

SUBMISSION OF QANTAS AIRWAYS LIMITED

PROPOSED REAUTHORISATION OF THE STAR ALLIANCE CORPORATE PLUS & CONVENTIONS PROGRAMS

27 April 2007

INTRODUCTION

1. Singapore Airlines Limited, on behalf of itself and all the current Star Alliance members (collectively, the **Star Alliance Members**), has applied to the Australian Competition and Consumer Commission (the **Commission**) to renew the authorisations previously granted on 4 September 2003 for the Star Alliance Corporate Plus and Conventions Plus programs.¹
2. Qantas Airways Limited (**Qantas**) agrees with the view previously expressed by the Commission that marketing alliances such as the Star Alliance and **oneworld** offer consumers a range of benefits including more seamless travel and expanded loyalty programs.² Qantas therefore does not oppose the Star Alliance applications on the basis that **oneworld** airlines should also be able to conduct joint corporate dealing in the future.
3. Against this general background, Qantas' submission will address the following specific issues raised in the Star Alliance Submission:
 - (a) **oneworld** and the benefits of global alliances;
 - (b) the Australian domestic market;
 - (c) market shares; and
 - (d) clarification of public benefits.

GLOBAL ALLIANCES

4. Qantas agrees that global alliances offer benefits to consumers and allow alliance members to generate economies of scale and scope by "exploiting the 'hub and spoke' form of organisation, integrating their respective networks and sharing ground facilities".³ This is particularly important in circumstances where many large corporate customers will now routinely seek global travel programs from the airlines they elect to deal with.
5. In this context, the Star Alliance Submission notes that **oneworld** advertises the existence of its Global Corporate Program on its website. However, the Commission should be aware that the **oneworld** carriers in Australia do not currently coordinate prices, discounts or bids in a similar fashion to Corporate Plus or Conventions Plus (other than has

¹ A30209 - A30213 (inclusive)

² *Commission Final Determination in respect of the Restated Joint Services Agreement between Qantas and British Airways Plc*, 8 February 2005 at [4.45]

³ Star Alliance Submission at [4.7.1]

provided for under the Restated Joint Services Agreement (or RJSA), which is limited to Qantas and British Airways).

6. To the extent that oneworld carriers contemplate introducing similar joint product offerings in Australia in the future, Qantas expects the Commission to give similar weight to the associated consumer and competition benefits.

AUSTRALIAN DOMESTIC MARKET

7. The Star Alliance Submission asserts that over the past 6 years, since the demise of Ansett, Virgin Blue has been "... unable to rival Qantas in an overall sense in terms of services and in particular in terms of domestic feed, brand recognition, market strength, incentive schemes and customer loyalty and goodwill." Elsewhere, the Star Alliance Submission also refers to Qantas as "the dominant local domestic airline".⁴
8. In *Boral Besser Masonry Limited v ACCC* [2003] HCA 5 the High Court made a number of observations in relation to market power, which Qantas broadly equates to market dominance. These included:⁵

"The essence of power is absence of constraint..

Power, that is, the capacity to act without constraint, may result from a variety of circumstances. A large market share may, or may not, give power. The presence or absence of barriers to entry into a market will ordinarily be vital...

A firm ... possesses market power when it has the ability to sustain a pricing policy or the terms on which it supplies its product without regard to market forces of supply and demand."

9. Based upon these definitions, Qantas rejects any assertion that it (or any other airline) is "dominant" in the highly contestable market for air passenger services in Australia. Only recently this contestability has been highlighted by the announcement that Tiger Airlines will be commencing operations in the Australian domestic passenger market before the end of 2007.⁶ As Singapore Airlines owns 49% of Tiger it is also possible that Tiger may provide domestic feed to the Star Alliance members.
10. Furthermore, any suggestion that Virgin Blue is not able to offer a credible competitive alternative to Qantas (and Jetstar) within the Australian domestic market across the full spectrum of passengers cannot be supported on the facts. Virgin Blue is a well funded company that has operated successfully in Australia since its launch in 2000. Virgin Blue is a subsidiary of Toll Holdings Limited, a company larger than Qantas. In February 2007 it announced a net profit after tax of \$124.3 million for the six months to 31 December 2006, up 80.9% on the previous period.⁷

⁴ Star Alliance Submission at [7.2.3] and [7.1.2]

⁵ At [121], [137] and [264]

⁶ "Tiger Airways Applies to Operate New Low Fare Domestic Australian Airline", Media Release, 8 February 2007.

⁷ "Virgin Blue announces \$124.3m half year profit", Media Release, 21 February 2007.

