

smoothly with sector length, making a stop introduces a step increase in the unit costs of operating a route due to, for example, additional fuel costs and landing fees.

Whether these additional costs differ between operators with a hub at the mid-point and those without is uncertain. Thus, between Australia and the United Kingdom, Qantas and British Airways, operating under the JSA, service the route as a hub (UK/Australia)-spoke (Singapore/Bangkok)-hub (Australia/UK) network. Absent the JSA, both British Airways and Qantas would service the route as a hub-spoke-spoke network. Singapore Airlines, in contrast, operates the route as a spoke (UK/Australia)-hub (Singapore)-spoke (Australia/UK) network. Both Qantas and British Airways on the one hand, and Singapore Airlines on the other, will incur the additional costs due to stopping at an intermediate point, but it may well be that the scale effects Singapore Airlines²⁴ obtains at Singapore are greater than the cost disadvantage it experiences at the spoke ends that it serves (that is, in Europe and Australia when compared with the local hub operator).

Given these impacts on costs, additional and potentially even more significant impacts arise in respect of revenues.

Specifically, all operators (with or without a mid-point hub) face the problem that a proportion of passengers will only be travelling from the initial point (for example, Australia) to the first stop (for example, Singapore).²⁵ It is substantially easier, however, for the operator with a hub at the mid-point to profitably sell seats at its hub (the intermediate point) than it will be for competitors without a mid-point hub. On through flights, unless the airline can replace these passengers at the first stop, the second sector (to Europe) will have empty seats. Operators without a mid-point hub have to utilise through flights to service the Kangaroo Route. This means that unlike the Asian and Middle Eastern carriers, they are unable to change aircraft at the mid-point to match the different demands they may have on each sector. As a result an operator without a mid-point hub will find it more difficult to cover its costs on a very competitive route such as the Kangaroo Route. Table 3 shows that

²⁴ Throughout this section we use Singapore Airlines as an example for ease of exposition only. All the arguments are equally valid for each mid-point hub operator.

²⁵ An airline could of course only sell to passengers who were flying through to Europe, but would then lose the economies of density available on the first leg.

approximately 50% of Qantas' passengers flying to Singapore do not carry on to Europe.^{26,27} However, passengers joining Qantas' flights at Singapore to travel to Europe only make up 20% of total Singapore to Europe passengers. Thus, even with the JSA, Qantas has a significant number of passengers flying to the mid-point hub only which it is unable to replace.

Table 3: [Confidential Information Deleted]

Selling seats in a country such as Singapore to a European destination and from Singapore to Australia is difficult for Qantas, because it is competing with Singapore Airlines in its hub and home country. There are two main reasons for this difficulty: first, the relative breadth and depth of the competing networks; and second, the hub operators' local presence effect.

A hub operator's network at its home hub is generally much broader and deeper than that of a non-hub operator. The breadth and depth of the network have particular significance in attracting high yield traffic such as international business travellers, who are likely to prefer an airline that can offer service to a greater range of international destinations to and from which they travel.

Putting this in concrete terms, Singapore Airlines, in its home country, can sell traffic from Australia to Singapore and from Singapore to Europe. As well as this, the airline can sell Australia to Asian points via Singapore, and Europe to Asian points via Singapore. Although Qantas and British Airways can also use interlining to sell a range of onward points, the scale on which this occurs is significantly less than that available to Singapore Airlines.

Thus, even with the JSA, Qantas only connects six Australian cities to four European cities over Singapore, allowing the sale of twenty-four one-stop combinations from Australia to four countries. In contrast, Singapore Airlines sells 40 one-stop city pair combinations from

²⁶ This proportion is calculated counting up to a 30 day stopover as a 'through' passenger.

²⁷ Approximately 47% of BA's passengers travel to the mid-point only.

Australia to Europe and 168 Asia to Australia. Table 4 below summarises the unique city pair combinations offered by Qantas and some of its key competitors over a mid-point hub.

Table 4: City pairs connected by one stop services over hub

	Hub	Europe to Australia	Asia to Australia	Asia to Europe
Qantas / British Airways	Singapore	24	6	4
Singapore Airlines	Singapore	40	168	224
Thai Airways	Bangkok	24	132	352
Malaysia Airlines	Kuala Lumpur	15	136	102
Cathay Pacific	Hong Kong	12	60	75
Emirates	Dubai	11	13	143

Source: OAG. Notes: (1) We have only included same day connections for NW02.

Second, the hub operator will benefit from marketing and brand presence in its home country. Especially for business passengers, this effect interacts with the network reach effect outlined above. Combined, the impact of the network reach and marketing effects is to reduce the yield a non-hub carrier can obtain on passengers based at the stopover point. Given that intermediate traffic is important to viability, the overall impact of a lower unit yield is to reduce the range of services—in terms of destination and scale—the non-hub carrier can support through the stopover point.

Table 5 illustrates the strength of the Asian carriers and Emirates at their home airports. It shows the traffic at each of the main carriers' home airports and what proportion of this traffic the home carrier serves and what proportion the JSA parties serve. In each airport the home carrier's share of traffic dwarfs the JSA parties' share. This is true even for Singapore where the JSA parties' mini-hub is located.

Table 5: Passengers at Mid-point Hub Airports

	Bangkok (Thai Airways)	Singapore (Singapore Airlines)	Dubai (Emirates)	Hong Kong (Cathay Pacific)	Kuala Lumpur (Malaysia Airways)
Total originating traffic (m)	7.8	7.0	3.7	8.7	2.7
Total destination traffic (m)	7.9	6.9	3.6	8.3	2.6
Home Carriers share (%)	52	43	41	28	57
BA/Qantas Share (%)	4	8	1	4	1

Source: MiDT. Notes: (1) Data is UK financial year 2001/02 O&D traffic. (2) Data excludes traffic over the hub, which would increase the home carriers share. (3) Data for Narita is not presented because Japanese CRS data was not available.

The recent history of entry and exit on the Kangaroo Route highlights the asymmetry that arises between, on the one hand, those operators who fly the route through an intermediate point that is their home port hub and, on the other hand, those for whom the stopover point is not a hub. The JSA parties' top five competitors on the Kangaroo Route (Singapore Airlines, Malaysia Airlines, Thai Airways, Cathay Pacific and Emirates) all enjoy the benefits of mid-point hubs in their home markets. In contrast, five of the seven European carriers that have operated the JSA routes over the past 10 years (see section 5.2.5) have withdrawn. Today, British Airways and Austrian/Lauda Air are the only two European carriers that still operate on the Kangaroo Route. The withdrawal of the European carriers has been paralleled by an increase in capacity by the Asian carriers and Emirates (see section 5.1).

