

## APPLICATION FOR REVOCATION AND SUBSTITUTION – FORM

### Applicants

#### 1. Provide details of the applicants for revocation and substitution, including:

##### 1.1. name, address (registered office), telephone number, and ACN

Qantas Airways Limited  
ABN 16 009 661 091  
10 Bourke Road  
Mascot NSW Australia 2020  
Phone details below

American Airlines, Inc  
ABN 92 000 775 753  
1 Skyview Drive, MD 8B503  
Fort Worth  
Texas USA 76155  
Phone details below

##### 1.2. contact person's name, position, telephone number, and email address

*Qantas*  
Michele Laidlaw  
Head of Legal – Group Legal  
Qantas Airways Limited  
Phone: [REDACTED]  
Email: [REDACTED]

*American*  
James Kaleigh  
Senior Attorney, Director – Competition Law  
American Airlines  
Phone: [REDACTED]  
Email: [REDACTED]

##### 1.3. a description of business activities

The provision of domestic and international passenger and freight services. Please refer to the submission for further details.

##### 1.4. email address for service of documents in Australia

*Qantas:* [REDACTED]

*American:* [REDACTED]

### Authorisation to be revoked (the existing authorisation)

#### 2. Provide details of the authorisation sought to be revoked including:

##### 2.1. the registration number and date of the authorisation which is to be revoked

Authorisations A91502 and A91503 dated 25 February 2016.

**2.2. other persons and/or classes of persons who are a party to the authorisation which is to be revoked**

Not applicable. Applicant details provided above.

**2.3. the basis for seeking revocation, for example because the conduct has changed or because the existing authorisation is due to expire**

The current authorisations are due to expire on 18 March 2021.

**Authorisation to be substituted (the new authorisation)**

**3. If applicable, provide details of any other persons and/or classes of persons who also propose to engage, or become engaged, in the proposed conduct and on whose behalf authorisation is sought. Where relevant provide:**

- 3.1. name, address (registered office), telephone number, and ACN**
- 3.2. contact person's name, telephone number, and email address**
- 3.3. a description of business activities.**

Not applicable. Details of Applicants listed above and list of related bodies corporate contained within Annexure A to attached Application.

**The proposed conduct**

**4. Provide details of the proposed conduct, including:**

**4.1. a description of the proposed conduct and any documents that detail the terms of the proposed conduct**

Qantas and American wish to continue their coordination under the Restated Joint Business Agreement (Restated JBA). Please refer to attached Application for further detail and to the commercial agreements in Confidential Annexure B of the Application.

**4.2. an outline of any changes to the conduct between the existing authorisation and the new authorisation**

The conduct has not changed in any material respect since the existing authorisation was granted in 2015. Please refer to attached Application for further detail.

**4.3. the relevant provisions of the Competition and Consumer Act 2010 (Cth) (the Act) which might apply to the proposed conduct, ie:**

- **cartel conduct (Division 1 of Part IV)**
- **contracts, arrangements or understandings that restrict dealings or affect competition (s. 45)**
- **concerted practices (s. 45)**
- **secondary boycotts (sections 45D, 45DA, 45DB, 45E, 45EA)**
- **misuse of market power (s. 46)**
- **exclusive dealing (s.47)**
- **resale price maintenance (s. 48) and/or**
- **a dual listed company arrangement (s. 49)**

Authorisation is sought in respect of Division 1 of Part IV, section 45 and section 47 of the Act.

**4.4. the rationale for the proposed conduct**

Please refer to attached Application for further detail.

**4.5. the term of authorisation sought and reasons for seeking this period.**

The Applicants seek authorisation for 5 years until 31 March 2026, seeking closer alignment with the United States Department of Transportation approval which extends until July 2026 and the term of re-authorisation sought from the New Zealand Minister of Transport. Please refer to attached Application for further detail.

**5. Provide the name of persons, or classes of persons, who may be directly impacted by the proposed conduct (e.g. targets of a proposed collective bargaining arrangement; suppliers or acquirers of the relevant goods or services) and detail how or why they might be impacted.**

Please refer to attached Application.

**Market information and concentration**

**6. Describe the products and/or services, and the geographic areas, supplied by the applicants. Identify all products and services in which two or more parties to the proposed conduct overlap (compete with each other) or have a vertical relationship (e.g. supplier-customer).**

Please refer to attached Application.

**7. Describe the relevant industry or industries. Where relevant, describe the sales process, the supply chains of any products or services involved, and the manufacturing process.**

Please refer to attached Application.

**8. In respect of the overlapping products and/or services identified, provide estimated market shares for each of the parties where readily available.**

Please refer to attached Application.

**9. In assessing an application for authorisation, the ACCC takes into account competition faced by the parties to the proposed conduct. Describe the factors that would limit or prevent any ability for the parties involved to raise prices, reduce quality or choice, reduce innovation, or coordinate rather than compete vigorously. For example, describe:**

**9.1. existing competitors**

**9.2. likely entry by new competitors**

**9.3. any countervailing power of customers and/or suppliers**

**9.4. any other relevant factors.**

Please refer to attached Application.

**Public benefit**

**10. Describe the benefits to the public that are likely to result from the proposed conduct. Refer to the public benefit that resulted under the authorisation previously granted. Provide information, data, documents or other evidence relevant to the ACCC's assessment of the public benefits.**

Please refer to attached Application.

**Public detriment including any competition effects**

**11. Describe any detriments to the public likely to result from the proposed conduct, including those likely to result from any lessening of competition. Refer to the public detriment that may have resulted under the authorisation previously granted. Provide information, data, documents, or other evidence relevant to the ACCC's assessment of the detriments.**

Please refer to attached Application.

**Contact details of relevant market participants**

**12. Identify and/or provide names and, where possible, contact details (phone number and email address) for likely interested parties such as actual or potential competitors, customers and suppliers, trade or industry associations and regulators.**

Please refer to attached Application.

**Additional information**

**13. Provide any other information or documents you consider relevant to the ACCC's assessment of the proposed application.**

Please refer to attached Application.

**Declaration by Applicant(s)**

Authorised persons of the applicant(s) must complete the following declaration. Where there are multiple applicants, a separate declaration should be completed by each applicant.

The undersigned declare that, to the best of their knowledge and belief, the information given in response to questions in this form is true, correct and complete, that complete copies of documents required by this form have been supplied, that all estimates are identified as such and are their best estimates of the underlying facts, and that all the opinions expressed are sincere.

The undersigned undertake(s) to advise the ACCC immediately of any material change in circumstances relating to the application.

The undersigned are aware that giving false or misleading information is a serious offence and are aware of the provisions of sections 137.1 and 149.1 of the Criminal Code (Cth).



**Signature of authorised person**

**Office held:** General Counsel and Group Executive, Office of the CEO, Qantas Airways Limited

**Name of authorised person:** Andrew Finch

This 8<sup>th</sup> day of October 2020

Note: If the Applicant is a corporation, state the position occupied in the corporation by the person signing. If signed by a solicitor on behalf of the Applicant, this fact must be stated.

### **Declaration by Applicant(s)**

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The undersigned are aware that giving false or misleading information is a serious offence and are aware of the provisions of sections 137.1 and 149.1 of the Criminal Code (Cth).



**Signature of authorised person**

**Office held:** Vice President and Deputy General Counsel, American Airlines, Inc.

**Name of authorised person:** Robert B. Wark

This 6<sup>th</sup> day of October 2020

Note: If the Applicant is a corporation, state the position occupied in the corporation by the person signing. If signed by a solicitor on behalf of the Applicant, this fact must be stated.

**Public Register Version**

**Application for Revocation and Substitution  
and Interim Authorisation**



**Restated Joint Business Agreement and  
associated agreements**

**Submission to the Australian Competition &  
Consumer Commission**

**19 October 2020**

## EXECUTIVE SUMMARY

Qantas Airways Limited (**Qantas**) and American Airlines Inc (**American**) and their related bodies corporate<sup>1</sup> (together, the **Applicants**) apply to the Australian Competition and Consumer Commission (**Commission**) seeking revocation of existing conditional authorisations A91502 and A91503<sup>2</sup> and substitution with authorisation of the Restated Joint Business Agreement (**Restated JBA**) and associated agreements,<sup>3</sup> under which they will continue their alliance and coordinate their operations between and within Australia/New Zealand and the United States (**US**), Canada and Mexico (**Trans-Pacific Routes**) for a further five years (the **Proposed Conduct**). The Applicants also seek interim authorisation to facilitate seamless continuation of the existing joint business into 2021.

As the Commission is aware, the airline industry is currently in crisis as a result of the outbreak of the Novel coronavirus pandemic (**Pandemic**). The flight, entry and quarantine restrictions imposed by Governments globally have impacted the industry with unprecedented severity. In June 2020, the International Air Transport Association (**IATA**) considered that *‘Financially, 2020 will go down as the worst year in the history of aviation. On average, every day of this year will add US\$230 million to industry losses...’*<sup>4</sup> and has forecast that it will be at least 2024 by the time global passenger traffic recovers to pre-Pandemic levels.<sup>5</sup> The Pandemic has forced a \$4 billion revenue impact on Qantas in the second half of financial year 2020, contributing to a \$2.7 billion statutory loss before tax in the 2020 financial year,<sup>6</sup> whilst in July 2020 American reported a second-quarter 2020 loss before tax of \$4.3 billion excluding net special items, making it one of the most challenging quarters in American’s history,<sup>7</sup> and has also embarked on a significant restructure, as outlined further below.

Airlines must make critical decisions about how best to restore networks and travel in the coming months and years. A long-term vision is required to support investment and planning, particularly in relation to the recovery of international operations. For the Applicants, there is no doubt that the mutual revenue sharing joint business made possible through the Proposed Conduct represents the fastest and most effective way to rebuild, sustain and ultimately grow Trans-Pacific capacity to the benefit of Australian consumers and businesses, particularly the crippled tourism industry.

The Applicants’ joint business has a proven history of delivering significant public benefits since it first commenced in 2011. It has materially expanded capacity between Australia and North America, providing Australian consumers with more direct and transit options to more destinations. Most recently, Qantas introduced new Brisbane–San Francisco services and was due to commence new Brisbane-Chicago services in April 2020 (now postponed as a result of the Pandemic). These new services were made possible by the joint business, in the same way that earlier capacity expansion including Qantas operated services to Dallas Fort/Worth and San Francisco, and American operated Sydney-Los Angeles and Auckland-Los Angeles services, had also been enabled.

In addition to capacity expansion, the Applicants have delivered:

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<sup>1</sup> See Annexure A which is a list of Qantas’ related bodies corporate covered by this Application. American’s related bodies corporate covered by this Application are: Envoy Aviation Group Inc. (Envoy), PSA Airlines, Inc. (PSA) and Piedmont Airlines, Inc. (Piedmont). American Airlines is the entity that is engaged in Trans-Pacific services whereas Envoy, PSA and Piedmont are wholly owned carriers which provide scheduled air transportation under the brand name “American Eagle.”

<sup>2</sup> ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf>

<sup>3</sup> See Confidential Annexure B.

<sup>4</sup> See <https://www.iata.org/en/pressroom/pr/2020-06-09-01/>

<sup>5</sup> IATA media release ‘Recovery delayed as international travel remains locked down,’ 28 July 2020. Available: <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>

<sup>6</sup> See Qantas media release ‘Qantas Group FY20 Financial Results – Navigating Exceptional Conditions,’ 20 August 2020. Available: <https://www.qantasnewsroom.com.au/media-releases/qantas-group-fy20-financial-results-navigating-exceptional-conditions/>

<sup>7</sup> See further: American Airlines Takes Strategic Action in Second Quarter to Prioritize Safety, Flexibility and Efficiency in Response to COVID-19, 23 July 2020. Available: <https://americanairlines.gcs-web.com/news-releases/news-release-details/american-airlines-takes-strategic-action-second-quarter>



- increased connectivity and enhanced schedule choice through an expanded codeshare relationship, again giving Australian consumers more travel options;
- an enhanced frequent flyer proposition, of particular benefit to the growing number of Australian resident members of both Applicants' frequent flyer programs;
- improved customer services including expanded reciprocal lounge access, enhanced check-in processes, better baggage handling and increased booking convenience;
- a variety of fare products, price points and lower fares made possible through coordinated inventory management; and
- the stimulation of tourism and trade to and within Australia, through joint sales and marketing with a particular focus on campaigns in the US showcasing Australasia.

Such significant customer benefits have long been recognised by regulators. The original Joint Business Agreement entered into by the Applicants on 6 May 2011 (**Original JBA**) was authorised by the Commission on 29 September 2011,<sup>8</sup> the New Zealand Minister of Transport (**NZMOT**) on 26 September 2011 and the US Department of Transportation (**USDOT**) on 9 November 2011.<sup>9</sup> The Original JBA provided the platform for the Applicants' ongoing Trans-Pacific growth and was revised to become the Restated JBA in June 2015, reflecting the commencement of American's long-haul services to Australasia. The Restated JBA was swiftly authorised for five years by both the Commission on 25 February 2016<sup>10</sup> and the NZMOT on 8 November 2015.<sup>11</sup>

However, as outlined further below, uncertainty and delays surrounding the US regulatory process prevented full implementation of the Restated JBA in all relevant jurisdictions and this, in turn, resulted in a significant wind-back of prevailing customer benefits and a hold on forward planning and integration until the USDOT granted final approval in July 2019. The USDOT's approval now applies until 2026 – timing that was intended to facilitate closer long-term alignment with future regulatory approvals in Australia and New Zealand.<sup>12</sup>

Once the USDOT's final approval was received, the Applicants moved immediately to start delivering the complete and broad suite of customer benefits in the second half of 2019. However, full implementation of the Restated JBA progressed less than seven months when it was again interrupted by the Pandemic, the devastating impact of which is outlined further below.

As at the date of this application, Qantas has been forced to suspend its Trans-Pacific operations (including its only recently commenced Brisbane-San Francisco services) until at least the end of November 2020, as well as delay the launch of its new Brisbane-Chicago services until at least mid-2021. The Qantas Group will operate some services on the Tasman during October and November 2020, with ongoing network review taking place on a daily basis. Qantas is undergoing a massive reorganisation as a result of the Pandemic, which includes business restructuring, the continued

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<sup>8</sup> See ACCC Determination in respect of applications for authorisation lodged by Qantas Airways Limited and American Airlines Inc in respect of a joint business agreement between the applicants, Authorisations A91265 and A91266, dated 29 September 2011 Available: <https://www.accc.gov.au/system/files/public-registers/documents/D11%2B2315190.pdf>

<sup>9</sup> See US Department of Transportation Docket DOT-OFT-2011-0111, Joint Application of American Airlines Inc and Qantas Airways Limited under 49 USC 41309 for approval of Joint Business Agreement, Final Order dated 9 November 2011. Available: <https://beta.regulations.gov/document/DOT-OFT-2011-0111-0010>

<sup>10</sup> See ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf> Prior to its final determination, the ACCC had granted interim authorisation on 9 July 2015. See: <https://www.accc.gov.au/system/files/public-registers/documents/D15%2B99780.pdf>

<sup>11</sup> See Ministry of Transport briefing to the Minister re Authorisation of the Qantas/American Airlines Alliance (received 6 November 2015) and authorised by the Minister on 8 November 2015. Available:

<https://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/qantas-american-joint-agreement/>

<sup>12</sup> See USDOT Order 2019-07-07, Docket DOT-OFT-2018-0030, Application of American Airlines Inc and Qantas Airways Limited under 49 USC 41308 and 41309 for approval of and antitrust immunity for Alliance Agreements, dated 19 July 2019. Available: <https://beta.regulations.gov/document/DOT-OFT-2018-0030-0144>

stand down of approximately 15,000 employees and a reduction of its workforce by at least 8,500 roles across all parts of the business.

Likewise, American's global network has been significantly impacted by the Pandemic, with its Sydney-Los Angeles service currently suspended until 10 November 2020<sup>13</sup> and its Auckland-Los Angeles service currently suspended until late 2021-2022.<sup>14</sup> American's proposed new Auckland-Dallas/Fort Worth and Christchurch-Los Angeles services, announced in October 2019, have also been postponed until late 2021-2022. Like Qantas, American is undergoing a reorganisation of its management and support staff to cope with the crisis, reduce future costs and transform into a smaller airline to position itself for recovery. Workgroups, including pilots, flight attendants and frontline employees within the airline are managing through similar efforts. **[REDACTED – CONFIDENTIAL]**

In this context, re-authorisation of the Proposed Conduct will be critical to ensuring that both Applicants can rebuild Trans-Pacific capacity as quickly and as sustainably as possible, while also providing the certainty and incentives to justify additional investment and expansion of customer benefits in the longer term – all of which is critically important to re-connect tourism and trade markets in Australia, New Zealand and North America and to ultimately plan for further capacity growth.

The successful reinstatement of Qantas' Trans-Pacific services to levels in place prior to the Pandemic and any future growth of those services will depend on re-authorisation of the Proposed Conduct. Likewise, as American recently made clear in re-sizing its international network,<sup>15</sup> it has few options other than to focus on international flying to hubs supported with connectivity offered by a joint business partner. Indeed, the case for needing Qantas to support American's flying to Australasia is stronger than ever given the devastating reduction in demand for travel out of the western US to the Pacific. It will be crucial for both Applicants to be able to offer streamlined connectivity and sell competitively to 'behind and beyond' destinations, supporting each other's services through extensive sales and distribution channels on both sides of the Pacific. Metal neutral revenue sharing under the Restated JBA will provide the essential platform for this joint effort.

Re-authorisation will deliver significant public benefits with no competitive detriment given that the Proposed Conduct:

- is an extension of an existing arrangement between two complementary networks with limited overlap (on only a single route, Sydney-Los Angeles);
- will occur in what remains an intensely competitive market, despite Virgin Australia not operating international services in the short-medium term as a result of the Pandemic;<sup>16</sup>
- builds on a proven history of delivering benefits to Australian consumers, the tourism industry and export/import businesses; and
- will facilitate capacity reinstatement and longer term benefits that would otherwise not occur, including preserving American's operations to Australasia, providing competition to fellow US-based major carriers United and Delta.

By contrast, without long term re-authorisation, Qantas' Trans-Pacific services will be jeopardised.

**[REDACTED – CONFIDENTIAL]**

Similarly, without preferential, long term and certain access to the Qantas Group network – it is highly likely that American's existing Sydney-Los Angeles and Auckland-Los Angeles services would both

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<sup>13</sup> American has been operating freight-only services between Sydney and Los Angeles since May 2020.

