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**MINISTER FOR PLANNING AND INFRASTRUCTURE**

HON ALANNAH MacTIERNAN  
BA LLB BJuris JP MLA

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Your Ref: C2002/1774

My Ref: 027460

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

Dear Mr Grimwade,

**Qantas Airways Ltd and Air New Zealand Limited - Strategic Alliance  
Proposal and Equity Proposal**

I refer to your letter dated 19 December 2002 to the Premier of Western Australia, the Hon Geoff Gallop seeking written comment on the applications for authorisation to the Australian Competition and Consumer Commission (ACCC) by Qantas Airways Limited (Qantas) and Air New Zealand (Air NZ).

The applicants are seeking authorisation from the ACCC for Qantas to purchase a 22.5% voting interest in Air NZ and collaborative arrangements by way of a Strategic Alliance (the Alliance) between the two airlines. It is also noted that Air Pacific has since joined the applicants.

Please accept this as the submission of the Western Australian Government.

## **1. Overview:**

### **(1) The Global Situation**

The WA Government recognises the uncertainty of the international airline industry stemming from the events of September 2001 and accepts that it is necessary to have financially robust carriers to function in a competitive and volatile operating environment. Qantas has been able to survive and prosper in a difficult and uncertain international market. There are possible further periods of uncertainty ahead that could dramatically affect the international airline industry. Attaining critical mass and a strong base load market is clearly important. We believe that the initiative taken by Qantas and Air New Zealand to form a strategic alliance will equip both airlines better to withstand the uncertain and competitive international environment.

### **(2) Intrastate Air Services**

Following the collapse of Ansett in September 2001, Qantas became the major intrastate airline in Western Australia providing jet services from Perth to the key regional centres of Broome, Port Hedland, Karratha and Kalgoorlie. Qantas does not have competition on the Pilbara routes. In Kalgoorlie, Skywest provides a turbo-prop Fokker 50 service and in Broome, Virgin Blue will shortly commence some limited services from Adelaide.

With the exception of Broome, the jet services to key regional towns support the resources sector and to a lesser extent tourism. Smaller regional airlines provide services to other coastal towns and cities and to remote communities.

Western Australia has several regional airlines providing services throughout the State. Some of these have affiliations with Qantas including Air North who are based in Darwin and operate to Kununurra and Broome. Northwest Regional Airlines, based in Broome, provide services to the Pilbara and Kimberley regions. Most recently, Skywest Airlines, based in Perth, provide services to the Gascoyne, Mid-West, Great Southern and Goldfields-Esperance regions.

### **(3) Interstate**

On interstate routes to and from Western Australia, Qantas has approximately 76% share of capacity with Virgin Blue holding 24%. There is competition on all direct mainland interstate routes from Perth with the exception of Darwin, which Qantas services on a daily basis. Both Qantas and Virgin Blue will commence weekend services to Broome from Melbourne and Adelaide respectively in April 2003.

## **(2) Barriers to Entry**

### **(a) The Australian Domestic Market**

From a national interest perspective the WA Government considers it important that other airlines not be precluded from entering the Australian and New Zealand domestic markets by the tying up of infrastructure by existing airlines.

In this regard we feel it important that future access can be safeguarded and provided particularly at Sydney and if necessary in New Zealand. This would involve reserving an appropriate number of gates and slots at Sydney, Melbourne and Brisbane airports and possibly other capital city airports. The Federal Government may see fit to put a timeframe window of opportunity following which if no new entrant emerges, the gates and slots could be made available to established carriers.

### **(b) The International Market**

From a Western Australian perspective we are well served by international carriers competing and providing services to Asian and European destinations. However this is not the case to New Zealand, the Pacific or the USA. As mentioned earlier, we see it as important that competition can be provided across the Pacific. With the recently announced difficulties of United Airlines, it is critical to consider facilitating other international carriers such as Singapore Airlines to operate beyond Australia and New Zealand, should the Alliance proceed.

## **3. Market Power**

The WA Government believes that should the Alliance be approved, Virgin Blue must be able to operate and develop competition on the route on reasonable terms. We are of the view that the end benefits must flow to the consumer and export industries, and competitive choice will facilitate this. Importantly carriers such as Virgin Blue would need to be given fair access to all related facilities including terminals in both Australia and New Zealand.

We reiterate that the Australian and New Zealand Governments need to ensure that future access can also be provided on a basis that will allow any new entrants to compete on fair terms with the Alliance and Virgin Blue.

uncertainty and the long term prospect that this situation could prevail for a significant period of time, the Alliance is supported.

### **(6) The National Interest**

It is important for Western Australia that the outcome of the Alliance, if approved, will not see any reduction in service standards. Indeed they should improve. The Commonwealth must ensure that one State/Territory does not benefit over another in terms of service standards or that some States/Territories end up paying more for an equal level of service. This is particularly relevant to Western Australia, which does not have the critical mass and the intense competitive environment of the east coast of Australia and trans Tasman services.

