Australian
Competition &
Consumer
Commission

Determination

Application for Authorisation

Alliance Agreement between Ansett Australia, Ansett International, Air New Zealand and Singapore Airlines

Date: 22 July 1998

Authorisation No:
A90649
A90655

File No:
CA97/50

Commissioners:
Fels
Asher
Smith
Bhojani
Lieberman
Sylvan

Contents

Attachments

List of abbreviations

ACCC	Australian Competition and Consumer Commission
Act	Trade Practices Act 1974
AFTA	Australian Federation of Travel Agents
Alliance Carriers	Ansett Australia, Ansett International, Singapore Airlines and Air New Zealand
AN	Ansett Australia
ATC	Australian Tourist Commission
BA	British Airways
BTCE	Bureau of Transport and Communications Economics
DIST	Department of Industry, Science and Tourism
DTRD	Department of Transport and Regional Development
GAO	General Accounting Office of the Government of the United States
HHI	Herfindahl-Hirschmann Index
IASC	International Air Services Commission
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
JSA	Joint Service Agreement between Qantas and British Airways
NZ	Air New Zealand
QF	Qantas Airways
SQ	Singapore Airlines

Summary

On 22 December 1997, Ansett Australia Limited, Ansett International Limited, Air New Zealand Limited and Singapore Airlines Limited ("the Alliance Carriers") lodged an application for authorisation (No. A90649) with the Australian Competition and Consumer Commission ("the Commission"). Application A90649 was made under s. 88(1) of the *Trade Practices Act 1974* ("the Act").

Following discussions between the Alliance Carriers and the Commission, on 6 March 1998 the Alliance Carriers lodged an additional application for authorisation (No. A90655) under s. 88(1) of the Act.

Pursuant to application A90649, the Alliance Carriers are seeking authorisation to enter an agreement ("the Alliance Agreement") which provides for the coordination of various aspects of their airline services, including capacity, frequency and prices, on services operated between Singapore and New Zealand; between Australia and South East Asia; trans-Tasman; on Australian domestic routes; and on routes beyond Australia, New Zealand and Singapore. The applicants are seeking authorisation because parts of the Alliance Agreement may have the effect of substantially lessening competition.

The Alliance Agreement includes a proposal that the Alliance Carriers jointly set prices. Price fixing between competitors is one of the most serious forms of anti-competitive conduct which competition law seeks to address. Such conduct is often highly detrimental to economic efficiency and consumer welfare.

Pursuant to application A90655, the Alliance Carriers are seeking authorisation for a provision of the Alliance Agreement (clause 23) which may be an exclusionary provision.

The Act provides that the Commission shall not grant an authorisation unless it is satisfied in all the circumstances that:

- the proposed conduct would result, or be likely to result, in a benefit to the public; and
- such benefit would outweigh the detriment to the public constituted by any lessening of competition that would result, or be likely to result, if the conduct was engaged in.

The Alliance Carriers have submitted that the Alliance Agreement satisfies the test for authorisation. In particular, they submitted that:

- the Alliance is not anti-competitive because the route networks of the Alliance Carriers are largely complementary and, in fact, the Alliance is pro-competitive because the four Alliance Carriers combined will be a stronger competitive force against Qantas/British Airways; and
- the Alliance will result in substantial public benefits, including: increased competition; continuation of Ansett as a viable competitor; cost efficiencies; consumer benefits; tourism benefits; trade benefits and employment benefits.

Section 45A(1) of the Act deems a provision of a contract, arrangement or understanding to have the purpose, effect or likely effect of substantially lessening competition if it has the purpose, effect or likely effect of fixing, controlling or maintaining the price for the supply or acquisition of goods or services. Similarly, ss 45(2)(a) and (b)(i) contain a per se prohibition of exclusionary provisions.

As the Alliance Agreement incorporates such conduct the Commission must conclude, in accordance with the provisions of section 45A(1) and section 45(2)(a), that the Alliance Agreement substantially lessens competition with respect to those two provisions. However, the Alliance Agreement contains a number of other clauses which, in the Commission's view, will enhance competition. For example, it will assist in the development of Ansett International as a strong competitor and will assist the Alliance Carriers in providing a seamless product in competition with Qantas/British Airways.

The Commission received written submissions from 24 interested parties. All but three of these parties supported or did not oppose the Alliance, including four who gave qualified support.

The Commission has examined the various claims of public benefit and detriment arising from the Alliance Agreement and:

- is of the view that the Alliance is likely to have public benefits in the areas of:
  - increased competition, particularly with the Qantas/British Airways group;
  - more efficient use of resources and elimination of duplication;
  - assisting in the development of Ansett International and the consequent benefits of a strong, second Australian international airline; and
  - improved customer service through integration of computer systems, seamless service, wider lounge access and the ability to earn frequent flyer points on economy class travel with Singapore Airlines.
- does not accept the following public benefit claims made by the Alliance Carriers:
  - that there will be savings arising from the joint procurement of aircraft or the establishment of a joint venture in information technology as insufficient evidence has been provided;
  - that there will be more routes or frequencies as a result of the Alliance;
  - that the Alliance is required to ensure that Ansett remains a viable competitor to Qantas in the domestic market; and
  - that the Alliance will generate employment benefits.

The Commission remains unconvinced of the claimed tourism and trade benefits because insufficient evidence has been provided as to either the certainty of some actions occurring or the level of detail provided is inadequate to assess the relative merits of the claims. The

Commission also concludes that the Alliance Agreement will not increase barriers to entry to the airline market to an extent which may be considered to substantially lessen competition.

While the Commission has reservations about some of the claimed public benefits, it is satisfied that there are sufficient benefits which will occur or be likely to occur for there to be a net public benefit overall.

Clause 41.1 of the Alliance Agreement provided that the Alliance Carriers may extend the level of cooperation on a basis to be agreed from time to time in a number of areas including codesharing, network scheduling, revenue allocation, promotion and marketing, ground handling, loyalty programs, joint procurement, joint ventures, engineering and air freight co-ordination. In the Draft Determination the Commission expressed concern over the inclusion of such a clause and proposed to include a condition relating to its use. In response to the Commission's concerns the Alliance Carriers have deleted the clause from the Alliance Agreement.

The Commission concludes that in all circumstances the proposed conduct would be likely to result in a benefit to the public which would outweigh the detriment to the public constituted by the lessening of competition that would be likely to result if the conduct was engaged in. The Commission grants authorisation for Ansett Australia, Ansett International, Air New Zealand and Singapore Airlines to enter the Alliance Agreement, the subject of applications A90649 and A90655, for a period of five years commencing from 22 July 1998. The Commission's authorisations do not imply, in any way, approval by other regulatory agencies for implementation of the elements of the Alliance Agreement.

1. The application

1.1. Introduction

On 22 December 1997, Ansett Australia Limited, Ansett International Limited, Air New Zealand Limited and Singapore Airlines Limited ("the Alliance Carriers") lodged an application for authorisation (No. A90649) with the Australian Competition and Consumer Commission ("the Commission"). Application A90649 was made under s. 88(1) of the *Trade Practices Act 1974* ("the Act").

Following discussions between the Alliance Carriers and the Commission, on 6 March 1998 the Alliance Carriers lodged an additional application for authorisation (No. A90655) under s. 88(1) of the Act.

Application A90649 seeks authorisation for the Alliance Carriers to enter an agreement ("the Alliance Agreement") which will permit them to coordinate various aspects of their services including capacity, frequency and prices on services operated between Singapore and New Zealand; between Australia and South East Asia; trans-Tasman; on Australian domestic routes; and on routes beyond Australia, New Zealand and Singapore. The applicants are seeking authorisation because parts of the Alliance Agreement may have the effect of substantially lessening competition.

Application A90655 seeks authorisation for a provision of the Alliance Agreement (clause 23) which may be an exclusionary provision.