3.3 The importance of the JSA in offsetting this competitive advantage

In short, the economics of long-haul routes requiring a technical stopover are especially hostile to airlines that must make that stop at a point that is not at a home market hub. The JSA, through the cooperation of carriers who have hubs at each end of the Kangaroo Route - Qantas and British Airways - counterbalances, at least partially, the competitive disadvantage the hub effect otherwise creates on the Kangaroo Route.

By combining their demands through coordination of schedules and prices, British Airways and Qantas are able to create a mini-hub in Singapore. These impacts are discussed in more detail at section 7 below, which compares the British Airways and Qantas networks with and without the JSA. Specifically, the JSA (1) allows the carriers to more efficiently secure

traffic at the terminal ends (as each carrier can benefit from the complementary network reach and home country benefits of the other carrier); (2) permits the carriers to aggregate each other's traffic to terminating points at each end, and hence to offer service to a greater range of destinations at the terminating ends; and as a result, (3) creates scope for the intermediate point to act as a hub, albeit a small one compared to those operated by the Asian and Middle Eastern carriers, in which passengers are transferred from the flight servicing their originating point to the flight servicing their terminating point.

Thus, on London to Sydney and Melbourne flights, British Airways and Qantas help each other with a local presence and connectivity benefits at the two ends of the route. On continental European routes, Qantas benefits from the Singapore mini-hub structure, which has built-in schedule coordination with British Airways; and from British Airways feeding passengers to its Frankfurt and Charles de Gaulle services from other European cities. Traffic aggregation through the Singapore mini-hub reduces costs at the mini-hub for both the JSA parties, and also allows better yields for connecting traffic than would otherwise be obtained. Overall, this makes servicing the Kangaroo Route far more sustainable.

These impacts, which reflect the underlying economics of the route, form the backdrop against which the full assessment of the JSA needs to be carried out. It is these economics that inform our views about the relevant markets for the purpose of undertaking a formal analysis of the extent to which the JSA parties have been competitively constrained, and the likely competitive effects of a reauthorised JSA. It is to this competitive assessment that we now turn, starting with a consideration of market definition.

4 Market definition

In defining the relevant markets, it is important to recognise that our ultimate purpose is to evaluate the net benefits of a reauthorised JSA. Hence, markets should be defined in a manner that best assists in this process. Taking such a purposive approach to market definition is consistent with the traditional approach to defining markets in Australian trade practices law.²⁸

There are several dimensions to a market. These include the product, customer, functional, geographic and temporal dimensions, our focus here being on the first four.²⁹ In this case, there is unquestionably a degree of overlap in dealing with the relevant boundaries along each of these dimensions. For instance, defining the boundaries of geographic markets for air passenger markets depends on the extent to which direct and indirect services between origin and destination points are substitutes. However, the extent to which substitution is feasible may differ across customers, and hence, may also impact on the delineation of customer markets.

Our delineation of the relevant markets aims to capture those services that provide close demand and supply side substitutes for the services provided by the JSA parties, an approach consistent with that adopted by Australian Courts.³⁰ Our analysis of demand and supply side substitution is based on a formal approach to defining markets, known as the

²⁸ ACCC, 1999, *Merger Guidelines*, June, paragraph 5.41.

²⁹ While we do not define a separate temporal aspect to the market, our analysis reflects the changing dynamics of the markets over time. For instance, the discussion above concerning the increased integration amongst airlines is suggestive of market boundaries changing over time.

³⁰ See, for instance, *Re Queensland Co-op Milling Association Ltd & Defiance Holdings Ltd* (1976) ATPR 40-012.

SSNIP test.³¹ Our analysis focuses on air services between Australia and South East Asia and between Australia and Europe, the only routes on which the Applicants' networks overlap.

Our definition of the relevant markets assists in our evaluation of whether the JSA parties have been competitively constrained in the provision of air passenger services and air freight services over the period of the JSA, particularly the most recent period of authorisation, which we discuss in sections 5 and 6. In turn, the extent to which the JSA parties have been competitively constrained in the provision of air passenger services and air freight services, and the factors that underpin the degree of this constraint, inform our views as to the world with and without a reauthorised JSA, which is contained in section 7.

4.1 Product markets

4.1.1 Air passenger services

We believe that there is a product market for air passenger services. We do not believe that there are separate customer markets (e.g. business customers and leisure customers), or separate product markets based on cabin classes (e.g. business class and economy class) or separate inventory classes.

The Commission has previously viewed the air passenger services market as being a single market. For instance, in its 1995 authorisation of the JSA and in its determination regarding the alliance between Ansett Australia, Ansett International, Air New Zealand and Singapore Airlines ('Determination A90649/90655'), the Commission held that there were not separate customer markets for business and leisure passengers, and not separate product markets for

³¹ The SSNIP test is a formal approach to analysing demand and supply side substitution, and has received judicial endorsement in Australia. The test has been endorsed by the ACCC in its merger guidelines as a helpful analytical framework for defining markets in many situations. See ACCC, 1999, *Merger Guidelines*, June, paragraph 5.46. Conceptually, the SSNIP test approach aims to define the market as the smallest area over which a hypothetical monopolist could profitably impose a small but significant and non-transitory increase in price (SSNIP).

different cabin classes.³² In Determination A30202, the Commission examined the application 'on the basis that a single air transport market for economy and premium class passengers can no longer be assumed.'³³ However, the Commission has not explicitly expressed the view that there are separate markets for different cabin classes or passenger types.

In stating its view in Determination A30202, the Commission presented evidence to suggest that, while economy class fares had fallen, fares for premium cabins had increased. The Commission stated:³⁴

The Commission acknowledges that supply side substitution is an important parameter in product market analysis. It does not however agree that all airlines in the geographic markets concerned can readily and successfully switch product mixes in response to changes in demand. The applicants have stated for example that in the premium cabin they compete on quality of service rather than price. To accept the Applicants claim would be to accept that most airlines in the market have the ability to readily provide premium cabin service levels which would be regarded as equivalent by consumers. The Commission does not accept this proposition and also considers that in the premium class cabin the high proportion of passengers travelling under corporate contracts and within loyalty programs would likely operate against supply side substitutability.

We believe that it is most appropriate to proceed on the basis of a single product market for air passenger services when taking a purposive approach to market definition. Viewing the market in this way is also consistent with analyses of demand and supply side substitution.

Before outlining our arguments as to why we believe this is the case, an initial comment on the views expressed by the Commission in Determination A30202 is appropriate. Specifically, we do not believe that divergence in prices between different fare classes necessarily evidences either separate product (or customer) markets or the exercise of market power against a particular class of customer. Rather, what is important in assessing

³² These views were summarised by the Commission in Determination A30202.

