



27 August 2021

PUBLIC REGISTER VERSION

Mr Gavin Jones / Ms Jaime Martin
Director / Acting Director– Competition Exemptions
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

By Email: gavin.jones@acc.gov.au / jaime.martin@acc.gov.au

Dear Gavin and Jaime

Qantas-JAL: Response to ACCC Information Request

We refer to the Commission's letter dated 17 August 2021 requesting further information in relation to the proposed Joint Business Agreement (**JBA**) between Qantas Airways Limited (**Qantas**) and Japan Airlines Co Limited (**JAL**) (together the **Applicants**). Under the JBA and associated commercial agreements, the Applicants seek to work together to rebuild air services across a range of routes between Australia/New Zealand and Japan as demand recovers post-Pandemic (**Proposed Conduct**).

The Applicants' response to the Commission's questions is set out below.

1. At page 8 (Figure 4) of the Applicants' submission in response to the draft determination, the Applicants relied on an extract from an August 2020 survey conducted by the Japan Travel Bureau Foundation (JTBF) about Japanese consumers' willingness to travel. There appears to be more recent surveys results on JTBF's website, (for example, Part 8 dated 13/1/2021 and Part 10 dated 7/4/2021).

a) Given the full reports are in Japanese, we are not able to easily compare data in these more recent surveys to the data submitted by the Applicants. Are you able to provide an equivalent (translated) table to that provided in Figure 4 utilising the more recent survey results?

The references on the JTBF website to survey results titled 'Part 8 dated 13/1/2021' and 'Part 10 dated 7/4/2021' are to surveys which did not include the questions equivalent to the August 2020 survey cited earlier by the Applicants, which distinguished between consumers' intentions for domestic and international travel.

Please see response to Question 1(b) below for updated results released in August 2021.

b) If not, are you able to explain the more recent survey results and whether Figure 4 represents JTBF's most current measure of Japanese consumer confidence or willingness to undertake overseas travel in the future?

Currently, Japan is still under a state of emergency (for the fourth time) due to the Pandemic. Although vaccinations are progressing, a record 23,917 COVID infections per day were recorded on 18 August

