6. PUBLIC BENEFITS ARISING FROM THE JSA

Overview

6.1 The NECG Report describes in detail the public benefits which have resulted and will continue to result from the JSA. These public benefits are substantial. Given the evidence that the JSA does not give rise to any detriment in terms of lessening of competition, the case for authorisation is compelling.

6.2 As discussed above, the JSA permits the Applicants to support each other's services in such a way as to enable each airline to operate more services than would be sustainable without the JSA. The JSA enables Qantas and British Airways to replicate some of the network and density benefits enjoyed by the mid-point carriers by facilitating the operation of a 'mini–hub' for Qantas and British Airways in Singapore. It also produces other cost and efficiency savings which deliver substantial public benefits to Australians. The types of public benefits arising from the JSA include:

(a) cost savings and efficiencies;

(b) lower fares;

(c) an increase in net exports;

(d) additional employment;

(e) increased tourism;

(f) product and service benefits; and

(g) increased international competitiveness of Qantas.

6.3 This view is supported by NECG, which concludes that the JSA is far more likely to promote competition than to lessen it. NECG estimates that the JSA is likely to result in an at least $402 to $561 million in benefits to Australia over the next 5 years in real terms. However, since many consumer benefits cannot readily be quantified, such as the value of higher quality services including better connectivity, fewer stops to more destinations and 'seamless' travel options, the benefits reported by NECG generally understate the overall benefits that can be expected to arise from the JSA.

Estimation of Australian benefits $m 2003-2007[36]

Benefit	Lost JSA capacity replaced	Lost JSA capacity not replaced
Cost savings (Qantas only)	$43	$43
Enhanced schedule options	>0	>0
Tourism	$58	$353
Net Exports	$301	$165
Yield Management	>0	>0
International competitiveness	>0	>0
Total	>$402	>$561

6.4 A range of expected benefits, rather than a single base case, has been estimated by NECG. This approach was taken because of the difficulty in assessing the extent to which other airlines are likely to replace capacity withdrawn by the Applicants if the JSA is not reauthorised. Consequently, the lower end of the total benefit range set out above assumes all capacity is replaced, while the upper end of the range assumes no capacity replacement. With respect to the individual category of benefit being considered within that overall range, however, capacity assumptions have different effects.

6.5 For example, the cost to the economy of lost tourism as a result of not reauthorising the JSA *decreases* significantly as capacity is assumed to be replaced in the Counterfactual. Conversely, the cost to the economy of lost net exports *increases* as capacity is assumed to be replaced in the Counterfactual. Cost savings are not affected by assumptions as to whether capacity is or is not replaced.

6.6 The most likely outcome is that some, but not all, capacity would be replaced and the actual outcome would therefore be likely to fall somewhere within the range given above. Further, irrespective of assumptions made with respect to capacity replacement, the total net benefit arising from reauthorisation of the JSA is, by any measure, substantial.

6.7 These benefits are not able to be delivered under a marketing alliance such as **one**world and cannot be delivered individually by the Applicants. The **one**world alliance is geared towards providing consumers with a high quality product through marketing arrangements such as reciprocal frequent flyer arrangements and reciprocal lounge access. The JSA, however, is an integrated alliance designed to produce fully integrated networks, optimising air services available to consumers as well as delivering cost savings and other operational synergies through activities such as the coordination of services, fares and yield management, joint premises and operations, single sales forces and joint procurement and developments. These matters are outside the scope of **one**world.

6.8 This view is supported by the work of Brueckner, whose research in the United States concludes that marketing alliances such as **one**world, which do not have anti-trust immunity, do not facilitate the lower

[36] Refer to section 11 NECG Report, Table 49.

fares of integrated alliances such as the JSA where cooperation is allowed to extend to pricing. For example, in considering proposals for coordination by members of the Star Alliance, Brueckner found that:

> '*the results show that airline cooperation leads to lower interline fares... [By] itself, codesharing by the itinerary's carriers leads to a 7% reduction in the fare. Alliance membership by itself reduces the fare by 4%, while anti-trust immunity leads to a much larger fare reduction of 16%.*'[37]

Cost Savings and Efficiencies

6.9 The Commission has previously stated that it accepts that efficiency gains and cost reductions are public benefits because they release some of society's scarce resources for other uses.[38] This is true irrespective of whether the gains flow through to consumers. However, in the case of costs savings produced by the JSA, these gains have and will continue, in large part, to flow through to consumers due to the intensity of competition on JSA Routes.

6.10 Operational cost savings derive from a number of sources. For example, under the Counterfactual it is likely that there will be insufficient traffic to facilitate the replacement of B767-300 with the more efficient A330 on the Perth - Singapore route. Other efficiencies arise since operational costs at Singapore can be spread across more flights.

6.11 The JSA has also enabled, and will continue to enable, Qantas and British Airways to achieve significant cost savings through sharing overhead costs. The two most significant areas where savings in overheads are achieved are in IT development and operations and in shared facilities. In addition, due to the highly integrated nature of their JSA operations after 7 years, separating their respective business units would be a time consuming and expensive process for both Applicants. Even where there are limited economies of scale or scope, forced separation would give rise to significant one-off costs that would not otherwise be incurred.

6.12 As a result of the JSA, Qantas and British Airways have been able to jointly invest in the development of IT systems. NECG has estimated that, without the JSA, Qantas would have to incur in excess of [*CONFIDENTIAL INFORMATION DELETED*] million in additional IT costs over the next five years and British Airways would have to incur at least an additional [*CONFIDENTIAL INFORMATION DELETED*] million[39]. Even with this additional expenditure, the Applicants would still be unable to match the efficiencies and customer benefits that they could achieve through continuation of the joint IT development that is made possible by the JSA.

6.13 Qantas and British Airways are also able to share a number of facilities as a result of the JSA, including sales teams, retail shops, telephone sales, customer service facilities and lounges. The cost of separating and replicating those functions that, absent the JSA, could no longer be shared is estimated by NECG to be

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[37] Jan K Brueckner, *The Benefits of Codesharing and Antitrust Immunity for International Passengers, with an Application to the Star Alliance*, July 2000, page 6.
[38] SQ/AN/NZ Determination, page 62.
[39] Refer to section 11.1.1 of the NECG Report.

[*CONFIDENTIAL INFORMATION DELETED*] million for Qantas and [*CONFIDENTIAL INFORMATION DELETED*] million for British Airways, including one off separation costs.[40]

6.14 Overall, NECG calculates that Qantas would incur an additional $43 million and British Airways an additional [*CONFIDENTIAL INFORMATION DELETED*] million in fixed overheads over the next 5 years if the JSA were not reauthorised.[41]

Lower Fares

6.15 As discussed above and in the NECG Report, the JSA results in higher levels of capacity on JSA Routes than is otherwise likely to be the case. It also facilitates significant operational and overhead cost efficiencies and savings as well as enabling the Applicants to jointly manage yields. Given the intensely competitive nature of the JSA Routes, these cost efficiencies and savings have and will continue to be passed through to consumers in the form of lower fares.

6.16 This conclusion is supported by NECG's analysis. NECG considers the impact of Qantas and British Airways' competitors' responses to a loss of the JSA by reference to two extreme scenarios: First, full replacement by competitors of the capacity withdrawn by the Applicants if the JSA were not reauthorised and secondly, no replacement of withdrawn capacity. NECG considers that, even if capacity withdrawn by the Applicants were fully replaced by other carriers, it is likely that prices and output without the JSA would remain unchanged. Conversely, if none of the lost capacity were replaced by other carriers, it is likely that prices would be higher and output would be lower in the absence of the JSA. Given that the reality of the competitor response to the loss of the JSA is likely to be somewhere between the two extremes, overall, it is likely that reauthorisation of the JSA will lead to lower prices and higher levels of output than if the JSA were not reauthorised.[42] This outcome is consistent with the history of prices on JSA Routes which shows that the Applicants have significantly reduced their average fares in real terms over the course of the JSA.

