

Melbourne, 01 May 2009

Bruce Buchanan: Address to Trans Tasman Business Circle

- Bruce Buchanan, Chief Executive Officer, Jetstar
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- PricewaterhouseCoopers, Southbank, Melbourne
- Friday 1 May 2009

Since Jetstar started low fare services five years ago this month - we have championed the cause of making air travel genuinely more accessible.

This has involved removing the barriers to air travel for the average consumer.

In the past this approach has largely been about consistently delivering low fares, opening many new air routes and offering a number of new leisure markets for the Qantas Group.

Indeed particular success has been achieved through our low fare offerings into Asia.

We have achieved a lot of firsts in modern aviation:

- The first truly profitable and successful low cost offshoot out of a major airline;
- The first long haul low cost carrier;
- Pioneering developments in both commercial and operational initiatives – from free sale codeshares to now establishing a genuine Far North Australia flying hub in Darwin.

And yet as the physical distance between Australia and New Zealand remain – so must we seek to pursue a further first in supporting the establishment of a simplified and open Trans Tasman flying experience through a common border.

Sir Henry Parkes, the Father of Federation, wanted "nature to be no impediment" to the process of forming the Commonwealth of Australia.

However, many fellow delegates at the first Constitutional Convention held here in Melbourne in 1891 – and at subsequent Conventions prior to the formation of the Commonwealth in 1901 - proffered a different view.

The Sydney to Auckland air corridor – that today alone carries around 1.25 million passengers annually – represents the largest international aviation route serving both Australia and New Zealand.

Turn the clock back to the 1890's and the option of flying between both nations was obviously not an option at all.

Nor did it escape the New Zealand delegates that the Federation orators driving the process had apparently never visited their nation during this period, nor did their "pamphlets and newspaper articles" ever truly reach Kiwi shores.

A final impression made by Sir John Hall, a Parliamentarian, avowed Protectionist and one of the Kiwi delegates to the first Convention is worth noting, and I quote:

"We came here because we were invited to do so.

Afterall it would have been discourteous and ungracious for us not to have come.

"There is every disposition on our part - as New Zealanders - to unite as far as possible with you.

"But nature has made 1,200 impediments to the inclusion of New Zealand in any such Federation in the 1,200 miles of stormy ocean which lie between us and our brethren in Australia.

"That does not prevent the existence of a community of interests between us."

Sir John went further:

"I hope that we may be able to take some steps towards the removal or diminution of those barriers which so impede commercial intercourse between different parts of Australasia.

"For Victoria has no more reason to fear New Zealand - than New Zealand has to fear New South Wales or Queensland."

More than 100 years on, we are seeking to step forward towards the establishment a common border and simplification of trans Tasman air travel, which we believe is in the clear interest of both nations.

The economic rationale

As two nations we have become synonymous in the way in which we both compete on a global and regional arena, perhaps best highlighted on the sporting field.

And yet at the same time we also complement each other, as strongly identified through the spirit of ANZAC.

It has become a platform for our considerable and collective success.

Nowhere is this more evident than in trade.

In the 26 years since the signing of the Closer Economic Relations - or (CER) Agreement – designed globally to be one of the most comprehensive and effective free trade agreements - its very success is clear.

Since 1983, trans-Tasman merchandise trade has increased by 10.6 percent annually, putting to one side the current economic freestride before us.

For New Zealand, Australia represents its single biggest market in exports, imports and foreign investment.

Total bilateral trade now amounts to over AUD16 billion dollars annually.

In the Counteractive, New Zealand is Australia's fifth-largest trading partner, whilst Australia is New Zealand's largest foreign investor, with investments worth more than AUD 21 billion.

Significantly – and somewhat logically - international travel visitation between New Zealand and Australia remains the largest respective tourism export market for each nation.

For the calendar year ended January 2009, 5.15 million international passengers were uplifted and discharged from New Zealand.

On the Australian side New Zealand represents 21.9 per cent of our total tourism export market.

January 2009 was a milestone month for international air travel in Australia – registering the highest ever recorded levels of international passenger traffic.

Jetstar played a key role, becoming for the first time the 4th largest international airline flying in Australia for the period, behind Qantas, Singapore Airlines and Air New Zealand.

Strong trade ties have clearly brought our nations closer together.

Ask yourself why so many Australians favour a New Zealand Sauvignon Blanc over their local drop, beyond its affordable quality, and don't blink at enjoying milk processed by Fonterra or butter and cheese from Mainland.