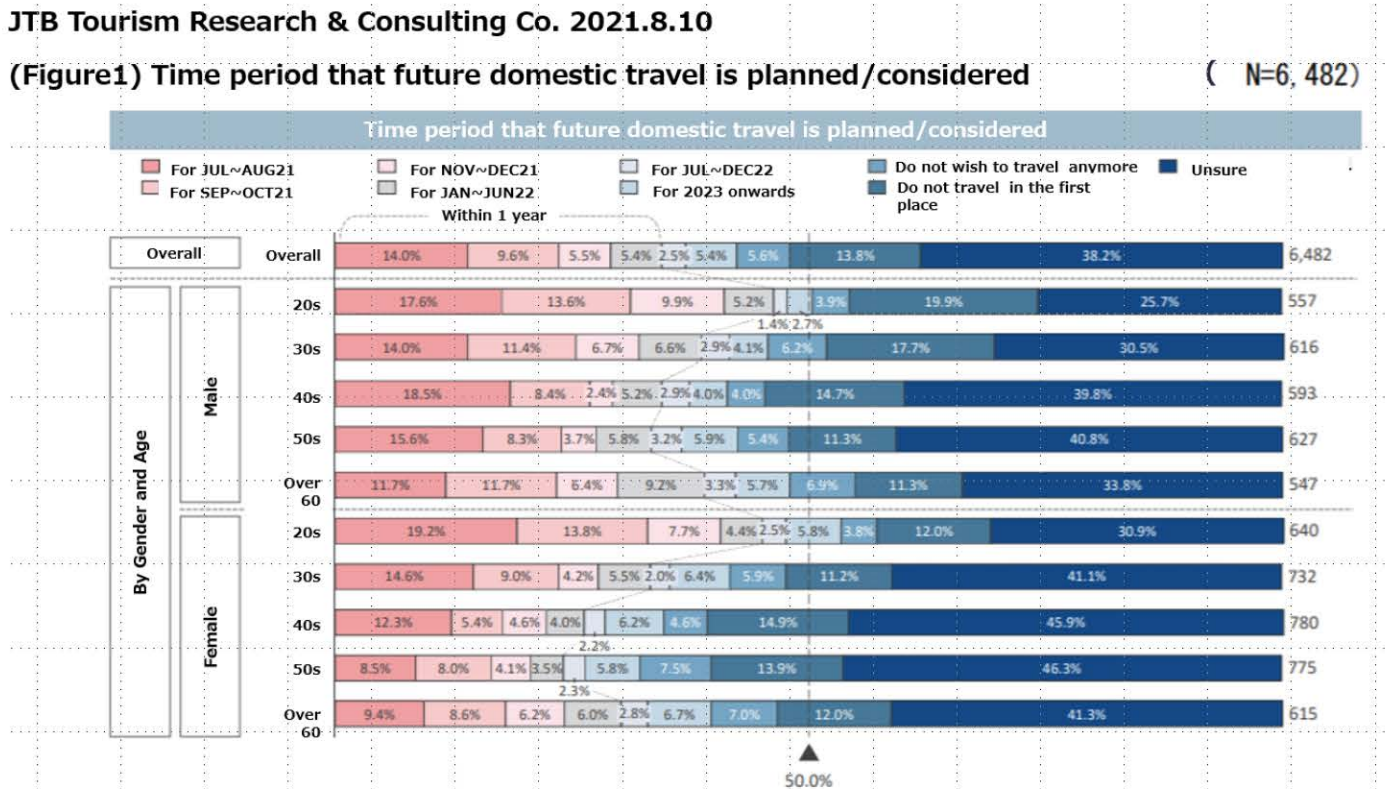


2021. The level of consumer confidence and willingness to travel remains low, which is reflected in the latest JTB Tourism Research & Consulting Co¹ survey results outlined below.

On 10 August 2021, the JTB Tourism Research & Consulting Co announced the results of a survey conducted in July 2021. Like the August 2020 survey previously cited by the Applicants, this survey included questions related to consumers' intentions (planned/considered) for both domestic and overseas travel.

Extracts from the most recent survey are shown in Figures 1 and 2 below.

Figure 1: Extract 1 From JTB Tourism Research & Consulting Co. Survey Results, August 2021



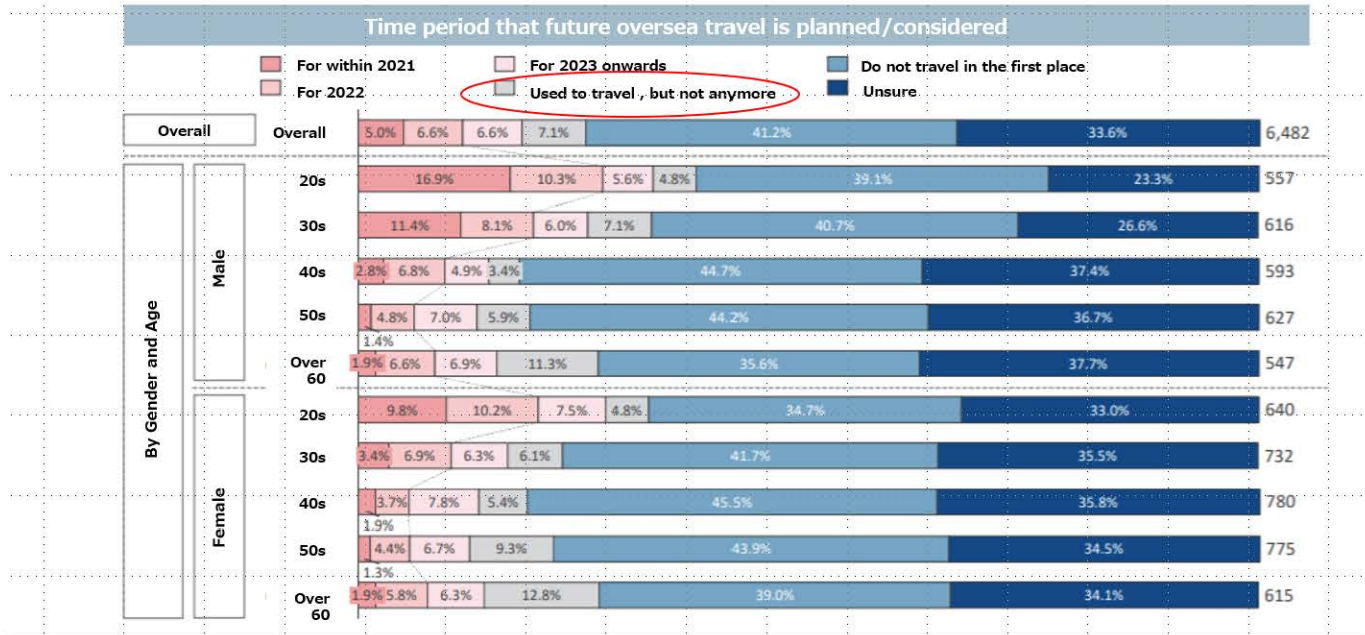
Source: <https://www.tourism.jp/wp/wp-content/uploads/2021/08/covid19-tourism-202108-report.pdf>