³³ Determination A30202, p. 47 to 49.

³⁴ Determination A30202, p. 49.

any such issues is the overall profitability associated with moving from one fare structure to another. This requires a consideration not only of price, but also of costs, which are in turn driven by factors such as volumes and service quality. In the example noted by the Commission, if underlying costs moved in the same direction as prices, then overall profitability associated with price movements would be neutral, consistent with a single customer market and no exercise of market power. More generally, to the extent to which the costs being recovered are common costs, the fact that they are being recovered from one market segment rather than another reflects considerations of respective firm-specific price elasticities, and in no way allows simple inferences to be drawn with respect to market definition.

Turning to our own views, there is undoubtedly a degree of product differentiation in respect of services provided by airlines competing on routes relevant to the JSA. The emphasis each airline places on different cabin classes differs from one airline to another, so that, for instance, the number of seats allocated to each cabin class differs between airlines. For any given cabin class, airlines may also provide a different range and level of services. Moreover, airlines place differing emphasis on the manner in which they compete across the cabin classes. For instance, some airlines place greater emphasis than others on competing in terms of service quality in the premium cabins relative to the economy class cabin. The product differentiation that characterises competition on routes relevant to the JSA may be all the more significant given that the routes at issue are long haul in nature, so that in-flight comfort may be more important, as compared with (say) domestic or trans-Tasman services.

Ultimately, however, the routes in question are characterised by rivalry between full service airlines ('FSA's) that compete, albeit to differing extents, across the full range of cabin classes. There are, for instance, no JSA routes on which competition is between an FSA and a value based airline ('VBA') providing only economy class seats. Combining this with the fact that the range and quality of services are broadly comparable across airlines (even if they are not identical), when taking a purposive approach to market definition, it is not clear that delineating separate product or customer markets helps significantly in evaluating the likely impacts of a renewed JSA on competition.

Analysis of demand and supply side substitution would also tend to suggest that there are no separate customer markets. On the demand side, there is likely to be a degree of substitution. While a first class fare may not be a demand side substitute for an economy class fare, it is quite plausible that there is a 'chain of substitution' from the most budget economy class fare to first class fares, such that an attempt to profitably exercise a SSNIP over only one segment of that continuum would be defeated by substitution.

The Commission has acknowledged the relevance of a 'chain of substitution' or 'ripple effect' in defining markets in its Merger Guidelines.³⁵ To demonstrate how the chain of substitution could apply, let us assume that there are three types of fare: economy, business and first class. Then consider a situation where there was a sole supplier of first class fares, while the markets in which the other fare types were sold were competitive. What would happen if the monopoly supplier of first class fares attempted a SSNIP on first class fares (while the prices of other fares initially remained constant)? Some consumers who purchased first class fares might purchase business class fares. If we assume increasing short run marginal costs,³⁶ the increase in demand for business class fares would result in an increase in these fares. This might then induce some switching of demand from business class fares to economy class fares. It would be reasonable to conclude a single product market for all cabin classes (i.e. first class, business class and economy class) if it could be demonstrated that the chain of substitution were sufficiently continuous *and*, at each stage, enough volume shifted so that, overall, substitution would be sufficient to defeat the attempted SSNIP. If there were a chain of substitution that resulted in a single product market that included each of the different cabin classes, then it would follow that there are not separate customer markets (e.g. business and leisure customers).³⁷

While we do not have formal modelling to support this proposition, it certainly seems consistent with common sense that such a chain of substitution exists. Indeed, the likelihood of a chain of substitution is strengthened by the wide range of products offered by airlines (including normal economy seats, British Airways World Traveller Plus seats, Business Seats, Business beds, First Seats and First beds). This continuum of different products, reduces the differences between any two adjacent products. This makes it all the

³⁵ See, ACCC, 1996, *Merger Guidelines*, paras 5.55 and 5.56.

³⁶ The increase in marginal costs need not involve rising resource costs. Rather, marginal costs may rise to the extent to which an increased supply of seats of one fare type reduces the ability to supply seats into other, potentially no less profitable, fare types. The relevant marginal costs are in other words, opportunity costs, and need not involve a greater demand on physical resources.

³⁷ The analysis assumes that airlines cannot discriminate against passengers on the basis of their type (e.g. business and leisure travellers) but rather solely on the basis of the fares they prefer or seek to acquire.

more likely that, in the event of an attempted price rise on any given product, there would be sufficient substitution from this product to adjacent products to render the attempted price rise unprofitable. Additionally, demand substitution is only part of the story, and the role of substitution in supply also needs to be considered in coming to a view as to the appropriate delineation of the relevant markets.

On the supply side, there are likely to be significant economies of scope associated with servicing a wide range of customers with different demand profiles, as compared with specialising in serving only one type of customer. Importantly, serving a wide range of customers facilitates price discrimination, thereby maximising contributions to fixed costs. As a matter of commercial reality, this greatly strengthens the incentives airlines have to compete across customer segments (i.e. business and leisure travellers), and hence makes it artificial to regard these segments as distinct markets.

In addition to this factor, which makes airlines compete across the full range of customer types, there is also substantial evidence of airlines that adjust the capacity they offer into the different segments in line with changes in demand. Thus, within the economy class cabin, the reallocation of seats between different inventory classes is the essence of yield management, which suggests that it would be inappropriate to delineate separate product markets for inventory classes. With respect to cabin classes, the specialised assets required to provide a specialised business class cabin also do not appear to be so significant as to prevent supply side substitution. Put differently, if there were significant margins to be made over marginal cost by shifting resources to the supply of a particular cabin class, there is no reason to believe that supply side substitution would not occur. To illustrate the point using a specific example, over the period 2002-03, Qantas is reconfiguring its B747-400 fleet. Of the existing fleet of 12 Pacific aircraft, which are currently configured with 79 business class seats, three are to remain with 79 business class seats, seven will have 65 business class seats, and two will be converted to two-class aircraft. Of the existing fleet of twelve Kangaroo aircraft, which currently are configured with 65 business class seats, four will remain with 65 business class seats, and eight will be converted to two-class aircraft. The move has been made in response to changes in market conditions, in particular, the reduced demand for business class seats following the events of September 11, 2001.

More generally, the evidence shows that airlines constantly update cabin configurations in response to changes in demand. By way of example, consider the Qantas B747-400 fleet.³⁸ Because of the divergence in demand for premium seats for services provided between Australia and the US and services provided between Australia and Europe, Qantas has configured the cabins of its B747-400 fleet in two different ways to suit these two sets of routes. Table 6 provides a historical summary of Qantas B747-400 configurations, excluding the changes (discussed above) that are taking place at present. For similar reasons, British Airways is also considering removing first class from six B777s used on certain long haul routes.

