



August 2, 2006

Mr. Scott Gregson
General Manager
Adjudication Branch
Australian Competition & Consumer Commission
470 Northbourne Avenue
Dickson ACT 2602
Canberra, Australia

Your Ref: C2002/1688

Dear Mr. Gregson:

I am writing to amend IATA's application A90855 for revocation and substitution of authorisation A90435, by terminating this authorisation on the following dates:

- The authorisation for IATA's Clearing House, Prorate System and Scheduling System would expire on 31 October 2006.
- The authorisation for IATA's Cargo Services, Passenger Services and Cargo Agency Conferences would expire on 31 May 2007.
- The authorisation for IATA's Passenger Tariff and Cargo Tariff Conferences would expire on 30 June 2008.

As noted in our previous submissions in the revocation and substitution proceedings, IATA believes that each element of the IATA multilateral interline system has public benefits that outweigh any likely anticompetitive effects. In particular, IATA believes that the IATA multilateral interline system provides unique and valuable benefits to the passengers and shippers who choose to purchase these services.

Despite our conviction that an exemption of the current system would be justified under applicable provisions of Australian competition law, we carefully considered the competitive concerns expressed by the ACCC during the course of this proceeding (including those that we believe to be misplaced). As we reviewed these concerns, we concluded that:

- Some of the IATA interline programs raise no significant issues under the competition law of Australia, and could be prudently undertaken without an exemption.

- The ACCC discussion papers indicate relatively minor competitive concerns about other IATA interline programs, which could be addressed by revisions that would not change the essential structure of those programs. After implementing these “non-structural” revisions to these programs, we believe they could prudently be undertaken without an exemption.
- Your discussion papers express the greatest concern about the passenger and cargo tariff conferences; but with an extensive reorganization of those programs we believe we can eliminate legitimate competitive concerns while continuing to deliver valuable consumer benefits.

With the “sunset” dates set forth in this amendment, we should have sufficient time to conduct a self-assessment of all IATA interline programs.

For those programs that we believe raise no significant competition issues, this schedule should give us sufficient time to complete our self-assessment, and confirm that it would be prudent to continue “business as usual” with the knowledge that IATA and its members will become subject to applicable Australian competition laws after the “sunset” date.

For those programs that we believe could be prudently undertaken with full exposure to Australia’s competition laws after we implemented “non-structural” changes to those programs, this schedule should give us enough time to make the necessary changes before the applicable “sunset” dates.

This schedule reflects the need for the greatest amount of time to devise and implement a new interline system that eliminates, or at least greatly reduces, the ACCC’s “spill over” and “coat hanger” concerns. Although we still believe that there is no evidence to justify these concerns, we have come to the conclusion that it would be more productive to use our time, attention and resources to address these concerns through the process that we are proposing than to continue to debate the issue.

In all candour, it will be quite difficult to achieve all of our objectives for a new IATA interline tariff consultation program: it must preserve the consumer benefits of the current universal and fully-flexible interline system; it must be acceptable to all airline participants; it must be technically and economically feasible; and it must eliminate, or at least greatly minimize, competitive concerns. In addition, we face the challenge of complying with the requirements of several nations’ air bilateral agreements that require airlines to agree on fares – in some cases, through the mechanism of IATA’s tariff conferences.

With the 30 June 2008 “sunset” period, however, we believe that we will be able to devise and implement a new system that meets all of these criteria. If successful, we will either operate without an exemption after the “sunset” date; or, if necessary, we will seek a new (presumably much narrower) exemption for the new program before the expiration of the current exemption.

An analysis of the public benefit to be derived from the transitional periods set forth in this amendment requires a comparison of potential consumer harm and gain.

For the reasons stated in our previous responses to ACCC discussion papers, we believe that there is minimal potential for competitive harm with the current system. In particular, we believe that the empirical data fails to support any apprehension that the IATA interline fare may have caused any increases in individual airline fares, or decreases in the output of airline services.

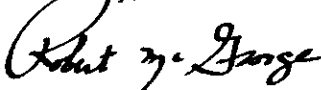
Although IATA and the ACCC may have different perspectives on this issue, one thing is certain. With the “sunset” dates set forth in the amendment, any potential consumer harm that conceivably could be caused by the current system will cease in less than 24 months – and both of us could avoid the uncertainty that would be caused by the continuation of the current process, and possibly subsequent litigation.

On the other hand, if IATA can use the time available before the “sunset” dates arrive to design and implement a new multilateral interline system that preserves the consumer benefits of the current system, while eliminating any legitimate concerns about diminished competition for individual airlines services, passengers will benefit from additional consumer choices for the foreseeable future.

There may be legitimate differences between IATA and the ACCC in measuring the magnitude of the consumer benefits conferred by the IATA multilateral interline program; but, as noted in our previous submissions, our analysis indicates that, at least, 500,000 passengers per year “vote with their dollars” to purchase the additional flexibility that they obtain through IATA interline fares. To our knowledge, no competition authority has ever concluded that, all else equal, consumers are better off with fewer choices.

In short, if we have time to work constructively with the ACCC, and take your stated concerns into account, we believe we will be able to use this transitional period to deliver important consumer benefits that would not be available with an abrupt termination of our current authorisation.

Sincerely,



Robert McGeorge
General Counsel