Reference: 10/8/2021 JTB Tourism Research & Consulting Co. Survey on changes in life and mindset due to COVID-19 pandemic (August 2021). Number of respondents: 6482. Survey conducted: 16-23 July 2021.

¹ The Japan Travel Bureau Foundation is a separate but related entity to the JTB Tourism Research and Consulting Co.

Figure 2: Extract 2 From JTB Tourism Research & Consulting Co. Survey Results, August 2021

(Figure2) Time period that future overseas travel is planned/considered (N=6,482)



Source: <https://www.tourism.jp/wp/wp-content/uploads/2021/08/covid19-tourism-202108-report.pdf>

Reference : 10/8/2021 JTB Tourism Research & Consulting Co. Survey on changes in life and mindset due to COVID-19 pandemic (August 2021). Number of respondents: 6482. Survey conducted: 16-23 July 2021.

As Figure shows, 29.1 per cent of total respondents plan/consider to travel domestically during 2021 and 7.9 per cent during 2022. Meanwhile as Figure 2 shows, only 5 per cent of total respondents plan/consider to travel overseas during 2021 and only 6.6 per cent during 2022, which is lower in comparison to domestic travel. While a certain number of respondents are willing to travel overseas once the situation allows, respondents remain concerned about the worsening Pandemic situation.

In terms of overseas travel, 7.1 per cent of total respondents indicated that they used to travel, but do not wish to in the future. This is aligned with the results cited by the Applicants previously (Figure 4, page 8 of Applicants' response to the Draft Determination) where a similar level of respondents indicated that they do not want to travel even when post-COVID-19. This demonstrates that the same hesitancy to travel exists in Japan, even after more than one year.

The survey also indicates that restoring demand will take some time. As Figures 1 and 2 show, in respect of both domestic and international travel, a significant proportion of total respondents remain 'unsure' about travel in the future, reinforcing the Applicants' assumption that Japanese travellers are likely to take a very cautious approach to resuming international travel.

2. Subsequent to the Applicants' submission in response to the draft determination, the Australian Government has announced a four phase National Plan to transition Australia's National COVID Response.

a. Can you please outline whether and how the Government's announcement, including the references to potential measures for international travel in future phases, has impacted the Applicants':

i. forecasts of future passenger demand for services between Australia and Japan?

The environment for forecasting passenger demand remains highly difficult and uncertain.

Demand in Australia and Japan for travel between the two countries is a product of economic, political, regulatory, health and public sentiment factors, all of which continue to evolve. Both countries currently have COVID-19 outbreaks with restrictions in place impacting local movement and activities (as well as overseas travel). As the opening of international borders becomes closer, more details regarding customer sentiment will come to light and enable the network restart to be revised and progressed accordingly.

