



Emirates– Further Submission on Public Benefits

1. Introduction and Purpose of Submission

The purpose of this submission is to update the Commission on several matters relating to the Commission's assessment of the public benefits associated with the Applications for Authorisation lodged by Emirates and Qantas. In particular, Emirates wishes to take this opportunity to update the Commission on the public benefits associated with authorisation of the Proposed Conduct associated with the Master Coordination Agreement ("MCA"), that have arisen since interim authorisation was granted by the Commission on 17 January 2013. Emirates also wishes to respond to certain submissions recently lodged with the Commission.

2. Context of Further Submission on Public Benefits Assessment

Since the Commission issued its draft determination on 20 December 2012, the Commission has permitted the Applicants pursuant to the interim authorisation, to commence implementation in Australia under the MCA, thereby providing additional certainty and evidence as to the public benefits that arise under the Applications.

Specifically, the submissions of Qantas and Emirates of 22 February 2013 in relation to third party submissions lodged after the Commission's draft determination and pre-decision conference have provided additional context in which the Commission can assess public benefits.

3. Response to Australian and International Pilots Association Submission

Emirates notes the general question raised by the submission from the Australian and International Pilots Association ("AIPA") dated 8 February 2013 as to the alignment of incentives between Emirates and Qantas under the MCA. The Applicants have responded to that submission and trust that the response addresses AIPA's reservations on commercial alignment and also AIPA's concern as to the impact of the MCA on growth and employment at Qantas. The Applicants see the MCA as being positive, not negative, in respect of these matters.

Emirates also wishes to expressly note its continued work with Australian pilots. Emirates believes this work will be further enhanced by the cooperation with Qantas and Australian pilots will have improved career prospects within the greater combined network and closer relationship between the Applicants that arises as a direct result of the MCA.

In particular, Emirates intends over time to seek to improve its furlough programme with Qantas pilots as a result of the MCA. Emirates gives the option to Qantas pilots of joining Emirates on a leave without pay scheme, which involves Qantas pilots who are successful in the Emirates selection process, being offered First Officer positions in Emirates for a 3 year period. At the 3 year point, the relevant pilots will be given the opportunity to permanently join Emirates or return to Qantas. As

Qantas and Emirates work together under the MCA, Emirates anticipates further opportunities and enhancements of this programme may become available with Emirates.

In summary, working in close cooperation with Emirates under the MCA, brings a much larger network and greater global career opportunities for Australian pilots than Qantas on its own could bring. Accordingly, in the view of the Applicants, enhanced career opportunities for Australian pilots and therefore additional public benefits will arise as a result of the MCA.

4. Substantial public benefits are being derived as a result of the MCA as evidenced since the interim determination

Emirates wishes to provide the Commission with further information in relation to the nature and extent of public benefits that arise as a result of Qantas and Emirates working together in terms of new frequencies, direct services and destinations, as well increased capacity growth under the MCA. Emirates believes that these matters, in conjunction with the other benefits discussed in this submission, mean that the MCA will in fact deliver material and substantial public benefits greater than the Commission accepted at the time of the draft determination.

Emirates acknowledges that these additional matters, arising from the Applicants' working together as a result of the interim authorisation and the continued addition of capacity, may now be able to be given greater weight by the Commission. Given the positive relationship between capacity and pricing this should give the Commission additional comfort on the attainment of public benefits arising from the MCA. Emirates believes that these matters now greatly assist in providing actual evidence of the benefits of the Applications and should also alleviate some of the Commission's concerns in the draft determination as to possible detriments.

4.1 Enhanced Products and Services

(a) *Consumer take up of services with Qantas and Emirates given new connectivity under the MCA*

The Commission identified in its draft determination that it was likely that there would be increased access to existing frequencies and destinations for customers who wish to fly Emirates and Qantas. This has indeed transpired across most of the combined networks (it is not possible to book some services to some destinations in the absence of regulatory approvals). To underline the positive consumer impact of the cooperation, within the first three weeks of codesharing selling post interim authorisation being granted, Emirates and Qantas shared in excess of 160,000 sector bookings between the two airlines. However, not only has there been very strong consumer take up, but the new connectivity available to Australian consumers is able to be demonstrated by comparative increases benefiting Qantas as a result of the cooperation with Emirates. The Qantas CEO, Alan Joyce at the Qantas half year results on 20 February made the following comments:

"We are seeing an overwhelming reaction to the Emirates, Qantas relationship. The first week was extremely good but we think there was obviously pent-up demand. In the second week, it was five times the bookings that we achieved in the previous year with the code share agreement with British Airways.

