



**Travel Agents Association of New Zealand**

**FURTHER COMMENT BY TAANZ TO THE NEW ZEALAND  
COMMERCE COMMISSION ON THE PROPOSED AIR NEW  
ZEALAND/QANTAS STRATEGIC ALLIANCE**

**GENERAL STATEMENT OF SUPPORT FOR THE  
CONCLUSIONS REACHED AND VIEWS EXPRESSED BY  
THE COMMERCE COMMISSION IN ITS DRAFT  
DETERMINATION**

**20 June 2003**

# **THE TRAVEL AGENTS' ASSOCIATION OF NEW ZEALAND INCORPORATED (TAANZ)**

## **FURTHER COMMENT BY TAANZ TO THE NEW ZEALAND COMMERCE COMMISSION ON THE PROPOSED AIR NEW ZEALAND/QANTAS ALLIANCE**

### **GENERAL STATEMENT OF SUPPORT FOR THE CONCLUSIONS REACHED AND VIEWS EXPRESSED BY THE COMMERCE COMMISSION IN ITS DRAFT DETERMINATION**

TAANZ wishes to make additional comments to the New Zealand Commerce Commission on its Draft Determination and on the proposed Air New Zealand/Qantas Alliance.

TAANZ strongly supports the view adopted by, and the conclusions reached by, the New Zealand Commerce Commission in its Draft Determination. In this further submission it proposes to deal specifically with those questions posed by the Commerce Commission which bear directly on the area which TAANZ and its members have specific knowledge or expertise. In relation to other issues on which it does not make specific comment TAANZ supports the position adopted by the Commission in its Draft Determination.

### **SPECIFIC COMMENT ON QUESTIONS RAISED BY COMMERCE COMMISSION**

#### **Question 2: The Commission seeks comment on its market definitions.**

TAANZ accepts and agrees with the Commission's identification of the relevant passenger air service markets and of the freight markets.

With reference to the market for travel distribution services in New Zealand, TAANZ agrees with the Commission's view (para 211) that there is a separate functional market for wholesale travel distribution services and that it is appropriate to separately analyse that market.

TAANZ is however firmly of the view that there are also separate functional markets for:

- (i) corporate travel distribution services, and
- (ii) retail and leisure travel distribution services.

In TAANZ's view each of these markets should be separately analysed.

Those who seek services in the travel distribution market comprise both New Zealand residents and overseas inbound travellers and almost without exception they will fall into one of two quite distinct purchasing groups; the corporate/business orientated traveller or the leisure-orientated traveller. There is a separate functional market for each group and just as the Commission concluded that it was appropriate in terms of this application to separately analyse the wholesale travel distribution services market, in TAANZ's view, it is equally appropriate that the Commission should analyse both the corporate/business travel distribution services market and the retail and leisure travel distribution services market.

(i) The corporate/business travel market and its associated distribution services market

This is a separate and quite distinct market in its own right. It is high value and constitutes the key component (in terms of revenue) in the New Zealand domestic and overseas outbound air services market. It services primarily the New Zealand business community and government.

Market size: According to Air New Zealand and Qantas some 65% of domestic air travellers within New Zealand are corporate/business travellers, with the actual revenue collected from these travellers contributing in excess of 80% of the airlines' revenues. Corporate/business customers are often forced to buy short notice, high cost, prime time fares on terms dictated by the airlines. It is a high value market for the airlines. The government and many large corporations spend millions of dollars annually on air travel and New Zealand companies that spend between \$250,000 and \$750,000 per annum on air travel are common.

On the Tasman routes corporate/business travellers constitute approximately 35% of all air travellers and contribute approximately 60% of the airlines' revenue on this route. Qantas and Air New Zealand between them carry in excess of 90% of all corporate travellers domestically and on the Tasman. They carry 100% to key USA destinations and 55% to Asia.

Leisure travellers purchase low price advance purchase fares and travel at off-peak times. By comparison the corporate traveller is a high value high spend customer for the airlines.

