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Company: **Australian Competition and Consumer Commission**

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Date: **12th May 2006** Total Pages: **12**

Subject: **As per attached letter**

Attached is Melbourne Airport's comment on Authorisation of the Qantas Airways and Air New Zealand Tasman Networks Agreement (A91001, A91002, A91003).

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11 May 2006

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

By facsimile: 02 6243 1211

Dear Sir

Authorisation of the Qantas Airways and Air New Zealand Tasman Networks Agreement (A91001, A91002 and A91003)

Thank you for the opportunity to provide comment upon Qantas and Air New Zealand's (the Applicants) application to have their Tasman Networks Agreement (TNA) authorised under section 88 of the *Trade Practices Act 1974* (the Act).

Melbourne Airport does not support this application for the reasons set out below.

Melbourne Airport has been, and continues to be, a strong advocate of deliberate policy actions to increase competition in both domestic and international aviation markets – this application runs contrary to such an approach. We facilitated the entry of both Virgin Blue and Impulse into the Australian domestic market through the construction of the Domestic Express Terminal, and ensured Virgin Blue could expand after the collapse of Ansett when we took decisive early action to recover the old Ansett Terminal from the Ansett Administrator. We have consistently worked with the Victorian Government to encourage foreign carriers to increase their services through Melbourne Airport. We have been strong advocates, sadly often to no avail, to increase access for international carriers in markets to and beyond Australia. In particular, we support the current efforts to increase capacity between Australia and the United Arab Emirates that is being discussed at an inter governmental level.

The Applicants have relied heavily upon the reasoning of the Australian Competition Tribunal (the Tribunal) when it considered whether Qantas should be permitted to acquire a substantial shareholding in Air New Zealand. In relation to that matter we note:

1. The conduct that was under consideration in that case was very different to what is proposed here and involved different legal and economic issues.
2. The reasoning of the Tribunal is untested in court and is not entirely consistent with other relevant authorities such as the Commerce Commission and the High Court in New Zealand.

Further, as discussed below, the trans-Tasman market has not necessarily developed as the Tribunal expected and faced with the market facts as they now are, the Tribunal may have come to a different view. Indeed, the market has developed more in line with the view expressed by the Chairman of the Commission in September 2003 when he said:

"it remains to be seen whether Emirates emerges as a permanent feature of the market. Depending on the rate and scale of Virgin Blue's entry the alliance could be expected to dominate the market for some time"¹

Melbourne Airport believes that it is therefore appropriate to approach this matter *de novo* rather than treat it as a reconsideration of the previous one as seems in places to be the implication of the Application.

Market Definition

Before turning to the questions posed by the Commission we would draw the Commission's attention to the inadequacy of the Applicant's market definition. We accept that the nine routes identified in paragraph 7.3 of the Application may well constitute a single market – indeed as a matter of policy all routes in Australian and New Zealand are a part of a Single Aviation Market (SAM). However the Commission should give careful consideration as to whether there are any relevant submarkets. In particular, we would suggest that there are at least three relevant submarkets:

- Victoria (maybe plus Tasmania and South Australia)–New Zealand;
- New South Wales–New Zealand; and
- South-east Queensland–New Zealand.

This is not to say there is no substitution between Sydney, Melbourne and Brisbane/Coolongata Airports for passengers travelling into and out of New Zealand. Rather, given the relative short journey times, such opportunities are sufficiently limited to form the view that there are distinct albeit overlapping geographic submarkets worthy of detailed consideration.

Similarly there may also be relevant submarkets in New Zealand, especially as it is likely that the purpose for travel may be different for major ports. For example, it is likely that Auckland and Wellington are relatively more important business markets. Also within New Zealand there may be opportunities for substitution between the major airports and secondary ones for example Dunedin and Queenstown with Christchurch, Palmerston North with Wellington and Hamilton with Auckland.

The TNA represents a significant reduction in capacity in each of the Australian submarkets identified above. With the exception of routes involving Christchurch (where Pacific Blue is most active and the Applicants are actually increasing capacity) we estimate the reduction of seat capacity on routes of between 9% and 33%. The TNA creates a monopoly for Qantas on the Melbourne-Wellington routes which, for reasons set out elsewhere in this submission, seems unlikely to be contested by other carriers in the foreseeable future.

