Overview of Recent Developments with the Trans-Tasman Single Aviation Market

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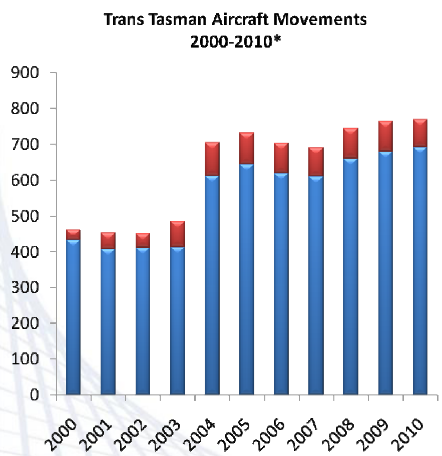
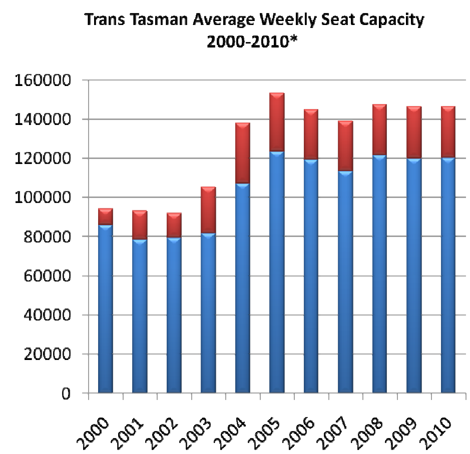
SAM – a Chequered History

- **Two "friendly" countries with mutual interests**
- **Natural extension of CER**
- **The roadmap under 1992 Australia-New Zealand MoU:**
  - Lifted capacity restrictions
  - Double disapproval tariff regime
  - Phased liberalisation to full market access by 1994
- **Framed with best intentions, but other priorities intervened**
- **SAM delayed to 1996; full beyond rights added under "open skies" agreement in 2000**
- **Where to now....a common border?**

The Story of SAM over 10 Years: +50% Seats; +65% flights

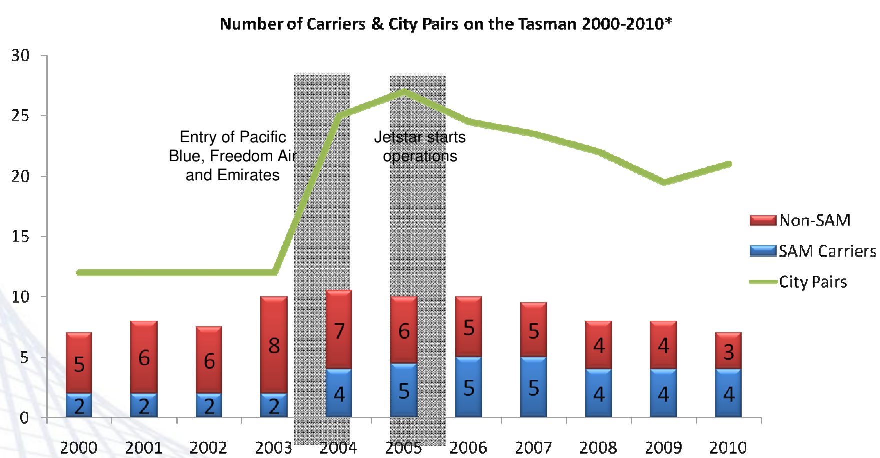




* Source: SRS Analyser averaged for June and Dec to take into account seasonal variation