The corporate market is universally recognised by the airlines and the travel distribution service industry as a separate and distinct market. Corporate travel

distribution services are handled by specialist corporate travel agents which are commonly known as travel management companies (TMCs). These TMCs provide specific services not provided by travel agents who operate in the retail/leisure market. TMCs process consolidated billing systems, manage travel supplier tender processes, process ancillary bookings and billings, and manage loyalty programs. None of this type of work is handled by retail travel agents.

The corporate travel distribution services market is very large in terms of volumes and revenues, it performs different functions and services for a quite distinct and different customer group to that serviced by those that operate in the retail/leisure travel distribution market. Like the wholesale travel distribution market it needs to be separately analysed.

An analysis of the effects that the Alliance will have on the corporate/business travel distribution services market leads to the conclusion that this market will be equally as devastated as the wholesale travel distribution services market if the Alliance is approved and that the consequences for the consumers of corporate travel in New Zealand will be extremely detrimental. In effect this will mean that 65% of the domestic air services market can expect to pay more for the travel requirements with a corresponding increase in the Alliance airlines' revenues. The same situation will apply to 35% of the Trans-Tasman market.

Travel management companies (TMCs) exist because they provide valuable and expert services to the consumers of corporate travel in New Zealand. In particular they:

- Manage the purchase and implementation of the total travel requirements on behalf of their customers. This principally involves air transportation but will not infrequently involve the provision of other services such as accommodation and land transportation.
- Manage and process consolidated billing systems pursuant to which a TMC will separately pay the various providers of the component parts of the services and provide one invoice to the customer incorporating an itemised account of all of their travel requirements.
- Manage travel supplier tender processes for their customers to obtain the best deal for the customers in terms of price, services and ancillary benefits.

- Arrange and manage loyalty programs on behalf of customers.
- Assist in organising and co-ordinating meetings, conferences, video linkages etc. and subsidiary sightseeing or tourist activities which are the purpose of or an adjunct to the travel in question.

Although TMCs provide other services and do more than book and manage the air travel requirements of their customers, the service that they provide in that regard, is the key element in virtually all their work. Inevitably the most significant aspect of the value that a TMC provides to its customers lies in its ability to facilitate and deliver to their customers cost savings in air travel. Their ability to do this is enhanced when there is effective competition in a market and severely restricted where there is no effective competition in a market. Under the Alliance there will be no effective competition in the corporate air services market in New Zealand and this will impact significantly on the benefit that TMCs are able to provide to their customers and thus their ongoing viability.

This can best be illustrated by current practice where a consumer of corporate air services puts their business out to tender. At present they will usually ask their TMC to manage the process (alternatively they may choose to do it themselves). In the current air services market where there is competition between Air New Zealand and Qantas they will be able to negotiate price discounts/rebates from both Qantas and Air New Zealand. There is a good price tension in the current market between these two airlines and the TMC (customer if acting personally) is then in a position to leverage a better deal for the customer. This results in substantial cost savings to the customer/consumer.

In New Zealand today there are about 40 government departments which are large procurers of corporate travel. Currently some of these departments have preferred deals with Qantas and many of them have preferred deals with Air New Zealand. The point is that they do have preferred deals, better price, and better service.

Under the Alliance Air New Zealand will control all pricing, discounting, rebating and routing from, to and within New Zealand. There will be no effective choice for the business/corporate traveller. The proposal made by the applicants specifically referred to and sought permission for joint tendering for corporate and government accounts. Even the emergence of a value-based airline will not provide choice to

the corporate traveller who generally will require access to the type of services only provided by a full service airline.

The Alliance will remove competition and price tension between Qantas and Air New Zealand and will inevitably result in the Government and the business community of New Zealand paying increased fares for air transportation. This increased cost will be a cost to the taxpayer and to the New Zealand consumers of the product and services supplied by its business community. In itself this constitutes a significant detriment.

It goes without saying that the consequences for TMCs will be devastating. It is difficult to see how they will be able to survive as independent service providers to the business community.

