

# Tough choices

**Australasia's airlines must now decide between long-term growth or short-term profit as the battle for market share in the region heats up**

PAUL PHELAN/CAIRNS

**A**SIA PACIFIC'S airlines have a simple choice in 2001. "They can either try to make profits, or they can prepare for the future by going after growth," says Peter Harbison of Sydney's Centre for Asia Pacific Aviation, summing up a dilemma all too familiar to the region's air carriers. Harbison believes most will select the second option: "They really have little choice. And one or two may still return a profit."

Nowhere is the quandary better illustrated than in Australasia, where a decade of fundamental change has launched the region's now fully deregulated air carriers into a 21st century more ripe with opportunity, but far less forgiving of complacency or misjudgment.

A new 'open skies' bilateral will soon stiffen competition even further across the Tasman Sea, which is the prime international route for both countries' international airlines. Under the memorandum of understanding (MoU), Australian, New Zealand/Australian and New Zealand airlines will be allowed unrestricted services across the Tasman and domestic

services within both countries, while their international carriers will enjoy unrestricted "beyond rights". Significantly, either country will also recognise the other's regulatory certificates and approvals by 2003.

The two major players – the Air New Zealand/Ansett group and Qantas – are no longer equal partners in a protected duopoly, and the gap between them is still widening.

## DOMESTIC COMPETITION

Having begun the restructure and reform, Qantas has already bagged most of the benefits of rationalising its own once-monolithic structures and those of its domestic arm, the former Australian Airlines. It is now powering ahead with a growing market share and producing sound results, characterised by its AU\$762.8 million (\$424.5 million) pre-tax profit for 1999-2000. Air New Zealand/Ansett have yet to turn that corner, and the way ahead for the faltering group hangs on strategic decisions from Singapore—its new corporate centre of gravity.

Although domestic newcomers Impulse Airlines and Virgin Blue do not carry the industrial baggage of the regulated past, they lack the

deep market penetration, the comprehensive route structures and infrastructures, the advantages of long-term strategic planning (such as fuel price hedging) or the operational flexibility with which the big incumbents are responding to their challenges.

Two Australian startup domestics—known as Compass Mk I and II—have already failed spectacularly in the past 10 years; two more have replaced them (although Impulse was already a small, established regional); and a fifth potential candidate, yet without a trading name, is still "making announcements" as it began doing well over two years ago. Now, under the twin banners of the Star and oneworld alliances, the two major groups are steeling themselves for challenge in Australia, while also carefully consolidating in New Zealand, where they see new startups as a lesser threat.

The Australian domestic market—the major prize—resembles few others, and is seen as the prime motivation for Singapore Airlines' market entry via its 25% interest in Air New Zealand, and the move to Singapore of 47% shareholder Brierley—the controlling interest in which is now an investment group controlled

