

# AFTER ANSETT

Ansett Australia's collapse created expansion opportunities for Qantas and Virgin Blue. Now they are eyeing the market over the Tasman

PAUL PHELAN / CAIRNS

**A**ustralian flag carrier Qantas and low-cost competitor Virgin Blue have spent the past 18 months filling the void left by the collapse of Ansett Australia and carving up the domestic market windfall bequeathed to them.

Cushioned from the effects of the terrorists attacks on the USA by a relatively strong home market, the two have expanded capacity dramatically, replacing and adding aircraft. Virgin Blue, for example, has trebled the size of its fleet.

But with fierce competition between the two in Australia, both are looking across the Tasman at the New Zealand market. Critical to the future shape of the regional industry is the outcome of Air New Zealand's and Qantas's mutual bid for a new cross-border deal in which Qantas would take 22.5% of Air New Zealand (ANZ) and which has already cleared its first regulatory hurdle (*Flight International*, 3-9 December 2002).

The sought-after alliance would quash

any thought of the flag carrier taking up its rights to operate domestically in Australia, and would cement the competitive duopoly. Similarly, newly created Qantas subsidiary JetConnect (*Flight International*, 30 July-5 August 2002) is now strategically poised either to take a higher profile if Qantas decides to become a long-term competitor with ANZ domestically, or simply be wound up (or absorbed) if ANZ and Qantas's proposed alliance is approved. This would result in Qantas abandoning New Zealand domestic operations – and would inevitably propel Virgin Blue or another low-cost operator into that market.

Regulators on both sides of the Tasman are seeking public submissions on the deal, with Qantas also talking to most of the interested parties and trying to address their concerns, says chief financial officer and acting chief executive Peter Gregg: "We'd be disappointed if it didn't go through, but we'd just get on with life."

Most observers believe "getting on with life" in this context would mean turning up

the competitive heat in the New Zealand domestic market, which ANZ still dominates with far wider destination coverage through its regional networks.

Meanwhile, Virgin Blue commercial director David Huttner says his company will make submissions to both governments in the next few weeks on New Zealand domestic and trans-Tasman operations: "The competitive environment in New Zealand will determine when we enter the market, and how much investment we put into it relative to other opportunities. The question is: do we want to be an opportunistic cherry-picking operation, or do we want to become a viable force for competition? Virgin Blue will enter more aggressively if we can see certain structural changes. One would be to take the low-cost weapon out of the Qantas-ANZ arsenal. That low-cost weapon is Freedom Air."

## Tough competition

With Qantas now holding 80% of the Australian market, any start-up carrier there would face even more daunting challenges than those which dispatched Compass Mk I and II – Australian low-fare start-ups of the 1990s, Impulse Airlines, and several Ansett-linked independent regionals. Fierce competition between Qantas and Virgin Blue has led to the latter offering a fare on the prime Sydney-Melbourne route of A\$33 (\$19), including taxes, which, as Gregg observes, leaves his competitor with A\$10 of revenue from the sale. "That tells you how difficult the domestic market is," he says.

When Ansett collapsed, Virgin Blue was flying only eight leased Boeing 737-400s and -800s to nine destinations. It has since expanded its fleet to 29 737s in six different variants, flying to Australia's top 16 cities, and is still growing. With new orders and options announced on 16 January, Virgin Blue has set the stage for an eventual fleet of up to 50 Next Generation 737s, declaring its goal of a 30% domestic market share, and heralding international growth into the Pacific and South-East Asia. Virgin claims it has demonstrated its long-term commitment by deciding to purchase future aircraft rather than lease them.

In the Ansett aftermath, Qantas faced and dealt with more complex challenges. To meet the huge domestic market gap left by Ansett, Qantas had to add the equivalent of about seven years' capacity growth virtually overnight. This was initially achieved by diverting capacity from reduced international operations and by extensive wet-leasing, which it is now replacing with new aircraft. Its domestic operations grew by about 50% in the first six to eight months, says chief executive Geoff Dixon, insisting that its ability to react effectively was the prod-

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