The Australian Government's announcement on 30 July 2021 of its National Plan to Transition Australia's National COVID-19 Response outlined a four step plan that included measures to re-open international travel in 'Phase C', contingent on achieving 80 per cent vaccination of eligible adults over 16 years age. Travel will initially be permitted to certain countries deemed as safe by the Australian Government at that time.

Although the National Plan outlines potential requirements for travel to and from Australia, such as "proportionate quarantine" and "reduced requirements"² for fully vaccinated travellers inbound to Australia, specific details of these measures are not yet available. The nature of such controls and travel requirements, plus the global environment and public sentiment at the time of borders re-opening, will impact the public's willingness to travel – and will only be clarified in coming months. In addition, regulations may impact various travellers segments differently. For example, pent up Visiting Friends and Relatives (VFR) demand after extended border closures is likely to be higher (because friends and family are likely to have an increased willingness to accept additional travel requirements in order to be re-united across borders) compared to holiday travellers. Moreover, forecast passenger demand will continue to be heavily influenced by measures put in place by other countries and the broader environment in such countries.

Recent events such as Delta variant outbreaks and closures of travel bubbles show that the path to reopening international travel will have challenges that continue to make passenger demand forecasts difficult. This has already played out in respect of the multiple pauses to the Tasman 'bubble', as outlined in detail to the Commission previously.

In relation to demand between Australia and Japan, the Applicants consider that the situation in both countries needs to be taken into account. The current situation in Japan is as follows:

- as at 17 August 2021, 50.3 per cent of the total Japanese population have had the first dose of the vaccine, and 38.8 per cent have had the second dose;
- despite progress in the vaccination rollout, the number of new COVID-19 cases in Japan continues to increase at a rapid pace. Although the Pandemic has been most pronounced in the Tokyo metropolitan area and Okinawa, the number of new cases is rapidly increasing in almost all regions of Japan, making the spread of the disease unprecedented;
- on 19 August 2021, a record number of 25,146 cases per day was announced. Most infected people are in the 20-40 year age group, however, the number of infections in the elderly population is also rising as the Delta variant spreads;³
- unfortunately and most worryingly, hospitals are reaching full capacity. In Tokyo, out of the 45,000 patients who have tested positive to COVID and need treatment, only 8.75 per cent (3,845 patients) were able to be hospitalised (which compares to 25.2 per cent only one month ago). The number of people who are looking for hospitalisation or recuperation in hotels in Japan has jumped to more than 12,000 people compared to 1,671 one month ago⁴ and there is concern that quite a number of prefectures in Japan are facing the risk of hospital capacity crisis; and

² National Plan to transition Australia's National COVID-19 Response", Australian Government, 30 July 2021.

<https://www.pm.gov.au/sites/default/files/media/national-plan-to-transition-australias-national-covid-19-response-30-july-2021.pdf>

³ See further: Ministry of Health, Labour and Welfare, Japan, Situation Report: https://www.mhlw.go.jp/stf/covid-19/kokunainohasseijoukyou_00006.html

⁴ See further Toyo Keizai, <https://toyokeizai.net/articles-/1450095> 23 August 2021.

- the fourth state of emergency in Tokyo has again been extended until 12 September 2021 due to the recent outbreaks. Since the beginning of 2021, Tokyo has continuously been under a state of emergency, except for one month from 21 March and one month from 20 June.

The escalating number of COVID cases in Japan is shown in Table 1 and Figure 3 below.

