General Counsel
Brett Johnson

12 March 2004

Mr Greg Outzen
Australian Competition & Consumer Commission
470 Northbourne Avenue
Dickson ACT 2602

Dear Greg

Qantas Airways Limited and British Airways PLC
Application for Reauthorisation of Restated Joint Services Agreement (JSA)

During our last meeting on 3 February 2004, Niamh McCarthy mentioned two articles from the February 2004 issue of *Airline Business* which she thought would be of interest and relevance to the ACCC's consideration of the Restated JSA. Enclosed are copies of those articles.

The first article "***Into the Spotlight***" contains an interview with Chew Choon Seng, the Chief Executive of Singapore Airlines. As you will see, this article refers to aspects of Singapore Airlines' operations on routes between Australia and Europe, including:

- the challenge posed by "*fast-growing rivals such as Emirates, that have become long-haul competitors in the important market for flights between Australasia and Europe*";
- the importance of product innovation, service levels and facilities to meeting rivals' competition;
- the importance of Australasia to Singapore Airlines, which "*carries a vast amount of traffic between Australia/New Zealand and Europe via its home base*"; and
- the observation that "*when SIA was established in 1972, and at that time the population bases was about 2.5 million, few pundits would have bet on our growing to be amongst the 10 largest passenger airlines in the world*".

The second article "***The Way Forward***" discusses the implications of the UK Government's White Paper on the future of airport development. As you will see, the article reports that the White Paper proposes reviewing the use of London Heathrow's two runways. At present, these are generally used in segregated mode, with one used for landings and the other for take off. However, the article reports that the review of this system may lead to the possibility of mixed-mode operations, whereby London Heathrow's runways would be used for both take-off and landing. It is reported that:

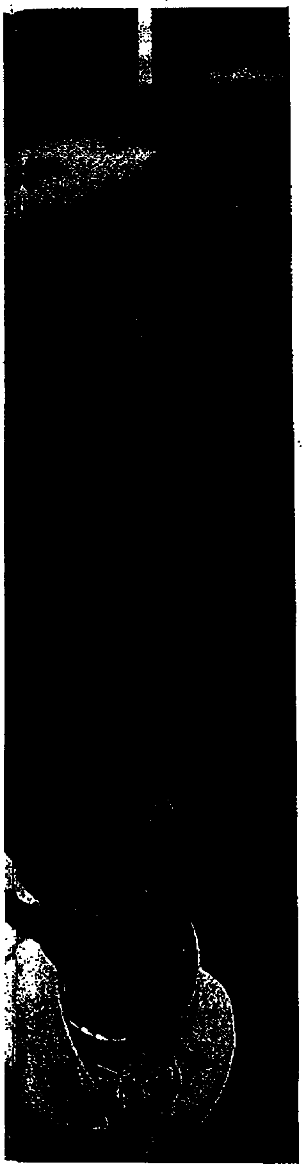
"*A fully mixed-mode operation would add around 15% capacity to the airport.....[t]he potential benefits of mixed-mode operations are huge, and could have major benefits for international aviation relations.*"

While the article focuses on the positive impact that mixed-mode operations would have on the availability of slots at London Heathrow for transatlantic operations, it is also foreseeable that more slots may become available for carriers operating services between Australia and Europe. We trust that these articles are of interest and assistance to the ACCC.

Yours sincerely

Brett Johnson

cc Roger Featherston
Mallesons Stephen Jaques



After 30 years helping to build the Singapore Airlines success story, Chew Choon Seng stepped up to become chief executive in mid-2003. In his first in-depth interview, he talks of the challenges, old and new, that still lie ahead

Taking over as chief executive of a leading international airline should be a crowning moment in a career. But Chew Choon Seng's early days at the helm of Singapore Airlines (SIA) were hardly the stuff to inspire envy.