Net Exports

6.17 The Commission has stated that it accepts that an increase in the value of exports constitutes a public benefit.[43] Indeed, in the context of a merger authorisation, subsection 90(9A) of the TPA specifically directs the Commission to have regard to a significant increase in the real value of exports or a significant substitution of domestic products for imported goods as a public benefit. While the JSA is being assessed under the tests set out in sub-sections 90(6) and 90(8), because in many respects the JSA resembles a merger on JSA Routes, the Applicants submit that the guidance provided to the Commission by Parliament under sub-section 90(9A) should nonetheless be given weight in this context.

6.18 The JSA enables Qantas to support many more services on JSA Routes than it would be able to do absent authorisation. Without the JSA there would be the equivalent of at least 3 fewer B747-400's flying on JSA Routes and Qantas is likely to carry at least 270,000 fewer passengers over the next five years than it

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[40] Refer generally to section 11.1.2, NECG Report. Note that it is assumed that some facilities, for example reciprocal access to frequent flyer lounges, would continue to be shared as a result of **oneworld**.

[41] Refer to section 11.1 NECG Report. Note that only Qantas' projected savings are included in NECG's calculation of the overall net public benefit to Australia of the JSA.

[42] Refer to sections 8.3 and 8.4, NECG Report.

otherwise would. On the analysis in section 11.4 of the NECG Report, this equates to approximately $418 million in lost export earnings in nominal terms over the next five years if the JSA is not reauthorised. In addition, depending on the extent to which capacity reduced by the Applicants is replaced by other airlines, there is likely to be a further cost to the Australian economy as a result of substitution by Australian consumers from Qantas to foreign carriers. It is estimated by NECG that this reduction in import replacement would be as much $285 million in nominal terms over the same period if all capacity were replaced.

6.19 NECG has estimated the impact on real consumption of these additional exports and import replacements using a general equilibrium model of the Australian economy. Depending on the extent to which capacity is replaced by other carriers if the JSA were not reauthorised, the overall increase in national income attributable to the JSA is estimated to be between $165 million[44] and $301 million[45] in real terms over the next 5 years. By any standard, this is a substantial benefit to the Australian economy.

Additional Employment

6.20 Additional employment is an important public benefit that arises from the JSA. For example, every B747 aircraft flown by Qantas on long haul routes requires, on average, 96 flight attendants alone to support its services. Overall, the additional flying permitted by the JSA supports over 950 Australian jobs.[46]

6.21 Qantas jobs are, however, only part of the picture. As discussed by NECG, the additional flying undertaken by Qantas also has important flow on effects for employment and the wider economy.[47]

Increased Tourism

6.22 The importance of tourism to the national economy, and of Qantas to generating tourism, has been recognised by policy makers for many years.

6.23 For example, in its submission to the Commission regarding the 1999 application for authorisation of the JSA, the Department of Industry, Science and Resources stated that:

> *'Qantas plays an important role in assisting the development of inbound tourism to Australia through its substantial direct services operated from major tourism markets and their integration with an extensive domestic network. There are flow on benefits to employment, national output and the balance of trade.*
>
> *...The 'Kangaroo Route' is particularly important to Australia as the United Kingdom is Australia's third largest inbound tourism market...The number of visitors from the rest of Europe has also grown strongly since 1995 at around 8% per year. This increase in tourism has been*

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43 *ACI Operations Pty Ltd* (1991) ATPR 50-108; *Re Electric Lamp Manufacturers (Aust) Pty Ltd* (1996) ATPR (Com) 50-240.
44 Assuming no capacity is replaced - refer to section 11.4, NECG Report.
45 Assuming all capacity is replaced - refer to section 11.4, NECG Report.
46 A breakdown of how this estimate has been calculated is set out at section 11.5 of the NECG Report.
47 Refer generally, to section 11.4 NECG Report.

aided by the ability of airlines, including the operation of third country carriers, to respond to the market.'[48]

6.24 Over the last decade, the tourism industry has become one of the largest sectors in Australia's economy. In 2000-2001 the travel and tourism industry accounted for 4.7% of Gross Domestic Product in Australia and 11.2% of total export earnings with international tourists to Australia consuming $17.1 billion[49] worth of goods and services throughout 2001-2002. Australia's tourism industry contributes more to the Australian economy than the tourist industries of other advanced nations like the US and Canada.[50]

6.25 However, the Tourism Forecasting Council[51] has stated in its recent report that:

> *'The tourism sector continues to face difficult and uncertain times. The period since September 11, 2001 has witnessed international tensions, heightened security alerts and weak global economic growth. This environment has undermined confidence in travel and tourism, particularly for long haul travel.*
>
> *'A protracted delay in recovery for international travel is likely to be felt most strongly by the international airline industry, which has been damaged in the past three years by low profitability and the loss of travel confidence in the last 18 months. In the short to medium term, a delay in the recovery for air travel is likely to lead to a reduction in the number of airline operators and a loss of some international services to long haul destinations such as Australia.'*

6.26 Against this background, the loss of Qantas and British Airways services on the Kangaroo Route if the JSA is not reauthorised would be significant for Australian tourism. The JSA supports tourism through a combination of enhanced capacity, lower fares, better quality of services and higher promotional expenditures in Europe. NECG estimates that the capacity and promotional effects alone of losing the JSA would translate into a reduction, on average, of between 3,800 and 10,200 tourists each year visiting Australia over the next 5 years.[52] Using a general equilibrium model, NECG calculates that the overall impact on the Australian economy, in terms of loss of national income resulting from falls in tourism levels if the JSA were not reauthorised, would be between $58 million[53] and $353 million[54] in real terms over 5 years.[55]

Product and Service Benefits

6.27 In addition to the increase in the number of Qantas and British Airways services provided under the JSA, the JSA has and will continue to give rise to a number of other customer service benefits that, while difficult to quantify, are nonetheless of real benefit to consumers. Among other things, these benefits include:

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48 Submission by the Department of Industry, Science and Resources to the Commission in 1999 in relation to the application by Qantas Airways Ltd and British Airways Plc for authorisation of the JSA.

49 Department of Industry Tourism and Resources, *Tourism Fact Sheet* October 2002.

50 Department of Industry Tourism and Resources, *Tourism Fact Sheet* October 2002.

51 Tourism Forecasting Council, Forecasts December 2002, available at: http://www.industry.gov.au/library/content_library/TFCForecastsFullAnalysisDec2002.pdf

52 Section 11.3.3, NECG Report.

53 Assuming all capacity is replaced.

54 Assuming no capacity is replaced.

55 Refer to section 11.3.4 NECG Report, Tables 61 and 62.

(a) broader availability of schedule options for passengers, including more one-stop services to more destinations;

(b) greater availability of discount fares; and

(c) provision of higher quality 'seamless' travel services, especially in places where Qantas does not have its own offices.

Availability of schedule options for passengers

6.28 Prior to the Original Joint Services Agreement, the Applicants operated a total of 35 through services between Australia and Europe per week. Over the term of the JSA, this has grown such that, under their Northern Summer 2003 schedule, the Applicants have scheduled a total of 55 through services per week on the Kangaroo Route[56]. As described in section 3, these services can be combined through connections at the Applicants' Singapore 'mini-hub' to allow Qantas and British Airways to offer 123 one stop alternatives each week for travel between ports in Australia and Europe.

6.29 Under the Counterfactual schedule, Qantas and British Airways will most likely significantly reduce capacity between Australia and Europe. There is no guarantee that any of these services will be replaced by another carrier. Indeed, NECG's analysis shows that the most likely outcome is that capacity would tend not to be replaced, at least in the short to medium term and that existing traffic will instead be dispersed across other carriers' networks. It is therefore likely that customers will have fewer and less convenient options for travel on JSA Routes in the absence of the JSA.

6.30 The most obvious example are customers in cities outside Sydney and Melbourne, who will face the prospect of fewer services and the likelihood of having to fly an indirect routing to get to their destination or of having to fly at a time that is less convenient due to the reduction in competitive options available to them.

