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New Zealand Commerce Centre
Contact Centre
PO Box 2351
Wellington

Re : Qantas/Air New Zealand Proposed Merger
Public Comment Response

Gentlemen:

I am an airline consultant with management and organization experience at several major airlines, am an Australian citizen and a resident of California in the United States. I have been asked to comment on points of the proposed merger between Qantas and Air New Zealand.

The proposed merger, as stated and structured, is blatantly anti-competitive, anti-consumer and anti-labor. The expected result will include:

a) Higher fares on the routes where Air New Zealand and Qantas presently compete;
b) Less capacity on those routes, tightening up seat availability and frequency of flights and making travel in times of more popular travel difficult due to capacity shortages;
c) Unemployment created by the reduction in Air New Zealand flights, rendering redundant crews, maintenance, agents and office staff;
d) National security considerations.

<u>NATIONAL SECURITY ASPECT</u>

A security aspect to the country of New Zealand merits comment since New Zealand has virtually eliminated its air force, and the merger of Air New Zealand and Qantas will deprive the country of the major carrier, rendering it totally dependant on foreign sources for pilots and air capacity – should a regional emergency occur the country of New

Zealand will be begging for foreign assistance, unable to guarantee its own citizens the ability to provide air lift as may be necessary. For example, should a major earthquake or other national emergency occur and large populations require relocation, the country will be dependent on foreign carriers to assist in relocation. The contemplation of a government willingly deeding a critical security asset to a foreign entity is a breathtaking responsibility, and not to be entered into lightly.

ANTI COMPETITIVE

The merger places management of the combined entity into the hands of Qantas. Qantas presently holds a near monopoly in Australia, and profits enormously by dominating as much passenger feed into Australia for onward travel on its domestic system. Qantas has generated very high margins of profit on its domestic system, enjoying in recent years one of the highest load factors on its domestic system of any carrier in the Western World, and at unusually high average fare levels. In the present economic climate and recent war activity and anti terrorist efforts around the world, Qantas has struggled to maintain profitable operations outside Australia, and has subsidized its overall operations through the unusually high profits derived from its domestic monopoly.

On the Pacific trunk routes, Qantas has only two competitors, being United Airlines and Air New Zealand. United Airlines is presently in Chapter 11 bankruptcy, better known in New Zealand as a receivership. United has reduced schedules and while it has attempted to maintain service on its profitable Pacific routes, it has withdrawn from the United States to New Zealand marketplace, preferring instead to code share with Air New Zealand in that market, and to continue to offer service to Sydney and Melbourne from Los Angeles and San Francisco though its services through Sydney. Normally this would provide a windfall to Air New Zealand, but this windfall will be compromised by the Qantas/Air New Zealand merger by allowing Qantas to structure its own services to siphon the traffic that may otherwise have flown with Air New Zealand onto Qantas aircraft and services.

Since 75% of the traffic across the Pacific is comprised of Australians and New Zealanders, and less than 25% comprised of Americans, they historically rely primarily on Qantas and Air New Zealand to provide air service. Continental Airlines, American Airlines, Northwest Airlines have withdrawn service in recent years to Australia from the United States due to this preference by the local market for their own flag carriers, a factor which has worked well for Air New Zealand and Qantas in their own markets.

The merger of Qantas and Air New Zealand, as stated, will deliver management control of the combined entity to Qantas, and the New Zealand government (charged with representing the best interests of its citizens) will be powerless to influence the directives that Qantas management may make in steering traffic and flights away from Air New Zealand through marketing initiatives. Consequently, while Qantas owns only a small percentage of Air New Zealand under the proposed merger, Qantas will be at liberty to draw traffic away from Air New Zealand onto its own services, potentially bleeding revenue from Air New Zealand and the government will be powerless to prevent it for practical purposes. This is anti-competitive.

HIGHER FARES

With Qantas having only one competitor after the merger, being United Airlines, in the region, and with United's future being uncertain due to bankruptcy proceedings, Qantas will dominate the entire Pacific international air market. Qantas presently manages Air Pacific, Fiji's flag air carrier, and has adjusted schedules of the carriers to favor Qantas and to raise fares to the passengers traveling on the routes served by both carriers. Fares rose substantially after Qantas gained management control of Air Pacific.

My prediction, based on my experience as an airline marketer, management and finance, is that the premium fares charged for first class and business class will stay at present levels, but that economy fares will rise and the lower, advance purchase incentive fares will diminish in availability and will become harder to get, resulting in more people paying full economy fares in the region. As stated, with Qantas managing the scheduling and setting the fares in a marketplace which is dominated by Qantas and Air New Zealand presently, it will be akin to having the fox guard the chicken coop by letting Qantas have this dominance; Qantas may be expected to raise these fares, and not to the benefit of the remaining Air New Zealand shareholders, but to the benefit of Qantas. The observation of Qantas' marketing in Australia since the demise of Ansett Airlines supports this contention since the availability of lower cost economy fares on Qantas diminished due to the competition failing and those Ansett incentive seats disappearing from the market. Qantas, despite assurance to the contrary, simply reduced the number of lower priced seats available on its flights and made people who wanted to travel pay more for the product because choice was eliminated.

Qantas has demonstrated it is anti-consumer and anti-competitive, and now will demonstrate the same through this proposed merger with Air New Zealand. The losers will be the citizens of New Zealand.

REDUCED EMPLOYMENT

With Qantas free to schedule as it wishes, many flights being flown now with Air New Zealand planes and crews will be eliminated and replaced by Qantas planes and crew. Air New Zealand will be effectively downsized, and as the world economy recovers Qantas will expand Qantas to fill the additional demand, not Air New Zealand. Consequently valuable employment opportunities to Air New Zealand management staff, flight crews, maintenance personnel and support staff and businesses will be eliminated, depriving the country of New Zealand the obvious employment benefit and taxation income. Simply put, jobs presently enjoyed by New Zealand citizens will be filled by Australians or personnel from other countries at the direct disadvantage of New Zealand and its people.

SUMMARY

While the appeal to the present government of New Zealand of getting them out of worrying about managing and funding Air New Zealand is appealing, the long term negative effects of giving management control to a foreign entity are significant and numerous. While the decision to hand over on a plate the control of a source of national pride as notable and important the country's flag carrier is a political decision, the true ramifications will be felt for generations.

The issues of travel affordability, employment, national security in times of emergency, and economic impact are important issues which are political by nature and effect the lives of thousands of New Zealand citizens, and the government must weight the issues carefully before making a decision on this merger. I have not analyzed the direct economic impact since government staff has access to current data and will conduct its own analysis.

My recommendation is that the Government of New Zealand REJECT THE MERGER as being anti-competitive and not in the national interest.

Very Truly Yours,

Patric Barry