He was named as chief executive designate at the start of 2003, due to take over from the long-serving Cheong Choong Kong early on 9 June. When that day finally came, SIA was in the midst of arguably the most troubled period in its history. Not only was the carrier still dealing with the fallout from war in Iraq, but its market was being devastated by the SARS epidemic which had spread alarm across South-East Asia, including Singapore. So as Chew took charge, he did so in the wake of an unprecedented fall in unit revenues, which plummeted by 56% in May and by nearly 40% in June.

On his 11th day in the job, Chew was forced to make an announcement that badly shook an airline that had prided itself on being among the world's most consistently profitable: the workforce of around 29,000 was to be cut by 1.5%. It was the SIA Group's first major retrenchment exercise in two decades and was followed by more lay-offs and wage cuts for those that remained. Just six weeks after the initial announcement, SIA posted quarterly losses for the first time in its history.

But nearly as quickly as market conditions deteriorated, the operating environment began to improve. By July, health authorities declared that the SARS outbreak had been contained in all affected areas. Today things are better for SIA, and a jovial Chew is once again smiling broadly. Despite the horrendous first quarter and unprecedented losses in the first half, the group looks virtually certain to maintain its unblemished record of profitability for the full 2003-4 year to March.

"The key thing is how to reinvent our product offerings, service levels and facilities"

The mood at Airline House, the group's headquarters near its hub at Changi Airport, certainly now seems more open and relaxed under its new chief executive. In contrast to his often flamboyant predecessor, the 57-year-old Chew has the reputation as a private person, who colleagues say is warm and approachable but does not suffer fools when it comes to business. He originally joined SIA back in 1972 as the airline itself was being established and has spent much of his career in corporate planning, finance and marketing, quietly working his way up the executive ranks. Over more than 30 years with the airline he is credited with playing a fundamental "behind the scenes" role in building SIA into the success story that it has become.

But despite his outwardly optimistic approach to life Chew says that experience teaches him not to be complacent. "I have been long enough in this business not to relax too soon, because the worst thing is to think that everything is hunky dory and then something will hit the industry from quarters least expected. We saw this with the SARS episode," he told *Airline Business* in his first in-depth print interview since succeeding Cheong.

Indeed, the recent troubles that SIA has encountered are not its only challenges. Labour relations are far from ideal in the wake of the cost-cutting action taken during SARS. Low-fare carriers are finally coming to Asia, threatening to take business away from incumbent full-service operators such as SIA. At the same time, growing long-haul competition is keeping Chew and his executive management team on their toes by challenging SIA's primacy as a sixth-freedom hub carrier. In addition, there is the reality that the strong growth rates SIA has long been accustomed to are unlikely to be witnessed again.

Today, however, he is acutely aware of the threats to SIA's status, particularly from fast-growing rivals such as Emirates that have become long-haul competitors in the important market for flights between Australasia and Europe. "The key thing is how to reinvent our product offerings, our service levels and facilities at Singapore to keep up our competitiveness," says Chew.

He even finds something positive to add of the increasingly competitive environment: "I personally see it as a philosophically desirable aspect of global economic development that there should be free and open competition among players."

Fight for liberalisation

Free and open competition is a message SIA has been preaching for many years, often to deaf ears. The airline has, for example, been shot down repeatedly in long-running attempts to secure rights to operate beyond Australia to the USA, as well as beyond the UK to the USA. But while it may at times appear to be a losing battle, Chew says he will not let up in the fight to bring real liberalisation to the industry.

It is, of course, a somewhat self-serving struggle. Singapore is a city state with a population of just over 4 million, making it vital that the national carrier secure expanded rights to serve new destinations and so maintain its status as one of the world's leading international airlines. Motives aside, however, Chew is convincingly passionate about the need for change. "In an ideal world, we would prefer not to have any restrictions on our ability to fly any route that is economically viable and for which there is a demand for our service," he says. "It should be left to market forces to determine where we can or cannot fly. It is, after all, the same for almost every other industry in the world, but this remains an industry that is rooted in a framework that was formulated in the 1940s."

