



11 February 2019

Ms Marlene Tucker
Executive Director
International Air Services Commission
GPO Box 630
Canberra ACT 2601

Dear Ms Tucker, *Marlene*

Additional Information – Hong Kong route

I refer to the letter from the International Air Services Commission ('the Commission') of 25 January which invited Qantas Airways Limited ('Qantas') to provide additional information regarding proposed code sharing arrangements with Cathay Pacific Airways Limited ('Cathay') on the Hong Kong route.

Qantas' comments addressing the paragraph 9 criteria of the Minister's Policy Statement are outlined in the Attachment to this letter.

We would be pleased to provide any further information the Commission may require in considering our application.

Yours sincerely,



Andrew Parker
Group Executive, Government, Industry, International, Sustainability

Code Sharing Arrangements

From 31 March 2019, it is proposed for Cathay to offer codeshare services on selected flights operated by Qantas on the Hong Kong route on the following city-pair sectors (**'the Proposal'**):

- Sydney-Hong Kong v.v.
- Melbourne-Hong Kong v.v.
- Brisbane-Hong Kong v.v,

to be sold only in conjunction with through journeys to behind/beyond destinations. Notwithstanding the limited scope of the Proposal, Qantas' comments below will provide additional context relevant to the application when addressing the paragraph 9 criteria of the Minister's Policy Statement.

The Proposal was agreed as part of an evolution of the codeshare agreements with both Cathay and Cathay Dragon dated 29 August 2018 (the **'Codeshare Agreement'**) to expand the range of codeshare services (the **'Updated Annex'**).

The Codeshare Agreement enabled:

- Qantas to add its code to 15 one-way routes¹ operated by Cathay/Cathay Dragon within Asia from Hong Kong to select markets in India, Myanmar, Sri Lanka and Vietnam and on Cathay's services from Hong Kong to Perth and Cairns (routes which are not operated by Qantas); and
- Cathay to add its code on 25 one-way routes operated by Qantas on the domestic Australia network.

The Codeshare Agreement added two new codeshare destinations for Qantas (Kolkata and Chennai²) and several other destinations were expanded (Hanoi, Da Nang and Bangalore). All codeshare destinations added by Cathay were new, given Cathay had not offered code on domestic Australia routes before. The Codeshare Agreement has received all required regulatory approvals in the relevant jurisdictions.

The Updated Annex (subject to relevant approvals being obtained) will enable:

- Qantas to add its code to an additional 19 one-way routes operated by Cathay/Cathay Dragon to India, Japan, South Korea and Sri Lanka from Hong Kong and on select Cathay services from Hong Kong to Sydney, Melbourne and Brisbane when sold in conjunction with a through-journey; and
- Cathay to add its code to an additional 32 one-way domestic Australia routes operated by Qantas and on select Qantas services from Sydney, Melbourne and Brisbane to Hong Kong when sold in conjunction with a through-journey.

The Updated Annex adds three new codeshare destinations for Qantas (Nagoya, Busan and Jeju).

Importantly, the Updated Annex prohibits either party from selling airfares on respective codeshare flights for the origin/destination routes where both carriers operate – namely, Sydney/Melbourne/Brisbane to Hong Kong (the **'Point to Point Routes'**). Under the Proposal, only certain flights on these Point to Point Routes can be sold using the other carrier's code when the route

¹ One-way routes provided due to only one-way connectivity on certain markets with the carriers desiring instead to enhance passenger convenience by minimising the maximum allowable connecting time between codeshare services.

² Qantas offered code on Jet Airways' Singapore-Chennai flight until the airline cancelled the route in January 2018.

forms part of a through journey to behind and beyond destinations. This means, for example, that a passenger travelling point to point from Sydney to Hong Kong will not be able to be sold a ticket under the codeshare and instead, as is the case today, will only be able to purchase a Qantas airfare on a flight operated by Qantas with a Qantas flight number or a Cathay airfare on a flight operated by Cathay with a Cathay flight number depending on their choice of airline. Further detail on this provision is provided below.

Paragraph 9 Criteria – Minister's Policy Statement

The Minister's Policy Statement provides that, in assessing the benefit to the public of a variation of an allocation of capacity, the Commission should have regard to the following additional criteria set out in Paragraph 9 of the Minister's Policy Statement:

Competition Criteria

Although the Proposal does not permit the carriers to sell on the Point to Point Routes as a stand-alone itinerary, an overview of the Australia to Hong Kong route is provided for completeness below.

Routes between Australia and Hong Kong are growing in terms of passenger demand. In the three years ending November 2018, passenger demand on the Australia-Hong Kong routes grew at seven per cent per annum³, with the direct operating carriers increasing capacity accordingly⁴.

