

28 July 2006

John Bradbury
Deputy Secretary
Ministry of Transport
PO Box 3175
WELLINGTON

Dear John

**AIR NEW ZEALAND/QANTAS APPLICATION FOR AUTHORISATION UNDER
SECTION 88 OF THE CIVIL AVIATION ACT 1990**

Thank you for your letter dated 16 June inviting the Ministry of Economic Development ('MED') to provide written comments to the Ministry of Transport on the application from Air New Zealand and Qantas for authorisation of a commercial agreement, the Tasman Networks Agreement ('TNA').

I note that the TNA involves cooperation between Air New Zealand and Qantas with respect to any flight operated by the parties on the Tasman. This includes code-sharing, supported by pricing arrangements and revenue sharing arrangements whereby revenue earned by Air New Zealand and Qantas on Tasman routes would be allocated on an agreed basis.

I also note that comments from interested parties will be evaluated and taken into account in the preparation of the Ministry of Transport's report to the Minister on the application. I provide MED's general views, incorporating comments from the Ministry of Consumer Affairs and the Ministry of Tourism, on the Qantas-Air New Zealand application below.

MED Views

MED is of the view that the public interest is a relevant factor that the Minister may take into account in making a decision on whether to authorise the TNA. MED considers that the impacts on competition have implications for the public interest through the effect of competition on the long term interests of consumers. Therefore, MED encourages the Minister to consider competition impacts as one of the relevant factors to take into account in making a decision on authorisation.

MED is of the view that in assessing the competition and consumer impacts of the TNA, the fundamental issues include:

- The relevant market(s) affected by the proposed TNA;
- Whether competition will be reduced as a result of the TNA, taking into account relevant competitive constraints;
- Whether the TNA is the only way that the applicants can achieve the claimed benefits.

In addition, MED considers that the following areas are important and may need to be assessed and weighed accordingly:

- The costs to the public of any such reduction in competition, including the likely impacts on innovation, tourism, consumer choice, quality of services, capacity, fares and other costs. The nature of the actual tariffs set by the airlines will play a large role in the magnitude of any competition and consumer impacts. The Minister may require further detail on the actual tariffs that the airlines expect to set, or economic analysis to determine likely tariffs, in order to make this assessment;
- The likely benefits to the public of the TNA. These would include any likely efficiency gains, for example, relating to scheduling, cost savings, and other public benefits.

The net benefits of the TNA proposal ('the factual') can then be compared against the likely scenario without the TNA ('the counterfactual').

Other issues that the Minister may wish to take account of include:

- Whether the provisions in the TNA provide for adequate disclosure of information to consumers prior to purchasing tickets, for consumers to make an informed choice;
- Whether all the aspects of the TNA fall within the scope of the Civil Aviation Act 1990. MED suggests that it is made very clear in the report the scope of what is being authorised (or not) and what role, if any, that the Commerce Commission may have in relation to the TNA.

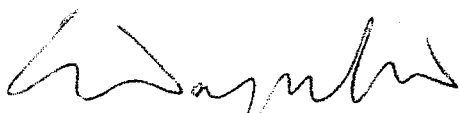
In making it clear what is being considered for authorisation, MED notes that the TNA provides for the establishment of a Committee with the function of coordinating scheduling, pricing, passenger processing, and code sharing on Tasman flights. Setting up such a Committee may make it easier for the applicants to coordinate similar arrangements on other networks which (particularly if it affected domestic markets) may have significantly adverse flow-on effects for consumers. The Ministry may wish to consider in its report whether appropriate incentives and protections exist to ensure competition between the applicants on other routes is not affected.

In summary, MED is of the view that the New Zealand public interest is likely to be served through a thorough and rigorous analysis that includes consideration of the above issues.

Should the Ministry of Transport require further detail on any of the above issues, please contact:

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Yours sincerely



Geoff Dangerfield
Chief Executive