There is more behind Chew's desire to see liberalisation than enabling SIA to widen its route network. He wants to see ownership regulation changes so the airline can continue pursuing an ambitious – if so far largely unsuccessful – policy of buying into other airlines. It is in making this argument that Chew becomes even more passionate.

"We're now living in the 21st century, when human missions to the moon are no longer fantasies, and yet

we have all sorts of archaic rules and regulations in the industry," he argues.

"Regulation of commercial matters, such as access to markets and freedom to operate where one commercially chooses to, seems to be out of date, and the aviation industry is peculiar in this respect. It is outside the ambit of World Trade Organisation's coverage, and in a day and age when Daimler and Chrysler can merge, where BP can take over Conoco, where Deutsche Bank can acquire Bankers Trust, and even when Renault can manage Nissan, the aviation industry is one in which cross-border ownership is severely restricted and where management and even influence is severely crippled. It is an anachronism. Why? It is no longer an infant, nor a strategic industry that requires protection."

"We are not a financial investor who has nothing to contribute to the operations. We will be a strategic investor"

Still looking to buy

An eloquent and articulate orator, Chew is also a frustrated pragmatist who does not expect significant change to come anytime soon. He insists, however, that SIA's strategy of buying into other airlines will be maintained, at least if suitable opportunities arise. This may come as a surprise to some, given that SIA has already spent, and lost, hundreds of millions of dollars in pursuing that strategy.

In pursuit of its long-running ambitions to enter the Australasian market, in 1999 SIA tried unsuccessfully to buy into Ansett Australia. Instead Air New Zealand (ANZ) took up the stake itself and SIA had to settle for a 25% stake in the New Zealand flag carrier. Ansett collapsed and almost took ANZ with it. The New Zealand government stepped in to rescue its carrier, but SIA saw its stake in ANZ fall to just over 4%. The same year, SIA also purchased a 49% stake in Virgin Atlantic Airways, which suffered badly after the 11 September 2001 terrorist attacks in the USA. In recent years it has also withdrawn from publicised attempts to buy into Air-India, South African Airways and Taiwan's China Airlines.

Some analysts believe SIA should drop its policy of expanding through foreign airline investments. But Chew says it is one that the group must stick to, whether directly through SIA or via subsidiaries such as Singapore Airport Terminal Services and SIA Engineering.

Confined domestic base

"The fact of the matter is that our domestic base in Singapore is confined by geographical limits and although we have very successfully leveraged Singapore's location and Singapore's own economic development to grow to the size that we are today, at the end of the day we are punching above our weight," he says in typically blunt but non-aggressive style.

"To continue growing at a rate that exceeds what would be organic growth, based on our pattern of flights at the moment, we do have to venture, to take positions in companies elsewhere... We do see that as the way to continue forward."

Chew says that "our attention for overseas opportunities still remains focused on China and on India", although adding that "whether anything comes to fruition remains to be seen". Meanwhile, the Australasian market is still key to SIA, which carries a vast amount of traffic between Australia/New Zealand and Europe via its home base. Chew says that North America would also be of interest, but only if the US government eases its highly restrictive ownership laws.

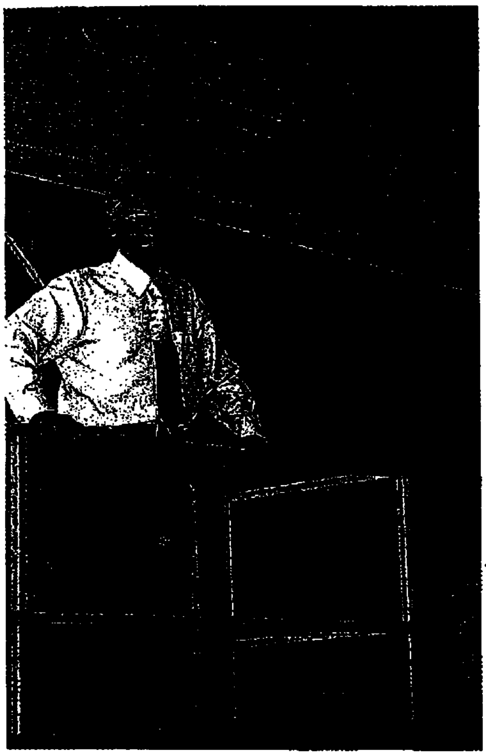
"The sheer size of the American market and the opportunities there, despite it being very crowded, cannot be ignored for anybody who wants to be a global player. But given the restrictions in the USA on the level of ownership and management influence, it's not an attractive proposition," says Chew.

