



Submission No 11

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

Organisation: Qantas Airways Limited

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Dr Stephen Dyer
Review Secretary
Trade Sub-Committee
Joint Standing Committee on Foreign Affairs,
Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Dyer

Inquiry into Australia and New Zealand Closer Economic Relations

I refer to your letter of 18 April 2006 inviting Qantas Airways to make a written submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into Australia and New Zealand Closer Economic Relations (CER).

Attached is a submission by Qantas to the Committee's inquiry.

Qantas has a long history of involvement with New Zealand and has played a significant role in the development and growth of the Australia-New Zealand aviation and tourism markets.

Qantas supports the further development of closer ties between Australia and New Zealand, a number of which will have a direct impact on aviation and tourism.

Closer economic relations between Australia and New Zealand will also generate increased trade and investment activity which will reinforce Qantas⁵ objective of sustainable growth of the market.

We would be pleased to provide further information to the Committee if required.

Yours sincerely

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Group General Manager
Government and International Relations



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QANTAS AIRWAYS LIMITED

SUBMISSION TO
THE JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE
ON
AUSTRALIA AND NEW ZEALAND
CLOSER ECONOMIC RELATIONS

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Introduction

New Zealand is Australia's largest international aviation market in terms of both services and passengers.

Qantas has a long history in the market which has developed into a considerable presence today. The Qantas Group currently operates over 450 flights per week either in or to/from New Zealand and employs almost 700 staff in New Zealand.

In 2000, Australia's only "open skies" bilateral was signed with New Zealand, which built on the Single Aviation Market (SAM) arrangements concluded in 1996. The SAM arrangements allow Australian, New Zealand or jointly owned airlines to operate trans Tasman and domestic services in either country subject to the necessary technical and operational approvals. These arrangements have supported the expansion of the Qantas Group in these markets.

New Zealand will continue to be an important market for Qantas, as it will for Australia more broadly. Qantas remains positive that it can build on its existing presence through a diversified offering, by closely monitoring the market and adjusting its strategy as the competitive environment changes.

However, services will need to be commercially viable if they are to be sustained over the longer term. In an environment where fuel prices are at all-time highs and global airline consolidation is gaining momentum, improved cooperation between our two major airlines will play an important role in this regard. To this end, Qantas supports the further development of closer ties between Australia and New Zealand, a number of which will have a direct impact on aviation and tourism.

Closer economic relations between Australia and New Zealand will also generate increased trade and investment activity which will reinforce Qantas' objective of sustainable growth of the market.

Australia - New Zealand Market

Tasman

In the year to February 2006, total origin/destination (O/D) market traffic flows between Australia and New Zealand were in excess of 3.9 million passengers, which equates to nearly 38,000 passengers each way each week. Fifty-seven percent of these passengers were visitors to Australia, while 43 percent were Australian residents bound for New Zealand. Holiday traffic accounted for 41 percent of the market, followed by visiting friends and relatives (28 percent) and business travel (22 percent).

Qantas operates 188 services per week using a range of aircraft on the trans Tasman route, of which 14 services operate beyond to Los Angeles. Qantas also operates freight services between Sydney and Christchurch and Sydney

and Auckland from Monday to Thursday on a back-of-the-clock basis using Boeing 767 passenger aircraft.

In December 2005 Qantas' wholly-owned subsidiary, Jetstar, commenced international operations with services to New Zealand. Jetstar took over some Qantas flights between Brisbane, Melbourne, Sydney and Christchurch and inaugurated Coolangatta-Christchurch services.

In the 12 months to December 2005, the Qantas Group's O/D passenger market share on the Tasman was 32 percent, a drop of four percent on the previous year. While it is too early to gauge Jetstar's impact, the 1,500 seats added to the market should make a measurable difference to Group activity.

The Air New Zealand Group (Air New Zealand and its value-based subsidiary Freedom Air) has the largest presence in the trans Tasman market with a share of almost 45 percent.

Virgin Blue introduced services on the route in January 2004 and now holds a market share close to eight percent.

The most significant impact on the Tasman market in recent times has resulted from the entry of Emirates in August 2003. In the 12 months to December 2005, Emirates carried close to 380,000 passengers between Australia and New Zealand, giving it a market share of approximately 10 percent.

Aerolineas Argentines, Garuda Indonesia, Lan Chile and Royal Brunei also currently operate services on the Tasman, with many more foreign carriers holding traffic rights to do so.

