



**Department of  
Innovation, Industry and Regional Development**

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

Fax: 02 6243 1211

55 Collins Street  
Melbourne, Victoria 3000  
GPO Box 4509RR  
Melbourne, Victoria 3001  
Telephone: (03) 9651 9999  
Facsimile: (03) 9651 9129

Dear Mr Grimwade

**Qantas Airways Ltd and Air New Zealand Strategic Alliance**

The Victorian Government welcomes the opportunity to respond to the proposed Qantas Airways Limited and Air New Zealand Strategic Alliance proposal (the Alliance).

The State Government of Victoria has examined the material provided to the ACCC by Qantas and recognises, from a commercial perspective, that economic efficiencies are likely from the proposed Alliance.

The Government sees Qantas' proposal as an extension of its diverse airline business activities in Australia and the Pacific-Oceania region generally, building on and complementing its various international arrangements with *Oneworld* and independent carriers. However, the assessment has also reconfirmed the conclusions made in the application and the accompanying NECG Report that the proposal would encourage competition outcomes that are to the Alliance's favour, and are likely to lead to increased aviation travel prices and lower capacity.

The Commission will be aware that Qantas and Air New Zealand (including Freedom Air) are the only carriers operating between Southern Australia and New Zealand. Qantas and Air New Zealand's positioning in the Southern Australia - North America market has been further improved by the suspension of Melbourne terminator services by Air Canada and United Airlines, although United Airlines continues to service Southern Australia as an extension of its Sydney services.

On this basis, Victoria's view is that the Alliance proposal must only be considered in the context of associated aviation policy reforms that facilitate an environment of increased contestability and consumer choice. It is understood that, in considering the Alliance proposal, the Commission can make requests of this kind to the Commonwealth. The aviation policy reforms Victoria sees as being conducive to these outcomes are summarised below:

- The revision of current aviation policy to nominate Sydney as the only 'tradeable' point in bilateral agreements, noting the Alliance would further consolidate Sydney as Australia's international gateway.
- Full 5th freedom rights being extended to all carriers wishing to serve the Melbourne - New Zealand and Melbourne - North America routes.
- 3<sup>rd</sup> country code share rights being extended to all carriers wishing to serve the Melbourne-New Zealand and Melbourne - North America routes.
- New Zealand being listed as an intermediate point to Australia in all relevant bilateral agreements.
- Own stopover rights being extended to foreign carriers operating on Australian sectors covered by the Alliance code share proposal.
- Change of gauge entitlements being available to foreign carriers operating Tasman services.

Victoria is of the view that failure to implement these policy reforms, and allowing the Alliance to proceed, would likely result in the Alliance's anti-competitive aspects outweighing any efficiency gains, and therefore authorisation should be subject to these aviation reforms being implemented. Consumers, in particular, would not have greater choice in price, quality and/or service.

I trust this information clarifies the position Victoria has in relation to the proposed Alliance.

Yours sincerely



**Neil Edwards**  
Secretary