"We are not a financial investor who has nothing to contribute to the operations. In all instances we will be a strategic investor," he says, adding that although the US market is attractive because of its size, "the mismatch between economic exposure and ability to manage our investment limits the appeal".

Direct investment ambitions aside, Chew says SIA has been able to expand its international reach through the Star Alliance, which it joined early in 2000. But, while generally satisfied with the benefits Star has brought, he regards alliances as merely "a substitute – a surrogate for true business combinations.

"That, again, has happened because of the barriers against business aggregation in the international airline business," he says. "So if you accept that Star is a halfway house, it's as good as it gets and you just want it to get better and see where else we can do more together."

Chew also regards a plan to set up a low-fare carrier



in Singapore with foreign partners as being part of its aim of expanding through ownership of other airlines. SIA announced in December that Tiger Airways would start operating in the second half of 2004. SIA will own 49% and its government-controlled main shareholder, Temasek Holdings, 11%. Indigo Partners, the aviation partnership of US investors David Bonderman and Bill Franke, will hold 24%, while Irelandia Investments, owned by the family of Ryanair founder Tony Ryan, will take a 16% stake.

Many analysts believe that Tiger, and other planned start-up carriers such as rival Singapore-based ValuAir, will most affect SilkAir, SIA's regional unit. SilkAir offers a "middle market" product using a fleet of Airbus A320-family narrowbodies that serve secondary destinations. But Chew flatly rejects suggestions SilkAir will not be able to survive.

"The destinations that SilkAir operates to, do not all lend themselves to a low-cost carrier operation. If you look at some of the basic essentials for a successful low-cost operation they would be dense traffic between city pairs that are linked," he says. "Maybe SilkAir's rate of growth may get a bit attenuated because of Tiger Air's flying along a parallel route, but there still is a sustainable base for SilkAir to continue to grow."

Low-fare carriers have yet to take off in Asia in any dramatic fashion, with a handful of notable exceptions such as Malaysia's AirAsia, which is now expanding into other parts of the region. But there have been many recent developments and Chew says low-fare airlines will help develop markets in Asia as they have in Europe and the USA.

"I think it is quite common now in Europe for people to fly, say, from the UK to Rome for a weekend, and do that four or five times a year, whereas previously they might have limited themselves to just once or twice a year. So it's not just broadening the market but increasing the frequencies of travel. To that extent the low-cost model – or to be more specific, an operation like Tiger Airways – will be tapping a different segment of the market than what SIA and SilkAir serve," says Chew. At the same time, the group will continue to invest in SIA as a premium full-service carrier. "It serves a market at the other polar extreme from the low-cost carrier," he adds. "SIA will be the Lexus, SilkAir will be the Camry in between, and my Corolla will be Tiger Airways. It's all under the Toyota family."

Chew also disagrees with those who believe bilateral air services restrictions in Asia and the lack of secondary airports serving major cities will prevent new carriers from being successful. "There has been quietly an increase in the liberalised aviation market here in Asia as well. Not all the bilaterals are wide open, but a good number of bilaterals that Singapore has with the regional counterparts have no restrictions on third, fourth freedom operations. So there will be enough of a base of rights available for Tiger to get started," he says. "It is true that not every city here in Asia will have appropriate secondary airports, but I think the low-cost model can work even though not all the ingredients are similar."

Many believe the advent of low-fare airlines in Asia will force governments to liberalise more quickly, potentially boosting competition further for the majors. With this in mind, SIA vows to maintain its tradition of being innovative, and of having service standards that are among the best in the industry. SIA spends far more than most other carriers on its in-flight product, while constantly modernising its fleet under a strategy that sees it dispose of aircraft after only around a decade, if not earlier.