1.2. History of the application

Application A90649, along with a supporting submission, was lodged with the Commission on 22 December 1997. Application A90655 was lodged with the Commission on 6 March 1998.

In addition to the applications, the Commission received the following additional information from the Alliance Carriers:

- letter of 6 March 1998 in response to the Commission's letter of 27 January requesting more information on aspects of the submission;
- letter of 17 April 1998 in response to issues raised in public submissions;
- letter of 28 April 1998 in response to the Commission's letter of 6 April requesting more information on claimed public benefits;
- letter of 14 May 1998 advising that Ansett and Air New Zealand had been granted observer status with Star Alliance;
- letter of 28 May 1998 in response to the Commission's letter of 29 April 1998 regarding the vagueness of the Alliance Agreement.

The above correspondence (except for parts which have been granted confidentiality) is available for inspection at each State and Territory office of the ACCC.

The Commission released its Draft Determination on 10 June 1998 proposing to authorise the Alliance Agreement. A pre-determination conference in relation to the Draft Determination was requested by Mr Peter Wakeman and was held on 2 July 1998 at the Commission's Canberra office. A record of the conference is at Attachment C.

It should be noted that in the course of considering applications A90649 and A90655, the Commission has been provided with a large amount of confidential material by the Alliance Carriers and other parties. While the Commission is unable to disclose the content of the confidential material, it has been taken into account in the preparation of this Determination.

1.3. The applicants

Ansett Australia Limited

Ansett Australia Limited is a wholly owned subsidiary of Ansett Holdings Limited, the holding company of the Ansett Australia group. Ansett Holdings is 50% owned by Air New Zealand and 50% by the News Limited group. In the December half of the 1997-98 financial year, Ansett Holdings Limited achieved an operating profit of $66.4 million.

The Ansett Australia group employs more than 17,000 people. It operates up to 380 flights per day to 31 destinations on its domestic Australian network and also owns three regional domestic airlines - Kendall Airlines, Aeropelican and Skywest Airlines - serving 32 destinations.

The Ansett Australia group's other businesses include Ansett Air Freight, Ansett International Air Freight, the Traveland travel agency network, Australian Concessions Management, Transport Industries Insurance Companies Limited, a 68.2% holding in Diners Club Limited, a 49% holding in Pacific Hotels Limited and a 50% interest in Hamilton Island Airport Pty Limited.

Ansett International Limited

Ansett International Limited is 49% owned by Ansett Holdings Limited and 51% by Australian institutional investors. Ansett International commenced operating international passenger services from Australia to Asian cities in 1993. It made an operating loss of A$46 million in 1996-97.

While Ansett International is a separate company from Ansett Australia, it is dependent on Ansett Australia for much operational support. Ansett Australia also provides a Deed of Guarantee and Indemnity for Ansett International to satisfy the conditions imposed by the International Air Services Commission on capacity allocations made to Ansett International.

Air New Zealand Limited

Air New Zealand Limited is 42% owned by Brierley Investments Limited and 10% by Franklin Resources Inc. It is a publicly listed company in New Zealand and Australia with approximately 26,000 share holders. In the December half of the 1997-98 financial year, Air New Zealand Limited achieved an operating profit of $NZ82 million.

The Air New Zealand group employs 9,340 people. It operates to 28 New Zealand destinations and 29 international destinations.

Air New Zealand operates principally through five business units - Air New Zealand International, Air New Zealand Domestic Airline Group, Air New Zealand Cargo Services, Air New Zealand Engineering Services and Air New Zealand Terminal Services. Air New Zealand Limited also has a number of subsidiary and associated companies, including the Mount Cook Group Limited, Air New Zealand Destinations Limited, Focus Travel Limited, Blue Pacific Tours Limited, Jetset Travel and Technology Holdings Pty Limited and Ansett Holdings Limited.

Singapore Airlines Limited

Singapore Airlines Limited is a public company listed on the Singapore Stock Exchange. Its major shareholder is Temasek Holdings (Private) Limited which holds 53.8% of the issued capital. Temasek is wholly owned by the Minister of Finance Inc of Singapore. In 1996-97 the Singapore Airlines group earned revenues of S$7222 million and made a net profit of S$1032 million.

The Singapore Airlines group employed 27,241 people in 1996-97, of which the parent airline employed 13,258. Singapore Airlines' route network covers 76 cities in 41 passenger and freight destinations and its subsidiary SilkAir serves 22 destinations in 8 Asian countries.

Singapore Airlines Limited has 13 subsidiary companies - Singapore Airport Terminal Services, SilkAir, SIA Engineering Company, SIA Properties, Singapore Aviation and General Insurance Company, Singapore Flying College, Star Kingdom Investment, Auspice Limited, Singapore Airlines (Mauritius) Limited, Aviation Software Development Consultancy India Limited, Abacus Travel Systems and Cargo Community Network. Some of these subsidiary companies in turn wholly own subsidiaries. Singapore Airport Terminal Services owns SATS Catering, SATS Airport Services, SATS Security Services and Aero Laundry and Linen Services. SilkAir owns Tradewinds Tours and Travel and SH Tours.

1.4. The Alliance Agreement

This section summarises the main operative provisions in the Alliance Agreement.

A full copy of the Alliance Agreement (except for those parts which have been granted confidentiality) is available for inspection at each State and Territory office of the ACCC.

Summary of provisions

Coordination

Clause 3 sets out the three-tier management system that will formulate, oversee and implement the Alliance. The structure is headed by a CEOs' Committee which is charged with policy direction and dispute resolution. The policies determined by the CEOs' Committee will be implemented by a Steering Committee which is to comprise senior executives from each Alliance Carrier. Working Committees will coordinate Alliance activities in specific areas and to make recommendations for further development and initiatives to the Steering Committee. The Steering Committee has power to extend the operation of the Alliance over the network.

Networking, codesharing and capacity planning

Clause 6 provides for coordination in respect of capacity, network and frequency of services operated between Singapore and New Zealand; between Australia and South East Asia; trans-Tasman; on Australian domestic routes; and on routes beyond Australia, New Zealand and Singapore. This will include coordination of growth in capacity on these routes. Each carrier has the right to code share on services operated by another Alliance Carrier, subject to the appropriate bilateral rights being held or obtained. In addition, the Alliance Carriers will exchange information relating to schedules, financial information, traffic, seat availability and sales and may agree joint or individual fares on any route throughout the network.

Parts of clause 6 have been granted confidentiality.

Revenue allocation

Clause 7 sets out the arrangements for revenue allocation between the Alliance Carriers on the basis of special prorate agreements. Most of clause 7 has been granted confidentiality.

Ground services

Clause 8 outlines the strategy with respect to ground services and is aimed at achieving a common set of customer service delivery standards throughout the network. Where possible, single check-in facilities will be provided and seamless transfers implemented for passengers travelling on the services of Alliance Carriers. Where feasible, each Alliance Carrier will extend the use of airport based lounge facilities to the passengers of other Alliance Carriers.

Commercial synergies

Clause 9 provides for coordination and cooperation on sales and marketing functions to achieve the following objectives:

(a) provide the customers of the Alliance carriers with a wider choice of travel products at competitive prices;

(b) enhance sales servicing;

(c) increase sales of each of the Alliance carriers products; and

(d) cost reductions (clause 9.1)

The remainder of clause 9, which details the areas for coordination and cooperation, has been granted confidentiality.

Promotion and marketing

Clause 10 provides for the establishment of a brand and product strategy to

> improve product promotion, increase product choice and enhance product value to the end consumer (clause 10.1).

Marketing activities will be focused on Europe, North America, Asia and the South West Pacific. Joint products may be developed by the Alliance Carriers and joint promotions may take place.