Qantas estimates that the current market seat factor is approximately 71 %. This low seat factor has been caused by the large number of services and recent growth in seats. Consequently, the market is now characterised by excess capacity and a high level of competition.

Domestic Market

In June 2000, Qantas extended its brand via a franchise arrangement to the New Zealand domestic market. Qantas New Zealand services were operated by New Zealand based operator Tasman Pacific Airlines, with the Qantas product and aircraft with the Qantas livery.

In April 2001, Tasman Pacific Airlines went into receivership. Since that time, the Qantas Group has operated a separate domestic network in New Zealand, as provided for by the SAM arrangements, using its wholly-owned New Zealand based wet lease operator, Jetconnect.

Qantas operates eight Boeing 737 aircraft and offers over 250 flights per week between Auckland, Wellington, Christchurch, Queenstown and Rotorua. Qantas carried 1.25 million passengers on domestic flights in the 12 months

to November 2005. Five aircraft are deployed in the domestic market, with two undertaking trans Tasman flying, and the eighth aircraft used as an operational and maintenance spare.

Qantas Relationship with Air New Zealand

Australia has played a significant role in the development of the New Zealand international aviation industry since the first flight across the Tasman Sea by Sir Charles Kingsford Smith in 1928. Qantas appointed its first New Zealand general sales agent in 1939, and a year later became a one-third shareholder in Tasman Empire Airways Limited (TEAL) in addition to providing technical support.

From 1954, Qantas leased DC-4 aircraft to TEAL to operate services between Sydney and Christchurch until TEAL acquired its land planes. Qantas remained a TEAL shareholder until 1961 when it sold its holding to the New Zealand Government and commenced services in its own right to Wellington in October of that year. In 1965, TEAL was renamed Air New Zealand.

Since that time, Qantas' relationship with Air New Zealand has evolved, from Qantas holding close to 20% in Air New Zealand from 1989 to 1996, to a range of commercial arrangements.

Proposed Strategic Alliance

Notwithstanding Air New Zealand's membership of the Star Alliance, in November 2002 Qantas and Air New Zealand sought authorisation from competition regulators in Australia and New Zealand to enter into a strategic alliance. The proposed alliance involved Qantas taking a 22.5 percent equity stake in Air New Zealand, and undertaking joint pricing and scheduling across all parts of their networks that touched New Zealand, ie Tasman, Pacific and domestic New Zealand.

The airlines made submissions to the Australian Consumer and Competition Commission (ACCC) and the New Zealand Competition Commission (NZCC) detailing the efficiency gains, enhanced product and schedules, increased traffic flows and tourism that would ensue from the proposal, but both regulators rejected the applications in late 2003. The airlines appealed these decisions.

Although the Australian Competition Tribunal approved the strategic alliance in October 2004, the New Zealand High Court declined to do so. The total legal costs to Qantas of pursuing the alliance over the 22-month period were estimated to be AS25 million, for no ultimate benefit. Qantas believes that this outcome could have been avoided if competition policy between the two countries was harmonised.

In June 2004, Australia's Treasurer and the New Zealand Minister for Commerce jointly announced a Productivity Commission (PC) Research Study examining the potential for greater cooperation, coordination and

integration of the general competition and consumer protection regimes in Australia and New Zealand. The proposed Qantas-Air New Zealand alliance case played a significant role in the commissioning of the study.

The PC's research report found that the respective regimes were not significantly impeding businesses operating in Australasian markets and therefore major changes such as common laws and a single trans Tasman enforcement agency - as supported by Qantas - were not warranted at that stage. Instead, the report recommended that a package of measures be introduced involving a transitional approach to integration of the two regimes,

Tasman Networks Agreement

To combat excess capacity and maintain network presence on the Tasman route, in April 2006 Qantas and Air New Zealand signed an agreement that will see them cooperate on network, schedule, pricing and marketing initiatives for Tasman operations. This agreement is referred to as the Tasman Networks Agreement (TNA) and does not involve any shareholding. It extends to both airlines' value-based subsidiaries - Jetstar and Freedom Air. Both airlines will continue to compete in the domestic New Zealand markets and on the Pacific route.

The TNA involves Qantas and Air New Zealand code sharing on each others Tasman flights, delivering significant benefits to customers by providing access to both carriers' networks. It will provide passengers with sustainable low fares and greater choice of routes and flight times, and will also allow the airlines to better utilise aircraft and save costs.

The agreement is subject to regulatory approval by the ACCC in Australia and the Minister of Transport in New Zealand. The regulatory processes are expected to take around six months.

