



PUBLIC REGISTER VERSION

**APPLICATIONS FOR AUTHORISATION OF A PROPOSED JOINT COORDINATION AGREEMENT
BETWEEN QANTAS AIRWAYS LIMITED AND CHINA EASTERN AIRLINES CORPORATION
LIMITED A91470 AND A91471**

SUPPLEMENTARY INFORMATION

Further to your request for information on 26 February 2015, please see our responses to questions 3-7 of your request below. We have adopted the Commission's numbering.

ADDITIONAL INFORMATION

- 3. At section 7.4 of the submission in support of the application for authorisation the Applicants submit that as a result of the Proposed Conduct the Applicants expect that China Eastern will, in 2016, be able to offer additional frequencies on existing routes. The Applicants state that this will result in China Eastern operating 24 flights a week between Sydney and Shanghai and 22 flights a week between Melbourne and Shanghai. Please advise whether the references to 24 and 22 flights a week means return flights or one way flights (and therefore 12 and 11 return services a week)?**

We confirm that this is a reference to China Eastern offering 12 and 11 return services per week from each of Sydney and Melbourne to Shanghai respectively.

- 4. Please advise whether Qantas intends to maintain its existing frequencies on the Sydney-Shanghai route if the Joint Coordination Agreement with China Eastern is authorised? If it is anticipated that there will be any changes to Qantas frequencies if the Joint Coordination Agreement is authorised please provide details.**

Qantas intends to maintain its existing frequencies on the Sydney-Shanghai route if the Proposed Conduct is authorised. As set out in the supporting Application, the Proposed Conduct will enable further expansion and additional services on the Sydney-Shanghai route, operated by China Eastern.

- 5. In the meeting between Qantas and the ACCC on 18 November 2014 Qantas representatives stated that Qantas intends to maintain its existing codeshare agreement with China Southern if the Joint Coordination Agreement with China Eastern is authorised. Please confirm whether this is the case.**

Qantas intends to retain its codeshare agreement with China Southern in the event that the Proposed Conduct is authorised.

- 6. In the meeting between Qantas and the ACCC on 23 February 2015 Qantas representatives discussed new entrants and anticipated new entrants providing passenger air services in China. Please provide any details of new entrants that Qantas considers relevant to consideration of the application for authorisation of the Joint Coordination Agreement. The ACCC is particularly interested in any evidence or details of anticipated entry or expansion by airlines that would provide long-haul services from Shanghai.**

In our response dated 2 March 2015 we provided the Commission with further details regarding the expanded capacity entitlements applicable under the newly negotiated Air Services Agreement (ASA) between Australia and China. We have also provided details of recent announcements by competitors in response to the Proposed Conduct.

Qantas considers that the newly signed ASA will now stimulate Australia-China growth across two streams, being growth between Australia and:

- the existing major gateways in China; and
- the emerging gateways in China.

In relation to growth between Australia and the existing major gateways (such as Beijing, Guangzhou and Shanghai), Qantas expects that the market will continue to grow as the major Chinese carriers continue to add services. As set out in our response on 2 March 2015, China Airlines and China Southern have both recently announced capacity expansion. Specifically:

- on 27 November 2014, China Southern announced that it would resume A380 flights on one of its two daily Guangzhou-Sydney services for departures between 5 December and 28 February 2015;¹
- on 11 December 2014, Air China announced an intention to introduce additional long haul routes, including between Melbourne and each of Shanghai and Beijing;²
- on 24 January 2015, Air China announced that it would launch flights to Melbourne from its Beijing hub from June with four Airbus A330-200s a week;³
- on 27 January 2015, Air China announced it would introduce direct Beijing-Melbourne services 4 times a week, commencing on 1 June 2015 and moving to daily in October 2015;⁴
- on 2 February 2015, it was announced that China Southern would file to fly a Boeing Dreamliner 787 between Perth and Guangzhou;⁵ and
- China Southern will increase capacity on Melbourne-Guangzhou from 10 per week to 14 per week, effective from 1 July 2015, and on Brisbane-Guangzhou from 5 per week to daily, effective from 22 June 2015.⁶ This kind of pro-competitive expansion is even more likely in light of the revamped Air Services Agreement between Australia and China announced in January 2015.

In addition, on 3 March 2015, China Southern announced an increase in frequency of services between Perth and Guangzhou (from 3 per week to 4 per week).

At a minimum, Qantas expects that:

- all the Chinese carriers will further supplement capacity during the high demand Christmas/New Year and Chinese New Year periods;
- Air China will implement increased frequencies on their direct Sydney-Beijing operations while maintaining the indirect Sydney-Shanghai-Beijing option; and
- growth by the Chinese carriers will elicit competitive responses from the indirect operators such as Cathay Pacific.

In relation to growth between Australia and the emerging gateways in China, Qantas expects that the ASA will stimulate significant interest from the smaller Chinese regional operators in commencing operations to Australia. Certain 'second tier' cities in China are growing at significant rates, supported by strong economic growth and infrastructure investment which is in turn leading to an increase in wealth of the local population. New wealth leads to greater spend on discretionary items like travel.

¹ 'CZ A380 back to SYD' in *Travel Daily*, 27 November 2014, p 4.

² oneworld alliance news update, 12 December 2014.

³ 'Air China to fly to Melbourne' in oneworld alliance news update, 23 January 2015.

⁴ See 'Air China to fly Melbourne-Beijing direct', News.com.au: available: <http://www.news.com.au/national/breaking-news/airchina-to-fly-melbourne-beijing-direct/story-e6frku9-1227198788654>

⁵ Sky Team to launch more China flights' *The Australian*, 2 February 2015.

⁶ Source: GDS.

For example, the year-on-year passenger growth in respect of Australia-Chengdu routes is currently 29%, supported by the entry of Sichuan Airlines on the Melbourne-Chengdu route. The entry of Sichuan Airlines on Sydney-Chongqing and the entry of Xiamen Airlines onto the Sydney-Xiamen route is similarly expected to generate an increase in demand.

All of these new and expanding operations will constrain the Applicants in respect of Sydney-Shanghai servicing and pricing.

7. [REDACTED – COMMERCIAL IN CONFIDENCE]

[REDACTED – COMMERCIAL IN CONFIDENCE]