

14 February 2003

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The Chairman  
NZ Commerce Commission  
Wellington

Dear Mr. Belgrave,

**Re : Qantas/Air New Zealand/Air Pacific**

I do not envy the Commission in dealing with the complexities of this case but feel I should draw to its attention a series of post application events which have effects on the potential levels of competition in major markets involved.

1. The entry of Star Alliance's United Airlines into Chapter 11 bankruptcy proceedings has on balance reduced trans-Pacific competition by eliminating that carrier from the Auckland – Los Angeles link, despite some offsetting tendency for more intensified price competition on the services from Sydney and Melbourne to the California centres.
2. Demand by potential trans Tasman and NZ trunk domestic operator Virgin Airlines that Air NZ dispose of its no frills subsidiary Freedom Air and so crimp Air NZ's application of the successful Air Canada multi-brand service model.
3. The differing approvals by US Justice and Transportation Departments of code-sharing arrangements by Northwest, Delta, and Continental Airlines.
4. Following likely legal actions to clarify these differences over the next year or so there is a consequent high likelihood of a consolidation of the Wings Alliance which includes Malaysian Airlines with an alliance including Delta, Air France and Korean Airlines which would have larger share of world air transport than either One World (Qantas) or Star (Air NZ).
5. A distinct lack of interest by either American Airlines or its half-owned partner Hawaiian Airlines in services between Hawaii or the Continental US, and Australia/New Zealand in the weeks following the united notice of withdrawal from the Auckland service.

6. No indication by the Qantas no frills subsidiary Australia Airlines of inclusion of trans-Tasman routes in its planned expansion as B767 aircraft are progressively replaced on Qantas main trunk domestic routes.

The Commission or the ACCC may conclude on competitive or other grounds that the deal is a lemon and should not on balance proceed.

I would submit that there may be some potential to make lemonade or something stronger in a more limited approval or indication of potential approval which might also achieve some or most of the benefits perceived for a 22.5% Qantas ownership of Air NZ.

An outline of such an arrangement would be :

- 1) Qantas shareholding Air NZ limited to 10% with no Directors.
- 2) Air NZ divests its major maintenance assets to a company with equal shareholding and director appointments by Qantas.
- 3) This company seek some outside non-airline shareholding and directorships say 10%-20% by Christchurch civic interests.
- 4) The Commission and ACCC approve on a time limited basis code sharing by Qantas/Air NZ/Air Pacific on routes which could benefit from less frequent service by larger aircraft (ex Wellington) or multi-stop service (say Auckland -Newcastle-Adelaide) that is currently the case.

I remain available to discuss these points further with the Commission staff or potentially appear at a public hearing.

Yours faithfully



David Butler  
BCA (Hons) VUW.