Table 1: COVID Cases in Japan, As At 26 August 2021

Current situation (as of 00:00, 08/26)

	No. of people taken PCR test *3	No. of positive cases	No. of people requiring inpatient treatment		No. of people who were discharged from hospital or had released from mandatory convalescence	No. of deaths	Under confirmation *4
				No. of people requiring inpatient treatment who developed severe symptoms			
Domestic cases *1, *5 (not including charter flight returnees)	20,146,234 (+144,846)	1,358,980 (+24,312)*2	217,971 (+5,404)	1,974 (+10)*6	1,114,819 (+15,583)	15,730 (+44)	10,888 (+2,620)
Airport quarantine	968,074 (+2,664)*7	3,818 (+9)	159 (-3)	0	3,652 (+12)	7	0
Charter flight returnee cases	829	15	0	0	15	0	0
Total	21,115,137 (+147,510)	1,362,813 (+24,321)*2	218,130 (+5,401)	1,974 (+10)*6	1,118,486 (+15,595)	15,737 (+44)	10,888 (+2,620)

(Day-on-day changes are indicated in parentheses)

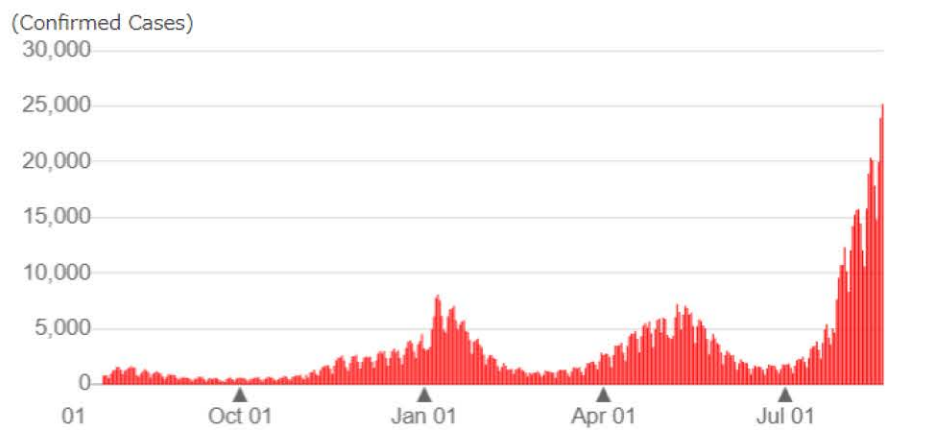
See further: Ministry of Health, Labour and Welfare, Japan, Situation Report: https://www.mhlw.go.jp/stf/covid-19/kokunainohasseijoukyou_00006.html

Figure 3: Trend in the number of newly confirmed cases (daily), as at 19 August 2021**Trend in the number of newly confirmed cases (daily)**

Last updated: August 19, 2021

Newly confirmed cases	Number of newly confirmed cases, weekly average	Previous week's average number of newly confirmed cases
25,146 cases Compared to the previous day + 1,236 cases	20,307 cases	14,729 cases

Period covered 1 Week 1 Month 3 Months **1 Year**



See further: *Ministry of Health, Labour and Welfare, Japan, Situation Report: https://www.mhlw.go.jp/stf/covid-19/kokunainohasseijoukyou_00006.html*

As the Japan routes are predominantly driven by holiday travel, demand will be more sensitive to travel requirements such as testing and quarantine, if travellers perceive them to be burdensome.

Demand on Australia-Japan routes is still expected to be volatile and particularly weak out of point of sale Japan – reinforcing the need for the Proposed Conduct to support any reinstated capacity.

ii. *planning of capacity reinstatement on routes between Australia and Japan with and without authorisation of the proposed JBA?*

Qantas Group

The National Plan has been the catalyst for the Qantas Group to review its overall international network operations and schedules. In planning for the restart of international operations, the Qantas Group needs to understand and make reasonable assumptions about what international travel will be permitted and when, in addition to knowing the travel requirements that may be imposed on passengers, all of which will in turn impact travel demand.

On current projections the Qantas Group understands that Australia is expected to reach National Cabinet's 'Phase C' vaccination threshold of 80 per cent in December 2021, triggering the reopening of international borders. This will facilitate a gradual re-start of the Qantas Group's international network from mid December 2021, as announced on 26 August 2021⁵ and outlined further below.

⁵ See: [Qantas Group Financial Results](#) and [international restart announcement](#), 26 August 2021.