The key competitors on the Australia to Hong Kong route are Qantas, Virgin Australia ('**Virgin**') and Cathay, with each of these carriers operating direct services.

Qantas currently operates 28 flights (passenger) each way each week between three Australian gateways – Sydney, Melbourne and Brisbane – and Hong Kong using a range of aircraft types. Based on published schedules, Virgin operates double daily flights on the Australia-Hong Kong route, with services from Sydney and Melbourne to Hong Kong.

From a total entitlement of up to 72 frequencies per week between Sydney, Melbourne, Brisbane and Perth and Hong Kong, 29 frequencies per week (or 40 per cent of total capacity) remain unallocated and available to any Australian airline to take up for new or expanded services on the Hong Kong route. There is no limit on the number of frequencies that may be operated for passenger services between all points in Australia other than Sydney, Melbourne, Brisbane and Perth and Hong Kong.

Cathay has utilised all available capacity for Hong Kong carriers to the major Australian cities under the current bilateral agreement, operating a total of 72 frequencies per week (passenger and dedicated freighter services).

Against the background of passenger growth, there has been intense competition between carriers on the routes between Australia and Hong Kong, driving innovation and improved customer options, as evidenced by:

- An increase in Qantas' frequency on the Sydney-Hong Kong route from daily to double daily service in 2016;
- The launch of Virgin's daily Melbourne-Hong Kong service in 2017;
- The launch of Cathay's A350-9 service, its newest equipment type, to Brisbane, Melbourne and Perth in 2017;
- Implementation of the Virgin/HNA Group/Hong Kong Airlines/Hong Kong Express strategic alliance on the Australia to Hong Kong and Australia to China routes (covering coordination in the

³ DDS Estimated Market Size, Australia-Hong Kong vv origin/destination traffic

⁴ Diio Mi

areas of route planning, scheduling and economic risk sharing, codeshare arrangements, reciprocal frequent flyer participation and lounge access) in 2017⁵;

- The launch of Virgin’s daily Sydney-Hong Kong service in 2018;
- The re-launch of Qantas’ First Class offering on seasonal A380 services on the Sydney-Hong Kong route in 2018;
- The launch of Cathay’s A350-9 service to Sydney in 2019;
- The launch of Qantas’ B787-9 service, its newest equipment type, to/from Brisbane and Melbourne in 2018 and to/from Sydney in 2019, which among other things significantly enhances Qantas’ ability to uplift freight to/from Hong Kong, with 30 per cent more capacity than an A330 and 40 per cent more capacity than an A380; and
- The re-time of Qantas’ second daily Sydney-Hong Kong service in 2019 to offer customers an overnight option in direct competition with Cathay’s own overnight service.

[CONFIDENTIAL INFORMATION REDACTED].

Effective competition

The Proposal represents a pro-competitive expansion of each carrier’s ability to sell and market itineraries and will not substantially lessen competition on any relevant market. It will not alter the incentives of carriers on the Australia to Hong Kong route (or any other route) to continue competing and innovating in the best interests of consumers.

Public benefits of the Proposal include the fostering of increased selling competition and expansion of customer choice through providing more route options on each carrier’s respective behind and beyond networks. This includes the ability for Cathay to sell on select Qantas services from Sydney, Melbourne and Brisbane to Hong Kong when sold as a through journey to Cathay’s own behind/beyond network from Hong Kong or Qantas’ domestic Australia network. The Proposal is not required to enable Cathay to access Qantas’ domestic flights, however it does facilitate and expand the range of options available to consumers.

The reciprocal arrangements include the ability for Qantas to place its code on select Cathay services from Hong Kong to Sydney, Melbourne and Brisbane when sold as a through journey in connection with flights operated by Cathay/Cathay Dragon from Hong Kong (including India, Myanmar, Sri Lanka, Vietnam, Japan and South Korea), or Qantas’ own behind/beyond network.

A summary of the proposed operated and codeshare schedules on the Point to Point Routes (to be sold only in conjunction with through journeys) is provided in Table 1 below. The services listed are all daily operations except where indicated otherwise and bolded flights are the proposed codeshare flights.

