

The Hon Patrick Conlon MP  
Member for Elder

**MINISTERIAL**

06MTR/2169  
MTR/06/0052

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Dear Mr Gregson

**Qantas and Air New Zealand applications for authorisation A91001 – A91003**

Thank you for your letter of 25 August 2006 to myself and various officials of my Department seeking comment on the additional material submitted by Air New Zealand in support of its applications with Qantas for approval of the proposed Trans Tasman Agreement (TNA). I apologise for the delay in responding.

The South Australian Government, in its previous submission to you of 11 May 2006, sought to draw the Commission's attention to the fact that few of the arguments in favour of the TNA apply to Adelaide, and that the anticompetitive aspects of the TNA will therefore be unmitigated by the public benefits applying on larger routes. Fundamentally, under the TNA, Adelaide was to suffer the withdrawal of one of only two operators on the Adelaide-Auckland route without enjoying the scheduling and other gains claimed.

The submission suggested the Commission consider measures to reduce this disadvantage. Measures might include limiting the TNA to apply only to those routes where third party competition exists, or requiring undertakings by the carriers on routes on which they are the sole operators not to increase fares above benchmarks established on the contested routes.

The new material contains nothing to suggest the South Australian Government should resile from that view. While Dr Tretheway has made assertions that imply that the TNA will not disadvantage the Adelaide-Auckland route, they are not supported by analysis of the route itself.

For instance, he claims<sup>1</sup> that the presence of a low cost carrier at the end points of a route but not on the route itself will significantly lower fares on the route, and that a higher concentration of full service airlines on the route will increase that effect. The



first circumstance presently applies to Adelaide since Virgin Blue operates at both Adelaide and Auckland but not the route itself. The second circumstance will apply, according to Qantas' submission, if the TNA is approved since part of its effect will be the withdrawal of Qantas from the Adelaide-Auckland route.

The Adelaide-Auckland route was not one of the nine subject to Dr Tretheway's analysis and the South Australian Government does not accept his implication that Virgin Blue's operation of domestic routes to and from Adelaide and other routes (as Pacific Blue) to Auckland exerts pricing discipline on that route. Of the nine routes analysed, Wellington-Melbourne was the only one with similar circumstances in that it is operated by Qantas and Air New Zealand. The effect of the TNA would be that Qantas becomes the sole operator on this route. Even then the circumstances are significantly different in that other parallel Melbourne trans-Tasman routes are operated by multiple airlines including low cost carriers. Adelaide-Auckland is the only trans-Tasman route operated from Adelaide.

Whilst the South Australian Government is not privy to the average fare information necessary to provide supporting analysis, it is clear that it was Air New Zealand's implementation of flights in competition to Qantas that caused service (scheduling) improvements on the route and moderated fares. This seems to be supported by Dr Tretheway in his 2004 report when he suggested<sup>2</sup> that going from two full service airlines to one if there is no low cost carrier on the route might result in fare increases of "roughly 33%".

The South Australian Government recommends that the Commission reject Dr Tretheway's assertion that concentration of full service airlines on routes not directly contested by third parties provides consumer benefits provided that a low cost carrier is present on a parallel route or at the route's end points. That may be the case on some routes but it should be tested on a route-by-route basis before being allowed as justification for general application of the TNA to all trans-Tasman routes.

Yours sincerely



**HON PATRICK CONLON MP**  
**MINISTER FOR TRANSPORT**

30 September 2006