



Australian Government

International Air Services Commission

Dr Richard Chadwick
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Australian Competition and Consumer Commission
GPO Box 3131
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Dear Dr Chadwick

QANTAS AND CHINA EASTERN – APPLICATIONS FOR AUTHORISATION

Thank you for your letter of 19 November 2014 inviting comments on the application for authorisation from Qantas Airways Limited (Qantas) and China Eastern Airlines (China Eastern) to coordinate their operations between Australia and China pursuant to a Joint Coordination Agreement. The International Air Services Commission (IASC) appreciates the invitation to comment.

Use of Australian capacity in joint services

Australian carriers cannot use the capacity allocated to them by the IASC in joint services with other airlines without prior approval from the IASC. The IASC considers joint services applications in accordance with the *International Air Services Commission Act 1992* (the Act) and the public benefit criteria set out in the Minister's Policy Statement of May 2004. Paragraph 3.6 of the Minister's Policy Statement provides as follows:

Where capacity that can be used for code share operations is available under air services arrangements, including where foreign airlines have rights to code share on services operated by Australian carriers, the Commission would generally be expected to authorise applications for use of capacity to code share. However, if the Commission has serious concerns that a code share application (or other joint service proposal) may not be of benefit to the public, it may subject the application to more detailed assessment using the additional criteria set out in paragraph 5 (whether the application is contested or not). Before doing so, the Commission will consult with the Australian Competition and Consumer Commission.

In assessing an application to use capacity for joint services, the IASC makes a decision with the view to achieving the object of the Act which is to enhance the welfare of Australians by promoting economic efficiency through competition in the provision of international air services, resulting in:

- (a) increased responsiveness by airlines to the needs of consumers, including an increased range of choices and benefits; and
- (b) growth in Australian tourism and trade; and
- (c) maintenance of Australian carriers capable of competing effectively with airlines of foreign countries.

Australia - China route

Currently, Qantas is the only Australian carrier allocated capacity by the IASC on the China route pursuant to the following determinations:

- [2007] IASC 110 allocating unlimited freight capacity valid until 23 October 2018;
- [2011] IASC 1143 allocating 2,170 seats of capacity per week valid until 24 August 2016. This determination permits the use of the capacity by an Australian carrier which is a wholly-owned subsidiary of the Qantas Group; and
- [2013] IASC 125 allocating 2,301 seats of capacity per week valid until 1 March 2019. This determination permits the use of the capacity to provide services jointly with China Eastern. (Copies of the above determinations are available on the IASC website¹.)

The permission (by the IASC) for Qantas to use the allocated capacity in joint services with China Eastern is based on the following conditions:

- The permission is in accordance with the code share agreement between Qantas and China Eastern dated 9 July 2008, as amended on 26 March 2013 (or any subsequent code share agreement subject to prior approval of the IASC);
- Qantas must price and sell its services on the route independently of China Eastern;
- Qantas must not share or pool revenues on the route with China Eastern.

As indicated by Qantas in its application for authorisation submitted to the ACCC, the current code share agreement between Qantas and China Eastern (which is the basis for approval of joint services in IASC Determination [2013] IASC 125) provides for freesale code share on the following services:

- domestic flights within China operated by China Eastern;
- domestic flights within Australia operated by Qantas;
- Qantas-operated flights between Australia and New Zealand; and
- Qantas-operated flights between Singapore and Brisbane/Melbourne/Sydney.

Block space code share applies to the following services:

- China Eastern-operated flights between Shanghai and Melbourne (and vice versa); and
- Qantas-operated flights between Sydney and Shanghai (and vice versa).

The airlines do not code share on China Eastern operated flights between Shanghai and Sydney.

The IASC notes that the proposed Joint Coordination Agreement sought to be authorised by Qantas and China Eastern will result in the transition of the existing block space arrangements (as they apply to Qantas-operated Sydney-Shanghai services and China Eastern-operated Melbourne-Shanghai services) to a freesale codeshare. Additionally, the China Eastern operated service between Shanghai and Sydney (not currently part of the code share arrangement) will be part of the freesale code share arrangement.

Should the ACCC authorise the Qantas-China Eastern Joint Coordination Agreement, the IASC will have to review the relevant determinations issued to Qantas applying the relevant criteria in the Act and the Minister's Policy Statement.

The IASC further notes that in addition to China Eastern, Qantas also code shares, as marketing carrier, on flights operated by China Southern Airlines (China Southern) between Australia and Chinaⁱⁱ. The code share arrangement on this route does not require IASC approval as the services do not require the use of Australian capacity.

The passenger traffic between China and Australia continues to grow, averaging over 13 per cent growth per annum in the last five years. China is currently the 4th largest country for origin/destination passenger traffic to/from Australia with 2.54 million passengers in the year ended September 2014. In terms of country of uplift and discharge (U/D), China ranks 8th among Australia's top ten U/D countries, with over 1.64 million international passengers either boarding from or disembarking in that country on single flight number services.ⁱⁱⁱ

Qantas' share of Australia-China traffic has been declining steadily in the last five years, from 26 per cent in 2009 to 13.6 per cent in 2013. This was a period where its recent codeshare partner China Southern added substantial extra capacity. This current application can be observed in the context of the market adjusting to that period of changing capacity share. It is useful to note that about 28 per cent of the Australia-China traffic that Qantas carries travels on its Hong Kong services^{iv}. Qantas maintains an alliance partnership with Dragonair over Hong Kong through the oneworld alliance.

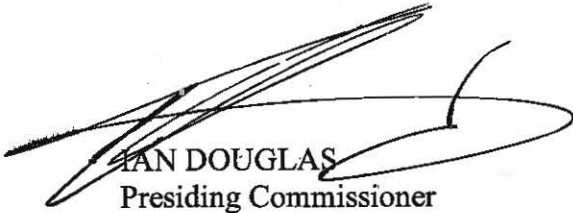
While the China market has grown steadily, no Australian carrier has participated directly in this growth. Qantas has not expanded beyond its single daily service to Shanghai. Jetstar International withdrew its daily services between Melbourne and Beijing via Singapore at the end of November 2013. Virgin Australia has not applied for capacity to operate services on the China route. It currently achieves its presence on the route through its code share arrangements with Singapore Airlines.

In the absence of growth for own operated services, Qantas' code share arrangements with two of China's biggest airlines (both Skyteam members) are expected to allow Qantas to sustain a competitive position in the growing Australia-China market.

Contact details

Should you wish to discuss this submission, we would be happy to meet with you at a mutually convenient time. Alternatively, you may wish to contact the IASC Executive Director, Ms Marlene Tucker, on 02 6267 1107 or via email at Marlene.Tucker@infrastructure.gov.au.

Yours sincerely



IAN DOUGLAS
Presiding Commissioner



JOHN KING
Commissioner

16 December 2014

ⁱ http://www.iasc.gov.au/determinations_decisions/index.aspx

ⁱⁱ International Aviation Timetable Summary, www.infrastructure.gov.au

ⁱⁱⁱ Bureau of Infrastructure, Transport and Regional Economics.

^{iv} Bureau of Infrastructure, Transport and Regional Economics.