11. It is clear that Virgin Blue is a vigorous competitor of Qantas and Jetstar for Australian domestic passengers, regardless of their purpose of travel, with strong brand recognition, a well established market presence and (most importantly) no barriers to its expansion. As the Star Alliance Submission itself acknowledges, Virgin Blue has grown to carry around 35% of the Australian domestic air passenger market and it recently announced a range of aircraft acquisitions including:
- (a) firm commitments for 11 Embraer 190 and 3 Embraer 170 jet aircraft (and options for 6 additional Embraer aircraft), which have flying ranges from Sydney to anywhere in Australia (with one exception), with deliveries commencing in 2007;⁸ and
 - (b) firm commitments for 6 Boeing 777-300ER aircraft and options for 6 additional Boeing aircraft.⁹
12. Since late November 2005, when Virgin Blue re-defined its approach as being the development of a "new world carrier", Virgin Blue has also taken active steps to introduce a number of strategic and valuable innovations that serve to increase the breadth of Virgin Blue's appeal to passengers across its network, particularly corporate or business travellers.
13. In making its profit announcement for the six months to 31 December 2006, Virgin Blue noted that completing its airport lounge upgrades, "... combined with an increasing update of new Corporate Traveller fares, Velocity frequent flyer programme, Self Check kiosks and Web Check continue to increase the airline's appeal to the business traveller market, contributing to a 16.7% improvement in revenue on a 3.4% increase in production."¹⁰
14. Virgin Blue's dedication to corporate or business travel is also evident in the continued growth of its dedicated corporate sales force and the growing number of companies signing up to its corporate travel contracts.

MARKET SHARE DATA

15. The Star Alliance Submission emphasises that the oneworld alliance is "dominant" in most of the international regional markets to and from Australia it considers. This appears to be based on market share statistics calculated by the Department of Immigration and Multicultural Affairs for the period 1999/2000 and 2005/2006 that compare the market shares of the Star Alliance, oneworld and other airlines.
16. In this regard, Qantas makes the following submissions:
- (a) Given the oneworld carriers in Australia do not currently coordinate prices or bids in a similar fashion to Corporate Plus or Conventions Plus, it is not appropriate or accurate to represent the combined market shares of the oneworld carriers in the Star Alliance Submission as though these carriers engaged in coordination

⁸ "Virgin Blue orders 20 Embraer 'E-Jets'", Media Release, 2 November 2006.

⁹ "Virgin Blue announces multi billion dollar aircraft deal", Media Release, 21 March 2007

¹⁰ See n7

similar to that foreshadowed by Corporate Plus and Conventions Plus. Instead, a more accurate competition analysis would examine the **oneworld** carriers individually, with the exception of Qantas and British Airways under the RJSA.

- (b) Whilst Qantas and British Airways may have a higher collective market share in certain regional markets, the Commission should also remain aware that the Star Alliance is the world's largest airline alliance. Even individually, the majority of Star Alliance Members are each significantly larger than Qantas, with a broader network and greater resources. As a result, the assertion of **oneworld** "dominance" should be subject to careful scrutiny.
- (c) As the Commission itself has recognised, "... while market share is an important element of any competition assessment, it does not necessarily reveal (in and of itself) that firms holding such positions will be able to act the detriment of the competitive process."¹¹ Qantas does not believe that in relation to [most] of the regional markets identified it (or the **oneworld** alliance) could be considered "dominant" in this sense, regardless of market share statistics.

PUBLIC BENEFITS

- 17. There are certain anomalies or inconsistencies within the Star Alliance submissions regarding the public benefits associated with the Corporate Plus and Conventions Plus programs that need to be addressed.

Co-ordinated Schedules

- 18. The Executive Summary to the Star Alliance Submission asserts that authorisation will allow customers to benefit from "coordinated schedules across a broader network (creating savings in the time spent waiting for connecting flights at hub airports)."¹² However, neither section 3 (Outline of the Star Alliance Arrangements) or section 11 (Public Benefits) make any reference to the concept of schedule co-ordination.
- 19. As far as Qantas is concerned, schedule coordination between Star Alliance Members (if it amounts to market sharing) would represent a significant departure from the arrangements previously authorised. If the Corporate Plus and Conventions Plus programs now intend incorporating schedule coordination, this should be addressed explicitly and in some detail in supporting submissions, along with a proper articulation of any associated public benefits.

Local Star Alliance Presence

- 20. When seeking the previous authorisation of the Corporate Plus and Conventions Plus programs in 2003, the Star Alliance Members argued that they were at a competitive disadvantage in Australia because there was no aligned Star Alliance domestic carrier in Australia following the collapse of Ansett. This meant the Star Alliance was at a competitive disadvantage through lack of direct local feed, which the authorisation would

¹¹ *Commission Draft Determination in respect of the Tasman Networks Agreement between Qantas and Air New Zealand (the TNA Draft Determination)*, 6 November 2006 at [9.15]

¹² Star Alliance Submission at 1

help address to some degree. The same argument continues to be articulated in the Star Alliance Submission in 2007.

21. Qantas submits this is not a strong public benefit for the following reasons:
 - (a) Qantas' domestic passengers can always elect to fly internationally with Qantas, another **oneworld** carrier, a Star Alliance carrier or any other airline. These passengers are not "off limits" to Star Alliance carriers..
 - (b) In the period from 2003 to 2007, Virgin Blue has continued to expand its share of Qantas domestic business, corporate and leisure passengers. Depending upon the terms of Virgin Blue interline agreements, these passengers are free to undertake international travel with any airline and Virgin Blue is not associated with any of the global marketing alliances. Virgin Blue has also had interline arrangements with United Airlines over time.

CONCLUSION

22. For the reasons set out above Qantas does not oppose the Star Authorisation provided there is a level playing field in the event that **oneworld** sought a similar authorisation.

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