As I mentioned, some destinations which we weren't competitive in before, like Milan, we've now sold 17 times what we sold last year. In places like Barcelona, 10 times as much. These are phenomenal numbers and even markets that we weren't selling, like Gatwick, was one of our best performers, so we're very happy with the initial stages. It's early days. We'll update people as it's performing, but it just shows you people's reaction to these two great brands working together."

The recent submission by the Australian Licensed Aircraft Engineers Association ("ALAEA") referred to Qantas' continued participation in the oneworld alliance so as to essentially argue that the benefits under the MCA were illusory. Not only does the ALAEA submission not recognise the differences with the level of integration between a marketing alliance such as oneworld compared with the MCA, but it unintentionally highlights the positive benefits of the MCA over and above the position under a marketing alliance. Please see the submission of the Applicants of 22 February 2013 in relation to metal neutrality that arises under the MCA. Indeed it is instructive to see that the level of integration under the MCA between Qantas and Emirates and in particular the fundamental concept of treating each others customers as their own, has resulted in such a positive consumer take up in contrast to that which existed previously for Qantas.

(b) Increases in Capacity

As Emirates has already announced on 19 February 2013, the Qantas and Emirates cooperation has enhanced Emirates' confidence in increasing capacity on its flights between Dubai and Perth. Emirates will be upgrading one of its three-daily Perth-Dubai services from the 777-200LR to the larger 777-300ER starting 2 June 2013. This will result in an increase in the number of seats between Perth and Dubai of 64,240 seats per year (two-way).

The aircraft upgrade will also result in an increase in cargo capacity of 4 tons per flight each way (2,920 tons per year both ways).

Emirates will also be upgrading one of its three-daily Sydney-Dubai services from 777-300ER to its flagship A380 starting 2 June 2013 which will mean that both of Emirates' nonstop services from Sydney to Dubai will be operated by the A380 (which means that in aggregate there will be 3 nonstop A380 services from Sydney including Qantas). Not only does this aircraft upgrade result in an additional 98,550 seats between Sydney and Dubai per year (two-way), more passengers will be able to enjoy the improved onboard product in all cabins (showers in First class, the bar and lounge in Business Class and wider seats in Economy Class).

The above aircraft upgrades will result in a 5% increase in the total number of seats that Emirates will offer between Australia and Dubai. Further increases in capacity between Dubai and Australia are being evaluated as the cooperation between Qantas and Emirates deepens in the coming months. These increases in capacity since the interim authorisation was granted should provide the Commission with additional comfort as to Emirates and Qantas delivering public benefits under the Applications.

4.2 Increased connectivity in terms of significant number of complementary long haul journeys

The Commission identified in the draft determination that there were likely to be public benefits arising from the increased connectivity that arises from complementary long-haul journeys. As it is noted above, evidence of the strong take up of customers by Qantas and Emirates since selling has been permitted under the interim authorisation, supports the Commission's analysis of the benefits of increased connectivity arising from the MCA. Indeed, at the half year results presentation, the Qantas CEO Alan Joyce stated:

"Qantas Frequent Flyers, Qantas' Asia-Pacific network, Emirates' European and Middle Eastern network, they complement each other. They work very well with each other. We're seeing the initial stages of this being an unbelievable partnership."

The complementary nature of the Emirates and Qantas networks and schedules (eg. Emirates does not have afternoon flight departures from Sydney and Melbourne) and the additional connectivity that they bring together, is demonstrated by the substantial consumer take up. Further examples of increased connectivity that would not arise in the absence of the MCA are highlighted in section 4.6 of this submission.

Emirates has noted the submission from ALAEA questioning whether the MCA has provided Qantas passengers with better connections. Emirates again points to the strong customer take up that has arisen. Emirates also notes that although the Commission granted an interim authorisation in January, much of the scheduling had already occurred for this current northern hemisphere season such that the connection times are not yet optimised. With the granting of the interim authorisation, Emirates expects these connections to be further improved (and this would be the case if final authorisation is granted). The ALAEA also does not appear to appreciate that under the MCA, Qantas benefits from customers travelling on the trunk routes on Emirates or Qantas metal such that the criticism on connection times in relation to Qantas operated flights returning to Australia is misplaced, in addition to it focussing on a temporary position that will be improved.

A more straightforward example of benefits in connections arising from the MCA is as follows:

From Syd	Pre 31 March			Post 31 March		
	Comments	ET	Stops	Comments	ET	Stops
MAN (Manchester)	QF/BA (via LHR)	26.30	2	QF/EK (via DXB)	24.35	1
MXP (Milan)	QF/BA (via LHR)	27.25	2	QF/EK (via DXB)	24.20	1
CDG (Paris)	QF/BA (via LHR)	28.05	2	QF/EK (via DXB)	25.35	1

4.3 Competitive response from rivals

In the draft determination, the Commission was not able to quantify the benefits that arose from the competitive reaction from rivals, but Emirates believes that this in fact delivers a significant additional benefit to Australian consumers. Emirates believes that this competitive response is being provided not just from European carriers (for example the introduction of a new BA-Cathay code share), but also from Asian carriers. Since the draft determination, Qantas has announced changing the scheduling of its Asia focussed flights and increased capacity to better and more directly compete with Asian based competitors as well as ensuring that its A330 fleet is modernised. Competitive responses have occurred from Garuda, Cathay Pacific, Malaysia Airlines and Etihad to name just some airlines that have publicly commented on adding new frequencies with modern or upgraded aircraft.