### **(7) Preservation of a commercially viable full service Australian Airline**

Qantas is a strong international and domestic airline operating in a difficult industry without Federal Government financial support. While it is important that this continues, we also support the consolidation and growth of Virgin Blue as the second domestic carrier in Australia. While the Alliance will serve to strengthen and enhance services within Australia and across the Tasman, we consider it important that other carriers such as Virgin Blue can compete and more importantly grow on fair terms.

## **3. Anti-Competitive Effects and Public Detriment**

### **(1) Market Definition**

The WA Government is of the view that the Alliance is unlikely to lead to a lessening of competition on interstate routes to and from Western Australia. Qantas has moved to introduce new aircraft in the form of the Airbus A330 on routes to and from Perth and we have encouraged Virgin Blue to continually increase their capacity. The recent announcements by Qantas and Virgin Blue to commence direct seasonal interstate services to Broome are an indication that both airlines are somewhat prepared to provide capacity to meet demand.

We recognise that the real concerns must focus on services to and from New Zealand and it is our view that Virgin Blue must be encouraged to enter this market and be able to compete on fair and reasonable terms. This could involve limiting the market share of Qantas and Air New Zealand and reviewing the operation of Freedom Air. If this competition by Virgin Blue is not actively encouraged and genuinely supported, the Alliance has the potential to have a negative impact on both economies.

In regard to international operations, the Federal Government needs to ensure that competition can prevail across the Pacific and that there is choice for the consumer and the export industry. In this case, consideration should be given to providing rights to airlines such as Singapore Airlines to carry traffic from Australia and New Zealand to and from the United States.

## **(2) Barriers to Entry**

### **(a) The Australian Domestic Market**

From a national interest perspective the WA Government considers it important that other airlines not be precluded from entering the Australian and New Zealand domestic markets by the tying up of infrastructure by existing airlines.

In this regard we feel it important that future access can be safeguarded and provided particularly at Sydney and if necessary in New Zealand. This would involve reserving an appropriate number of gates and slots at Sydney, Melbourne and Brisbane airports and possibly other capital city airports. The Federal Government may see fit to put a timeframe window of opportunity following which if no new entrant emerges, the gates and slots could be made available to established carriers.

### **(b) The International Market**

From a Western Australian perspective we have international carriers competing and providing services to Asian and European destinations. However this is not the case to New Zealand, the Pacific or the USA. As mentioned earlier, we see it as important that competition can be provided across the Pacific. With the recently announced difficulties of United Airlines, it is critical to consider facilitating other international carriers such as Singapore Airlines to operate beyond Australia and New Zealand, should the Alliance proceed.

## **3. Market Power**

The WA Government believes that should the Alliance be approved, Virgin Blue must be able to operate and develop competition on the route on reasonable terms. We are of the view that the end benefits must flow to the consumer and export industries, and competitive choice will facilitate this. Importantly carriers such as Virgin Blue would need to be given fair access to all related facilities including terminals in both Australia and New Zealand.

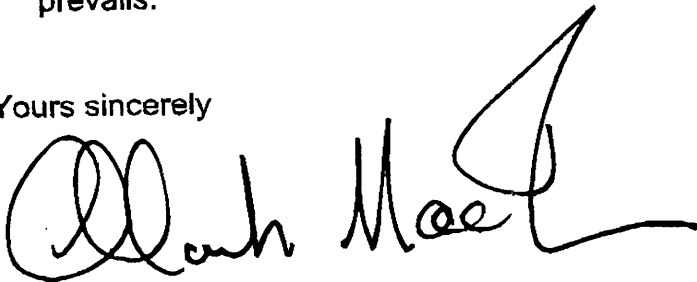
We reiterate that the Federal Governments of Australia and New Zealand need to ensure that future access can also be provided on a basis that will allow for any new entrants to compete on fair terms with the Alliance and Virgin Blue.

#### 4. Summary

We believe that the Alliance will enable Qantas and Air New Zealand to form a strong relationship that can effectively compete in the global marketplace while delivering quality services within the Australian and New Zealand domestic market. The WA Government supports the proposed Alliance but it is conditional on the following key items being addressed:

- The Perth- New Zealand service must remain and grow as a non-stop international service and permission should be given to operate on a code-share basis between the Alliance partners. It must grow to operate as a daily service.
- The Federal Government takes steps to ensure that Western Australia is not disadvantaged in terms of service standards, particularly in the cost of services, and that Western Australians do not pay more for a similar standard of service to east coast consumers.
- Virgin Blue must be able to commence services across the Tasman on fair terms and that fair access is provided for related infrastructure and facilities including terminal access.
- Provision must be made to ensure the entry of a new domestic airline(s) remains open through the provision of access to terminal gate facilities and slots at Sydney, Melbourne and Brisbane and that similar access must be provided in New Zealand and to other Australian capital city airports.
- That the Australian and New Zealand Governments must facilitate rights to other international carriers to provide services across the Pacific to and from Australia and New Zealand to ensure a competitive environment prevails.

Yours sincerely



Alannah MacTiernan MLA  
**MINISTER FOR PLANNING AND INFRASTRUCTURE**