



**Australian Competition & Consumer Commission**

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25 September 2003

Brett Johnson  
General Counsel  
Qantas Airways Limited  
Qantas Centre Building A/9  
203 Coward Street  
MASCOT NSW 2020

By facsimile: 02 9691 3339

Dear Mr Johnson

**Applications for authorisation lodged by Qantas Airways Limited and  
British Airways Plc (A30226 and A30227)**

I refer to the abovementioned applications for authorisation lodged by Qantas Airways Limited ("Qantas") and British Airways Plc ("BA") (together, "the Applicants") in relation to a Joint Services Agreement ("JSA") between the Applicants.

The Commission is currently considering information put before it by the Applicants and interested parties before making a draft determination in relation to the applications. During its consideration, a number of issues have arisen which require additional information or clarification. These issues are detailed below.

Where the questions below refer to confidential information, it has been placed in square brackets '[ ]' and will be excluded from the public register.

1. In Qantas' letter to the Commission of 5 April 2000, it is stated that "*...it is correct that the same methodology for calculating prorate fares is used in oneworld as under the current JSA...*". Please explain the differences, if any, between IATA prorate, special prorate and the oneworld prorate arrangements referred to at page 128 of the NECG Report.
2. Table 45 of the NECG Report is a worked example to illustrate how the prorate system works under the oneworld alliance and the subsequent distribution of revenue to Qantas and BA on a multi-stop JSA route. Please also demonstrate how the distribution of revenue from the same example would evolve under the JSA.



3. Are the prorate arrangements an integral part of the oneworld alliance or are they negotiated bilaterally with some or all of Qantas' alliance partners separately? Please provide details of prorate arrangements with other oneworld partners. Please also provide a copy of the oneworld alliance charter.
4. At page 136 of the NECG Report, NECG states that:

*“Given the financial performance of the European flights and in particular the current marginal profitability, Qantas' schedule would be likely to be unsustainable in the face of the expected revenue loss in the counterfactual...A sustainable schedule in the long term would be unlikely to comprise more than 24 weekly services to Europe, a reduction of at least 10 services from the current schedule and 14 services when compared to the factual schedule.”*

Given the postulated reduction in services under the counterfactual and the consequential availability of aircraft that were previously used on European routes, please advise whether NECG contemplated reallocation of these aircraft to alternate routes under the counterfactual. Please also advise whether any such reallocation was factored into the modelling of the loss of Qantas' net export revenue.

5. Please clarify whether the Monash Model multipliers were calculated with the assumption that a proportion of Qantas' variable costs are realised outside Australia. Please also outline the case specific inputs that guide the modelling of net economic surpluses emanating from Qantas' declining export sales revenue and tourist expenditure levels on JSA routes.
6. Please advise whether the modelling conducted by NECG considered the effects of a proportion of Qantas' profits flowing to foreign investors. (The Commission understands that currently approximately 50 per cent of Qantas' shareholders are foreign investors.) Please advise the percentage of foreign equity holdings that the Monash Model generally implies. If the Monash Model did not consider the effect of 50 per cent of Qantas' profits flowing outside of Australia, please outline the impact that such a consideration would have on the modelling conducted by NECG.
7. Section 7 of the NECG Report discusses the future with and without the JSA. With less uncertainty concerning SARS, Middle East conflict and the possibility of ceasing flights to Rome (and their impact on the future supply and demand patterns) than earlier in 2003, please advise a revised modelling of the percentage capacity differences between the factual and counterfactual.
8. In a submission to the International Air Services Commission in relation to Qantas' request for approval for Japan Airlines to codeshare on Qantas services between Melbourne and Tokyo (dated 9 May 2002), Qantas submitted that:

*“[Japan Airlines'] support, through the purchase of seats on Qantas aircraft, would contribute to improving the financial position of the flights, which would otherwise be loss making...Qantas' modelling of the financial impact of a [Japan Airlines] codeshare on these services*

*indicates that the proposed arrangements would boost average seat factors by approximately 10%..”*

Please advise the Commission as to whether any such modelling has been conducted in relation to the possibility of codeshare arrangements between Qantas and BA on the Kangaroo Route (of legs thereof) in a future without the JSA.

