Submission

To: **NZ Commerce Commission**

By: **Export New Zealand**

On the: **Proposal for**
1. Air NZ & Qantas to form a Strategic Alliance
2. The Government to sell shares in Air NZ to Qantas Airways

Dated: **14 February 2003**

---

1. Introduction

1.1 Export NZ opposes the proposal to approve the Strategic Alliance between Air NZ & Qantas Airways and outlines why in section 3 below.

1.2 Coupled with the proposal for a Strategic Alliance between Air NZ & Qantas Airways, is the proposed cooperation agreement with Pacific Airlines which is also opposed and addressed in section 2 below.

1.3 Export NZ has concerns regarding the proposal for the government to sell shares in Air NZ to Qantas Airways and outlines these in Section 4 below.

1.4 Export NZ believes that the proposal for the government to sell its shares in Air NZ to Qantas Airways and the proposal to approve the Strategic Alliance between Air NZ & Qantas Airways must be looked at quite separately from each other as each have difference considerations, implications and variables.

2. Justification

2.1 Export NZ (Export Institute of New Zealand Inc) is a membership organisation that exists to develop and maintain an environment in which exporters can thrive.

2.2 The organisation stands for free and fair trade and submits to the Commerce Commission on the majority view of member exporters' nation wide.

2.3 All of the organisations members are reliant on air travel for their business' survival and all of the organisations manufacturing members are reliant, to some degree, on air freight to get goods to market and are greatly concerned with the sustainable provision of cost effective supply and capacity of air freight alternatives.

3. Proposal 1 (a): Section 58: Notice Seeking authorisation of a Strategic Alliance between Air NZ and Qantas Airways

3.1 Position Statement

a. Export NZ is opposed to the formation of a Strategic Alliance between Air NZ and Qantas Airways.

3.2 Key Concerns

a. Export NZ believes that the proposed Strategic Alliance would create a monopoly situation in the NZ domestic market and a dominant/controlling position in the trans-Tasman aviation market. This position is anti competitive and would have the strength to block competitors and new entrants from

Export Institute of New Zealand Inc.
Level 1, AFFCO House, 12-26 Swanson Street,
P O Box 4459, Auckland, New Zealand
Phone 64 9 309 1506, Fax 64 9 309 1505
Email: admin@exportnewzealand.org.nz

both the domestic and Trans –Tasman markets, leaving travellers and exporters at the mercy of one airline.

b. Under the proposed Strategic Alliance Qantas, through its two board positions, will have access to Air NZ's strategic information and policies which would be anti competitive and potentially damaging for Air NZ long term since both airlines compete in the same market for the same dollar spend.

c. The administrative proposal of the JVO requires a unanimous outcome before decisions can be made which will create management difficulties down the track.

d. Through the proposed co-ordinating of "scheduling activities in respect to all flight operated by Air NZ (both domestic & international) and all Qantas operated flights that arrive in, depart from or operate within NZ" freight capacity will inevitably be reduced. Efficiencies in load factors will, by their very nature, reduce the number of planes in the air and therefore reduce freight capacity. This will have a negative impact on the countries exporters making it harder to get goods to market. There is no economic justification to sustain or confirm sweeteners in the proposal that dedicated freighters would be introduced to meet demand.

e. Export NZ fears that freight rates will increase under the proposed alliance, because the reduced capacity, constant or increasing demand and lack of alternatives will enable increased pricing to be introduced.

f. Although the proposal states "no airline has indicated a willingness to enter into a strategic alliance with….." This is untrue as June 2002 Air NZ approved a proposal for Singapore Airlines to purchase 25% of Air NZ shares, clearly this was considered strategic since it received board approval. Furthermore there is no apparent business analysis proving Qantas to be the most appropriate partner for Air NZ, rather the proposal suggest it's the only potential partner that has pursued Air NZ and that is not sound business justification for approving the proposed Strategic Alliance.

g. If, as the proposal states, Air NZ is making a profit on its domestic market and losses internationally it doesn't need a JVO for its domestic market diluting the feeder traffic into its international flights. This would suggest what Air NZ actually needs is an international partner that could assist feeding passengers into the Domestic market and boast load factor by efficient code sharing and other marketing arrangements both domestically and internationally.