CRS availability details

Clause 15 provides for the implementation of improvements in the display of the other Alliance Carriers' services in the Alliance Carriers' internal reservation systems and to give priority to Alliance services in those displays.

Air freight

Clause 17 provides for the development of synergies in the air freight operations of the Alliance Carriers. Synergies will be developed on the basis of the following principles:

> (a) ... strengthen the competitive position of and expand business opportunities for each Alliance carrier in terms of networks, frequencies and products that can be offered to its customers;
>
> (b) each Alliance carrier will use the other Alliance carriers' services as a first choice for interline carriage of airfreight where it is competitive and practicable to do so (clause 17.1).

The Alliance Carriers will grant each other bilaterally agreed rates (Special Prorate Agreements) for the uplift of traffic originating from one Alliance Carrier and transferred for uplift by another Alliance Carrier.

Parts of clause 17 have been granted confidentiality.

Coordination and/or cooperation

Clauses 11, 12, 13, 14, 16, 18, and 19 provide for coordination and/or cooperation in the areas of frequent flyer programs; fleet planning; procurement; information technology; engineering; human resources and training; and insurance, respectively.

Exclusivity

Clause 23 provides for exclusivity of the Alliance. It states in part:

> (a) AN and NZ will not enter into other alliances or other code-sharing, blocked space, frequent flyer or equivalent marketing agreements with any other carrier based in South East Asia, the Indian subcontinent and the Middle East; and

(b) SQ will not enter into other alliances or other code-sharing, blocked space, frequent flyer or equivalent marketing agreements with any other carrier based in the South West Pacific. (clause 23.1)

The remainder of clause 23 has been granted confidentiality. Clause 23 is the subject of Application No. A90655.

Further commercial opportunities

Clause 41.1 provides for extension of cooperation between the Alliance Carriers "on a basis to be agreed from time to time" in most of the areas listed above. In particular,

> the network of coordination and Codesharing established by clause 6 may be extended to include any route over which both [sic] one or all of the Alliance Carriers possess the underlying right to operate the Codeshare (clause 41.1(a))

and

> revenue allocation principles may be extended to apply to all routes on the network (clause 41.1(b)).

In response to concerns about Clause 41.1 expressed by the Commission in the Draft Determination, the Alliance Carriers advised the Commission at the pre-determination conference that they have agreed to delete it from the Alliance Agreement.

1.5. Membership of STAR Alliance

During the course of the inquiry the Alliance Carriers advised the Commission that Ansett Australia, Ansett International and Air New Zealand had been granted "observer" status with the STAR Alliance. This step is a pre-cursor to full membership of STAR, which may occur within the next two years.

The Commission advised the applicants that since full membership of STAR has not yet been granted - and may never be granted - that it would not be taken into consideration for the purpose of the authorisations sought. However, the Commission advised Ansett that should full membership of STAR be granted it may constitute a material change in circumstances for the purpose of s.91 of the Act and that the Commission may initiate a review of the authorisation.

2. Conduct of the inquiry

The Commission conducts inquiries in accordance with the requirements of the Act and with the procedures for authorisations as described in *Guide to Authorisations and Notifications, November 1995*. A chronology of the main stages of the Commission's inquiry is provide below.

Date	Description
22 December 1997	The Alliance Carriers lodged their initial application for authorisation. This application sought authorisation of those provisions of the Alliance Agreement which may substantially lessen competition.
9 January 1998	The Commission wrote to approximately 90 interested parties inviting submissions on the initial application.
27 February	Closing date for submissions on the initial application.
6 March	The Alliance Carriers lodged a second application for authorisation. This application sought authorisation of that provision of the Alliance Agreement which may be considered to be an exclusionary provision.
6 March	The Commission wrote to interested parties advising them of the second application and invited submissions.
27 March	Closing date for submissions in relation to the second application.
10 June	Draft Determination proposing to authorise the Alliance Agreement issued.
11-12 June	The Commission wrote to interested parties advising that it intended to authorise the Alliance Agreement. A copy of the Draft Determination was provided and comments/submissions invited. Interested parties were also provided with the opportunity to request a pre-determination conference.
15 June	Mr Wakeman requested a pre-determination conference.
2 July	Pre-determination conference held in Canberra.
10 July	Closing date for final submissions following pre-determination conference.
22 July	Determination issued.

The pre-determination conference was attended by seven interested parties: Mr Peter Wakeman, Ansett Australia, Air New Zealand, Singapore Airlines, Qantas, DTRD and the Queensland Department of the Premier and Cabinet. A record of the conference is at Attachment C.

3. Background to the Application

3.1. Introduction

This section discusses various background issues relevant to the Commission's assessment of the application.

3.2. Changes in domestic and international aviation policy

There have been major changes to aviation policy since the mid-1980s. These changes have had a significant impact on the way in which the domestic and international aviation markets function and are central to the arguments put by Ansett in support of its applications.

Prior to 1988 Government policy segregated the international and domestic aviation markets. On the domestic side, the two airline policy was in place and that policy ensured that the domestic trunk route market was divided almost equally between Ansett and Australian Airlines. On the international side, a policy of single designation was in place, with Qantas the sole Australian flag carrier.

Following the Independent Review into the Economic Regulation of Domestic Aviation in 1986 (the May Review) the Government decided that the domestic airline market should be deregulated.

Then, in the early 1990s, a major reform package for international aviation was implemented. The policy of single designation was replaced by multiple designation, more liberal air services agreements were negotiated, a capacity allocation process was established and the International Air Services Commission was created. In the same period as these changes were occurring, the Government decided to merge Qantas and Australian Airlines and to privatise the merged entity.

Some of these changes were directly linked to each other while others were a direct consequence of other decisions. For example, the decision to permit multiple designation facilitated the possibility of merging international and domestic operators. Similarly, once multiple designation was implemented there had to be a mechanism to allocate potentially scarce international capacity entitlements between carriers and so the International Air Services Commission was established.

Although these changes enabled Ansett to commence international operations in competition to Qantas, it was in an adverse competitive position because it had to construct its international operations from nothing whereas Qantas had an existing and extensive international network. This imbalance has yet to be redressed, with Qantas holding 40% of the international market and Ansett 4% in 1996-97.

Ansett claims that this imbalance in the international market has impacted on the domestic market because Qantas is able to feed a greater number of international passengers into its domestic network. In 1993-94 the Qantas group had 43.6% of the domestic market (interstate plus intrastate) and the Ansett group 56.4%. By 1996-97 the Qantas group had increased its share of the domestic market to 50.2% and the Ansett group had fallen to 49.8% (see section 4.2 for a fuller discussion of this point).

While there have been substantial changes to international aviation policy there is one requirement of air services agreements which has not changed and is relevant to these applications. That is the requirement for a designated carrier be under the substantial ownership and control of the country designating the carrier. Thus a designated carrier of Australia must be under the substantial ownership and control of Australians.

To ensure compliance with this requirement the Government has implemented a policy which specifies that foreign ownership of airlines cannot exceed 50%. Furthermore, foreign airlines may not, in total, own more than 35% and any one foreign airline cannot own more than 25%.

Australia's two major international airlines, Qantas and Ansett International, both comply with this requirement. Qantas' articles of association ensure foreign ownership does not exceed 50% and provides mechanisms for the compulsory divestiture of shares by foreign shareholders should the 50% be exceeded. The ownership structure of Ansett International was changed following the investment by Air New Zealand in Ansett Australia to ensure compliance. Ansett International is now 51% owned by an Australian company, International Airline Investment Holdings Limited (a joint venture between County Natwest and AMP).

The one exception to the "substantial ownership and control" requirement is with New Zealand. Under the Single Aviation Market (SAM) agreement between Australia and New Zealand any airline owned and controlled by Australian or New Zealand interests may be designated to operate air services. Thus, while Ansett Australia (as against Ansett International) is 50% owned by Air New Zealand and 50% by News Corporation it may be designated by Australia.