6.31 Similarly, Qantas passengers would no longer have preferred access to intra-European connecting flights on British Airways services into and out of London. Most flights to London from Australia arrive in the early morning. Passengers wanting to continue on to other cities in Europe therefore need access to flights leaving London at peak business timings. As discussed in section 7.2.1 of the NECG Report, these services are currently congested and, in the absence of the JSA, British Airways would have little financial incentive to carry Qantas passengers at current rates. Qantas passengers previously carried by British Airways at convenient connection times would effectively be 'spilled' in favour of higher yielding local passengers or British Airways' own connecting passengers. These Qantas passengers would then face long waits for non peak hour flights with spare seats, unless they were prepared to pay extra for the privilege of taking the more convenient flight.

6.32 The JSA also provides passengers with the ability to access a much larger integrated network than would otherwise be available to them. Qantas and British Airways passengers are able to 'mix and match' flights freely from each of British Airways and Qantas' networks to create the itinerary that ideally suits them. For

56 Refer to 'Current schedule (Northern Summer, effective March 2003)', section 7.1 NECG Report, Table 42.

example, Qantas data shows that during 2002 [in excess of 50,000 passengers(*CONFIDENTIAL INFORMATION DELETED*)] passengers changed from British Airways flights to Qantas flights or vice versa at Singapore in selecting their itineraries on JSA Routes.

6.33 In addition, customers currently booked on British Airways or Qantas flights can and are easily transferred from and to one another's flights. For example a passenger planning to travel on a mid-afternoon Qantas flight who is delayed may be able to be accommodated on an evening British Airways flight. As competitors with no form of benefit sharing, British Airways and Qantas would be concerned to protect their individual revenues and would no longer offer the same freedom to mix and match or change flights between carriers in this way, with consequent loss of convenience and flexibility to consumers.

Provision of high quality 'seamless' travel services

6.34 As a result of the JSA alliance, Qantas and British Airways are able to offer truly seamless service to their customers. Some of these benefits, such as reciprocal frequent flyer benefits and access to each other's lounges, would be likely to remain without the JSA as a result of **one**world. The JSA provides a range of service benefits, however, that are beyond the scope of **one**world.

6.35 For example, until last year, the way that the Qantas and British Airways reservation systems stored and accessed passenger details and travel itineraries were quite different. This meant that, despite the closeness of the JSA alliance, British Airways staff could not help Qantas passengers by searching or amending their details through the British Airways system and Qantas staff were similarly restricted in their ability to assist British Airways passengers.

6.36 As a result of their continuing joint system development under the JSA, British Airways and Qantas now store passenger information and itineraries in the same way on the same system. This means that if, for example, Qantas passengers need to change their travel plans whilst in any part of the world and are closer to a British Airways service office than a Qantas office (which may occur, for example, in many parts of Europe), British Airways staff are able to access the passengers' records and amend or fix any problem as if the passengers were in a Qantas office. British Airways passengers enjoy corresponding benefits when they are travelling in Australia or Asia where they may be closer to a Qantas office than a British Airways office. Qantas and British Airways passengers thereby enjoy access to much higher levels of support throughout the world.

6.37 Without the JSA, it is likely that the Qantas and British Airways systems may remain technically compatible for some time to come but, as competitors, neither airline would allow the other the ability to access and amend full passenger records. The benefits for customers that have now been created through the JSA by the Applicants' move to common systems would therefore largely be lost.

<u>Greater availability of discount fares</u>

6.38 The Commission recognised in its 2000 Determination that:

> *'there are likely to be public benefits from service expansion and yield management under the Restated JSA.'*[57]

6.39 Coordinated yield management combined with the financial incentives arising from the JSA benefit sharing arrangements optimises the availability of seats in different fare classes across the combined Qantas and British Airways Kangaroo Route services. This ensures that a higher proportion of consumers are able to travel on discounted seats. The reasons for this are described in more detail in section 11.6 of the NECG Report.

International Competitiveness and the National Interest

6.40 It is in the national interest that Qantas remain a successful and internationally competitive airline. Increased international competitiveness of Australian industry is recognised as a public benefit by the Commission. In the 1995 Determination, and more recently in the 2000 Determination, the Commission agreed that:

> *'there is a public benefit from having a strong viable international airline such as Qantas and that alliances can contribute to an airline attaining that position'*[58]

6.41 Qantas plays an important role in the Australian economy. In 2001-2002 it accounted for approximately 2% of Australia's GDP, contributed $800 million to Australia's exports, purchased $2.4 billion of Australian goods and services and employed over 37,000 people. The Qantas brand is also a focal point for Australian tourist promotion overseas.

6.42 Qantas also plays a larger role in assisting the Australian community. For example, in times of crisis, Qantas has been able to deploy its assets quickly to help evacuate Australians from overseas locations, as it did recently in response to the Bali tragedy.

6.43 For many reasons, Qantas' success as an international flag carrier with a comprehensive, safe network is important to the Australian economy and to the community more generally. This fact has been recognised by successive Australian Governments. Indeed, the need to ensure that Qantas remained strong and able to respond to international competition drove the Australian Government's decision to privatise Qantas and to seek a cornerstone shareholding by, and close alliance with, British Airways.

6.44 Those policy initiatives have proven to be effective. The JSA has been an important factor underpinning the international competitiveness of Qantas and the viability of its services on key routes for Australia. For example, the Deputy Prime Minister and Minister for Transport and Regional Services, the Honourable John Anderson, recently stated in the context of the proposed Qantas/Air New Zealand alliance, that:

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[57] 2000 Determination, page 77.
[58] 2000 Determination, page 80.

'Frankly when it comes to [Qantas'] place as an international carrier, an economy the size of Australia can only afford one international carrier of stature and we want to ensure that we still have one in a decade's time, when I predict that there will be many fewer international carriers'.

6.45 Overall, the JSA makes Qantas significantly more internationally competitive. Without the JSA, Qantas' presence in a number of overseas markets and its position as a strong national flag carrier will be weakened and its ability to support and benefit the Australian economy and society will be lessened. Qantas is the only international carrier with an Australian focus and majority Australian ownership, whose strategies will always be centred around how to increase traffic to Australia and improve services to Australia, whose management is in Australia and which remains throughout the world, perhaps more than any other company, a symbol of Australia. The continuation of the JSA is therefore consistent with Australian Government policy and the national interest in ensuring that Qantas is a highly competitive international carrier.

7. CONCLUSION

7.1 Reauthorisation of the JSA will give rise to significant public benefits including cost savings and efficiencies, lower fares, an increase in net exports, additional employment, increased tourism, product and service benefits and increased international competitiveness of Qantas. These benefits flow directly from the authorisation of the JSA and would not otherwise be realised.

7.2 Against this, there is little or no public detriment because of the pro-competitive nature of the JSA in the relevant markets. Pursuant to section 88(1) of the TPA, therefore, the Commission should grant authorisation to the JSA for an indefinite period.

Appendix 1

Key Provisions of the Restated Joint Services Agreement

This Appendix summarises the key provisions of the Restated Joint Services Agreement.

Condition Precedent (clause 2)

The implementation of the JSA was conditional on the Commission's authorisation.

Term (clauses 3 and 18)

The duration of the JSA is unlimited as to time. However, it may be terminated by either party on 12 months notice or in the event of a breach or other terminating event contained in clause 18.

Termination of Original Joint Services Agreement (clause 4)

The Restated Joint Services Agreement superseded and replaced the Original Joint Services Agreement on satisfaction of the condition precedent.

Consumer Benefits (clause 5)

Qantas and British Airways acknowledge that as a direct result of the implementation of the Original Joint Services Agreement, they have been able to deliver a number of significant consumer benefits which include:

(a) improved schedules, stopover choices, frequencies and better connection times on the JSA Services and services connecting to the JSA Services;
(b) the development of new fare products and promotions;
(c) better airport facilities;
(d) ease of airport transfers for connecting passengers;
(e) superior services, systems and inflight product;
(f) greater opportunities for frequent flyers;
(g) increased international competitiveness of both parties;
(h) increased availability of services through improved yield management for both passengers and cargo;
(i) easier planning of itineraries through the provision of better information to agents;
(j) improved holiday products; and
(k) improved opportunities for joint information technology development and procurement.