<sup>14</sup> See further American announcement dated 1 July 2020. Available: <http://news.aa.com/news/news-details/2020/American-Airlines-Resets-International-Network-for-Remainder-of-2020-Through-Summer-2021-OPS-DIS-07/>

<sup>15</sup> See further American announcement dated 1 July 2020. Available: <http://news.aa.com/news/news-details/2020/American-Airlines-Resets-International-Network-for-Remainder-of-2020-Through-Summer-2021-OPS-DIS-07/>

<sup>16</sup> As detailed below, Virgin Australia and Delta have suspended their alliance but indicated an intention to resume joint flying on the Trans-Pacific in future.

be in jeopardy and the likelihood of American launching the new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services becomes remote. **[REDACTED – CONFIDENTIAL]**.

In addition, other customer benefits delivered by the joint business, including frequent flyer earn and redemption opportunities and improved customer services, will be significantly eroded if not removed entirely if the Restated JBA is not re-authorised.

Therefore, although the Pandemic presents tremendous challenges, the Applicants look forward to continuing to expand on benefits delivered to Australasia-US passengers as demand returns. While the path to recovery is uncertain, what is clear is that the Restated JBA is now more important than ever in supporting efforts to restore Trans-Pacific capacity and connectivity. Faced with fewer resources, the Applicants' cooperation and reliance on each other's network and abilities is vitally important going forward.

To facilitate a seamless recovery plan into 2021, the Applicants seek interim authorisation on the basis that:

- the Proposed Conduct is inherently pro-competitive and will be implemented in a market which continues to be intensely competitive notwithstanding the impacts of the Pandemic. As noted above, the Restated JBA builds on existing coordination which has delivered substantiated public benefits, as recognised by multiple regulators over time;
- interim authorisation will give the Applicants the opportunity to continue to work together immediately and seamlessly on the recovery of the Trans-Pacific Routes into 2021 (including supporting the re-start of American's Sydney-Los Angeles service during November 2020), while also minimising financial harm, uncertainty and disruption that will be experienced if interim authorisation is not granted;
- interim authorisation will not cause detriment to others; and
- interim authorisation will not give rise to permanent changes to market dynamics or prevent the market returning to its pre-authorisation state in the event final authorisation is not granted, given that the Applicants have already been coordinating operations on the Trans-Pacific Routes pursuant to existing approvals.

The Applicants are currently working with the NZMOT to secure re-authorisation of the Restated JBA from November 2020 for a further five years. If granted, along with the Commission's re-authorisation until 2026, this will bring the Australian/New Zealand regulatory timetables more closely into line with the USDOT's approval, which already extends until July 2026. This timing alignment is critical. It will provide the Applicants with the certainty to justify investment in the joint business across all jurisdictions, which will be the most efficient way to maximise and expedite customer benefits in circumstances where demand recovery will take at least several years as IATA has flagged. Such investment decisions can only be justified with a long-term view to stimulate and guide recovery and growth in a changed yet still highly competitive market. Shorter term or conditional approvals will not facilitate public benefits and will instead inject regulatory uncertainty and significant competitive disadvantage for the Applicants and ultimately reduced choice for consumers.

## THE APPLICANTS

This application covers coordination between Qantas, Jetstar Airways Pty Limited (**Jetstar**), Jetstar Asia Airways Pte Limited, which is incorporated in Singapore and of which the Qantas Group has a 49 per cent interest (**Jetstar Asia**) and American.

### Qantas

Qantas was incorporated in Queensland, Australia in 1920. Prior to the Pandemic, Qantas operated more than 4,500 flights per week in Australia and over 730 flights internationally. Qantas also operates airline related businesses including freight operations, loyalty programs and engineering.

The international destinations to which Qantas operated prior to the Pandemic are set out in Table 1 below and in the route map included as Annexure C to this submission. All of these services have been impacted by the Pandemic and operations are being monitored regularly.<sup>17</sup>

**Table 1: Qantas International Destinations (Ex Australia), Pre-Pandemic**

Region	Destinations
<b>Pacific</b>	Auckland, Christchurch, Wellington, Queenstown, Noumea, Port Moresby, Nadi
<b>Asia</b>	Bangkok, Hong Kong, Jakarta, Manila, Shanghai, Singapore, Tokyo Haneda, Tokyo Narita, Sapporo, Osaka, Bali-Denpasar
<b>Europe</b>	London
<b>Americas</b>	Dallas/Fort Worth, New York, Los Angeles, San Francisco, Honolulu, Chicago, <sup>18</sup> Santiago, Vancouver
<b>Africa</b>	Johannesburg

As at March 2020 (pre-Pandemic), the Qantas Group had a total passenger fleet of over 270 aircraft, comprising Boeing 787s, 747s, 737s and 717s, Airbus A380s, A330s, A321s and A320s, Bombardier Dash 8s and Bombardier Q400s and Fokker 100s.

The Qantas Group is currently a party to alliances with each of:

- Emirates (re-authorised until 2023 by the Commission on 23 March 2018<sup>19</sup> and by the NZMOT on 26 March 2018<sup>20</sup>); and
- China Eastern (in relation to which the Commission granted interim authorisation on 7 September 2020 to permit an extension of the alliance until March 2022<sup>21</sup>).

<sup>17</sup> Please see Qantas Group announcement on 10 March 2020. Available: See <https://www.qantasnewsroom.com.au/media-releases/qantas-group-update-on-coronavirus-response/>. See also: <https://www.qantasnewsroom.com.au/media-releases/qantas-group-update-on-coronavirus-response-2/> and <https://www.qantasnewsroom.com.au/media-releases/qantas-group-outlines-customer-and-employee-impact-of-coronavirus-related-network-cuts/>

<sup>18</sup> Services between Brisbane and Chicago were intended to commence in April 2020 but have been postponed as a result of the Pandemic.

<sup>19</sup> Commission Determination in relation to Applications for Revocation and Substitution lodged by Qantas Airways Limited and Emirates in respect of a Restated Master Coordination Agreement to coordinate air passenger and cargo transport operations and other related services Authorisation Number AA1000400, 28 March 2018. Available: <https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/qantas-airways-limited-emirates>

<sup>20</sup> See:

<https://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/qantasemiratescoordinationagreem-ent/> and letter to Qantas dated 26 March 2018 confirming approval granted by the Minister of Transport until 31 March 2023.

<sup>21</sup> See Commission Determination dated 7 September 2020 to grant interim authorisation in relation to Application for Revocation and Substitution lodged by Qantas and China Eastern Airlines Corporation Limited in respect of the Joint Coordination Agreement, 31 July 2020. Available: <https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/qantas-airways-limited-and-china-eastern-airlines-corporation-limited>

## Jetstar

Jetstar is a vital part of the Qantas Group's domestic and international operations. It operates low-cost, value-based services in domestic Australia and, prior to the Pandemic, to the international destinations shown in Table 2 below. Again, all of these services have been impacted by the Pandemic and operations are being monitored regularly.<sup>22</sup>

**Table 2: Jetstar International Destinations, Pre-Pandemic**

Region	Destinations
Pacific	Auckland, Christchurch, Queenstown, Wellington, Nadi, Rarotonga
South East Asia	Bangkok, Phuket, Bali-Denpasar, Ho Chi Minh City, Singapore
North East Asia	Osaka, Seoul-Incheon, Tokyo-Narita
Americas	Honolulu

A route map of the international services provided by the Jetstar Group prior to the Pandemic is set out in Annexure D. More information about the Qantas Group is available at [www.qantas.com](http://www.qantas.com).

## American Airlines

American Airlines Group Inc. (AAG), a Delaware corporation, is a holding company and its principal, wholly-owned subsidiaries are American Airlines, Inc. (American), Envoy Aviation Group Inc. (Envoy), PSA Airlines, Inc. (PSA) and Piedmont Airlines, Inc. (Piedmont). AAG was formed in 1982 under the name AMR Corporation (AMR) as the parent company of American, which was founded in 1934. Together with its wholly-owned regional airline subsidiaries and third-party regional carriers operating as American Eagle, prior to the Pandemic American operated an average of 6,800 flights per day to more than 365 destinations in 61 countries through our hubs and gateways in Charlotte, Chicago, Dallas/Fort Worth, London Heathrow, Los Angeles, Miami, New York, Philadelphia, Phoenix and Washington, D.C. In 2019, approximately 215 million passengers boarded American flights.<sup>23</sup>

American, like Qantas, is a founding member of the **oneworld**® alliance, whose members (including Qantas) serve 1,100 destinations in 180 countries and territories. American has established a transatlantic joint business with British Airways, Iberia and Finnair and a joint business with Japan Airlines, each of which has been granted antitrust immunity by relevant regulators.

Route maps showing American destinations pre-Pandemic are included in Annexure E. More information about American is available at [www.aa.com](http://www.aa.com)

## THE PROPOSED CONDUCT

### Restated JBA

As the Commission is aware, the Restated JBA is a revenue sharing agreement which facilitates deep commercial cooperation between the Applicants. In the context of current market dynamics and the need to drive economic recovery after the Pandemic, this revenue sharing model provides the fundamental incentive for the Applicants to offer faster and more sustainable capacity reinstatement and growth on the Trans Pacific.<sup>24</sup>

<sup>22</sup> Please see Qantas Group announcement on 10 March 2020. Available: See <https://www.qantasnewsroom.com.au/media-releases/qantas-group-update-on-coronavirus-response/> See also: <https://www.qantasnewsroom.com.au/media-releases/qantas-group-update-on-coronavirus-response-2/>

<sup>23</sup> See further: <https://americanairlines.gcs-web.com/node/38016/html>

<sup>24</sup> [REDACTED – CONFIDENTIAL]

Qantas and American first entered into the Original JBA on 6 May 2011. The Original JBA supported the successful launch and subsequent expansion of Qantas' Sydney-Dallas/Fort Worth services and provided the platform for subsequent Trans-Pacific growth by both Applicants, including American's Sydney-Los Angeles service.

As outlined further below, the joint business and its associated governance structure has enabled the delivery of significant public benefits since 2011, and the intention had been that these benefits would be expanded upon through the Restated JBA signed on 9 June 2015. However, as noted earlier, while the initial application for anti-trust immunity for the Restated JBA was lodged with the USDOT in June 2015, the process took much longer than anticipated.

Having promptly received approvals from both the Commission<sup>25</sup> and the NZMOT,<sup>26</sup> and in anticipation of similar swiftness from the USDOT (given that the Original JBA had been previously approved by it), American commenced its long haul services from Los Angeles to Sydney and Auckland in 2015 and 2016 respectively. However, in November 2016, the USDOT tentatively rejected the application in a Show Cause Order. As a result, the Applicants withdrew their application in December 2016 and re-filed an amended application with the USDOT in February 2018, which included some variations to the Restated JBA.<sup>27</sup> The failure to obtain USDOT approval concomitant with approvals from the Commission and the NZMOT prevented full implementation of the revised joint business, with resulting consumer detriments (including contraction of capacity and reduction in frequent flyer benefits, as detailed below) becoming immediately apparent while the US process remained unresolved.

Ultimately, the USDOT granted final approval in July 2019 and the Applicants then moved immediately – within a matter of weeks – towards full implementation of the alliance in all relevant jurisdictions. However, the long US regulatory process coupled with the Pandemic, has meant that the fully integrated joint business has only been operating, in practice, for less than seven months since the Commission granted approval of the Restated JBA in 2015. Notwithstanding uncertainties now created by the Pandemic, the Applicants wish to maximise their ability to deliver significant benefits to Australia in future. Long term re-authorisation from the Commission is critical to that effort.

The Restated JBA provides the commercial and operational support necessary to re-stimulate demand and re-build and ultimately expand the Trans-Pacific network. The Applicants have aligned economic incentives as a result of the 'metal-neutral' selling of the joint services – in other words, each carrier is indifferent as to which joint flight a customer chooses. This incentivises the Applicants to open their complementary networks and allow each other access to the full inventory of available seats whether the customer is seeking to book a long haul Trans-Pacific journey on either or both carriers. This unlocks connectivity and itineraries for consumers that would not be economically feasible through simple codesharing.

The selling processes that flow from metal neutral revenue sharing provide customers with the widest available choice of flights for their journey, using both carrier's brands, services and products which, in turn, means that joint businesses are better able to respond to consumer demand than other less-integrated forms of cooperation. Moreover, with their interests aligned through metal neutrality and broad codesharing in place, joint business partners have the incentive to invest in the joint product to make it superior to what either carrier could offer on its own. Through governance and other committees, the carriers share best practices and find new opportunities to expand product offerings – such as by adjusting the schedules within their networks to improve connectivity with their partner's flights, co-locating gates to shorten the distance passengers must navigate in unfamiliar foreign

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<sup>25</sup> See ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf>

<sup>26</sup> See: <https://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/qantas-american-joint-agreement/>

<sup>27</sup> The amendments were primarily to adjust the financial settlement terms and to remove an exclusivity provision so Qantas and American could enter into codeshare and frequent flyer relationships with other carriers. See Confidential Annexure B.



airports, improving the reliability of baggage handling for joint customers and improving the food, drinks and other in-flight amenities. These and other investments are all behind the scenes, but they meaningfully improve the quality of the consumer travel experience.

In other words, because the Restated JBA involves the pooling of revenue, both Qantas and American are invested in the success and improvement of each other's flying and therefore in the sustainable reinstatement and growth of capacity on the Trans-Pacific. For example, Qantas is incentivised to deliver crucial Australasian sales support to American's Sydney-Los Angeles service because it is financially akin to being Qantas' own. In turn, this benefits consumers by providing more choice.

The benefits of metal neutral joint businesses have been recognised by regulators. For example, the Commission has previously observed that:

*'In alliances where the parties' incentives are fully aligned – to a point where each carrier is not concerned with making sure that a passenger flies on their airline (i.e. metal neutrality) – they tend to be very focused on synchronising their operations and activities and sharing the financial rewards and risks so as to make their products and services as appealing as possible to passengers.'*<sup>28</sup>

Similarly, in assessing the Restated JBA in 2019, the USDOT found that:

*'The record shows that the carriers' ability to stimulate traffic and fill the additional capacity requires a properly structured joint venture, with adequate technological investment, to allow American and Qantas to make availability decisions and participate in the portions of the revenue they allocate to customers on their respective flights connecting at gateway cities. The nature of this market – in which ultra-long-haul gateway-to-gateway flights potentially connect passengers to comparatively short domestic flights within the U.S. or Australia – makes the need for this investment particularly acute. Standard industry distance-based "prorate" settlement agreements would provide that the short-haul carrier receives a relatively small percentage of the fare in itineraries between the U.S. and Australasia involving interline connectivity, thereby rendering the short-haul carrier less likely to make inventory available to passengers traveling on these itineraries. Absent this vital connecting traffic, viability of the ultra-long-haul gateway-to-gateway traffic would be threatened. This pricing dynamic also affects the ability of the ultra-long-haul carrier to stimulate traffic in behind/beyond gateway markets where cooperation with a local carrier is necessary. Through its detailed filings with the Department, American has demonstrated that it will align its economic incentives with Qantas to increase flow traffic from domestic U.S. points to the Qantas gateways and grow this market.'*<sup>29</sup>

Going forward, long term re-authorisation of the Restated JBA will enable the Applicants to seamlessly continue their commercial coordination as demand recovers. The commercial coordination that is essential to supporting capacity reinstatement and planning for longer term growth includes working together in respect of marketing and sales, pricing, scheduling, distribution strategies and agency arrangements, yield and inventory management, frequent flyer programs, lounges, joint procurement, product and service standards and freight.<sup>30</sup>

The Applicants already have established processes which will facilitate the planning and operations necessary to best re-build their networks. **[REDACTED – CONFIDENTIAL]**

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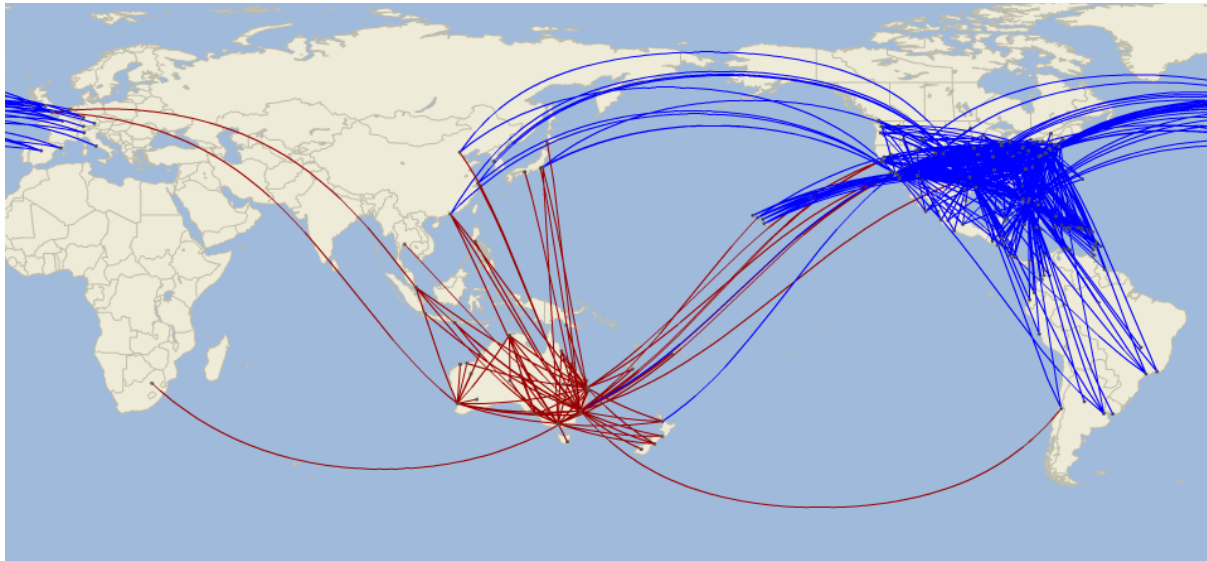
<sup>28</sup> See para 98 of ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf>

<sup>29</sup> Page 12 USDOT Order to Show Cause 2019-05-23 dated 3 June 2019, Docket DOT-OFT-2018-0030, Application of American Airlines Inc and Qantas Airways Limited under 49 USC 41308 and 41309 for approval of and antitrust immunity for Alliance Agreements. Available: <https://www.regulations.gov/document?D=DOT-OST-2015-0129-0031>

<sup>30</sup> See Confidential Annexure B. The exact scope of the Proposed Conduct will evolve over its term and may be altered from time to time.

The commercial rationale for continuing the Proposed Conduct is clear. More than ever before, the Applicants need the joint business in order to most effectively and efficiently serve the Trans-Pacific Routes, which – once reinstated – are expected to continue to feature high volumes of passengers connecting beyond the gateway hubs, particularly ex Australia, as well as some passengers opting for mixed-metal itineraries (flying one way with a particular carrier and return with another). As was the case in 2015, operational overlap between Qantas and American is limited to one single route – Sydney-Los Angeles. As shown in Figure 1 below, the complementarity of the Applicants’ networks drives both the commercial value and consumer benefits that the joint business has provided, and will continue, to provide.

