Submission
Air New Zealand Qantas Alliance Proposal

Robin Halliday – Member Save Air NZ Working Group

Introduction:
As a member of the Save Air New Zealand Working group I support the initial findings of the Commerce Commission and its Australian equivalent. They were victory not only for commonsense but for an honest appraisal of the economic position of the Airlines and the relevance of the projections made.

Having read the submissions with interest, some of whom came from within the Aviation industry, and the detailed economic analysis of Professor Hazledine supported by your Re-audit it was obvious that any benefits were far outweighed by predicted costs.

Previous Submissions:
1. As a member of the Save Air NZ working group I supported the Submission submitted by Mark Blumsky and Ian Prior on behalf of Save Air New Zealand.

This detailed submission and assessment of the proposal and NECG report which accompanied it notes that:

The airlines proposal will result in short term and long-term deleterious consequences in respect of each of:

- The cost of air travel within and to and from New Zealand
- The destinations and frequency of services that will pertain for New Zealanders looking to take advantage of air services.
- The quality and reliability of air travel services
- The focus and investment in marketing New Zealand travel destination.
- The icon value of Air New Zealand and the benefits that a wide range of groups derive from support by Air New Zealand in its role as "National Carrier".

2. I contributed to a further Submission submitted by Dr Ian Prior ONZM Co Convenor Save Air New Zealand with extensive documentation from Media sources and delivered by hand on 14 February but this has not been acknowledged on the Web site. I therefore enclose a further copy.

The Conclusions from this submission are:

- After careful assessment of the proposed merger as submitted by Air New Zealand and Qantas and supported by their NECG report we concluded that any benefit to the public could not outweigh the loss of competitiveness (as acknowledged by the Airlines)

- There is very little public benefit in the proposed alliance. This has been demonstrated by all previous relationships with Qantas.

- A considerable loss of competition as acknowledged by both airlines and reinforced by their background papers.

- I believe it is increasingly important that we recognize and develop the unique character and identify that distinguishes New Zealand and New Zealanders. National Airline owned and operating for the benefit of public interest is necessary for this to be developed to its fullest potential.

Updated Submission

In the intervening period a number of factors have influenced the performance and economic position of International airlines

These include the war in Iraq war and the SARS epidemic. Air New Zealand as a predominately Pacific carrier was not affected by the first and has survived the second. Qantas as a major international carrier was forced to cancel flights during the war and its exposure to the Asian market meant it was more affected by the SARS epidemic.

Air New Zealand's position in relationship to the larger more exposed international airlines has been noted by a number of commentators. We were small enough to "duck the bullets"1

Therefore after further re-assessing the initial proposals and following closely subsequent ideas being put forward by Air New Zealand we are even more firmly of the opinion that these are not in New Zealand's best interest.

These include:

- Selling Freedom Air to a Value based Airline to allow competition. This would restrict Air New Zealand's ability to strengthen its position in the growing VBA market.

- New Zealand's geographic position and the services required eg national, both tourist and domestic, the Trans Tasman link and the long distance International flights. This must make us less attractive to the Value Based airlines as with few exceptions we do not have the high concentrations of populations for the National flights and the long distance International routes demand a level of service which the VBAs do not deliver.

- The trans Tasman link is currently heavily dominated by Qantas and Air New Zealand and hence holding to Freedom Air allows it to be competitive with any new VBA entrant..

I have read with interest the initial submission and the Commissions re audit.

The careful analysis of the NECG report by Prof Tim Hazledine – and confirmed by your audit – that any benefits are far outweighed by the predicted cost after three years of up to $466 million.

I have read too with interest the marketing strategy proposed by Qantas Holiday package and do not believe that it would deliver any where near what a targeted Air New Zealand prime destination such as we have just undertaken in the USA could deliver.

Star Alliance is by far the most satisfactory Alliance to link Air New Zealand with but it is probable that a Qantas/Air New Zealand Alliance would mean that we would be come a member of One World. This would cost us a considerable amount of business.

I have continued to collect media comments from a number of sources including Australian media and note that they refer to the proposal for an Australasian Airline.