Once the TMCs have ceased to exist as independent operators the distribution of airline services will be firmly controlled by the Alliance. The Alliance yield managers will not be constrained by the checks and balances that competition currently brings to the market and they will push the price of high demand fares up. In this market, the corporate travel market, this can be achieved without ever having to publicly declare a fare increase.

TAANZ members who operate in the corporate market anticipate that effective cost increases to the corporate consumers of air services in New Zealand will increase by between 28% and 40% within the next three years if the Alliance is approved by the New Zealand Commerce Commission.

If the Alliance is approved air travel distribution and facilitation for corporate travellers will be controlled by the Alliance. The current independent travel agency distribution system for corporate travel will be weakened and the ability of the agency distribution system to effectively market the services of other airlines who currently (or in the future wish to) supply services to or within New Zealand will be threatened. Those TMCs that survive will not be able to run the risk of alienating the Alliance by promoting the services of other airlines. This will be a factor which will detrimentally affect the ability of such carriers to continue (or to start up) services into New Zealand.

If we carry out the same type of comparison as the Commission did in relation to the wholesale travel distribution services market (at paragraph 592) between the counterfactual and the factual it would result in:

- the proposed Alliance having a high market share or more likely total control of the corporate business travel distribution services market;
- insufficient constraint (indeed no constraint) from competitors, either existing or potential;
- an increase in the barriers to entry to the point where they constitute an insurmountable fortress;
- no likely entry to a sufficient extent or within a sufficient timeframe;
- no constraint from buyers or suppliers.

(ii) The retail and leisure travel market

This is a quite separate and distinct market in its own right. Although not as large in terms of volumes and revenue as the corporate travel market, it is still very substantial in size and extremely important in terms of the function it performs for hundreds of thousands of New Zealand consumers each year.

The retail/leisure distribution services market is serviced by Air New Zealand (through its direct marketing avenues, its call centres and travel centres and the internet) and by over 500 retail travel agencies which are spread across the length and breadth of the country. Most medium sized rural towns currently have a retail travel agent which services the private and leisure travel requirements of their local communities. In cities, in addition to those retail travel agencies based in the central business district, most suburbs will have retail outlets.

There is a real public benefit to consumers in New Zealand in having a strong broadly based and geographically widespread retail leisure distribution service. Many consumers in this market need assistance to handle their air travel arrangements and their leisure and holiday travel package purchases.

The retail travel agencies exist because they provide the New Zealand public with an independent, unbiased and professional distribution mechanism for travel product.

They provide expertise and choice in the distribution of air travel and other forms of travel and all travel related products. Choice in destinations and product, choice of airline, accommodation, sightseeing, etc. As agents for many principal suppliers their expertise, knowledge and training and their access to product extends far beyond that which can be offered by any one principal supplier

including Air New Zealand. They invest in developing that expertise and in acquiring that knowledge for the benefit of their customers, the general public of New Zealand. For all airlines other than Air New Zealand the retail travel agent is the most important distribution channel. These other airlines rely almost entirely on retail agents for the sale of their product in New Zealand. Although these airlines primarily serve New Zealand to satisfy an outbound demand for New Zealand as a destination from their home markets, an important revenue factor for them is the incremental outbound business ex New Zealand processed through travel agents. Without this option these airlines may well decide that it is no longer viable to service New Zealand. There is no doubt that additional sales outbound New Zealand that they receive on their long haul services to New Zealand are important to route viability for these airlines.

These airlines (that is airlines servicing New Zealand other than Air New Zealand) are bringing increasing numbers of tourists to New Zealand from overseas markets, especially the fast growing Asian market. In addition to the great benefit to the New Zealand economy from these tourists these airlines also provide a direct benefit to New Zealand consumers outbound in the long haul markets in that they introduce another source of competition. The additional competition on these long haul routes that these carriers provide has resulted in very significant benefits to the New Zealand consumer in the form of low cost long haul airfares to Asia and Europe.

Independent retail travel agencies perform vital functions for these airlines. The existence of these airlines servicing New Zealand destinations is of considerable benefit to the New Zealand consumer.