**Figure 1: Global Complementarity of Qantas and American (Pre-Pandemic) Networks**



American-operated network (February 2020)

Qantas-operated network (February 2020)

Source: Diiomi

A summary of the Applicants’ operations on the Trans-Pacific Routes, as they existed pre-Pandemic, is set out in Annexure F.

The sustainability and future growth of both Applicants’ services will rely more than ever on preferential network access, expansive codeshare selling opportunities, sales and distribution support, streamlined schedule connectivity and coordinated inventory management to help re-stimulate demand and compete effectively – all of which are only possible through re-authorisation of the Proposed Conduct.

### **Counterfactual**

Absent the Proposed Conduct, the Applicants would most likely revert to a limited, arms-length codeshare relationship and therefore lack the incentive to share broad access to each other’s network and inventory or to work together to sustain and grow the Trans-Pacific routes in the longer term.

This is because codeshare partners who do not pool revenue will always have an incentive to fill seats on flights that they operate themselves, where they will receive the full fare instead of just the portion of a fare received from a codeshare sale. This limits codeshare partners’ willingness to share capacity and open network access, thereby failing to capture integrative efficiencies that are achieved with metal neutrality. Losing connecting passengers through decreased network access to the other carrier’s network means fewer passengers on the carrier’s own international flights, making those flights less profitable, and ultimately jeopardising their viability altogether. This misalignment of incentives from a simple codeshare relationship leads to less cooperation, fewer codeshare



destinations, fewer codeshare flights and more restricted inventory. In turn, this means that passengers have fewer and less optimal choices.

The practical and material differences between a metal neutral joint business and an arms-length codeshare agreement became evident during the unexpected delay in fully implementing the Restated JBA as a result of the US regulatory process. The Applicants' temporary reversion to an arms-length codeshare relationship during this time led to an immediate deterioration in consumer choice as neither airline had the maximised commercial incentive to support the other. For example, Qantas removed its code from American's Sydney-Los Angeles flights, American removed its code from Qantas' Sydney-Dallas/Fort Worth and Sydney-Los Angeles flights and both carriers revised their frequent flyer programs to reduce benefits (for example, American no longer provided equal points credit for passengers choosing Qantas flights).<sup>31</sup>

When cross-metal sales support stopped and Qantas' code on American services was removed during this time, Qantas passenger volumes sold by American on the affected Australia-US services (i.e. Sydney to Los Angeles, Sydney to New York, Sydney to Dallas/Fort Worth) rapidly and increasingly declined month after month. In November 2017, Qantas passenger volumes sold by American were 96 per cent lower than in November 2016. Similarly, passenger volumes on American's Sydney to Los Angeles service steadily declined, with November 2017 volumes 98 per cent lower compared to November 2016.

The lack of sales support and passenger volumes meant that the Applicants were forced to reduce service offerings. American down-gauged its Sydney-Los Angeles service to a smaller aircraft and downsized its Auckland-Los Angeles operation to become a seasonal rather than year-round service, whilst Qantas reduced its daily Sydney-Dallas/Fort Worth service to six frequencies per week. By 2018, it was estimated that without codesharing support to connect its passengers onto American's flights in domestic US/Canada, Qantas' Sydney-Dallas/Fort Worth service would become unsustainable and that the loss of that flight alone would destroy up to \$133 million (USD) annually in consumer benefit.<sup>32</sup> The Applicants found themselves largely in a holding pattern in terms of capacity adjustments while waiting for USDOT approval – the long term sustainability of any Trans-Pacific flying would have been in doubt without the joint business but, given the difficulties associated with cancelling and potentially then re-starting entire services, the Applicants 'kept the light on' in the hope USDOT approval could be secured. More detrimental impacts would have been felt by consumers had final approval not been granted.

What is clear from this experience is that, without the Proposed Conduct going forward, the Applicants would have far limited ability to work together to reinstate and grow services on the Trans-Pacific Routes and no incentive to provide each other with access to inventory on their respective international and domestic networks to maximise connectivity and customer choice. The public benefits which will be achieved under the Restated JBA over the longer term will simply not materialise in the counterfactual scenario, an outcome which would be highly detrimental to Australian consumers.

As discussed further below, without long term re-authorisation, Qantas' Trans-Pacific services will be jeopardised. **[REDACTED – CONFIDENTIAL]** Similarly, American's Sydney-Los Angeles and Auckland-Los Angeles services would both be in jeopardy and the likelihood of American launching the new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services, flagged in October 2019 but now delayed due to the Pandemic, becomes remote. Other mutual customer benefits, including frequent flyer earn and redemption opportunities and improved customer services, will be significantly eroded if not removed entirely.

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<sup>31</sup> Stephen Johnson & Ashleigh Davis, *Qantas dumps frequent flyer points deal with American Airlines for Sydney to Los Angeles route – meaning customers will lose rewards*, Jan. 28, 2017, <http://www.dailymail.co.uk/news/article-4166158/Qantas-dumps-frequent-flyer-deal-American-Airlines.html>; *Partner Airlines: Qantas*, <https://www.aa.com/i18n/travel-info/partner-airlines/qantas.jsp>.

<sup>32</sup> See Compass Lexecon report in Appendix 4 of Applicants' application to the USDOT, February 2018. This estimate assumes that the capacity is not reallocated to another route and that passengers are not able to travel with other carriers, but in either case the loss to consumers would be significant.

## TRANS-PACIFIC MARKET

### Overview

Air services between Australasia and North America are a critical element of the maintenance of strong economic ties between the relevant countries. The significance of the Australia-US relationship has been recognised by the Australian Government: *'The persistently high levels of two-way investment in this relationship speak volumes about how closely our people and businesses work together – and the mutual trust we share.'*<sup>33</sup> The US is Australia's largest foreign investor and economic partner, which underlines the importance of the bilateral relationship – and the Proposed Conduct itself – during the Pandemic and in planning for recovery: *'The exceptionally broad and deep economic relationship we share has also been a great asset in these unusually trying times ... a ballast, a source of stability and strength.'*<sup>34</sup>

Air passenger services are also fundamental to re-building tourism links between Australia and North America as demand recovers after the Pandemic. The significance of the US to Australia's tourism industry has been noted by the Australian Government: *'The US is critically important for Australia's tourism industry.'*<sup>35</sup> It has been similarly acknowledged in recent comments by the Australian Minister for Trade, Tourism and Investment when referring to the 1.3 million Australians that visit the US each year that: *'This is a number that when conditions allow and flights resume, I'm determined to make sure that we grow to match, if not outnumber, the number of Australians heading to the US.'*<sup>36</sup> Visitors from the US were the third largest source of international visitors to Australia in 2019 and one of the highest yielding source markets,<sup>37</sup> reflecting the need to restore aviation ties as quickly and sustainably as possible – which is exactly what the Proposed Conduct is designed to facilitate.

Prior to the Pandemic, there had been an increase in passenger numbers on the Trans-Pacific Routes since 2015, as set out in Figure 2 below.

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<sup>33</sup> Hon Minister for Trade, Tourism and Investment Simon Birmingham Address to the American Chamber of Commerce in Australia (21 July 2020) – <https://www.trademinister.gov.au/minister/simon-birmingham/speech/address-american-chamber-commerce-australia>

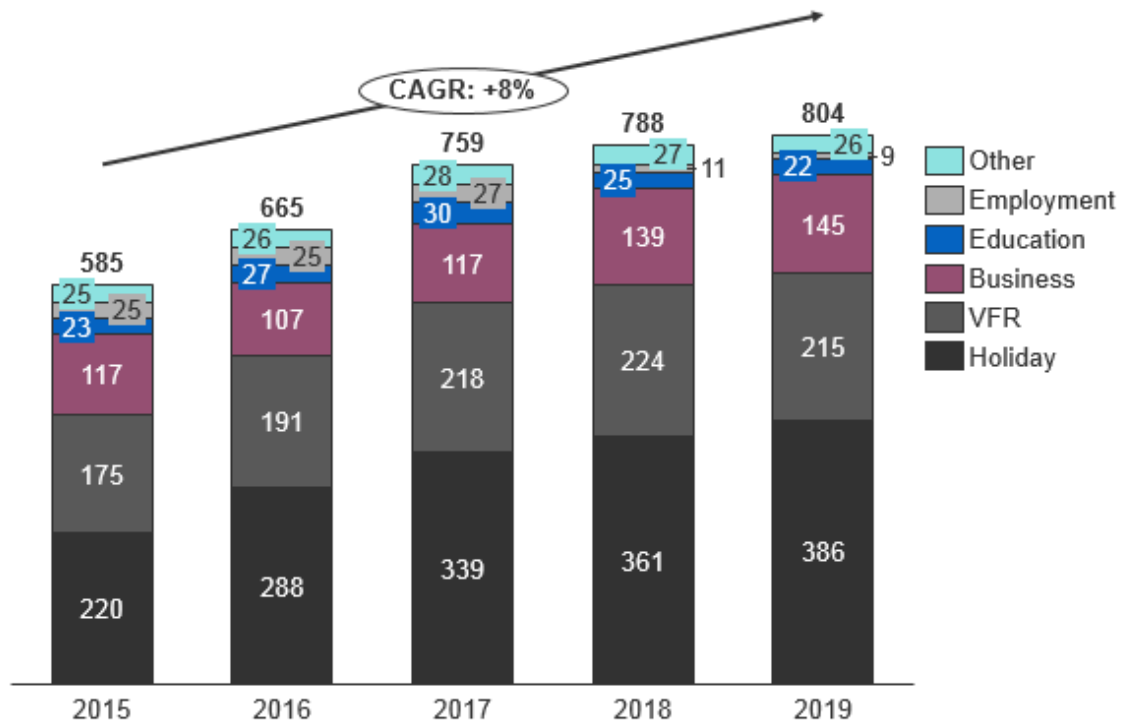
<sup>34</sup> Minister for Trade, Tourism and Investment Simon Birmingham Address to the American Chamber of Commerce in Australia (21 July 2020) – <https://www.trademinister.gov.au/minister/simon-birmingham/speech/address-american-chamber-commerce-australia>

<sup>35</sup> Hon Minister for Trade, Tourism and Investment Simon Birmingham media release – 'Australia welcomes surge in American tourists' (9 October 2019) – <https://www.trademinister.gov.au/minister/simon-birmingham/media-release/australia-welcomes-surge-american-tourists>

<sup>36</sup> Minister for Trade, Tourism and Investment Simon Birmingham Address to the American Chamber of Commerce in Australia (21 July 2020) – <https://www.trademinister.gov.au/minister/simon-birmingham/speech/address-american-chamber-commerce-australia>

<sup>37</sup> See: <https://www.tourism.australia.com/en/markets-and-stats/market-regions/americas/united-states-of-america.html> and <https://www.tra.gov.au/International/international-tourism-forecasts>

**Figure 2: US Visitor Arrivals to Australia (000s) – Year on Year To December 2019**

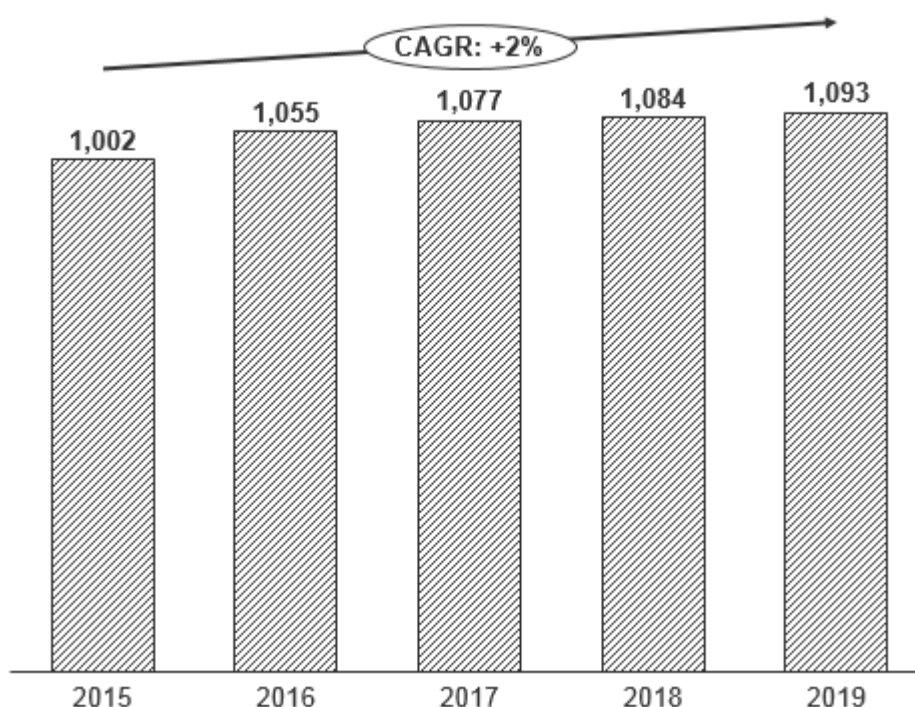


Source: Tourism Research Australia (Australian Government, Austrade)

The growth in US visitor arrivals (up to December 2019) represented an 8 per cent average annual increase since 2015, with demand supported and stimulated, in no small part, by the capacity introduced by the Applicants.

A growth trend was also evident in respect to the numbers of Australian residents departing for short term stays in the US, as set out in Figure 3 below, with a 2 per cent average annual increase since 2015.

**Figure 3: Australian Short-Term Resident Departures to the US (000s) – Year on Year To December 2019**



Source: Tourism Research Australia (Australian Government, Austrade)

As the Commission is aware, travel between Australasia and North America generally involves non-stop flight segments of over 10,000 kilometres, about 12 hours travelling time and specialised, capital intensive long-haul aircraft. As outlined further below, high volumes of connecting passengers travelling on the Trans-Pacific Routes make streamlined connectivity and the ability to sell competitively to 'behind and beyond' destinations crucial. Cooperation between carriers is essential on such 'long and thin' routes because there is insufficient demand specific to the route (i.e. 'local, non-stop demand') to economically fill the large planes needed. In other words, these flights are generally economically sustainable only if and when the carrier can also serve connecting passengers.

The need for Australasian carriers to have a strong network and sales relationship with a US based carrier is reflected by the fact that each of Qantas, Virgin Australia and Air New Zealand have historically engaged in long term joint business relationships with American, Delta and United respectively. For example, in commenting on the Delta/Virgin Australia alliance in 2015, Air New Zealand noted:

*'...as a general proposition, Air NZ supports alliances between air carriers, which are becoming increasingly important in the development of our international network and in the accessibility of long haul destinations. Air New Zealand agrees with the main thread of the applicants' submission; that access to a local network in each of Australian (sic) and the US is extremely important to the sustainability of trans-Pacific services.'*<sup>38</sup>

Regulators have also acknowledged the need for Trans-Pacific operators to have competitive access to destinations beyond the major gateways. For example, in authorising the Restated JBA, the Commission observed:

<sup>38</sup> Air New Zealand submission to ACCC in respect of Virgin Australia and Delta application for authorisation, dated 16 February 2015. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D15%2B19714.pdf>

*'The ACCC considers that, in the future without the Proposed Conduct, Qantas would be unable to offer services to non-gateway destinations in the US. This would make its offering less attractive to customers that wish to travel to/from these destinations, resulting in lower passenger numbers on trans-Pacific services. In turn, this is likely to result in some rationalisation of Qantas' current trans-Pacific service offering and/or delay the introduction of new frequencies and services.'*<sup>39</sup>

*'The ACCC also notes that each of the other airlines offering direct trans-Pacific services benefits from their partnership with an airline based on the opposite side of the Pacific. That is, Virgin with Delta and United with Air New Zealand.'*<sup>40</sup>

## **PUBLIC BENEFITS**

### **Overview**

Long term re-authorisation will enable the faster and more sustainable reinstatement and ultimately growth of both Applicants' Trans-Pacific capacity. In addition, the Applicants will have the certainty to continue to invest in offering:

- an expanded codeshare relationship, giving Australian consumers more travel options;
- an enhanced frequent flyer proposition, of particular benefit to the growing number of Australian resident members of both Applicants' frequent flyer programs;
- improved customer services including expanded reciprocal lounge access, enhanced check-in processes, better baggage handling and increased booking convenience;
- a variety of fare products, price points and lower fares made possible through coordinated inventory management; and
- the stimulation of tourism and trade to and within Australia through joint sales and marketing, with a particular focus on campaigns in the US showcasing Australasia.

These significant public benefits can be achieved without any competitive detriment in circumstances where the Proposed Conduct:

- is an extension of an existing arrangement between two complementary networks with limited overlap (on only a single route, Sydney-Los Angeles) in what remains an intensely competitive market, despite Virgin Australia not operating international services in the short-medium term as a result of the Pandemic;<sup>41</sup>
- builds on a proven history of delivering benefits to Australian consumers, the tourism industry and export/import businesses; and
- will facilitate capacity reinstatement and longer term benefits that would otherwise not occur, including preserving American's operations to Australasia, providing competition to fellow US-based carriers United and Delta.

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<sup>39</sup> See pg 1 ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf>

<sup>40</sup> See para 89 ACCC Determination: Application for Revocation of A91265 and A91266 and the Substitution of authorisation A91502 and A91503 lodged by Qantas Airways and American Airlines in respect of their restated joint business agreement and associated agreements, 25 February 2016. Authorisation numbers A91502 and A91503. Available: <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B22969.pdf>

<sup>41</sup> As detailed below, Virgin Australia and Delta have suspended their alliance but indicated an intention to resume joint flying on the Trans-Pacific in future.

The public benefits of the Proposed Conduct are detailed further below.

## Capacity Growth

As the Commission is aware from its consideration of the joint business in 2011 and 2015, the commercial arrangements between the Applicants have facilitated an expansion of their services and frequencies on the Trans-Pacific Routes, including new direct services between Australia and the US. The metal-neutral revenue sharing model of the Restated JBA has further incentivised each carrier to allow the other access to domestic networks which in turn facilitates ticket sales to high volumes of connecting passengers travelling on the Trans-Pacific Routes. By integrating complementary networks, and offering broader and deeper service to more destinations, the Applicants will be able to re-stimulate demand and thus generate more traffic. This is what makes the Restated JBA so fundamental to the faster reinstatement and growth of capacity on the Trans-Pacific.

The ability to offer streamlined connectivity and sell competitively to 'behind and beyond' destinations remains crucial to both Qantas and American. Table 3 below shows the traffic mix on various Trans-Pacific flights operated by the Applicants in 2019. The data shows that certain flights rely particularly heavily on connecting traffic to make up loads. For example, in 2019 only 22 per cent of passengers flying on the Sydney-Dallas/Fort Worth route on Qantas were point-point passengers (see column 5 below). Of the 78 per cent connecting passengers, 37 per cent originated from behind a US gateway (column 2, for example, Miami-Dallas/Fort Worth-Sydney), 14 per cent travelled beyond an Australian gateway (column 4, for example, Dallas/Fort Worth-Perth) and 27 per cent travelled behind a US gateway and beyond an Australian gateway (column 1, for example, Miami-Dallas/Fort Worth-Sydney-Perth).

