



Australian Government

Department of Infrastructure and Regional Development

Mr David Jones
General Manager - Adjudication Branch
Australian Competition and Consumer Commission
By Email

Dear Mr Jones

Proposed Coordination Agreement between Qantas and Emirates

Thank you for your email of 23 October 2017 inviting the Department of Infrastructure and Regional Development (the Department) to comment on the application by Qantas Airways Ltd (Qantas) and Emirates for reauthorisation of a proposed coordination agreement.

The Department recognises that it is a matter for the ACCC to determine the relative merits of arguments presented by the applicants on the public benefits and the effect on competition of the proposed alliance. However, to assist the ACCC in coming to a determination, this submission will provide contextual information on the state of the aviation industry, the air service arrangements that underpin the markets impacted by the proposal and the Australian Government's aviation policy settings.

The Department's primary objective is to ensure that any decision reflects the Australian Government's objective of fostering a safe, competitive and productive aviation industry. To this end the Department has reviewed the application against policy and regulatory settings, including consistency with the requirements of relevant Air Services Agreements with other countries.

We note that the ACCC is separately obtaining relevant data from the Bureau of Infrastructure, Transport and Regional Economics (BITRE) and, while comments made in this submission reflect an analysis of market trends based in part on BITRE data, we do not intend to reproduce that data here. However the Department is available to assist should you require more data from BITRE.

Airline partnerships and global trends

In the period following the initial authorisation of the alliance, cooperative arrangements and other interline agreements have grown as a key strategy for airlines to focus on developing sustainable 'virtual' expansions of their international networks. Alliances and partnerships have allowed airlines to expand to new markets and consolidate their position in existing markets through co-operation in matters such as marketing, code sharing arrangements, frequent flyer programs and airline lounges.

Partnerships with carriers at mid points to European and North American destinations continue to be important for Australian carriers. Partnerships with Asian airlines are also emerging as a key strategy for Australian airlines to align network growth with emerging Asian markets, particularly the rapidly growing Chinese outbound tourism market to Australia.

The Australian international air services market is currently experiencing a sustained period of growth: BITRE states that in the five years from the year ended June 2012 to the year ended June 2017, international passenger movements into and out of Australia have grown by 34 per cent, from 28.9 million in 2011-12 to 38.7 million in 2016-17.

Over this period, Emirates' share of the market has increased by 0.3 percentage points and stood at 8.5 per cent in the year ended June 2017. Qantas' share of the total international air passenger market decreased by 2.3 percentage points (from 18.1 per cent to 15.9 per cent) while Jetstar International increased its share by 1.1 percentage points to 9.2 per cent.

As of August 2017, 59 international airlines operated scheduled services to or from Australia (including five dedicated freight airlines but excluding airlines operating only via codeshare arrangements), up from 53 airlines in August 2012.

The Department notes that over the last five years where the alliance has been in place, the combined market share of Emirates and Qantas Group has declined as a proportion of the total international passenger market (from 34.8 per cent in 2011-12 to 34.3 per cent in 2016-17).

This trend indicates that competition for international passengers is robust and has strengthened over time. Reauthorisation of the alliance in this context is likely to enhance consumer choice, sustain strong competition in the important Europe/UK market and, like recent Virgin Australia partnerships, enable Qantas to broaden its international network. This is important for the viability and longer term growth of Qantas International.

Policy and regulatory settings and the alliance

The Australian Government's aviation policy is focussed on helping the aviation industry grow in an environment that is safe, competitive and productive. This includes providing improved opportunities for Australian carriers to access international markets and increasing competition and choice for Australian and foreign travellers on international routes to and from Australia.

The proposed reauthorisation is, in the Department's view, compatible with these policy objectives.

It allows Qantas to continue providing the Australian travelling public with a greater choice of one stop European, Middle Eastern and North African destinations; and will also help facilitate Qantas' direct service to London from Perth. The Department considers the alliance will enable the airlines to offer complementary route networks, enabling Qantas to divert hub operations through Singapore and Perth, and provide a greater range of choices for Australian consumers. Switching hub operations to Singapore will also enable Qantas to align its operations with growing aviation markets in Asia, which will help support a competitive and sustainable Australian aviation industry capable of competing effectively internationally.

On the trans-Tasman route, a range of carriers continue to serve point-to-point destinations between Australia and New Zealand, with Air New Zealand, Singapore Airlines and Virgin Australia providing a strong competitive counterweight to the proposed alliance.

In light of this, the Department considers that the proposed alliance, including the transfer of traffic from Emirates to Qantas, is unlikely to adversely affect competition on the trans-Tasman.

Air Services Arrangements

As the ACCC is aware, the regulatory framework governing aviation and, in particular, international air services is complex.

While most sectors of international trade operate on the assumption that markets are open unless governments intervene to restrict access, international aviation cannot occur unless governments act to open the market. This action occurs in the form of at least two economies negotiating and signing an air services arrangement, specifying that international air travel can occur between their respective territories. Air services are contrary to most other internationally traded services, as without the cooperation of at least two economies, the product cannot be traded and the market would not exist.

As you would appreciate, the Department is responsible for negotiating air services arrangements with foreign economies. These bilateral arrangements typically set out the number of flights that airlines of the two countries can operate, cities they can serve in the other country and rights to operate via or beyond to third countries. The arrangements typically also include provisions related to such matters as airline ownership and control, competition law, safety and security.

The liberal arrangements the Department has negotiated with our aviation markets ensures there is ample capacity to support strong competition in all of the markets relevant to the proposed agreement (noting the Department does not have visibility of the arrangements between third party countries which may also be relevant). The Department can provide further information on the details of specific air services arrangements on request.

Conclusion

On balance, the Department sees the proposed alliance reauthorisation as a positive development which is consistent with the Australian Government's aviation policy settings.

Should you wish to discuss the matter further or require any additional information the contact officer in the Department is Mr Aidan Bruford (Director, Trade and Aviation Market Policy), who can be contacted on (02) 6274 7064.

Yours sincerely



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Aviation Industry Policy

27 November 2017