The SAM agreement provides airlines of Australia and New Zealand with unrestricted access to the two domestic markets and the trans-Tasman market. For example, Air New Zealand may operate domestic services in Australia and Qantas may operate domestic services in New Zealand.

3.3. Market developments

General

The domestic and international airline markets have grown significantly over the last ten years. International passenger movements to and from Australia have grown at an average annual rate of 7%, domestic passenger movements at 5%, international freight tonnages at 8% and domestic freight tonnages have remained static (see section 4 for a detailed description).

However, while the market has grown, yields have fallen in real terms. This has put pressure on airlines to reduce costs and increase productivity to maintain profitability. For example, between 1995 and 1997 the average passenger yield per revenue passenger kilometre for Qantas fell from 10.65 cents to 9.82 cents - an 8% fall in nominal terms. Over the same period net profit increased from $180 million to $253 million, reflecting greater productivity and cost control.

An increasingly popular method for controlling costs and improving profitability is to enter into alliance agreements. In June 1998, *Airline Business* estimated that there were 502 alliances worldwide involving 196 airlines, including 121 alliances which were established during 1997-98. Of the total alliances, it was estimated that only 56 involved equity participation.

Alliances are perceived as improving profitability by facilitating passenger flows between the partners and creating opportunities for cost savings through sharing resources and joint procurement programs. The General Accounting Office of the United States estimated that in 1994 the KLM/Northwest alliance was worth an additional 350,000 passengers to the alliance and increased their trans-Atlantic market share from 7% to 11.5%. Since that time alliances have proliferated, with the most notable being the Star Alliance (United/Lufthansa/SAS/Thai International/Air Canada/Varig), KLM/Northwest and the proposed British Airways/American Airlines alliance.

The United States Department of Transportation has already granted antitrust immunity to the KLM/Northwest, United Airlines/Lufthansa and Delta/Swissair/Sabena/Austrian Airlines alliances and is considering the American Airlines/British Airways alliance.

The Department of Transport and Regional Development (DTRD) submitted that

> alliances are being increasingly favoured by airlines because closer cooperation can increase efficiency, improve capacity utilisation on existing routes, open up new markets, extend network reach and feed passenger flows between airlines and routes more reliably and seamlessly.

Developments of significance to the application

Against this background of strong growth and policy change there have been a number of significant developments in the Australian market, the most notable being:

- the merger of Qantas and Australian Airlines in September 1992;
- the privatisation of Qantas, including the Government's stated intention that there should be a large, strategic shareholding in Qantas by a foreign carrier;
- the purchase by British Airways of 25% of Qantas;
- the implementation of the Joint Services Agreement between Qantas and British Airways;
- the commencement of international operations by Ansett International; and
- the purchase by Air New Zealand of 50% of Ansett Holdings Limited.

The merger of Qantas and Australian Airlines was particularly significant. It enabled Qantas to integrate domestic and international operations in a way not previously possible and provided it with a strong competitive advantage over Ansett. For example, the ability to feed its international passengers to its domestic operations in a seamless fashion.

While Ansett is now able to operate internationally, its ability to match the merged Qantas has been constrained by a number of factors. First, it is difficult to develop a large international network within a short timeframe. Second, the capital cost of developing a large network is substantial. Third, it is common for international routes to incur operating losses during the establishment phase and it is not feasible to commence too many routes simultaneously. And fourth, Qantas' existing rights under bilateral air services agreements were grandfathered and thus Ansett's ability to commence operations on the routes and scale desired was limited (for example, it could not get access to Tokyo nor a daily service to Hong Kong).

Qantas' market position was further enhanced by implementation of the Joint Services Agreement (JSA) with British Airways (see section 3.4 for a description of the JSA).

In light of these developments, Ansett considered that it needed to bolster its competitive position and examined means by which this could be achieved. The limitations in bilateral air service arrangements and capital requirements for international expansion made internal growth unattractive and so the option of forming an alliance was pursued and has culminated in the current applications.

3.4. Previous Commission decisions

The Commission has made a number of decisions which are relevant to these applications. Each is described below.

Qantas / British Airways Joint Services Agreement

On 12 May 1995 the Commission granted authorisation for Qantas and British Airways to operate a joint services agreement which provided for the coordination of various key aspects of their Australia/Europe, Australia/ South East Asia and South East Asia/Europe services. The agreement involved:

- fixing prices (ie jointly determining air fares and freight rates) on all routes between Australia and Europe (including through the US) and Australia and South East Asia;
- jointly managing capacity and yields on selected routes between Australia and Europe and Australia and South East Asia;
- coordinate scheduling of flights and relevant sales and marketing operations on selected routes between Australia and Europe and Australia and South East Asia; and
- amend the routes which will be subject to all aspects of the agreement at any time in the future.

In making its determination, the Commission concluded that the agreement would result, or be likely to result, in a substantial lessening of competition. However, it acknowledged that the following public benefits would result from the agreement:

- the agreement was in the national interest;
- benefits from better seat management:

- greater availability of discount seats;
- increased interlineability:
- increased discount ticket flexibility;
- increased network of air services;
- improved travel options; and

- tourism benefits.

Overall, the Commission considered that the weighting of anti-competitive detriment against public benefit was finely balanced. The Commission decided to grant authorisation for five years from May 1995, subject to the certain conditions, including:

- average net revenue per passenger on a representative fare class will not increase in real terms over the three years to March 1998;
- until 31 March 2000, the average weekly available capacity for freight from Australia to the UK on eastern hemisphere routes will not be less than 100 tonnes;
- reporting requirements on the above conditions.

Air New Zealand acquisition of 50% of Ansett Holdings Limited

In May 1996, the Commission was advised that Air New Zealand proposed to acquire TNT Limited's 50% interest in Ansett Holdings Limited.

The Commission noted the move toward the creation of a single aviation market for Australia and New Zealand and took account of this when reaching its decision.

The Commission concluded that the acquisition would not substantially lessen competition in an Australian market. It was also satisfied that there would not be a substantial lessening of competition in relation to international travel into and out of Australia or travel distribution in Australia.

Concorde International Travel acquisition of Metro Travel

In January 1997 the Commission was advised that Concorde International Travel Pty Limited proposed to acquire Metro Travel Pty Limited. The Commission examined the acquisition under section 50 of the Act.

The Commission found that, although Concorde/Metro would have a substantial share of consolidation business in Australia, there were a number of competitive constraints that would be likely to prevent the merged firm from increasing its prices or margins, including:

- competition from existing consolidators;
- the ability of accredited retail travel agents to obtain tickets from airlines via the IATA system;
- the opportunity for non-IATA retail agents to be accredited by IATA or join a retail franchise or buying group; and

- the ability of some retail groups which have substantial buying power to vertically integrate into consolidation.

The Commission also found that in the longer term, the ability of travellers to reserve and pay for tickets through the internet may change the structure of airline ticket distribution in Australia, but it acknowledged that the extra service that retail travel agents give to travellers will always be important.

The Commission concluded that the acquisition was unlikely to substantially lessen competition.

Air New Zealand acquisition of Jetset

In June 1997 the Commission was advised that Air New Zealand proposed to increase its holding in Jetset Travel and Technology Holdings Pty Limited from 50% to 100%.

In assessing the proposal under section 50 of the Act, the Commission noted that airlines' vertical links into distribution, through interests in consolidators and retail travel agents, may restrict agents' choice of with whom and in what products they deal. At the time of the acquisition, Jetset had preferred supplier arrangements with both Ansett and Qantas. The Commission concluded that provided these arrangements were maintained under the new ownership, the acquisition was unlikely to substantially lessen competition.

4. The relevant industries

4.1. Introduction

This section outlines the dynamics of the various industries affected by the Alliance Agreement.