**Table 3: Traffic Mix On Joint Business Flights between Australia-US, 2019**

Route	1 Behind Australia Gateway to Beyond U.S. Gateway (Bridge)	2 Australia Origin to Beyond U.S. Gateway	3 % Connecting To/From U.S. Flight	4 Behind Australia Gateway to U.S. Destination	5 Australia Origin to U.S. Destination
DFW-SYD	27%	37%	64%	14%	22%
LAX-BNE	7%	24%	31%	17%	52%
LAX-SYD	10%	39%	49%	9%	42%
LAX-MEL	5%	33%	38%	11%	51%
SFO-MEL	4%	14%	12%	22%	66%
SFO-SYD	3%	8%	11%	28%	61%
LAX-AKL	6%	57%	63%	4%	33%

The Original JBA provided the platform for capacity growth since 2011, by enabling access to these 'behind and beyond' destinations.

As the Commission is aware, Qantas' Dallas/Fort Worth to Sydney service was launched in 2011, greatly enhancing connectivity for passengers travelling between Australasia and the US. Operating directly into Dallas/Fort Worth gave Qantas a stronger and more balanced network footprint in the Americas, delivering choice and convenience for its customers. Dallas/Fort Worth is one of the major hub airports in the US, one of the largest and fastest-growing metropolitan areas in the US and an important centre of business and tourism. Dallas/Fort Worth is also American's largest hub. From here, American and its regional partner American Eagle operate to hundreds of destinations

worldwide and across the US, Canada and Mexico (including Boston, Orlando, Houston, Las Vegas, Miami, Nashville, Calgary, Toronto and Vancouver).

In 2014, Qantas' Dallas/Fort Worth service was expanded, with Qantas up-gauging to its flagship Airbus A380 aircraft, expanding capacity by 13,000 seats annually. Prior to the Pandemic, Qantas was operating over 300,000 seats annually between Sydney and Dallas/Fort Worth and, with joint business support, Qantas was in a position to increase the service to be daily with effect from June 2020 (which would have taken the annual number of operated seats to 350,000). The seventh weekly service was designed to better optimise use of the relevant aircraft by tapping into the connectivity offered by American out of Dallas/Fort Worth and would have assisted the Applicants to compete with United's Sydney-Houston service, which commenced in 2018.

The Original JBA facilitated growth on other routes too. In December 2015, Qantas commenced new Sydney-San Francisco flights, made possible by the introduction of American's Sydney-Los Angeles service in the same month. American has carried nearly 700,000 passengers on its Sydney-Los Angeles flights since its launch, including over 170,000 passengers in 2019. Los Angeles is the largest US route to Australia, with American's entry making it even more competitive with Delta and United.

Qantas' Sydney-San Francisco flights provided competition to the otherwise monopoly operator on the route, United, and have proven popular with travellers by saving around four hours transit time in Los Angeles. This service was then complemented by the introduction of new Qantas services between each of Melbourne and Brisbane and San Francisco in 2018. Other capacity increases have included the introduction of a twice weekly Boeing 789 Dreamliner Qantas service between Melbourne and Los Angeles in 2017-2018 (adding to the daily A380 service on this route) and a daily A380 Qantas service between Sydney and Los Angeles in 2018 (up from a 6 weekly A380 service and a once per week B744 service on the route).

However, as noted above, during the protracted USDOT approval and re-filing process, full implementation of the Restated JBA was put on hold in all relevant jurisdictions. During this time, the lack of sales support and passenger volumes forced the Applicants to reduce service offerings with downgauges on multiple routes, while trying to avoid route cancellations by 'keeping the light on' in the hope USDOT approval could be secured. This meant that the joint business capacity plan was effectively in a holding pattern until mid 2019.

As soon as the USDOT granted approval in July 2019, the Applicants worked quickly to facilitate the launch and announcement of further new services between Australia and the US. Specifically, Australian consumers were set to benefit significantly from the launch of new Qantas operated services between Brisbane and each of San Francisco (February 2020) and Chicago (April 2020). The announcement of these new routes, not otherwise served by any other carrier, was made possible by the Restated JBA.

Qantas' plans were to serve the Brisbane-Chicago route by offering a four weekly Dreamliner 787-9 service from April 2020. The schedule was designed to facilitate convenient connections for those passengers travelling behind and beyond those ports, using both the Qantas and American domestic networks respectively. In particular, the Brisbane-Chicago service would create around 80 new one-stop itinerary options via and from Chicago, and over 20 new one-stop options beyond Brisbane. The Applicants anticipated that there would be a large number of passengers wishing to fly from Sydney to join the service, with Australian origin traffic also being sourced from Perth, Melbourne, Adelaide and Canberra. Connectivity would also be provided by American beyond Chicago to parts of the US and Canada, in particular New York, Montreal, Orlando, Minneapolis, Miami, Nashville, Indianapolis and Toronto. Likewise, Qantas' new Brisbane-San Francisco services had just commenced operation in February 2020 offering a three weekly Dreamliner 787-9 service, providing a new link between previously unserved gateways. Combined, these two new services from Brisbane to the US were expected to stimulate over 50,000 passengers annually.

Australian consumers were also set to benefit from new American services made possible once the Restated JBA received USDOT approval in 2019. As well as supporting the existing Auckland-Los Angeles service operated by American, the Restated JBA was the driver for the significant announcement in October 2019 of two new American services from New Zealand – Christchurch-Los

Angeles and Auckland-Dallas Fort/Worth. While providing obvious benefits to New Zealand passengers with new city pairs and connectivity to the US, this capacity growth would also offer Australian passengers additional one-stop transit options while also helping to stimulate overall inbound tourism to the Australasian region.

By the second half of 2019, the growth trajectory made possible by finally being able to implement the Restated JBA was clear. Tables 4 and 5 below show the increases in Qantas and American capacity planned to be operated on Trans-Pacific Routes respectively, including projections for 2020 and 2021 made prior to the Pandemic.

**Table 4: Year Over Year Qantas Available Seat Kilometres (ASKs) on Key Trans-Pacific Routes (Projected Pre-Pandemic)**

ASKs	2016	2017	2018	2019	2020	2021
<b>SYDLAX</b>	4,615,530,816	4,163,819,520	4,269,320,762	4,358,013,168	4,616,886,918	4,794,719,580
<b>MELLAX</b>	5,289,921,580	4,709,835,318	5,548,399,716	5,043,168,674	4,801,777,500	4,496,810,250
<b>BNELAX</b>	3,054,527,592	2,942,164,132	2,912,340,300	2,801,059,924	2,290,354,512	1,985,699,280
<b>SYDDFW</b>	4,062,524,754	4,143,055,054	4,069,860,102	3,715,973,840	4,075,936,128	4,366,228,489
<b>SYDSFO</b>	2,628,166,388	2,658,277,258	2,705,853,290	2,753,183,636	2,063,004,384	2,057,367,760
<b>MELSFO</b>	0	0	375,379,470	1,224,959,085	1,246,959,166	1,246,959,166
<b>BNESFO</b>	0	0	0	0	756,471,210	836,946,870
<b>BNEORD</b>	0	0	0	0	1,000,796,554	1,413,287,026

*Excludes Hawaii, LAX-JFK tag service and seasonal SYD-YVR services*

**Table 5: Year Over Year American ASKs on Key Trans-Pacific Routes (Projected Pre-Pandemic)**

ASKs	2016	2017	2018	2019	2020	2021
<b>LAXSYD</b>	2,651,695,724	2,664,190,537	2,498,010,729	2,501,360,351	2,501,360,351	2,501,360,351
<b>AKLLAX</b>	805,487,985	1,545,306,012	866,803,671	915,046,074	915,046,074	915,046,074
<b>CHCLAX</b>	0	0	0	0	43,833,240	230,323,752
<b>AKLDFW</b>	0	0	0	0	320,783,460	2,491,190,700

The Applicants' network growth plan has now been severely and obviously disrupted by the Pandemic. As noted earlier, Qantas' new Brisbane–San Francisco services commenced in February 2020, just prior to the Pandemic, but have since been suspended. Qantas' new Brisbane-Chicago services have also now postponed. Similarly, American's new Auckland-Dallas/Fort Worth and Christchurch-Los Angeles services, originally intended to commence in October 2020, have been postponed to late 2021-2022.

Long term re-authorisation of the Proposed Conduct in all relevant jurisdictions represents the fastest and most effective way to rebuild, sustain and ultimately grow Trans-Pacific capacity to the benefit of Australian consumers and businesses. For example, pre-Pandemic, Qantas was investing significantly in Project Sunrise, exploring the introduction of ultra-long haul flying including a new direct Sydney to New York (JFK) service. This would introduce first non-stop link between Australia and New York, connecting global financial hubs and which would further stimulate market demand.



While this project has been paused as a result of the current crisis, Qantas intends to pursue this goal over the longer term and re-authorisation of the Restated JBA would support this service.

While it is too uncertain at this stage to predict any specific details of capacity reinstatement on a route or time basis (with the exception of American's re-introduction of Sydney-Los Angeles services in November 2020), what is certain is that without re-authorisation, the Applicants' Trans-Pacific services will be seriously jeopardised. **[REDACTED – CONFIDENTIAL]**

Domestic connectivity provided by American beyond Dallas Fort/Worth is an important selling feature for Qantas' Sydney-Dallas/Fort Worth service. For example, as Table 3 above shows, of the total passengers utilising Qantas' service in 2019, 64 per cent connected either to or from a US domestic flight. Without the ability to sell seamlessly onto American's services, as well as maximise schedule connectivity, this traffic will be less well served. Itinerary building and transit convenience will be reduced. As the only carrier servicing this important gateway, any downgauging of Qantas capacity to Dallas/Fort Worth would be a significant regression in consumer benefits by reducing the number of seats and well-established connection options previously available to passengers travelling between Australasia and the US, harming Australian passengers travelling to/from central and eastern US in particular.

American's historical support for the Sydney-Dallas/Fort Worth service is shown in Confidential Figure 4 below. There was a material increase in revenue after USDOT approval was granted in July 2019 and the joint business could be fully implemented. American's sales support provides a more sustainable and diversified balance to regional selling of the service, which in turn reduces risk and makes potential growth possible.

**[REDACTED – CONFIDENTIAL]**

As noted earlier, the Applicants' experience as a result of the USDOT approval process demonstrated that, without appropriate commercial incentives in place, the Applicants did not (and would not) open up their respective network for sale by the other. During the period without revenue sharing, each carrier relied on its own ability to source connecting passengers to make the Trans-Pacific services commercially viable. Without partner support, Qantas was forced to downgrade its Sydney-Dallas/Fort Worth flight frequency. In addition, Qantas' frequencies on its new Melbourne to Los Angeles service were also reduced given the lower level of American support during this period.

Similarly, without the Restated JBA, American's Sydney-Los Angeles and Auckland-Los Angeles services would both be in jeopardy and the likelihood of American launching the new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services becomes remote. Historically, sales made in Australia account for over 60 per cent of American's Australasia traffic – highlighting that American is dependent on Qantas' marketing, pricing and sales expertise to capture traffic in Australia. Qantas has already included American in its agency and corporate programs. Additionally, as outlined further below, American has participated in multiple trade shows and agency events hosted by Qantas in Australia, showcasing American's products and highlighting benefits of the joint business. With the recent capacity reductions as a result of the Pandemic, American is even more reliant on Qantas to succeed in Australasia. **[REDACTED – CONFIDENTIAL]** .Qantas' sales team is now selling both Qantas and American flights, delivering a single, consistent message to joint business customers.

As the Applicants are forced to prioritise investment opportunities in the network moving forward as a result of the Pandemic, joint business support for all Trans-Pacific services will be critical. **[REDACTED – CONFIDENTIAL]**

### **Expanded Connectivity and Schedule Choice**

One of the benefits of a revenue sharing joint business is the fact that the carriers are incentivised to broaden codeshares and facilitate schedule choice for consumers. As the carriers put their codes on more of each other's flights, their customers have more flights to choose from, including many that are not served by their preferred carrier. Even on those routes served by both carriers – such as, in the case of the Applicants, Sydney-Los Angeles – customers are given valuable new options. For example, since the carriers are agnostic as to which one provides the international service, they are more likely to allow mixed-metal round-trip itineraries that allow passengers to depart on one airline

and return on the other. Further, as noted above, joint business partners are incentivised to adjust their combined schedule to create more time-of-day options by moving one or more flights from peak travel times where both carriers previously operated services that departed at virtually the same time.

The Restated JBA has facilitated a significant increase in codeshare destinations. The Applicants have expanded their codeshare relationship to encompass a total of 166 destinations, with 11 destinations in Australia, four destinations in New Zealand and 151 destinations in the US. For example, Qantas passengers connecting at Los Angeles now enjoy convenient access to 45 destinations beyond that gateway available on Qantas code. Additionally, Qantas codes on flights to 77 destinations beyond Dallas/Fort Worth, 12 destinations beyond Chicago and eight destinations beyond San Francisco. American passengers also enjoy access to the Qantas domestic, New Zealand and Trans-Tasman network, with American code placed on flights to nine destinations beyond Sydney, five beyond Melbourne, seven beyond Brisbane and five beyond Auckland.

The Applicants have also delivered, and will continue to deliver, greater schedule choice to Australian consumers. For example, as a result of the expansion of Trans-Pacific services, consumers can access different time channels for travel from Australia to various parts of the US/Canada, with increased choice of departure and arrival times and transit points. Prior to the Pandemic, the Applicants were reviewing flight connections and minimum connecting times at existing AA hubs of Los Angeles and Dallas/Fort Worth, to work towards offering new or improved connections between Qantas and American services.

In addition, the Applicants were specifically working on maximising schedule connectivity and itinerary choice made possible by Qantas' new Brisbane-Chicago and Brisbane-San Francisco services. Using Brisbane-Miami as an example routing, the joint business was geared to be able to offer multiple schedule choices to passengers, as shown in Confidential Table 6 below **[REDACTED - CONFIDENTIAL]**

Other examples of schedule optionality facilitated by the Restated JBA are set out in Figures 5-8 below.

**Figure 5: Sample Itinerary Choices Made Possible Through Restated JBA, Adelaide to Los Angeles**



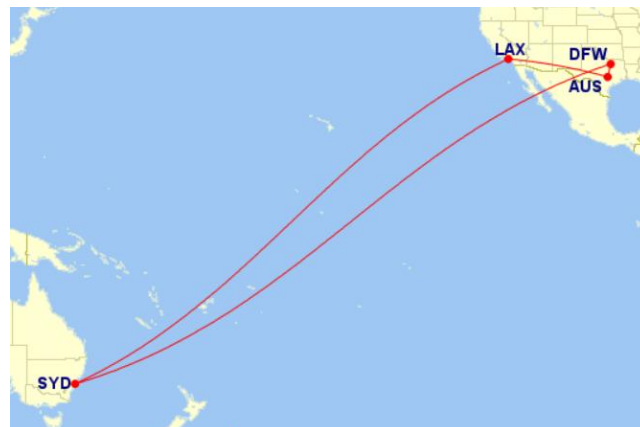
Time Channel	Flight 1	Departure Time	Flight 2	Arrival Time
Morning arrival	QFADL-SYD	06:50→09:15	AASYD-LAX	11.15→06:10
Evening arrival	QFADL-MEL	18:25→20:15	QFMEL-LAX	22:20→17:40

**Figure 6: Sample Itinerary Choices Made Possible Through Restated JBA, Cairns to Phoenix**



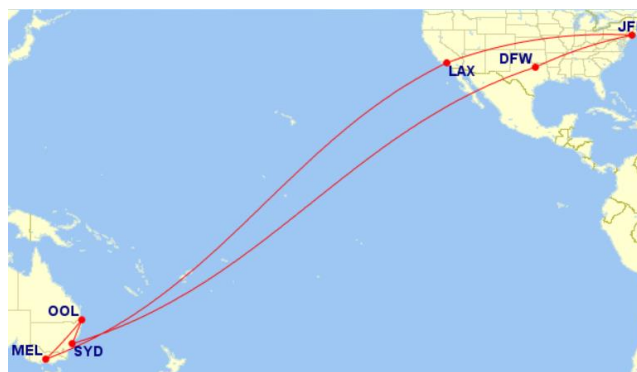
Flight 1	Departure Time	Flight 2	Flight 3	Arrival Time
QFCNS-MEL	16:35→21:00	QFMEL-LAX	AALAX-PHX	19:57→ 22:18
QFCNS-BNE	05:25→07:35	QFBNE-LAX	AALAX-PHX	07:30→ 10:00

**Figure 7: Sample Itinerary Choices Made Possible Through Restated JBA, Austin to Sydney**



Flight 1	Departure Time	Flight 2	Arrival Time
AAAUS-DFW	16:42→17:51	QDFW-SYD	19:45→06:05
AAAUS-LAX	19:41→21:06	QFLAX-SYD	22:30→08:35

**Figure 8: Sample itinerary Choice Made Possible Through Restated JBA, New York to Gold Coast**

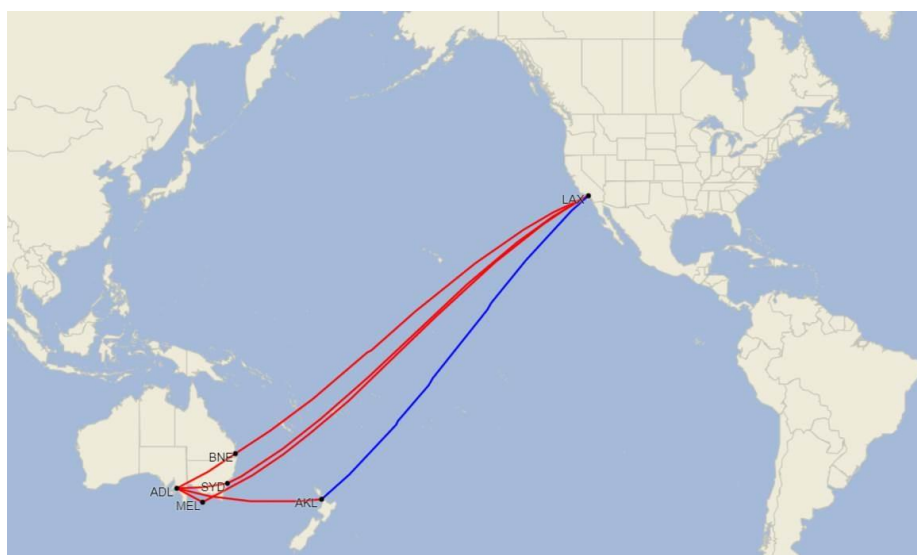


Flight 1	Departure Time	Flight 2	Flight 3	Arrival Time
AAJFK-DFW	14:43→17:55	QDFW-SYD	QDFW-SYD	09:45→10:10
AAJFK-LAX	18:29→21:59	QFLAX-MEL	QFLAX-MEL	11:10→12:15

Similarly, American’s Auckland-Los Angeles service opened up schedule choice for Australian passengers, with Qantas’ Trans-Tasman services providing further itinerary optionality. The inter-connection between Trans-Pacific and Tasman travel shows the importance of the joint business’ overall proposition to and from Australasia. In 2019, over 375,000 joint business passengers had a trip that included both a Qantas and an American segment, enjoying seamless connections and other benefits. This kind of optionality and ease of itinerary building is made possible by the Proposed Conduct, including through the coordinated provision of flexible fare types (described further below).

