



## PUBLIC REGISTER VERSION

### QANTAS AIRWAYS LIMITED AND CHINA EASTERN

#### FURTHER INFORMATION IN RELATION TO THE AUTHORISATION OF THE JOINT COORDINATION AGREEMENT, AUTHORISATION NUMBERS A91470 AND A91471

##### **Competitive constraints**

The Commission has failed to appreciate the degree of competitive constraint imposed on the Applicants by carriers serving the Australia-China market via other hubs within and outside China and has particularly underestimated the competition provided by carriers operating indirect services on the Sydney-Shanghai route, including Cathay Pacific and Singapore Airlines.

Price competition on the Sydney-Shanghai route is intense and will not change with the Proposed Conduct. The Applicants are constrained by the pricing activity of all the direct and indirect operators when determining price points for Sydney-Shanghai services. The focus on hub competition that is being promulgated by carriers such as Cathay Pacific and Singapore Airlines means that consumers have genuine choices as to how, when and with whom they will fly between Sydney and Shanghai. Price is one of the key drivers of that decision making.

Qantas takes into account the fares of direct and indirect operators on routes between Australia and China when it is setting core tariffs and actively monitors the pricing activity of these carriers. **[REDACTED – COMMERCIAL IN CONFIDENCE]** Further detail about considerations relevant to whether, when and how to respond to competitor pricing was provided in Qantas' submission to the Commission on 2 March 2015.

Examples of price monitoring and activity over the last 6 months in relation to economy cabin pricing on the Sydney-Shanghai route include: **[REDACTED – COMMERCIAL IN CONFIDENCE]**

Price competition is also intense in relation to business cabin pricing. Examples include: **[REDACTED – COMMERCIAL IN CONFIDENCE]**

The fact that Cathay Pacific operates from Sydney to Hong Kong four times a day, with 119 frequencies to Shanghai from Hong Kong, means that passengers travelling from Sydney have a choice of up to 10 onward connections per day to Shanghai.

On 11 May 2015, Tourism Australia and Cathay Pacific announced a 'major aviation marketing deal' under which the airline will market Australia to its passenger base in China and other parts of Asia.<sup>1</sup> This will involve the parties injecting \$2 million in marketing during 2015. Tourism Australia's Managing Director John O'Sullivan stated that:

*'Cathay Pacific is one of the world's most respected airlines and an aviation partner we're very keen to work with, especially given the strength of their footprint within North Asian. [sic] The deal provides a strong platform to further grow inbound tourism from some of Australia's most important inbound visitor markets.'*

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<sup>1</sup> Tourism Australia 'Corroboree Greater China underway with \$2m marketing deal between Tourism Australia and Cathay Pacific' Available: <http://www.tourism.australia.com/news/Media-Releases-Corroboree-Greater-China.aspx> (accessed 11 May 2015).

As part of the arrangement, Cathay Pacific is directly marketing to Chinese travel agents by flying over 400 delegates from North Asia to a Tourism Australia event in Queensland titled 'Corroboree Greater China'.<sup>2</sup>

Table 3 in Annexure F to the Applicant's original Application (lodged with the Commission in November 2014) shows that Cathay Pacific has the largest share of all business purpose passengers (26%) travelling between Australia and China for the year ended April 2014. Further updated data provided in Table 1 below indicates that Cathay Pacific has retained this position.

**Table 1: Business Purpose Travel Australia-China, December 2013-November 2014**

Carrier	Passengers	% Share
Cathay Pacific	39,812	26%
Qantas (including Jetstar)	32,247	21%
China Southern	27,826	18%
China Eastern	13,875	9%
Singapore Airlines	13,828	9%
Air China	11,009	7%
Others	25,963	17%

Source: ABS

### **Competitive dynamics are global and regional, not route specific**

As previously explained, the Proposed Conduct will not result in a lessening of competition in any market, however defined, given the competitive dynamics and economic realities of the global aviation industry in which that conduct is proposed to take place. The competitive effects of the Proposed Conduct should be assessed in the context of regional economic dynamics in Asia, including significant population growth, increasing average income and wealth, increased demand for air travel and continued expansion of many Asia-based carriers. Within the area of competition that the Commission has recognised is relevant – i.e, the provision of passenger air services between Australia and China – there is intense competition between 'hubs' to attract passengers transferring into greater China.

Airports actively compete to attract more through-traffic and fund expansion. In addition to Hong Kong Airport's announcement in March 2015 that it had received approval for the construction of a third runway, Beijing International Airport has now announced that it will build the world's largest international airport. The Terminal is set for completion in 2018 and will span 700,000 square metres, processing 45 million passengers a year, or 125,000 people a day.<sup>3</sup>

Developments such as this again illustrate the genuine constraint that alternative hubs such as Beijing impose on the Applicants' operations through Shanghai.

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<sup>2</sup> 'TA seals \$2m Cathay deal' in Travel Daily, 11 May 2015.

<sup>3</sup> 'Beijing International Airport Terminal to be the world's biggest' in news.com.au 29 April 2015. Available: <http://www.news.com.au/travel/travel-advice/beijing-international-airport-terminal-1-to-be-worlds-biggest/story-fn6yjmoc-1227326505227> (accessed 30 April 2015).