencies on both sides of the Tasman will review their preliminary decisions. The outcome should not be taken as forgone, certainly Air New Zealand seems not to have recognised that it is time to move on to "plan B".

Air New Zealand recently unveiled "undertakings" to assuage the concerns of regulatory agencies. In fact the Undertakings are just more of the same and aim at allowing a niche for a competitor on some routes. For consumers it will make little difference if there is a monopoly or a duopoly with two airlines operating set market shares. Any step away from a market place with two substantial airlines supported by huge international alliance-networks is a step towards lower quality higher cost services within and into New Zealand. This can never be in New Zealand's best interest.

AIRLINES KNOW BEST?

2003: "The [Air New Zealand / Qantas] Alliance ... will ensure that both Australia and New Zealand have sustainable and independent airlines focused on the needs and requirements of the travelling public and exporters in both countries." [Air New Zealand Managing Director and CEO, Ralph Norris].

1996: "The alliance will add commercial strength to both Ansett Australia and Air New Zealand... \$70m pa. moving to \$170m pa after 3 years... It is our clear judgement that the investment in Ansett Australia is the only practical, timely and available means of doing what we consider needs to be done." [March 1996, Air New Zealand Managing Director and CEO, Jim McCrea to the Commerce Commission].

1996: "Qantas has no current intentions to enter [the New Zealand domestic] market as a start-up operator." [January 1996 Qantas Managing Director and CEO, James Strong to the Commerce Commission].

1995: "If there had been a capitalist down there [at Kitty Hawk the day the Wright brothers made their first flight] the guy should have shot down Wilbur! One small step for mankind, and one huge step backwards for capitalism!" [The world's second richest man, Warren Buffett on Investing in the Airline Industry].

1953: "Prediction is very difficult, especially if it's about the future." [Danish physicist Niels Bohr].

Be very sceptical about the predictions of Airline Chief Executives. Their views do not always coincide with the facts. Their "clear judgement" may not be the best judgement. Their predictions have been shown to be the worst of almost any commercial group in history.

THE BASIS OF THE AIRLINE CASE FOR THE ALLIANCE

1. Air New Zealand's CEO predicts that Air New Zealand will not be able to maintain its international links if it remains independent of Qantas. Air New Zealand is predicted to become a domestic airline, New Zealand to lose control of its links with the world.

The rest of the Air New Zealand case is more obscure, but is essentially that the burden on New Zealand travellers will be minor relative to the loss Air New Zealand will suffer if its Alliance is thwarted.

2. The Qantas case is different. It argues that the benefits Qantas will extract from New Zealand will outweigh the cost to Australian travellers from their loss of Air New Zealand as a competitive option/possibility. It is no mystery why Australian government support for the Alliance is so strong given which side of the Tasman the costs and benefits respectively fall. The ACCC's rejection of the Alliance is notable as they see even the relatively smaller loss suffered by Australian consumers outweighing Qantas' gains, which include those from New Zealand.

THE BASIS OF THE NEW ZEALAND GOVERNMENT'S SUPPORT FOR THE ALLIANCE

3. Michael Cullen is clearly a supporter of the Warren Buffet view of airlines and sees Air New Zealand as an ongoing liability for the Crown. The Alliance is an opportunity to fund Air New Zealand with someone else's money and to create a monopoly where Air New Zealand may prosper via a "tax" on consumers.

But, is Qantas really the only alternative investor to the Crown? Is aspiring to be a monopoly Air New Zealand's best business proposition?

DO MONOPOLISTS PROFIT? & IS AIR NEW ZEALAND OTHERWISE DOOMED?

4. The Airline industry clearly has problems, but is attempting to create a monopoly over New Zealand's skies the solution?

