

The Hon Patrick Conlon MP
Member for Elder

M42265

c/s



**Government
of South Australia**

2002/01287, T03

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Minister of Transport
Government of New Zealand
Parliament House
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**Minister for Transport
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Dear Minister

I understand Qantas and Air New Zealand have applied to you for authorisation under s88 of the *Civil Aviation Act 1990* of their planned Tasman Network Agreement.

The South Australian Government, while it does not oppose the Agreement's application to highly contested Tasman routes, has noted that its purported benefits do not apply to routes on which the carriers are the sole operators. Adelaide-Auckland is one such route.

A copy of my letter to the Australian Competition and Consumer Commission, which provides details of the South Australian Government's position on the issues, is attached for your information.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Patrick Conlon'.

**HON PATRICK CONLON MP
MINISTER FOR TRANSPORT**

11 May 2006

The Hon Patrick Conlon MP
Member for Elder



**Government
of South Australia**

2002/01287/ T03

Mr Scott Gregson
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Dear Mr Gregson

Qantas and Air New Zealand Applications for Authorisation

Thank you for your letters of 19 April 2006 to various agency heads of the South Australian Government inviting submissions to the Commission on the Qantas and Air New Zealand applications for authorisation in relation to a Tasman Networks Agreement (TNA).

I enclose herewith the South Australian Government's submission on the Applications, and thank you for the opportunity to comment on them.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Conlon'.

HON PATRICK CONLON MP
MINISTER FOR TRANSPORT

11 May 2006

SUBMISSION TO THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

Qantas and Air New Zealand Applications for Authorisation

BACKGROUND

The South Australian Premier wrote to Professor Fels on 10 March 2003 strongly supporting a Strategic Alliance Agreement proposed by these carriers. His support was conditional on the carriers delivering a joint non-stop service between Adelaide and Auckland, which they had proposed in their Application.

The Premier wrote again to the Commission, to then Chief Executive Officer Brian Cassidy, on 9 May 2003, to express his disappointment with the Draft Determination refusing the authorisation. In his letter, he reiterated his support for the Strategic Alliance Agreement because of the competitive disadvantage the lack of direct flights between Adelaide and New Zealand imposed on the State's tourism and export industries, and because both airlines continued to insist that approval of the Alliance was a necessary precursor to their implementing flights.

The South Australian Government's priority at that time was to achieve the direct flights on the route, and the lower fares that would follow, to achieve inbound tourism growth from New Zealand. The higher cost and time penalty involved in the indirect access then prevailing was particularly disadvantageous to the State's price-sensitive events based New Zealand market.

When the Commission, and subsequently the New Zealand Consumer Commission, refused to authorise the Alliance, the South Australian Government redoubled its efforts to convince Qantas and Air New Zealand to introduce flights even in the absence of the Alliance. It was ultimately successful, partly due to the payment of incentives and funding of joint promotional activity to Qantas, which implemented three weekly Adelaide-Auckland services in December 2004, and to Air New Zealand, which also implemented three weekly services in April 2006.

DISCUSSION

The entry of Air New Zealand as a competitor on the route had the immediate effects of causing Qantas to change its unattractive overnight schedule to a daytime schedule, and the introduction of lower fares. While it is too early to measure the market effect of Air New Zealand's competing service, it is clear that the introduction of Qantas' service at the end of 2004 caused immediate and very substantial market stimulation, even given the unattractiveness of its overnight schedule. The number of passenger movements with origin/destination in New Zealand and South Australia grew 9.7% from 94,850 in 2004 to 104,020 in 2005, significantly more than the State's overall international market growth of 8.1%. The inbound visitor component grew even more strongly at 10.3%. New Zealand passenger movements through

Adelaide Airport grew exponentially, by 770% to 27,250 from a base suppressed by the lack of direct flights for most of 2004.

The carriers are now proposing a Tasman Networks Agreement with most of the features, in terms of joint activity, of the previous Strategic Alliance Agreement. The carriers propose to rationalise capacity and to coordinate schedules and fares. Their justification for this overtly anticompetitive behaviour is that the cost savings realised through the measures will accrue to consumers, that schedules will improve and that the implementation of new routes will increase in likelihood.

None of these measures will benefit South Australia. The Tasman Networks Agreement's immediate effect would be facilitating Qantas to withdraw its services and competition from the Adelaide-Auckland route.

The carriers' applications assert that neither would unilaterally withdraw surplus capacity that will be withdrawn as a result of the TNA. This presumably applies to each carrier's Adelaide-Auckland flights.

Further, none of the claimed public benefits in section 1.14 of the Application will apply to South Australians:

- There is no reason to suppose that the costs savings from the rationalisation of capacity will result in lower fares. In the absence of the rigour of competition from low cost carriers and 5th freedom carriers prevailing on the larger routes, it is likely that fares will return to levels existing prior to the entry of Air New Zealand on the Adelaide route.
- There will be no reduction of 'wing-tip' flying. The carriers have each chosen to schedule their Adelaide flights on days on which the other does not operate, so that their schedules of three weekly flights each result in 6-day service. The effect of the TNA will be for Qantas to withdraw all three of its flights and Air New Zealand to increase its flights from three to four per week. Adelaide will suffer a net loss of two flights per week.
- Adelaide passengers may benefit from reduced waiting times between connecting flights, but only at the cost of being forced to make connections over interstate airports at substantially higher cost.
- The extent of this scheduling benefit to Adelaide origin/destination passengers appears to be limited. Sixty percent of passengers between New Zealand and South Australia who did not use direct flights through Adelaide connected over Melbourne in the year to February 2006. The carriers presently between them schedule four daily flights between Auckland and Melbourne, none of which are 'wing-tip' scheduled. This frequency will remain unchanged under the proposal. The rationalisation of capacity out of other connection points such that capacity better meets demand is likely to make securing seats on connecting flights of choice more difficult and/or more expensive for Adelaide originating/destined passengers.

One of the benefits to South Australia of the present Air New Zealand schedule is the connectivity of Adelaide flights in Auckland to and from Los Angeles and San Francisco. It is very important to us that this connectivity is maintained.

The South Australian Government has generally supported policies that result in the strengthening of Australia's national carrier, but it is unfortunate that those policies so often work to the detriment of the smaller gateways like Adelaide. Certainly the claimed more direct flight options and increased likelihood of new direct flights will not be realised in Adelaide.

The South Australian Government nevertheless does not intend to oppose the application. It recognises the difficulty the carriers experience in achieving profitability on Tasman routes, particularly on flights to/from the eastern seaboard. It also recognises the extraordinary competitive pressure of the marginal pricing policies of the 5th freedom carriers and the low cost carriers, and that the TNA does offer substantial benefits on the higher volume routes.

CONCLUSION

The purpose of this submission is to draw the Commission's attention to the fact that few of the arguments in favour of the TNA apply to Adelaide, and that the anticompetitive aspects of the TNA will therefore be unmitigated by the public benefits applying on larger routes.

It is suggested that the Commission consider other measures to reduce this disadvantage. They may include limiting the TNA to apply only to those routes where third party competition exists, or requiring undertakings by the carriers on routes on which they are the sole operators not to increase fares above benchmarks established on the contested routes.

