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The General Manager
Adjudication Branch
Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

ACCC
AUSTRALIAN COMPETITION & CONSUMER COMMISSION
6 FEB 2003

Dear Sir

Trade Practices Act 1974
Applications for authorisation lodged by Qantas Airways Limited and Air New Zealand

Thank you for your letters of December 19, 2002, January 7 and 28, 2003. We are well aware of the joint Qantas and Air New Zealand announcement of their strategic alliance and equity proposals.

The airline industry is a well documented one and, in particular of recent, has not enjoyed financial success around the world. United Airlines, US Airways, Sabena, Swissair, Ansett and Air New Zealand are well-recognised financial calamities in this industry. However, there are success stories such as Qantas and a few more around the world such as Singapore Airlines, Cathay Pacific, Ryan Air, JetBlue etc. In between, there is a large group of operators, including some very large ones that do not operate successfully by any stretch of imagination.

Although regulated in many ways, the aviation industry is highly competitive and susceptible to many outside influences. Successful companies have found a business model that suits the current business investment and economic environments and the successful ones should be supported by regulators in every way they can.

Qantas has demonstrated that their business model and management principles are successful. The alliance to be entered into with Air New Zealand is of their choice and should be allowed to proceed unhindered by regulators at both ends. Failure for the proposal to proceed in full would not only expose Air New Zealand in their home and overseas markets – including Australia - but could also destabilise the Australian aviation market and therefore Qantas. This must be avoided.

Short or medium term, we may not see all of the stated public benefits realised; the near term aviation environment (rising costs, uncertainty over insurance premiums, decreasing tourist and business travellers) may even produce the opposite outcomes. But longer term, this industry needs strong(er) operators. Australia already has a strong aviation operator in

...../Page 2

Page 2

Qantas and New Zealand will no doubt benefit from the increased and improved position of Air New Zealand as a result of the proposals. The proposed alliance and equity participation will bring stability into the aviation market in this part of the world. Stability will hopefully also bring financial success to both applicants. In the longer term, this will make this aviation market more attractive for new entrants and could then deliver most, if not all, of the public benefits usually expected as a result of new competition entering in a closely held industry.

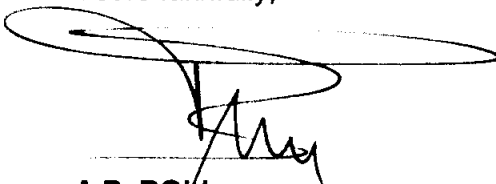
The withdrawal of United Air Lines from the New Zealand route is an unfortunate outcome of their financial position and will reduce capacity and increase both passenger fares and cargo rates charged by Air New Zealand and Qantas. This may be seen as an exploitation of the situation but perhaps is more a sign that the route for the carriers, not only United Air Lines but also Qantas and Air New Zealand, is uneconomical at the current fare levels that the travel market is prepared to pay. It will take time for equilibrium of supply and demand to be reinstated and once done so will be no hindrance for other competitors to enter the market.

Specifically, we would like to address also a freight operation aspect in our role as a major air freight forwarder in both countries. By far, the bulk of air freight capacity in and out of Australia and even greater in New Zealand is provided by passenger aircrafts, also known as *belly space*. Joint Qantas and Air New Zealand improved flight frequency and generally improved scheduling, in particular to New Zealand airports other than Auckland, will support freight capacity and assist importers and exporters in both countries. We have already seen one such indication with the intended introduction of direct flights between Auckland and Adelaide.

We wish to draw attention to the successful entry of Virgin Blue into the Australian aviation market. They achieved what Compass I / II and Impulse failed to do. It shows that the Australian (and Zealand) markets are open for new competitors. It requires a business model suitable for the market and the time. We draw confidence from their successful entry that the Qantas and Air New Zealand alliance, when successful, will enhance competition and a good aviation market will get other competitors interested.

We ask that the Australian Competition & Consumer Commission authorise both points of their applications dated December 9 and 20, 2002.

Yours faithfully,



A.P. BOLL
Chief Executive – South Pacific