h. One argument in the proposal suggests that "the increase in capacity and resulting battle for customers will ultimately result in one of the two FSAs leaving the NZ Market…Air NZ is not well placed to win that battle…" however such underhand loss leading by Qantas should be covered under the "Dumping" laws which are designed to protect consumers by regulating competition and fair trade.

i. The proposal is based around the assumption that one or more VBA will enter the market to increase competition but this is merely speculation and dubious when potential new entrants are quoted as calling the proposed strategic alliance "anti-competitive" (Virgin Blue in an article by Brian Roberts, 17/01/02).

j. The value of merchandise exports to Australia for the year to June 2002 was NZD 5.69 billion (Trade NZ close up of NZ Exports report) and Australia is an important link for NZ travellers and feeder for domestic travel. Hence it is vital to the long term viability of NZ exporters and the NZ tourism market that the Trans-Tasman aviation market remains competitive.

3.3 Benefits

a. Economies of scale, in particular the removal of costly and unnecessary duplication of domestic terminals and check in facilities.

b. More efficient and regular scheduling of flights Trans-Tasman.

c. Having a Strategic Alliance partner enhances Air NZ's long term survival by introducing the much needed capital injection to upgrade equipment and introduce new management skills and experience into the operation.

4. Proposal 1 (b): Additional Cooperation Agreement between Air NZ, Qantas Airways and Air Pacific

4.1 Position Statement

a. Export NZ is opposed to the formation of a Cooperation Agreement between Air NZ, Air Pacific Qantas Airways.

b. Export NZ believes such an agreement would carve up and ring fence the Pacific region in a dangerous cartel.

4.2 Key Concerns

a. Under the cooperation agreement the Air NZ / Qantas aviation market dominance would extend to the Pacific Island with potential monopolistic impacts as noted above in section 3.

5. Proposal 3: Section 67: Notice Seeking Authorisation of Air NZ Shares by Qantas Airways

5.1 Position Statement

Export NZ believes that the there are actually two decisions to be made here: 1) should the government sell its shares and 2) should it sell to Qantas. Should the government sell clearly depends on the governments long term strategy, perceived value in ownership and required return of investment. Should its sell to Qantas - no.

5.2 Key Concerns

a. There is no evidence that the NZ government has prepared an economic case analysing the sale of its shares in Air NZ and further outlining the preferred terms and conditions for which that sale should be made. Export NZ believes this is fundamental to any decision and must be completed, independent of and uninfluenced by the Qantas offer.

b. Export NZ is concerned that there has been no tender process and hence only one bid made. Export NZ believes that there should be a tender process initiated to ensure optimum return for investment in tax payer's investment.

c. Export NZ does not believe Qantas is the best owner for Air NZ. Many of the benefits outlined in the proposals such as greater cooperation between scheduling and efficiencies between Qantas and Air NZ could be achieved without 22.5% ownership.

d. The government shouldn't be bullied into considering the two proposals as one as stated in the Section 67 report Para (45) "As noted, the proposed acquisition cannot be considered in isolation …" There are clearly unrelated aspects to this proposal and background decisions that must be made independently of the other Section 58 report.

5.3 National Interest Statement

a. Part of the rationale for the government buying back the shares in Air NZ was in the National Interest and therefore this must be considered in decision to sell the shares.

b. The international exposure of the Koru and in turn the NZ brand must be ensured.

6. Summary

6.1 As majority shareholder in Air NZ the NZ government has a responsibility to manage the airline commercially and not for political expedience. Without sound business analysis and a wider search for potential Strategic Alliance Partners the rationale appears to be that latter rather than having the tax payers long term interests in mind.

6.2 Export NZ is opposed to Qantas as a partner for Air NZ, however believes a strategic alliance partner is vital to the long term success on the airline and that other options must be considered and investigated before selecting a partner.

6.3 Export NZ calls for the Commerce Commission to adopt a commercial approach to this decision and:

a. Decline the Qantas / Air NZ Strategic Alliance Proposal

b. Decline the Co-operation Agreement between Qantas / Air NZ / Air Pacific

c. Decline the sale of shares to Qantas

d. Prepare a business case and seek tenders for the shares and Alliance partner