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17 February, 2003

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

FILE No:
DOC:
MARS/PRISM:

Dear Mr. Grimwade,

RE: PROPOSED QANTAS / AIR NEW ZEALAND ALLIANCE

I write in reference to the above subject heading and insodoing acknowledge that some AAA member airports will be making their own specific comment relative to their local perspective. We are mindful of the fact that the only basis for the ACCC approval of the alliance proposal is a demonstrated public benefit and accordingly we offer the more general comment for your consideration.

It has always been the view of the AAA that whenever possible market forces should determine commercial relationships and any consequential business decisions. Whatever the ultimate outcome, there is now a need for industry stability within the region. Following the demise of Ansett it would serve no useful purpose at all for any other carrier in the region to go out of business. That being said, it behoves the Government to actively encourage another operator to commence scheduled services on the trans-Tasman and trans-Pacific routes. It is in the public interest to have a more competitive market, especially since United Airlines is to withdraw service from New Zealand and Air New Zealand from Sydney to Los Angeles.

Any 'undertakings' to be given by either Qantas or Air New Zealand, in support of their proposal, must be classified as 'enforceable undertakings'. The 'undertakings' offered thus far by Qantas in their submission are essentially in three parts - those being to 'help' any new entrant with access to facilities, services and prescribed limits on capacity increases (the 'dumping' of seats?); preventing misuse of market power with limits on reducing existing capacity; and three stated supposed public benefits of new services, tourism promotion and increased freight uplift.

In their current form and presentation we do not believe that these 'undertakings' sufficiently demonstrate a 'public benefit' as such. Furthermore, to have such 'undertakings' in place for two years (as proposed in the Qantas submission) is insufficient time for any new entrant to commence operations and establish the integrity of their schedule. As an example, Ansett's experience in commencing limited international services with an already well-established domestic brand, shows that it can take years for a new entrant to be in a position to really compete.

The Qantas submission proposes that the 'undertakings' will conclude when a new entrant starts up, or within one year of any new entrant's announced start-up date. In our view, this is too tight a timeframe and should be at least two years from the actual date of any new entrant commencing their operations. Should the ACCC eventually approve the proposed alliance it is our recommendation that there ought to be a regulatory review by the ACCC, with submissions sought from stakeholders at the conclusion of the first three years of the alliance.


History has taught us sadly, that in many instances international airline alliances have not demonstrated any 'public benefit' at all for some communities. By way of example, when JAL entered into a 'business relationship' with Qantas, JAL ceased direct services to a number of Australian airports. A similar situation arose with the Qantas/British Airways 'relationship' which, at that time, saw BA also cease direct services to Australia. More recently, the Ansett/Air New Zealand shareholding saw NZ withdraw from direct services to Adelaide and Hobart. The business 'relationship' between South African Airways and Qantas has seen curtailment of a number of services to and from Perth. In every instance, passengers are now carried domestically (code-share) to an eastern or western seaboard airport for international carrier uplift. The ACCC needs to take into account the reality of past experiences when assessing the 'commitment' of the current 'undertakings' placed before it for consideration.

The issue of any likely proliferation of 'code-shares' over force-fed hubs versus the maintaining of existing direct scheduled services needs to be addressed. There should be no 'rationalisation' of existing capacity – current scheduled services must be maintained and there can be no 'alliance trading' of slots for favoured access to Sydney Airport. This also has an impact on air-freight access, particularly the uplift of perishable goods which are a major export item for some communities served by a 'smaller' international airport.

Finally, and most importantly, the AAA believes that the Qantas/Air New Zealand alliance should be approved only if the Australian Government adopts a true international "open skies" policy, effective from the commencement of the proposed alliance. At present, the policy applies only to Australia's secondary international airports, and has delivered few (if any) competitive benefits to Australia. It is the AAA's view that any international airlines should be allowed to operate passenger and cargo services between any Australian airport and any airport outside Australia.

The Australian Airports Association wishes you well with your deliberations and thanks the ACCC for the opportunity to comment on the proposal.

Yours sincerely,



John McArdle
Chairman