If the Alliance is approved many retail travel agencies in New Zealand will be forced out of business. They will not be able to offer choice to the New Zealand consumer on the most significant markets that they sell into, in particular the Trans Tasman, the Pacific and the USA/New Zealand markets. Many retail travel agencies already are marginal businesses, their financial viability having been affected by the actions and competitive (in many cases unfairly competitive) activities of Air New Zealand.

Although the ongoing viability of a significant number of retail travel agencies will not be one of the major issues which the Commerce Commission will concern itself with in considering this application, there are direct and indirect detriments to



these small businesses and to the communities that they serve which should be weighed and considered by the Commission.

Direct detriments will follow as a result of the closure of many of the retail travel agencies across the country with the consequential loss of jobs. It is envisaged that this will happen more frequently in rural towns. There is also the indirect detriments to those communities such as the costs to consumers in rural communities of travelling greater distances in order to access the services of a travel agent with commensurate additional cost and greater time off productive work. A further indirect detriment that will flow from the weakening of the retail travel distribution system is, as has been mentioned earlier, the impact that a weakening of the retail travel agency distribution network will have on the ability of other airlines (non Alliance airlines) to market their services and product in New Zealand.

(iii) The wholesale/consolidation distribution services market

We note that the Commission has sought specific comment in relation to this market, which it identified as a separate market, in **question number 38**, and the comment that we make in relation to this market is dealt with in our response to question number 38.

**Question 5 The Commission seeks comment on the likelihood of the "war of attrition" counterfactual as proposed by the applicants.**

TAANZ agrees with the Commission's view that it is appropriate to discount the war of attrition with Qantas in the proposed counterfactual. There is nothing in past conduct which would indicate that this is at all likely and the reasons set out by the Commission supporting the view it has reached are soundly based. It is not in the interests of either airline to embark upon a war of attrition.

TAANZ noted with interest the comments made by Polynesian Airlines in numbered paragraph 4 on pages 16 and 17 of its submission where in references to the New Zealand domestic air services market competition was described as competition "in name only" and reference was made to "private arrangements between airline shareholders that effectively negated competition".

TAANZ views these comments as an overstatement of the position. Although there may have been arrangements between Air New Zealand and Qantas on certain issues, there

has clearly been competition between Air New Zealand and Qantas in the domestic air services market. It is however not competition which has had the purpose of driving the other competitor out of the market. It is competition which falls well short of a "war of attrition". In TAANZ's view it is this type of competition that will continue should the Alliance not be approved. Competition will exist if the Alliance is not approved which will enable travel agents to play a key role in offering the consumer better discount deals.

From the distribution perspective, despite the fact that Air New Zealand competes directly with travel agents for the sale of its services and Qantas generally does not (and thus relies more heavily on travel agents to sell its product) there is nothing to suggest that a war of attrition is likely. There have been opportunities in the past for one airline or the other to create a point of difference in terms of the distribution and sale of their services and neither airline has sought to take advantage of such opportunities. One such example arose when travel agents' commissions were cut on the Tasman route.

Air New Zealand and Qantas have taken a collaborative approach to IATA resolutions, particularly those which directly affect distribution and TAANZ does not envisage that this will change.

Recent announcements by Air New Zealand and Qantas reinforce the view that a war of attrition is most unlikely. Air New Zealand seems to have averted the worst of the impact of the Sars virus and public pronouncements are to the effect that it is continuing to trade profitably. Air New Zealand has underlying support of the New Zealand government as a major shareholder.

Qantas has announced that it is embarking on a major cost cutting exercise aimed at reducing its operating costs by a reported sum of Australian 1 billion over two years

There will not be a 'war of attrition'.