American Airlines is the world's largest airline and is teetering on bankruptcy. Its strategy was "to create an airline that was so big it would always be able to charge a revenue premium". Explaining the failure of the strategy, and the ensuing resignation of the American Airlines' CEO Don Carty, Yale Professor Michael Levine noted; "his dream was to wake up one morning and see the world divided between American and United, with the remaining 20% going to Southwest to keep the plebeians happy. That vision was ultimately unrealisable and he didn't understand that till very late." [Financial Times 26 April 2003].

5. Creating monopolies, or all-encompassing networks, is not a solution to the airline industry problems. The history of airline failure is more a history of the failure of the "get big" strategy than some intrinsic commercial problem with moving goods and people by air. Southwest is the world's most commercially successful airline, Ryanair and Easyjet are in the top echelon. Their objectives are not to "charge a revenue premium", but to attract passengers by delivering the lowest fare commensurate with making a satisfactory return on capital. The Ryanair CEO, Michael O'Leary, notes "Our price is our brand". Southwest and Ryanair are financially successful by any measure, not just relative to other airlines.

Whether "moving people cheaply" is the touchstone for industry success is as yet unknown (that would entail a prediction). But it certainly looks a lot better than "get big".

6. Notwithstanding the relative success of the "big" airlines versus the "cheap" airlines, Air New Zealand has decided that it wants "big". Explaining this choice isn't easy, certainly Air New Zealand hasn't. Air New Zealand has a low-fare subsidiary, Freedom, that is successful, but it is kept on a short leash to be used as a mean of deterring competitors rather than as a business that Air New Zealand is willing to let grow on its own merits.

Air New Zealand has the prospect of being a successful airline if it focuses on "cheap". It has the prospect of ending up on the scrap-heap with many before it if it goes for "big".

IF IT AIN'T BROKE...? DOES AIR NEW ZEALAND HAVE A PROBLEM?

7. In the six months to 31 December 2003 Air New Zealand carried 4.7million passengers made a net profit of \$138million and had **free cashflow of \$325million**. Its planes flew at 75.8% capacity (average for the last five years 69.4%), with international services 76.6% full (5 year average 70.3%).

Is Air New Zealand failing?

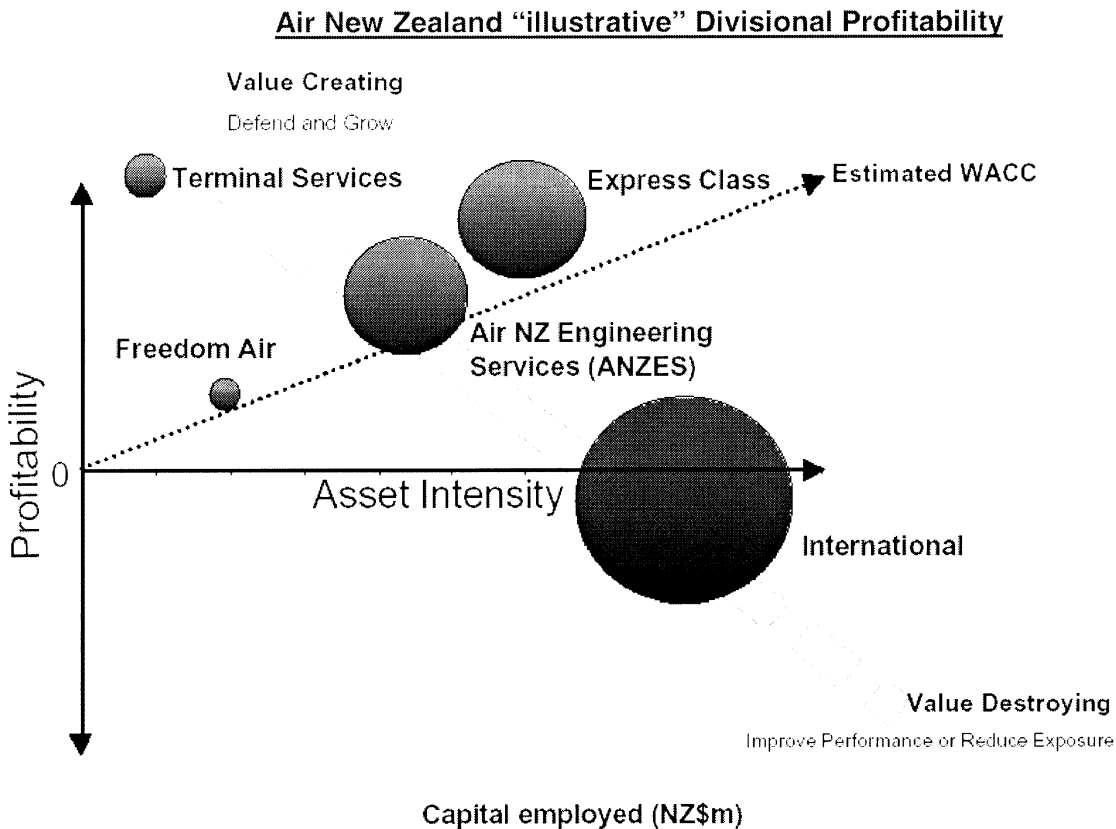
Not only is Air New Zealand performing satisfactorily, the immediate prospects look good. Domestic growth is strong, it now has a duopoly on the NZ-USA route, US air travel is picking up after the Iraq war, and analysts are seeing the SARS' panic replaced by rational response as Chinese controls deliver falling infection rates.