Table 6: History of Qantas B747-400 configurations (seats), 1989-1999

Year	First class	Business class	Economy class
1989	30	66	282
1990	30	58	282
1992	16	60	330
1994	16	50	330
1996 Kangaroo (Australia-Europe)	16	50	330
1996 Pacific (Australia-US)	16	65	292
1998-1999 Kangaroo (Australia-Europe)	14	65	315
1998-1999 Pacific (Australia-US)	14	79	265

Source: Qantas.

In short, the essence of the situation is that there is a broad range of fare types, the complexity in fares going well beyond a simple distinction on a cabin class basis. Passengers shift between these fare types, in line with relative prices, and airlines adjust their offerings

³⁸ While this discussion focuses on the Qantas fleet, it is relevant that British Airways also operates two different cabin configurations to cater for different demands on different routes.

in the different fare types so as to maximise revenue in line with the changing supply/demand balance. Additionally, as a matter of commercial reality, all the airlines serving the routes affected by the JSA provide full service, so as to secure economies of scope, including by optimising their ability to engage in price discrimination. Supply side substitution, on what is clearly a significant scale, then occurs through ongoing adjustment in cabin configuration, with the extent of the space allocated to the various cabins varying in line with relative profitability.

As a result, it appears to us to be both inaccurate and unnecessary to delineate the air passenger services market further into specific product markets for different cabin classes or specific customer markets for different passenger types. Rather, we believe the analysis of the competitive impacts of the JSA, and of the benefits it provides, can efficiently proceed on the basis of all types of customers and fares falling within a single market.

Functional markets

In both Determination A90649/90655 and Determination A30202, the Commission defined a single market for ticket sales, with no separate functional levels. In Determination A90649/90655, the Commission noted that consumers could purchase tickets from any segment of the distribution system, including from travel retailers, travel wholesalers, and directly from airlines.³⁹ This was also the view formed by the Commission in Determination A30202, where it noted that consumers viewed airlines as an alternative source of tickets to travel agents.⁴⁰

We agree with the Commission's view that it is not necessary to define separate functional layers within the air passenger services market because consumers are able to purchase tickets from different levels of the distribution system.

³⁹ Determination A30202, p. 44.

⁴⁰ Determination A30202, p. 50 to 51.

4.1.2 Air freight services

We believe that there is a product market for air freight services, with no separate markets for time critical and non-time critical freight. The view is consistent with the Commission's view expressed in Determination A30202.

In that determination, the Commission noted that it had previously considered whether separate markets exist for time critical and non-time critical air freight markets. In the Commission's view, whether or not separate markets exist depends on factors such as the nature of the goods being delivered and whether sufficient and adequate transit points are available within each region to provide indirect route alternatives. The Commission was satisfied that sufficient and adequate transit points were available within each region to provide indirect route alternatives, and hence, defined a single market for air freight, with separate market segments for time critical and non-time critical freight. The Commission reaffirmed these views in Determination A30202.⁴¹

Competitive effects in the air freight services market will, to an extent, likely to be revealed in an analysis of air passenger service markets, since most air freight is carried in the belly-holds of air passenger aircraft. As the Productivity Commission (1998) has previously noted:⁴²

More than 90 per cent of Australian international air freight is carried in the belly-holds of passenger aircraft. Because freight carriage on many routes is essentially a by-product of the carriage of passengers, charges can be very low, essentially related to the marginal fuel cost of carrying extra weight.

Less than 10 per cent of Australia's international air freight is carried in dedicated freighter aircraft, operated predominantly by foreign airlines. Dedicated freight services operate overnight across the Tasman and to Asia, the United States and Europe.

The importance of dedicated freighters has grown since 1998, but the majority of freight is still carried in the belly-holds of passenger aircraft. Using competitive effects in air

⁴¹ Determination A30202, p. 50.

⁴² Productivity Commission, 1998, *International Air Services*, September, p. 24.

passenger markets as an indicator of competitive effects in air freight markets is likely to be overly conservative, since entry and expansion barriers that dedicated freighters face are lower relative to the entry and expansion barriers that air passenger service providers face. Our discussion of entry and expansion barriers facing operators of dedicated freighters is contained in section 6.2. In addition, there are two other factors that may potentially make competitive effects in air passenger markets a conservative indicator of competitive effects in air freight markets. First, in some instances, rail and road delivery may provide alternatives to air freight, at least at the terminal ends. For instance, it may be that a Singapore-Paris air freight service may be constrained by the combination of a Singapore-London air freight service with a London-Paris rail or road freight service. Second, as the Commission has previously noted, the precise routing by which the cargo is air freighted to its destination is not especially important provided that the freight arrives on time and in good condition.⁴³ Generally speaking, we agree that the greater flexibility associated with freight delivery allows for greater scope for indirect routing of air freight as compared with the transportation of air passengers. As a result, the range of competing alternatives for freight may be greater than that for passengers; a focus on passenger markets alone may consequently understate the options that discipline price and quality in the freight market.

4.2 Geographic markets

We proceed on the basis that geographic markets for international air passenger and freight services are country-to-region. Proceeding on the basis of country-to-region market definitions, the most relevant international air service markets for Australian purposes are for travel between Australia and South East Asia and for travel between Australia and Europe, since these are the markets directly impacted by the JSA.

Our view of the relevant geographic markets conform with that expressed by the Commission in its previous determinations. In Determination A30202, the Commission stated:⁴⁴

⁴³ Determination A30202, p. 43.

⁴⁴ Determination A30202, p. 47.

The Commission sees no reason, on the basis of material put before it, to depart from the regional basis of market definition utilised in that assessment when assessing this application. In any event it considers that there would be practical difficulties in broadly evaluating an agreement of this scope at lower levels, such as city pairs.

The Commission formed the view that the relevant geographic markets encompassed services between Australia and, respectively, South East Asia, Europe, New Zealand/Oceania, North Asia, India/Middle East, North/South America, and Africa.

