



13 October 2003

**Public Version**

Ms Isabelle Arnaud  
Director – Adjudication Branch  
Australian Competition and Consumer Commission  
470 Northbourne Avenue  
DICKSON ACT 2602

Dear Ms Arnaud

**Qantas Airways Limited and British Airways PLC**  
**Applications for Reauthorisation of Restated Joint Services Agreement (JSA) (A30226 and A30227)**

I refer to your letter dated 25 September 2003 and to the telephone discussion between Sarah Collins of Qantas and Amanda Dadd of the Commission on 7 October 2003.

As discussed with Ms Dadd, Qantas and British Airways have endeavoured to answer as many of the questions in your letter of 25 September 2003 as possible within the timeframe requested by the Commission. We are still compiling the data required to answer questions 9, 11 and 13 to 18. NECG is preparing responses to questions 5 and 6 and undertaking revisions to its modelling in response to question 7. We expect to be in a position to provide full responses to each of these questions shortly.

In the interim, we set out responses to the Commission's other questions below. These responses include certain commercially confidential information. Disclosure of that information could result in material financial loss and prejudice the competitive position of the Applicants. Pursuant to section 89(5) of the Trade Practices Act, the Applicants apply for this information to be kept confidential by the Commission and excluded from the register kept by the Commission in accordance with section 89(3) of the Act. For convenience, the confidential information is indicated by the use of bold red square parentheses around confidential text. This information has been deleted and replaced with '[CONFIDENTIAL INFORMATION DELETED]' in the non-confidential public version of this letter. Attachments 1 and 2 to this letter are both confidential.

**1. *Please explain the differences, if any, between IATA prorate, special prorate and oneworld prorate arrangements referred to at page 128 of the NECG Report***

Airlines that are members of IATA agree, as part of their membership, that other IATA airlines may ticket passengers on their flights. Where this occurs, the amount that the airline selling the ticket (the ticketing airline) must pay the airline or airlines that actually carry the passenger (the operating airlines) is determined in accordance with IATA proration rules.

For example, if a Qantas customer wants to travel from Sydney to Nairobi, Qantas might carry the passenger from Sydney to Johannesburg and ticket the passenger on a South African Airways flight from Johannesburg to Nairobi. Under IATA rules, the amount Qantas must pay South African Airways for carrying the passenger from Johannesburg to Nairobi would be determined as follows:

- the relevant IATA published fare for carriage between Sydney and Nairobi would be determined;
- from this, a standard commission to which Qantas is entitled as the ticketing carrier would be deducted; and

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- the remaining amount would be divided between Qantas and South African Airways in proportion to the IATA weighted mileages<sup>1</sup> of the sectors operated by each airline.

In this example, if the ratio between the IATA weighted mileage for Sydney – Johannesburg compared to the IATA weighted mileage for Johannesburg – Nairobi is 3:2, Qantas would have to pay South African Airways an amount equal to two fifths of the IATA published fare between Sydney and Nairobi, less commission.

Individual airlines often agree to charge each other on a basis other than the standard IATA proration rules for carrying each other's passengers. Any such agreement between airlines that overrides IATA proration rules is referred to as a special prorate agreement.

There are a variety of ways that special prorate agreements may be structured. For example, airlines may agree to charge each other a fixed amount for carrying passengers between certain cities or agree to base their proration on the relevant IATA published fare reduced by an agreed percentage.

[Confidential Information Deleted]

2. ***Table 45 of the NECTG Report is a worked example to illustrate how the prorate system works under the oneworld alliance and the subsequent distribution of revenue to Qantas and BA on a multi-stop JSA route. Please also demonstrate how the distribution of revenue from table 45 of the NECTG Report would evolve under the JSA.***

[Confidential Information Deleted]

3. ***Are the prorate arrangements an integral part of the oneworld alliance or are they negotiated bilaterally with some or all of Qantas' alliance partners separately? Please provide details of prorate arrangements with other oneworld partners. Please also provide a copy of the oneworld alliance charter.***

All oneworld carriers have agreed to adopt the oneworld RAA as the basis of proration between themselves.