Key markets such as the UK, North America and parts of Asia have high and increasing levels of vaccination. This makes them highly likely to be classed as low risk countries for vaccinated travellers to visit and return from under reduced quarantine requirements, pending decisions by the Australian Government. While COVID-19 has shown that circumstances can change unexpectedly, the long lead times for international readiness means the Qantas Group needs to make some reasonable assumptions now, based on the latest data, to ensure it can offer flights to customers as soon as they become feasible.

In consultation with the Prime Minister and the Australian Government, the Qantas Group identified a number of destinations to which it is hoped it will be possible to resume at least a limited level of services from late 2021 subject to certain conditions being met. Japan was one of these destinations.

Notwithstanding this, given the current situation in Japan and associated dampened traveller confidence, there will be a greater reliance on point of sale Australia demand to sustain these services and Qantas' services would be more sustainable with the selling support of JAL, if the Proposed Conduct is authorised.

Qantas has decided to reinstate only a limited amount of flying on one route to Japan (Sydney-Tokyo) from mid December 2021, taking into account the current forecasts of future passenger demand for services between Australia and Japan. Qantas intends to:

- operate 4 services per week between Sydney and Tokyo from 19 December 2021, moving up to 7 services per week from 27 March 2022;
- operate 3 services per week between Melbourne and Tokyo from 15 February 2022, moving up to 4 services per week from 27 March 2022;
- operate 3 services per week between Brisbane and Tokyo from 29 March 2022;
- continue to defer plans to publish and sell any services between Sydney and Osaka; and
- continue to defer plans to publish and sell any services between Sydney and Sapporo.

Jetstar⁶ intends to:

- operate 4 services per week between Cairns and Tokyo from 1 February 2022, moving up to 6 services per week from 1 May 2022 and 7 services per week from 1 July 2022;
- operate 3 services per week from Gold Coast (Coolangatta) and Tokyo from 2 March 2022, moving up to 4 services per week from 2 April 2022 and 7 services per week from 1 July 2022; and
- operate 3 services per week between Cairns and Osaka from 2 February 2022, moving up to 4 services per week from 2 April 2022, 5 services per week from 1 May 2022 and 7 services per week from 1 July 2022.

At this stage and subject to ongoing monitoring of Government requirements and passenger demand, Qantas and Jetstar intend to gradually reinstate the above Australia-Japan services, irrespective of whether the Commission ultimately grants authorisation of the Proposed Conduct.

Re-starting the Qantas Group's international network is time consuming and complex and includes bringing aircraft back to service, completing staff re-training, establishing new travel protocols and engaging in other port readiness activities. The Qantas Group therefore needs to take some preliminary steps, in advance of the Commission's final determination, to have sufficient time to complete this planning. While it would have been more beneficial to jointly plan, publish and sell this capacity

⁶ Jetstar cannot resume services prior to February 2022 due to operational/aircraft constraints.

reinstatement with JAL in order to maximise its sustainability, it has not been possible to do this in the absence of interim authorisation.

Moreover, without the Proposed Conduct, Qantas will still not be in a position to spread and grow the capacity reinstatement across a broader range of routes (instead concentrating on Sydney services), nor will it be able to bring forward the reinstatement of capacity on other routes to and from Japan (Sydney-Osaka or Sydney-Sapporo, currently not included in Qantas' gradual restart plan). Further, importantly, without the Proposed Conduct Qantas will not commence any operations on Cairns-Tokyo which, as set out in detail in previous submissions, would bring further public benefits. All of these outcomes would be to the detriment of consumers and the wider tourism and trade industries.

JAL

JAL will separately provide the Commission with information about its intentions.

Joint Plan

The Applicants submitted the proposed joint capacity plan to the Commission on a confidential basis **[REDACTED JOINT CONFIDENTIAL]**

After Qantas made its decision regarding international re-start, as announced on 26 August 2021, in the time available the Applicants have further considered the proposed joint plan for capacity reinstatement.

