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Darrell Channing
Director
Australian Competition & Consumer Commission
GPO Box 3131
Canberra ACT 2601

Copies to: Richard Chadwick / Clare McGinness

Public register version – restriction of publication claimed in relation to part

Dear Darrell

Virgin Blue / Air New Zealand – Applications for authorisation of proposed Alliance

We refer to your telephone conversation with Luke Woodward on 8 December 2010.

The ACCC has requested written confirmation that the Applicants would be able to unwind the Alliance if it is not reauthorised and an overview of the steps that would be required. The Applicants' response to that request is below. The ACCC has also asked a question in relation to confidential Virgin Blue information. Virgin Blue has provided a separate response to that question.

The Applicants will be able to unwind the Alliance in the event that it is not reauthorised and will apply for reauthorisation in a timeframe that would allow for the Alliance to be unwound within the existing authorisation term if it is not reauthorised.

Under the Australasian Alliance Agreement, the parties have an obligation to seek reauthorisation at least 6 months before the expiration of the authorisation period (clause 5.5). However, the Applicants propose to apply for reauthorisation 12 months before the expiration of the existing authorisation term to allow 6 months for the authorisation process to run and, in the event it is not reauthorised, a further 6 months to facilitate the unwinding of the Alliance before the expiration of the authorisation.

As part of the unwinding process, the Applicants will need to adjust schedules, put in place procedures to honour tickets sold or reaccommodate passengers on the other party's services, settle revenue, and take any steps necessary to unwind systems integration and shared sales and marketing.

These adjustments are common in the industry and part of usual business practice, for example when airlines make network changes. The Applicants anticipate that it will take no more than 6 months to put these steps in place. However they would reassess this once the Alliance is implemented, and if further time is required; the Applicants would apply earlier for reauthorisation.

Commercially, the Applicants have taken steps to ensure that the Alliance can be effectively and efficiently unwound if either party terminates the Alliance or if it is not re-authorised. The Australasian Alliance Agreement (AAA) and the Code Share Agreement (CSA) are structured to facilitate this. In particular:

- Clause 12.3(c) of the AAA provides that on termination the parties will work cooperatively to enable each to return to their pre-Alliance network [RESTRICTION OF PUBLICATION CLAIMED].

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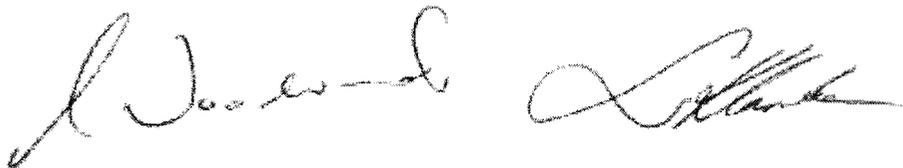
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- Clause 13.3 and Schedule 4 of the AAA provide a procedure for the settlement of revenue in the event of termination.
- Clause 24.2 of the CSA provides for a procedure, in the event of termination, for honouring tickets already sold for services that have not yet been operated.

In implementing the Alliance, the Applicants will plan mechanisms to ensure that the Alliance can efficiently be unwound.

Please let us know if you would like to further discuss.

Yours sincerely
Gilbert + Tobin



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