

13 June 2003

Aviation Steering Committee

Mr Tim Grimwade
General Manager
Adjudication Branch
Australian Competition and Consumer Commission
P O Box 1199
Dickson ACT 2602

FILE No:
DOC:
MARS/PRISM

Dear Mr Grimwade

Queensland Response to the Authorisation Application lodged by Qantas Airways Ltd and British Airways Plc (A30226& A30227)

Thank you for the opportunity to respond in respect of the draft determination for the applications by Qantas Airways Ltd and British Airways Plc (the Applicants) for authorisation under *part IV* of the *Trade Practices Act 1974 (TP Act)* of a Restated Joint Services Agreement (RJSA).

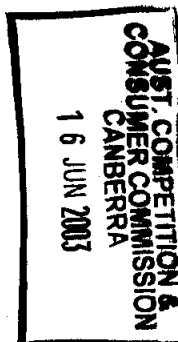
The Queensland Government's preliminary assessment of the RJSA is that it will *prima facie* continue to deliver net public benefits on the Kangaroo Route (or the market) over the long term.

The RJSA effectively assists in mitigating the competitive disadvantages of the Applicants by improving their hub economies at mid points, thereby enabling them to maintain and increase air services on the Kangaroo Route from the critical tourism markets of the United Kingdom and Europe.

The Kangaroo Route has 13 airlines that directly provide an on line air service and a further 13 that operate on code share arrangements. Furthermore, the *benchmark economy fare* is lower today than it was at the inception of the JSA in May 1995 and the passenger market share of the Applicants have declined by three per cent over the term of the JSA whilst that of the mid point carriers have increased by 17% (NECG Report May 2003). Consequently, it would appear that the RJSA is not having any detrimental impact on competition on the Kangaroo Route.

The public benefits of most significance to Queensland are those associated with tourism (as outlined in the Applicants submission and the NECG Report May 2003).

Queensland support is predicated on the fact that the UK and European markets are significant generators of visitation and economic benefits to Australia representing 22% of the total visitor arrivals (IVS Dec 2002). In combination, the UK and European markets represent the largest number of visitor arrivals to Australia. For Queensland, these markets also account for 22 % of total visitation and are our second largest visitor arrivals market (IVS Dec 2002).



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Queensland also supports the continued increase of airline services and increased presence from a range of mid point carriers on the Kangaroo Route but wishes to note that the authorisation of the RJSA will ensure that Australia continues to benefit from the hub and spoke efficiencies, and significant brand and marketing presence of British Airways in the UK and European markets. This has the effect of potentially drawing large traffic volumes from a range of European destinations to Australia on Qantas and British Airways services.

Absent the RJSA and this traffic drawing capacity from UK and Europe is potentially diminished and at risk.

It is important to note that Queensland believes that in cases such as the authorisation of the RJSA, there are potentially sub national consequences. The "public" should be considered as an aggregate of these sub national areas as well as the nation as a whole. The relevant public benefits are those that accrue to each relevant state such as Queensland and as such the effects on each and every state and/or region should also be considered.

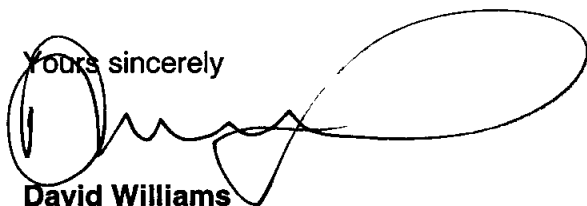
The daily Brisbane to Singapore services operated by Qantas (code share British Airways) is a critical conduit for Queensland to access the key long haul markets of the UK and Europe. The Applicants submission and the NECG Report state that should the RJSA not be authorised, then rationalisation of both Qantas and British Airways services are likely. This is due to reduced feed contributed from one airline to the other, reduced schedule connectivity and the flow on effect to the networks of the Applicants from removing weakened spokes from the Applicants "mini hub" in Singapore.

The consequent impact on the daily services to Brisbane is unclear although reduction of frequency and/or capacity is likely. This in turn will have a potential adverse impact on tourism and economic development objectives in Queensland.

Queensland supports the notion that the period of authorisation of the RJSA should be such that it minimises the regulatory costs associated with significant new capital investments. However there appears to be insufficient detail or information to clarify the quantum of regulatory costs the parties would potentially incur, should the renewal be of a shorter term. The Alliance parties are encouraged to provide such costs-benefit analysis to assist the ACCC and other interested parties in more accurately determining the optimal RJSA renewal terms.

It should be noted that whilst the Applicants and the NECG Report seek an indefinite term for the renewal of the RJSA, the ACCC should periodically revisit this issue to ensure that the principles of net public benefits are maintained. In this respect, it should be noted that the ACCC has legal capability under *Part VII* of the *Trade Practices Act* to make minor variations or revoke any authorisations should there be a material change of circumstances, a condition not complied with or evidence or information that was false or misleading.

Yours sincerely



David Williams

Co-Chair

Queensland Government Aviation Steering Committee