



Submission No 20

Australia's trade and investment relations under the Australia-New Zealand Closer Economic Relations Trade Agreement

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**AUSTRALIA AND NEW ZEALAND
CLOSER ECONOMIC RELATIONS
PRESENTATION BY AIR NEW ZEALAND
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Air New Zealand welcomes the opportunity to make a submission on CER

CER has been an undoubted success for both Australia and New Zealand, however, securing full advantage of CER requires further emphasis on minimising or removing barriers to travel between the two countries.

Need for 'domestic' travel framework

- Increasing efforts towards migrating trans-Tasman travel towards an essentially "domestic" framework (i.e. no passport etc), made possible through increasing use of technology and "backroom" solutions to resolve security concerns, will provide significant benefits to New Zealand and Australian businesses through reducing costs and complexity, thereby stimulating greater interaction and trade within CER.

Tasman Aviation Arrangements

Tasman is a critical market for Air NZ

- Represents 20% of group revenue.
- Because of exposure to the Tasman, Air NZ can neither afford to marginally price in this market nor sustain the level of current losses –*tens of million per annum*.

Impact of liberal aviation policy

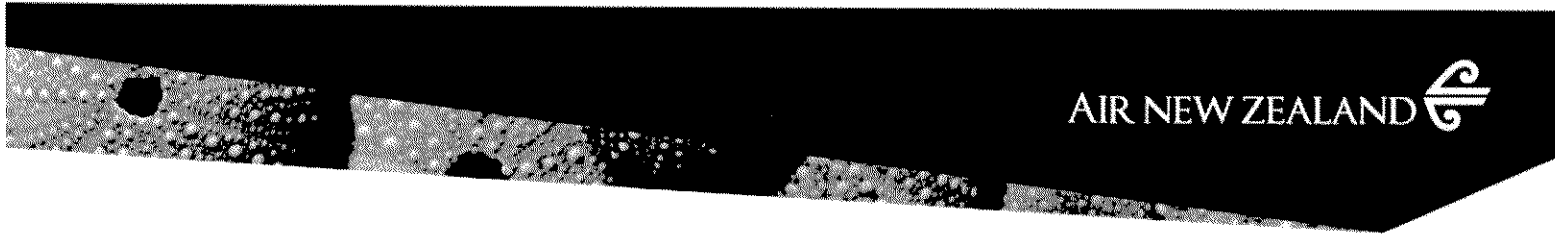
- Liberal aviation policy encourages a large number of 5th freedom carriers on the Tasman and associated excess capacity.
- 5th freedom carriers able to price on marginal-cost basis and 'dump' capacity - unrealistic for an Australasia based airline meeting full costs within Tasman market.
- Enabled Emirates et al to "buy" market share on some routes as majority of Tasman passengers are price-sensitive.

Excess capacity is a costly problem

- 8 carriers carrying 5.4m passengers -*91% of worldwide routes operated by 2 or less carriers*
- Capacity increased by 39%, passengers by 31%; excess capacity of 6300 seats per day
- 5th freedom carriers market share has increased from 9.5 %to 15.5%
- Significant load factor and yield declines.

Why a codeshare with Qantas is good for the airlines and consumers

- Allows Air NZ to reduce its substantial losses through cost reduction -reduces need for 2 A320 aircraft, which provides the cost base required to sustain lower fares.
- Improved scheduling and better asset utilisation reducing excess capacity.
- Potential for new destinations in Australia and New Zealand.
- Provides greater range of flights to earn and redeem Airpoints dollars.
- Competition will keep downward pressure on airfares.



Impact of Emirates on the Tasman

