



Australian Competition & Consumer Commission

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Our Ref: C2003/536
Contact Officer: Amanda Dadd
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30 June 2003

Mr Brett Johnson
General Counsel
Qantas Airways Limited
Qantas Centre Building A/9
203 Coward Street
MASCOT NSW 2020

Dear Mr Johnson

**Applications for authorisation – Qantas Airways Limited and British Airways Plc
(A30226 and A30227)**

I refer to the above applications for authorisation lodged with the Australian Competition and Consumer Commission by Qantas Airways Limited and British Airways Plc.

As you are aware, the Commission invites potentially interested parties to comment on applications lodged with the Commission, particularly in relation to the public benefit and anti-competitive detriment likely to flow from the proposed arrangements. I enclose all non-confidential submissions made by interested parties in relation to this matter to date for your information. The Commission invites the Applicants' comments on any of the issues raised in submissions from interested parties.

Issues raised by interested parties

A number of issues have been raised in submissions from interested parties which the Commission is of the view require further information and/or explanation from the Applicants.

The Commission would be grateful if the Applicants could address the following issues in particular in their response to submissions.

Virgin Atlantic

The Commission is interested in the Applicants' views on the following:

- the assertion by Virgin Atlantic that it is appropriate to consider Heathrow as an "economically distinct market for time-sensitive passengers"; and



- the extent of the barriers to entry identified by Virgin Atlantic, particularly in relation to congestion and the availability of slots at Heathrow airport, and the impact of loyalty programs and feeder traffic.

Virgin Blue

Virgin Blue submitted that the Applicants have failed to properly analyse the anti-competitive effects of the JSA in Australian domestic trunk and regional markets.

In particular, Virgin Blue submitted that the Applicants have not had regard to the impact of “bundling” offers for various domestic and international services. The Commission is interested in the Applicants’ views in relation to this matter.

Further information required by the Commission

The Commission would be also be grateful if you would provide further information in relation to the following points.

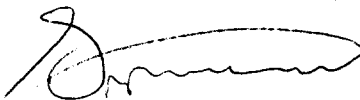
1. If available, the Applicants’ market share data (both combined and individual) in terms of turnover on the routes affected by the JSA;
2. Do the Applicants intend to extend the operation of the JSA beyond the routes on which it is currently applied within the next five years?;
3. Is the reduction in the “benchmark fare” of 25 per cent since May 1995 solely attributable to “intense and sustained price competition” (paragraph 5.25) or is it, in full or in part, attributable to other factors such as “significantly reduced demand for JSA services” (paragraph 1.18)? The Commission would also be grateful for a time series of the movements in the benchmark fare over the past eight years and a comparison of this fare with similar fares offered by other carriers on JSA routes;
4. An outline of the movements in prices in first class and business class fares between May 1995 and the present on JSA routes and a comparison of these fares with those offered by other carriers;
5. Please advise the Commission as to whether the “changes to improve the profitability of the JSA routes” described on pages 123 and 124 of the NECG Report have been considered in the construction of the counterfactual scenario as well as the factual scenario. If these changes have not been considered, please advise the Commission as to why these changes can not or will not be implemented by Qantas and/or BA individually in the absence of the JSA.
6. NECG outlines strategies that are likely to be considered by the Applicants in relation to IT systems in the absence of the JSA and estimates the cost savings associated with the JSA for each of these options. Please provide the Commission with the basis of, or a more detailed breakdown of, the estimates relating to each of the IT cost savings attributed to the JSA.

7. The Commission notes NECG's reference to findings published in 1992 by Crouch, Schultz and Valerio. Would you please advise the Commission if there are more recent studies that support these findings. Alternatively, please provide the Commission with information which supports the ongoing accuracy of these findings.
8. In terms of differences between the factual and counterfactual European promotional scenarios, what net effect will the recent announcement of the cancellation of Qantas flights to Rome (under the current JSA arrangements) and the subsequent reduction in promotional levels in Italy have on Australian tourism exports?
9. Could you please provide a theoretical description of the Monash Model and an explanation of the consumption effects stemming from the exogenous shocks in the Monash Model's three simulations? Moreover, which industries are disadvantaged by the short-run capital and labour divergences caused by the reduction in tourism exports in the counterfactual (without capacity replacement)?
10. Given the assumptions and inputs that underpin the Monash Model's outputs shown in figures 27-29, can you please provide further explanation to demonstrate how the multipliers are used to produce the results in the economic cost column in tables 61 & 62?

I would be grateful to receive your response to the above issues and any further comments in relation to issues raised in submissions from interested parties by 14 July 2003.

A copy of this letter has been placed on the Commission's public register. If you would like to discuss any other aspect of this matter further, please do not hesitate to contact Amanda Dadd on 02 6243 1391.

Yours sincerely



Scott Gregson
Director
Adjudication Branch

List of submissions

1. Virgin Atlantic
2. Department of Transport and Regional Services
3. Virgin Blue
4. West Australian Government
5. Queensland Government
6. New South Wales Government
7. Tourism Tasmania
8. Skywest Airlines Pty Ltd
9. Australasian Business Travel Association
10. VIP Logistics Pty Ltd
11. Australian Federation of Travel Agents
12. Hobart International Airport
13. Department of Industry, Tourism and Resources