Employment In New Zealand

- One of the benefits of a Qantas tie up is the ability to reduce operating costs through the consolidation of functions between the airlines.
- Qantas has enormous installed base of operational activities in Australia, and would likely be reluctant to dilute that employment base in favor of consolidating certain operating or back office functions in New Zealand. To the extent they would, these functions would likely include jobs of lower or no skill.
- Air New Zealand's stated strategic plan includes consolidation of Ansett operational activities in New Zealand - therefore, the natural pathway for Qantas would have a double whammy on New Zealand employment.
- AT ISSUE: **What provisions will Qantas make to achieve the employment effect of the current Air New Zealand strategic plan <u>and</u> provide the cost reduction benefits inherent in the tie up?**

AANZ-SH

Promotion of New Zealand Tourism

- This year, Qantas is providing approximately NZ$ million in destination marketing support of New Zealand as a tourist destination. Most of that expenditure is targeted at the UK market, where Qantas holds an overwhelmingly large market share. Conversely, Qantas is estimated to provide Australia more than AU$ million annually.
- Qantas is a fully integrated member of Australia's tourism promotion team, and likely is under certain obligation to provide programs that give strong preference to Australia under dual destination tourism.
- New Zealand needs nearly NZ$ million in new annual promotion dollars in order to make inroads in US and EU markets.
- AT ISSUE: **What specific monetary commitments will Qantas make in support of this shortfall? Also, what specific protections and enforcement provisions will Qantas undertake to ensure a balanced dual destination approach, and how can that be audited?**

Strengthening of Air New Zealand's Alliance Position

- Air New Zealand is securing only modest benefits from the STAR Alliance while most of the benefits of the airline's participation is flowing to Singapore, United and Lufthansa.
- The Singapore Airline proposal will likely contain significant upgrades to air New Zealand's position, resulting in major improvements in financial benefits from increased revenue, yield and traffic.
- Qantas is the major *oneworld* player in the region, currently enjoying at least AU$ million in alliance benefits from their participation.
- AT ISSUE: **What levers and assurances is Qantas prepared to use and give to Air New Zealand in positioning the carrier in the *oneworld* alliance? Is Qantas prepared to guarantee Air New Zealand the same contractual terms and conditions in *oneworld* that Qantas itself enjoys? How can such assurances be best measured and enforced?**

Protection and Future Enhancement of Air New Zealand's Existing Route Structure

- Qantas currently serves virtually every Air New Zealand international route over an Australian gateway. Profit maximization would dictate that a number of these routes be consolidated to a code-share arrangement over Australia.
- In addition, Air New Zealand and Qantas compete directly on LAX-SYD, one of the most profitable routes in either airlines' network.
- AT ISSUE: What direct route guarantees would Qantas be willing to make and how would these guarantee's be enforced? How could these guarantees be constructed to ensure continued direct access by New Zealand to foreign markets without imposing anomalistic economic results?

Fleet Replacement and Enhancement

- Absent Ansett, fleet replacement is a bit less critical in the case of Air New Zealand, and certainly would not be regarded as a priority item by Qantas.
- But, analysis indicates that Air New Zealand needs to make substantial progress in fleet replacement in order to achieve unit cost reductions as well as more competitive market offerings.
- AT ISSUE: What commitments will Qantas make regarding the necessary investment in Air New Zealand's stated fleet replacement program? Will Qantas guarantee that Air New Zealand has access to Qantas' Boeing, Airbus and Rolls Royce order books -- that is, can Air New Zealand receive the same price, terms and conditions that Qantas has received from the manufacturers, including lifecycle provisions?

Most Favoured Customer Provisions

- Certainly Qantas intends to sell services -- catering, groundhandling, MRO, leasing, etc -- to Air New Zealand as a result of their investment. In addition, BA likely wants to do the same. These commercial arrangements represent an opportunity to recoup the cost of other obligations, including ones under this package.
- Most airlines aligned with BA or American have not had the freedom to say no to such contracts, and have paid supracompetitive prices for services.
- AT ISSUE: **Will Qantas commit contractually to charge no more than the airline pays itself for such services, and secure a similar commitment from BA and American regarding Air New Zealand?**