*Services operated*

9. Tables 42, 43 and 44 of the NECG Report provide details of scheduled services currently operated by Qantas and BA and proposed to be operated under the JSA in the medium and long term respectively from Australia to Singapore, Bangkok and London.
  - (i) For each airline and for each city pair, please advise the total number of seats operated per week in each seating class for the schedules presented in *each* of the three tables. A presentation along the lines of Attachment 1 to Qantas' letter to the Commission of 3 February 2000 in respect of the Commission's previous consideration of the JSA would be appropriate.
  - (ii) Please advise the Commission of any changes that have occurred in the Qantas and BA schedules from those advised to the Commission by Qantas in its letter of 3 February 2000 as operable from November 2000.
10. Please advise the Commission of the seating configuration (first, business and economy) of Qantas B747 aircraft utilised on the Kangaroo route after the introduction of Skybeds in business class as compared to the configuration currently used.
11. At page ii of the Qantas/BA Executive Summary it is stated that it is difficult to operate profitably to Europe because *“...over half of Qantas' passengers disembark at the midpoint.”*
  - (i) In terms of schedules presented in Table 42 of the NECG Report, please advise the number of seats Qantas operates to Singapore each week and how many it operates through Singapore to Europe.
  - (ii) For the latest year for which information is available, please advise the percentage of passengers on Qantas flights who arrived at Singapore:
    - (a) from Europe and had a destination other than Australia/New Zealand; and
    - (b) from Australia and had a destination other than Europe.
  - (iii) Please advise whether the passengers described as disembarking also include stopover passengers in transit.

*Fares, revenue and yield*

12. Qantas' Executive General Manager, Mr John Borghetti, recently stated in the media that *“business class pricing will increase”* following the fitting of Skybeds in business class in Qantas aircraft.

- (i) Please advise the Commission of the percentage increases in Qantas published business class return fares for Sydney-London that will occur as a result of the Skybed initiative.
- (ii) Given Qantas and BA agree fares under the JSA, please advise whether there will be similar fare increases for business class fares on BA.

13.

- (i) Please provide a breakdown of total revenue by cabin for each of Qantas and BA on UK flights in respect of all years subsequent to 1998/99.
- (ii) Please advise the Commission of the expected change in the balance of revenue between the cabins after the introduction of Skybeds in business class on the Kangaroo route.

14. In its determination A30202 of 10 May 2000 in relation to the JSA the Commission stated that:

*“While the Commission is not asking Qantas and BA to supply it with information on fares and seats sold, it would expect them to be able to supply, if asked, information on the Europe and South East Asia markets in relation to:*

- *the average revenue received per passenger per month for each cabin class; and*
- *the average number of discount economy seats sold per month and the proportion such seats constituted of all economy class seats (excluding World Traveller Plus or equivalent seats).”*

The Commission would be grateful if Qantas and BA would supply such information for each month in the period July 2000 to June 2003.

15.

Please provide details of yields by cabin for fares sold from Australia to London, Frankfurt, Rome and Paris for the years 2000, 2001 and 2002.

16. Please provide the Commission with seat factors and yield by cabin for Qantas and BA

17. Please provide a break down of Qantas and BA fares sold in each cabin by whether they were published fares or net fares for the year ended 31 December 2002.

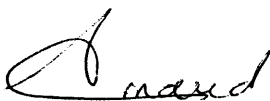
18. Please advise the Commission of the percentage of fares sold in each cabin for each of published and net fares are private fares as described in the answer to Question 4 in Qantas' letter to the Commission of 5 September 2003.

I would be grateful if the Applicants would provide the above information to the Commission prior to **10 October 2003**.

If you have any questions or would like to discuss any aspect of this matter further, please do not hesitate to contact Amanda Dadd on 02 6243 1391.

A copy of this letter, excluding confidential information, will be placed on the Commission's public register.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Isabelle Arnaud', written in a cursive style.

Isabelle Arnaud  
Director  
Adjudication Branch