Most New Zealander's relationship with their major city daily newspaper is more likely than not now Australian owned, as is perhaps their principle choice of financial institution, favourite TV program or even airline.

Jetstar has achieved success in the New Zealand market in our own right – in this our 4th year of operations on the trans Tasman route.

Our low fare international services commenced from Christchurch Airport in December 2005 and represented our first toe in the water of international flying.

This initial success saw about a more ambitious implementation of value based long haul flying from Australia into Asia and the Asia Pacific region that launched less than one year after.

Our 28 weekly return Christchurch Trans Tasman services – serving Sydney, Melbourne, Brisbane and the Gold Coast – have consistently been amongst our best performing markets.

On Tuesday this week we proudly launched Auckland international flying - expanding our weekly Trans Tasman offering to 42 return flights on this highly competitive market.

With new daily direct A320 flights from Auckland to both Sydney and the Gold Coast, we have created new low fare options for travellers, and in the process establishing a new aircraft and crew base in Auckland.

In a period where airlines are shelving capacity and fleet growth plans and cutting staff numbers, Jetstar is doing the opposite.

Our growing New Zealand operations now support close to 200 direct and indirect airline and airport services roles within New Zealand.

From next month we become one of the first truly ANZ airlines with our proposed domestic New Zealand operations commencing from 10th June*.

Jetstar's direct New Zealand workforce will then expand to around 250 people.

By launching these future 84 weekly return low fare services across five domestic routes linking Auckland*, Christchurch*, the capital Wellington* and the holiday playground of Queenstown*, Jetstar will become the second largest player in the domestic New Zealand market.

We firmly believe our new Zealand business – which has the right cost base and strategic direction - can deliver sustainable future returns for Jetstar and the Qantas Group.

And when comparing the way Jetstar continues to alter how Singapore is being viewed as a destination with a strongly expanding presence - supported by our new ownership structure of the Singapore Jetstar business we are now launching new growth services and planning three more A320 aircraft in Singapore to focus on Chinese and Malaysian expansion – it presents a further comparison of how Jetstar

is finding ways of lowering the barriers to air travel and introducing a whole set of consumers to the joy of air travel.

A Common Border – Never Say Never!

On 2 March 2009 both the Australian Prime Minister Hon. Kevin Rudd MP and his New Zealand counterpart Prime Minister Hon. John Key MP pledged at a doorstep in Canberra – and I quote - "a renewed ambition to achieve new levels of trans-Tasman economic integration".

One of their joint stakes in the ground was on the issue of a 'common border'.

Prime Minister Rudd went so far as describing it as "decision-making territory... and not have it languish in never-never land."

Both the Qantas Group and a myriad of tourism industry leaders welcomed this position – and the timeframe imposed - of inside one year – towards its future direction.

A common border last got such a prominent airing when in the early 1990's Australian Prime Minister's Hon. Paul Keating MP put it forward as part of series of future ideas for closer integration.

When consensus between officials on both sides of the Tasman could not be reached the issue quickly slid off the political landscape around 1994.

So let me again restate my position on this issue - that now is the time for the transport and tourism sectors on both sides of the Tasman to have our elected leaders act upon the common political thread now between them.

The Qantas Group is an advocate for a common border and creating a more simplified and hassle-free trans Tasman travel experience.

At first principle are the economic levers that can be pulled.

As I recently told the Fairfax media and I quote:

"If you want economic stimulus packages by Governments and you want to drive tourism in the current environment, I can't think of anything that's going to drive a greater increase in passenger movements.

"And if we want to bring the two countries closer together in terms of trade and economic integration, this is a great thing to do."

Unquestionably both a common and simplified Trans Tasman border would be a positive stimulus for both economies.

At a time when both Australia and New Zealand economies are in a technical or real recessions and jobless numbers are escalating at the fastest rate in decades – surely this is the time to solve this problem.

A common and simplified border would also create new jobs generated as a direct result of any strong jump in airline passenger numbers on the Trans Tasman route.

Based on well accepted economic modelling between the Tourism and Transport Forum (TTF) one job is saved or created for every 72 international holiday visitors.

Or put another way, one person is employed per week for every 1.4 international holiday visitors.

And how can this occur?

Under the Jetstar flying model – via a true common border arrangement on the Trans Tasman route – we believe it will deliver at least a 30 per cent air fare reduction – representing about AUD-\$60 per passenger one-way or over AUD \$100 return.

Given the elasticity of the market – it stands to reason that a 30 per cent fall in Trans Tasman air fares passed onto consumers would increase passenger traffic volumes on the Trans Tasman route by around a similar figure from today's levels.