The following table sets out estimates of capacity reduction by the Applicants under the TNA. In each cell, the first number is the increase (reductions being negative) in weekly frequency by the Applicants taken jointly, the second the increase in the number of seats and the third the percentage increase in seats.

¹ ACCC (2003) "QANTAS/Air New Zealand Alliance 'Not in Public Interest'". Press Release, 9 September 2003.

	Auckland	Wellington	Christchurch
Brisbane	-6 -750 -11.6%	-2 -482 -33%	+2 +168 +7%
Sydney	-13 -2,144 -14.3%	-3 -382 -10.3%	NIL +56 +1%
Melbourne	-1 -1,215 -14.6%	-1 -182 -9.1%	+2 +199 +7.2%

Table 1: Capacity Reductions by Applicants Under the TNA

Source: Airport Coordination Australia, RATI (Air Transport Intelligence), Qantas website, Air New Zealand website and http://www.airnewzealand.com.au/resources/tasman_mot_application_public1.pdf

The remainder of this submission focuses mainly on issues related to the Victoria-New Zealand submarket.

State of the market

Passengers travelling to and from New Zealand accounted for one quarter of Melbourne Airport's international traffic in calendar year 2005. The following table sets out the numbers of passengers coming from or going to various New Zealand ports in calendar years 2005 via Melbourne Airport on each route.

	Arriving	Departing	Total Passengers
Auckland	336,090	330,264	666,354
Wellington	64,783	66,942	131,725
Christchurch	129,860	130,443	260,303
Others	17,948	17,948	35,896
Total NZ Ports	548,681	545,597	1,094,278

Table 2: Passengers Arriving and Departing Melbourne Airport 2005

Source: Melbourne Airport

The following table sets out the proportion of seats provided on each route through Melbourne by the Applicants and their competitors in calendar 2005.

	Auckland	Wellington	Christchurch	Others	Total
Qantas	35%	45%	19%		31%
Jetstar			3%		1%
Qantas Group	35%	45%	22%	0%	32%
Air New Zealand	43%	55%	35%		41%
Freedom				100%	3%
Air NZ Group	43%	55%	35%	100%	44%
Total Applicants	78%	100%	57%	100%	76%
Emirates	22%		24%		19%
Virgin Blue			19%		
Total Non-applicants	22%	0%	43%	0%	24%

Table 3: Seat Capacity by Airline to and from Melbourne Airport 2005

Source: Melbourne Airport

Emirates has since discontinued operations from Melbourne to Christchurch leaving the Applicants providing 80% of seats on that route in the four months to 30 April 2006. Melbourne Airport is not aware of any plans on the part of Emirates or any other carrier to commence new operations on that route. The Applicant's seat share to Auckland in the same four month period in 2006 has increased to 82% largely as a result of the introduction of Melbourne-Auckland-Los Angeles services by both Applicant groups around the time of the Commonwealth Government's decision not to allow Singapore Airlines to operate on the Pacific Route. During this period Thai Airways and Malaysian Airlines have both discontinued services between Auckland and Sydney.

A key fact is that the Applicant's load factors were significantly higher than those of their competitors² and, in Melbourne Airport's experience, are of the order usually associated with sustainable operations. In the Victoria-New Zealand submarket the Applicants both dominate market share and have higher load factors than their competitors.

The Commission has specifically asked how the market has changed since October 2004. The following table sets out the number of seats provided by each carrier in October 2004 and April 2006. More detailed information is provided in the Attachment to this submission. It should be noted in October 2004 Freedom provided a total of 4,502 seats between Melbourne and Dunedin and Palmerston North – these services were discontinued in March 2006.