8. Why is the Air New Zealand's CEO predicting doom? Some clues to his pessimism come from an Air New Zealand investor presentation which can be viewed on their website.

Simply, Air New Zealand seems to be putting the bar too high.

They have set themselves a target return on capital of 15%pa. This translates to something like 35%pa. return to shareholders after tax. The Air New Zealand CEO seems to have decided that some parts of Air New Zealand's operation can't achieve this type of return, so he wants out.

The following chart is from an Air New Zealand's investor presentation of April 2003. Elsewhere in the presentation the 15%pa. cost of capital is noted.



9. The chart shows that Air New Zealand sees all parts of its operation creating value (ie returning better than their cost of capital), except international, which seems to be merely breaking even. Air New Zealand's domestic and Freedom's Tasman services are subsidising the rest of international. If this were true, and Air New Zealand was manufacturing goods rather than providing services, it would be illegally dumping on the international routes.

IS INTERNATIONAL A PROBLEM? IS THE ALLIANCE A SOLUTION?

10. Air New Zealand's international services are 76.6% full. It shares a duopoly with Qantas on the New Zealand - North America route. The NZ - Japan route is profitable. Freedom makes a profit on the Tasman and much of the rest of the Tasman market is shared between Air New Zealand and Qantas. Where is Air New Zealand losing money?

There is nothing intrinsically unprofitable about international services. Singapore Airlines only has international services and is the world's most profitable airline.

11. Putting aside doubts about whether international is really that tough, is the Alliance an appropriate solution to the problem? Air New Zealand is expressly advocating that it should be able to milk its domestic services to subsidise its international links. What are the other alternatives?

12. Air New Zealand's case rests on an unproven assertion that it can only continue to operate internationally by making "excess" profits in New Zealand and that it needs even more local profits in future than it is reaping now. This argument is flawed and Government should not be endorsing it.
- ◇ If the international aviation market is too tough for Air New Zealand because Air New Zealand isn't good at it, then the solution is better management at Air New Zealand, or Air New Zealand's withdrawal in favour of better operators.
 - ◇ If the international market isn't fair, for instance because other operators receive subsidies that discriminate against Air New Zealand, then it is up to the New Zealand Government to directly address this issues. Perhaps to provide balancing supports for Air New Zealand where it can show that the playing field isn't level.
 - ◇ If Government believes New Zealand must have international links that are under the control of a New Zealand company then an arrangement of explicit subsidies would be an appropriate means of delivering this.