If the Commission ultimately grants authorisation of the Proposed Conduct, Qantas/Jetstar and JAL will work together immediately and aim to publish a reasonable joint selling network appropriate to the latest facts surrounding the reopening of travel between Australia and Japan. Specifically, if the Proposed Conduct is authorised, at this stage Qantas and JAL would intend to jointly operate:

- on the Sydney-Tokyo route, **[REDACTED JOINT CONFIDENTIAL]** and
- on the Melbourne-Tokyo route, **[REDACTED JOINT CONFIDENTIAL]**

The additional joint frequencies on the Sydney and Melbourne routes would be made possible because both carriers would have the benefit of each other's sales and marketing support and distribution capabilities in both countries. All Qantas' reinstated capacity to Japan will be more certain, more sustainable and less likely to be cancelled if commercial coordination with JAL is permitted during this recovery phase. The criticality of JAL's sales support for Qantas' services has been set out in detail in previous submissions to the Commission, and this is even more important given the ongoing deterioration of demand ex Japan as outlined above. At the same time, JAL services will also be supported by Qantas' sales and marketing capabilities in point of sale Australia.

3. Pages 12–13 of the Applicants' submission in response to the draft determination detail Qantas and JAL's plans to reinstate capacity, including on the Sydney – Tokyo and Melbourne – Tokyo routes under the proposed JBA when borders re-open and demand recovers. The Applicants submit the re-instatement of capacity will be faster under the proposed JBA than without the proposed JBA.

As the response to this Question 3 includes information confidential to JAL, JAL will separately provide its response to Commission. Qantas' response is below.

a) Can you please outline whether the Applicants are currently selling tickets for travel between Sydney-Tokyo and Melbourne – Tokyo? If so, please outline when the Applicants commenced selling these tickets, and how far out any forward sales program is?

As set out above and announced yesterday, Qantas is currently selling tickets on 4 services per week between Sydney and Tokyo from 19 December 2021, moving up to 7 services per week from 27 March 2022 and on 3 services per week between Melbourne and Tokyo from 15 February 2022, moving up to

4 services per week from 27 March 2022. This schedule was published and active in booking systems from yesterday, 26 August 2021.

Qantas sells to system range, meaning passengers can purchase fares for travel up to 353 days away from the date of purchase. Hence Qantas currently has fares available on the Sydney and Melbourne routes to Tokyo for travel starting from mid-December and mid-February respectively until the end of August 2022, in anticipation of borders being open and sufficient demand starting to restore during that period.

b) Can you please confirm whether the Applicants intend to supply Sydney-Tokyo and Melbourne-Tokyo services to customers who purchase these tickets if the ACCC does not authorise the proposed JBA?

As set out above, at this stage Qantas is selling and intends to operate some limited Sydney-Tokyo and Melbourne-Tokyo services, even if the Proposed Conduct is not authorised by the Commission.

However, as explained above and in earlier submissions, the sustainability of those services will be less certain without JAL's selling support – hence without authorisation, there is a higher likelihood of cancellation closer to the date of departure if flight loads are too weak to sustain the operation.

In the event of any cancellations Qantas and Jetstar would offer re-accommodation options to the extent possible (potentially through indirect routings) and ensure consumers have access to the appropriate redress in the event of any flight cancellations, in accordance with Australian Consumer Law obligations. Qantas has recently extended its 'Fly Flexible' policy, offering customers who book international flights before 28 February 2022 with unlimited 'fee free' date changes when travelling before 31 December 2022. (A fare difference may apply). Qantas has also extended credit vouchers for bookings made on or before 31 July 2021 to enable travel until 31 December 2023. Jetstar customers issued with a voucher due to COVID-19 disruptions are able to use their voucher to book flights until at least 31 December 2022, for flights up to the end of 2023.

If you have any questions about the matters referred to above, please contact me on **[REDACTED CONFIDENTIAL]**

Yours sincerely



Nicole Malone
Head of Legal – Competition
Qantas Airways Limited