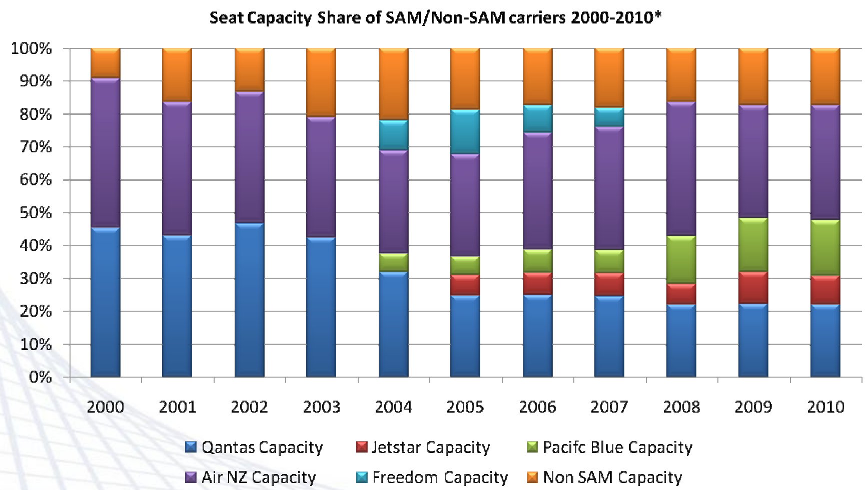
- Non-SAM Carriers
- SAM Carriers

Competition & Service Development peaked in 2003-04 with entry of LCCs



* Source: SRS Analyser averaged for June and December to take into account seasonal variation

Evolution of Airline Market Shares - LCCs capture 22% of Tasman Seats



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The Roadblock to Consolidation

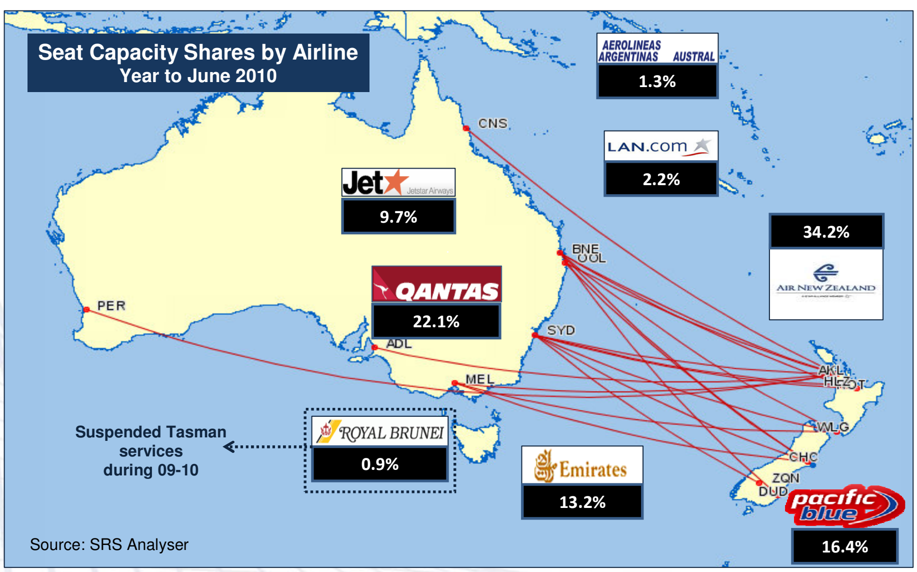
- **Logical progression towards trans-Tasman consolidation...or is it?**
- **Qantas/Air New Zealand alliance bids twice hit competition legislation barriers**
- **Seemingly similar legislative prerequisites on both sides of the Tasman, different interpretation**
- **Concept of "public benefits" test critical to outcome**
  - Australia's focus narrower; consumer welfare paramount
  - New Zealand assessed consumer+producer interests

Qantas (submission to the Productivity Commission, August 2004):

"Such uncertainty and cost is not conducive to a productive, dynamic single economic market....

The competition laws of Australia and New Zealand should be integrated, so that identical laws apply in both countries. In addition, it is critical that these laws are interpreted and applied consistently."