First A380 operator

It recently took delivery of its first ultra-long-range Airbus A340-500, which it will use to inaugurate non-stop services between its Singapore base and both Los Angeles and New York. It is also adding to the Boeing 747-400 freighter fleet of subsidiary SIA Cargo, which has been responsible for a greater share of group revenue in recent years, while holding talks with Airbus and Boeing about the future make-up of its passenger fleet. Early in 2006, SIA will become the first operator of the 550-seat Airbus A380, while Boeing's proposed 7E7 also has attracted its interest.

The challenges of running SIA extend far beyond the recent downturn caused by SARS – regardless of whether the outbreak returns in some form or not. But Chew says his management team is fully conscious of the issues and will strive to continue "punching above our weight".

"When Singapore Airlines was established in 1972, and at that time the population base must have been 2.5 million or thereabouts, few pundits would have bet on our growing to be among the 10 largest passenger airlines in the world," he says. "The day that we stop having visions or having objectives to work to, then that is the day we atrophy. I can assure you that we have no intention of doing that." ■

The private man

Chew Choon Seng was named chief executive-designate to replace a retiring Cheong Choong Kong in January 2003. He formally took over in June in what was the airline's first top leadership change in nearly 20 years.

Chew joined SIA in 1972 and held senior assignments in Los Angeles, London, Rome, Sydney and Tokyo as he moved up the corporate ranks. His last position before becoming chief executive was senior executive vice-president for administration, responsible for finance, treasury, corporate planning, human resources, and legal and corporate affairs.

Chew earned his first degree in mechanical engineering from the University of Singapore, after which he obtained a masters degree in operations research and management studies from Imperial College in London.

Chew is chairman of aircraft lessor Singapore Aircraft Leasing Enterprise, which is 35.5%-owned by the airline, and former chairman of Singapore public transport company SMRT. He is also deputy chairman of SIA subsidiaries Singapore Airport Terminal Services and SIA Engineering, and is a director on the board of Virgin Atlantic Airways.

FEW POLICY PAPERS OF RECENT TIMES HAVE been as eagerly awaited as the UK government's blueprint for airport development over the next 25 years.

With one in five international airline passengers travelling through a UK airport for part of their journey, the implications of the report stretch far beyond that nation's shores. There are even major implications for international aviation relations, given the central role that access to London Heathrow is playing in the talks between Brussels and Washington on transatlantic open skies.

On top of this, it seems likely that if they want increased flights into Heathrow, airlines may have to invest in more environmentally friendly aircraft. The London airport region arguably faces some of the most severe environmental and congestion challenges in the world, and the paper makes it clear that additional capacity will be accompanied by tougher environmental standards, including noise- and emissions-related charges.

The proposal, outlined in the *Future of Air Transport* policy paper, to award a second runway to London Stansted in 2011-12 had always been seen as the most likely outcome of the report. However, the government's support for a third runway at Heathrow during 2015-20 was far from certain, and although this is dependent on stricter regulations on emissions and noise, airlines are clearly pleased with the outcome.