	Auckland		Wellington		Christchurch	
	Oct-04	Apr-06	Oct-04	Apr-06	Oct-04	Apr-06
Air New Zealand	32,880	32,460	9,636	8,760	12,556	9,928
Qantas	31,180	37,623	7,607	7,084	7,171	
Jetstar						13,275
<i>Qantas group total</i>	<i>31,180</i>	<i>37,623</i>	<i>7,607</i>	<i>7,084</i>	<i>7,171</i>	<i>13,275</i>
Applicants Total	64,060	70,083	17,243	15,844	19,727	23,203
Emirates	22,944	15,480			13,416	
Pacific Blue					7,832	6,052
Total Non-Applicants	22,944	15,480			21,248	6,052
TOTAL	87,004	85,563	17,243	15,844	40,975	29,255

Table 4: Changes in seat capacity to and from Melbourne Airport
Source: Melbourne Airport

Also, it appears that all carriers experienced marginally or significantly higher load factors in April 2006 than they did in October 2004.

Where the Qantas Group has encountered competition from Emirates and Pacific Blue it has responded by expanding seat capacity by 21% to and from Auckland and 85% to and from Christchurch. On both these routes the entrants have responded by reducing capacity and indeed Emirates has exited the Christchurch route as mentioned above. On all routes Air New Zealand has reduced capacity, most noticeably Christchurch.

We do not have access to adequate information to form a definitive view on pricing conduct in the market since the Tribunal's decision of 2004 although we suspect that it is relevant to understanding the data set out above. This is a key consideration in understanding the ability of other carriers to constrain the conduct of the Applicants if the TNA was to be authorised. We would urge the Commission to obtain that information from market participants and consider it fully prior to publishing its draft determination.

It is also interesting to note that on the Wellington route (where the Applicants have not been subject to competition and under the TNA would create an effective monopoly for Qantas) the Applicants have both reduced capacity with the combined effect of reducing seats on the Melbourne-Wellington route by 8%. This market managed capacity reduction is of a similar scale (in percentage terms) as that the Applicants seek to bring about in the Victoria-New Zealand submarket under the TSA.

Barriers to entry and expansion

Trans-Tasman air services competition has been a matter of ongoing policy debate despite the 1996 agreement by the Governments of Australia and New Zealand to the SAM agreement. The

² Confidentiality undertakings to its airlines customers prevents Melbourne Airport provide the Commission with detailed information on load factors.

SAM gives the carriers of both sides substantial commercial and operational flexibility, including the ability to code share on other airlines operating within the market. The rights provided under SAM add to those enjoyed by the carriers under bilateral entitlements negotiated by their respective governments.

The effect of the TNA is to allow two foreign designated airline groups (each with multiple carriers) to enter into operational, scheduling, pricing and customer loyalty arrangements without merging. Melbourne Airport is not aware of similar examples of market concentration anywhere in the world. It would be of great concern if this matter were to set a policy precedent for other markets in which Qantas and its partner airlines are dominant such as those to Japan and North America.

Melbourne Airport supported the acquisition of part of Air New Zealand by Qantas in 2003 on the proviso that there was significant progress in liberalising international aviation markets. Since that time Melbourne Airport has been disappointed in the progress made by successive Commonwealth Ministers, especially in relation to increasing competition on the Pacific to North America and providing more capacity under the air services agreement with the United Arab Emirates. It is a matter of public record that Qantas has been one of the strongest opponents of further aviation market liberalisation.

Further, whilst a number of Australia's international services agreements provide fifth freedom rights they do so in a restricted way. This restricts the ability of carriers to provide direct carriage between Australia and New Zealand. For example, as set out in Annexure E to the Application, agreements with the following countries contain significant restrictions on trans-Tasman operations:

- Argentina – only Auckland and limited to 2,800 seats per week
- Brunei – only Auckland and only from Darwin and Brisbane, the latter limited to 1,050 seats a week
- Chile – 2,000 seats per week
- Cook Islands – 500 seats a week
- Indonesia – only Auckland and not via Sydney, Melbourne or Perth

Restrictions imposed under international air services agreements force carriers into commercial arrangements with respective national carriers for passenger and air freight movements between and within Australia and New Zealand. This is an important issue for the Commission to consider and we would urge the Commission to seek detailed formal public input on these issues from the Department of Transport and Regional Services prior to publishing its draft determination.

