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Mr T Grimwade
General Manager
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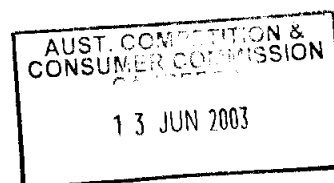
Dear Mr Grimwade

I refer to the correspondence from the Australian Competition and Consumer Commission (ACCC) of 12 May inviting comments from the NSW Government on the application for re-authorisation of proposed arrangements by Qantas Airways Ltd (Qantas) and British Airways PLC (BA) (A30226 and A30227). Thank you for the opportunity to comment on the proposed re-authorisation.

The request for an interim authorisation is strongly supported by the NSW Government on the basis that a final decision on the authorisation will not be completed before the expiry of the existing authorisation. It is unfortunate that an application for re-authorisation was not submitted by the proponent in sufficient time to allow timely consideration of the proposal, although it is acknowledged that international circumstances over the last six months have been highly changeable and unpredictable. However, the potentially adverse impacts of decoupling outweigh the effect of continuing current arrangements for a short period. This is particularly pertinent given the extant proposal to re-authorise and the duration of existing arrangements.

The NSW Government also supports the re-authorisation of the agreement proposed for the longer term. From the perspective of the NSW Government there are several aspects to the proposal of interest, including the continued viability of Qantas (as a major employer in NSW and Australia), the potential for adverse impacts on international travel to Australia, where tourism is a significant economic activity, and the broader need to ensure a viable international airline service for Australia to enhance opportunities in both business and tourism.

Intense competition and the adverse conditions in the international airline industry over recent years have placed international airlines under severe stress. Conditions affecting the industry do not show improved prospects in the near future. The events of September 11 and the ongoing threat of terrorism, the impacts of Severe Acute Respiratory Syndrome (SARS), the recent conflict in Iraq and the generally unstable international situation, with the Australia Government currently having 142 travel warnings extant, have compounded and jeopardised the financial viability of many international airlines.



The world aviation market is currently severely stressed, with some airlines teetering on failure or Chapter 11 bankruptcy in the US. Any arrangement that guarantees a continued high level reliable service is a major benefit for the business community, tourists and other travellers. The Agreement strengthens the 2 airlines by covering off in a complementary way their weakest parts of the Australia-Europe route and allows them to compete with other large international airlines with competitive advantages through their geographic location at the midpoint of the Australia-UK route.

The Australia-UK route is a key one for Australia and NSW and both Qantas and BA are sound airlines. The agreement guarantees continued service for the nation. Contrast the situation if Australia were currently dependent upon Cathay for international air transport, which is reportedly running at around 25% capacity and is highly susceptible to a take-over bid. The Agreement strengthens the 2 main carriers and guarantees a high quality reliable service when competitors have failed. For example, many of the European airlines have pulled out of the Australian route (Lufthansa, Swissair, Olympic).

While there are competition-based arguments for discontinuing the Agreement, the NSW Government feels that these are outweighed by the argument that it is important for Australian business, tourism and general travellers to have access to reliable and financially sound air services to the UK and Europe.

Qantas is a major employer in NSW (around 21,000 employees of 37,000 worldwide). Qantas has already indicated possible reductions in staff numbers in the near future. The arrangements between Qantas and BA have now operated for a number of years and it can be argued that these have helped both airlines during a challenging period where employment losses in the international industry have been reported as exceeding 400,000. Continuation of the arrangement will help to moderate the adverse impact on employment in Qantas in the continuing uncertain market.

Tourism is a major economic activity in Australia. The Australian market base of Qantas is complementary for an Australian focus as a tourism destination. The arrangement with BA enhances tourism opportunities in Australia from a wider international market. The arrangement supports the critical mass of the airlines to enable them to compete in a broader international market to the benefit of business and tourism for Australia.

In general terms, the NSW Government agrees with the public benefit arguments made to the Australian Competition and Consumer Commission by Qantas and BA. Over the life of the current Agreement it appears that the competition in the international industry has been challenging with many casualties. The sustainability and profitability of international airlines is clearly threatened and against this is the need to balance the dependence of the Australian tourism industry and business generally on access to a reliable air transport service. The Agreement appears to achieve this objective and there is no clear evidence that its termination will improve competition or meet appropriate air transport needs.

To conclude, the NSW Government supports both applications and would be most concerned to see that, in the current continuing environment of uncertainty in the world's aviation industry, the current advantages to business, tourism and the travelling public in general, are not jeopardised by the termination of the Agreement.

If you would like to discuss this issue further, please contact John Scott, Director, Strategic Projects, on (02) 9228 4989, or email him at john.scott@premiers.nsw.gov.au or fax (02) 9228 4096.

Yours sincerely



C Gellatly
Director General