For example, a passenger travelling from Adelaide to Los Angeles could fly via Auckland on American, or via another east coast Australian port – see Figure 9 below.

**Figure 9: Sample Itinerary Choice: Adelaide -Los Angeles**



All this optionality means more choice and seat availability, which leads to increased opportunities to find lower fares and the offer of ‘open jaw’ itineraries. Importantly, in all cases, the passenger has increased choice relative to what would exist without the Proposed Conduct. In addition, the passenger gets the benefit of further onward connectivity in the US with American or in Australia/New

Zealand with Qantas/Jetstar and can earn or redeem frequent flyer points/miles regardless of the carrier's code they have booked on. In this way, the Applicants can offer competitive alternatives to Delta, the United/Air New Zealand proposition - which includes direct Auckland-San Francisco services (operated by United since July 2015) and direct Auckland-Chicago services (operated by Air New Zealand since November 2018) – and other indirect operators.

With long term re-authorisation, this comprehensive joint network will continue and enable Australian consumers to enjoy further schedule choice and connectivity. By contrast, without the Restated JBA, codeshare opportunities, connections and itinerary choice will diminish.

### **Enhanced Frequent Flyer Benefits**

The joint business has provided generous benefits for members of both Applicants' frequent flyer programs. Incentivised again by the metal-neutral revenue sharing model, the Applicants offer what are effectively full reciprocal, earn-and-burn programs on all domestic and international flights. This is of direct benefit to over 13 million Qantas Frequent Flyers worldwide. The lucrative earnings rate made possible by the joint business has helped the AAdvantage program grow in Australia from approximately 6,800 members in 2015 to almost 16,500 members today, including growth of 37 per cent in 2019.

Since 2015, the Applicants have extended privileges for each other's frequent flyers when travelling on the other airline (including the ability to earn points and status credits on all commercial tickets and points bonuses for tiered frequent flyers). For example, for travel from 1 October 2019, Qantas Frequent Flyer improved the earn proposition on American marketed flights (including Sydney-Los Angeles) as follows:

- for travel between Australia, New Zealand and the mainland US/Canada, Qantas Points and Status Credits earn increased, aligning with what is earned on Qantas marketed flights;
- for travel within the mainland US/Canada, Status Credits earn increased, again aligning with what is earned on Qantas marketed flights; and
- across all routes, Silver member Status Bonus earn on American marketed flights increased bonus points from 25 per cent to 50 per cent to align with what is earned on Qantas marketed flights.

These benefits, which only came into effect after the USDOT granted final approval to the Restated JBA, provide valuable earn entitlements. By way of illustration, prior to these changes, a Qantas Frequent Flyer member booking economy travel on American's Sydney-Los Angeles service would have earned 3,750 base points and 20 Status Credits. From 1 October 2019, the earn increased to 6,750 base points and 60 Status Credits – the same as if the flight was marketed by Qantas.

Similarly, prior to the changes in October 2019, an American AAdvantage member booking business class travel (D fare) on Qantas' Sydney-Los Angeles service would have earned 9,360 base miles, and 11,232 miles towards elite qualifying status. From 1 October 2019, the new earn increased to 11,232 base miles and 14,976 elite qualifying miles, offering the customer significantly more miles for the same fare and bringing the earnings level in line with an American-operated flight. Premium Economy awards were also made available in early 2020, providing additional opportunities for customers to utilise their miles.

American's introduction of the Sydney-Los Angeles service in December 2015 and the Auckland-Los Angeles service in June 2016 enabled Qantas Frequent Flyer members to earn (or redeem) additional points because they can fly with American and still earn (or redeem) points, rather than switching to an alternative carrier and foregoing the ability to earn (or redeem) points for the onward journey. When the Applicants were able to implement the full suite of loyalty benefits in the second half of 2019, there was a significant increase in Qantas Frequent Flyer members taking up the opportunity to both earn and redeem points on American's Sydney-Los Angeles flight. There was a 44 per cent increase in average points earned per passenger segment when comparing Qantas Frequent Flyer member bookings on the American service for the period of October 2019-February 2020 compared to the same period in the previous year. When American resumes its Sydney-Los Angeles service in

November 2020, it will again be critical that Qantas can continue to incentivise its membership base to support sustainability of that service through targeted marketing and offers.

The effect of the Applicants' improved frequent flyer proposition can similarly be seen in increased levels of cross metal points/miles accrual. There has been a marked uptake in the number of accruals of miles by AAdvantage members travelling on Qantas-operated services. For example, as Confidential Figure 10 below shows, relative to 2018, there were year-on-year increases in accruals of 31 per cent (September 2019), 57 per cent (October 2019), 101 per cent (November 2019) and 90 per cent (December 2019). The same trend emerges when looking at Qantas member accrual on American-operated services. Qantas member accruals increased 772 per cent (September 2019), 360 per cent (October 2019), 46 per cent (November 2019) and 56 per cent (December 2019). Although AAdvantage member accrual on American-operated services declined, the increased cross metal accrual is illustrative of the Restated JBA delivering more options to consumers, and to do so at the expense of same metal accrual occurs because of the metal neutral joint business structure where incentives are aligned between the carriers.

#### **[REDACTED – CONFIDENTIAL]**

Going forward, the Applicants aim to deliver further benefits as the market recovers from the Pandemic. For example, the Applicants intend to create a more customised and personalised experience for their loyal customers, by offering enhanced recognition such as through cross-carrier upgrades (for example, an AA Advantage member would be able to redeem miles for a cabin upgrade on Qantas flights) and 'meet and greet' services for top frequent flyers.

The harmonisation and improvement of frequent flyer benefits across American and Qantas flights would not occur without the Restated JBA. For example, during the period pending USDOT approval, the frequent flyer benefits being offered by each Applicant to the other's frequent flyer base were eroded. American and Qantas significantly reduced (from three fare classes to just one fare class) the number of fare classes that offered full mileage accrual (i.e. one mile for every mile flown) across American and Qantas operated flights and mileage accrual was reduced across the board. These reductions had real effects on redemption: American passenger frequent flyer redemption on Qantas' long haul flights declined by 40 per cent in the year to February 2018, with hundreds of millions of miles of frequent flyer benefits lost to consumers.

#### **Improved Product and Services**

The Restated JBA incentivises the Applicants to share best practices and jointly invest in designing and delivering an optimal customer experience. As noted earlier, revenue-pooling ensures the carriers jointly aim to provide customers the best in-flight and on-ground experience across both brands. Qantas and American have worked closely together to deliver multiple initiatives to significantly improve the customer experience. Examples include:

- American increased its meal sizes in the economy cabin and worked with Qantas' suppliers in Sydney to improve meal quality;
- American and Qantas cabin crew jointly participated in epicurean events to support a service culture and improve customer service more broadly;
- at gateway airports, the teams have worked to identify opportunities for co-location that drive additional benefit for joint business customers. For example, to support Qantas' new Chicago-Brisbane service, American found space to have the flight depart from Terminal 3 in Chicago O'Hare Airport. By co-locating in the same terminal for departures to Australia, the minimum connection time was reduced from 90 minutes to 35 minutes, enabling 14 additional connections that would have otherwise not been possible. Qantas is also now co-located with American in New York (JFK) Terminal 8, providing faster and more seamless connecting experience for customers; and
- American worked with Qantas to improve its business class cabin proposition by introducing complimentary pyjamas and seat mattresses on Trans-Pacific flights, aspects which have subsequently been introduced across other parts of American's network.

Most recently, the teams have worked together to facilitate other customer improvements including Qantas launching inflight on-board welcomes to American frequent flyers travelling on Qantas operated Trans-Pacific services (the intention being that this initiative would be reciprocated by American, although this was not able to be implemented prior to the Pandemic).

American has also worked with Qantas to improve how passengers travelling on both carriers are re-booked when flights are cancelled. The necessary processes and systems to facilitate this would, however, only be made available to Qantas passengers as part of the Proposed Conduct. For more than a decade, for example, American has relied on a tool it developed called 'Auto-Reaccom' to identify all re-booking options for passengers from cancelled flights and automatically assign those passengers new seats based on an algorithm designed to minimize passenger disruption. American does not, however, make Auto-Reaccom available to any non-joint business partners. Discussions between Qantas and American in relation to implementing this system have been delayed by the Pandemic.

Similarly, in September 2017, American also introduced a new customer-facing tool called 'Dynamic Re-accommodation' that allows passengers to directly re-book themselves in the event of delays and cancellations and intends to work with Qantas in respect of implementing this within the joint business framework. American has also made substantial investments to improve the customer purchase experience by establishing direct connections called 'deep links' between American's website and the websites of its various joint business partners. If the Proposed Conduct is re-authorised over the longer term, American will extend this type of connectivity to Qantas, significantly improving the customer purchasing experience across two project phases. The first phase of the project will:

- allow AA.com to recognise Qantas codeshare customers who are eligible for advance (pre-reserved) seat selection after they deep link to AA.com;
- provide Qantas customers with the ability to choose or change seats from the "view reservation" page;
- allow AA.com to identify the tier status of the incoming customer and provide seat offers consistent with their tier status;
- provide a "return to qantas.com" button that will allow Qantas' customers to return to the "manage my booking" page on qantas.com;
- display the seat number selected on both AA.com and qantas.com;
- allow customers on qantas.com to deep link to AA.com from the "view reservations" and check-in pages; and
- provide the ability to support local language, allowing joint business customers to complete the seat selection process in English, Spanish, Portuguese, French or Japanese.

The second phase of the project will offer the option to deep link from AA.com to qantas.com, mirroring the above functionality. These deep links materially enhance the customer experience by making it far easier for passengers to interact with American and Qantas through a single portal. However, such integration is costly to implement. As a result, American has only invested in developing these types of deep links with its existing joint business partners (and will with Qantas, if long term re-authorisation is granted). Detailed planning to implement these deep links was progressing in February 2020, prior to the Pandemic.

Re-authorising the Proposed Conduct will also facilitate the Applicants' ongoing investments in baggage handling integration and other service improvements that are not feasible outside a revenue-pooling joint business. While American and Qantas have already worked together on baggage handling processes in key gateways such as Los Angeles, long term re-authorisation of the Restated JBA would justify a further investment in time and money in due course to materially improve baggage handling between Qantas and American. By way of further example, the joint business has facilitated, and will continue to facilitate, increased investment in each Applicant's lounge infrastructure, resulting in significant benefits to passengers. In the US, American has launched new shared Admirals Club and Flagship Lounges in Los Angeles, New York (JFK), Dallas Fort/Worth and Chicago – with such investment bolstered and incentivised by the traffic that American receives from Qantas and its other joint business partners – for example, in 2019, over 4,500 Qantas passengers enjoyed the Admirals



Club in Los Angeles. Qantas has taken similar steps to expand and improve its lounges as a result of the joint business.

In the months just prior to the Pandemic, the Applicants had identified a number of other opportunities for improving customer service, including ways to recognise each carrier's high value customers and for each carrier's call centre to provide 'warm transfers' between representatives (whereby, for instance, an American passenger calling the Qantas call centre would be immediately re-directed without re-dialling and re-queuing with a relevant American representative, and vice versa). The Applicants had also been gearing up to launch operational taskforces, roadshows and training sessions across various ports, including presentations to front line teams who deal with both carriers' customers, all designed to identify other joint service improvement opportunities. While all of these projects have necessarily been postponed due to the Pandemic, long term re-authorisation of the Proposed Conduct will make an investment case to progress these initiatives more likely.

Without the Proposed Conduct continuing over the long term, there will be neither the incentive nor the revenue support to maintain such collaboration or justify new investment. When implementation of the Restated JBA was put on hold pending USDOT final approval, investment in such joint initiatives and customer experience working groups stopped, as this level of carrier cooperation and alignment only occurs under a long term joint business structure, not a under a codeshare agreement. Such best-practice customer service and disruption management will only occur as part of the Proposed Conduct, where each carrier has the financial interest to treat all customers as its own and when their related operational teams are able to work closely with each other to deliver a higher level of service.

#### **Coordinated Inventory Management, Increased Inventory Access and Lower, More Flexible Fares**

The ability to coordinate inventory has meant that the Applicants have been able to support each other's sales and marketing activities, by ensuring that sufficient seats are available to be offered as part of a sale to multiple destinations. This is not possible under normal codeshare arrangements. As outlined earlier, the Restated JBA achieves metal-neutral selling of the Applicant's joint services, meaning that the Applicants have been able to align their economic incentives and organise their sales functions to enable them to be indifferent as to which joint service the customer chooses. This provides the incentive for the Applicants to allow each other access to the full inventory of available seats regardless of whether the customer is seeking to book a long haul Trans-Pacific journey using either or both carriers.

The Applicants have streamlined many pricing rules, including aligning day-of-week applications, season restrictions and advance purchase and minimum stay requirements. This has created a more consistent product across both carriers, making it easier for customers to understand and consume. Further, if the Proposed Conduct is re-authorised, the Applicants will explore the integration of group booking systems to permit Qantas passenger groups to use American operated services between Australasia and the US, further unlocking demand, new itineraries and lower fares. This would help the joint business to offer a competitive proposition to groups hosting or attending meetings, conferences and exhibitions in Australia, New Zealand or the US. In addition, in order to facilitate the greater availability of discounted fares, the Applicants will work on adopting a dealing strategy (by customer segment or distribution channel) that will apply to joint services going forward.

As part of the joint business, Qantas has already opened up its published fares rules to permit Qantas fares to be sold on American operated Trans-Pacific services, providing greater flexibility for travellers moving between Australia and the US, as well as between Australia/US and New Zealand. American also opened up its published fare rules to permit American's fares to be sold on Qantas services. Together, the Applicants have delivered attractive fare products for consumers travelling between Australasia and the US, such as the 'Qantas Explorer' fare product, which has enabled more 'beyond gateway' multi-sector itineraries under which fares are based on mileage and tiered accordingly.

The Applicants have launched creative fare products that offer flexible price points to price sensitive passengers, giving passengers the option to use both carriers' services on the same itinerary. Similarly, when either airline has been approached by agents seeking specific offers, the fare products provided have been made available across each carrier's flights, maximising the ability of the agent to sell a range of itineraries to the consumer. With re-authorisation, the Revenue Management



teams will continue to maximise inventory access to domestic networks to assist in stimulating demand and the joint business will continue to review and integrate functions through co-location of personnel and streamlined decision making processes.

More generally, the Proposed Conduct will continue to enable the Applicants to work together to stimulate demand recovery and contribute to the provision of lower fares. For example, since the USDOT approval was granted in July 2019, the Applicants have coordinated to offer aligned low fares – for instance, on routes between Sydney/Melbourne/Brisbane to Los Angeles/San Francisco, fares have routinely been below \$1,000 (AUD) return (all inclusive, economy class) and as low as \$879 (AUD) on the Sydney-Los Angeles route. With re-authorisation, the Revenue Management teams will continue to find ways to encourage travel and tourism to re-build through attractive and flexible pricing.

By contrast, without re-authorisation of the Proposed Conduct, the Applicants would not have ability or incentive to support each other's inventory and revenue management functions. Without appropriate commercial incentives in place, the Applicants would not open up their respective network for sale by the other, leading to a reduced range of price points and higher fares being offered to the other carrier as an arms-length codeshare partner. In turn, consumers will have less choice, find fewer flexible fares available and likely pay higher fares.

### **Tourism Recovery and Promotion of International Trade and Business**

As explained earlier, long term re-authorisation of the Proposed Conduct in all relevant jurisdictions represents the fastest and most effective way to rebuild, sustain and ultimately grow Trans-Pacific capacity. This will deliver obvious benefits to Australian consumers and businesses, particularly the crippled tourism industry – an important contributor to the Australian economy and driver of growth. In 2018-2019, tourism contributed \$60.8 billion to national GDP and provided jobs for more than 5 per cent of the national workforce (666,000 people).<sup>42</sup>

The joint business has a track record of boosting tourism. It has enabled the Applicants to successfully stimulate inbound tourism to the Australasian region through coordinated joint marketing campaigns. Co-branded marketing initiatives have led to better utilisation of the respective home market sales and distribution networks of each carrier. Qantas is synonymous with Australia and invests heavily in promoting inbound tourism. Since 2015, Qantas has invested significant marketing dollars in promoting 'Destination Australia' in the US. It is the founding airline partner of the annual 'G'day USA' event held in Los Angeles which brings together industry leaders and key influencers in government, business, tourism, academia and the arts to successfully cultivate and enhance the Australia-US relationship.<sup>43</sup>

Increasing visitor numbers from the US to Australia have been supported by the expansion of the Applicants' direct and indirect capacity. In 2018 and 2019, the Applicants carried over 515,000 passengers from the US to Australia,<sup>44</sup> and, to further stimulate inbound demand, the Applicants invested in specific destination and brand awareness campaigns. As noted earlier, American carried over 170,000 passengers to Australia in 2019 alone, boosting inbound tourism from Los Angeles in particular, in competition with Delta and United.

Some examples of creative materials designed to build Australia as an inbound destination are in Figure 11 below.

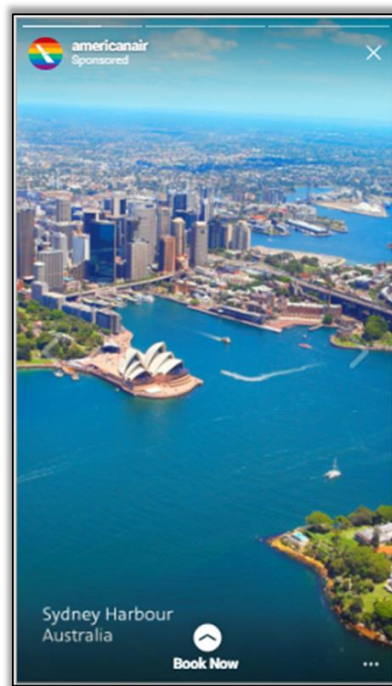
#### **Figure 11: Sample Point of Sale US Creative Materials Promoting Alliance Services to Australia**

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<sup>42</sup> Tourism Research Australia, State of the Industry 2018-19, see: <https://www.tra.gov.au/>

<sup>43</sup> See: <http://www.gdayusa.org/>

<sup>44</sup> Source: ABS (US Short-Term Visitor Arrivals to AU).







