



JETSTAR'S KIWI ARM POISED FOR CAPACITY WAR AGAINST AIR NEW ZEALAND

News / Airlines



Jetstar New Zealand will boost its overall capacity in the New Zealand domestic market by 8 percent as it launches five new regional routes with turboprops in direct competition with the national carrier, Air New Zealand.

The NZ budget arm of Qantas Airways, which first flagged its entry into the regional market in June, on Monday unveiled promotional fares on five regional routes from as low as NZ\$9 (AU\$8.13) -- and regular lead-in fares from as low as NZ\$45 -- as it attempts to break Air NZ's stranglehold over regional flying in its home market.

The regional market in NZ now appears poised for a capacity battle, as Air NZ last week said it would boost its domestic capacity by 8 percent this financial year and offer more than 2 million fares for less than NZ\$100. On Monday, Air NZ was offering fares to several regional destinations for as little as NZ\$9.

Jetstar NZ on Monday announced the first five routes it plans to fly with five Q300 aircraft that had previously been used by QantasLink in Australia. From December, it will fly on the Nelson-

Auckland and Nelson-Napier routes, while from February it will launch flights on the New Plymouth-Auckland, Palmerston North-Auckland and Nelson-Wellington routes. The routes will be flown up to four times per day.

Jetstar NZ chose those routes after consultations with residents, local councils, airports and tourism authorities. The airline was warmly received by those keen for lower fares on the routes and the carrier has received an undisclosed amount of financial incentives from various sources to support the new flights.

"We believe the routes we've announced today offer the strongest opportunities to grow the market and make a real difference to local economies and locals' wallets, encouraging more travel and saving people money when they fly," Jetstar Australia and New Zealand chief executive David Hall said. He said Jetstar's NZ business had been profitable last year even though 70 percent of the travellers on its network had paid under NZ\$100 per ticket.

Flying Beyond the Trunk Routes

It marks the first time Jetstar NZ has flown beyond the trunk routes between the major centres of Auckland, Wellington, Christchurch, Queenstown and Dunedin. The carrier said it would also keep talking with stakeholders in Hamilton, Roturua, Invercargill and Tauranga about the potential entry of Jetstar NZ in the future, with those centres having lost out in the first round of talks.

"Setting up a new fleet and network is a significant investment from the Jetstar and Qantas Group," Mr Hall said. "It shows we're truly putting down roots in New Zealand and we intend to be around for a very long time."

Jetstar's capacity increase will equate to a 26 percent rise in its seat numbers, but 8 percent in terms of available seat kilometres. Jetstar NZ had a 20.2 percent share of the NZ domestic market capacity in the financial year ended June 30.

Jetstar NZ is offering the ability to earn Qantas frequent flyer points on its domestic NZ flights as it looks to entice travellers to its network. Its regional flights will also connect to trans-Tasman services.

"We've timed our schedule to be great for business people in the regions," Mr Hall said.

The first five routes chosen by Jetstar are among the most highly-yielding regional routes in NZ, according to an analysis by broker Forsyth Barr published in June. Forsyth Barr analyst Andy Bowley said the carrier was likely targeting a revenue objective of up to NZ\$60 million, which represents around 4 percent of Air NZ's domestic revenue base.

"Jetstar's entrance into the regional market will have an impact on Air NZ's profitability, particularly given the likely competitive response," he said. "However, at a group profit before tax level we expect the impact at least initially to be low single digits."

Air NZ chief executive Christopher Luxon last week said he believed Jetstar NZ's entry into regional routes represented a form of "payback" for Air NZ investing in Virgin Australia in Qantas's home market. Qantas had considered selling the five Q300s, which were no longer needed in the Australian market after changes to its regional flying, before deciding to deploy them in NZ.

Craigs Investment Partners analyst Chris Byrne said the planned 8 per cent increase in domestic capacity by Air NZ appeared large given economic growth was forecast to slow, consumer confidence was falling and Jetstar NZ was increasing its capacity. However, he said Air NZ had

told analysts most of the capacity boost was to Christchurch and Queenstown, supported by strong inbound tourism growth.

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