



Chief Executive Officer

19 December 2014

Tanya Hobbs
Australian Competition and Consumer Commission

Qantas Airways & China Eastern Airlines applications for authorisation A91470 & A91471

Dear Ms Hobbs

Austrade welcomes the opportunity to provide a submission to the Australian Competition and Consumer Commission's (ACCC) inquiry into Qantas Airways (Qantas) and China Eastern Airlines' (China Eastern) application to coordinate their operations between Australia and China. As part of the national long-term tourism strategy, *Tourism 2020*, the Australian Government is committed to working with industry to double overnight visitor expenditure to between \$115 billion and \$140 billion by 2020. Improving tourism access and ensuring the transport environment supports visitor growth, particularly from key markets in Asia, is a central part of this agenda.

In this context, Austrade's submission to the ACCC's inquiry, which I have enclosed, highlights:

1. The importance of China across all of Austrade's portfolio interests – tourism, international education and trade;
2. The importance of aviation links and connectivity to ensuring growth in trade and investment continues; and
3. Any reduction in connectivity between Australia and China brought about by the proposed partnership would harm Australia's competitiveness and attractiveness as a destination for travel, education and business.

Should you have any questions or queries about Austrade's submission, please contact Sean Jenner, the Manager of the Tourism Transport and Access section on [REDACTED] or [REDACTED]

Yours Sincerely

Bruce Gosper

Encl.

Qantas and China Eastern's application to coordinate their operations between Australia and China

Austrade welcomes the opportunity to provide a submission to the ACCC's inquiry into Qantas and China Eastern's application to coordinate their operations between Australia and China.

Austrade is responsible for leading the Australian Government's implementation of the national long-term tourism strategy, *Tourism 2020*, which seeks to double overnight visitor expenditure to between \$115 billion and \$140 billion by 2020. A key pillar of *Tourism 2020* is ensuring the tourism transport environment supports growth. Modelling predicts that Australia requires an additional 3 million operated inbound seats by the end of the decade to cater to an additional 2 million international visitors.

China's value to Austrade's portfolio interests

Austrade has a strong interest in this application based on China's importance across Austrade's portfolio responsibilities. China is Australia's most important inbound tourism market, largest international education market and a growing source of investment. Further, China is Australia's largest two-way trading partner, with strong trade links set to continue in the wake of the recent conclusion of successful Free Trade Agreement discussions.

Fundamental to achieving the *Tourism 2020* expenditure objective is continuing to grow visitation from key international markets, particularly in Asia. Since 2010-11, China has been Australia's largest inbound tourism market by value. In 2013-14, the total inbound tourism expenditure (TITE) from China was \$4.8 billion, up 15.7 per cent on the previous year. The Tourism Forecasting Committee (TFC) forecasts that TITE from China will grow to reach \$8.5 billion by the 2019-20 financial year.

During 2013-14, nearly 760,000 Chinese travellers visited Australia, ranking it Australia's second largest market by volume. This was an increase of 10.5 per cent on the previous year. Australia has experienced an annual average growth rate of 18.6 per cent from the China market since 2009-10, significantly above Australia's average annual growth rate of 4.4 per cent over the same period.

This strong growth is set to continue with visitor arrivals from China forecast to grow 8.4 per cent annually to 2019-20. Aviation connectivity is paramount to the objective of growing Australia's share of the world's largest outbound travel market.

China is also Australia's number one ranked education export market, with Chinese students accounting for 27 per cent. In 2013-14, there were over 150,000 Chinese enrolments (continuing students) at Australian institutions, more than any other nationality. Visa grants are seen as a leading indicator for near-term growth of international students studying in Australia. During 2013-14, Australia granted 60,315 student visas to travellers from China, up 12 per cent on the previous year, also more than any other nationality.

Finally, China is Australia's largest two-way trading partner. China is Australia's largest export destination for both goods and services, accounting for nearly a third of total exports. It is our largest export market for agriculture, resources and services, and it is a growing source of investment. Overall, China accounts for nearly 24 per cent, or \$160 billion of all Australian imports and exports. The recently concluded free trade agreement will see this continue, and lays the foundation for the next phase of Australia's economic relationship with China.

Positive impact of the proposed arrangement

Austrade supports airline cooperative arrangements, such as that proposed between Qantas and China Eastern, as they have the potential to improve the efficiency and sustainability of airline operations. Qantas and China Eastern may pass cost efficiencies and operational savings to travellers in the form of cheaper fares. If this eventuates it will make Australia a more affordable and attractive destination for Chinese travellers.

Such arrangements can also give airlines increased flexibility to respond to public demand, allowing airlines to offer consumers a wider choice of fares, frequencies and connections than would otherwise be available. Further, cooperative arrangements allow both Australian and foreign carriers to maintain a presence in markets where it may not be commercially viable for them to operate services in their own right.

The proposed arrangement between Qantas and China Eastern will expand the networks of both airlines, allowing Chinese travellers seamless access to more destinations in Australia on a single ticket. This enhanced passenger experience will make Australia a more competitive destination for Chinese travellers, and assist in dispersal of Chinese travellers and the economic benefits of tourism to regional Australia. The arrangement may also allow Qantas to sell tickets to Australia originating from second and third tier Chinese cities, allowing it to broaden its Chinese consumer catchment.

Given the importance of China across the agency's portfolio interests, Austrade would support any initiative that may significantly improve connectivity between the two countries. Increased direct, seamless and convenient aviation links will make Australia a more competitive destination to Chinese tourists, students, and businesses.

Risk and caveats

Airline cooperative arrangements do carry the risk of resulting in anti-competitive behaviour by airlines. Such arrangements can significantly reduce competition on overlapping non-stop routes and overlapping connecting routes where the allied airlines were direct competitors.

In this case, there is such a risk on the Sydney-Shanghai route. Qantas and China Eastern may choose to maximise their yields on the route (through decreased services or higher fares), rather than passing the benefits of the efficiencies created by the arrangement on to the consumer. This will negatively impact on the competitiveness and attractiveness of Australia as a destination to Chinese tourists, students and businesses.

Carrier	Route	Frequency
China Eastern	Shanghai – Sydney	12 services per week
	Shanghai – Melbourne	12 services per week
	Nanjing – Sydney	3 services per week
Qantas	Shanghai – Sydney	7 services per week
Total	3 different routes	34 per week

At present, the two carriers operate 34 services per week on three different routes, including 19 services per week between Shanghai and Sydney. Austrade recommends that any approval of the arrangement by the ACCC stipulate that no reduction in services on the Sydney-Shanghai route can occur by the two airlines. This partnership is an opportunity to improve connectivity between Australian and China. Austrade would oppose any move to do the opposite and maximise airfare yields to the detriment of increasing visitation from China.