

Dr Richard Chadwick  
General Manager  
Adjudications Branch  
Australian Competition and Consumer Commission

**James Laurenceson**  
Deputy Director  
and Professor  
Australia-China Relations Institute (ACRI)  
PO Box 123 Broadway  
NSW 2007 Australia  
T: +61(0) 432 850 060  
James.Laurenceson@uts.edu.au  
www.uts.edu.au  
www.acri.uts.edu.au

UTS CRICOS PROVIDER CODE 00099F

Dear Dr Chadwick,

Thank you for providing the Australia-China Relations Institute (ACRI) at the University of Technology, Sydney, with the opportunity to provide comment on the proposed partnership between QANTAS Airways Limited and China Eastern Airlines Corporation Limited.

ACRI exists to illuminate the bilateral Australia-China relationship and we hope the following information will provide useful context as the ACCC seeks to make a final decision on the proposal.

Over the past decade connectivity between the Australian and Chinese economies has delivered more benefits to Australian households and businesses than with any other country. The direct boost to aggregate demand alone (exports minus imports) was worth \$55 billion in 2013-14. By contrast, the contribution from Japan, our second largest trading partner, was \$30 billion.

But nowadays we must work harder than ever to sustain and grow these benefits. Over the past year our goods exports to China have fallen by 11.9 percent, or \$11.6 billion. That drop is the equivalent of the total value of our goods exports to the US, our fourth largest buyer. This is not just an iron ore and coal story. Non-resources goods exports have fallen by 11.0 percent too, or \$3.0 billion.

Services exports such as tourism and education-related travel provide a strong basis for future growth. In the past year Chinese tourists spent \$5.4b in Australia. That puts us on track to meet Tourism Australia's plans to grow the Chinese spend from \$3.2b in 2010 to between \$7.4b-\$9b by 2020.

Dynamics unfolding in China make plain the potential. Last month Oxford Economics released a report that found between 2003-2013 21 million Chinese households reached income levels that made long haul travel affordable. By 2023 another 61 million will join them.

But in this market we cannot simply rely on natural cost advantages as we have done with resources. Rising dollar values received from Chinese travellers hides the reality that over the past decade Australia's share of Chinese outbound travel has fallen steadily. The consultancy Tourism Economics says that our share now stands at less than 1 percent. The report by Oxford Economics found that Sydney currently ranks as the 11<sup>th</sup> top global city for Chinese traveller spending. But rising competition, particularly from cities in the US, will see it slip to 18<sup>th</sup> by 2023. Melbourne will fall from 15<sup>th</sup> to 21<sup>st</sup>.

It is against this backdrop that ACRI believes the public benefits from the proposed partnership between QANTAS and China Eastern Airlines should be evaluated. Submissions to the ACCC prior to the draft decision were overwhelming in their view that the deal would boost connectivity between Australia and China. Cooperation between QANTAS and China Eastern Airlines means that Australian and Chinese consumers will benefit from better access to more destinations.

One stop travel via hubs such as Hong Kong and Singapore provide a general restraint on anticompetitive behaviour. And as the Australian Trade Commission noted in its submission, stipulation can be made that both carriers maintain their current services levels on the particular route of concern between Shanghai and Sydney.

It is ACRI's view that the best outcomes for the bilateral relationship will often flow from cooperation between Australian and Chinese interests. The proposed partnership between QANTAS and China Eastern Airlines is a good example of this in practice.

Please do not hesitate to contact me for elaboration on any of the above themes.

Regards,

A handwritten signature in blue ink, appearing to be 'J. Laurenceson', written in a cursive style.

Professor James Laurenceson  
Deputy Director, Australia-China Relations Institute