Recent conduct by both the Government and a number of carriers throws into question whether significant further policy liberalisation can be expected in the near future, and in particular in relation to those routes which might increase competition on the Tasman. It is our view that the current stance of the Commonwealth Government's international air services policy is a significant barrier to entry to the trans-Tasman market. Until it is reformed, the Commission should not authorise the TNA.

Ability of non-applicants to constrain conduct of applicants

Foreign Carriers

Market evidence suggests that even if there was significant policy reform that impacted on the trans-Tasman market fifth freedom operators struggle to sustain a position in the market. In recent years a number of foreign carriers have entered the trans-Tasman market only to subsequently exit including

- EVA Air - three flights a week from Brisbane to Auckland
- China Airlines - daily services between Sydney and Auckland
- Thai Airways - daily between Sydney and Auckland and three flights a week between Brisbane and Auckland
- Malaysia Airlines - five flights a week between Brisbane and Auckland
- Polynesian - two flights a week between Sydney and Auckland and one flight a week between Melbourne and Wellington, then on to Samoa.
- Canada 3000 - two flights a week between Sydney and Auckland
- Air China - three flights a week between Auckland and Sydney.

From the point of view of the Victoria-New Zealand submarket, it is important to note that virtually all of these services did not involve Melbourne.

The withdrawal of Emirates daily service from Melbourne to Christchurch (the aircraft is now parked at Melbourne Airport for around 12 hours) throws into doubt the argument advanced by the Applicants that marginal cost pricing on the part of carriers will constrain their conduct. Emirates continues to operate a daily service from Sydney to Christchurch but it appears that Emirates only has enough passengers to sustain one service from Australia to Christchurch. It may well be the case that the demand for this service is not driven by Australia New Zealand origin destination traffic but rather demand to travel to Christchurch that emanates from other parts of Emirates global network. Because of its network structure, Emirates can consolidate passengers travelling to Christchurch and route them through Sydney. We believe Emirates chose to do this through Sydney and not Melbourne because an aircraft parked at Sydney will attract a parking charge of \$35 per fifteen minutes whereas it can park at Melbourne for free.

We would ask the Commission to consider carefully the claims made by the applicants about fifth freedom carriers in the light of past experience. In addition to any restrictions imposed on their operations by air services agreements, our experience is that the availability of the aircraft is determined by precisely the same network considerations elsewhere in the world that the Applicants claim locally constrain their ability to adjust to market circumstances.

Other carriers' operations on the Tasman are determined primarily by wider global network considerations. As a result they are not able to provide the level of frequency that the Applicants can and their large aircraft are not necessarily suited to the relatively short routes involved in this market. We would also advise the Commission that a large number of the aircraft that might be available to operate fifth freedom services are too large to safely operate through Wellington Airport. This means their ability to constrain the conduct of the Applicants may well be at best incidental. The fact that there are aircraft sitting on the ground in Melbourne which could be flying on the Tasman must bring into question the claims of the applicants.

The Applicants seem to suggest that their network business models restrict their ability to adapt to changing market circumstances. Their choice of business model, and the ongoing existence of those business models, is an irrelevant issue. Unless the existence of such business models relative to the alternatives can be demonstrated to be clearly in the public interest it is not a reason to grant this authorisation.

Further, in establishing Jetstar, Qantas has demonstrated that network carriers are not restricted to their traditional business models. In addition, Qantas is particularly adept at re-organising its network and schedules, including changing the size of aircraft used on particular sectors. The Applicants operate a number of different wide body and narrow bodied aircraft on Tasman routes and will continue to do so under the TNA. The Applicants are also significantly advantaged with

respect to fifth freedom carriers by virtue of their extensive domestic networks on either side of the Tasman.

The market developments discussed above would indicate an ability on the part of Qantas to adapt to changing market circumstances in a very successful way by combining its wider network (with services through to North America) with its low cost subsidiary on leisure routes – a subsidiary it now proposes to equip with long range wide body aircraft and deploy on international routes.

Pacific Blue

The only services Pacific Blue operates from Melbourne currently are four flights a week to Christchurch³. Similarly, its only services from Sydney and Coolangatta are also to Christchurch with six and two services a week respectively. Brisbane, the home of Virgin Blue, has less than daily services to Auckland and Wellington although it flies better than daily to Christchurch.

