



**Australian
Competition &
Consumer
Commission**

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19 July 2010

Mr Michael Bird
Executive Director
International Air Services Commission
GPO Box 630
CANBERRA ACT 2601

Dear Mr Bird

**Re: Application from Qantas for IASC authorisation to continue code sharing with
South African Airways**

Thank you for your letter dated 1 July 2010 seeking the ACCC's views on the application from Qantas for a two year extension of its code share arrangements with South African Airways (SAA).

In its previous submissions to the IASC on these arrangements, the ACCC has identified competition concerns with the Australia-South Africa route. These concerns have arisen from the fact that Qantas and SAA have been the only two direct operators on the route, flying to separate points in Australia.

The ACCC remains of the view that the third country carriers operating one-stop services between Australia and South Africa provide only limited competition for Qantas and SAA. The longer travelling times offered by these third country carriers place them at a competitive disadvantage to the direct carriers, especially in relation to time sensitive passengers. The ACCC understands that the market share of third country carriers has remained relatively constant over the past few years.

The ACCC notes that the competitive dynamics of the route may have been affected by the opening up of capacity entitlements and the entry of V Australia since the IASC last re-authorised the arrangements in 2008.

In its 2008 decision, the IASC noted that a lack of available capacity on the route meant that the existing operators could not add more services and there was no prospect of new entry. This in turn led to extremely high load factors, a lack of price competition between the direct carriers and high profits for Qantas.

Available capacity under the Australia-South Africa air services arrangements was increased from five frequencies per week to 10 frequencies per week in August 2008 and from 10 to 14

frequencies in October 2009. Available capacity will increase again to 21 frequencies in October 2010.

The ACCC notes that both Qantas and V Australia have responded to the changes in the air services arrangements and obtained new capacity from the IASC. Qantas submits that it will introduce a seventh weekly service between Sydney and Johannesburg in September 2010. V Australia has commenced two services per week from Melbourne to Johannesburg and announced plans to introduce a third service per week from December 2010. As you know, V Australia has a capacity allocation for a further two services per week to South Africa.

These developments suggest that the new capacity allocations have gone some way to improving the level of competition on the route. This raises a question about the continuing need for the code sharing arrangements.

In its 2008 decision, the IASC stated that it would almost certainly have declined to continue to authorise the code sharing arrangements had there been no sign of a new carrier entering the route. This was because the IASC considered that SAA would have been far more likely to have entered the Sydney market in its own right without V Australia's presence, and it would also have been more likely that Qantas would have entered the Perth market quickly with its own aircraft because there would have been additional capacity for it to do so and the Perth sector makes up a significant and profitable component of the total South African market.

The ACCC notes that this conclusion was based on an assumption that V Australia would introduce five services per week from Sydney to Johannesburg. As you know, V Australia has in fact entered the route but is actually offering two services per week from Melbourne to Johannesburg. As a result, there appears to be potential for SAA to enter the Sydney market segment in its own right. This would not be inconsistent with the observations in Qantas' submission that SAA has intentions to expand its market presence in Australia.

The ACCC also notes that in 2008, the IASC stated that the extra capacity available from October 2010 opens up scope for improved competitive outcomes, particularly in relation to Perth (and this possibility may have tipped the balance of benefits away from a continuation of authorisation).

Taking all these factors together, the ACCC considers that the increase in capacity on the route has altered the competitive dynamics in such a way that the need for the code sharing arrangements between Qantas and SAA is likely to have diminished.

If you wish to discuss any aspect of this submission, please do not hesitate to call Darrell Channing on 02 6243 4925.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'R Chadwick', with a long horizontal line extending to the right.

Dr Richard Chadwick
General Manager
Adjudication Branch