Qantas and British Airways also recognise and agree that their objectives in entering into the JSA are to continue to maximise consumer benefits and to operate cost effective and efficient networks.

To achieve this objective, Qantas and British Airways agree to:

(a) continue to provide the existing consumer benefits described above;

(b) ensure that the Restated JSA Routes are operated in a manner that will:

  (i) enhance customer service and choice, including departure times, routings, fare and tariff types, fare availability and gateway choice;

  (ii) increase Australian, European and intermediate points inbound and outbound traffic and cargo flows;

  (iii) improve the competitive position of each of Qantas and British Airways and thereby increase competition on the Restated JSA Routes;

(c) deliver significant operational efficiencies and improve the cost effectiveness and efficiency of the operation of the Restated JSA Routes and all functions supporting such services;

(d) pursue additional opportunities where the parties can develop new services and products which, on a basis which is equitable for both parties, will enhance the consumer benefits and the effectiveness of the Restated JSA Routes;

(e) pursue other aspects of the operations of the Restated JSA Routes where specific activities and functions can be coordinated and carried out in such a manner that one party performs such activities and functions for the other (wholly or in part), including areas where wider benefits can be derived from economies of scale and the combination of activities and functions;

(f) continue to encourage and facilitate the movement of passengers on the Restated JSA Routes and between those services and other airline services provided by the parties elsewhere;

(g) continue to promote a common culture of service standards and levels of customer service on Restated JSA Routes including in relation to:

  (i) onboard products;

  (ii) the handling of passengers and their baggage at all stages from the booking of tickets, checking in at the airport and transfer from one flight to another until disembarkation and retrieval of baggage;

  (iii) the handling of cargo;

  (iv) all other related services including frequent flyer offerings, holiday packages, and marketing and distribution arrangements; and

  (v) joint offices at various points of the parties' networks;

(h) second staff to each other in order for the parties to benefit from each other's expertise and experience.

Operation of Restated JSA Routes (clause 6)

In entering into the JSA, Qantas and British Airways reiterate that their long term interests lie in the future development of Qantas and British Airways in order to ensure the seamless, competitive, high quality and cost efficient passenger and cargo services which each party provides. Qantas and British Airways agree to operate the Restated JSA Routes in order to deliver the consumer benefits and objectives set out above. This may include codesharing on each other's services.

Co-operation between the parties (clause 7)

In order to achieve the consumer benefits described above, Qantas and British Airways may coordinate their:

(a) Service Parameters (the routings, frequencies, aircraft types, products specifications, aircraft configuration, connection requirements and a range of times for services offered);
(b) scheduling;
(c) sales and marketing;
(d) cargo;
(e) pricing (which may include fares and new fare products as well as customer rebates, incentives and discounts);
(f) holiday products;
(g) distribution and agency arrangements;
(h) frequent flyer programs;
(i) in-flight products;
(j) information technology; and
(k) purchasing activities,

to the extent that such Service Parameters and activities relate wholly or partly to services between Australia and Europe (via any intermediate point), Australia and any intermediate points to Europe, and Europe and intermediate points to Australia, or such other routes as the Applicants may agree from time to time (together, the **Restated JSA Routes**).

In pursuing the coordination of their sales and marketing activities, Qantas and British Airways may:

(a) operate co-branded joint offices, joint retail sales outlets and joint call centres in agree locations;
(b) collocate certain facilities and staff in agreed locations;
(c) appoint common general sales agents in agreed locations;
(d) conduct joint promotions;
(e) coordinate frequent flyer activities and offerings; and
(f) coordinate agency commissions, rebates, incentives and discounts.

Qantas and British Airways will also seek to coordinate their acquisition of goods and services to achieve the most efficient purchasing practices and obtain the best available rates for goods and services. This will include in particular coordinated purchasing in the areas of:

(a) information technology;
(b) fleet acquisitions; and
(c) engineering and maintenance.

The Committee (clause 8)

In carrying out their respective obligations under the agreement, Qantas and British Airways agree to establish a committee with representatives of each of the parties. The functions of the committee extend to the following:

(a) establish schedules for the JSA Services so as to maximise the utilisation of each airline's resources committed to the JSA Routes and to best manage capacity to demand;

(b) establish formal and informal pricing parameters for each IATA scheduling season;

(c) take responsibility for the coordination and integration of all marketing and sales for the JSA Services;

(d) take responsibility for coordination of yield and capacity management on the JSA Services;

(e) coordinate onground service (for example check in, baggage delivery, catering, lounge facilities and freight delivery).

Financial Arrangements (clauses 9-13, 15 and 17)

Qantas and British Airways agree to make revenue transfer payments to each other in respect of both passengers and cargo carried on the JSA Services. A detailed model was established for calculating the transfer payments which is designed to ensure that both airlines receive a fair and proportionate transfer of profits derived from the JSA Services. The model was amended by agreement between the parties on 27 September 2001. The JSA also contemplates that changes to the financial arrangements between Qantas and British Airways may have to be made over time. This is to take account of changes which Qantas and British Airways introduce to their air services, as well as external events affecting the yield each party derives from their air services.

Information Exchange (clause 14)

Qantas and British Airways agree to exchange information relating to their air services on the JSA Services.

Appendix 2

JSA

Appendix 3

Current JSA Routes

The following is a list of sectors on JSA Routes to which the JSA benefit sharing model is currently applied:

1. LHR - SIN
2. LHR - BKK
3. FRA - SIN
4. CDG - SIN
5. FCO - SIN
6. SIN - SYD
7. SIN - MEL
8. SIN - BNE
9. SIN - PER
10. SIN - ADL
11. SIN - DRW
12. SYD – BKK

In addition, benefit sharing applies in respect of some services on the following sectors:

13. BNE - SYD
14. SYD - MEL
15. ADL - DRW

Appendix 4

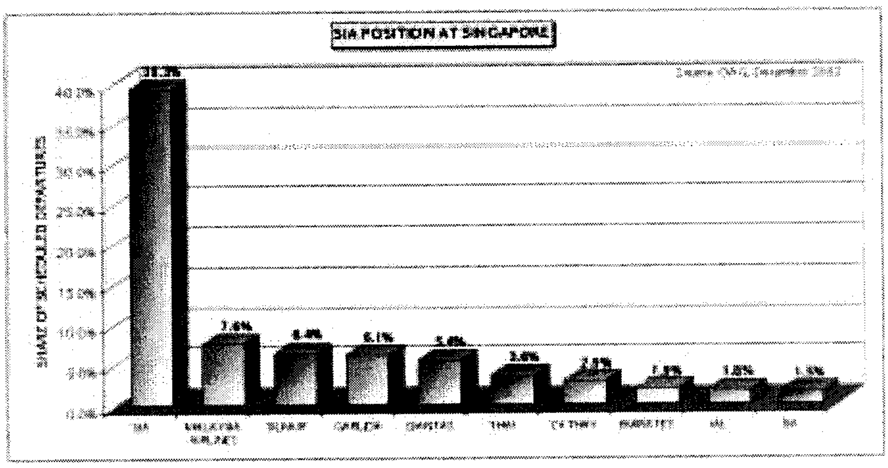
Competitor Profiles

Singapore Airlines

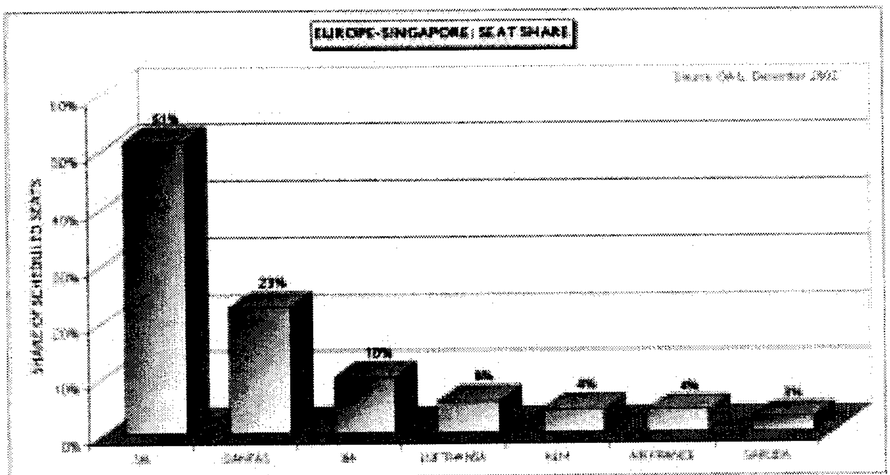
Company profile

Singapore Airlines, a member of Star Alliance, is Singapore's flag carrier and one of the country's largest companies. Singapore Airlines' major shareholder (with 56.76% of the shares) is Temasek Holdings Limited, the investment holding arm of the Singapore Government. Singapore Airlines has an enviable profitability record and for the six months to 30 September 2002 posted a very strong profit of S$774 million (A$785 million).

