



**PUBLIC VERSION**

**QANTAS AND CHINA EASTERN JOINT COORDINATION AGREEMENT, AUTHORISATION  
NUMBERS A91470 AND A91471**

Further to our phone conversation on 20 July 2015, the Applicants wish to clarify the details of the capacity growth proposed on routes between Australia and Shanghai if authorisation of the Proposed Conduct is granted.

The proposed new services to Shanghai will be initially introduced on a seasonal basis for each year of the Proposed Conduct. The Applicants confirm that if authorisation is granted, China Eastern will introduce:

- new services between **[CONFIDENTIAL]**; and
- additional frequencies between Shanghai and each of Sydney and Melbourne. Specifically:
  - on Sydney-Shanghai, initially operating an A330 aircraft three times a week from September 2015, moving to daily in November 2015 until 29 February 2016 (and again for equivalent periods in subsequent years); and
  - on Melbourne-Shanghai, initially operating an A330 aircraft three times a week from September 2015, moving to daily in November 2015 until 29 February 2016 (and again for equivalent periods in subsequent years).

These new services will be extended to year-round operations if demand is sufficiently stimulated as a result of the Proposed Conduct.

The introduction of increased frequencies on a seasonal basis provides the platform for delivering public benefits on a sustainable basis over time. The practice is consistent with previous capacity increases by carriers on routes between Australia and Shanghai. For example, China Southern has announced seasonal operational increases between Guangzhou and Sydney, Melbourne, Brisbane and Perth, reverting to existing capacity post the peak period.<sup>1</sup>

On other markets, deployment of supplementary capacity to cater for peak demand is standard practice to both test the sustainability of increased services in new and existing markets and ascertain the stimulatory effect on demand. For example, following a successful deployment of nine frequencies to Vancouver across December 2014 and January 2015, Qantas will offer a significantly expanded supplementary program of 33 frequencies across June, July and December 2015 and January 2016.

In the highly seasonal Australia-China market, deploying capacity on a seasonal basis allows carriers to best service increased demand at peak times when consumers most want to travel while ensuring that deployment is sustainable. Figure 1 demonstrates the seasonal nature of demand on routes between Australia and Shanghai and how carriers have deployed capacity to best suit demand trends.

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<sup>1</sup> Source: 'CZ confidence in Aus' in *Travel Daily* 15 July 2015.

**Figure 1: Australia-Shanghai Capacity/Demand Changes  
(monthly capacity versus yearly average)**



Source: BITRE

The capacity growth that would result from the Proposed Conduct is greater than what has historically occurred on Australia-Shanghai routes.

Table 1 below sets out the CAGR levels for all carriers operating direct services on Australia-Shanghai routes<sup>2</sup> (including the Sydney-Shanghai route) for calendar years 2011 to 2014.

**Table 1: Historic CAGR on Australia-Shanghai Routes, 2011-2014**

Carrier	Route	2011	2012	2013	2014	2011-2014 CAGR
Air China	Melbourne-Shanghai	111,186	113,924	117,972	112,548	0%
Air China	Sydney-Shanghai	98,296	91,756	91,756	81,360	-6%
China Eastern	Melbourne-Shanghai	155,352	178,136	179,010	188,140	7%
China Eastern	Sydney-Shanghai	198,972	211,640	235,262	208,866	2%
Qantas Airways	Sydney-Shanghai	205,530	189,826	205,805	210,513	1%
All	AU-Shanghai	769,336	785,282	829,805	801,427	1%
All	Sydney-Shanghai	502,798	493,222	532,823	500,739	0%

<sup>2</sup> Excludes Cairns-Shanghai route.

It shows that Australia-Shanghai capacity has grown at 1% CAGR while Sydney-Shanghai capacity has slightly declined. The CAGR on Australia-Shanghai routes that would be delivered as part of the Proposed Conduct is higher and therefore represents a public benefit that would not otherwise occur.

To assist the Commission we have also set out below the expected CAGR on Sydney-Shanghai routes that would apply if the Proposed Conduct is authorised.

**Table 2: Estimated Proposed Capacity on Sydney-Shanghai**

**[CONFIDENTIAL]**

Again, the Proposed Conduct would deliver a higher CAGR than has historically been the case on Sydney-Shanghai.

20 July 2015