Reasons behind this view can be found in the Commission's 1995 authorisation of the JSA ('Determination A90565'), where the Commission noted in its draft determination that certain indirect services between city pairs provided effective substitutes for direct services. Hence, the Commission believed that it was more appropriate to consider destination markets as being regional rather than city pairs.⁴⁵

The Commission noted the view formed in its draft determination that while substitution between direct and indirect services suggested that international markets should be defined on a regional basis, it was relevant to distinguish the extent to which indirect services were effective substitutes for direct services for different regions. In this respect, the Commission noted that there was significantly greater scope for substitution for consumers travelling from Australia to European destinations than for consumers travelling from Australia to some South East Asian destinations:⁴⁶

... given the existence of a dense network of connecting flights within Europe, most flights from Australia to Europe would be substitutes for the most direct flight paths, generally described as the 'Kangaroo Route'. The relevant geographic market would thus be the terminating region. The relevant suppliers operating in that market would be all carriers serving the region.

With regard to flights between Australia and South East Asia, the applicants also claimed that the market is country to region, that is, Australia to South East Asia. However, unlike flights between Australia and Europe, direct flights without a

⁴⁵ Determination A90565, p. 53.

⁴⁶ Determination A90565, p. 53.

stop are available between Australian cities and points in South East Asia. Transit stops increase the cost of travel (in the absence of demand for such a transit stop.) There is a high degree of interlining between Australia and South East Asia and consequently the Commission concluded that such interlining likely reflected the apparently substantial differences in fares between direct and indirect routings within South East Asia. The Commission concluded that for routes between Australia and South East Asia, indirect routes would appear to be an inferior substitute for direct travel, rather than being demanded for their own sake.

This is not to say that indirect routings would be excluded from the market definition. Carriers would still need to consider possible traffic diversion impacts in setting prices. Opportunities for indirect routings would constrain a carrier that had direct route market power. It was therefore the Commission's view that indirect routings between Australia and South East Asia are less than perfect substitutes for direct routes and differing country-pairs are more likely to be regarded as separate market segments.

It may be useful at this point to clarify some terms we use to describe different types of air services, for instance, the terms 'direct', 'indirect', 'one-stop', etc. Once we have done this, we can then outline our views as to the extent to which these different air services are substitutes for one another.

As discussed above in section 3, it is not possible to fly non-stop between Australian and European end points. We refer to a non-stop flight between an origin and destination as a 'direct' service. All services that are not direct services are referred to as indirect services. Indirect services can be broken down into 'one-stop', 'two-stop' and 'multi-stop' services:

- One-stop services include both 'through' services and 'connecting' services. An example of a 'through' service is a service from (say) Sydney to London via Singapore in which a customer travels on the same aircraft for the entire journey. An example of a 'connecting' service is a service from (say) Sydney to London via Singapore in which a customer travels on different aircraft for the Sydney-Singapore sector and the Singapore-London sector. The service is 'connecting', in the sense that the customer has to change aircraft, though the service still only has one stop.
- Two-stop services include 'single connect' and 'double connect' services. It is perhaps easiest to explain these services using illustrative examples: An example of a 'single connect' service would be where a customer flies Emirates from Sydney to

London stopping at Singapore and Dubai, changing aircraft at Dubai but not at Singapore. The flight involves two stops, but only one connection (i.e. two-stop single connect). If the customer also had to change aircraft at Singapore, then this would be a two-stop flight with two connections (i.e. two-stop double connect).

- Multi-stop services, for the purpose of this report, refer to all services aside from direct services, one-stop services and two-stop services.

We agree with the Commission that, given the unavailability of direct services between Australia and Europe, there is likely to be a high degree of demand side substitution between different indirect services for any given city pair. It could be argued that there is a chain of substitution from the most direct services to services that involve several stops and connections. However, if it is assumed, for the purpose of argument, that this is not the case, the question then is where to draw the line: that is, how to determine the number of stops and connections a service could have before consumers would no longer view it as being a substitute for the most direct of the range of indirect service available. In reality, the line is likely to be blurred, with different customer types having somewhat differing preferences.⁴⁷ The extent to which consumers are likely to see the different types of indirect services to Europe as substitutes is also likely to depend on the extent to which the indirect service detours from the path of the least circuitous indirect service.

As a starting point, our view is that a one-stop through service is a very close substitute for a one-stop connecting service. Our view is supported by market share data presented in section 5.1, which shows that Asian airlines, despite only offering connecting rather than through services, have made significant market share gains for services between Australia and Europe. In addition, passengers are generally encouraged to disembark aircraft whether they are on a connecting service or a through service. Moreover, in some instances, total flight durations for connecting services can be quicker than through services.

In addition, our view is that there are many two-stop services that would be relatively close substitutes for one-stop services. These include services on which a customer would fly from Australia to a European destination via Asia and via an additional European point. They

⁴⁷ Thus, while it might be the case that airlines offer a number of fares with differing numbers of connections, flight durations, etc., customers would differ in the valuation they placed on this product differentiation.

would also include services on which a customer would fly from Australia to a European destination via a point in the Middle East and a point in Asia. Our view is that an attempted price increase by a hypothetical monopoly supplier of one-stop services between Australia and Europe would be defeated by substitution, at least on the demand side, to two-stop services. The most telling evidence in this respect is Emirates' competitive success with its two-stop service to Europe, highlighted in greater detail in section 5. We also note that there are some two-stop services that are shorter in total flight duration than many one-stop services.⁴⁸

That said, we do not believe there is equally strong evidence in respect of multi-stop options. As a result, we could not conclude that multi-stop services (e.g. services whereby a customer would fly from Australia to a European destination via Asia or the Middle East and via two additional European points) would be a close substitute for a one-stop service, except for perhaps highly elastic leisure consumers, those consumers who wanted, for their own reasons, to benefit from several stopovers, and those consumers travelling to secondary European destinations (to which two-stop services may well not be available).

Consistent with the Commission's previously expressed view, we believe that the scope to substitute an indirect service from Australia to a European destination via a point in Europe for a comparable one-stop flight suggests that Europe should be treated as a single destination market. Also British Airways serves regional UK, such as Manchester and Glasgow, over Frankfurt and Paris. For a passenger flying from Manchester to Sydney, it is likely to be of little consequence whether they change planes at London, Frankfurt or Paris to join their long haul service.

Additionally, while we believe that more indirect services between Australian cities and European destinations are likely to constrain one-stop services from a competition perspective, we nevertheless believe that many consumers are likely to place significant value on one-stop services, as discussed in section 3. This is significant in terms of our

⁴⁸ As noted above, we use the term 'Kangaroo Route' to refer to routes between Australia and European end points via Asia and the Middle East, flown by the JSA parties along with other operators. However, there are likely to be a number of one-stop and two-stop services via points other than Asia and the Middle East that are substitutes for Kangaroo Route services. Hence, the Australia-Europe market we define is broader than the Kangaroo Route.

assessment, set out below, of the impacts of the JSA, as we show that the JSA permits provision of a wider range of one-stop services than would otherwise occur.