In particular, since the 30 November and 6 December 2012 submissions, there have been further competitive responses announced including:

- Etihad Airways deploying additional passenger and freight capacity on the Abu-Dhabi–Melbourne route, as well as up-grading to the Boeing 777-300ER on daily services from the smaller 292 seat Airbus A340;
- Garuda Indonesia launching daily Jakarta–Perth services with a B737-800;
- Malaysia Airlines on 11 March 2013 announced it is increasing its Kuala Lumpur–Brisbane services from 5 services a week to daily from 20 June 2013;
- The announcement of a codeshare arrangement between British Airways and Cathay Pacific between Australia and London via Hong Kong to add to British Airways services via Singapore; and
- Malaysian Airlines announced the increase of its daily flights from Sydney to Kuala Lumpur to an A330-300 from 7 March 2013 and that it will become double daily from 1 April 2013.

Qantas has increased its overall dedicated capacity to Asia as well as retimed the frequency of flights to Asia to focus on Asia as a destination. This has in turn seen competitors react to the challenge of Qantas focussing on Asia as a destination and not as a transit stop. This increased competition on flights between Australia and Asia is good for consumers in terms of now having the additional benefit of new schedules for consumers focused on travelling to

Asia as a destination, as well as the competitive response from competitors seeking to compete with Qantas and bringing forward more modern aircraft and increased frequencies.

4.4 **Enhanced crisis management response**

On 22 February 2013, Emirates provided the Commission with additional detail on the enhanced crisis management response that Emirates and Qantas can bring to the benefit of the Australian public and the Australian Government.

The ALAEA submission dated 13 March 2013 makes several comments on enhanced crisis management to the effect that it would have occurred anyway. Emirates notes that the ALAEA does not appreciate that as a result of the MCA, Emirates will work with Qantas and the Australian government for the benefit of Australian citizens, in a manner that would not occur in the MCA's absence due to the level of coordination that is now possible between the airlines, and in particular the increased coordination through the Emirates network around the MENA region.

4.5 **Stimulation of employment and trade**

At paragraphs 206-219 of the draft determination, the Commission discussed the Applicants' claim that the MCA would stimulate Emirates' growth and expansion in Australia. Leaving aside Emirates' position itself, Emirates believes that the Commission may not have fully taken into consideration the increased freight that Emirates brings to Australia in terms of its large planes (eg. the B777-300ER Emirates upgrade to Perth) and its extensive complimentary network to that of Qantas that provides increased export opportunities for Australian producers globally and in particular in the MENA region. As an example, Emirates has assisted many of New Zealand's agriculture and dairy industries in their exports and believes that the additional capacity and frequency that Emirates provides to global destinations is positive for Australian employment, agriculture and export focussed businesses in general. Indeed this is consistent with paragraph 195 of the Commission's draft determination in relation to trade and Emirates believes that such increased trade will also stimulate Australian employment. In 2012, Emirates carried over 5,500 tonnes of chilled export grade new Zealand seafood, meat, dairy and seasonal produce from Auckland and Christchurch for its 10 leading customers in New Zealand. Similar exports from Australia in the future may be significant in terms of stimulation of exports of premium agricultural products to the Middle East and therefore increased employment associated with those products in rural sectors of Australia.

4.6 **Stimulation of Tourism**

The Commission noted in the draft determination that the MCA had the potential to increase tourism and trade. Emirates submits that the evidence of the combined 160,000 sector bookings made within the first three weeks of codeshare selling commencing post interim

authorisation being granted (as noted earlier in this submission), indicates that the MCA will indeed provide greater opportunities for inbound tourism.

Emirates also believes that its continued increase in capacity to Australia as noted earlier in this submission, will improve tourism as will enhanced connectivity between Qantas, Jetstar and Emirates. As an example of such increased connectivity, following the interim authorisation, Emirates is now working closely with Jetstar and the parties are jointly working on improving the connectivity between the two airlines in the Asia-Pacific. This will involve a significant reduction in travel time between Dubai and Darwin via Singapore, which will greatly assist the ability of Qantas and Emirates to attract inbound tourism to the Northern Territory. It will also improve the convenience for Darwin-based customers travelling to the Middle East and Europe.

19 March 2013