In the quote above the Chairman of the Commission appears to have been expressing some reservations as to the scale of the roll out of Virgin Blue's international operations (currently operated under the brand name *Pacific Blue*). It does appear that the roll out has been more modest than might have been believed in 2003-2004.

We note Pacific Blue operates no services at all from Adelaide, Canberra, Newcastle or Tasmania at this stage. The only route avoided by the Applicants that Pacific Blue has developed services on is Coolangatta-Christchurch which are relatively limited. Pacific Blue also appears to have avoided those routes where the Applicants have a strong presence with wide-bodied aircraft operating through to the United States (Melbourne-Auckland and Sydney-Auckland).

The Applicants have argued that Pacific Blue/Virgin Blue have particular advantages in relation to their "point to point" model that network carriers do not have. Yet a cursory glance at the schedule information on Virgin Blue's website creates a very strong impression that in relation to servicing New Zealand, its approach is not particularly different to that of the Applicants. That is they operate direct services from Sydney, Melbourne and Brisbane with connections from everywhere else. Further, as note above, Qantas has been able to successfully establish Jetstar as a successful low cost carrier which can compete fully with Pacific Blue.

Extent of benefits claimed by Applicants

It is difficult to see how the TNA could bring about lower fares. However, as discussed above, if the Commission is of the view that other airlines lack the market presence to restrict the conduct of the Applicants under the TNA then it is clear that the TNA presents a clear risk that fares may increase. This is especially relevant on those routes where historically the Applicants have operated a duopoly (such Wellington-Melbourne).

The current levels of competition may provide some discipline on the Applicant's ability to increase air fares above competitive levels. However, there is little evidence to support the contention that the authorisation sought will result in lower air fares. The more likely scenario is that Qantas and Air New Zealand continue to charge prices subject to the prevailing competitive conditions. As a consequence, any cost savings are more likely to be retained as profit rather than lower air fares. There is a risk that in the long run that the Applicants competitors will allow fares to drift up especially if significant barriers to entry remain and the Applicants do not respond by expanding capacity themselves.

A key reason for this outcome is the fact that neither Qantas nor Air New Zealand is at any particular competitive disadvantage compared to rival airlines. As such, the Applicants already

³ The Virgin Blue website indicates these will be reduced to three per week from 1 October 2006. See <http://www.virginblue.com.au/flightInfo/schedules/index.php?period=260306-281006&currCity=MEL>

compete with other airlines on at least an equal footing. The proposed authorisation is likely to enhance their competitive position over other airlines. As the Applicant's claim, their pricing is disciplined by the level of competition from rivals and as such there is no incentive for the Applicant's to pass on the benefits of their enhanced competitive position in the form of lower air fares. On routes where they effectively act as a duopoly, the Applicant's under the authorisation have every incentive to restrict capacity and increase air fares.

It is difficult to clearly identify from the Application what benefits the Applicants believed flow from the TNA so we shall briefly address the list of benefits announced by Air New Zealand in the table below. It is reasonable to assume that the Applicants would believe that similar benefits would flow on the western side of the Tasman Sea.

