



**Sydney Airports
Corporation Limited**

7 February 2003

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

Dear Mr Grimwade

Qantas and Air New Zealand Proposed Alliance

Thank you for the opportunity to provide a submission to the ACCC's assessment of the proposed alliance between Qantas and Air New Zealand.

Sydney Airports Corporation Limited (SACL) is clearly concerned to ensure that air traffic is maintained and expanded through Australia's major airport.

The New Zealand market is significant to SACL, with trans-Tasman routes representing 21 percent of international capacity through Sydney. Of this, Qantas and Air NZ account for some 84% of the seat capacity.

On balance SACL supports a commercial alliance between the two carriers, though we would make a number of observations in relation to the proposal.

The alliance is based on the assertion that, without the proposed commercial relationship, Air New Zealand would collapse. While this may not be the only feasible outcome, it is possible in the current uncertain world aviation environment, where continued airline consolidation is likely to occur in response to very difficult operating conditions. Moreover, Australia's economic interest in the broad sense would be expected to benefit from having a strong flag carrier in Qantas, which would be better placed to compete in a difficult world market. In addition to benefits from business efficiencies, the alliance partners would derive a competitive advantage from the strength of the route network into Australia and New Zealand and greater geographical catchment.

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In the medium term, improving coordination of the operations of the two airlines would rationalise their services using Sydney Airport, thereby mitigating capacity constraints at the airport. This may defer the need for additional capacity and enhance the efficiency of the airport's operations for a period. Given the importance to Australia as a whole of Sydney Airport, we would expect this to provide an overall public benefit for a period of time.

SACL notes therefore that, while the alliance is expected to bring a range of public benefits, the most significant benefits are likely to be cost savings to the two airlines through coordinating operations and avoiding duplication. SACL notes, however, that these efficiencies are not expected to be passed on to travelers through lower airfares, with fares expected to rise under the alliance, even with the influence of an expected low-cost competitor. Consistent with maximising the benefits of the alliance to the travelling public, it would be appropriate to monitor and review the authorisation after an initial period to assess the impact on average benchmark fares and seat capacity.

Moreover, given that the outcomes in terms of air fares under the proposal are contingent upon the entry by a low-cost airline to the Australia/New Zealand market, it is appropriate to consider the strength of the undertakings proposed by the carriers in relation to facilitating such an airline's operations.

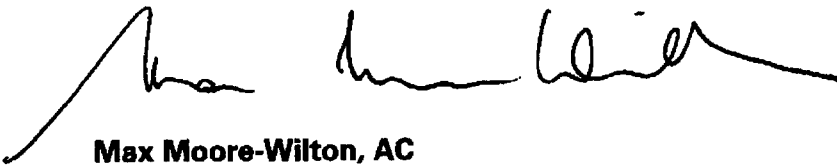
SACL notes the undertakings proposed by Qantas and Air New Zealand to the ACCC on 24 January 2003. However, the undertakings provide for access to facilities for a maximum of twelve months only, and are subject to a number of important qualifications including services that cannot reasonably be provided because of existing schedules or business requirements. These undertakings do not, in our view, provide sufficient safeguards regarding access to facilities. A low-cost airline may require more than a year to establish operations, and the alliance's schedules and business requirements may be inconsistent with the operational needs of a competitor during a reasonable establishment period.

In our view, the market needs some time to adjust to the operations of the proposed alliance. However, it would be prudent for the Government to

consider whether any further liberalisation of key air routes is warranted after a reasonable period of consolidation.

Overall, SACL supports a commercial alliance between Qantas and Air New Zealand. However, SACL also supports a pro-competitive aviation market, both in Australia and internationally. It is therefore imperative that the undertakings given by the parties are tested and reviewed within a reasonable period of time.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Max Moore-Wilton', written in a cursive style.

Max Moore-Wilton, AC
Chairman and Chief Executive