**Question 12 The Commission seeks comment on availability of travel distribution services required for entry to the main trunk market and particularly seeks comment on whether access to these services would constitute a barrier to entry to the market.**

An independent and healthy distribution system is a positive factor in facilitating new entrants to the main trunk market. Currently there is an independent and healthy distribution system which would be able to support and service a new entrant in the main trunk market. If however approval was given to the Alliance the distribution system would be neither independent nor strong enough to support a new entrant to this market and this

would be a significant barrier to new entrants to this market. New entrants would in such circumstances be forced to rely very heavily on the internet and/or direct sales.

If the Alliance were approved the Alliance would not only have a virtual monopoly in the domestic, Trans Tasman, Pacific and USA air services market, the Alliance would also dominate the travel distribution market. Those travel agencies that were able to survive would need to have a very close relationship with the monopolistic supplier of product. They would not be able to put that relationship at risk by actively promoting the services of a new entrant.

**Question 16 The Commission seeks comment whether loyalty schemes, either the presence of existing incumbent schemes, or a requirement to develop one, would constitute a barrier to entry to the main trunk market.**

TAANZ unequivocally supports the conclusion the Commission reached in this regard. Loyalty schemes are significant barriers to customers switching to a new entrant.

TAANZ members deal first-hand with the consumers and are better equipped than most to express a view as to the factors which influence customers' choice of airline. It is without doubt that loyalty programmes provide significant incentives for travellers and travel agents to focus their bookings on a single airline or alliance of airlines which participate in the frequent flyer programmes to which the consumer belongs.

**Question 17 The Commission seeks comment whether the need to either have a recognised brand, or the requirement to develop a brand would constitute a barrier to entry to the main trunk market**

The overwhelming experience of TAANZ members in selling the services of airlines across the length and breadth of the country supports the conclusions reached by the Commission in this regard.

The need to establish a new brand would be a barrier to entry.

Many New Zealanders prefer to fly Air New Zealand because they believe in supporting New Zealand enterprises.

Customers are concerned with safety and quality of service. It is much easier to sell air services on airlines who have a reputation for safety and quality of service than it is for new entrants to a market who have no proven track record or reputation.

**Question 22** The Commission seeks comment on whether Origin Pacific would be likely to expand in the main trunk market under both the factual or counterfactual scenarios. Alternatively, the Commission seeks comment on whether Origin Pacific would be likely to retrench in the event that the proposed Alliance proceeded.

TAANZ is of the view that Origin Pacific's very existence is threatened by the Alliance. It is not likely at all that it would be able to expand in the main trunk market under the factual or counterfactual. If it survives the Alliance it would be in a more limited specialised role. Current passenger numbers it moves as a feeder airline to Qantas would be substantially reduced.

**Question 23** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the main trunk market when compared with the counterfactual.

The Commission's view is correct. There is no doubt whatsoever that the Alliance would have or would be likely to have the effect of substantially lessening competition in the main trunk market when compared to the counterfactual.

**Question 24** The Commission seeks comment on the barriers to entry to the provincial market.

The Commission is correct in concluding that the proposed Alliance will reduce Origin Pacific's ability to compete. The real risk is that there will be an almost complete loss of competition in the provincial market. The Commission correctly assessed the significance of access to feeder traffic re international flights in this market and the barriers to entry into this market should the Alliance be approved.

There is no doubt that the Commission was correct in reaching the view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the provincial market when compared with the counterfactual.

**Question 25** The Commission seeks comment on whether Virgin Blue is likely to enter the provincial market under either the factual or counterfactual scenarios.

TAANZ is of the view that Virgin Blue, should it enter the New Zealand market at all, is highly unlikely to enter the provincial market under either the factual or counterfactual scenarios. Virgin Blue has tended to concentrate on high volume main trunk routes and

any significant entry into the provincial market would mark a significant departure from previous practice.

**Question 26 The Commission seeks comment on whether Origin Pacific would be likely to expand or retrench in the provincial market under either the factual or counterfactual scenarios.**

Origin Pacific has, as the Commission has noted, a reasonably significant operation in servicing provincial markets under the present environment. It operates over 100 flights each weekday. Currently Qantas code shares on Origin Pacific flights and Origin Pacific has access to feeder traffic from Qantas International flights. This relationship with Qantas is significant to the ongoing existence of Origin Pacific. In the event of the Alliance being approved, if Origin Pacific does survive it will be on a far more limited and restricted basis and it will inevitably involve retrenchment of its operations in the provincial market.