This is a massive step change for the market.

And context needs to be placed around this.

The global airline industry is forecast to lose around USD \$4.7 billion in 2009 according to the International Air Transport Association (IATA).

It follows upon a revised estimate of the industry's projected 2008 losses of USD\$8.5 billion.

Over 30 airlines globally in the last 12 months according to IATA have ceased operations and more are likely to follow.

The combined results of the global financial crisis have dragged down consumer confidence, in particular in the premium travel sector.

In March 2009, Air New Zealand reported their latest decrease if passengers, which included a 11.1 per cent slump in trans Tasman passenger volumes alone.

And the Centre for Asia Pacific Aviation's Executive Director Peter Harbison I think has rightfully said this will be "the longest and deepest" period of negative change in the history of aviation.

Through the gloom Jetstar has continued to deliver sustainable returns in line with expectation after a record 2008 financial year.

Our almost religious pursuit of cost containment in non core areas across our business is counter balanced by a pursuit of brand and revenue growth as part of our Pan Asian network expansion.

It has resulted in consistent positive returns and profitability through every financial half year of our five year existence.

The state of our industry is perhaps best summarised by one of Australia's leading business commentators, Stephen Bartholomew:

"This is an industry in a crisis so dire that it will inevitably, and quite brutally, be reshaped."

So a realistic tackling by Government, its agencies and regulators on both sides of the Tasman of the issue of a common and simplified Trans Tasman border, based on

the financial and economic circumstances alone, must be considered, if indeed we are entering a new paradigm for airline operators in our region.

Simplifying travel between our two countries we believe can achieve significant outcomes – for communities, the individual consumer and those with the where with all to invest within it.

A helicopter level view would see it achieving:

- Increased Tourism, as already mentioned, from an already well established Trans Tasman market served by numerous competitors;
- Decreasing costs for industry and border agencies which can then be passed on through lower fares to promote growth;
- Airlines and Airports being able to manage their growth from existing facilities saving expensive and valuable international infrastructure for growth on other international markets, and fourthly and importantly
- For the consumer lower fares and significantly a simplified and hassle-free travel experience.

CER has provided a basis for regulatory harmonisation and improved cooperation between key Government agencies across both sides of the Tasman.

So thus there are a number of real issues before us to make a common and simplified border work on the Trans Tasman route.

The core issues that require resolution are not new.

They include:

- Resolution of the differences in Immigration, Customs and Quarantine practices, their policies and the risk appetite between both countries; and
- The necessity to harmonise, standardise and link Information Technology systems within both countries.

The issue of Quarantine, perhaps more so than Border Security, presents as a primary point of contention.

This is not an easy issue.

I simply raise it as a necessary check-point where levels of bureaucratic energy and debate will need to be concentrated over the coming months ahead.

The spectre of the outbreak of Mexican flu which has dominated headlines earlier this week, to both agriculture related quarantine matters ranging by example from apples to salmon between both our nations, provides a reminder as does that our nations have two unique environments with separate bio-diversity.

As an acknowledged innovator in our market segment, Jetstar is ideally positioned to play a primary leadership role in supporting a common and simplified trans Tasman border.

Now offering Auckland international services further entrenches our position in the Trans Tasman market.

But if we are to truly leverage off the common political good will and the economic circumstances before us - we also need to be prepared to assess the acceptable commercial approaches.

From Jetstar's perspective I outline four points:

- Firstly – for Trans Tasman departures and arrivals to be conducted at domestic airports as the highest priority in the assessment of a common border and simplified Trans Tasman travel.
- Secondly – for all Trans Tasman passenger departures and arrivals to be included within the treatment of a common border. That means not restricting simply to Australian and New Zealand nationals.
- Thirdly – On the basis of existing airline / airport IT infrastructure, the need for integration of systems in the border protection process, and;
- Fourthly – The need for a trial to verify the right approach across each area.

Before quickly addressing these points, I acknowledge a common border for simplified trans Tasman travel would mean a reduction in revenue for Government, through an effective removal of the Passenger Movement Charge (PMC) as well as a reduction in revenue for Airport operators.

Our argument however stands, that by substantially reducing fares we will be able to drive growth and replace revenue.

With respect to our first point, it is absolutely essential that a common border be a simplified border from the perspective of the travelling public.

Without public endorsement the concept will fail at the initial hurdles anyway!

At the same time we cannot be ignorant, nor are we, of compromising security and quarantine matters.

