

## RECORD OF MEETING

The meeting was requested by Qantas to discuss possible undertakings associated with authorisation applications lodged by Qantas and Air New Zealand for alliance/equity proposals.

*Held:* Friday 10 January 2003 at 11.00am at the ACCC's Offices in Melbourne.

<i>Present:</i>	<i>Qantas</i>	<i>ACCC</i>
	Paul Edwards	Ross Jones
	Brett Johnson	Tim Grimwade
	Peter McCumstie	Greg Outzen
	David Hawes	

PE asked about the status of the meeting for the public record. TG advised that a record of the meeting would be prepared, verified with Qantas, and placed on the public register. It was open to Qantas to claim confidentiality.

PE explained that Qantas wanted to work through the Qantas position with regard to undertakings. There seemed to be two levels of undertakings, one to facilitate new entrants and the other in relation to market power and consumer protection.

RJ confirmed that in terms of identifying areas where undertakings might be offered this was a reasonable start. To the extent the proposals were taking out principal competitors market structural issues would need to be addressed. There was also a need to address behavioural issues in the context of increased market power.

PE indicated he presumed structural issues were confined to the Trans Tasman market. RJ indicated that the Pacific and Australian domestic markets were also relevant. In the latter case there was the question of domestic on-carriage and the chance that if the deal did not go ahead Air NZ might look to another foreign partner who could enter the Australian domestic market.

PE asked if following media comments from Virgin Blue the ACCC had any undertakings in mind that Qantas and Air NZ could not have their own low cost services across the Tasman if a low cost operator such as Virgin Blue commenced Tasman services. RJ responded that the ACCC had yet to receive submissions and had not formed any views on the applications.

PE indicated an undertaking could specify the level of capacity that Qantas and Air NZ could provide if a new entrant came into the market. Capacity growth could for example be limited to growth in the market. RJ responded that this was not a simple matter especially with growth being inextricably linked to price.

PE asked if ACCC saw value in such an undertaking. RJ noted that this was a complex matter and difficult to structure given it was attempting to reconcile facilitating market entry and the exercise of market power.

PE also saw potential for an undertaking to ensure Star Alliance carriers had access to capacity and prices across the Tasman to allow them to compete with other airlines. RJ saw concerns at Qantas/Air NZ versus oneworld versus Star. BJ suggested such an undertaking would address oneworld versus Star inequities. Competition between Qantas and its oneworld alliance partners was another issue. GO suggested such an undertaking could have implications for unaligned carriers.

PE now turned to market power style undertakings and raised the prospect of an undertaking in relation to capacity on routes where the alliance was the sole provider of services. The undertaking could commit not to reduce capacity to force up prices, ie market power could not be used to increase prices. RJ said any such undertaking would need to be clear as to what is meant by capacity. Is it services, seats, frequencies etc.?

PE asked how the ACCC felt about price undertakings. RJ suggested that the ACCC was not keen on such undertakings. GO noted that yield management systems would make price undertakings difficult to administer. RJ suggested that the ACCC would not be attracted to an outcome which resulted in the ACCC having to manage prices on airline routes.

BJ indicated that Qantas also wanted to examine undertakings directed to ensuring that public benefits identified in the authorisation applications were realised.

BJ further indicated that Qantas planned to provide the ACCC by the end of the following week with a 2-3 page paper which explored the types of undertakings being looked at by Qantas. RJ thought this was a useful start. TG indicated that on receipt of the paper the ACCC would circulate it to interested parties enabling them to address the paper in submissions on the authorisation applications.