4.2. International aviation - passengers and freight

Passengers

The demand for international air services to and from Australia has increased steadily in recent years. Revenue passenger movements on scheduled flights increased from 7.9 million in 1988-89 to 14.0 million in 1996-97, an average annual growth rate of 7.4% (see Table 4.1). Visitors represented approximately 60% of all movements in 1996-97 and residents 40%.

In addition to revenue passengers on scheduled flights, there are non-revenue passengers on scheduled flights and passengers on charter flights. In 1996-97 these totalled approximately 440,000.

The number of flights and seats offered have increased in proportion to the increase in demand, with overall seat utilisation remaining in the 65-70% range (see Table 4.1).

In 1996-97 there were 59 airlines offering scheduled services to/from Australia, although five were offering services on a code share basis only. Of the 54 airlines operating scheduled services, 7 operated freight only flights and 47 operated passenger flights. Scheduled services were operated to 40 countries and approximately 80% of all passengers travelled on direct services from/to their origin/destination.

The major markets to and from Australia are New Zealand, Japan, the United Kingdom, the USA and Indonesia. In 1996-97 these five routes accounted for over half of all the traffic to and from Australia (see Table 4.2).

The number of visitor arrivals from Asia is expected to decrease in the short term given recent economic events in that region. For example, in December 1997 visitor arrivals from Japan were down 6.8% over the previous year, from south east Asia they were down 5.4% and from north east Asia (excluding Japan) they were down by 21.2%. The Tourism Forecasting Council has recently revised its forecasts for visitor arrivals for the period to 2006 downwards, from an average annual growth rate of 7.8% per annum to 3.6% per annum.

The major operator of scheduled international air services to and from Australia is Qantas, which has approximately 40% of the market. The next largest operator is Air New Zealand with approximately 10% of the market. In 1996-97 the Qantas/British Airways group held approximately 43% of the scheduled passenger market, the proposed alliance group almost

TABLE 4.1: PASSENGERS CARRIED ON SCHEDULED SERVICES TO AND FROM AUSTRALIA

Year	Inbound				Outbound				Total			
	No. of Flights	Pax Carried	Seats Available	Seat Utilisation (%)	No. of Flights	Pax Carried	Seats Available	Seat Utilisation (%)	No. of Flights	Pax Carried	Seats Available	Seat Utilisation (%)
1988-89	19,580	4,022,634	5,719,568	70.3%	19,312	3,907,954	5,715,640	68.4%	38,892	7,930,588	11,435,208	69.4%
1989-90	21,323	4,175,391	6,126,308	68.2%	20,996	4,078,919	6,121,000	66.6%	42,319	8,254,310	12,247,308	67.4%
1990-91	22,743	4,255,588	6,494,976	65.5%	22,557	4,163,370	6,489,318	64.2%	45,300	8,418,958	12,984,294	64.8%
1991-92	24,264	4,534,406	6,912,524	65.6%	24,115	4,493,419	6,893,618	65.2%	48,379	9,027,825	13,806,142	65.4%
1992-93	26,196	4,907,996	7,506,596	65.4%	26,075	4,863,429	7,505,193	64.8%	52,271	9,771,425	15,011,789	65.1%
1993-94	27,503	5,340,017	7,861,363	67.9%	27,276	5,281,959	7,848,081	67.3%	54,779	10,621,976	15,709,444	67.6%
1994-95	30,499	5,883,218	8,722,397	67.4%	30,157	5,786,986	8,720,668	66.4%	60,656	11,670,204	17,443,065	66.9%
1995-96	34,403	6,549,669	9,806,262	66.8%	33,984	6,433,327	9,804,104	65.6%	68,387	12,982,996	19,610,366	66.2%
1996-97	37,432	7,065,446	10,388,365	68.0%	36,898	6,983,284	10,401,270	67.1%	74,330	14,048,730	20,789,635	67.6%
Average annual growth 1988-89 to 1996-97												
	8.4%	7.3%	7.7%		8.4%	7.5%	7.8%		8.4%	7.4%	7.8%	

Source: Department of Transport and Regional Development

TABLE 4.2: INTERNATIONAL PASSENGER MOVEMENTS FOR MAJOR MARKETS, 1996-97

Country of origin/destination	Direct passengers	Indirect passengers	Total passengers(1)	Proportion of passengers: direct	indirect	QF/BA share	AN/SQ/NZ share	All other airlines
UK	494,791	927,944	1,422,735	34.8%	65.2%	47.7%	14.9%	37.4%
New Zealand	2,138,372	67,472	2,205,844	96.9%	3.1%	42.3%	42.0%	15.7%
USA	1,049,472	288,443	1,337,915	78.4%	21.6%	48.2%	14.7%	37.1%
Malaysia	355,431	139,597	495,028	71.8%	28.2%	21.6%	21.2%	57.2%
Singapore	593,861	77,653	671,514	88.4%	11.6%	50.3%	35.7%	14.1%
Thailand	285,872	66,909	352,781	81.0%	19.0%	51.3%	10.2%	38.5%
Vietnam	65,198	44,197	109,395	59.6%	40.4%	41.3%	13.7%	45.0%
Indonesia	818,091	84,896	902,987	90.6%	9.4%	40.5%	16.8%	42.7%
Hong Kong	607,011	80,723	687,734	88.3%	11.7%	36.2%	22.6%	41.2%
China	102,887	141,924	244,811	42.0%	58.0%	33.1%	19.1%	47.9%
Korea	402,826	140,338	543,164	74.2%	25.8%	30.7%	25.1%	44.1%
Japan	1,583,198	139,760	1,722,958	91.9%	8.1%	46.7%	12.7%	40.6%
All other	na	na	3,790,854	na	na	38.2%	17.8%	44.0%
Total			14,487,720					100.0%
Per cent	79.4%	20.6%						

(1) includes charter and scheduled passenger movements.

Country of origin/destination	Direct passengers: Residents	Visitors	Indirect passengers: Residents	Visitors	Total passengers: Residents	Visitors	Market split: Residents	Visitors
UK	251,465	243,326	396,491	531,453	647,956	774,779	45.5%	54.5%
New Zealand	829,908	1,308,464	2,965	64,507	832,873	1,372,971	37.8%	62.2%
USA	611,119	438,353	86,676	201,767	697,795	640,120	52.2%	47.8%
Malaysia	152,384	203,047	52,613	86,984	204,997	290,031	41.4%	58.6%
Singapore	194,860	399,001	10,832	66,821	205,692	465,822	30.6%	69.4%
Thailand	147,715	138,157	25,268	41,641	172,983	179,798	49.0%	51.0%
Vietnam	55,305	9,893	38,255	5,942	93,560	15,835	85.5%	14.5%
Indonesia	536,301	281,790	24,950	59,946	561,251	341,736	62.2%	37.8%
Hong Kong	316,345	290,666	30,125	50,598	346,470	341,264	50.4%	49.6%
China	53,419	49,468	63,367	78,557	116,786	128,025	47.7%	52.3%
Korea	30,333	372,493	5,175	135,163	35,508	507,656	6.5%	93.5%
Japan	86,404	1,496,794	17,383	122,377	103,787	1,619,171	6.0%	94.0%
All other					1,779,696	2,011,158	46.9%	53.1%
Total					5,799,354	8,688,366	40.0%	60.0%

Source: ABS

21% and the remaining airlines 36% (see Table 4.3). Ansett International remains a relatively small player in the international market, accounting for roughly 4% of the market. These figures decrease marginally when non-revenue and charter passengers are included.

The market share of each airline and airline grouping varies depending on the route (see Table 4.2).

Freight

The volume of international air freight on scheduled services grew at an average annual rate of 8.4% per annum between 1988-89 and 1996-97 (see Table 4.4). While the majority of freight is carried on passenger flights, a growing proportion is being carried on dedicated freight services.