Mutual Recognition

As part of the open skies agreement concluded in 2000, a commitment to progress mutual recognition arrangements between Australia and New Zealand for aviation was made.

This entails passing legislation to amend each country's respective Civil Aviation Acts to permit recognition of Air Operator Certificates (AOCs) in the other country. This would enable operations, on aircraft holding 30 or more passengers, by Australian carriers in New Zealand and vice versa to be undertaken without the need to re-apply for a local AOC in the other jurisdiction. The intended result is a reduction in administrative processes and costs of certification for airlines operating within and between Australia and New Zealand by eliminating regulatory duplication.

Although the necessary legislation was enacted in New Zealand in 2004, two attempts to pass bills in the Australian Parliament have been unsuccessful. In late 2005, the Senate Rural and Regional Affairs and Transport Legislation

Committee recommended the bill be passed, The bill is scheduled to return to the Senate for further debate in May.

Qantas stands to gain considerably from the proposed legislation, principally through:

- Reduced costs associated with maintaining aircraft on both Australian and New Zealand civil aircraft registers;
- Elimination of the payment of import/export taxes for aircraft transfers; and
- Enhanced opportunities in the movement of fleet between Australia and New Zealand in order to meet seasonal and market demand.

Mutual recognition will also assist in facilitating a more competitive aviation framework, as it will allow Australian or New Zealand based airlines to expand operations into the other country's market at a lower cost than would otherwise be the case.

Joint Customs Agreement and Common Border

Recent changes to border facilitation arrangements have produced a common immigration queue for Australians and New Zealanders arriving at eastern Australian airports. Qantas regards this as a simple but valuable practical measure to improve the flow of people between the countries, and a small step towards the eventual harmonisation of Tasman border procedures. However, this process change has not been supported by necessary legislative amendments and has reduced the facilitation benefits to Australian nationals arriving behind NZ nationals.

In order to maximise the benefits for New Zealanders using the joint arrivals queue, and return benefits to Australian nationals, legislative changes are required to simplify the processing procedures. Currently, New Zealand passport holders remain required to have their passports stamped upon arrival, adding considerable processing time relative to Australian passport holders.

A common border would bring a range of benefits from the aviation and tourism perspective, including reducing journey times, lower costs of travel for consumers, and reduced resourcing requirements for border agencies. However, this concept is proving difficult to progress.

This reflects the different approaches of the customs, immigration and quarantine agencies on each side, and in turn, broader differences in national objectives. Australia has more restrictive immigration policies than New Zealand, there is no unifying customs border, and both countries' biosecurity requirements differ significantly in many areas.

Nonetheless, incremental progress is possible by such means as using technology to expedite processing and developing the concept of one process

that caters for departure from and entry into the other country. For example, Qantas is in a position to report electronically the movement of passengers to and from Australia and New Zealand and this capability could be developed to achieve facilitation benefits.

Qantas acknowledges that, in considering moves towards a common border, the national security dimension is of major importance. The national security initiatives flowing from the terrorist attacks of 11 September 2001 have led to the introduction of a range of enhanced border requirements affecting air travel, and Qantas has invested heavily in security capability. Qantas believes that further steps towards harmonisation and a common border are achievable without compromising strong border controls. The prevailing security environment is in fact providing impetus for work to overcome historical obstacles to easing the movement of people and goods between Australia and New Zealand. Increased cooperation and exchange of data between Australia and New Zealand demonstrate that security outcomes can be improved via initiatives that also facilitate efficient passenger processing.

Australia - New Zealand Leadership Forum

Modelled on the successful Australia-US Leadership Dialogue, the Australia-New Zealand Leadership Forum held its first meeting in May 2004. The Forum brings together government, business and academic leaders from both countries to discuss issues affecting Australia-New Zealand relations. While convened by government, the private sector is responsible for taking the lead in ongoing Forum activity.

The Forum quickly formed a view that a primary goal should be to move beyond CER to a fully integrated Tasman Economic Area.

The three areas identified as priorities for action were:

- A common border (that is - customs, immigration, quarantine/biosecurity, and aviation security);
- Labour standards (improve and protect the skills base); and
- Business regulation (for example, harmonised competition rules and accounting standards).

In relation to the third priority, Qantas also supports the tax triangulation and harmonisation initiatives which are being advocated concurrently by the Business Council of Australia and the Corporate Taxpayers Association.

Qantas fully supports the Forum, and at the invitation of the Minister for Foreign Affairs, its Chairman, Margaret Jackson, acted as Co-chair for its first two meetings.