Market Share Composition on the Tasman today; 82% of seats held by SAM Carriers



The EU Model...not perfect but consistent

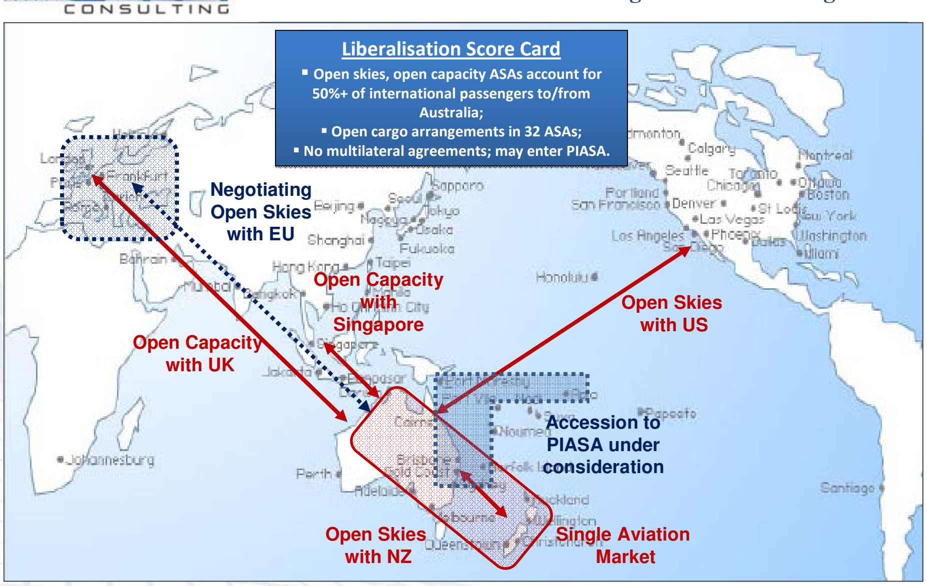
- **The general competition rules of the EU Treaty apply to aviation on case-by-case basis**
  - Some forms of co-operation permitted
  - Alliances approved if they do not eliminate competition and consumer benefits shown
  - Current alliances approved through individual exemptions, but conditions applied (e.g. freeze on capacity, relinquishing airport slots, and/or acceptance of interlining with competitors)
- **EU Treaty also addresses abuse of dominant market position through e.g. predatory behaviour or some alliance arrangements**

Key Take-out for ASEAN

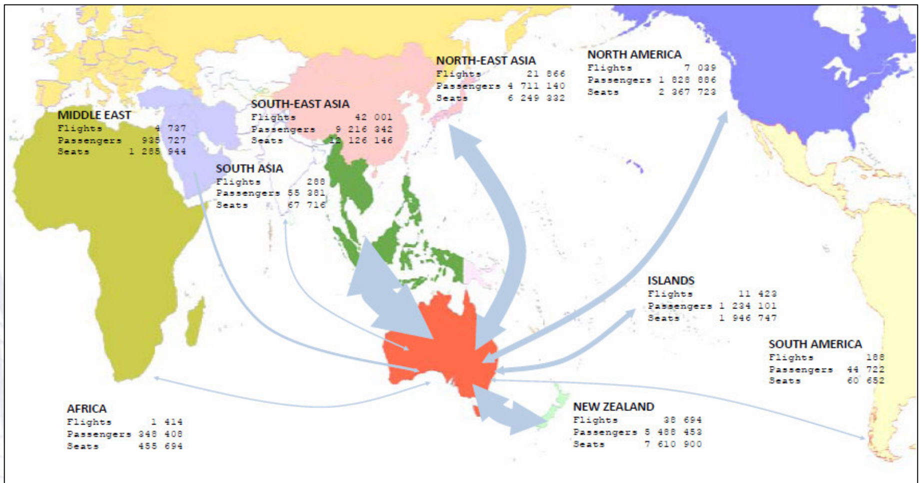
- **Airline industry caught between apparently competing objectives**
- **Uniform approach on competition law required to yield full benefits of mutilateral liberalisation**
- **Australia-NZ Air Services Agreement provides for each country's laws to apply**
- **ASEAN also favours state-specific strategy under AEC blueprint, developed under regional guidelines**
- **The Tasman experience emphasises the importance of getting the detail aligned for real and effective harmonisation of national policy**

Additional Slides

Australia's Liberalisation Progress – a Mixed Bag



Australia's International Service Profile in FY09; dominated by SE Asia and New Zealand



Share of Operated Seats by Region

South-East Asia	37.7%	North America	7.4%	Africa	1.4%
New Zealand	23.7%	Islands	6.1%	South Asia	0.2%
North-East Asia	19.4%	Middle East	4.0%	South America	0.2%

* Source: Bureau of Infrastructure, Transport and Regional Economics