



Australian
Competition &
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Commission

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NEWS RELEASE

ACCC AUTHORISES QANTAS/CHINA EASTERN COORDINATION AGREEMENT

The Australian Competition and Consumer Commission has decided, on balance, to grant authorisation, subject to important conditions, for Qantas (ASX:QAN) and China Eastern to coordinate their operations between Australia and China under a proposed Joint Coordination Agreement.

In March 2015 the ACCC released a draft determination proposing to deny authorisation. Since then Qantas and China Eastern have provided significant commitments to add additional frequencies and destinations between Australia and China if the alliance is authorised.

Over the next two years China Eastern proposes to increase the frequencies of its services on routes between Shanghai and Sydney, Melbourne and Cairns during peak periods and introduce year round services on a new route, the details of which were provided to the ACCC confidentially. Qantas and China Eastern also propose to significantly expand the range of destinations covered by their existing codeshare Agreement.

The proposed co-location of Qantas with China Eastern at Terminal 1 at Shanghai Pudong International airport will also allow more convenient and quicker connections for Qantas passengers transferring to a China Eastern flight in Shanghai. More broadly, the alliance will also allow the parties to co-ordinate the timing of connecting flights in both Australia and China, reducing total travel times.

Qantas and China Eastern say that their primary focus in forming the alliance has been to establish a gateway through China Eastern's Shanghai hub for connecting services between Australia and China. Doing so should result in significant expansion in their services between Australia and China.

"The ACCC considers that the addition of a significant number of new services, and expanded range of destinations, reflecting this gateway strategy, would constitute a significant public benefit" ACCC Chairman Rod Sims said.

"The ACCC has imposed conditions on the authorisation requiring Qantas and China Eastern to grow their capacity on routes between Australia and China Eastern's hub in Shanghai by 21%* over the five year term of the authorisation. This broadly accords with the level of capacity growth proposed by Qantas and China Eastern, and their combined historical rates of growth. This will ensure that coordination between Qantas and China Eastern does not result in a reduction in the frequency of services provided below that which could be expected if the alliance was not in place and they continued to compete strongly with each other for passengers. "

"However, the ACCC does not consider that capacity additions that simply keep pace with historical levels of growth are sufficient to demonstrate that the alliance will result in significant public benefits."

“The ACCC accepts that Qantas and China Eastern do not want to commit to additional capacity expansion until closer to the time that capacity will be added. However, the ACCC expects that successful implementation of the gateway strategy underpinning their public benefit arguments should result in significant additional growth in capacity above that required by the conditions the ACCC has imposed over the term of the authorisation. If this were to prove not to be the case, it may be difficult for the ACCC to accept that the alliance facilitates the addition of new frequencies and destinations, and the development of Shanghai as a gateway to greater China for Qantas and China Eastern, in any application for re-authorisation.”

The ACCC also considers that the alliance will result in a range of other public benefits including enhancing the attractiveness of Qantas and China Eastern’s loyalty programs and cost savings in processing transiting passengers as a result of Qantas co-locating with China Eastern at Terminal 1 and Shanghai Pudong International airport. This co-location will also allow more convenient and quicker connections for Qantas passengers transferring to a China Eastern flight in Shanghai.

“However, the ACCC also remains of the view that the alliance could result in significant public detriment. Although there is strong competition from other Chinese and international airlines for passengers using gateways such as Shanghai for travel into greater China, on the one route between Australia and China on which Qantas and China Eastern services overlap (Sydney – Shanghai), Qantas and China Eastern are the two major airlines operating services on the route, the only airlines offering daily flights and the major competitive constraint on each other,” Mr Sims said.

“The ACCC considers that competition between Qantas and China Eastern for passengers travelling directly on the Sydney and Shanghai point to point route without onward travel will be greatly reduced under the alliance. This may provide them with the opportunity to increase prices for passengers traveling directly between Sydney and Shanghai.”

“It is not uncommon for airlines to charge higher fares for passengers on a point to point route, where competition is limited, than for passengers travelling on the same flight who have an onward connection to a destination that is serviced by a variety of carriers. The ACCC considers that Qantas and China Eastern would have an incentive to adopt this strategy on the Sydney – Shanghai route if the alliance proceeds.”

“To enable the ACCC to monitor such behaviour conditions have been imposed requiring Qantas and China Eastern to report to the ACCC their average fares, month by month, on each route between Australia and China on which they offer services.”

The conditions also enable the ACCC to review the capacity growth obligation on routes between Australia and Shanghai and impose a Sydney – Shanghai route specific growth obligation.

On balance, the ACCC considers that, subject to the important conditions imposed, the alliance is likely to result in public benefits for passengers travelling between Australia and China that outweigh the detriment resulting from the lessening of competition on the Sydney Shanghai route.

Authorisation has been granted for five years. To continue the alliance beyond this Qantas and China Eastern will need to apply for re-authorisation.

“If re-authorisation is sought, the above issues would again be closely examined,” Mr Sims said.

Authorisation provides immunity from court action for conduct that might otherwise raise concerns under the competition provisions of the *Competition and Consumer Act (2010)*. Broadly, the ACCC may grant an authorisation when it is satisfied that the public benefit from the conduct outweighs any public detriment.

*The conditions require Qantas and China Eastern to increase their combined capacity on routes between Shanghai and Australia over the five year term of the authorisation by a compound annual growth rate of 4%. To achieve this growth rate they will have to increase capacity across these routes by around 21.67% over the next five years.

Media inquiries

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