The fact that many consumers might have a preference for one-stop services is not inconsistent with our market definition. Our market definition is based on considerations of the extent to which indirect services competitively constrain more direct services. To this end, when we focus on the demand side, we are solely concerned with whether a sufficient number of consumers would substitute from the most direct, (say) one-stop, service to more indirect services to defeat a price rise by a hypothetical monopoly supplier of the more direct services. This is consequently a question of preferences at the *margin*. In contrast, a consideration of the benefit obtained from the presence of more direct services involves an assessment of *total* surplus, including that associated with infra-marginal consumers. There may well be a substantial difference in the total social surplus associated with more direct flights as compared to indirect flights, even if prices on the former are significantly competitively constrained by the latter.⁴⁹ As a result, our approach to market definition which – consistent with the previous findings of the ACCC – accepts the scope for indirect routes to exercise effective competitive constraint, is not at odds with our assessment of substantial consumer gains from greater availability of direct flights.

Turning now to travel between Australia and South East Asia, while we proceed on the basis that there is a single market for travel between Australia and South East Asia, we note that the arguments used for the purpose of defining an Australia-Europe market are likely to be less strong when applied to South East Asia. Flights to many points in South East Asia do not require a stopover. Hence, as compared with services between Australia and Europe, it seems less likely that a consumer wishing to travel from (say) Sydney to Singapore would consider an indirect Sydney-Bangkok-Singapore service to be an acceptable substitute for a direct service, if prices were set at or reasonably close to competitive levels. This is reflected in the fact that the majority, but by no means all, of consumers fly directly to South East Asian countries.⁵⁰ That said, there will be some transit (and hence hub competition) for

⁴⁹ This will obviously be the case if the total willingness to pay of the infra-marginal customers is not sufficient to secure cost coverage, as is likely to be true in respect of long haul travel.

⁵⁰ Australian Bureau of Statistics data indicates that 70.6, 80.5 and 93.8 per cent of passengers fly directly to Malaysia, Thailand, and Singapore, respectively.

passengers going to secondary airports in the region, consistent with a country to region market definition.

As with air passenger services, we believe that the most relevant geographic delineation for international air freight markets is country to region. This is the same view previously expressed by the Commission. As noted in section 4.1.2, in freight, as compared to air passenger services, there is significantly greater scope for indirect services to provide effective substitutes for direct services. In this respect, defining the geographic scope of air freight markets to be country to region based on indirect substitution possibilities seems entirely appropriate.

4.3 Other relevant markets

In addition to the air passenger and air freight markets defined above, we also believe it may be relevant to consider the market for travel agency services. We consider the market for travel agency services to be a value added market in which travel agents supply an assortment of travel related products (including airline tickets), package these products and provide advice to consumers. Defining this market enables us to consider the extent to which increased concentration in air passenger service markets resulting from the JSA might facilitate the exercise of market power against travel agents, thereby lessening competition in the market in which these value added services are provided. It also enables us to consider whether competition in the provision of travel agency services might be lessened as a result of increased concentration in this market in the presence of entry barriers.

In this case, however, it is not necessary to analyse the competitive effects in the market for travel agency services in any great detail. First, as noted below in section 5, there are a significant number of competitors to Qantas and British Airways in the relevant air passenger service markets. Because of this, if Qantas and British Airways were to combine their commission programs on the JSA routes, travel agents would still be able to substitute to the air tickets of airlines other than the JSA parties in the event that Qantas and British Airways attempted to reduce commissions. Moreover, even if the JSA parties were able to successfully reduce commissions, this need not harm travel agents, since they themselves

could charge service fees to consumers. The OFT has recognised this in a recent determination.⁵¹

With respect to whether the JSA results in increased market concentration in the market for travel agencies, we note that Qantas operates Qantas Holidays as well as its corporate travel arm Qantas Business Travel, and has a 50 per cent stake in Harvey World Travel's wholesale travel operation, Escape Holidays. However, as the Commission noted in respect of Harvey World's acquisition of Thomas Cook:⁵²

It appears that the relevant market is the national market for retail travel agency services and that this market consists of a significant number of competitors and that these competitors experience little barriers to their expansion. It also appears that the market experiences relatively low barriers to entry and the market appears to be extremely price sensitive.

Given that entry and expansion barriers to travel agency service provision are low, we see no reason why increases in market concentration, to the extent that these might result in or be facilitated by the JSA, could lessen competition in the market. In summary, because there appear to be no reasons why the JSA could lessen competition in the travel agency service market, we do not consider this market any further in our analysis.

⁵¹ Office of Fair Trading Press Release, 2002, BA has not abused dominant position with lower booking payments, PN 87/02, 11 December.

⁵² <http://www.accc.gov.au/pubreg/s50/15m01.pdf>.

5 International air passenger service markets

In Determination A30202, the Commission was satisfied that there had been no lessening of competition in the most relevant international air passenger service markets, Australia-Europe and Australia-South East Asia, over the first period of authorisation.⁵³ However, the Commission formed the view that the JSA would be likely to lessen competition, especially in markets where both airlines had an operational presence.⁵⁴ The Commission had fewer concerns about routes not previously subject to the JSA.

Our analysis suggests that the JSA parties have been competitively constrained in the Australia-Europe and Australia-South East Asia international air passenger service markets since the commencement of the JSA, including the most recent period of authorisation. The evidence shows that the intensity of competition has been maintained, if not increased, over that time. This has been especially the case for the Australia-Europe market, largely due to the presence and growth of the Asian airlines and Emirates. The presence and growth of Asian airlines in the Australia-Europe market is, in our view, particularly important in light of previous comments made by the Commission. The Commission expressed a concern in Determination A30202 over whether Asian airlines would continue to compete if there were an improvement in economic conditions in that region or for any other reason. The Commission's concern over the possible reduction in competition from the contraction or withdrawal of services by these airlines has not, in fact, materialised.

Demonstrating that competition has not been lessened over the most recent period of authorisation is inevitably complex. In particular, it requires a consideration of how competitive the market would have been without the JSA. Instead, we demonstrate that the JSA parties have been constrained by competing airlines over the most recent period of authorisation, and that the strength of competitive constraints vis-à-vis the JSA parties have been sustained or increased over this period. We do so using a conventional analysis of the structural features of the relevant international air passenger service markets and, to the extent that data permits, by an evaluation of market performance.

⁵³ Determination A30202, p. 59.

⁵⁴ Determination A30202, p. 68.

Structurally, the Australia-Europe market (especially) and the Australia-South East Asia market have changed significantly over the period of the JSA. This is evident in both market shares trends as well as in an evaluation of the significance of the different factors that give rise to entry and expansion barriers.