## Australia on your bucket list?

New service to Brisbane in 2020.

Book now

Joint marketing campaigns have included highlighting the ability for consumers to seamlessly travel with either carrier on a single ticket, utilising the attractive fare products referred to earlier. An example of such marketing is shown in Figure 12 below.

**Figure 12: Sample Creative Material Highlighting Seamless Travel**



In addition to driving inbound tourism through marketing campaigns, the Applicants have worked together to assist and incentivise travel agents to sell and support the Trans-Pacific services. Qantas has involved American in its staff training and development programs and representatives from both airlines have attended meetings with travel agents to ensure information about the codeshare and network offerings is understood and accessible. Qantas has promoted American on the Qantas Industry Sales Site and through the Qantas Industry Centre, including by advising travel agents of updates to American's schedule and product and by providing sales, servicing and operational support. This ensures that joint customers are provided streamlined and informed assistance by travel agents.

At the time of announcing Qantas' new Brisbane-San Francisco and Brisbane-Chicago services and American's new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services in October 2019, the Applicants engaged in a widespread media and marketing campaign and held trade events in all relevant jurisdictions, with support from tourism bodies, to promote the new services. Events designed to familiarise and attract travel agents to the Applicants' customer proposition included 'Australian Marketplace' (a trade show in September 2019 offered to US travel agents organised by Tourism Australia in conjunction with the Applicants), an 'Australia Day Lunch and Learn' event held in January 2020 and the 'Luxperience' executive travel conference held in February 2020.

In the months just prior to the Pandemic, the Applicants had identified a number of coordinated marketing opportunities to promote travel to Australasia, including planning for a co-branded campaign to run in the US to build awareness about the joint network and new routes. The Applicants were also involved in planning a full calendar of promotional activities in all relevant markets. Whilst these plans are inevitably on hold due to the Pandemic, it is clear that this kind of joint marketing will be imperative in future.

Trading relationships between Australia and the US have been strengthened as a result of American commencing direct operations to Australia in the last five years. American has actively promoted secondary cities within Australia, particularly in domestic US, Canada and Mexico, where Qantas has limited reach. This has been key to developing corporate business opportunities, while exporters can now more readily access the Applicants' combined network. If the joint business is re-authorised, the commercial teams are intending to focus on also developing other tourism markets between Australia and Canada, Mexico and the Caribbean.

Going forward, the Proposed Conduct will strengthen the bilateral relationships between Australia and the US, particularly through supporting sustainable capacity reinstatement and ultimately growth. Prior

to the Pandemic, the US was Australia's third largest two-way trading partner in goods and services and recognised as being of critical importance: *'trade and investment with the United States accounted for a remarkable 7% of Australia's GDP in 2019 - roughly equivalent to the size of Australia's mining sector'*<sup>45</sup> Australian businesses will directly benefit from the long term continuation of the Proposed Conduct. Faster and more sustainable capacity reinstatement will provide increased supply chain certainty and greater choice as demand restores.

Prior to the Pandemic, the Applicants' respective freight teams had begun to work together to identify areas for further collaboration, including joint sales and marketing and the more effective carriage of freight to markets beyond the major gateways in the US and Australia/New Zealand. The intention would be to resume this collaboration to explore short and medium term opportunities during 2020 and into 2021, if interim authorisation is granted, and then work towards enhancing broader commercial cooperation in the longer term.

Without the Proposed Conduct, the Applicants would be less able and not incentivised to work together on marketing campaigns or other initiatives to encourage consumers and travel agents to support the joint services to and from New Zealand or in respect of freight operations and recovery opportunities.

## **NO ANTI COMPETITIVE EFFECTS**

### **The Proposed Conduct is inherently pro-competitive**

The Proposed Conduct is inherently pro-competitive and will deliver greater public benefits than the future without it. It will preserve the ability for American to retain an operation to Australia, particularly in competition with US carriers Delta and United, in what remains an intensely competitive market during and post the Pandemic, notwithstanding Virgin Australia not operating internationally in the short-medium term, as discussed further below.

The Restated JBA incentivises the Applicants to expand rather than restrict capacity as a result of the financial settlement arrangements. In any event, the Applicants will not have any ability or incentive to artificially restrict capacity or increase prices because of the constraints which will continue to be imposed by other direct and indirect operators on the Trans-Pacific Routes and the real prospect of lost sales and revenue.

Early signs of recovery and demand stimulation activity through the Pandemic have shown that there will be ongoing competitive intensity in aviation markets, even while operations may remain limited. Competition has remained strong in the US, with three global network carriers – American, Delta and United – aggressively competing with each other in all aspects of business, including pricing, product, loyalty programs and cost structures. Pro-active network expansion, to maintain relevance to compete for passenger share, has been met with a swift pro-competitive response from rivals. For example, pre-Pandemic, American announced a new service from Seattle to Bangalore and in early September 2020, United responded by announcing a new San Francisco to Bangalore service, neutralising American's network advantage. This strong competitive dynamic between the major US carriers is expected to continue in a post-Pandemic environment.

The Proposed Conduct will promote further competition by creating an improved product offering which is likely to stimulate further product innovation and price competition on the Trans-Pacific, particularly from United/Air New Zealand and Delta. Despite the current challenging operating environment with border restrictions and dramatically reduced demand American, Delta and United are all continuing to offer limited service from the US to Australia, demonstrating the commitment to Australasian market. Maintaining a presence and relationships with customers will be critical in order to compete to meet passengers' travel needs when demand returns.

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<sup>45</sup> Deloitte report: "Building Prosperity: The Importance of the United States to the Australian Economy", July 2020, [https://www.amcham.com.au/Web/Publications/Building\\_Prosperty\\_-\\_The\\_importance\\_of\\_the\\_United\\_States\\_to\\_the\\_Australian\\_economy.aspx](https://www.amcham.com.au/Web/Publications/Building_Prosperty_-_The_importance_of_the_United_States_to_the_Australian_economy.aspx)

Further, the Restated JBA will not foreclose access to the Australian domestic market because it is non-exclusive. Qantas and American remain free to enter into codeshare and frequent flyer relationships with other carriers. Qantas currently has a broad range of codeshare and interline relationships with other carriers that fly between Australasia and North America, providing them access to the Australian domestic network. These include relationships with United, Air Canada, Hawaiian, Alaska Airlines, WestJet, Fiji Airways, Air Tahiti Nui and Air New Zealand. Not only do these relationships exist, but they are also well utilised. After American, Air Canada and United were the next two North American carriers to most utilise Qantas' domestic network (pre-Pandemic).

**[REDACTED – CONFIDENTIAL]**

### **Strong Trans-Pacific Competition**

The Trans-Pacific Routes are, and will remain, highly competitive. The Applicants have been, and will be, constrained by a number of strong direct and indirect operators, in particular Delta, United, Air New Zealand and Air Canada.

Historic market share data in respect of air passenger services from Australia to the US is included in Table 9 below.<sup>46</sup> Table 9 indicates that in relation to the number of passengers on services between Australia and the US in calendar year 2019, the Qantas Group (including Jetstar) had a share of 43 per cent and American had a share of 4 per cent, giving a combined alliance total of 47 per cent. Virgin Australia and Delta's combined share was 17 per cent while United's share was 12 per cent, while Air New Zealand and other indirect operators also had an important and active presence in practice.

American is a much smaller carrier on the Trans-Pacific – having only entered in anticipation of the Restated JBA being approved – and is active on only one city-pair (Sydney-Los Angeles). Its small share of only 4 per cent of total passenger traffic is even less than indirect operators such as Air New Zealand and it has only around one third the share enjoyed by its major US based rival United. As noted further below, notwithstanding the significant impacts of the Pandemic, the Applicants expect both Delta and United to continue to offer and ultimately grow direct services between Australasia and the US using their respective strong home carrier advantages.

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<sup>46</sup> See share data in respect of Australia-Canada in Annexure G.

**Table 9: Australia-US Passenger Share 2016-2019**

<b>Carrier</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Qantas	34%	34%	35%	36%
Virgin Australia	11%	11%	11%	13%
United Airlines	10%	10%	11%	12%
Jetstar	9%	9%	8%	7%
Air New Zealand	6%	6%	6%	6%
Hawaiian Airlines	6%	6%	6%	6%
Delta Airlines	4%	4%	4%	4%
American Airlines	4%	4%	4%	4%
Cathay Pacific	2%	2%	2%	2%
Air Canada	1%	1%	2%	2%
Other	12%	13%	11%	9%

*Source: ABS (AU-Resident Short-Term Traveller Arrivals from the US and American Short-Term Visitor Arrivals in AU)*

For completeness, route-specific information is set out in Table 10 below in respect of the Sydney-Los Angeles. The Applicants' single route of operational overlap was served on a non-stop basis by United, Delta and Virgin Australia before the Pandemic and indirect operators again held important presence. The data shows that American gained share when it commenced the Sydney-Los Angeles service in December 2015, though this declined slightly in the period since.

**Table 10: Sydney-Los Angeles Passenger Share 2016-2019**

<b>Carrier</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Qantas	35%	35%	39%	40%
Virgin Australia	21%	19%	18%	15%
American Airlines	15%	12%	9%	12%
Delta Airlines	8%	9%	9%	11%
United Airlines	10%	11%	11%	9%
Air New Zealand	5%	7%	6%	5%
Fiji Airways	3%	3%	4%	3%
Hawaiian Airlines	2%	1%	1%	2%
Other	2%	2%	2%	1%

Source: DDS Estimate Report

Price trends also demonstrate that the Trans-Pacific market is highly contestable, with average fares falling in recent years as multiple airlines seek to attract, retain and stimulate passenger demand, as demonstrated in Tables 7 and 8 below.

**Table 7: Average One Way Fares for Australia-US Services 2018-2019**

Marketing Carrier and Point of Sale (POS)	2018	2019	YoY
<b>Qantas</b>	\$	\$	
AU POS	\$1165	\$1070	-8%
US POS	\$977	\$879	-10%
<b>American</b>	\$	\$	
AU POS	\$845	\$659	-22%
US POS	\$ 856	\$ 759	-11%
<b>Delta</b>	\$	\$	
AU POS	\$718	\$706	-2%
US POS	\$1049	\$1019	-3%
<b>United</b>	\$	\$	
AU POS	\$752	\$678	-10%
US POS	\$1187	\$1134	-4%
<b>Virgin</b>	\$	\$	
AU POS	\$688	\$619	-10%
US POS	\$750	\$650	-13%
<b>Air New Zealand</b>	\$	\$	
AU POS	\$831	\$596	-28%
US POS	\$901	\$897	-3%

Source: DDS; non directional travel measured at year end, values adjusted for AUD

**Table 8: Average One Way Fares for Sydney-Los Angeles Services 2018-2019**

<b>Marketing Carrier and Point of Sale (POS)</b>	<b>2018</b>	<b>2019</b>	<b>YoY</b>
<b>Qantas</b>	<b>\$</b>	<b>\$</b>	
AU POS	\$1138	\$1009	-11%
US POS	\$1002	\$884	-12%
<b>American</b>	<b>\$</b>	<b>\$</b>	
AU POS	\$791	\$630	-20%
US POS	\$842	\$735	-13%
<b>United</b>	<b>\$</b>	<b>\$</b>	
AU POS	\$657	\$572	-13%
US POS	\$1293	\$1154	-11%
<b>Delta</b>	<b>\$</b>	<b>\$</b>	-
AU POS	\$742	\$733	-1%
US POS	\$1032	\$1026	-1%
<b>Virgin</b>	<b>\$</b>	<b>\$</b>	
AU POS	\$963	\$893	-7%
US POS	\$714	\$637	-11%

Source: DDS; non-directional travel measured at year-end, values adjusted for AUD

Further information about various competitors on the Trans-Pacific Routes is set out below.

#### *Delta/Virgin Australia*

Delta provides passenger and cargo operations throughout the US and globally, offering services (pre-Pandemic) to over 300 destinations in over 50 countries, and served more than 200 million customers each year.<sup>47</sup> Delta's global route network gives the airline a presence in every major domestic and international market. Its route network is centred around the hub system operating at airports in Atlanta, Detroit, Minneapolis/St. Paul, New York-JFK, New York La Guardia, Salt Lake City, Seattle, Paris-Charles de Gaulle, Amsterdam and Tokyo-Narita.

Delta is a founding member of the SkyTeam global alliance, which includes (amongst others) Air France, Alitalia, KLM, China Southern, Korean Air and Vietnam Airlines. It has operated a successful joint business with Virgin Australia in respect of the Trans-Pacific since 2010 and prior to the Pandemic (as at February 2020), Delta operated a Sydney-Los Angeles daily service using a B777 aircraft. This service has been operating three times a week to Sydney through the Pandemic, though

<sup>47</sup> See further: Delta Airlines Annual Report 2019. Available: <https://ir.delta.com/financials/default.aspx>



will be adjusted from 1 November 2020 to be operated six times a week by a smaller A350-900 aircraft.<sup>48</sup> Delta has indicated that it will resume daily services to Sydney in 2021.<sup>49</sup>

Although Delta and Virgin Australia have currently suspended their long term alliance and Virgin Australia has indicated it will not fly internationally in the short-medium term, the Applicants expect Delta to retain its services to Australia and to ultimately work closely with Virgin Australia again on the Trans-Pacific. Virgin Australia has stated that:

*'While [Virgin Australia and Delta] will pause their joint venture activity until Virgin Australia resumes long-haul international flying, customers will continue to earn and redeem miles and access elite benefits on Virgin Australia flights as they do today....'*

*Once demand recovers and Virgin Australia resumes long-haul international flights, we would anticipate restarting our joint venture relationship.'*<sup>50</sup>

In addition, Virgin Australia has indicated that it intends to return to international flying, with its CEO stating on 2 September 2020 that:

*'We haven't ruled out anything in terms of partnerships or alliances, we absolutely intend at the right time to go back to the markets we were flying in when the markets go back but we will have a strong suite of partners overseas from an alliance point of view and a frequent flyer point of view which we know is very important to the corporate market.'*<sup>51</sup>

Similarly, it has been reported that Virgin Australia will commit to a wide body fleet which will enable it to return to international flying including to the US.<sup>52</sup> These clear statements of intent in themselves impose an ongoing competitive constraint on the Applicants.

In the meantime, the Applicants will remain strongly constrained by Delta in its own right. Delta has, for example, recently extended its three per week Sydney-Los Angeles operation and is expected to increase to daily in 2021. The April 2021 schedule for Delta is the same as December 2019, clearly showing an intent to maintain service to Australasia.

### *United Airlines*

Before the Pandemic, United operated to 362 domestic and international destinations and carried 138 million passengers. United (along with Air New Zealand and Air Canada) is a member of the Star Alliance. It offers services to Asia, Europe, Latin America, Africa and the Middle East from well-placed hubs on the east coast, west coast and southern and midwestern regions of the US.

The key competitive strength of United's Trans-Pacific offering is the connections it provides customers from Los Angeles and San Francisco to its extensive domestic US network. United has more domestic flights from San Francisco airport than any other international carrier and also has significant connectivity from Los Angeles.

United's successful joint business with Air New Zealand grew from around 2001 with their codesharing relationship and common membership of the Star Alliance.<sup>53</sup> The alliance encompasses flights from New Zealand to mainland US as well as connecting flights within both countries and offers reciprocal frequent flyer benefits including lounge access and priority airport handling. The joint

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<sup>48</sup> See 'DL boosting SYD' in *Travel Daily* 8 October 2020.

<sup>49</sup> 'Virgin Australia Restructuring Sees Delta Partnership Suspended,' in Simple Flying, 8 September 2020. Available: <https://simpleflying.com/virgin-australia-delta-partnership/>

<sup>50</sup> 'Virgin Australia Restructuring Sees Delta Partnership Suspended,' in Simple Flying, 8 September 2020. Available: <https://simpleflying.com/virgin-australia-delta-partnership/>

<sup>51</sup> Virgin Australia CEO Paul Scurrah speaking at the CAPA Summit, 2 September 2020: CAPA Alerts, 3 September 2020.

<sup>52</sup> 'Virgin Australia plots its return to New Zealand, USA' in Executive Traveller, 2 September 2020. Available: <https://www.executivetraveller.com/news/virgin-australia-future-new-zealand-usa-flights>

<sup>53</sup> The Minister approved the Alliance Expansion Agreement in 2002 (which had some 'carve outs' from the cooperation in relation to Auckland-Los Angeles pricing) and a Side Agreement to that arrangement in 2016. See: <https://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/airnz-united-airlines-application/>

business enjoys indefinite approval in both New Zealand<sup>54</sup> and the US<sup>55</sup> and commands a dominant combined share of 71 per cent on New Zealand-US services,<sup>56</sup> capturing traffic ex Australia as well. In September 2017, United and Air New Zealand deepened their relationship in a deal that *‘was touted to deter American Airlines—from the rival **oneworld** alliance and a potential threat to Air New Zealand—from entering the transpacific market.*<sup>57</sup> Reflecting the intensity of competition in the market, United launched daily nonstop services between Sydney and Houston which commenced in 2018 and also commenced flights between Auckland and San Francisco.

As at December 2019, United operated 28 return services a week between Australia and the US consisting of daily flights between Sydney and Los Angeles, San Francisco and Houston and four services per week between Melbourne and Los Angeles and three services per week between Melbourne and San Francisco. As part of its joint business, United codeshares on Air New Zealand’s flights between Auckland and Sydney, Brisbane, Melbourne, Perth and Adelaide and Air New Zealand’s flights to Los Angeles and San Francisco, Chicago, Houston and Honolulu.

United has been aggressively competing on the Trans-Pacific, even during the Pandemic. Despite there being Government-imposed limits on the number of passengers that can be carried, United has continued to operate daily Sydney-San Francisco services and restarted three times weekly Sydney-Los Angeles services (at a time when neither Qantas nor American was operating at all). This is an indication of the strategic importance that United places on the Trans-Pacific as part of its international network offering. Like for Delta, United’s schedule for April 2021 is the same as for December 2019.

#### *Air New Zealand*

Air New Zealand was by far the largest competitor on New Zealand-US routes for calendar year 2019.<sup>58</sup> The Applicants regard Air New Zealand as a significant competitive constraint on Trans-Pacific Routes from both New Zealand and Australia, particularly given its long term joint business with United noted above.

Prior to the Pandemic, Air New Zealand operated the following services:<sup>59</sup>

- Auckland-Los Angeles, on a 14 per week basis using a B777 aircraft;
- Auckland-San Francisco, on a 6 per week basis using a B777 aircraft;
- Auckland-Chicago, on a 3-4 per week basis using a B787 aircraft;
- Auckland-Houston, on a 6 per week basis using a B777 aircraft; and
- Auckland-Honolulu, on a 3 per week basis using a B777 aircraft.