**Table 1: Proposed Codeshare on Select Point to Point Routes
To Be Sold Only In Conjunction With Through Journeys**

Route	Qantas	Cathay
Brisbane-Hong Kong	QF97 10:10 – 17:25	CX156 00:55 – 07:30 CX146 11:15 – 20:25 (3,4,6,7)
Hong Kong-Brisbane	QF98 20:15 – 07:00+1	CX157 13:10 – 23:35 CX147 21:20 – 09:55+1 (2,3,5,6)

⁵ Alliance Framework Agreement and associated agreements between Virgin and HNA Group/Hong Kong Airlines/Hong Kong Express covering the Hong Kong and China routes authorised by the Australian Consumer and Competition Commission (ACCC) for five years in August 2017

Melbourne-Hong Kong	QF29 09:40 – 17:20	CX134 07:30 – 15:05 CX104 14:20 – 21:50 CX178 23:45 – 07:05+1
Hong Kong-Melbourne	QF30 20:10 – 07:35+1	CX105 00:10 – 11:10 CX163 11:05 – 22:05 CX135 19:05 – 06:10+1
Sydney-Hong Kong	QF127 10:20 – 18:00 QF117 21:20 – 05:00+1	CX110 07:35 – 15:20 CX162 10:15 – 17:55 CX100 14:15 – 21:35 CX138 21:55 – 05:15+1
Hong Kong-Sydney	QF128 19:30 – 06:55+1 QF118 22:35 – 10:00+1	CX139 09:10 – 20:20 CX111 18:50 – 06:15+1 CX161 21:30 – 08:50+1 CX101 23:55 – 10:50+1

The proposed codeshare flights on the Point to Point Routes (to be sold only in conjunction with through journeys) have been selected to minimise schedule overlap to incentivise each carrier to continue to promote and market their own metal services whilst utilising the codeshare flights to maximise connectivity options to each carrier’s extensive behind and beyond networks.

The carriers have a number of options available to enact the provision which prohibits either party from selling airfares on respective codeshare flights for the origin/destination routes where both carriers operate, as set out in Table 2 below.

Table 2: Options For Carriers To Implement Confined Scope of Codeshare

Activity	Confinement
Pricing	Exclusion of carriers in airfare ‘flight applications’ (flights and carriers available for customers to purchase in any particular airfare)
Distribution	Placement of restrictions on Qantas’ code on Cathay’s SYD/MEL/BNE-HKG flights to remove this as an option for customers on the Point to Point Routes (similar to how Qantas prevents selling of point to point routes where it is not permitted under bilateral air services arrangements)

As set out above, the practical effect of this provision is that codeshare on the Point to Point Routes can only be used to facilitate and promote increased options for customers travelling on the extensive network of behind and beyond destinations that each carrier operates.

Under the Codeshare Agreement, the operating carrier provides the marketing carrier with access to available inventory on a codeshare route. This is provided on a ‘freesale’ basis, meaning that the operating carrier is able to decide how many seats it makes available for sale. As both Qantas and Cathay are members of the global **oneworld** alliance, the marketing carrier pays the operating carrier for seats it has sold in accordance with the **oneworld** Revenue Apportionment Agreement. In addition, the marketing carrier receives a codeshare commission for each coupon sold on codeshare flights between Australia and Hong Kong.

Previously, Qantas and Cathay were able to sell each other’s services under the interline arrangements in place between members of the **oneworld** alliance. The Codeshare Agreement provides improved customer benefits to members of each carrier’s loyalty programs, with Qantas Frequent Flyer members earning more Qantas Points and status credits when travelling on the Qantas-coded flights and Cathay Pacific Marco Polo Club members earning more Club Points when travelling on a Cathay-

coded flight. Further, the Codeshare Agreement provides both carriers an improved ability to market complex itineraries under a single marketing airline code. Eligible customers continue to receive standard **oneworld** alliance benefits when travelling on either carrier, including lounge access, priority check-in and boarding, priority baggage, increased baggage allowances and tier status recognition.

Customer choice is not diluted or restricted in any way by the Proposal. While the arrangements encourage the parties to maximise passenger convenience and service, both carriers will continue to aggressively compete against each other on all routes (whether covered by the codeshare or not). The relationship between Qantas and Cathay is, and will remain, arms-length and does not involve any form of price, sales, capacity or schedule coordination, as reiterated in the terms of the Codeshare Agreement.

The Codeshare Agreement is not exclusionary. It does not prohibit, restrict or deter either carrier from entering into commercial relationships with other airlines. Qantas will continue to offer customers a comprehensive suite of interline and codeshare options across a range of carriers on the relevant codeshare routes via its other primary Asian midpoint hubs of Singapore and Bangkok. Similarly, the Proposal will not impact the ability of Cathay to sell and ticket on Virgin through its interline relationship, particularly given that Virgin services some destinations in Australia to which Qantas or Jetstar do not operate.

