



12 May 2006

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

Dear Mr Scott

Thank you for the opportunity to comment on the Qantas and Air New Zealand (and their subsidiaries) application for authorisation in relation to the Tasman Networks Agreement (TNA).

We understand that the TNA involves the co-ordination of activities in respect of any flight operated by Qantas and Air New Zealand (and their subsidiaries) across the Tasman, including scheduling, planning of flights, pricing, code-sharing, frequent flyer programs, processing of passenger baggage, coordinating in-flight offerings and cargo services. Qantas and Air New Zealand claim this is necessary to assist both airlines in reducing costs in order to maintain their competitive position in respect to the trans-Tasman market.

In our view, the competitive environment has changed significantly since the Tribunal's determination on 12 October 2004 with respect to the application for authorisation submitted to Qantas and Air New Zealand in December 2002.

Air capacity between New Zealand and Queensland has gradually increased since 2002, due largely to fifth freedom carriers (such as Emirates) and low cost airlines (such as Freedom Air, Pacific Blue and Jetstar) introducing services across the Tasman. There are currently eight airlines operating 117 return flights per week between New Zealand and Queensland. Along with their subsidiaries Air New Zealand and Qantas hold 77% share of air capacity.

The level of competition on the Auckland-Brisbane route is currently very high, with Air New Zealand, Qantas, Emirates, Pacific Blue, Garuda Indonesia and Royal Brunei airlines operating regular scheduled services. Thai Airways recently ceased operating on the Auckland-Brisbane route noting the high level of competition.

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The level of competition is less on other New Zealand routes into Queensland, particularly to the regional gateways of Gold Coast and Cairns airports. In fact Air New Zealand is currently the only airline operating services from New Zealand to Cairns.

Our preliminary analysis of the planned changes to services by Qantas and Air New Zealand under the TNA indicates there will be a reduction in capacity to Brisbane from Auckland of approximately 12%, reduction from Wellington of approximately 18% and an increase from Christchurch of 12%. Overall, we estimate there will be a decrease in capacity between New Zealand and Queensland of approximately 1,300 seats per week.

It is likely that Virgin Blue and Pacific Blue would monitor this situation closely and investigate opportunities for expansion of their network across the Tasman. Indeed, Virgin Blue, Pacific Blue and Emirates' presence on routes to Brisbane is likely to act as a potential competitive constraint for Qantas and Air New Zealand in terms of pricing and capacity.

We have no specific objections to the proposal and we note some of the potential benefits that may arise should the TNA go ahead. In particular, it has been noted that Qantas and Air New Zealand claim that the TNA will increase the likelihood of new direct services. Such an outcome would be very positive and would help facilitate negotiations with the two airlines for increased point-to-point services from New Zealand to Queensland, especially for regional ports.

The current airline operating environment is particularly volatile and the TNA is expected to strengthen the longer term viability and profitability of Qantas and Air New Zealand services across the Tasman. However, current competition across the Tasman includes third country carriers (eg Emirates) that have the ability to withdraw from the route at any time.

Should the Tribunal determine that approval be granted for the Qantas and Air New Zealand TNA, it is suggested that consideration be given to limiting the approval period to a maximum of five years to allow for a full review of the competitive environment after that time.

Yours sincerely



IAN MITCHELL
Chief Executive Officer