Claimed benefit	Commentary
Air New Zealand customers currently have the choice of 134 Tasman departures per week. Under the proposed code share with Qantas this would increase by 63% to 218 departures.	The reality is that Qantas and Air New Zealand customers have always been able to choose between both carriers, only now there are less services
Better loyalty programme advantages (can earn and redeem points on 63% more flights across the Tasman).	It is likely that many loyalty programme members are members of more than one programme and can already access this benefit
Better schedule spread (access to 63 % more flights a week across the Tasman).	There are in fact fewer flights for passengers to choose from. Schedules from Melbourne to Christchurch and Wellington are effectively unchanged. It is arguable that replacement of 6:15pm departure from Auckland with a midday departure improves the schedule, especially for business travellers. Wing tip flying has been eliminated on Melbourne-Wellington but only because the TNA effectively creates a Qantas monopoly on that route
Greater range of connecting options and enhanced seamlessness of service.	Melbourne Airport believes interlining is already available between Qantas and Air New Zealand – the greatest problem with connectivity is probably the fact that domestic services operate from different terminal to international services at many relevant airports.
Potential for new destinations and improved frequencies.	No new routes are being flown and indeed, Freedom has recently discontinued services to Melbourne.
Cost savings from extraction of capacity (removal of two aircraft from the Air New Zealand fleet and one from Qantas) will allow sustainability of low fares.	There is no evidence present about fares being lower. Cost savings may well be achieved but these are benefits private to the shareholders of Qantas and Air New Zealand. Further, if the Applicant's argument fifth freedom carriers and Pacific Blue are the price setters in this market is true then the Applicants cost structure should have no effect on fares!
Air New Zealand currently uses 1.78 million barrels of fuel a year on the Tasman. This will be reduced by around 100,000 barrels annually under the proposed code share.	This is a direct consequence of capacity reduction rather than increasing the efficiency of aircraft. Similar claims can be made about any factor inputs.
Enhances Air New Zealand's financial position, and provides it with a sustainable base from which to continue to grow and develop its wider network. A strong and secure Air New Zealand is vital to promoting New Zealand as a tourist destination offshore and taking our nation's goods to the world.	This is a benefit to the shareholders of Air New Zealand - the link to tourism generally is tenuous.

Table 5: Discussion of benefits claimed by Applicants

Source: Air New Zealand (2006) "Air New Zealand and Qantas apply to co-operate on Tasman", Press Release 12 April 2006, Melbourne Airport

Clearly, some of the claimed benefits are private to the Applicants or at least their shareholders – Melbourne Airport does accept that these may be real and commercially material. We also note as

part of the TNA Air New Zealand will redeem a substantial volume of convertible notes at face value which will create significant value for Qantas shareholders⁴.

A number of the others benefits identified by the Applicants are already available to consumers by simply exercising existing choices in the market – the TNA creates no additional benefits for consumers in relation to these regards.

The question that the Commission must ultimately answer, bearing in mind the recent judgements of the Tribunal, is in the absence of material public benefits are the private benefits that will accrue to the Applicants of a scale and nature to outweigh the potential damage to consumers arising from a reduction in capacity and the risk that prices might rise. This is not an easy task and one that has not been made easier by the Applicants failure to provide a meaning counterfactual to authorisation.

Possible Counterfactual

Despite the Application having a section entitled "Factual and Counterfactual" the Applicants fail to set out a counterfactual. This matter goes to the heart of the approach that has been adopted by the Commission and the Courts in administering this part of the Act. No evidence or arguments are advanced as why the TNA will deliver a better outcome in resolving the problems confronted the Applicants (which are not necessary problems for consumers) than simply allowing the market to operate in the same way as it has over recent years.

The Act, and in particular Part IV of the Act, is based on the policy presumption that competitive outcomes are preferable to collusive ones. Consideration of any authorisation must by necessity consider the market based outcomes that would occur absent the authorisation. The Applicants have not addressed this issue in any meaningful way and as a result the Commission will need to develop its own analysis in this regard. To assist the Commission we make the following observations.

As mentioned above, the TNA covers routes which are part of the SAM. The Applicants have characterised the situation in the trans-Tasman submarket as one where as a result of government policy to increase competition they are subject to competitive entry from operators who do not carry the burden of network operations. The Applicants have sought authorisation to agree on schedules and pricing (and other things) because, they argue, their network business models restrict their ability to adjust to this market outcome which is the intended consequence of the policy of governments on both sides of the Tasman. It is implicit in their argument that the maintenance of their network businesses, or at least their co-ordinated adjustment, is in the public interest.

There are strong parallels between this situation and that experienced in another part of the SAM several years ago – namely the collapse of Ansett. The network based incumbents are the same (Ansett was a subsidiary of Air New Zealand at the time), one of the competitors is the same (Pacific Blue is a subsidiary of Virgin Blue) and the competitive pressure has come about as a deliberate act of government policy. Without wishing to underplay the distress that the collapse of Ansett caused to workers and their families, it is our view that the market that has emerged as a result is more competitive, more efficient and delivers better outcomes for consumers than that which preceded it.

