



Our Ref: 4-98

Your Ref:

Direct Telephone
(03) 6216 1630

24 August 2004

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

BY FACSIMILE: 02 6243 1211

Attention Ms Isabelle Arnaud

Dear Sir/Madam,

AUTHORISATION APPLICATION A30232 - BARA

Thank you for your letter of 12 August 2004.

For the reasons set out below our Company strongly objects to the application, and reserves its right to negotiate directly with the Airlines, Qantas and Virgin Blue.

In objecting, it should be noted that both Airlines are valued partners in providing transport services to Tasmanians, the wider business community, and the tourism sector. Good working relations are, of necessity, maintained locally and with key corporate personnel, from both Airlines. Critical to this objection is the relative size of regional international airports, compared to most capital city airports, with substantial international and domestic traffic.

Tasmania, as a regional destination, is somewhat unique when compared to other capital city airports. Distinguishing features include the following:

1. Tasmania is mainly serviced by the two domestic airlines, Qantas and Virgin Blue, with Rex operating from Devonport and Burnie;
2. Effectively, Tasmania does not have international flights;
3. Unlike most other regions, the two Tasmanian RPT airports, Hobart and Launceston, are located in reasonable proximity to each other;
4. Tasmania is essentially a holiday destination market;

5. Both airport operating companies are wholly reliant on aeronautical revenue to maintain their financial viability and are, in reality, small business enterprises; and
6. The conduct of both Airlines to date, in their dealings with our Company, does not support allowing collective bargaining.

Airline customers in Tasmania have a limited choice in their preferred method of travel. The two choices are either the Bass Strait ferry service, or air transport. Similarly, our Company is limited to, and reliant upon, the decisions of Qantas and Virgin Blue as to capacity, frequency, service levels, and pricing. Experience has established that the two regional airport operating companies have little bargaining power, and the intervention of the State government often has to be sought to assist in resolving issues associated with the above matters. Further, there are no other Airlines operating into Hobart and Launceston, which could provide greater consumer choice, or commercial tension. International traffic into Tasmania is limited to four charter flights per annum, however, a likely outcome is a demand for new infrastructure and services that are uneconomic, and for which the Airlines are unwilling to pay. In reality our Company stands ready to facilitate any new international flights, as indeed it does with new domestic routes.

The close proximity of Hobart and Launceston Airports gives the public real choice as to where they depart from, and arrive into, the State. The holiday destination market, largely comprising fly/drive packages, emphasises this situation, as a circular journey around the State can commence at either destination. When Virgin Blue commenced operations from Launceston Airport, rather than Hobart, our RPT base declined 20%, and only returned when Virgin Blue commenced operations from Hobart. To this day Tasmanians, and tourists, choose between Hobart and Launceston Airports, according to Airline and Airport pricing regimes.

The two Airlines do exploit the above situation by routinely indicating that, unless their commercial terms are accepted, then they will direct capacity and resources to the other Airport. For example, Virgin Blue originally requested free accommodation and aeronautical charges at Hobart and, when this was declined, commenced operations at Launceston Airport.

Previously published accounts establish that both Hobart and Launceston Airports are small enterprises, with almost all revenues being derived from aeronautical reliant activities.

Whilst good working relations are maintained with the Airlines, particularly at the critical local level, smaller airports, such as Hobart and Launceston, are relatively low on an Airline's horizon. As a consequence of this situation both Airlines have failed to acknowledge and finalise leases for critical infrastructure for over four years. Letters and other communications remain unacknowledged. What action does occur is more a consequence of personal contacts, or the occasional situation where it suits the particular Airline to advance, or conclude, an outstanding matter.

Our Company has no knowledge of BARA and its negotiating role. Its personnel, unlike those of the individual Airlines with whom regular communications are maintained, do not have any awareness of local issues and characteristics. Whilst corporate communication with the Airlines is minimal, the intercessions of a third party would not only further exacerbate this situation, but brings with it the inherent danger that the Airlines would simply choose, as a matter of convenience, to adopt the views put forward by BARA, irrespective of their local applicability. As BARA would have no contractual powers the question arises as to why the application should be granted. Our contractual relations are direct with the relevant Airlines, and our Company would insist on this continuing.

Our Company does not object to BARA continuing its important representative and lobby role, in responding to industry issues.

Critically, the decision making factors that may be applicable to Sydney, Melbourne and Brisbane international Airports etc, would be unlikely to apply to smaller regional international airports. Whilst it is claimed that there would be no "...collective boycott organised by BARA...", the reality is more likely to be that, with only two Airlines operating in the State, they themselves will adopt a common approach to issues.

The practice of most, if not all Airports, is to offer their facilities and services on common terms, with both Airlines having the benefit of the best access and use conditions negotiated by or other of the Airlines.

The Commission has previously refused a similar Application by the hire car companies (albeit, it was not to interpose a representative body to conduct negotiations). Our Company recently concluded five-year agreements with the car rental firms on an individual basis, with the best negotiated terms being included in a final common agreement.

The following matters undermine the public benefits submitted by BARA:

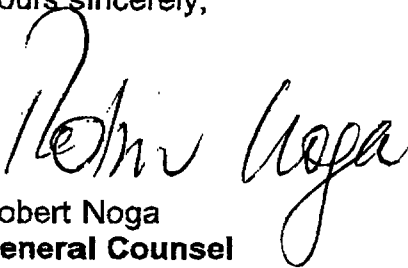
1. The Airports do not act collectively but rather competitively and, particularly in the case of Hobart and Launceston (Brisbane and Coolangatta), competitive tensions are real and apparent;
2. In the case of many regional airports, market power rests with the Airlines;
3. Transaction cost savings will not accrue, as the Airports are unlikely to agree to the AAA representing them and, in any event, will insist on direct dealings with the Airlines;
4. The recognition given to the consumption of essential airport services in a "non rival" way supports our assertion that all Airlines operating through Hobart Airport enjoy the best conditions negotiated by any particular Airline. Equal terms do not mean that each Airline does not have different demands for accommodation and access to infrastructure. Accordingly, the consequences of "...aggregate requests of airlines..." will remain;
5. In servicing international flights our Company provides whatever services the Airlines want, often without charge; and

6. All BARA members may access Hobart Airport on common terms and conditions.

In the case of Hobart Airport, significantly improved outcomes would be achieved if the Airlines were prepared to sit down with our Company and strategically plan future accommodation and infrastructure needs, on a cooperative basis. Duplication and overlap could be avoided, and investment targeted to achieving critical outcomes. The interposing of BARA will not improve the situation, nor lead to strategic outcomes.

Airport/Airline working parties could more effectively achieve the outcomes BARA seeks.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Noga". The signature is written in a cursive, flowing style with a large initial "R".

Robert Noga
General Counsel