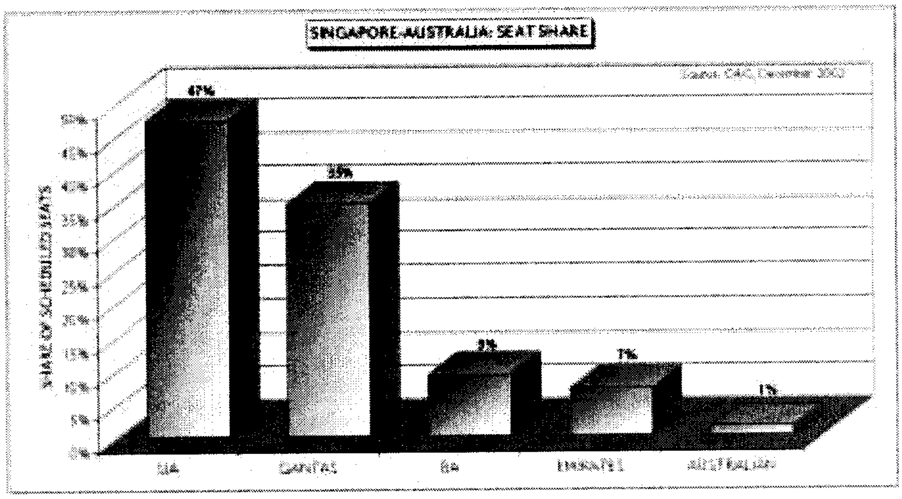
Singapore Airlines has a strong position in its home market, as the graph below illustrates. Together with its SilkAir subsidiary, Singapore Airlines accounts for over 45% of scheduled departures at Singapore Airport.



Singapore Airlines is the largest carrier of people between Europe and Singapore, accounting for more than half of all available seats:



Although both Qantas and British Airways both concentrate JSA Services through Singapore, Singapore Airlines is also clearly the largest carrier between Australia and Singapore.



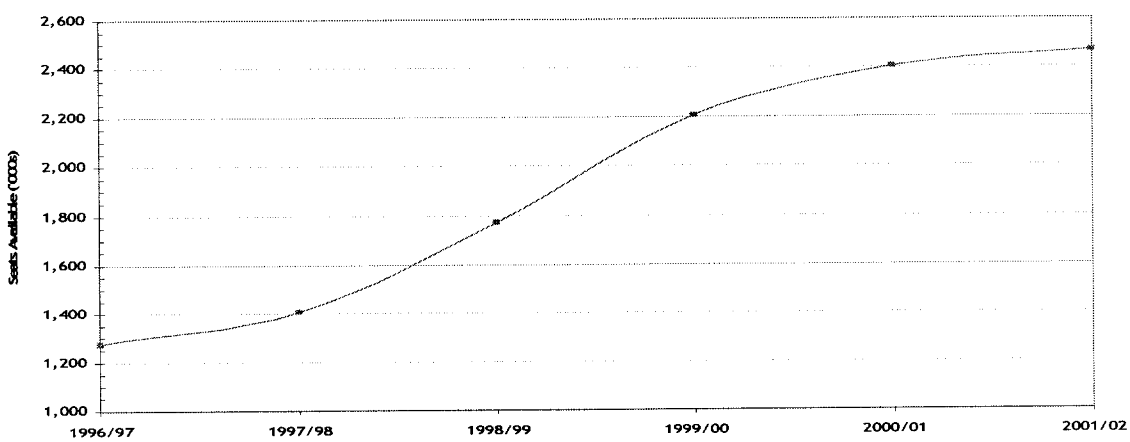
Australian Expansion

Singapore Airlines' high profitability has enabled it to consider investing in foreign markets, including Australia. Singapore Airlines' CEO, Cheong Choong Kong, recently stated:

> '*We think of ourselves as a global player and one of our strengths is how well dispersed our routes are. We're No 5 worldwide in passenger [kilometres flown] and No 2 in cargo. A carrier of this size based in a very small home market has got to look for other avenues of growth.*'[1]

Singapore Airlines regards Australia as a key market in which to pursue this growth and has therefore been aggressive in expanding its presence in this market. In just five years between 1996/7 and 2001/2, Singapore Airlines almost doubled its total capacity into Australia, as shown in the graph below.

Singapore Airlines Capacity into Australia



The airline now has more than 80 flights a week into Australia, all using high capacity B747 or B777 aircraft. This capacity growth has been reflected in rapid growth in Singapore Airlines' market shares. ABS data shows that Singapore Airlines' market share on Australia to Europe routes increased from 12% to 18% in just three years between 1997/8 and 2001/2.

This growth shows no signs of abating. Since the period covered by the graph above, Singapore Airlines has increased its service to Brisbane to two per day, twice the frequency operated by Qantas and British Airways and a level that represents a doubling of Singapore Airlines' capacity into this city since just March 2001[2]. Similarly, from March 2003 Singapore Airlines will increase its services from Melbourne to Singapore from double daily to 17 per week, a greater frequency than British Airways and Qantas combined. Singapore Airlines also continues to invest heavily in new aircraft and will be one of the launch airlines for the new Airbus A380.

Singapore Airlines has stated publicly that it does not believe that its growth has been hampered significantly by the loss of Ansett as a domestic partner in Australia. Dr Cheong stated in October last year that "*while we are feeling, to some degree, the loss of Ansett, it hasn't been very severe*"[3] Dr Cheong also stated at the same time that, almost a year after the collapse of Ansett, Singapore Airlines' load factors into and out of Australia were "*as good, if not better than before*"[4].

Emirates

Company profile

Emirates was launched 17 years ago and is one of the world's fastest growing airlines, flying to more than 58 destinations in 41 countries[5]. It is also one of the world's most profitable airlines, announcing a 13.5% increase in net profits to US$164 million for its 2001/02 financial year notwithstanding the general downturn in the aviation industry following the terrorist attacks of 11 September 2001.

Emirates is a subsidiary of the Emirates Group, which is wholly owned by the Dubai government. The growth of the airline is part of the Dubai Government's strategy to build Dubai as an aviation hub and build its tourism and conference industries. Emirates' Chairman, Sheikh Ahmed, has said that its owners see the airline's main role as being to support the aims of the Dubai government to increase tourism and traffic into Dubai.

