

Excellence in Flight

KOREAN AIR 

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National Competition Council
GPO Box 250
Melbourne VIC 3001

**APPLICATION FOR DECLARATION
OF THE JET FUEL SUPPLY INFRASTRUCTURE SERVICES
AT SYDNEY AIRPORT**

Dear Sir,

We have long flown to the city of Sydney and also witnessed high and continuously increasing jet fuel "Differential" rate particularly from 2003 when supply was heavily threatened. As BARA recently submitted their application for declaration of the jet fuel infrastructure services to you and defined the market as least competitive one in which there is no sufficient supply competition, highest rate of differential compared to other large cities across the globe is an issue and moreover, even with that high cost of operation, security of supply has never been guaranteed.

Korean Air has not seen enough number of suppliers for soliciting fuel tenders and in consequence experienced difficulties and inability to achieve desirable outcome from negotiating with suppliers out in the field. On one hand, our experience in SYD whenever proposal was requested was that there were no single supplier capable of demonstrating their ability to supply 100% of our volume even with constantly increasing rate of Differential. On the other hand, not necessarily having felt the need to investigate into the market on a large and thorough scale, we have only been forced to accept the market situation as presented particularly due to a potential risk of getting ourselves exposed to any interrupted supply of fuel. As no one can compromise the safe and sound flight operation, security of supply is indeed of our primary concern.

To provide you with an idea on how much expenses this extremely high rate in SYD takes up of our total Differential amount, it almost represents more than 7% of our corporate total global expense on fuel Differential in about 80 overseas locations we currently operate.

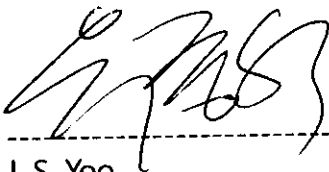
We believe the overly high pricing and poor reliability problems can be directly addressed through greater competition among suppliers of jet fuel by encouraging the entry of new suppliers.

We also view that there are significant potentials to increase the number of suppliers beyond the three incumbent oil companies. In fact, many other international airports are supplied by a lot more suppliers than present in SYD today. Even in an isolated market characterized by severe cold weather in winter, there available are more than 5 to 6 suppliers to the best of my knowledge.

As we consider that open and non-discriminatory access is currently available in SYD, facilitating easier and more convenient access to the Caltex Pipeline and the SYD JUHI for new entrants will greatly help airlines secure the Differentials on reasonable terms and conditions.

In essence, it is our general view that the airport like SYD should be able to accommodate enhanced market atmosphere by entertaining airline's needs not only for the interest of operating airlines but also for the healthy and sound development of Sydney's air travel market specifically and overall national economic growth in general.

Sincerely Yours,



J. S. Yoo
Managing Vice President
Procurement Department
Korean Air