In 1996-97 there were seven airlines operating dedicated freight services: Asian Express Airlines, Connie Kalitta Services, Evergreen International Airlines, Federal Express, Lufthansa, Martinair and Polar Air Cargo. In addition, a number of carriers operating passenger services also operated dedicated freight services. These included Qantas, Cathay Pacific and Singapore Airlines.

Based on data provided by the Department of Transport and Regional Development, in 1996-97 the proposed alliance accounted for approximately 26% of freight movements on scheduled services, the Qantas/British Airways grouping 32% and all other carriers 42%. The market share of the Qantas/British Airways alliance has decreased steadily over the last four years, falling from 41% in 1992-93 to 32% in 1996-97. Over the same period the market share of the Alliance Carriers has increased from 19 to 26%.

4.3. Domestic aviation - passengers and freight

Passengers

Domestic passenger movements have increased over the last ten years at an average annual rate of 5.1%. A large decrease in passenger movements was experienced in 1989-90 due to the protracted strike by pilots but this was reversed in 1990-91 and 1991-92.

Revenue passenger kilometres have increased at an even greater rate over the same period, averaging 7.9% per annum. As a result the average distance flown per passenger has increased from 887 kilometres to 1121 kilometres. However, capacity offered by the airlines has increased faster still, averaging 8.2% per annum. This has resulted in the average passenger load factor decreasing from a high of 78.4% in 1991-92 to 73.4% in 1996-97. Throughout the last ten years the Qantas group has achieved higher passenger load factors than the Ansett group. By world standards passenger load factors are relatively high and approximately 5-7 percentage points above that experienced on international flights to and from Australia.

The Australian market is dominated by a handful of heavily travelled routes. In 1996-97 the top five routes accounted for almost half of total domestic traffic and the two top routes

TABLE 4.3: REVENUE PASSENGER MOVEMENTS AND MARKET SHARES, 1988-89 TO 1996-97

Year	Air New Zealand	Ansett International	Singapore Airlines	Proposed alliance	British Airways	Qantas	QF/BA alliance	All other airlines	Total
					Passenger movements				
1988-89	881,950	0	515,680	1,397,630	316,488	3,278,457	3,594,945	2,938,013	7,930,588
1989-90	860,449	0	565,437	1,425,886	336,150	3,229,792	3,565,942	3,262,482	8,254,310
1990-91	824,047	0	584,973	1,409,020	345,505	3,221,710	3,567,215	3,442,723	8,418,958
1991-92	845,551	0	610,300	1,455,851	361,025	3,464,410	3,825,435	3,746,540	9,027,825
1992-93	880,598	0	634,975	1,515,573	378,184	3,922,901	4,301,085	3,954,768	9,771,425
1993-94	1,066,271	44,893	676,472	1,787,636	398,590	4,365,307	4,763,897	4,070,444	10,621,976
1994-95	1,242,896	235,880	750,836	2,229,612	402,975	4,779,186	5,182,161	4,258,431	11,670,204
1995-96	1,426,164	404,616	867,717	2,698,497	393,729	5,063,038	5,456,767	4,827,733	12,982,996
1996-97	1,408,766	583,258	896,839	2,888,863	419,785	5,681,059	6,100,844	5,059,024	14,048,730
					Market shares				
1988-89	11.1%	0.0%	6.5%	17.6%	4.0%	41.3%	45.3%	37.0%	100.0%
1989-90	10.4%	0.0%	6.9%	17.3%	4.1%	39.1%	43.2%	39.5%	100.0%
1990-91	9.8%	0.0%	6.9%	16.7%	4.1%	38.3%	42.4%	40.9%	100.0%
1991-92	9.4%	0.0%	6.8%	16.1%	4.0%	38.4%	42.4%	41.5%	100.0%
1992-93	9.0%	0.0%	6.5%	15.5%	3.9%	40.1%	44.0%	40.5%	100.0%
1993-94	10.0%	0.4%	6.4%	16.8%	3.8%	41.1%	44.8%	38.3%	100.0%
1994-95	10.7%	2.0%	6.4%	19.1%	3.5%	41.0%	44.4%	36.5%	100.0%
1995-96	11.0%	3.1%	6.7%	20.8%	3.0%	39.0%	42.0%	37.2%	100.0%
1996-97	10.0%	4.2%	6.4%	20.6%	3.0%	40.4%	43.4%	36.0%	100.0%

Source: Department of Transport and Regional Development

TABLE 4.4: ESTIMATED REVENUE FREIGHT ON SCHEDULED SERVICES AND MARKET SHARES

Year	Air New Zealand	Ansett International	Singapore Airlines	Proposed alliance	British Airways	Qantas	QF/BA alliance	All other airlines	Total	Growth
					Tonnes					
1988-89	34,752.8		32,694.3	67,447.1	13,294.4	112,885.9	126,180.3	131,019.0	324,646.4	
1989-90	35,695.6		34,560.6	70,256.2	12,932.3	125,000.7	137,933.0	146,606.1	354,795.3	9.3%
1990-91	31,506.0		37,909.7	69,415.7	14,267.4	132,303.9	146,571.3	141,519.6	357,506.6	0.8%
1991-92	28,818.8		42,676.0	71,494.8	16,792.8	136,520.7	153,313.5	155,034.6	379,842.9	6.2%
1992-93	34,809.7		46,913.3	81,723.0	17,695.0	157,927.5	175,622.5	175,490.5	432,836.0	14.0%
1993-94	46,558.9	263.7	52,681.6	99,504.2	18,460.1	162,727.1	181,187.2	195,644.1	476,335.5	10.0%
1994-95	51,622.0	6,363.5	61,295.6	119,281.1	16,610.1	176,472.6	193,082.7	232,083.9	544,447.7	14.3%
1995-96	58,381.1	13,201.1	65,708.3	137,290.5	15,127.3	175,670.1	190,797.4	239,034.1	567,122.0	4.2%
1996-97	66,637.1	19,554.6	72,052.7	158,244.4	14,799.1	182,384.7	197,183.8	261,715.8	617,144.0	8.8%
Average annual growth	8.5%	na	10.4%	11.2%	1.3%	6.2%	5.7%	9.0%	8.4%	
					Market shares					
1988-89	10.7%	0.0%	10.1%	20.8%	4.1%	34.8%	38.9%	40.4%	100.0%	
1989-90	10.1%	0.0%	9.7%	19.8%	3.6%	35.2%	38.9%	41.3%	100.0%	
1990-91	8.8%	0.0%	10.6%	19.4%	4.0%	37.0%	41.0%	39.6%	100.0%	
1991-92	7.6%	0.0%	11.2%	18.8%	4.4%	35.9%	40.4%	40.8%	100.0%	
1992-93	8.0%	0.0%	10.8%	18.9%	4.1%	36.5%	40.6%	40.5%	100.0%	
1993-94	9.8%	0.1%	11.1%	20.9%	3.9%	34.2%	38.0%	41.1%	100.0%	
1994-95	9.5%	1.2%	11.3%	21.9%	3.1%	32.4%	35.5%	42.6%	100.0%	
1995-96	10.3%	2.3%	11.6%	24.2%	2.7%	31.0%	33.6%	42.1%	100.0%	
1996-97	10.8%	3.2%	11.7%	25.6%	2.4%	29.6%	32.0%	42.4%	100.0%	

Source: Department of Transport and Regional Development

(Sydney-Melbourne and Sydney-Brisbane) accounted for almost one third of all passenger movements.

Up until 1996-97 the Ansett group held a greater market share than the Qantas group, partly as a result of its greater share of intrastate operations. For example, in 1993-94 Ansett offered 55.6% of total available seat kilometres and held 54.4% of the revenue passenger kilometre market compared to Qantas' 42.3% share of available seat kilometres and 43.7% of revenue passenger kilometres. However, the increase in operations by Qantas affiliates, such as Airlink, has seen this imbalance addressed and in 1996-97 the Qantas group achieved a greater market share than the Ansett group while offering marginally fewer available seat kilometres.