Tourism and Trade Criteria

Route service possibilities

The Proposal will encourage even greater competition with the expanded range of behind/beyond codeshare routes now marketable by each carrier to independently sell under a single code for a customer's entire journey. The Proposal provides additional options and choice to consumers travelling on these behind/beyond itineraries.

For example, Cathay could market a Chicago-Wagga Wagga journey using a combination of Cathay metal on Chicago-Hong Kong and Qantas metal on Hong Kong-Sydney-Wagga Wagga under a 'CX' code for the entire itinerary in direct competition with Qantas, something which is not currently possible. Similarly, under the broader code sharing arrangements, Qantas could market a Sydney-Mumbai-Sydney itinerary under a single code offering passengers the ability to transit via Singapore on the northbound journey and via Hong Kong with a shorter connection time on the southbound journey, enhancing journey options for customers – particularly important for business purpose travellers who may need to visit more than one destination on a single trip.

Under the reciprocal arrangements, Qantas can now offer convenient, round-trip connectivity via Hong Kong to five codeshare destinations in India (Mumbai, Delhi, Bangalore, Chennai and Kolkata) and to one destination in Sri Lanka (Colombo). These five Indian markets cover 76 per cent of all Australia to India origin/destination traffic, whilst Colombo, as the country's key gateway, accounts for all Australia to Sri Lanka traffic.⁶

While India falls outside of the top five markets for visitation to Australia, it is the leading market in terms of growth with visitor arrivals from India increasing by 20 per cent to 324,000.⁷ India is forecast to be the second fastest growing Asian market (behind China) and the third largest source of Asian visitors to Australia by 2027.⁸

This connectivity via Hong Kong and enhanced consumer choice would not be possible absent the Proposal and broader code sharing arrangements. In circumstances where Qantas does not operate

⁶ DDS Estimated Market Size, 12 months to November 2018

⁷ International Visitor Survey, Year Ending September 2018, Tourism Research Australia

⁸ Ibid.

to India, the commercial arrangements with Cathay and Cathay Dragon foster an environment in which Qantas can more effectively compete with large established operators.

The ability for Qantas to offer a maximum range of itineraries beyond Hong Kong to India is particularly critical given the risk to Qantas' ability to offer codeshare route options on Jet Airways and loss of interline options on both Jet Airways and Air India as a result of changes to these carriers' distribution platforms (from 1 April 2019 and 4 December 2018 respectively). These changes will impact Qantas' ability to offer a more comprehensive India network to consumers.

[CONFIDENTIAL INFORMATION REDACTED]. The reduced ability to offer the Jet Airways and Air India networks will have an impact not only on consumer choice but on broader Australia-India tourism, trade and business flows. This makes the Proposal and broader code sharing arrangements critical to enable Qantas to continue to sell and market destinations in India.

In this rapidly evolving environment, Qantas has adopted a strategy of increasing codeshare carrier options to continue to be able to offer consumers a comprehensive suite of options on the Australia-Asia market. Through enabling round-trip connectivity under the broader code sharing arrangements, Qantas is able to build a more robust portfolio of connectivity to five of the largest Indian markets, providing greater protection for tourism, trade and business traffic, while delivering an improved competitive proposition to market. For example, the broader code sharing arrangements enable Qantas to offer even more choice to consumers through opening up round-trip connectivity on Cathay's southbound Hong Kong-Melbourne service from Bangalore, known as the 'Silicon Valley' of India and established as a key technology and services hub for Australian business.

Routes between Sri Lanka and Australia are similarly witnessing considerable growth (22 per cent in the year to November 2018).⁹ Qantas is the third largest carrier with a 14 per cent share and Cathay ninth with a two per cent share, with Sri Lankan Airlines (29 per cent) and Singapore Airlines (23 per cent) having significantly larger shares.¹⁰ Qantas' share has increased one percentage point compared to the prior corresponding period, whilst Cathay has declined two per centage points. Again, Qantas intends to fully utilise the broader code sharing arrangements to better compete and provide consumers with even greater choice and flexibility. For example, following the exit of Sri Lankan Airlines from the Colombo-Hong Kong route in October 2018, on which Qantas placed its code, the broader code sharing arrangements enable Qantas to once again offer convenient, round-trip connectivity via Hong Kong.

Additional information

As requested by the Commission, the following information is provided below:

- *'passenger numbers and market share on each of the city-pair sectors it directly operates (Brisbane-Hong Kong; Melbourne-Hong Kong; Sydney-Hong Kong);*
- *Qantas' yield and load factors on each of the city pairs it directly operates.'*

[CONFIDENTIAL INFORMATION REDACTED].

⁹ DDS Estimated Market Size, 12 Months to November 2018

¹⁰ Ibid.