The strengthened position of the Asian and Middle Eastern carriers, in particular, is highlighted in passenger traffic share statistics, which we present in section 5.1. We have obtained two sets of data from which passenger traffic shares can be calculated - ABS data and MiDT data (which are described in greater detail below). We recognise that the Commission has previously formed the view that the JSA did not lessen competition over the first period of authorisation, and that it is therefore most relevant to consider patterns of market participation over the most recent period of authorisation. However, we present all available data, since we believe this most clearly illuminates the evolving structure of competition in the relevant international air passenger service markets.

The data indicates that, since the commencement of the JSA, the passenger traffic share of the JSA parties has declined in both the Australia-South East Asia and Australia-Europe markets. This is also reflected, for the most part, at more disaggregated country to country and city pair levels. In contrast, the data shows that flag carriers operating out of Asian and Middle Eastern hubs have significantly increased their passenger traffic shares regardless of the level at which data is aggregated.

These market shares, particularly those for the Australia-Europe market, are relevant to an analysis of the factors that collectively give rise to entry and expansion barriers. Our evaluation of entry and expansion barriers is presented in section 5.2. In our view, it is the hub effect discussed above that provides the greatest deterrent to entry and expansion in the Australia-Europe market by carriers without a mid-point hub. Because much of this discussion has been covered in section 3, our discussion in section 5.2.1 on network and density economies can be kept brief.

Having said this, we do believe that entry and expansion barriers are lower for airlines wishing to provide services along denser city pairs. For instance, our view is that the volume of traffic between Sydney and London would make it easier for an airline to enter or expand on this city pair, absent the operation of a mid-point hub, in the event that existing airlines attempted to raise prices, as compared with other city pairs relevant to the JSA.

We also consider that bilateral restrictions and access to airport facilities influence an airline's entry and expansion decisions in the Australia-Europe and Australia-South East Asia market. As discussed in sections 5.2.2 and 5.2.3, respectively, we believe that these

factors would weigh upon an airline's decision to enter or expand in both these markets. Nonetheless, we do not view these as being the key determinants of entry and expansion.

Our views on the significance of the different factors that give rise to entry and expansion barriers are supported by market observations, especially observed patterns of entry, exit and expansion in the Australia-Europe market, which we consider in section 5.2.5. Our estimates of market shares reveal clear trends in the market position of the JSA parties, the Asian airlines and Emirates. They perhaps do not highlight equally clearly the extent to which European airlines have been significantly marginalised or have even exited the market. Since 1993, Air France, Alitalia, KLM, Lufthansa and, most recently, Olympic, have all ceased operating in the Australia-Europe market. These airlines have exited despite the fact that they have capacity entitlements that could be exercised, and the fact that they would have had home port advantages, which would have positioned them well to obtain access to airport facilities.

The changing structure of the relevant international air passenger service markets, particularly the Australia-Europe market, is consistent with observed market performance, which we discuss in section 5.3. In Determination A30202, the Commission evaluated market performance by focusing on factors such as market shares, market liberalisation, prices and quality of service (including trends in cabin configuration).

Our evaluation of market performance focuses on trends in prices and profitability. We have some reservations about the use of these indicators as measures of market performance. To begin with, changes in prices need to be seen in the light of changes in service quality, so as to obtain comparable measures of charges over time. Additionally, it is obviously important to consider price trends in conjunction with trends in costs and hence profitability. Exogenous cost shocks need to be corrected for before sensible inferences can be drawn about either prices or profitability. Finally, it is important to avoid drawing inferences from price trends to individual customer groups, as against those that capture the price charged to the traffic as a whole – increases in prices for some classes of customer need not reflect exercises of market power, but may simply reflect changes in the efficient recovery of common costs. To the extent to which all the adjustments that should be made cannot be made fully and rigorously, inferences about market performance from price data are invariably open to question.

That said, it is our view that, when all these factors are taken into account, the evidence suggests that the profitability of the JSA parties has continued to be competitively constrained by other airlines on the Kangaroo Route over the most recent period of authorisation. We explain the reasons for this conclusion in greater detail below.

5.1 Market shares

In Determination A30202, the Commission considered trends in market shares in evaluating whether competition had been lessened over the first period of authorisation. In this determination, the Commission stated:⁵⁵

The geographic markets covered by the Restated JSA fall into two groups, those where Qantas and BA each have an operating presence and in the absence of the JSA would be competitors, and those where only one of the Applicants operates.

The Restated JSA could generally only be regarded as having a potential for lessening competition on routes where it results in increased market concentration and those concentrations are at significant levels. On the basis of the analysis ... the Commission has concerns in this respect with the Europe and South East Asia markets.

We agree with the Commission's assessment that it is only necessary to consider market shares for Australia-Europe and Australia-South East Asia because these are the only market in Australia where the JSA parties' networks overlap.⁵⁶

As noted above, we have obtained two data series that enable us to calculate passenger traffic shares, namely Marketing Information Data Transfer (MiDT) data and Australian Bureau of Statistics (ABS) data.

ABS data, which is based on immigration cards, records either where a passenger has spent or intends to spend the longest period of time (for Australian passengers) or where a passenger is from/resident. ABS data has previously been used by the Commission to evaluate competition on JSA routes. The MiDT data set categorises a passenger's itinerary into origin and destination ('O/D') on the basis of stopover conditions. Where a passenger

⁵⁵ Determination A30202, p. 58 and 59.

⁵⁶ We have noted that the market is characterised by a degree of product differentiation. Where products are differentiated, a firm's market share may not fully reveal the extent of its market power. In this instance, while services supplied by airlines may be differentiated, the significant shifts in market shares observed in the market tend to suggest that product differentiation does little to shield airlines from competitive constraints.

stays in a particular place for more than a predetermined period of time, their journey will be split into a number of separate O/Ds. MiDT data is recognised and has been extensively used by various competition regulators.⁵⁷

In analysing market share and market growth we have used both MiDT and ABS data. The parties consider that MiDT data is the reliable source of data for measuring 'through' O/D passengers on Australia-Europe routes rather than passengers who visit one or more destinations en route to Europe or Australia. As set out below, MiDT has also allowed British Airways and Qantas to look not only at the Europe Australia market but also at more narrow country to country and city pair segments.

The ABS data set allows us to observe broader trends in passenger traffic shares over the entire duration of the JSA. In this respect, while we believe that it is most relevant to consider changes in market participation and market shares over the most recent period of authorisation, we believe that because the duration of this period has been reasonably short, it is preferable to look at the whole period of the JSA.