The relative market shares are significantly different if only the main trunk routes are considered. As illustrated in the following table, Qantas has obtained a higher proportion of the top 15 trunk routes than it has of the total market while the reverse it true for Ansett. In 1993-94 the Qantas group held only 43.6% of the total market but 49.5% of the top 15 routes. By 1996-97 it had increased its share of the total market to 50.2% and its share of the top 15 routes to 52.4%.

TABLE 4.5: COMPARISON OF MARKET SHARES - TOTAL MARKET AND MAIN TRUNK ROUTES

Year	Part of market	Qantas group	Ansett group
1993-94	Total	43.56%	53.99%
	Top 15 routes	49.48%	50.52%
1996-97	Total	50.17%	49.83%
	Top 15 routes	52.35%	47.65%

Source: Department of Transport and Regional Development

There are no publicly available data relating to the proportion of domestic traffic connecting to/from an international flight so it is not possible to assess the extent to which the alliance between Qantas and British Airways has contributed to the increased market share achieved by Qantas. Anecdotal evidence suggests that approximately 10% of domestic passenger movements are associated with international passengers (either connecting with an international flight or a domestic flight taken as part of a visit to Australia by a foreigner).

Tables 4.6 and 4.7 provide a summary of domestic passenger activity between 1987-88 and 1996-97.

Freight

The volume of domestic freight fell marginally between 1987-88 and 1996-97, decreasing from 151,000 tonnes to 144,000 tonnes. While most of the major trunk routes recorded increased freight volumes the lesser routes recorded an average annual decrease in freight volumes of almost 6% (see Table 4.6).

TABLE 4.6: REVENUE PASSENGERS AND FREIGHT ON SCHEDULED DOMESTIC SERVICES, 1987-88 TO 1996-97

		Passenger movements											For 1996-97:	
City pair		1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	aag (1)	Mkt share	Cumulative
MEL	SYD	2,387,330	2,487,248	2,079,871	2,723,719	3,526,023	3,560,341	3,631,293	4,040,100	4,400,323	4,497,417	7.3%	19.2%	19.2%
BNE	SYD	1,553,797	1,718,231	1,350,789	1,860,383	2,399,730	2,346,279	2,421,076	2,654,710	2,849,221	2,909,992	7.2%	12.4%	31.6%
BNE	MEL	484,074	543,942	432,068	630,154	958,008	918,588	1,066,838	1,230,688	1,395,583	1,507,555	13.5%	6.4%	38.0%
OOL	SYD	703,024	808,213	452,480	710,844	1,044,810	1,131,600	1,210,425	1,301,449	1,386,389	1,334,768	7.4%	5.7%	43.7%
ADL	MEL	801,180	819,439	648,458	890,704	1,127,522	1,121,385	1,113,451	1,202,098	1,276,272	1,275,481	5.3%	5.4%	49.1%
ADL	SYD	489,697	505,580	429,893	528,836	711,340	733,671	839,821	927,885	988,654	979,438	8.0%	4.2%	53.3%
MEL	PER	393,929	400,231	316,297	516,096	750,895	621,056	664,551	754,598	799,585	846,376	8.9%	3.6%	56.9%
BNE	CNS	149,355	213,506	266,417	408,567	643,834	593,989	674,368	756,377	801,290	822,524	20.9%	3.5%	60.4%
PER	SYD	263,925	290,322	226,306	335,695	519,673	513,148	636,340	682,045	733,710	808,135	13.2%	3.4%	63.9%
CBR	SYD	640,977	627,302	397,147	619,267	727,697	729,306	773,651	790,288	785,941	781,064	2.2%	3.3%	67.2%
HBA	MEL	295,108	347,007	343,534	478,243	539,612	565,243	618,997	692,637	733,113	746,013	10.9%	3.2%	70.4%
CBR	MEL	436,090	416,373	310,405	446,753	523,447	531,107	592,400	659,552	685,208	666,232	4.8%	2.8%	73.2%
MEL	OOL	290,080	292,242	146,611	258,497	360,763	366,481	461,274	508,049	557,751	576,859	7.9%	2.5%	75.7%
LST	MEL	389,920	407,167	250,867	341,060	393,761	407,109	445,842	479,987	514,229	486,582	2.5%	2.1%	77.7%
CNS	SYD	58,795	74,284	67,104	131,495	223,957	238,341	313,329	379,922	446,971	472,249	26.0%	2.0%	79.7%
All other		5,620,408	5,214,149	2,645,467	3,858,160	4,125,120	4,200,153	4,533,683	5,053,518	5,051,332	4,752,195	-1.8%	20.3%	100.0%
Total		14,957,689	15,165,236	10,363,714	14,738,473	18,476,192	18,577,797	19,997,339	22,113,903	23,405,572	23,462,880	5.1%		
Annual growth			1.4%	-31.7%	42.2%	25.4%	0.5%	7.6%	10.6%	5.8%	0.2%			

		Freight movements (tonnes)											For 1996-97: Mkt share	Cumulative
MEL	SYD	32,645	36,877	22,393	29,970	27,553	28,399	34,469	36,142	39,104	42,462	3.0%	29.5%	29.5%
BNE	SYD	20,305	20,647	11,064	15,595	16,039	17,019	18,487	20,783	20,226	24,390	2.1%	17.0%	46.5%
PER	SYD	2,218	2,482	2,335	3,322	5,162	6,458	9,493	9,783	9,375	10,005	18.2%	7.0%	53.4%
MEL	PER	10,117	9,557	4,032	8,643	12,152	12,334	8,706	9,626	8,409	8,939	-1.4%	6.2%	59.7%
BNE	MEL	4,026	4,736	3,499	3,576	4,307	5,539	7,073	7,551	7,370	7,629	7.4%	5.3%	65.0%
ADL	MEL	8,696	9,034	4,074	5,806	5,802	6,166	6,701	6,906	6,511	6,613	-3.0%	4.6%	69.6%
ADL	SYD	3,699	3,597	2,579	3,191	3,546	4,159	5,046	5,852	5,653	5,567	4.6%	3.9%	73.4%
HBA	MEL	3,075	1,145	2,358	3,249	4,187	5,422	4,640	4,736	4,217	3,717	2.1%	2.6%	76.0%
BNE	CNS	497	697	956	1,677	2,079	2,640	3,091	3,355	2,475	2,619	20.3%	1.8%	77.8%
CNS	SYD	115	170	160	535	845	928	1,209	1,323	2,156	2,341	39.8%	1.6%	79.5%
LST	MEL	24,604	28,257	12,200	17,680	10,380	5,321	2,869	2,677	2,751	2,145	-23.7%	1.5%	80.9%
CBR	SYD	1,975	1,693	1,033	1,490	1,922	2,259	2,341	2,549	2,394	2,035	0.3%	1.4%	82.4%
CBR	MEL	1,717	1,370	695	792	1,130	1,349	1,616	1,813	1,827	1,875	1.0%	1.3%	83.7%
OOL	SYD	1,266	1,052	491	630	803	1,074	1,056	1,533	1,518	1,829	4.2%	1.3%	84.9%
MEL	OOL	374	512	250	306	320	477	699	801	793	891	10.1%	0.6%	85.6%
All other		35,942	31,447	18,818	21,932	21,443	21,062	22,079	24,604	22,691	20,773	-5.9%	14.4%	100.0%
Total		151,269	153,272	86,936	118,394	117,668	120,605	129,573	140,032	137,470	143,829	-0.6%		
Annual growth			1.3%	-43.3%	36.2%	-0.6%	2.5%	7.4%	8.1%	-1.8%	4.6%			