If a "too tough" international market is the problem, a clear focus on sorting out that issue is the solution. Damaging the New Zealand aviation market and attempting to "muscle up" internationally is attempting to get a right from two wrongs.

SUMMARY

- Don't give too much credence to airline executives pushing the "we must get big" line with no supporting evidence.
- If Air New Zealand's focus is extracting "revenue premium" rather than offering the cheapest possible flexible services, expect it to ultimately fail as cheaper more flexible operators under-cut it. In the short term consumers will suffer from a lack of competition and higher than necessary airfares. In the medium term the owners of Air New Zealand will suffer as the airline finds it cannot compete.
- Freedom makes a satisfactory profit flying the Tasman, which Air New Zealand claims it cannot do with its full-service operations. Air New Zealand has a solution to its problems already.
- There are better ways for Government to avoid having to provide further funding to Air New Zealand. There are better ways for Air New Zealand to fix any problems it may be having on some international links than a holus bolus alliance with Qantas.
- Air New Zealand is not failing. It is in robust financial health. It's CEO may just have unrealistic targets.

OTHER POINTS

The proposed Air New Zealand – Qantas alliance has significant consequences for New Zealand. It matters a lot that New Zealand has an efficient aviation market and the best possible links with the rest of the world. The tourism industry, which relies heavily on air transport, is worth \$14,000 million per annum to the NZ economy (\$6,200 million from international visitors). The industry's value-added contribution to GDP is \$10,200 million pa. and it employs 90,000 people with a further 60,000 jobs indirectly supported. Tourism makes up 14.3% of exports, second only to dairy.

The kaffuffle over New Zealand's energy problems underline how Government runs into problems when faced with the conflict of interest of being an investor and a regulator, and doesn't manage the conflicts well.

Dr Cullen has not managed this conflict well and has injected personal objectives into this process. It is up to the rest of our parliamentary representatives to adopt a more discerning position and keep the conflict of interest in clear perspective.

There is no reason why this matter could not be put in front of a select committee and thoroughly addressed in that venue at the same time as the Commerce Commission reaches its conclusions.

POINTS TO PONDER

13. On 12 December 2002 the chief executive of the Ministry of Tourism provided a memo to his Minister setting out issues with the Airline Alliance. The memo noted many problems with the Alliance, yet the Ministry seems to have had no subsequent input into the process. It certainly did not submit to the Commerce Commission on its concerns.

Key points in the memo were:

- (i) Potential shortage of capacity on some international routes.
- (ii) The loss of links with one of the two global airline alliances.
- (iii) The possible conflict with Tourism New Zealand's focus on marketing New Zealand as a sole destination.

14. The most insoluble of these points is the loss of links to one of Star or OneWorld alliances. Pertinent points about the alliances are:

- ◇ Star Alliance has 22% global market share and Oneworld 18%.
- ◇ Air New Zealand's membership of Star gives feed to New Zealand from 11 other airlines, it gives travellers a wide range of fares, it means passengers that accumulate air points on Lufthansa, United and the other Star airlines can use them to get to New Zealand (which generates "a significant number of high yielding visitors"), it provides seamless distribution and interline access to 23 domestic destinations and 11 trans-tasman routes for the inbound passengers of Thai, Singapore and United.
- ◇ If Air New Zealand were to join Oneworld, the Star Alliance contribution to bringing passengers to New Zealand would be significantly reduced in our top five tourism markets (Australia, the United Kingdom, the USA, Japan and Korea).
- ◇ If both airlines were to join Star, Oneworld would be all but eliminated in terms of New Zealand's top five tourism markets (the remaining Oneworld airline Cathay Pacific plays only a small role in carrying residents from the USA, UK, Japan and Korea).
- ◇ The demise of Ansett and the Star Alliance connection into Australia has been seen as one of the reasons for the poor performance of Australian tourism over the last 2 years.
- ◇ Air New Zealand and Qantas becoming members of the same alliance will also have implications in the domestic market, where Air New Zealand and Qantas provide interconnect services for other carriers in their respective alliances

beyond the gateway cities. It may become more difficult for carriers from the rival alliance to offer services to visitors who wish to travel beyond Auckland.