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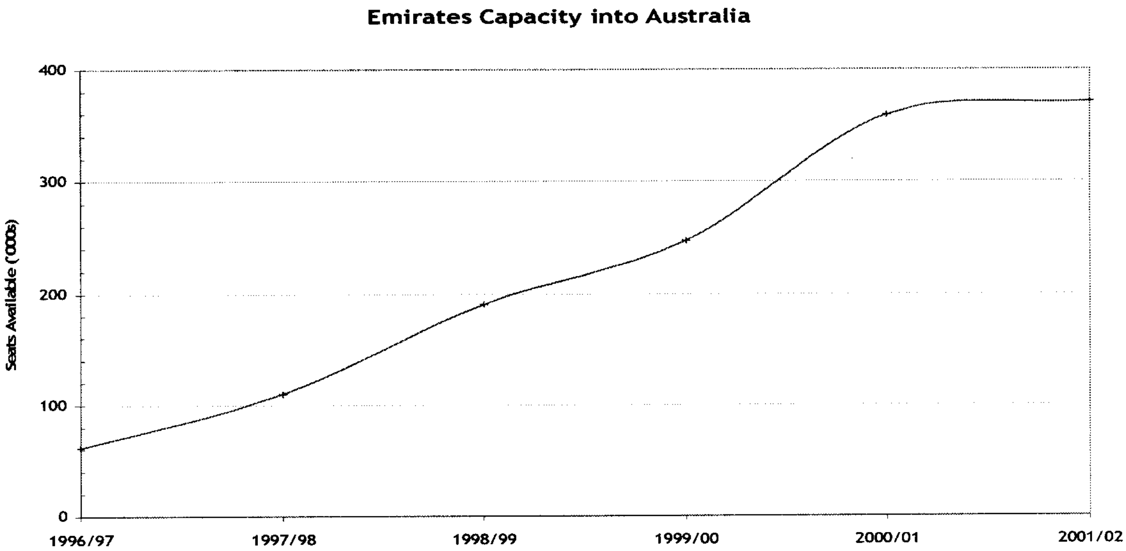
1 'Star Alliance ponders vacuum', *Australian Financial Review*, 28 October 2002.
2 'More Singapore Flights boost tourism recovery', *Courier Mail*, 18 September 2002, Page 7.
3 'Singapore toys with prospect of third airline', *Sydney Morning Herald*, 4 October 2002, page 6.
4 'Singapore toys with prospect of third airline', *Sydney Morning Herald*, 4 October 2002, page 6.
5 www.emirates.com, 'About us'.

Emirates' expansion

The growth of Emirates in the Australian market has been remarkable. The airline commenced services to Australia in 1996, now operates 15 services a week and, on MiDT data, accounts for in excess of 5 percent of traffic between Australia and Europe.

Emirates' rapid expansion of capacity into Australia is shown in the graph below.



From its Dubai hub, Emirates offers 7 direct daily flights to the United Kingdom (3 daily services to Heathrow, two to Gatwick, one to Birmingham and one to Manchester), 14 direct flights a week to Frankfurt and Zurich, 12 direct flights a week to Munich, daily direct flights to Paris, 7 direct flights a week to Rome and a range of connecting flights to other destinations in Europe. Emirates is also in the process of revising its flight schedule. Among other changes, Emirates will start double daily services from Dubai to Munich from 31 March 2003 and to Hong Kong from 26 October.

Since the period covered by the capacity graph above, Emirates has also –

- launched direct services from Dubai to Perth;
- announced that from October it will start daily direct services between Dubai and Sydney; and
- announced that from October it will launch a daily B777-300 service to Brisbane via Singapore, giving it its fourth Australian route after Sydney, Melbourne and Perth.[6,7]

This growth is certain to continue. Press reports have noted that Emirates is targeting Australia as a key market for expansion as it pursues a strategy of becoming a global airline over the next decade. The airline has stated an intention to double its current level of service to Australia over the next 8 years to offer twice

6 Emirates Press Release, 23 January 2003.
7 'Emirates in bid to land a daily double', *Australian*, 24 April 2002, page 21.

daily services to each of Sydney and Melbourne, daily services to Brisbane and more daily services to Perth.[8]

Emirates has been described as being *'hell bent on huge expansion*[9]. Emirates' announced fleet expansion plans will likely see its current number of 43 wide body aircraft increase to 110, including 22 Airbus A380 super jumbos by 2010.[10] As part of this expansion, the airline recently placed the largest order in history for new aircraft, a $28.8 billion investment in Boeing and Airbus aircraft[11]. This order included an order for no fewer than 22 Airbus A380's, with options on another 10. Emirates will be the launch airline for the A380. Emirates will have a dedicated Emirates terminal at Dubai International Airport by 2005 and the first of its 22 A380s will arrive in 2006.

Sheikh Ahmed has commented on Emirates' aggressive expansion of its fleet, stating that: *'The number of aircraft goes with the vision of HH Sheikh Mohammed – pushing what he wants to see in the next ten years – which is 15 million hotel guests in Dubai – at the moment we have in the region of 3.5 million. That vision required a number of aircraft to foresee the future of Dubai's business growth.'*[12]

Because of its government ownership, Emirates is able to finance this growth without the need to provide the commercial returns expected of private airlines that are dependent on capital markets for funding. Rather, Sheikh Ahmed has been quoted as stating that Emirates' profits are currently able to be ploughed back into improving its capabilities and expanding its fleet, without the need of a private company to pay dividends or provide a commercial return on investments.[13]

Thai Airways

Company profile

Thai Airways is a member of Star Alliance and codeshares with Emirates, El Al, Japan Airlines, Scandinavian Airlines, South African Airways, Swissair, Lufthansa, Malaysia Airlines and United Airlines. Thai Airways has a fleet of over 80 widebody aircraft and its network currently serves 76 destinations in 36 countries

The Thailand Government owns 93% of Thai Airways. The airline has a remarkable record of being continuously profitable for over 30 years. For the financial year ending 30 September 2002 Thai made a net profit of 10.182 billion Baht (A$407 million), an increase of 8.253 million Baht (A$330) million compared to the same period in the previous year.[14]

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8 For example, 'Emirates' air moves: Sydney first, then Brisbane', *Australian Financial Review,* 24 April 2002, page 9; 'Emirates wants to double its down under flights', *Australian*, 31 October 2002, page 21; 'Emirates Increases Flights to Australia', *Australian Financial Review*, 20 September 2002, page 17.

9 'High Stakes', *The Bulletin*, 9 April 2002, page 46.

10 'Emirates wants to double its down under flights", *Australian*, 31 October 2002, page 21.

11 'High Stakes', *The Bulletin*, 9 April 2002, page 46.

12 www.stars.com/interviews/100625834792986.htm

13 www.stars.com/interviews/100625834792986.htm

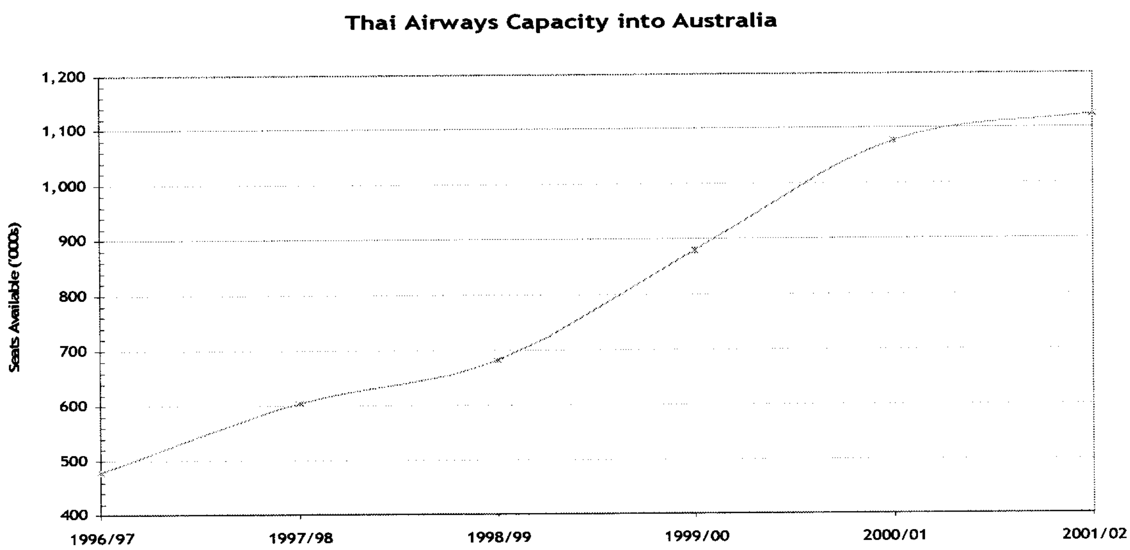
14 'Investor Relations' http://203.155.121.81/fpi-investor-en.htm - Thai Airways home page: www.thaiairways.com/.