In October 2019, Air New Zealand announced new services between Auckland and New York (Newark) (originally due to launch in October 2020<sup>60</sup> but now delayed by the Pandemic until late 2021).<sup>61</sup> The new service was intended to operate three times per week, year-round, using Boeing 787-9 Dreamliner aircraft and offering customers more Business Premier and Premium Economy

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<sup>54</sup> See: <https://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/airnz-united-airlines-application/>

<sup>55</sup> See USDOT Order 2001-4-2, Docket DOT-OST-1999-6680 issued in respect of the Application by United Airlines and Air New Zealand under 49 USC 41308-41309 for Approval of Antitrust Immunity for Alliance Agreements, dated 3 April 2001. .

<sup>56</sup> Source: MIDT, non-directional year end data for 2019.

<sup>57</sup> *United Airlines to resume nonstop flights to San Francisco with new bigger Boeing 777-300ER*, New Zealand Herald, 4 September 2017. Available: [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=-3&objectid=11916930](http://www.nzherald.co.nz/business/news/article.cfm?c_id=-3&objectid=11916930)

<sup>58</sup> Source: MIDT.

<sup>59</sup> Based on February 2020 schedule.

<sup>60</sup> See: <https://www.airnewzealand.com/press-release-2019-start-spreading-news-airnz-reveals-auckland-new-york-flight-details>

<sup>61</sup> See: <https://www.airnewzealand.com.au/travel-alerts> (accessed 25 May 2020)

seating.<sup>62</sup> The new service was designed to connect to the over 400 daily services operated by United from Newark to domestic US destinations. Air New Zealand also operates between New Zealand and Canada, namely on the Auckland-Vancouver route on a daily basis using a B787 aircraft.

Prior to the Pandemic, Air New Zealand also operated an extensive Trans-Tasman network, comprising 155 weekly flights to a range of gateways in Australia and attracting a large number of passengers who fly across the Tasman from Australia to join services to the US from Auckland. For example, data indicates that approximately 265 passengers per day fly with Air New Zealand from Australia to connect to Auckland-US services.<sup>63</sup> Key Australian cities where passengers join Auckland-US flights are from Melbourne, Brisbane and Sydney representing 33 per cent, 28 per cent and 19 per cent respectively of the 265 passengers. Los Angeles is the largest destination for these passengers representing 33 per cent of Air New Zealand passengers travelling from Australia to/from the US via Auckland, followed by San Francisco at 15 per cent and Honolulu at 8 per cent.

As noted above, through their joint business Air New Zealand and United offer a compelling Trans-Pacific proposition. Describing the launch of the New Zealand coordination in 2016, United Airlines' vice chairman and chief revenue officer Jim Compton said:

*"This joint venture will allow us to work more closely with Air New Zealand to optimise our trans-Pacific schedules and offer more convenient flight choices to our customers in both the US and New Zealand....We look forward to continuing to work with Air New Zealand, an industry innovator and leader, to further grow our business in ways that will benefit our mutual customers."*<sup>64</sup>

Similarly, at the time Air New Zealand's chief executive Christopher Luxon said working more closely with United would support New Zealand tourism:

*"To have a strong home market carrier like United Airlines working with us to grow this market through its extensive sales and distribution channels in the US will provide a significant boost to inbound tourism."*<sup>65</sup>

As part of its restructure through the Pandemic, Air New Zealand has indicated that its future would include focus on North America, with alliances and partnerships being used to 'extend and protect' its reach.<sup>66</sup>

### *Hawaiian Airlines*

Hawaiian Airlines is based in Honolulu and operates from its main hub at Honolulu International Airport. In 2019, it carried approximately 11.8 million passengers. It operates domestic flights between the US mainland and the islands of Hawaii, as well as international routes (including to Sydney) in the Pacific region.<sup>67</sup>

Hawaiian Airlines operates daily direct services from Sydney to Honolulu and 3 to 4 per week from Brisbane to Honolulu, using an A330 aircraft, providing a transit option for Australian consumers travelling to the mainland US/Canada. Hawaiian Airlines also operates direct flights from New Zealand to Hawaii.

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<sup>62</sup> See further: <https://www.airnewzealand.com.au/alliance-partners-united-airlines>

<sup>63</sup> Calendar Year 2019, DDS data.

<sup>64</sup> See further: 'Air NZ and United deepen partnership,' in Australian Aviation, 11 March 2016:

<https://australianaviation.com.au/2016/03/air-nz-and-united-deepen-partnership/>

<sup>65</sup> See further: 'Air NZ and United deepen partnership,' in Australian Aviation, 11 March 2016:

<https://australianaviation.com.au/2016/03/air-nz-and-united-deepen-partnership/>

<sup>66</sup> See: Air NZ lays out vision for 'new world order' - chiefs detail 'growth engines' for long haul through Covid crisis, *The New Zealand Herald*, 30 September 2020.

<sup>67</sup> Hawaiian Airlines, 'About Us' available at: <http://www.hawaiianair.com/Aboutus>

## *Air Canada*

Air Canada is Canada's largest full-service airline and the largest provider of scheduled passenger services in Canada. In 2019, Air Canada carried approximately 52 million customers per year and provided direct passenger and cargo services to over 217 destinations on six continents.<sup>68</sup> Air Canada, like United and Air New Zealand, is also a member of Star Alliance. It has an extensive global network, with hubs in four Canadian cities (Toronto, Montreal, Vancouver and Calgary), providing scheduled passenger service directly to cities in Europe, Asia, Australia, the Caribbean, Mexico and South America.

Air Canada added seasonal service from Vancouver to Melbourne and has since increased to have year-round services from Sydney, Melbourne, and Brisbane to Vancouver with connecting flights to the east coast of the United States.

Prior to the Pandemic, Air Canada operated direct services from Australia to Canada, namely Sydney-Vancouver on a daily basis using a B777 aircraft, daily Brisbane-Vancouver on a B789 and Melbourne-Vancouver four times per week using a B789, as well as direct services from New Zealand to Canada.

## *Other Indirect Operators*

In addition to Air New Zealand and Air Canada, there are a number of other indirect operators from Australia to the US/Canada via hubs in the Pacific and Asia. Prior to the Pandemic,<sup>69</sup> these services included:

- Brisbane, Melbourne and Sydney to Los Angeles/San Francisco via Nadi operated by Fiji Airways on a daily/three per week basis respectively using a mix of 737/A330/A350 aircraft;
- Brisbane, Melbourne and Sydney to Los Angeles via Auckland and Papeete, operated by Air Tahiti Nui on a three per week basis using a mix of 737/787/A330 aircraft;
- Adelaide, Brisbane, Melbourne, Perth and Sydney to Boston, Chicago, Los Angeles, New York, San Francisco and Vancouver via Hong Kong, operated by Cathay Pacific on up to multiple per day frequencies using a mix of 777/A350 aircraft;
- Brisbane, Melbourne and Sydney to Chicago, Los Angeles, New York, San Francisco, Toronto and Vancouver via Shanghai, operated by China Eastern on an at least daily basis using a mix of 777/A330 aircraft; and
- Adelaide, Brisbane, Melbourne, Perth and Sydney to Houston, Los Angeles, New York, Seattle and San Francisco via Singapore, operated by Singapore Airlines on an at least daily basis using a mix of 777/A350/A380 aircraft.

## **Freight Services**

Relevant freight markets are also highly competitive. Air freight is carried between Australia and the US in the belly space of passenger aircraft and on dedicated freighter services.

Market share data, dated to February 2020, is set out in Annexure H. It indicates that Qantas has a share of 30 per cent of freight traffic from Australia to the US and American has 6 per cent, resulting in a combined share of 36 per cent of direct traffic. Qantas has a share of 22 per cent of freight traffic from the US to Australia and American has 1 per cent, resulting in a combined share of approximately 23 per cent of direct traffic.

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<sup>68</sup> See further: Air Canada Annual Report 2019. Available:

[https://www.aircanada.com/content/dam/aircanada/portal/documents/PDF/en/annual-report/2019\\_ar.pdf](https://www.aircanada.com/content/dam/aircanada/portal/documents/PDF/en/annual-report/2019_ar.pdf)

<sup>69</sup> Source: scheduled network data, February 2020, DiiMi.

Other competitors operating direct routes include United, Delta, FedEx, UPS and Polar. Air New Zealand, Cathay Pacific, Singapore Airlines and other carriers that have one/multi stop connections between Australia and the US via New Zealand, Pacific Islands, Asia and the Middle East.

## **No Barriers To Entry or Expansion**

There are no material regulatory, commercial or operational barriers to entry or expansion on the Trans-Pacific Routes. The 'open skies' Air Transport Agreement between Australia and the US permits designated carriers of both countries to provide unlimited direct services between the two countries. In relation to regulatory barriers, the Department of Infrastructure and Regional Development in its submission to the Commission in 2015 in respect of the Applicants' joint business stated that: *'The Department also notes there are no economic regulatory barriers preventing other airlines from Australia or the United States from entering the Australia-US market. An international airline of either country (or carriers of some other third party countries) could immediately commence or increase Australia-US services, should they choose to do so.'*<sup>70</sup>

The Multilateral Agreement on the Liberalization of Air Transport (**MALIAT**), to which New Zealand and the US are parties, permits designated carriers of New Zealand and the US to provide unlimited direct services between the two countries. Air New Zealand is able to provide unlimited direct services between Australia and the US via New Zealand by combining rights established under the open aviation arrangements between Australia and New Zealand and the MALIAT. The air services arrangements New Zealand has in place with Canada also provide opportunities for growth.<sup>71</sup>

From a freight perspective, the barriers to entry and expansion on the Trans-Pacific Routes are also low. The Australia-US Air Transport Agreement provides for unlimited dedicated freighter capacity for both Australian and US carriers, with the ability for Australian airlines to operate cargo services between the territory of the US and a third country without needing to serve a point in Australia and vice versa for US carriers (depending on such services being permitted under the arrangements with third countries). Given that most dedicated freight services operate at non-peak time slots, obtaining landing rights is generally not an issue for new or returning operators.

The Applicants will therefore remain constrained by the prospect of new entrants and the expansion of existing Australian, US and New Zealand carriers providing passenger and/or freight services.

## **INTERIM AUTHORISATION**

As the Commission is aware, the current authorisation of the Restated JBA is due to expire in March 2021. The Applicants seek urgent interim authorisation to facilitate immediate discussions and planning during the remainder of 2020 and beyond March 2021, so that a network recovery plan can be developed and supported seamlessly while the Commission considers the substantive application.

The Applicants believe that interim authorisation should be granted on the basis that:

- the Proposed Conduct is inherently pro-competitive and will be implemented in a market which continues to be intensely competitive, notwithstanding the impacts of the Pandemic. As noted above, the Restated JBA builds on existing coordination which has delivered substantiated public benefits, as recognised by multiple regulators over time;
- interim authorisation will give the Applicants the opportunity to immediately and seamlessly continue to work together on the recovery of the Trans-Pacific Routes into 2021 (including the re-start of American's Sydney-Los Angeles service during November 2020), while also minimising financial harm, uncertainty and disruption that will be experienced if interim authorisation is not granted;

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<sup>70</sup> Department of Infrastructure and Regional Development submission to the Commission in support of the Qantas/American Alliance, 2 July 2015, p 2. Available:

<https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/qantas-airways-limited-and-american-airlines-group-inc-revocation-and-substitution-a91502-a91503>

<sup>71</sup> See further: <https://otc-cta.gc.ca/eng/transport-agreement/new-zealand>

- interim authorisation will not cause detriment to others; and
- interim authorisation will not give rise to permanent changes to market dynamics or prevent the market returning to its pre-authorisation state in the event final authorisation is not granted, given that the Applicants have already been coordinating operations on the Trans-Pacific Routes pursuant to existing approvals.

Interim authorisation is particularly appropriate and reasonable in the current uncertain market circumstances when the Applicants need to move quickly and be responsive to any changes in demand or other market dynamics. Being able to work together using existing processes and systems without interruption or delay pending regulatory certainty will be the best and fastest way to rebuild and ultimately grow the Applicants' capacity. This includes Qantas having the ongoing ability to sell codeshare seats on American's Sydney-Los Angeles service which is scheduled to resume in November 2020 as well as planning for other service resumptions – the planning for which will likely need to take place before March 2021 for implementation later in 2021-2022. The re-introduction of American's Sydney-Los Angeles service in November 2020 will help with the effort to repatriate Australians who are currently overseas and seeking to return home as a result of the Pandemic. American could not do this without Qantas' support – Qantas is currently holding reservations that can now be re-accommodated on American's service, making these flights financially feasible.

Enhancing the timeliness and likelihood of reinstated capacity and providing schedule and connectivity options is particularly important at a time of great personal and economic challenge for consumers and businesses looking to travel between Australia and the US. Allowing price and capacity coordination to continue seamlessly into 2021 will ensure that services, once reinstated, have the best prospect of success. This will expedite the public benefits that will flow in the longer term.

#### **[REDACTED – CONFIDENTIAL]**

Any delay in being able to jointly sell up to and post March 2021 puts the Applicants at a competitive disadvantage, with a substantial amount of revenue at risk particularly where customers and industry partners will be looking for certainty to plan their activity in the coming financial year. The ability to continue meaningful and detailed planning now, rather than delay effective implementation of the Proposed Conduct until after any final determination by the Commission, will help to rebuild consumer and trade confidence.

Attempting to plan and sell any services post March 2021 now, without the support and involvement of the other carrier, would be problematic commercially and confusing for consumers and travel agents. Any lost momentum or inability to maximise selling opportunities would mean that loads are affected and potential revenue is impacted. In circumstances where the Applicants are already coordinating on Trans-Pacific services, it would be commercially difficult to ring-fence decisions in relation to services pre and post March 2021.

#### **CONCLUSION**

Despite significant challenges being continually presented by the Pandemic, the Applicants look forward to continuing to expand on consumer benefits delivered to Australasia-US passengers. Faced with fewer resources, the Applicants' cooperation and reliance on each other's network and abilities is more vital than ever in the efforts to rebuild capacity and improve connectivity between Australasia and North America.



## ANNEXURE A – QANTAS' RELATED BODIES CORPORATE

Entity	Country of Incorporation
AAL Aviation Limited	Australia
Airlink Pty Limited	Australia
Australian Air Express Pty Ltd	Australia
Australian Airlines Limited	Australia
Australian Regional Airlines Pty. Ltd.	Australia
Eastern Australia Airlines Pty. Limited	Australia
Express Freighters Australia (Operations) Pty Limited	Australia
Express Freighters Australia Pty Limited	Australia
H Travel Sdn Bhd	Malaysia
Hangda Ticket Agent (Shanghai) Co. Ltd	China
Holiday Tours & Travel (Korea) Limited	Korea
Holiday Tours & Travel (Singapore) Pte. Ltd.	Singapore
Holiday Tours & Travel Limited	Hong Kong
Holiday Tours & Travel Ltd	Taiwan
Holiday Tours & Travel Pte. Ltd.	Singapore
Impulse Airlines Holdings Proprietary Limited	Australia
Jetabout Japan, Inc.	Japan
Jetconnect Limited	New Zealand
Jetstar Airways Limited	New Zealand
Jetstar Airways Pty Limited	Australia
Jetstar Asia Airways Pte Limited	Singapore
Jetstar Asia Holdings Pty Limited	Australia
Jetstar Group Pty Limited	Australia
Jetstar Holidays Co. Ltd.	Japan
Jetstar International Group Australia Pty Limited	Australia
Jetstar International Group Japan Co., Ltd	Japan
Jetstar NZ Regional Limited	New Zealand
Jetstar Regional Services Pte. Ltd.	Singapore
Jetstar Services Pty Limited	Australia
Network Aviation Holdings Pty Ltd	Australia
Network Aviation Pty Ltd	Australia
Network Holding Investments Pty Ltd	Australia
Network Turbine Solutions Pty Ltd	Australia
Osnet Jets Pty Ltd	Australia
PT Pacto Holiday Tours	Indonesia
Q H Tours Ltd	Australia
Qantas Airways Domestic Pty Limited	Australia
Qantas Asia Investment Company (Singapore) Pte. Ltd.	Singapore
Qantas Asia Investment Company Pty Ltd	Australia
Qantas Cabin Crew (UK) Limited	United Kingdom
Qantas Courier Limited	Australia
Qantas Domestic Pty Limited	Australia
Qantas Foundation Trustee Limited	Australia
Qantas Freight Enterprises Limited	Australia
Qantas Frequent Flyer Limited	Australia
Qantas Frequent Flyer Operations Pty Limited	Australia
Qantas Ground Services Pty Limited	Australia
Qantas Group Accommodation Pty Limited	Australia
Qantas Group Flight Training (Australia) Pty Limited	Australia
Qantas Group Flight Training Pty Limited	Australia
Qantas Information Technology Ltd	Australia
Qantas Road Express Pty Limited	Australia
Qantas Superannuation Limited	Australia
Qantas Ventures Pty Ltd	Australia
QF A332 Leasing 1 Pty Limited	Australia
QF A332 Leasing 2 Pty Limited	Australia