**Question 27 The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the provincial market when compared with the counterfactual.**

In TAANZ's view this is unquestionably correct and the analysis made by the Commission is accurate.

**Question 28 The Commission seeks comment on the barriers to entry to the Tasman market.**

TAANZ agrees with the barriers to entry to the Tasman market identified by the Commission in its Draft Determination. An additional barrier to entry to the Tasman route will arise, if the proposed Alliance is approved, as a result of the consequences of such approval on the travel distribution services market. As outlined earlier in this submission, any new entrant (as is the case currently for Fifth Freedom Carriers) would need to rely heavily on the services of the independent travel agency community in order to market and sell its product. If the proposed Alliance is approved that will inevitably have very severe and significant implications for the distribution market. We refer you to our comments in this regard in relation to questions 2 and 12. This will represent another significant barrier that a new entrant to the Tasman market would face.

Even if Emirates/Virgin Blue do fly the Tasman, by any reasonable assessment a Qantas/Air New Zealand Alliance with Freedom will control 90% plus of the frequency and seat availability on the Trans-Tasman routes.

- Question 30** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the Tasman market when compared with the counterfactual.
- Question 31** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the NZ-Asia market when compared with the counterfactual.
- Question 32** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the NZ-Pacific market when compared with the counterfactual.
- Question 33** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the NZ-US market when compared with the counterfactual.

In relation to questions 30 to 33 inclusive, TAANZ is in no doubt whatsoever that the view reached by the Commission is correct.

- Question 38:** The Commission seeks comment on its preliminary view that the proposed Alliance would have or would be likely to have the effect of substantially lessening competition in the national wholesale travel services market when compared with the counterfactual.

TAANZ supports the conclusions reached by the Commission in this regard. We make the following additional comments differentiating between the role of the wholesaler and the air consolidator.

First, the wholesaler (outbound):

Outbound travel wholesalers act as intermediaries, "packaging" land content (accommodation, transportation and sightseeing) in conjunction with an airfare to produce conclusively priced holidays. These holidays are distributed and sold to the public via retail travel agents and are aimed primarily at leisure travellers. Wholesalers represent an estimated 30% of the outbound "holiday" tourism market.

The travel wholesaler's primary benefits to the consumer are:

- Their expertise in the construction and packaging of fully inclusive holiday packages to the consumer so that the consumer acquires a product with no hidden costs.
- Their ability to bulk purchase air and land product ensuring competitive prices for the consumer in comparison to what they would pay on a direct basis.
- Their ability to sell "distressed inventory" on behalf of air and land suppliers.
- The investment they make in the promotion of overseas travel destinations, for example brochured product, newspaper advertising, radio and television.
- The specialised destination advice they provide to the retail travel agency community in order to best inform the customer.

The threat to the wholesaler, and therefore in turn to the consumer, under the Alliance is that their long-term survival would be highly questionable. The New Zealand market is currently served by a number of highly competitive independent wholesalers, none of whom dominate the market in the way that Qantas Holidays do in Australia.

Both Qantas (via Qantas Holidays) and Air New Zealand (via Air New Zealand Holidays) currently operate their own in-house wholesale programs, independently of each other. Under the Alliance Qantas and Air New Zealand will potentially be able to combine resources and volumes in order to dominate both markets. This would result in the closure of competing New Zealand wholesalers thereby removing choice for the consumer.

Qantas Holidays currently dominate the Australian wholesale travel market and, whilst we accept their claims that they will not promote outbound travel from New Zealand under the

Qantas Holidays umbrella, they will not need to. Air New Zealand Holidays already exists and with the benefit of combined volumes, enhanced buying power and integrated systems/inventory control and in particular a common database they could effectively replicate Qantas Holidays under the Air New Zealand Holidays brand.

