



**Australian
Competition &
Consumer
Commission**

Our Ref: A91227 & A91228
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Mr Brett Johnson
General Counsel
Qantas Airways Limited
Building A, Level 9
203 Coward Street
MASCOT NSW 2020

cc: Jill Henderson, Michele Laidlaw

Dear Mr Johnson

**Virgin Blue Airlines Pty Ltd & ors applications for authorisation A91227 & A91228 –
request for information**

As you would be aware, the ACCC recently issued a draft determination proposing to deny authorisation for a proposed alliance between Virgin Blue Airlines Pty Ltd and Air New Zealand Limited in relation to air passenger services between Australia and New Zealand.

As discussed with Michele Laidlaw this week, the ACCC has received further submissions from the applicants and a number of interested parties since the draft determination. One of the key issues that emerges from those submissions is the impact of Jetstar on competition in the trans-Tasman market.

In order to assist with its assessment of the applications for authorisation, the ACCC is keen to gain a better understanding of the operations of the Qantas Group, particularly the deployment of Jetstar on trans-Tasman routes. To this end, ACCC staff would like to meet with the relevant Qantas and Jetstar staff to discuss the following questions and issues.

Questions and issues

Deployment of Jetstar

1. Please describe the factors the Qantas Group takes into consideration when deciding to deploy Jetstar on a route. Does this differ depending on whether the route is a domestic route or a trans-Tasman route?
2. To what extent are network benefits with Qantas and/or Jetstar flights (both at the international level and domestically within Australia and New Zealand) taken into account when making decisions as to the deployment of Jetstar on routes.

3. Please describe the factors the Qantas Group takes into consideration when deciding to increase the capacity of Jetstar on a route. Does this differ depending on whether the route is a domestic route or a trans-Tasman route?
4. Are there any routes, including trans-Tasman, where Jetstar is deployed purely on point to point financial performance criteria? If yes, what are those routes?

Jetstar on trans-Tasman routes

5. Please describe the factors the Qantas Group took into consideration in deciding to commence Jetstar operations on the AKL-MEL, AKL-CNS, AKL-OOL and AKL-SYD routes?
6. The Qantas Group has not deployed Jetstar on routes to and from WLG? Why is this the case?
7. Would Jetstar have entered the CNS-AKL route in the absence of Jetstar International Japan connections with Cairns? Conversely would any wind-back of Jetstar International flights at Cairns be likely to affect the continuation of CNS-AKL Jetstar flights?
8. Has the manner in which the Qantas Group deploys Jetstar on trans-Tasman routes changed over time? If so, in what ways?
9. When the Qantas Group introduced Jetstar on the BNE-CHC, CHC-MEL and CHC-SYD routes, it also reduced the number of Qantas flights. Why did Qantas do this? Is it likely this will occur in the future if the Qantas Group deploys Jetstar on new trans-Tasman routes?
10. Please outline the nature and timing of Jetstar's expansion plans in the New Zealand domestic market. Are these plans likely to alter or influence Qantas Group's decisions regarding the deployment of Jetstar on the trans-Tasman in the future? For example, does Jetstar's expansion in domestic New Zealand increase the scope for Qantas Group to profitably deploy Jetstar on the trans-Tasman?
11. Does the Qantas Group have plans to deploy Jetstar on any new trans-Tasman routes over the next three years? If so, on what routes?
12. Does the Qantas Group have plans to increase the capacity of Jetstar on any of the trans-Tasman routes it currently operates, over the next three years? If so, on what routes?

Interaction of Jetstar and Qantas

13. In the Australian Financial Review on 17 September 2010 it was reported that Mr Bruce Buchanan (Jetstar CEO) stated that Qantas and Jetstar were 'very complementary because we target very different consumer segments.' Can the Qantas Group please explain the differences in customer segments targeted by Qantas and Jetstar? Does this distinction apply to trans-Tasman traffic?

Response to an authorised Virgin Blue-Air New Zealand alliance

14. What would be the likely reaction of the Qantas Group if an authorised Virgin Blue-Air New Zealand alliance increased airfares or reduced capacity on trans-Tasman routes where Jetstar currently operates?
15. What would be the likely reaction of the Qantas Group if an authorised Virgin Blue-Air New Zealand alliance increased airfares or reduced capacity on trans-Tasman routes where Jetstar currently does not operate?

Trans-Tasman competitors

16. How do other carriers react to competition from Qantas and Jetstar on trans-Tasman routes? Do they react differently to competition from Qantas and competition from Jetstar? When other trans-Tasman carriers reduce fares in response to price competition from Jetstar, do they adjust fares across all fare classes or just a few fare classes (such as the 'low fare' classes)?
17. How are Qantas and Jetstar believed to compare with Pacific Blue and Air New Zealand on the basis of costs. What is the extent of any Jetstar cost advantage over other trans-Tasman competitors?
18. To what extent does Tiger impact on prices in the domestic Australian market given its relatively limited presence? Has the Qantas Group developed any plans to respond to a possible entry of Tiger into the trans-Tasman market?

Submissions

As you know, authorisation is a transparent process and submissions (including oral submissions) will be placed on the ACCC's public register subject to any request for exclusion (guidelines are attached).

This letter has been placed on the ACCC's public register.

Timetable

Under its current timetable, the ACCC expects to make a final determination in relation to the applications in November/December. In light of this, I would be grateful for a meeting as soon as possible and ideally next week. I will call you early next week when you are back in the office to discuss whether this timing is possible.

Yours sincerely



Darrell Channing
Director
Adjudication Branch