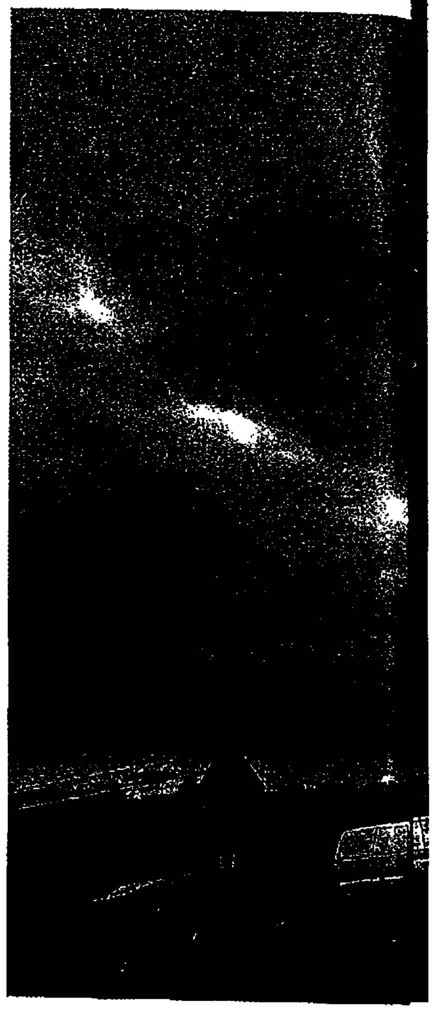
What has delighted, and even surprised, the Heathrow-based carriers, however, is the possibility of a significant capacity boost in the medium term through a relaxation of noise-related operational restrictions. At present, Heathrow's two runways are generally used in segregated mode, with one used for landings and the other for take-offs. The proposal is to review this system, opening up the possibility of mixed-mode operations.

A fully mixed-mode operation would add around 15% capacity to the airport, although the policy paper hints that mixed-mode during peak hours only is the preferred option. The UK's Civil Aviation Authority and air traffic control provider NATS are working with the government to put forward a consultation document on mixed-mode, as well as the so-called Cranford agreement. Named after the closest suburb to Heathrow, at which a crucial public meeting took place in 1952, the Cranford rules have for decades prohibited easterly take-offs on the northern runway. These would now need to be rescinded before mixed-mode operations could be introduced.

Mixed-mode benefits

The potential benefits of mixed-mode operations are huge, and could have major benefits for international aviation relations. Under the existing US-UK bilateral only two carriers from either side can serve the transatlantic from Heathrow: United and American Airlines, alongside Heathrow alongside British Airways and Virgin Atlantic.

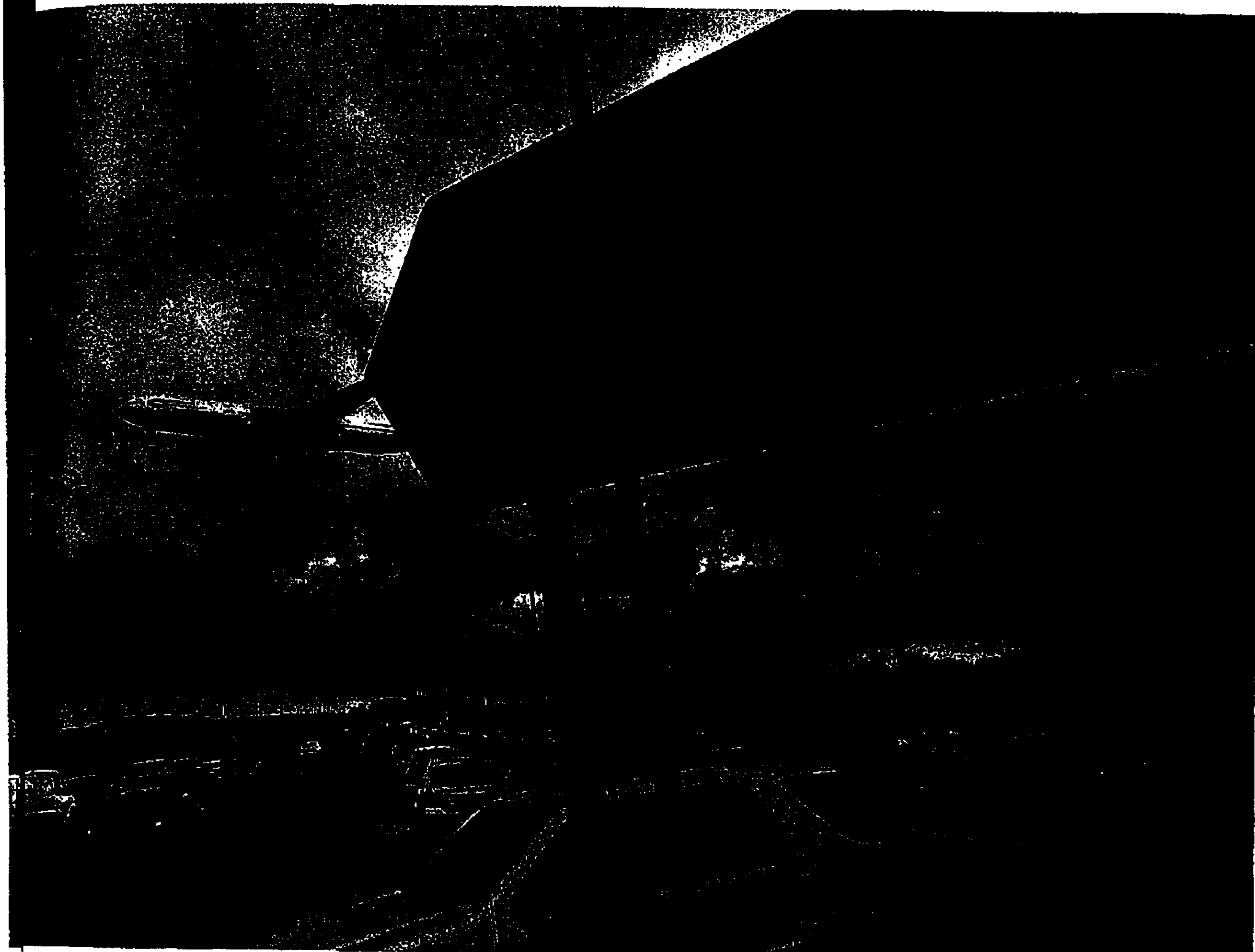
A transatlantic open aviation area would open up Heathrow to Delta, Continental, Northwest and US Airways, as well as new European players, including bmi. As Washington is quick to point