Expansion plans

Thai is aiming to grow its revenues by 50% by 2007 and this will be supported by an expansion of its network, with 21 new destinations to be added over the next five years and frequencies to be increased in existing markets.

Thai plans to continue to expanding its services to Europe and the Asia-Pacific with plans to purchase new Airbus and Boeing aircraft to increase its seat capacity and satisfy demand from leisure travellers.[15] In addition, the airline plans to increase its existing services in Europe and the Asia-Pacific in an attempt to meet increasing demand for these destinations.

As with Singapore Airlines and Emirates, Thai regards Australia as an important market and has been aggressive in expanding its capacity into Australia. As shown in the graph below, Thai has more than doubled its capacity in the past 5 years.



Cathay Pacific (Cathay)

Company profile

Cathay is a member of the Swire Group and is listed on the Hong Kong Stock Exchange. It recently announced a profit for 2002 of HK$3.98 billion (A$826.6 million), up from HK$557 million in 2001. Turnover was HK$33.1 billion.[16] Cathay Pacific has only once in the past 37 years of operation recorded a full year loss.

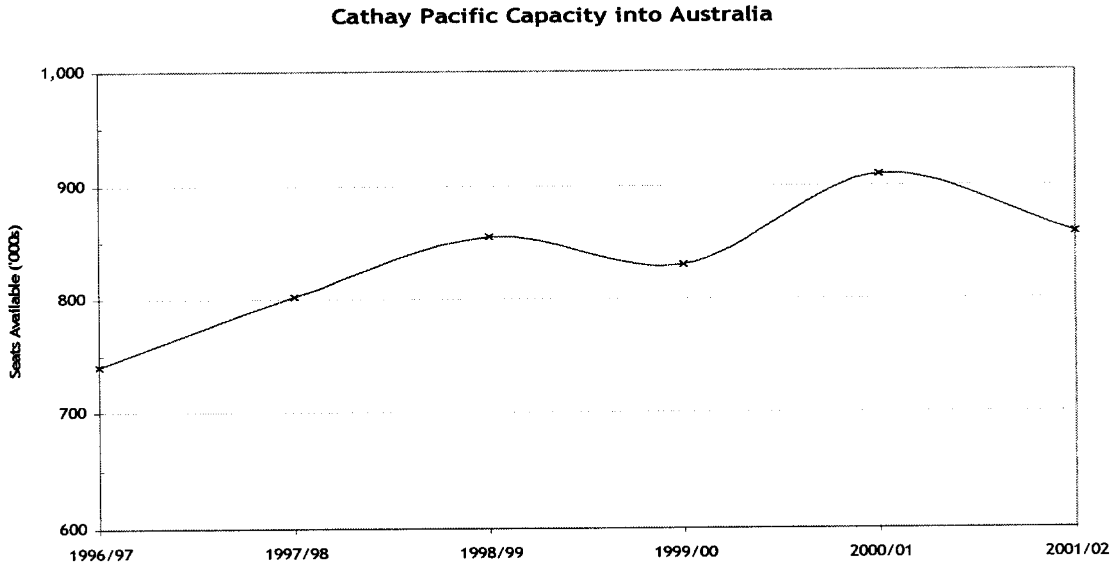
15 asia-inc.com/index.php?articleID=2261, October 2002.
16 'Fasten your seatbelts, warns Cathay", *Australian*, 7 March 2003, page 26.

Using a fleet of 67 wide body aircraft, Cathay operates scheduled passenger services from Hong Kong to 42 destinations in 25 countries. Airbus and Cathay have also recently confirmed that Cathay is negotiating to purchase between 6 and 10 Airbus A380's.[17]

Cathay is a member of **one**world, but is also a vigorous competitor to both British Airways and Qantas on the Kangaroo Route, offering flights between Australia and Europe via its Hong Kong hub. On the Europe-Hong Kong sector of the route Cathay accounts for 44% of all available scheduled seats. Between Hong Kong and Australia its share is up to almost 60% of seats.

Expansion plans

The graph below shows Cathay's operated capacity into Australia between 1996/7 and 2001/2:



The fall in capacity for the 2001/02 year reflects a temporary withdrawal of some capacity following the terrorist attacks of 11 September 2001. Cathay has subsequently returned, however, to expanding its passenger capacity, bringing previously grounded aircraft back into service and restoring services to meet increases in demand.

During 2002, Cathay returned to aggressive expansion in Australia with an increase of operated capacity into the Australian market during that year of almost 30%.

The airline also added a fifth daily flight to Tokyo and four more weekly flights to London, which is now served by 18 flights each week. Capacity will be increased further with the delivery later this year of three long-range Airbus A340-600 aircraft for use on ultra-long-haul routes to Europe,[18] and Cathay recently announced that it has ordered three Boeing 777-300 and three Airbus A330-300 aircraft for delivery in 2003 and 2004 to position itself to offer more choice to customers and secure a larger market share as demand in the air travel market grows

17 ibid.
18 www.swirepacific.com/media/press/p020807.pdf

Malaysia Airlines

Company profile

Malaysia Airlines is another aggressive competitor on Kangaroo Routes with a well located hub, aggressive pricing and a government owner offering substantial funding to underwrite its continuing operations. Malaysia Airlines operates a fleet of 103 aircraft on a network spanning 94 destinations in 38 countries. Malaysia Airlines currently operates over 40 flights per week to Australia.

In 2001, the Malaysian Government effectively renationalised Malaysia Airlines by buying back the shares previously held by Tajudin Ramli, a Malaysian entrepreneur. The Government has also recently agreed to assume Malaysia Airlines' debts and to inject R1.5 billion (A$674 million) into the airline through a sale and lease back of aircraft and real estate[19]. The restructure has seen the airline become one with few assets and no debts, thereby allowing it to focus on its international passenger and cargo business. Another key element of the reorganisation involved the transfer of its loss making domestic carrier to a state owned company. The airline will now run the operation on behalf of the state for a fee.

The Chief Executive Officer of Tune Air (the holding company of Malaysia Airlines' privately owned domestic competitor, Air Asia) recently stated: *'There is no way we can compete with [Malaysia Airlines] as they are well supported by the Government and their financial source is a bottomless pit.'*[20]

Malaysia Airlines accounts for 80% of all available seats between Europe and Kuala Lumpur. On the Kuala Lumpur to Australia sector, virtually the only competition is from Lauda Air which accounts for 17% of bookings.

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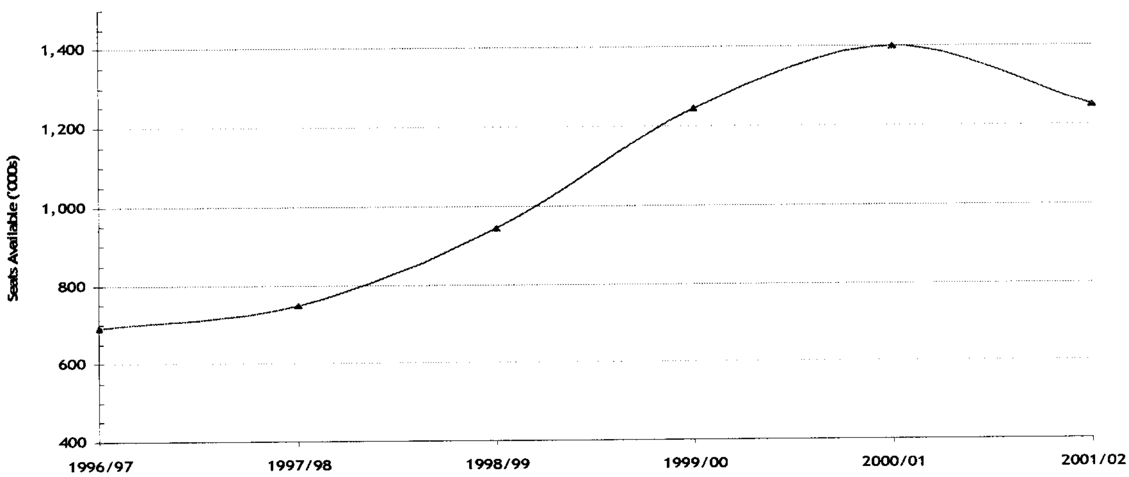
19 'Restructure lifts Malaysia outlook', *West Australian*, 1 June 2002, page 74; 'Malaysian set to profit', *Australian Financial Review*, 6 November 2002, page 2.