The ability for passengers to use a domestic terminal - is that this will change the whole customer mindset towards a Trans Tasman journey.

The whole psyche of a trip changes.

The seamlessness of travelling from a domestic terminal, from a 30-minute check in close-out to avoiding the existing constraints when travelling on an international service.

It makes the Trans Tasman a viable alternative to the traditional weekend getaway into a potential international short break tourist experience!

The ability to open up new airports to serve the Trans Tasman route, without the highly prohibitive infrastructure constraints, that may include a separate international terminal, should be entirely possible and needs to be considered under a simplified travel arrangement.

If you are able take out \$60 worth of fixed costs of a return Trans Tasman airfare, you could bring a Jetstar fare and other \$500 lead in economy fares down from \$200-\$210 to say \$140-150 one-way.

Because of lower costs, you can stimulate new markets, with sustainable lower pricing.

That means more markets like Newcastle to Auckland or Christchurch, or the ability of Jetstar to consider utilisation of our second Melbourne Airport at Avalon, could emerge.

It would also provide new connectivity opportunities at major hub airports on both sides of the Tasman.

With direct reference to my second point, a common border falls over if simply aligned to Australian and New Zealand nationals.

To draw comparisons with border arrangements in place for the European Union, a common border between Australia and New Zealand should be extended to passengers of all nationalities travelling across the Tasman.

The genuine air fare savings cannot be achieved by isolating travel to and from Australian airport international terminal facilities, let alone isolated solely to Australian and New Zealand nationals.

To my third point, protection agencies for both countries should work even more closely together to establish shared systems and approaches.

Airlines today have their own sophisticated levels of IT at check-in to ensure appropriate passport checks and passenger information and details are aligned.

A system to integrate customs and visa compliance and a legitimate role for responsible airlines should and needs to be re-opened for debate.

On my fourth point, to achieve a harmonised common border framework would require trust, acknowledgement and serious redress of the issues, but also viewing them within a real 'life' trial environment.

There are a number of Australian and New Zealand Airports which we believe could be worthwhile participants, in particular those more predisposed to a majority flow of Australian and New Zealand nationals, simply to gauge the workings of a common and simplified trans Tasman border.

We think a working trial will be a necessary step and we as a growing trans Tasman airline are most keen to participate.

Conclusion

Establishing a common border and simplification of trans Tasman air travel is on the whole in our clear economic interest.

The hurdles it faces can we believe be approached and got over.

This is not simply a Qantas Group argument, other forums such as the Australia New Zealand Leadership Forum, which has one of its objectives as the development of a Common Border by 2011 in time for the Rugby World Cup and a number of inter-Governmental Steering Groups are continuing to progress and address the debate.

But the level of dialogue and commitment to action needs now to be lifted.

This is common sense thinking at a time when tourism industries on both sides of the Tasman need to find ways to now maintain and in the future build upon our sector.

A common border between us makes common sense.

I was told recently by an industry watcher that Jetstar has very much become the "thinking man's" Low Cost Carrier.

I appreciated the compliment – and I hope it sums up our thought processes and overall approach to this complex but unquestionably economically key issue.

In summary, both our nation's recently commemorated ANZAC Day.

On 25 April Aussies and Kiwis of all ages gathered to mark the sacrifices of the men and women of our armed forces.

Over recent decades on both sides of the Tasman, numbers at ANZAC Day ceremonies have rapidly increased and interest rose.

Put to one side of the Bledisloe Cup, Netball and Rugby League World Cups or past America Cup challenges and the rivalry these sporting events create between our nations.

That ANZAC DAY is still so relevant to so many of us says a lot about that special bond between our two countries, that the Fathers of then Australasia Federation, at the turn of the last century clearly couldn't muster.

A united front from a common, simplified Trans Tasman border could take its lead from this.

Thank you.

* Subject to regulatory approval

About Jetstar

About Jetstar Group

Jetstar first took to the skies in 2004 and has since flown more than 350 million customers across an extensive international and domestic network. The Jetstar Group is made up of Jetstar Airways (subsidiary of the Qantas Group) in Australia and New Zealand, Jetstar Asia in Singapore, and Jetstar Japan in Japan. A leading low fares airline, Jetstar is committed to offering everyday low fares to enable more people to fly to more places, more often. As one of Asia Pacific's fastest-growing airline brands, Jetstar was voted Best Low-Cost Airline in Asia Pacific in 2021 and was recognized for its excellent flight safety records and services when listed on the '2022 World's Top 100 LCC' released by Airline Ratings.