It is our view that consideration of the experience in the Australian domestic market since 2001 must be part of the development of any counterfactual to authorisation in this case. It is interesting to contemplate what decision the Commission, the Tribunal and the Courts may have reached if asked to consider a similar application with respect to the other part of the SAM, the Australian domestic market, in 2000-2001. Further, in developing a robust counterfactual, the Commission

⁴ "High Price of Qantas Codeshare", Sunday Star Time, 6 May 2006.

should place heavy weight on what has happened in the market and submarkets in question since the Commission and the Tribunal considered them several years ago.

Conclusion

It is Melbourne Airport's view that

- There has been significant change in the trans-Tasman market since the Tribunal considered it in 2004 and if anything, the position of the Applicants (and other airlines) has strengthened with respect to surplus capacity.
- The competitive discipline provided by other airlines is far less than claimed by the Applicants, and believed by the Tribunal in 2004, especially given the apparent reluctance of the Australian Government to pursue more liberal international air services policies.
- The benefits to consumers claimed by the Applicants are relatively minor and come at the risk of higher air fares. The Applicants are at no competitive disadvantage to rival airlines. Authorisation is likely to enhance their competitive position over rival airlines. This suggests that authorisation will increase the Applicants profits but not improve outcomes for the travelling public.
- The Applicants, especially Qantas, have demonstrated a significant capacity to adapt to changing market circumstances.
- The Applicants have failed to demonstrate that the TNA will deliver a superior outcome to allowing the market to continue to develop as it has in the last few years.

As such, and certainly until such time as there is significant aviation market reform, we believe the Commission should not authorise the collusive conduct proposed by the Applicants in the TNA.

If you wish to discuss this matter further, please don't hesitate to Geoffrey Conaghan, General Manager International Routes on 03 9297 1865.

Yours sincerely



CHRIS BARLOW
CHIEF EXECUTIVE OFFICER

Attachment

	Auckland			Wellington			Christchurch					
	Oct-04	Apr-05	Oct-05	Apr-06	Oct-04	Apr-05	Oct-05	Apr-06	Oct-04	Apr-05	Oct-05	Apr-06
Air New Zealand	32,880	34,390	35,320	32,460	9,636	8,468	9,052	8,760	12,556	11,534	11,680	9,928
Qantas	31,180	29,970	28,366	37,623	7,607	7,018	7,435	7,084	7,171	6,877	7,074	13,275
Jetstar												
Qantas group total	31,180	29,970	28,366	37,623	7,607	7,018	7,435	7,084	7,171	6,877	7,074	13,275
Applicants Total	64,060	64,360	63,686	70,083	17,243	15,496	16,487	15,844	19,727	18,411	18,754	23,203
Emirates	22,944	16,830	15,996	15,480					13,416	15,222		
Pacific Blue									7,832	6,232	6,230	6,052
Total Non-Applicants	22,944	16,830	15,996	15,480					21,248	21,454	6,230	6,052
TOTAL	87,004	81,190	79,682	85,563	17,243	15,486	16,487	15,844	40,975	39,865	24,984	29,255

Table 6: Seat numbers to and from Melbourne

Source: Melbourne Airport

	Auckland			Wellington			Christchurch					
	Oct-04	Apr-05	Oct-05	Apr-06	Oct-04	Apr-05	Oct-05	Apr-06	Oct-04	Apr-05	Oct-05	Apr-06
Air New Zealand	38%	42%	44%	38%	56%	55%	55%	55%	31%	29%	47%	34%
Qantas	36%	37%	36%	44%	44%	45%	45%	45%	18%	17%	28%	45%
Jetstar												
Qantas group total	36%	37%	36%	44%	44%	45%	45%	45%	18%	17%	28%	45%
Applicants Total	74%	79%	80%	82%	100%	100%	100%	100%	48%	46%	75%	79%
Emirates	26%	21%	20%	18%					33%	38%		
Pacific Blue	0%	0%	0%	0%					19%	16%	25%	21%
Total Non-Applicants	26%	21%	20%	18%	0%	0%	0%	0%	52%	54%	25%	21%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 7: Seat market shares to and from Melbourne

Source: Melbourne Airport