A copy of the oneworld RAA is enclosed with this letter as Attachment 1. A copy of the oneworld Brand Alliance Agreement is enclosed as Attachment 2.

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

Qantas is currently investing in a major renewal of its long haul fleet. As part of this renewal program, older aircraft such as Qantas' fleet of Boeing B747-300 aircraft are progressively being replaced with more efficient aircraft such as the Boeing B747-400, Airbus A330 and Airbus A380.

[Confidential Information Deleted]

7. ***Section 7 of the NECTG Report discusses the future with and without the JSA. With less uncertainty concerning SARS, Middle East conflict and the possibility of ceasing flights to Rome (and their impact on future supply and demand patterns) than earlier in 2003, please advise a revised modelling of the percentage capacity differences between the factual and counterfactual.***

[Confidential Information Deleted]

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<sup>1</sup> IATA weighed mileages are calculated by IATA by adjusting the distance between two ports to take into account a range of costs of operating flights between those ports, such as landing and take-off costs.

8. ***In a submission to the International Air Services Commission in relation to Qantas' request for approval for Japan Airlines to codeshare on Qantas services between Melbourne and Tokyo (dated 9 May 2002), Qantas submitted that:***

***“Japan Airlines’ support through the purchase of seats on Qantas aircraft, would contribute to improving the financial position of the flights, which would otherwise be loss making.... Qantas’ modelling of the financial impact of a Japan Airlines codeshare on these services indicates that the proposed arrangements would boost average seat factors by approximately 10%...”***

***Please advise the Commission whether such modelling has been conducted in relation to the possibility of code share arrangements between Qantas and British Airways on the Kangaroo Route (or legs thereof) in a future without the JSA.***

In the absence of the JSA, Qantas and British Airways would not grant codesharing rights to each other on sectors where they would have directly overlapping services (ie, currently between London –Singapore, London – Bangkok, Bangkok – Sydney, Singapore – Sydney and Singapore – Melbourne). Similarly, Qantas and Japan Airlines do not codeshare on routes where they have directly overlapping services.

For reasons described in paragraph 4.13 of the submissions accompanying Qantas and British Airways' application for reauthorisation, Qantas believes it is also unlikely in the absence of the JSA that it would grant codeshare rights to British Airways on sectors which are not directly overlapping such as Singapore – Perth, Singapore – Brisbane and Singapore – Adelaide. Accordingly, NECG has not modelled the effects of such codeshares between British Airways and Qantas in the counterfactual.

Qantas and British Airways would be happy to meet with the Commission to discuss in more detail the reasons why they would not codeshare on JSA Routes absent the JSA.

10. ***Please advise the Commission of the seating configuration (first, business and economy) of Qantas B747 aircraft utilised on the Kangaroo Route after the introduction of Skybeds in business class as compared to the configuration currently used.***

The configuration of Qantas' three class B747-400 aircraft currently used on services to London is as follows:

First class:	14 seats
Business class:	65 seats
Economy:	315 seats

After the introduction of Skybeds, the configuration of these aircraft will be as follows:

First class:	14 seats
Business class:	50 seats
Economy:	315 seats

The configuration of Qantas' two class B747-400 aircraft currently used on services to Frankfurt and Paris is as follows:

Business class:	66 seats
Economy:	366 seats

After the introduction of Skybeds, the configuration of these aircraft will be as follows:

Business class:	40 seats
Economy:	400 seats

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12. ***Qantas' Executive General Manager [Sales and Marketing], Mr John Borghetti, recently stated in the media that "business class pricing will increase" following the fitting of Skybeds in business class in Qantas aircraft.***

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

Fares for British Airways business class beds on JSA Routes are currently higher than the corresponding fares for Qantas business class seats.

With the introduction of Skybed to Qantas services between Sydney and UK/Europe, published business class fares will increase by approximately 10%. Corresponding British Airways business class fares will not increase.

Yours sincerely



Brett Johnson  
General Counsel

cc Roger Featherston  
Mallesons Stephen Jaques