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Dear Chairmen

Submission: Strengthening Economic Relations between Australia and New Zealand

Thank you for the opportunity to submit on the draft joint report of the New Zealand and Australian Productivity Commissions, *Strengthening Economic Relations between Australia and New Zealand*.

Air New Zealand strongly supports the stated aims of the Governments of Australia and New Zealand for stronger economic relations between Australia and New Zealand, greater productivity through reducing the regulatory burden on business, increased competition and closer economic cooperation.

Air Services Agreements

As the draft report notes, Australia and New Zealand are global leaders in the liberalisation of air rights and market access. Air New Zealand views open skies Air Services Agreements (ASAs) as pro-competition, as we are dependent on the equivalent market access it creates for Air New Zealand.

We are pleased the report has recognised that ASAs are negotiated, and exist, in an unusual, bilateral environment. As a result, unilateral liberalisation of air rights into New Zealand and Australia, absent of appropriate competition protections, would not necessarily be beneficial.

Air New Zealand considers it vitally important that ASAs provide for clear and effective mechanisms to safeguard the competitive process and manage against anti-competitive behaviour. This ensures that all competitors in a market compete fairly, and that market participants behave in a manner that is in the long-term interests of consumers. Our view is that

promoting competition requires not just lowering barriers to entry and expansion, but also ensuring that there are appropriate safeguards on the competitive process.

The recent communication from the European Commission on the EU's external aviation policy¹ highlighted the need for such an approach. The Commission stated:

The EU considers open markets as the best basis for developing international aviation relations and therefore embraces competition. This has been a fundamental lesson from the success story of the EU internal aviation market. While it is vital to ensure a business climate that enables EU carriers to compete internationally, the EU's external aviation policy must also stress the importance of fair and open competition. When, for example, subsidies, unfair practices, inconsistent application of regulatory frameworks and lack of transparency in financial reporting of companies are used to distort the market, it is legitimate to defend the industry against unfair competition.²

The Commission then goes on to advocate for mechanisms within ASAs to allow member states to deal with anti-competitive practices should they occur:

Given this, it would appear that one immediate way forward should be to develop – most appropriately at EU level – standard "fair competition clauses" to be agreed and included in the respective bilateral air services agreements with EU Member States.³

It is important that ASAs contain such mechanisms from the beginning, because it is too late once implemented to insert them should the behaviour of market participants require intervention. If there is nothing in the agreement for Governments to fall back on once anti-competitive behaviour begins, it is impossible to take action short of re-opening negotiations at a Government to Government level.

For example, the capacity principles in the current New Zealand / United Arab Emirates ASA allow New Zealand to manage against behaviour such as capacity dumping and, without these provisions, New Zealand would have no effective mechanism to manage anti-competitive behaviour. We think that ASAs should include checks and balances to prevent anti-competitive behaviour consistent with other sectors like Telecommunications and Electricity.

We also feel there needs to be a more robust process around the negotiation of ASAs. Free Trade Agreements generally begin with either joint or unilateral studies to establish the economic benefit or national interest in negotiating an agreement; a robust, detailed process around such an analysis for ASAs would be beneficial.

Further liberalisation of the Tasman aviation market

The draft report has recommended (DR4.8) the removal of the last two measures restricting full liberalisation of the Tasman aviation market. It advocates allowing Seventh Freedom rights, and the removal of the current requirements regarding airline ownership and control.

The report notes that given the current level of competition on the Tasman, the proposed changes would probably have little impact. Air New Zealand agrees the benefits of such moves would be

¹ COMM(2012) 556 The EU's External Aviation Policy - Addressing Future Challenges

² Ibid, para 22, p.7

³ Ibid, para 27, p.8

limited, in light of the high level of competition already on the Tasman, and the extremely liberal nature of the existing regulation of the market.

Given this, we would propose the two Governments should focus on the ASA issues raised above as a priority, rather than incremental liberalisation of an already extremely liberal market.

Movement of People

Air New Zealand believes the Australian Passenger Movement Charge should be reduced to align with actual costs. We believe it should be reconfigured to be a true cost recovery mechanism for border costs – rather than simply a tax.

We therefore support the first part of recommendation DR4.10. We believe this would allow true transparency and focus on what the appropriate level for the charge should actually be.

We do not, however, support the second part of DR4.10, proposing that the New Zealand Government introduce a charge to transparently recover border processing costs from travellers. We believe this would act as a drag on tourism and travellers, providing a further disincentive to travel at a time when the New Zealand tourism industry is flat.

Air New Zealand is, of course, very supportive of any move that streamlines passenger processing. Therefore, we strongly support recommendation DR4.15, calling for further roll-out of Smartgate.

Smartgate has been extremely successful and has brought considerable efficiencies to Trans Tasman travel. However, we remain concerned that it has not been introduced for departures from Australia, unlike in New Zealand. We also agree with the commission that regional Australian airports would benefit from the use of Smartgate; however we believe in the near term, the real pressing need is to introduce it into departures from the major Australian airports (Sydney, Melbourne, Brisbane and Gold Coast airports at a minimum).

Air New Zealand would be very disappointed if the use of a technology as successful as Smartgate has been was not rolled out further. The lack of its use for departures from Australia is perplexing.

We also believe that there are further changes to Smartgate that would bring even greater efficiencies to Trans-Tasman travel, including:

- The Integration of Smartgate between NZ and Australian border agencies to enable preclearance on departure; and
- The Integration of Smartgate with airline self-service kiosks.

The wider use of Smartgate should result in lowered labour costs, which we would hope to see passed on to travellers through a reduced Passenger Movement Charge in Australia, encouraging greater flows of tourism and travel. This would be even clearer if the Passenger Movement Charge was reconfigured into a true cost recovery mechanism.

Significant streamlining could also be gained from other, non-Smartgate related developments at the border. For instance, the introduction of a system whereby border agencies on both sides of the Tasman can screen departing baggage and then send the images to the arrival destination would allow early screening and speed up arrivals processing. This would allow border agencies

to more efficiently target those they wish to interview, and allow fast-tracking of the majority of passengers.

Air New Zealand also supports the call by the Tourism and Transport Forum Australia (TTF) for a model of limited quarantine intervention for Trans-Tasman travellers, where only those considered a risk are targeted for further screening. We are pleased the trial of such an approach is underway at Gold Coast Airport, but would argue for rapid roll-out of the scheme to all major Trans-Tasman Airports.

We also agree that channelling Trans-Tasman arrivals traffic into a New Zealand/Australian passport holder's lane at biosecurity to speed up processing should be implemented, as proposed by the TTF.

These changes would recognise the fact that New Zealand and Australia pose a much lower level of threat to each other on a biosecurity level, as opposed to external countries.

Yours sincerely

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