(1) Average annual growth between 1987-88 and 1996-97

Note: Domestic pilots dispute occurred during 1989-90

Source: Department of Transport and Regional Development

TABLE 4.7: DOMESTIC PASSENGER MOVEMENTS, CAPACITY AND MARKET SHARES, 1987-88 TO 1996-97

Year	Passengers on board				Revenue passenger kilometres (000)				Available seat kilometres (000)			
	Ansett group	Qantas group	Other (a)	Total	Ansett group	Qantas group	Other (a)	Total	Ansett group	Qantas group	Other (a)	Total
1987-88	7,791,973	5,969,603	1,196,113	14,957,689	6,878,645	5,725,101	664,394	13,268,140	9,283,080	7,347,776	1,013,599	17,644,455
1988-89	7,724,697	6,345,501	1,095,038	15,165,236	6,990,935	6,132,205	641,605	13,764,744	9,496,556	7,642,504	893,259	18,032,319
1989-90 (b)	5,198,838	4,548,089	616,787	10,363,714	5,057,958	4,500,253	404,700	9,962,910	7,151,797	6,116,222	542,064	13,810,082
1990-91	7,259,696	5,973,111	1,505,666	14,738,473	7,167,413	5,892,516	1,435,982	14,495,912	10,111,205	8,134,027	2,234,935	20,480,167
1991-92	8,691,004	7,626,142	2,159,046	18,476,192	8,990,348	7,864,530	2,205,051	19,059,930	11,590,305	9,592,058	3,127,403	24,309,766
1992-93	9,260,428	7,685,725	1,631,644	18,577,797	9,682,916	7,961,670	1,352,462	18,997,047	12,694,880	10,052,578	2,024,172	24,771,629
1993-94	10,796,247	8,711,385	489,707	19,997,339	11,431,508	9,220,868	462,106	21,114,482	15,229,312	11,563,375	571,994	27,364,680
1994-95	11,698,499	10,415,404	0	22,113,903	12,455,597	11,239,046	0	23,694,643	17,139,708	14,522,251	0	31,661,959
1995-96	11,879,990	11,525,582	0	23,405,572	12,776,819	12,746,330	0	25,523,149	17,694,962	16,660,591	0	34,355,553
1996-97	11,692,396	11,770,484	0	23,462,880	12,901,365	13,411,822	0	26,313,187	18,113,027	17,726,116	0	35,839,142
aag (c)	4.61%	7.84%		5.13%	7.24%	9.92%		7.90%	7.71%	10.28%		8.19%
	Market shares (per cent)											
1987-88	52.09	39.91	8.00	100.00	51.84	43.15	5.01	100.00	52.61	41.64	5.74	100.00
1988-89	50.94	41.84	7.22	100.00	50.79	44.55	4.66	100.00	52.66	42.38	4.95	100.00
1989-90	50.16	43.88	5.95	100.00	50.77	45.17	4.06	100.00	51.79	44.29	3.93	100.00
1990-91	49.26	40.53	10.22	100.00	49.44	40.65	9.91	100.00	49.37	39.72	10.91	100.00
1991-92	47.04	41.28	11.69	100.00	47.17	41.26	11.57	100.00	47.68	39.46	12.86	100.00
1992-93	49.85	41.37	8.78	100.00	50.97	41.91	7.12	100.00	51.25	40.58	8.17	100.00
1993-94	53.99	43.56	2.45	100.00	54.14	43.67	2.19	100.00	55.65	42.26	2.09	100.00
1994-95	52.90	47.10	na	100.00	52.57	47.43	na	100.00	54.13	45.87	na	100.00
1995-96	50.76	49.24	na	100.00	50.06	49.94	na	100.00	51.51	48.49	na	100.00
1996-97	49.83	50.17	na	100.00	49.03	50.97	na	100.00	50.54	49.46	na	100.00
	Seat load factors (per cent)				Average kilometres per passenger							
1987-88	74.10	77.92	65.55	75.20	883	959	555	887				
1988-89	73.62	80.24	71.83	76.33	905	966	586	908				
1989-90	70.72	73.58	74.66	72.14	973	989	656	961				
1990-91	70.89	72.44	64.25	70.78	987	987	954	984				
1991-92	77.57	81.99	70.51	78.40	1,034	1,031	1,021	1,032				
1992-93	76.27	79.20	66.82	76.69	1,046	1,036	829	1,023				
1993-94	75.06	79.74	80.79	77.16	1,059	1,058	944	1,056				
1994-95	72.67	77.39	na	74.84	1,065	1,079	na	1,071				
1995-96	72.21	76.51	na	74.29	1,075	1,106	na	1,090				
1996-97	71.23	75.66	na	73.42	1,103	1,139	na	1,121				

(a) Includes East West Airlines prior to absorbtion into Ansett group and Compass Airlines
(b) Pilots strike occurred during this year
(c) Average Annual Growth
Source: Department of Transport and Regional Development

Freight volumes are dominated by a handful of routes, with the top five routes accounting for 65% of total freight and the top 15 routes accounting for 86%.

The Ansett group carries substantially more freight than the Qantas group. In 1993-94 the Ansett group carried almost 60% of the freight on the top 15 routes and had increased this share to 63% by 1996-97.

4.4. Ticket sales

Most ticket sales to the public are made by travel agents, with the remainder sold directly by airlines. The proportion sold by each varies according to whether travel is domestic or international - more than 50% of domestic flights are sold directly by the airlines, compared to less than 10% of international flights.

Retail travel agents, including airline-owned agencies, are heavily structured into buying groups and/or franchise groups. Agent groups are themselves aligned with specific consolidators (eg by preferred consolidator arrangements) and with airlines (by preferred product policies).

Retail travel agents obtain their tickets directly from airlines and/or through an intermediary called a consolidator. Travel agents who source their tickets direct from the airlines do so via the International Air Transport Association ("IATA"). IATA is the world wide secretariat body representing airlines. It accredits travel agents to write and validate blank tickets. In Australia, IATA also administers a system for the sale of domestic airline tickets known as Domestic Agency Programme Australia ("DAPA"). An IATA/DAPA accredited agent can write tickets for passengers at the point of sale. Regardless of the means by which they acquire their tickets, travel agents receive commissions from the airlines based on the volume of sales they generate for that airline.

Consolidators negotiate with airlines for blocks of seats and sell these to travel agents. The major consolidators in Australia (excluding in-house consolidation by retail groups) are Concorde and Consolidated Travel. Wholesalers or tour operators put together air travel plus land content and promote these to travel agents and the public. Some organisations combine the three roles of travel agent, consolidator and wholesaler.

The internet is a new and developing means by which travellers can purchase airline tickets. In a number of cases, on-line booking services are simply another distribution arm of airlines or existing travel agents or agency groups. Where they are centralised and bypass individual travel agents (which is not the case for all agency group sites at present) on-line booking services are likely to provide competition to retail travel agencies as they become more widely used. With lower overheads than retail shopfronts, these services will be able to offer lower prices and, if they attract sufficient volume, may be able to get better deals from airlines and/or consolidators than travel agents.

The internet is also bringing new entrants into retail ticket sales. For example, Microsoft (in cooperation with the PBL media group and the consolidator Concorde), is expected to launch its Expedia internet travel booking service in Australia in the middle of 1998 (Australian Financial Review, 30 January 1998, p 15) and a site developed by Yahoo! Australia in conjunction with *travel.com.au* combines flight information with other travel-related products such as car hire and hotel bookings (Australian Financial Review, 9 March 1998, p 5).

In addition, internet technology is an avenue by which the airlines may be able to increase the number of tickets they sell directly to consumers. At present neither Ansett or Qantas offer on-line booking services.

The extent to which on-line ticket sales will increase competition in retail ticket sales will depend, however, on the extent to which consumers value the personalised value-added service and advice provided by travel agents.