I was particularly interested in the report in The Nation 13 June of Geoff Dixon"s address to a Future of Work Conference where he spoke of the need for Qantas to casualisation and contracting out to low cost regions and countries with cheaper labour.
This would presumably cheaper labour than New Zealand could offer.

When questioned about the future of the Airline he said to quote " It appears to me to be a race to the bottom. Everybody's margins are being shaved. I don't know where it all ends"

The question is then does he believe Air New Zealand can rescue them or is it to be a mutual suicide pact?

Air NZ post Iraq and hopefully post SARs is in a relatively stronger position than its larger competitors. In the six months to 31 December 2002 Air New Zealand carried 4.7 million passengers, made a net profit of $138 million and had free cash flow of $325 million. Its planes flew at 75.8% capacity (average for last five years 69.4% with international services 76.6% full (5 year average 70.3%).

So we ask and many others ask, why don't Air New Zealand Executives have more faith in the future of their company.

Perhaps the answer lies in how they see themselves. They have set themselves a target return on capital of 15%. This translates to something like 35% return to shareholders after tax. If any other large utility company was promising this, questions would be asked about their credibility too. But such claims from a company 82% owned by the taxpayer should well come under parliamentary scrutiny2

Save Air New Zealand cannot therefore give too much credence to airline executives who push the "we must get big" line to survive.

For if Air New Zealand's focus is extracting "revenue premium" rather than offering the cheapest possible flexible services, expect it ultimately to 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 – taxpaying New Zealanders – will suffer as the airline finds it cannot compete

Air New Zealand is not failing. It is in robust financial health. It's CEO may just have unrealistic targets. He does not need to join hands with Qantas's Geoff Dixon "in the race to the bottom". He can instead accept the challenge of strengthening our national carrier as a regional operator serving the best interests of its national base.

The Government and the New Zealand taxpayer believed in Air New Zealand enough to invest over 800 million in its survival. We saved Air New Zealand and we do not want it merged with Qantas for the dubious promise of a higher short term return on investment or for some "big" airline model. .

I believe the deal doesn't make sense for Air New Zealand, it doesn't make sense for New Zealand.

We must keep on saying so. 1 The Nation 13 June 2003

Knowledge is Power

We have learnt during the course of this Save Air New Zealand Campaign that most of the serious analysis and writing has come from airline commentators in major papers in New Zealand and Australian.

I include some of these as part of our Submission – see Snapshots

We found this one particularly interesting.

Jim Thorn Australian Aviation

June 2003

":As this issue closes the submitting for the final documentation of its planned minority shareholding of Air New Zealand.

We have been totally non enthuse by this bid since its inception last year and remain so the more we live with it.

"From Qantas management view point they naturally think a monopoly would be great for Air new Zealand it means having a powerful ally rather than a foe while the NZ Government profits by selling 22.5% of its almost totally nationalized airline for what to us seems a fortune at $A500 million – that puts the total airline worth at $A2.2 billion!

And Air New Zealand today has as much chance of being worth $A2.2 hillion as me looking like Brad Pitt.

Qantas has twice tried to make a match work via a minority share in Air NZ. On both occasions it turned to tears (although the second time Qantas netted a handy profit) and this time it won't be much different.

Realistically there is nothing that the two Airlines couldn't achieve by way of establishing a viable commercial operating agreement that on equity alliance could.

Pundits say that Air NZ will fail without the involvement of Qantas what a lot of baloney

One problem here is that most airline management simply are people with long airline industry experience. How many of the present Qantas Air NZ senior management team or Board were in the industry during the eighties when the two were racing into marriage one? How many were even there not long ago when marriage two was enacted?

Okay you get the picture and now the present ear management is frantically trying to throw half a billion dollars at the same bad idea again. Surely there is something to learn from the past.

Qantas, its staff and its customers would be a lot better served if management simply got on with the job of running their own airline while perhaps looking at ways to interact with neighbouring airlines without requiring unnecessary capital investments or raising the ire of the regulatory authorities which after all are there to do their job irrespective of how inconvenient that may be to some parties.

I enclose a further series of media quotes included in the paper Snapshots.

Robin Halliday
52 Salamanca Rd
Kelburn
rhalliday@paradise.net.nz

Enclosed: Submission Dr Ian Prior: February 2003
Snapshots June 2003