REPORT BY COLIN BAKER IN LONDON

The way forward

The UK's *Future of air transport* policy White Paper has major implications for the wider airline industry



Mark Wagner/Aviation-Images.com

out, however, access rights are meaningless unless there is also access to slots.

Mixed-mode operations would provide a convenient solution to this impasse. Industry insiders estimate that around 20 daily slot pairs would be enough for the US carriers denied access to Heathrow, with Delta, the largest of four carriers, getting six or seven. Providing these slots in a mixed-mode environment would be "easy" according to one observer, and the UK would also be able to liberalise bilaterals with countries such as India and South Africa, where attempts to gain more traffic rights for UK carriers have stalled over the lack of available slots at Heathrow.

There is optimism that it may be possible to make progress on these operational issues around 2008, just as the new Terminal 5 comes on stream, alleviating another capacity problem for the airport – space for passengers.

All this may be fine as far as the industry is concerned, but significant local issues must still be overcome. Alternating runways is designed to give respite to those living below the Heathrow flight paths, with a daily directional switch around at 1500h. Any change to this is likely to meet stiff local opposition at local level.

Community gains

However, the government may be able to offer at least some local communities something in return. Most arrivals approach Heathrow from the east, descending over densely populated areas of south and west London. This was originally designed as a noise abatement measure due to the fact that departing aircraft are noisier than arrivals, but there are many who believe that with modern aircraft climbing swiftly to altitude at a much faster rate than they did 20 years ago, this needs to be looked at again. "It is not clear that long-standing principles still apply," says Andrew Cahn, director of government and industry affairs at BA. "Technology changes, flight patterns change, where people live changes, engine noise levels change. This is a chance to relook at these issues." The government seems to agree and has made clear that alongside the Cranford agreement, westerly preference will be reviewed – whereby aircraft approach from the east over London in both westerly winds and winds from the east of up to 5kt (9.3km/h).

London's airports face some of the most severe environmental and congestion challenges in the world

While mixed-mode would free up capacity in the medium term, a third, short runway around 2015-20 is a distinct possibility, but would require environmental criteria to be met. On the noise