20 'Malaysia Airlines gets tough with no-frill rival', *Australian Financial Review*, 10 October 2002, page 20.

Expansion plans

Malaysia Airlines' recent history of capacity expansion into Australia is shown in the graph below.

Malaysia Airlines Capacity into Australia



The decline in capacity shown for the 2001/02 financial year in the above graph reflects some withdrawal of capacity by Malaysia Airlines in the aftermath of the terrorist attacks of 11 September 2001. However, encouraged by improved performance and increased yields following its restructuring exercise and turnaround program, Malaysia Airlines has recently resumed its expansion of capacity into Australia as part of broad new expansion plans.[21] These plans provide for an additional three B777 services between Kuala Lumpur and Melbourne and an additional A330 service to Perth. The airline also announced three additional B747 services to Paris and upgrading of B777 services to Amsterdam to B747, together with plans to increase routes to China, Japan, the Middle East and India. In total, the plans provide a total of 149,456 passenger seats per week for the routes involved.

Malaysia Airlines has also flagged its intention to increase flights to Adelaide and has signalled its long term commitment to the Australian market by launching its own dedicated 24 hour telephone call centre in Adelaide last year.[22]

Virgin Atlantic

For a number of years Virgin Atlantic has offered services on the Kangaroo Route via codeshare with Malaysia Airlines. However, Virgin Atlantic has recently stated that it intends to commence operations on the Kangaroo Route by operating services from London to Australia via Hong Kong. In a recent media interview Sir Richard Branson was quoted as saying:

> *'Virgin Atlantic, I hope, will be flying all the way to Australia[in 2003]. We will finally be able to connect up Virgin Blue with Virgin Atlantic'.*[23]

21 Malaysia Airlines Press Release, 30 January 2003.
22 'Airline's pledge on more flights', *Adelaide Advertiser,* 15 August 2002, page 25.

Branson has stated that by the time the route is operative the Virgin Blue fleet will have increased to around 40 aircraft thereby providing *'...a tremendous feeder service at this end for our passengers.*[24]

Virgin Atlantic has indicated that it is awaiting a decision from the Hong Kong Government to allow it to operate services from Australia to Hong Kong. Even if the Hong Kong government does not grant the through rights that Virgin Atlantic has requested, Virgin Atlantic and Virgin Blue have the ability to commence Europe to Australia service with existing rights by using Virgin Blue, as an Australian designated carrier, to operate the Australia to Hong Kong sectors.

Gulf Air

Gulf Air, the national carrier of Bahrain and Oman, recently announced a major restructuring program, with the airline aiming *'to achieve total consistency in world-class airline status over the next two years'*.[25] Traditionally not a strong player in the market, in October 2002, Gulf Air showed a 22% improvement in business over the same period in the previous year.[26] Economy passengers had increased by 25% whilst business class increased by 39%.[27]

The upturn has been attributed to the restructuring initiatives which began in late 2002 and which included the introduction of flight chefs, new marketing and sales teams and new 'Arabian Experience' holiday packages offered in Europe.

Overall, the directors have agreed to inject BHD$90 million (A$410 million) into the carrier, with the next major instalment planned for September 2003.

The company plans to strengthen its Middle Eastern network and to grow its European and Asian networks, announcing daily flights to London, Frankfurt and Paris. It has also stated that it wishes to operate flights to Sydney which could link up with its European services operating out of the Middle East. Gulf Air's chief executive, James Hogan, has said that the airline aims to commence a daily service to Sydney in June.[28]

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23 The Guardian, Monday 11 November 2002, http://www.guardian.co.uk/business/story/0,3604,837396,00.html
24 'Branson seeks rights to fly Australia-HK', *Australian Financial Review*, 6 November 2002, page 13.
25 'Gulf Air spells out plans to win over customers' www.timesofoman.com/print.asp?newsid=2256
26 'Gulf Air makes progress on restructure', www.world aviation.com.au/press/gulfair_021120.asp
27 Gulf Air makes progress on restructure', www.world aviation.com.au/press/gulfair_021120.asp
28 'Gulf stream set for Sydney daily', *Australian,* 13 December 2002, page 26.

Appendix 5

British Airways/Qantas Codeshares

OPERATED BY QANTAS

European and SE Asian city pairs

London Heathrow	Singapore	
London Heathrow	Bangkok	
Frankfurt	Singapore	(note 2)

SE Asian and Australian city pairs

Bangkok	Sydney	(note 1)
Bangkok	Melbourne	(note 1)
Singapore	Sydney	(note 3)
Singapore	Melbourne	(note 3)
Singapore	Brisbane	(note 1)
Singapore	Darwin	(note 1)
Singapore	Adelaide	(note 1)
Singapore	Perth	(note 1)

Australian domestic city pairs

Sydney	Melbourne	(note 1)
Sydney	Adelaide	(note 1)
Sydney	Brisbane	(note 1)
Sydney	Brisbane	(note 1)
Melbourne	Adelaide	(note 1)
Melbourne	Canberra	(note 1)
Brisbane	Cairns	(note 1)

American and Tasman city pairs

Auckland	Los Angeles	(note 1)
Sydney	Auckland	(note 1)
Sydney	Christchurch	(note 1)
Sydney	Wellington	(note 1)
Melbourne	Auckland	(note 1)

OPERATED BY BRITISH AIRWAYS

European and SE Asian city pairs

London Heathrow	Singapore
London Heathrow	Bangkok

SE Asian and Australian city pairs

Singapore	Sydney
Singapore	Melbourne
Bangkok	Sydney

Domestic UK city pairs: from Aust over LHR to UK

London Heathrow	Manchester	(note 1)
London Heathrow	Edinburgh	(note 1)
London Heathrow	Glasgow	(note 1)
London Heathrow	Aberdeen	(note 1)
London Heathrow	Newcastle	(note 1)

European city pairs: from Aust over LHR to Europe

London Heathrow	Paris	(note 1)
London Heathrow	Amsterdam	(note 1)
London Heathrow	Vienna	(note 1)
London Heathrow	Oslo	(note 1)
London Heathrow	Stockholm	(note 1)
London Heathrow	Copenhagen	(note 1)
London Heathrow	Hamburg	(note 1)
London Heathrow	Berlin	(note 1)
London Heathrow	Dusseldorf	(note 1)
London Heathrow	Munich	(note 1)
London Heathrow	Frankfurt	(note 1)
London Heathrow	Nice	(note 1)
London Heathrow	Lyon	(note 1)
London Heathrow	Zurich	(note 1)

UK/European city pairs: from Aust over FRA and CDG to MAN/LGW/BHX

Frankfurt	Manchester	(note 1)
Frankfurt	London Gatwick	(note 1)
Frankfurt	Birmingham	(note 1)
Paris	Birmingham	(note 1)
Paris	Manchester	(note 1)
Paris	London Gatwick	(note 1)

Notes:

1. Codeshare is only available on these sectors where the passenger is making a connection to or from another international flight. The connection can be immediate, or there may be a stopover between.

   For example, British Airways can only sell a British Airways coded ticket on a trans-Tasman Qantas flight as part of an itinerary under which the passenger continues on to Europe on a JSA Service. The codeshare therefore does not give British Airways the ability to participate in the market for trans-Tasman air travel.

2. Codeshare is only available on this sector where the passenger is making a direct connection (ie, no stopover allowed) to or from another international flight.

3. Due to limitations in the 5th freedom rights granted by Singapore, British Airways has full rights to codeshare on a limited number of Qantas flights between of Singapore and each of Sydney and Melbourne. For other Qantas flights on these sectors, codeshare is only available where the passenger is making a connection to or from another international flight.