- ◇ In June US Airways, the 7th largest US airline, became the 18th member of Star Alliance. Star now links 771 cities in 133 countries. Contacts New Zealand's tourism and export industries can ill-afford to lose. US Airways estimated that joining Star Alliance would increase its revenue by US\$75 million per annum.

15. Another point noted in the Ministry of Tourism memo was the existing dominance of the two airlines on key routes to New Zealand and concerns that they may not meet future demand by increasing capacity.

Given that Air New Zealand has 77% capacity on its international services and is looking to increase its international profitability, increased prices will, presumably, be the Allied airlines response to increased demand.

Link with New Zealand	Current Air New Zealand + Qantas Share of the market	TNZ forecast demand growth over 3 years
Australia	87%	10.7%
Los Angeles	73% (now 100%)	19.6%
Japan	100%	1.3%
Singapore	26%	32.8%
Hong Kong	37%	20.9%
Taipei	50%	17.6%

16. The dominance of Air New Zealand and Qantas on several key routes also raises the question of why the two airlines don't code share if there is a particular route that is too tough for them individually.

Air New Zealand and Qantas have code-shared routes in the past, and as James Strong (then Qantas Managing Director and CEO) told the Commerce Commission in January 1996 "Equity stakes, either cross-holdings or one-way, are often incorrectly misconstrued as being a necessary pre-condition to a successful alliance. However, the place of equity in an alliance is debatable at best... an assertion that a strategic stake is the only, or even the best, way to achieve a successful alliance is open to challenge. Mutual motivation seems to be a much better driver of success and this is clearly capable of existing regardless of equity structure."

Of course at that time Qantas was submitting in opposition to Air New Zealand's further investment into Ansett Australia.

17. And on Air New Zealand's continued claims of imminent demise due to industry melt down; 16 May 2003 Reuters reported:

Bankrupt United Airlines plans to reinstate next month most of the domestic and trans-Atlantic flights it had cut in April and May because of weak demand during the war in Iraq. But the world's No. 2 airline said it would extend cuts on several trans-Pacific routes into the summer due to weakness in those markets related to the outbreak of SARS. United also said it would reinstate nonstop service between San Francisco and Seoul in June after suspending it as part of its post-Sept. 11 cutbacks. The airline will also restore flights to Australia and Tokyo and said it hopes to return to its full Asia schedule by autumn.

On June 12, the unit of UAL Corp, which filed for bankruptcy court protection in December, will add 162 mainline flights to its schedule. United said it plans to operate 1,722 daily mainline domestic and international flights in June, up from

1,560 in May. Even with the additions, United will be running about 13 percent fewer daily mainline flights in June than it was a year earlier.

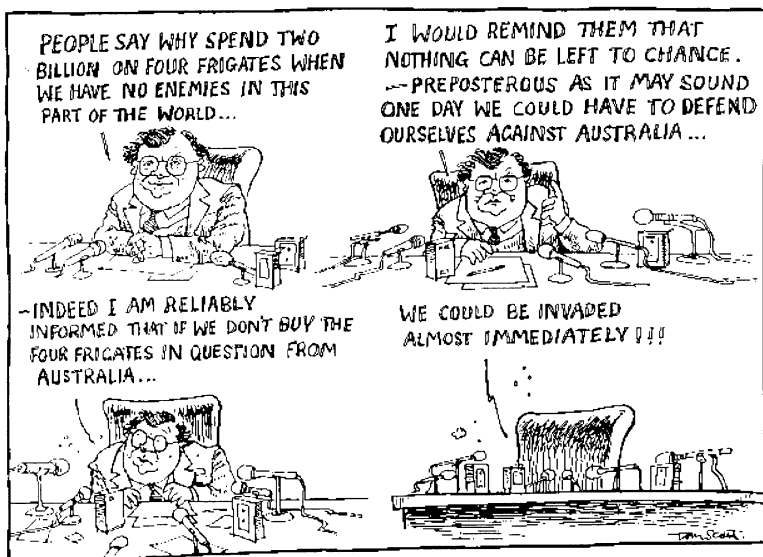
American Airlines, a unit of AMR Corp, and the world's largest carrier, said half of the international flights that were eliminated in April and May will be restored in June. Delta Air Lines also said it would begin to restore most of the international and domestic flights it suspended in April and May, but said it would maintain some capacity reductions since bookings have not returned to pre-war levels.

