



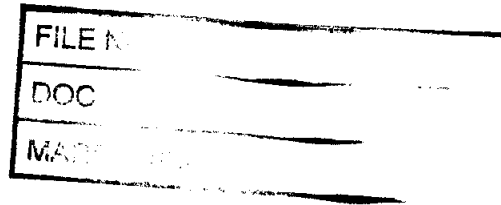
GPO Box 2343
Adelaide 5001
South Australia

Telephone
61 8 8226 3500

Facsimile
61 8 8226 3535

www.premcab.
sa.gov.au

*In reply please quote 97/08596
Enquiries to Mike Milln
Telephone 08 8343 2793*



9 July 2003

Mr Tim Grimwade
General Manager Adjudication Branch
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Copy by facsimile to 02 6243 1211

Dear Mr Grimwade,

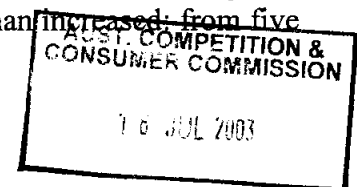
AUTHORISATION APPLICATION LODGED BY QANTAS AIRWAYS LTD AND BRITISH AIRWAYS PLC (A30266 AND A30227)

I refer to your letter of 12 May 2003 in which you invited South Australia to comment on the claims made by Qantas and British Airways (BA) in their application for re-authorisation of their Restated Joint Services Agreement, and on the likely public benefits and effect on competition of the arrangements for which re-authorisation is sought.

The South Australian Government supported the carriers' application for renewal of the approval for its Joint Services Agreement in November 1999. This was consistent with its earlier support, in March 1998, for approval of the proposed arrangements between Ansett, Air New Zealand and Singapore Airlines, and was based primarily on the following factors:

- The view that BA code-sharing on Qantas flights between Adelaide and Singapore would add to their viability and bring forward sustainable Adelaide frequency increases; and
- That Federal regulatory policy changes, which involved unilateral grants to foreign carriers of unlimited access to secondary gateways including Adelaide, would lower barriers to entry and the opportunity costs of operating to secondary ports, thus ensuring that effective competitive pressures could be maintained on Qantas and BA over the JSA routes by third country carriers.

The Government's views have not changed although the arrangements have yet to produce the benefits specific to this State that were hoped for. BA continues to code-share on Qantas Adelaide-Singapore services but their frequency has declined rather than increased: from five



non-stop services in 1998 to three operated via Darwin presently. This is the result of Qantas' high operating costs in a low-yield market, the ease with which both carriers can carry Adelaide traffic over other Australian gateways through use of Qantas domestic services and strong competition and increased capacity brought to the Adelaide market by Asian sixth-freedom carriers.

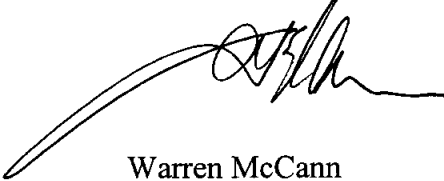
So while the benefits of additional Qantas international direct flights to Adelaide have not been realised, significant connecting international traffic has augmented increases in Qantas' domestic frequency to access the much larger range of flights and destinations available out of east coast gateways. At the same time, the more relaxed regulatory environment and Qantas' downgrading of its international presence in Adelaide have facilitated frequency increases and service upgrades by its direct competitors on the JSA routes. Singapore Airlines and Malaysia Airlines are both planning further frequency increases later this year and both have already de-linked their Adelaide services from other gateways.

The Government accepts the applicants' arguments and evidence that the JSA is necessary in order for them to compete effectively with the sixth freedom carriers and that strong price and product competition has been maintained on the JSA routes during the period the arrangements have been in place. It remains hopeful that the cost efficiencies realised through the JSA may yet contribute to a more appropriate level of Qantas international services at Adelaide.

The Government also supports the view that it is in the national interest, and ultimately this State's interest, that Qantas remain a successful and internationally competitive airline. The Premier's support for the proposed Strategic Alliance Agreement between Qantas and Air New Zealand as well is consistent with this view.

The Government therefore supports re-authorisation of the Restated Joint Services Agreement between Qantas and BA and, in view of the demonstrated track-record of the applicants under the existing arrangements and the resources required for the re-authorisation process, that the re-authorisation apply for a period of no less than ten years.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'W. McCann', with a long, sweeping underline that extends to the left.

Warren McCann
CHIEF EXECUTIVE