A more detailed description of these two data sets and their differences is contained in Appendix A. Appendix B provides a full description of the countries that are captured when calculating European and South East Asian market shares.

5.1.1 ABS passenger share data

Australia-South East Asia passenger traffic shares

Table 7 shows that the passenger traffic share of the JSA parties for Australia-South East Asia declined 11 percentage points from 44% to 33% between the 1994/95 to 2001/02 Australian financial years. Over the same period, Singapore Airlines has significantly increased its passenger traffic share in this market as well as on key routes between Australia and South East Asia, including Australia-Singapore and Australia-Thailand. Thai Airways has also increased its passenger traffic share significantly at the overall market

⁵⁷ Including the United States Department of Transportation, the European Commission and the UK's Office of Fair Trading.

level, driven largely by its substantial growth in passenger share for the Australia-Thailand route. Garuda also continues to have a significant market presence.

Table 7: Australia-SE Asia passenger traffic shares using ABS data, Australian FY1994/95 to FY2001/02

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Qantas	41%	37%	37%	34%	32%	29%	30%	30%
British Airways	4%	4%	4%	6%	8%	7%	3%	3%
JSA	44%	40%	41%	40%	40%	37%	33%	33%
Air New Zealand	1%	1%	1%	0%	0%	0%	0%	0%
Singapore Airlines	14%	15%	13%	15%	18%	22%	23%	26%
Malaysia Airlines	9%	11%	12%	11%	12%	15%	15%	13%
Garuda	11%	11%	11%	10%	10%	8%	9%	10%
Thai Airways	4%	4%	4%	5%	6%	8%	8%	9%
Vietnam Airlines	1%	1%	1%	1%	1%	1%	2%	2%
Philippine Airlines	4%	3%	3%	3%	0%	0%	1%	2%
Other	12%	13%	14%	13%	11%	8%	9%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Observing passenger traffic shares at the market level does not reveal underlying trends in passenger traffic shares for air travel between Australia and specific South East Asian destinations, such as Singapore and Thailand. Table 8 shows that the passenger traffic share of the JSA parties for Australia-Singapore declined around 14 percentage points between the 1994/95 to 2001/02 Australian financial years. Over the same period, Singapore Airlines' passenger traffic share increased by around 15 percentage points overtaking the JSA parties' share. This is in spite of the JSA parties transferring several services to Europe via Bangkok to Singapore.

Table 8: Australia-Singapore passenger traffic shares using ABS data, Australian FY1994/95 to FY2001/02

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Qantas	49%	39%	41%	35%	33%	32%	39%	37%
British Airways	7%	8%	9%	15%	15%	13%	4%	4%
JSA	56%	47%	50%	50%	48%	44%	44%	42%
Air New Zealand	1%	0%	0%	0%	0%	0%	0%	0%
Singapore Airlines	34%	37%	35%	34%	37%	41%	43%	49%
Malaysia Airlines	2%	6%	7%	8%	7%	6%	4%	3%
Emirates	0%	0%	1%	2%	3%	3%	3%	2%
Other	8%	9%	7%	5%	5%	5%	6%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Table 9 shows that the passenger traffic share of the JSA parties for Australia-Thailand fell by around 25 percentage points between the 1994/95 and 2001/02 Australian financial years. Thai Airways and Singapore Airlines captured this loss in passenger share. The loss in passenger share for the JSA parties, at least in part, reflects the significant withdrawal of capacity as a result of Melbourne-Rome and Melbourne-Frankfurt services being flown via Singapore rather than Bangkok. However, Table 8 shows there was no corresponding increase in the JSA parties' Australia-Singapore traffic share.

Table 9: Australia-Thailand passenger traffic shares using ABS data, Australian FY1994/95 to FY2001/02

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Qantas	47%	42%	40%	32%	27%	25%	24%	26%
British Airways	11%	9%	11%	14%	15%	11%	7%	7%
JSA	58%	51%	51%	45%	42%	36%	31%	33%
Air New Zealand	4%	5%	5%	2%	0%	0%	0%	0%
Thai Airlines	26%	30%	30%	37%	41%	45%	48%	48%
Singapore Airlines	2%	4%	5%	5%	9%	10%	10%	11%
Malaysian Airlines	1%	1%	1%	2%	3%	4%	6%	3%
Other	8%	9%	7%	8%	5%	4%	4%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Australia-Europe passenger traffic shares

Table 10 indicates that the passenger traffic share of the JSA parties for Australia-Europe decreased from 45% to 43% between the 1994/95 and 2001/02 Australian financial years. Over the same period, the combined market share of Singapore Airlines, Malaysia Airlines, Thai Airways, Cathay Pacific and Emirates almost doubled, going from 21% to 39%.

Table 10: Australia-Europe passenger traffic shares using ABS data, Australian FY1994/95 to FY2001/02

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Qantas	34%	32%	35%	34%	32%	31%	34%	35%
British Airways	11%	11%	10%	11%	11%	11%	6%	8%
JSA	45%	43%	45%	44%	43%	42%	40%	43%
Air New Zealand	4%	4%	4%	3%	3%	3%	3%	2%
Singapore Airlines	10%	11%	11%	12%	15%	16%	16%	18%
Malaysian Airlines	4%	5%	5%	6%	8%	9%	9%	9%
Thai Airlines	2%	2%	3%	3%	3%	4%	4%	4%
Cathay Pacific	5%	6%	6%	5%	4%	5%	4%	4%
Emirates	0%	0%	1%	1%	2%	2%	4%	4%
Japan Airlines	2%	2%	2%	2%	2%	2%	3%	3%
Austrian Airlines	0%	0%	0%	0%	0%	0%	0%	2%
Garuda	4%	3%	2%	2%	2%	2%	2%	1%
Lauda Air	1%	2%	2%	2%	2%	2%	3%	1%
Royal Brunei	1%	1%	1%	1%	1%	1%	1%	1%
United Airlines	2%	2%	2%	1%	1%	1%	1%	1%
Other	20%	20%	17%	16%	13%	12%	10%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Notes: (1) Lauda Air and Austrian Airlines have been cooperating since 1997 (see <http://www.aua.com/en/lauda/history/1997.asp>).

Between the 1994/95 and 2001/02 Australian financial years, the passenger traffic share of the JSA parties for Australia-UK declined from 48% to 45%, as can be seen from Table 11. However, the combined traffic share of Singapore Airlines, Malaysia Airlines, Thai Airways, Cathay Pacific and Emirates almost doubled from 20% to 37%. During the most recent period of authorisation, both the JSA share, as well as the combined share of Singapore Airlines, Malaysia Airlines, Thai Airways, Cathay Pacific and Emirates have remained steady.