18. The resilience of the Airline industry and the underlying growth in demand is not to be underestimated. The industry has just gone through one of its toughest ever periods. In its last reported six months, Air New Zealand only made a net profit of \$138m on its free cashflow of \$325m. Air New Zealand is well placed to weather the industry problems. It is much less well placed to weather closer links to Qantas.

BEEN THERE DONE THAT. LEARN BY DOING?

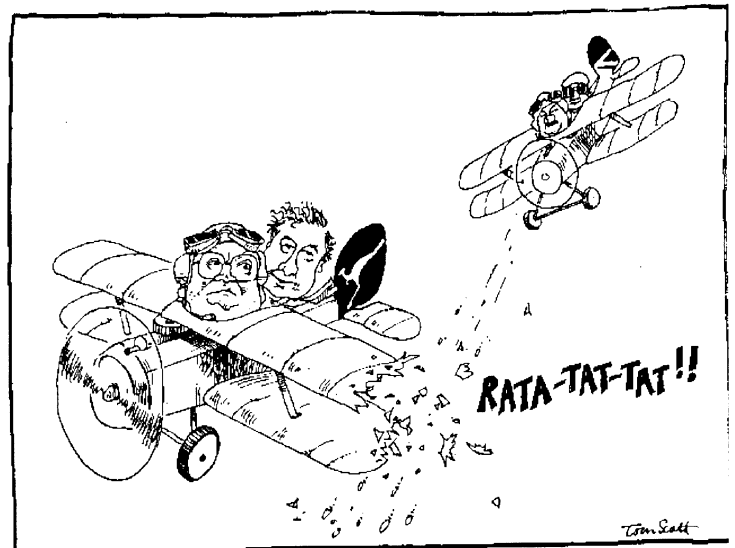
In 1988 the Lange Labour Government made a poor choice of partner for Air New Zealand when it selected Qantas. Another transactions with Qantas would be another error.

13 November 1988



Suddenly NZ is planning to buy Aussie Frigates

17 October 1988



Lange and Douglas fight over whether British Airways or Qantas should buy Air New Zealand

Cynicism and relentless pursuit of self-interest is a hallmark of Australian Government actions. Last week the Australian federal transport minister John Anderson responded to pressure from Qantas to reject Emirates Airlines' application to fly between Sydney and Dubai. Qantas wants to protect its position on the Sydney- London route. But Mr Anderson granted Emirates the right to fly transtasman to provide competition as regulators assess Qantas's proposed anti-competitive alliance with Air NZ.

SAVE AIR NEW ZEALAND

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15 June 2003

Proposed Air New Zealand/Qantas Alliance

Snapshots – Food for Thought

Audit knocks air alliance bid

The Dominion Post, Business Day, Thursday June 12 2003, Roeland van den Bergh

The proposed alliance between Air New Zealand and Qantas was dealt another blow yesterday, with the Commerce Commission saying the public could be up to \$65 worse off than it first estimated.

Mr Norris has strongly criticised the commission for failing to grasp the reality of the changing aviation industry and that rejecting the deal would “lock us into the past”.