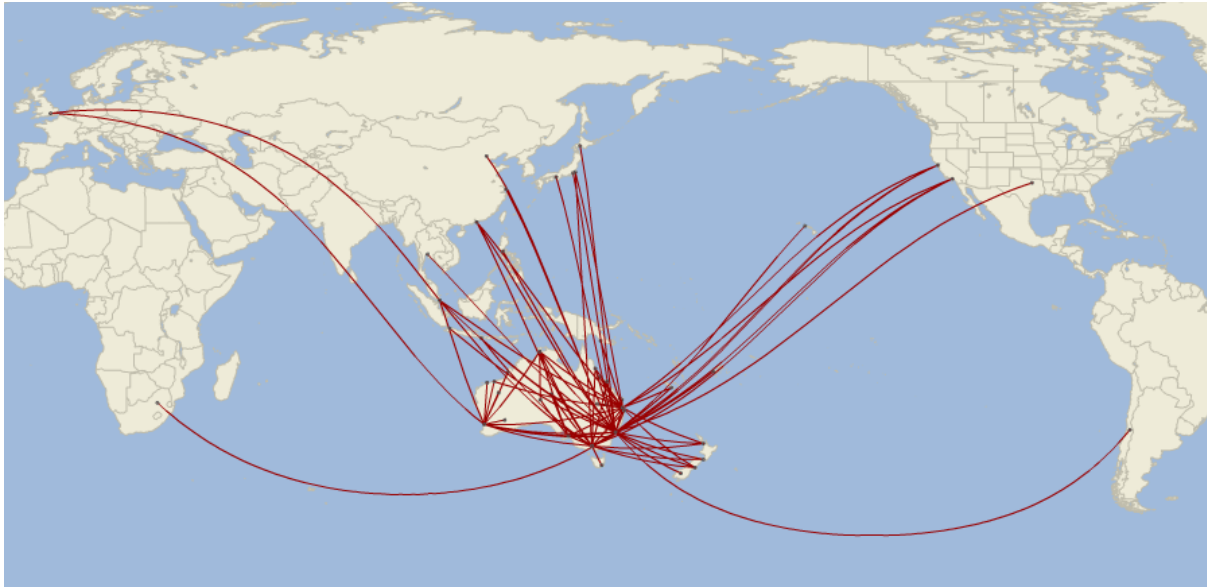
QF BOC 2008-1 Pty Limited	Australia
QF BOC 2008-2 Pty Limited	Australia
QF Cabin Crew Australia Pty Limited	Australia
QF Dash 8 Leasing No. 4 Pty Limited	Australia
QF Dash 8 Leasing No. 5 Pty Limited	Australia
QF Dash 8 Leasing No. 6 Pty Limited	Australia
QF ECA 2008-1 Pty Limited	Australia
QF ECA 2008-2 Pty Limited	Australia
QF ECA A380 2010 No.1 Pty Limited	Australia
QF ECA A380 2010 No.2 Pty Limited	Australia
QF ECA A380 2010 No.3 Pty Limited	Australia
QF ECA A380 2010 No.4 Pty Limited	Australia
QF ECA A380 2011 No.1 Pty Limited	Australia
QF ECA A380 2011 No.2 Pty Limited	Australia
QF EXIM B787 No.1 Pty Limited	Australia
QF EXIM B787 No.2 Pty Limited	Australia
QH International Co. Limited.	Japan
Regional Airlines Charter Pty Limited	Australia
Southern Cross Insurances Pte Limited	Singapore
Sunstate Airlines (Qld) Pty. Limited	Australia
Taylor Fry Holdings Pty Limited	Australia
Taylor Fry Pty Limited	Australia
The Network Holding Trust	N/A
The Network Trust	N/A
Vii Pty Limited	Australia



**CONFIDENTIAL ANNEXURE B – RESTATED JBA AND ASSOCIATED COMMERCIAL  
AGREEMENTS**

**[REDACTED – CONFIDENTIAL]**

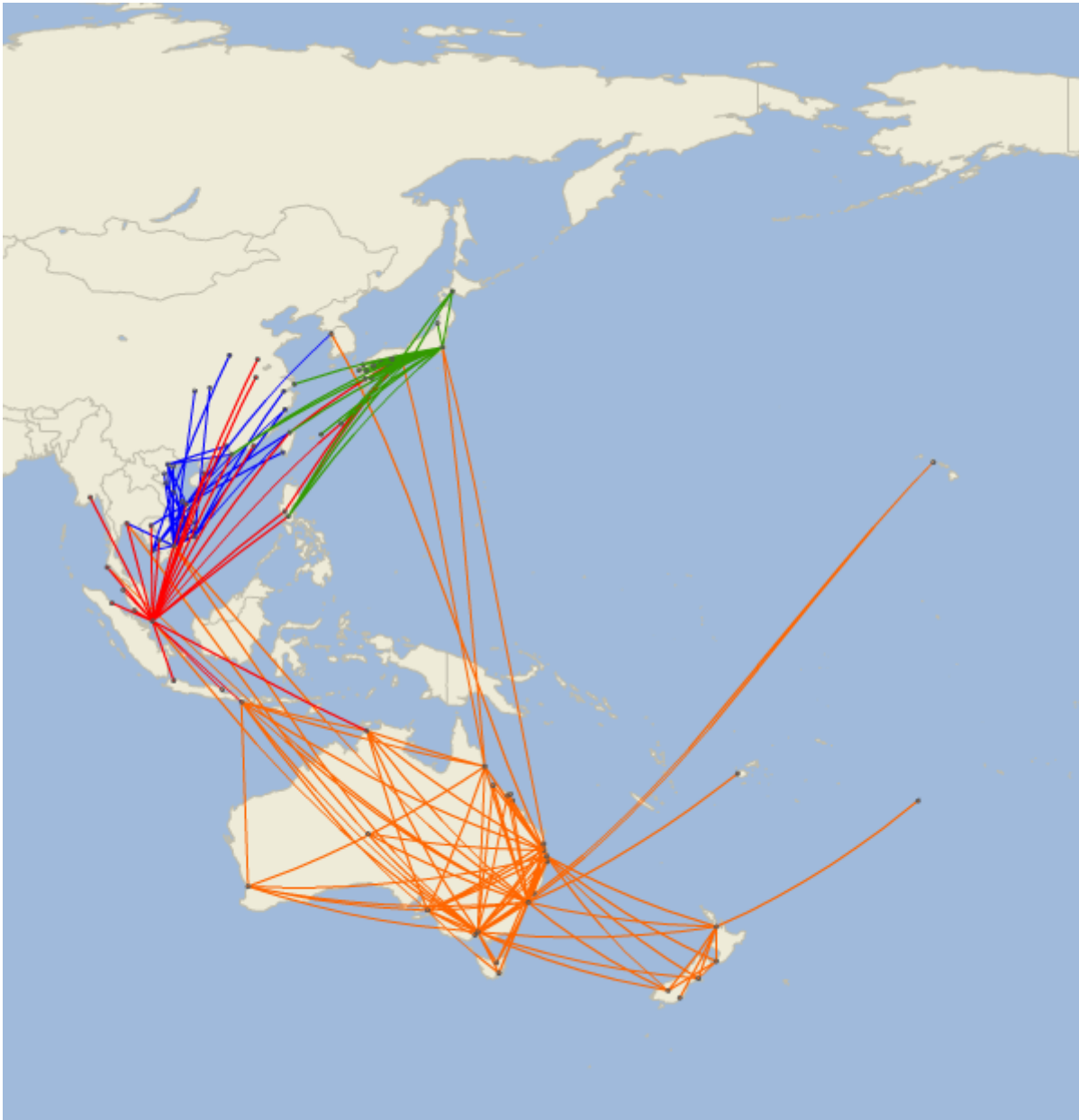
### ANNEXURE C – QANTAS ROUTE MAP (PRE PANDEMIC)



Qantas-operated network (February 2020)

Source: Diiomi

#### ANNEXURE D – JETSTAR ROUTE MAP (PRE PANDEMIC)



Jetstar-operated network (February 2020)

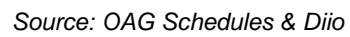
Jetstar Asia-operated network (February 2020)

Jetstar Pacific-operated network (February 2020). Note that Jetstar Pacific has been re-branded to Pacific Airlines and the Qantas Group is in the process of exiting its minority stake in the airline.

Jetstar Japan-operated network (February 2020)

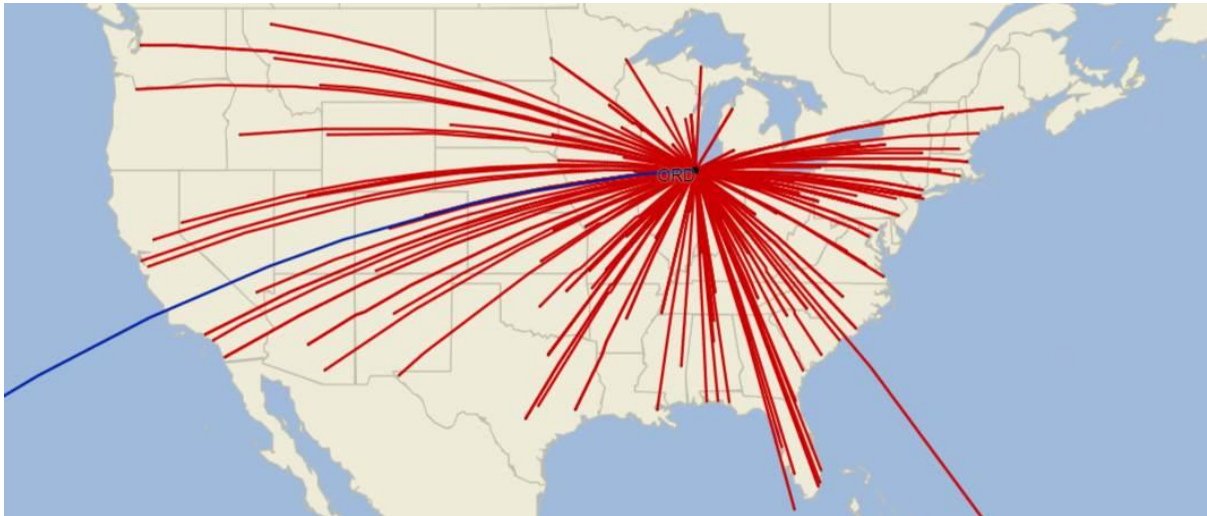
Source: Diiomi

## American's Connections from Los Angeles



Source: OAG Schedules & Diio

### American's Connections from Chicago



*Blue line represents Qantas flying*

### American's Connections from San Francisco



*Blue line represents Qantas flying*

## **ANNEXURE F – OVERVIEW OF TRANS-PACIFIC OPERATIONS**

### **Overview of Trans-Pacific Operations**

Prior to the Pandemic, there were eleven direct city-pairs offered between Australian cities and the mainland US/Canada by various carriers:

- Sydney/Melbourne/Brisbane-Los Angeles;
- Sydney/Melbourne/Brisbane-San Francisco;
- Sydney-Dallas/Fort Worth;
- Sydney-Houston; and
- Sydney/Melbourne/Brisbane-Vancouver.

In addition, there are a number of indirect one-stop routes from Australia to mainland US/Canada via New Zealand and other hubs in the Pacific and Asia. These services include:

- Australia-Auckland-Los Angeles/San Francisco/Dallas/Houston/Vancouver/New York;<sup>72</sup>
- Australia-Honolulu-US/Canada;
- Australia-Vancouver-US;
- Australia-Hong Kong-US/Canada;
- Australia-Nadi-Los Angeles/San Francisco;
- Australia-Dubai-US/Canada;
- Australia-Singapore-US/Canada;
- Australia-Doha-US/Canada;
- Australia-Seoul-US/Canada; and
- Australia-Tokyo-US/Canada.

### **Qantas Group Services**

Prior to the Pandemic, the Qantas Group operated 58 return services per week between Australia and the US, being:<sup>73</sup>

- 26 weekly return services to Los Angeles (7 non-stop services from Sydney, 9 non-stop services from Melbourne and 10 non-stop services from Brisbane);
- daily return services from Los Angeles to New York (JFK);
- 14 weekly return services to San Francisco (7 non-stop services from Sydney, 4 non-stop services from Melbourne and 3 non-stop services from Brisbane);<sup>74</sup>

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<sup>72</sup> In October 2019, Air New Zealand announced new services between Auckland and New York (Newark) (originally due to launch in October 2020 but now delayed by the Pandemic until late 2021).

<sup>73</sup> Reflects the Qantas Group schedule for February 2020.

- 6 weekly return services from Sydney to Dallas/Fort Worth;
- 9 weekly return services between Sydney and Honolulu (5 operated by Qantas, 4 operated by Jetstar); and
- 3 weekly return services between Melbourne and Honolulu (operated by Jetstar).

Since January 2015, Qantas has also operated three weekly return seasonal services (December-January) between Sydney and Vancouver.<sup>75</sup>

In the month of February 2020, prior to the Pandemic,<sup>76</sup> the Qantas Group operated 178 return services per week between New Zealand and Australia, being 97 weekly return services to Auckland, 30 weekly return services to Christchurch, 27 weekly return services to Queenstown and 24 weekly return services to Wellington. Jetstar operates domestic services within New Zealand, to key ports including Auckland, Christchurch, Wellington, Queenstown and Dunedin.

In addition to freight carried in belly space in passenger operations on the Trans-Pacific Routes, Qantas operated the following dedicated freighter services (as at February 2020):

- Chicago-Los Angeles-Honolulu-Auckland-Sydney on a weekly basis;
- Chicago-Dallas-Los Angeles-Honolulu-Sydney on a weekly basis;
- Sydney-Bangkok-Shanghai-Anchorage-New York on a weekly basis;
- Sydney-Chongqing-Shanghai-Anchorage-Chicago on a twice weekly basis;
- Sydney-Shanghai-Anchorage-New York on a weekly basis;
- New York-Chicago-Honolulu-Sydney on a weekly basis; and
- New York-Chicago-Honolulu-Melbourne-Sydney on a weekly basis.

The Qantas Group does not operate any passenger services directly between New Zealand and the US. Certain freighter services have continued to operate to/from New Zealand during the Pandemic, being the Chicago-Los Angeles-Honolulu-Auckland-Sydney service and the Sydney-Auckland-Christchurch-Sydney service (up to 5 times per week).

### **American Services**

As at February 2020, American's Trans-Pacific operations comprised daily services from Los Angeles to each of Sydney and Auckland. As noted above, American's proposed new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services were announced in October 2019 and were originally intended to commence in October 2020, but have been delayed as a result of the Pandemic. Without long term authorisation of the Proposed Conduct, American's existing services are jeopardised and the likelihood of American launching the new Christchurch-Los Angeles and Auckland-Dallas/Fort Worth services would become remote.

American provides belly space freight (but not dedicated freighter services) on the Trans-Pacific Routes. Qantas and American have an interline agreement in respect of the carriage of freight on the Trans-Pacific Routes. Qantas primarily uses American services ex Dallas/Fort Worth to connect with

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<sup>74</sup> As noted earlier, the new Brisbane-San Francisco services only operated 18 flights prior to being suspended as a result of the Pandemic.

<sup>75</sup> In addition to the December-January services, Qantas also operated these services seasonally in June-July 2015, June-August 2016, June-July 2017 and June-July 2018.

<sup>76</sup> The Qantas Group is operating some Tasman services between 16 October and 30 November 2020.

Qantas and Jetstar services ex Honolulu. American does not currently interline with Qantas on freighter services, but this is something being explored going forward if re-authorisation is granted.

For completeness, we note that neither Applicant operates services between New Zealand and Canada or Mexico. American does not operate services between Australia to either Canada or Mexico, whilst Qantas has operated limited seasonal services between Sydney and Vancouver. Detailed discussion about Canada and Mexico is therefore not the focus of this submission. However, it is important for the Applicants to include Canada and Mexico within the scope of this application given the need for the joint business to be able to offer connectivity to and from those countries via American's US gateways. Joint sales and distribution support, plus coordinated revenue management, makes travel to and from Australasia to these destinations seamless and accessible when it is part of the joint business framework. Further information about passenger travel between Australia and each of Canada and Mexico is provided in Annexure G.



## ANNEXURE G – AUSTRALIA-CANADA/MEXICO PASSENGER SERVICES MARKET DATA

**Table 1: Total Australia-Canada Market Growth (AU-Resident Short-Term Traveller Arrivals from Canada and Canadian Short-Term Visitor Arrivals in AU)**

Period	Total Passenger Numbers	Annual Growth
Calendar Year 2015	279,020	5%
Calendar Year 2016	298,550	7%
Calendar Year 2017	344,550	15%
Calendar Year 2018	362,950	5%
Calendar Year 2019	372,400	3%
<b>2015 to 2019: 4-year CAGR</b>		<b>7%</b>

Source: ABS (AU-Resident Short-Term Traveller Arrivals from Canada and Canadian Short-Term Visitor Arrivals in AU)

**Table 2: Australia-Canada Total Passenger Share by Carrier, for Calendar Year 2018-2019**

Carrier	2018	2019
Air Canada	39%	44%
Qantas	19%	17%
Air New Zealand	8%	7%
Virgin Australia	5%	6%
United Airlines	5%	5%
Cathay Pacific	6%	5%
Jetstar	3%	3%
Singapore Airlines	1%	2%
Emirates	1%	1%
China Eastern	1%	1%
Other	11%	10%

Source: ABS (AU-Resident Short-Term Traveller Arrivals from Canada and Canadian Short-Term Visitor Arrivals in AU)

**Table 3: Total Australia-Mexico Market Growth (AU-Resident Short-Term Traveller Arrivals from Mexico and Mexican Short-Term Mexico Visitor Arrivals in AU)**

Period	Total Passenger Numbers	Annual Growth
Calendar Year 2015	28,070	7%
Calendar Year 2016	30,010	7%
Calendar Year 2017	33,320	11%
Calendar Year 2018	35,890	8%
Calendar Year 2019	39,900	11%
<b>2015 to 2019: 4-year CAGR</b>		<b>9%</b>

Source: ABS (AU-Resident Short-Term Traveller Arrivals from Mexico and Mexican Short-Term Visitor Arrivals in AU)

**Table 4: Australia-Mexico Passenger Share, 2018-2019**

Carrier	2018	2019
Qantas	26%	24%
Virgin Australia	12%	15%
United Airlines	16%	13%
Jetstar	9%	8%
American Airlines	3%	7%
Air New Zealand	7%	7%
Delta Airlines	5%	6%
LATAM	3%	3%
Air Asia X	2%	2%
Emirates	2%	2%
Other	15%	14%

Source: ABS (AU-Resident Short-Term Traveller Arrivals from Mexico and Mexican Short-Term Visitor Arrivals in AU)

## ANNEXURE H – FREIGHT MARKET SHARE DATA

**Table 1: Total Share of Freight and Mail: AUSTRALIA TO US, 2015-2019**

Calendar Year	Qantas	American	Approx. Total
2015	37%	0%	37%
2016	34%	5%	39%
2017	29%	7%	37%
2018	33%	6%	38%
2019	30%	6%	36%

*Source: United States – Bureau of Transportation Statistics Latest February 2020*

**Table 2: Total Share of Freight and Mail: US TO AUSTRALIA, 2015-2019**

Year	Qantas	American	Approx. Total
2015	23%	0%	23%
2016	21%	3%	24%
2017	19%	3%	22%
2018	20%	1%	22%
2019	22%	1%	22%

*Source: United States – Bureau of Transportation Statistics Latest February 2020*

**Table 3: Total Volumes of Freight and Mail: AUSTRALIA TO US, 2015-2019**

Year	Qantas (T)	American (T)	Total (T)
2015	56,304	100	56,404
2016	55,549	8,554	64,102
2017	56,227	14,319	70,546
2018	67,446	11,532	78,978
2019	61,164	11,655	72,819

*Source: United States – Bureau of Transportation Statistics Latest February 2020*

**Table 4: Total Volumes of Freight and Mail: US TO AUSTRALIA, 2015-2019**

Year	Qantas (T)	American (T)	Total (T)
2015	89,221	86	89,307
2016	75,258	11,299	86,557
2017	74,342	11,904	86,245
2018	85,956	4,624	90,580
2019	84,150	2,627	86,777

*Source: United States – Bureau of Transportation Statistics Latest February 2020*