Submission to the Commerce Commission
on the
Air New Zealand and Qantas Strategic Alliance Agreement

14 February 2003 S03.07

INTRODUCTION

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 42 nationally organised societies. It has 34 branches spread throughout the country to which women from some 150 societies are affiliated. Its purpose is to work for the well being of women, families and society through research, discussion and action.

This Submission is prepared by members of the Economics Standing Committee of NCWNZ. NCWNZ would like to thank the Select Committee for the opportunity to make comment.

EXECUTIVE SUMMARY

Within the Committee, there was considerable debate and varied opinion. Some members believed a partial merger between Air New Zealand and Qantas would be beneficial while others strongly believed such an alliance would have an adverse effect on Air New Zealand, New Zealand businesses and the consumer.

Respondents who were skeptical, were particularly concerned that the merger's creation of a virtual monopoly within New Zealand and trans-Tasman, would raise the spectra of reduced services and price fixing on fares and freight. This in turn, would affect both consumers and businesses. These members advocated retaining the independence of Air New Zealand, with extra capital being obtained from the New Zealand public through additional share floats or debenture sales.

In contrast, those who favoured an alliance argued that without shareholding from a major airline, Air New Zealand may face medium to long term financial difficulties. This would result in a smaller regional line with limited capacity. Moreover, without a cooperative arrangement between Air New Zealand and Qantas, there was concern that a war of attrition would result in which the local airline would not be in the favoured position.

In conclusion, because of such varied opinion, the Committee does not wish to endorse or condemn the merger. Instead, it wishes to acknowledge the merger's advantages as well as emphasising the costs. The Committee trusts that the Commerce Commission is well placed to weigh up the benefits and costs of the alliance and will make a decision that is in the best interest of all New Zealanders.

SPECIFIC ISSUES

Concerns and Arguments against a Strategic Alliance

The major concern expressed by some committee members, was that such an alliance would entrench both Qantas and Air New Zealand into a dominant position in the New Zealand domestic and trans-Tasman aviation markets. This would deter future competitors from entering these markets.

Such anti-competitive colluding may then have a detrimental impact on capacity and pricing, including freight rates. Firstly, in terms of capacity, paragraph 97 of the Application suggests that if the merger was to occur, capacity would be reduced. It can be deduced from this paragraph that a reduction in capacity is not merely an incidental of the proposal, but one of the main rationales underpinning it. If capacity was reduced, what would be the implications for the travelling public as well as for importers and exporters, for example provincial exporters of highly perishable produce such as flowers and fish?

Secondly, in terms of pricing there was concern that an alliance would enable the airlines concerned to reap the benefits of monopoly pricing, again impacting negatively on the traveller and on businesses.

To illustrate these two points, there was particular concern about the merger's impact on air transport to the provinces. In the past, the air transport market has been characterised by limited choices, particularly when flying from northern cities to South Island destinations. However, in recent times, increased competition has enabled more flight choices, increased scheduling and reduced ticket costs. Would such benefits be lost if a strategic alliance was approved?

Other members, who envisaged little merit in the merger, disputed the argument posed by advocates that greater co-operation would be achieved on issues of load sharing and sharing of engineering and maintenance facilities. Members argued that all of these aspects could happen on a purely commercial basis with independent ownership, as at present.

Support and Arguments for a Strategic Alliance

Committee members supporting the alliance, expressed concern that without a cornerstone shareholding from a major operator, Air New Zealand would face medium to long term financial hardship. In particular, given the fragility of the aviation industry, without some form of strategic engagement with a larger operator, there was a risk that Air New Zealand would shrink to a domestic or regional airline with little or no long haul capacity.

There was also concern that if the merger deal faltered, Qantas would enter a war of attrition with Air New Zealand. If such a situation eventuated, Air New Zealand may be hard placed to win, even with regular infusions of taxpayer dollars which may be better spent on health and education.

Some members argued that the "competition-good"/"monopoly-bad" mentality which often dominates government thinking, needed to be re-evaluated in the case of this particular merger. That is, a monopoly situation may be acceptable if the majority shareholding of Air New Zealand, after a merger, remained in New Zealand control. For example, members noted that if the merger was approved, Government would remain the clear majority shareholder with Qantas proposing to take only a 22.5 percent stake. It was acknowledged that such a stake was insufficient to dominate Air New Zealand. With only two Australian directors on the Air New Zealand Board compared to eight New Zealand members, the Qantas nominees would not have the power to veto Board decisions and the Air New Zealand Board would retain authority over Air New Zealand. Moreover, a monopoly situation resulting in barriers to entry for other airlines, may produce a favourable outcome, particularly if Government rules to keep passenger fares and cargo costs in check. Such a monopoly may also prevent wasteful capital duplication and price wars which can have the effect of endangering safety measures.

CONCLUSION
Several recommendations were suggested. First, members in favour of the alliance suggested that the Commerce Commission approve the proposal subject to it being satisfied that a substantial national benefit resulted. It was even suggested that a major condition of Commission approval be for Air New Zealand to sell Freedom Air. This would enable an alternative airline, for example Virgin Blue, to buy it and ensure competition.

Alternatively, respondents who did not favour Commerce Commission approval, expressed a desire for Commission members to think of innovative ways to make Air New Zealand a viable independent airline.

The final recommendation was for Air New Zealand to retain its independence. However, in the event that extra capital was required, this should be obtained from the New Zealand public through a debenture issue or the issue of additional shares.

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