It'll take more than Emirates for deal to fly

The Dominion Post, Business Day, Roeland van den Bergh

The entry of Emirates Airline to the Tasman route is being hailed by some as a key to allowing competition regulators to approve the proposed alliance between Air New Zealand and Qantas.

In reality, the move is unlikely to impress the Australian Competition and Consumer Commission or the New Zealand Commerce Commission, which have so far rejected the deal as too anti-competitive and say, by their calculations, it could cost consumers up to \$466.f million a year after three years.

The Australian and New Zealand governments are backing the alliance, which the airlines say is necessary for Air New Zealand's long-term survival.

Deregulation has not increased competition

Canberra Times, Monday 5 May 2003, Richard Dennis – A Senior research Fellow at The Australia Institute, a public interest think-tank based in Canberra, www.tai.org.au

It is against the law for Qantas to buy a large stake in Air New Zealand. That simple fact seems to have escaped the attention of many of the industry representatives and business

commentators who have expressed their view, one way or another, about the merits of the proposed Qantas-Air New Zealand alliance.

Companies can seek an exemption from the law, but the Act clearly states that such an exemption can only be granted by ACCC if the merger can be shown to be in the public interest.

Qantas takes off – to hit a silver lining

Sydney Morning Herald, Wednesday 30 April 2003, Elizabeth Knight – Abacus

It's rare to find a chief executive who doesn't get a lift when his or her share price is appreciating. But for Geoff Dixon at Qantas, a soaring share price is a mixed blessing.

The fact that his share price has been relatively stable amid the extreme turmoil crated by the Iraq war and the outbreak of the SARS virus is testament to the protection afforded by a near domestic monopoly and the competence of his management team.

On the other hand, his chances of extending this lucrative domestic dominance across the Tasman rest on his ability to convince the Australian competition regulator that in the medium to longer term Qantas's ability to sustain its strong financial position will be undermined if it is not allowed to create a stronger Australasian airline through a de facto merger with Air New Zealand. Air New Zealand faces the same dilemma.

Airline's status scrutinised

The Dominion Post, Saturday 14 June 2003, Ruth Berry

Finance Minister Michael Cullen is examining whether Air New Zealand should be subject to greater parliamentary scrutiny, following questions raised by the auditor-general.

The company could be turned into a "public organisation", making it directly accountable to Parliament, under the options being explored – although Dr Cullen has previously been reluctant to change the status quo.

The Government injected a lifesaving *892 million into the airline last year, giving it an 82 per cent stake in the company. At present Air New Zealand and Qantas are fighting to overturn a decision by competition watchdogs on both sides of the Tasman that declined a proposed alliance.

While the injection was a major investment of taxpayers' money, Parliament has only limited ability to inquire into its operations because it remains a publicly listed company on the Stock Exchange.

It is not subject to the Public Finance Act, the State-Owned Enterprise Act or an other

specific legislation.

Norman Geary and his informed views

Our working group believe that the opinions of Norman Geary on this issue need to be seriously considered in view of his long experience in the airline industry.

Introduction to Submission by N M T Geary on Qantas/Air New Zealand application dated 9 December 2002.

As a former Chief Executive of Air New Zealand (1982-1989) and an individual who was deeply involved in the tourism industry between 1982 and 1997 (principally through my roles as CEO of Air New Zealand, Executive Chairman of the Mount Cook Group and the Chairman of the New Zealand Tourism Board) I am of the clear view that the arrangements as proposed are unnecessary and against the long term interests of Air New Zealand, the tourism industry, the travelling public and the national interest.

It is suggested that the only viable option open to Air New Zealand (ANZ) is to enter into the proposed strategic alliance with Qantas (QF) to secure its position as an international airline.

ANZ has in the past been a very successful airline. In my view it can once again be successful without entering into what is an unacceptable series of transactions with QF that will seriously compromise the future of the Company.

Ian Prior
Save Air NZ Working Group