The consequences of this, as has been recognised by the Commission, is likely to be a change from the highly competitive wholesale travel services market that exists currently where a number of independent wholesalers (none of whom dominate the market) compete aggressively for business to a situation more akin to the Australian situation where the market is dominated by the one airline-owned supplier.

Secondly, the air consolidator:

Air consolidators are intermediary wholesale distributors of airfares and air only product. They construct multi stop, multi carrier itineraries for retail travel agents, which they on-sell to the public. They also distribute "special fares" not available directly to the retail travel agent from the airlines.

The air consolidators' primary benefits to the consumer are:

- Their expertise in airline rules and ticket issuance procedures, reducing the risks of ticketing error. Ticketing errors can affect the consumer's ability to board a plane.
- Their expertise in the construction and issuance of multi stop, multi carrier itineraries.
- Their ability to promote and sell airfares, that due to airline regulations, are not available to the retail travel agent directly.
- They are the major distribution channel for fifth freedom carriers.

The threat to the consolidator, and therefore in turn to the consumer, under the Alliance is that their ability to provide an extensive choice of multi stop, multi carrier itineraries is compromised. In the current competitive environment customers have a wide choice of Star Alliance and One World Alliance airfares that are generally constructed by air consolidators, on behalf of the retail travel agent. In the event Air New Zealand joined the One World Alliance of carriers this would effectively remove the ability of the Star Alliance carriers to compete. The only online carrier option customers would have with Star Alliance would be Singapore Airlines, which drastically reduces the number of cities available on route to Europe, thereby removing consumer choice and options.

The effect of removal of the Star Alliance from a consolidator's suite of airfare options, reduces the ongoing need for consolidators, which in turn reduces the major avenue for



distribution for all new entrants and/or fifth freedom carriers. This would make it more difficult for new entrants/competitors to come into the New Zealand marketplace as their distribution costs would be increased. In turn this would also affect the ability of consumers to gain access to the competitive fares these carriers currently provide and which one could confidently predict they would continue to provide.

**Question 41 The Commission seeks further submissions on the implications of a possible switch by Air New Zealand to the Oneworld Alliance.**

The New Zealand economy currently benefits from the fact that the two principal airlines servicing New Zealand, namely Air New Zealand and Qantas, are members of different airline alliances. Should, as a result of the proposed Alliance, Air New Zealand join the Oneworld Alliance there would be far less opportunity and capacity for overseas residents who are members of frequent flyer programs with Star Alliance airlines to access and visit New Zealand utilising their frequent flyer points.

TAANZ strongly supports the view expressed by the Ministry of Tourism in its submission dated the 11<sup>th</sup> of December 2002. The points it makes at paragraphs 7 to 11 at pages 3 and 4 of that submission are valid. The implications of a switch by Air New Zealand to the Oneworld Alliance would have detrimental consequences for the tourism sector.

**Question 55 The Commission seeks views on its estimation of tourism benefits?**

TAANZ agrees with the Commission's initial view that combining and co-ordinating marketing by the airlines would not result in increased tourist numbers. Any increase in tourist numbers would need to be very significant in order to constitute a benefit attributable to the Alliance because, as is envisaged by the Alliance, most of the additional tourists would be dual destination tourists visiting both Australia and New Zealand. We would expect that the main focus of this marketing would be Australia.

In this regard TAANZ agrees with the views expressed by the Ministry of Tourism in its submission dated the 11<sup>th</sup> of December 2002 under the heading "Dual Destination Marketing" at paragraphs 12 to 15.

As the Ministry of Tourism states, mono-destination visitors are more beneficial to New Zealand. They stay longer, leave economic value in more regions and spend more in absolute terms. A joint promotion of a dual Australia/New Zealand destination will inevitably reduce the length of time tourists stay in New Zealand and the amount that they spend here.

