

4 December 2023

Ms. Jasmina Ackar
Director
International Air Services Commission
GPO Box 594
CANBERRA ACT 2601

via email: iasc@infrastructure.gov.au

Dear Ms. Ackar,

Qantas application for variations to Determination – Indonesia route

I refer to the Qantas Airways Limited (**Qantas**) application of 20 September 2023 seeking to permit the use of capacity on the Indonesia route for code sharing between Qantas and Garuda Indonesia (**Garuda**). I note that Qantas seeks to vary 12 Determinations on the Indonesia route for Garuda to offer code share services on flights operated by Qantas from 29 October 2023 or as soon as otherwise approved.

Sydney Airport notes the International Air Services Commission's (**IASC**) correspondence of 10 October 2023 which details the criteria under which Qantas' application is to be assessed. Given that as Qantas' application seeks to vary a condition of a kind referred to in paragraph 15(2)(e)² of the *International Air Services Commission Act 1992* (**the IASC Act**), the IASC has noted its decision will be made pursuant to section 25 of the IASC Act.

As per subsection 25(2) of the IASC Act, the IASC must not make a decision varying a determination in a way that varies, or has the effect of varying, an allocation of capacity if the IASC is satisfied that the allocation, as so varied, would not be of benefit to the public. Further, section 26 of the IASC Act provides that in assessing the benefit to the public, the IASC must apply the criteria set out for that purpose in the IASC Policy Statement 2018 (**Policy Statement**). Paragraph 18 of the Policy Statement provides, in part, that the IASC may have regard to any of the paragraph 9 '*additional criteria*' that it considers relevant. Notably, paragraph 9 refers to competition, tourism and trade criteria, information from other government agencies and any other matter or consideration that the IASC considers to be relevant.

Impact on competition and the travelling public

Sydney Airport is concerned about the impact that a Qantas and Garuda code share agreement will have on competition and resultant choice and cost for the travelling public. During the 2023/2024 Northern Winter scheduling season period 29 October 2023 to 30 March 2024, Qantas, Jetstar and Garuda will operate 63.7 per cent of seats on the Australia-Indonesia market. Qantas, Jetstar and Garuda are also the only airlines operating on Sydney-Jakarta and Melbourne-Jakarta, which Sydney Airport notes are currently at maximum capacity under the existing bilateral air service agreement between Australia and Indonesia. If approved, Qantas' proposal will also enable these three airlines to further extend their dominance on the busy and significant Denpasar-Australia route.

The Australia-Indonesia bilateral is currently at capacity for Australian airlines, but only half full on the Indonesian side. As at the Northern Winter 2023-24 season, Australian airlines are limited to 0.4 per cent growth potential (91 seats) between Australia's major airports and Indonesia, while Indonesian carriers and other foreign airlines have 97 per cent growth potential (an available 12,285 seats) on their side of the bilateral.

Sydney Airport notes that talks to increase capacity on the Australia-Indonesia bilateral air service agreement are likely to be held in 2024, and that Virgin Airlines (**Virgin**) has indicated in its own submission to the IASC that it would like to expand the services it offers to customers to better compete with Qantas. However, should Qantas' application to code share with Garuda be approved prior to the bilateral being further liberalised, and before Virgin and other competitors can scale-up their own operations, it will be much more difficult for them to expand their offering and improve competition on key routes between Australia and Indonesia.

The proposed code sharing arrangement will enable Qantas to tap into capacity available on the Indonesian side of the bilateral allocation without the need to further expand the existing bilateral. This will make it less likely, or necessary, for Qantas to advocate for an expansion of the bilateral which would improve competition by allowing other airlines the same opportunity to increase capacity on the route.

It is also worth noting that Garuda is currently undertaking a significant fleet expansion and revitalisation process. Whether or not the Australia-Indonesia bilateral were to be further liberalised in the near-term, a code share arrangement between Qantas and Garuda will position the airlines well to further increase their market dominance over time.

Given Indonesia was the second leading destination country for Australians in 2022-23 with 1,127,180 trips undertaken, increased market dominance on this route is likely to result in poor consumer outcomes. Conversely, increased competition and additional capacity to other airlines operating this route, including Virgin, Batik Air, Citilink and Indonesia AirAsia, or any new entrants seeking to operate, should result in increased choice and put downward pressure on airfares to the benefit of the travelling public.

At present, Sydney Airport does not support Qantas' application given the likelihood that a code share agreement with Garuda will only increase their dominance on Australia-Indonesia routes and lessen competition on a popular and important market. Sydney Airport does support additional capacity being added to the existing bilateral air service agreement between Australia and Indonesia and the subsequent opportunity for increased competition in the market to provide customers with increased choice and drive down airfares.

I trust this information is of assistance to the IASC's consideration of Qantas' application. Should you require any further information, please do not hesitate to contact Ellie Stamatelatos, Advisor, Public Affairs (ellie.stamatelatos@syd.com.au).

Yours sincerely,



Karen Halbert
Chief Corporate Affairs Officer