As noted earlier (in response to question 41) TAANZ agrees with the views expressed by the Ministry of Tourism as to the implication for tourism of Air New Zealand leaving the Star Alliance to join the One World Alliance. The Commission was correct in its assessment in its Draft Determination that it expected that the loss of the Star Alliance on the North American routes would diminish total benefits attributable to the proposed alliance. TAANZ agrees with the Commission's assessment (paragraph 776) that the loss of the Star Alliance would diminish virtually every projected tourism benefit of the proposed alliance. The loss of the Star Alliance on the North American routes would reduce competition, not only outbound, but also inbound, as One World would enjoy a virtual monopoly position on frequency and stop-over options for the round the world fares. As an example, Americans are prolific travellers to New Zealand and thus would be virtually shut out of access to New Zealand on Star Alliance participating airlines if Air New Zealand joined the One World Alliance.

TAANZ is of the view that it is most unlikely, if the Alliance is permitted to go ahead, that another Star Alliance airline will commence flying to New Zealand on the North American routes. This is because it is difficult to see any Star Alliance participant being able to compete successfully with a combined Air New Zealand/Qantas force when it comes to carrying New Zealand and Australian tourists to the USA. In terms of inbound traffic such an airline would not be in a position to offer seamless online travel options between or across New Zealand and Australia. We have already seen the withdrawal of United Airlines on the New Zealand/USA route.

### **Comment on the Undertakings Provided By the Alliance**

If the Alliance is approved there will be an effective monopoly for the Alliance in the New Zealand domestic air services market, the Tasman air services market, the New Zealand/Pacific air services market and the New Zealand/USA air services market.

The undertakings provided by the Alliance will do nothing to change this reality.

Further, the wholesale, corporate and retail markets for distribution of travel services will be controlled by the Alliance. Independent operators will be forced out of these markets and this will further strengthen the Alliance's monopolistic/dominant hold on the air services markets including those to Asia and the longhaul markets to Europe.

Healthy and effective competition in the distribution markets helps to facilitate competition in the air services markets. We reiterate the comments we made in this regard in the second section of our

original submission. If the Alliance is approved the consequences for the existing distribution facilitators, the wholesalers, the TMCs who handle corporate and business travel and the retail and leisure travel agents will be very serious indeed. Many of these businesses will fail causing financial ruin to the proprietors and resulting in significant loss of employment for those who currently work in the distribution industry. Those entities which survive will only be able to do so by reaching an accommodation with the Alliance which will effectively end any prospect of there being in a commercial sense 'independent' operators within the distribution markets. It is difficult to see any of these operators putting their relationship with the Alliance at risk by promoting and actively selling the services of other carriers.

The undertakings provided by the Alliance will do nothing to change this reality.

**Public Interest:**

TAANZ as an organisation and TAANZ members individually deal extensively with the New Zealand public, the consumer of travel services provided by the various airlines currently servicing New Zealand. TAANZ and its members perceive themselves as having a role as guardians of the consumer interest and have been active in promoting the interests of their customers, the consumers of these services. As we stated in our initial submission, the interests of the members of the New Zealand public as users of airline services affected by the application make up a significant component in the assessment of "the public good" aspect of this application.

TAANZ supports the view that the interests of the New Zealand public as users of these services are clearly served by a competitive market place, by there being generous capacity, and by having a market in which the consumer has real choice. The Alliance proposes what will be an effective monopoly for the supply of air travel services in the markets which the Commission has identified. The Alliance has however not produced any compelling evidence of the need to create this monopoly situation which will inevitably result in significant detriment to the New Zealand consumer.

TAANZ supports the position and stance taken by the Consumers Institute in its submission dated the 13<sup>th</sup> of February 2002.

In our original submission we referred to the benefits which flow from competition and the innovation and efficiencies which competition brings. A look back at what happened in the New Zealand market when competition was introduced, and currently an examination of the comparison between the longhaul air services market to Europe in which there is effective competition, and those markets, for example the NZ-Pacific and NZ-America air services markets in which there is not, will confirm this.

TAANZ is totally opposed to the Alliance and the monopoly it would establish in our key air services markets and in the travel distribution markets. It is not good for New Zealand. It would be very bad for New Zealand.