



Australian Federation of Travel Agents (AFTA)
**Submission to the Australian Competition &
Consumer Commission (ACCC)**

Qantas Airways Limited & China Eastern Airlines Corporation: AA1000624-1

January 2023



Executive Summary

The Australian Federation of Travel Agents (AFTA) welcomes this opportunity to contribute to the Australian Competition and Consumer Commission (the Commission) regarding Qantas Airways Limited (Qantas) & China Eastern Airlines Corporation Limited's (China Eastern) application for Authorisation AA1000625-1.

As the peak body for a broad array of Australian travel professionals, AFTA strives to promote and advocate for competition across the entire travel sector. Healthy competition is critical for the effective operation of markets so that businesses have the incentive to operate efficiently, price competitively and offer products valued by consumers. This in turn delivers benefits to the Australian community and economy through lower prices, innovation and improved product offerings.

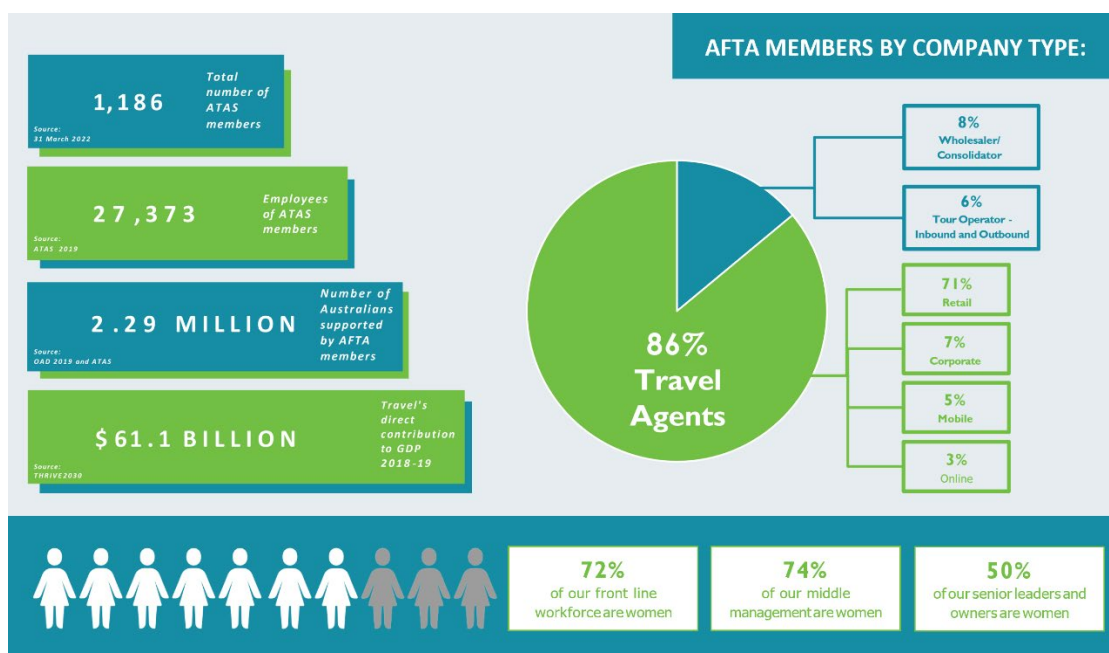
It is for these reasons that AFTA provides the following comments:

- **If authorisation is provided, a one-year authorisation period is appropriate** in circumstances where massive transformations are occurring across the travel industry with a rapidly evolving post-pandemic landscape in China;
- There has not been sufficient evidence provided by the applicants to support the continuation of coordination on distribution strategies for passengers and agents. Aligning these activities appears to have the impact of limiting choices for consumers on how they shop and book travel;
- AFTA supports the ACCC specifying conditions in the authorisation under s 88(3) of *The Competition and Consumer Act 2010 (Cth)* to incentivise passenger capacity increases and protect the competitive distribution of airfares;
 - 1) Given the current operating environment and recent pricing activity, it will be critical for the Commission to ensure that the Proposed Conduct leads to capacity increases and not price increases. **Any authorisation should be conditioned upon Qantas and China Eastern reporting on the coordination of routes and pricing managed under the Proposed Conduct;**
 - 2) Airlines are already withholding fares from competitive distribution. The Proposed Conduct will increase the cohort of fares that Qantas and China Eastern can reserve for their direct channels to deprive consumers of the reduced costs they experience when travel agents are afforded a fair opportunity to compete on distribution. The Commission should also **impose a condition requiring the applicants to undertake that they will make all fare types and schedules made possible by the Proposed Conduct available to travel agents** through all distribution systems - not only the New Distribution Capability (NDC); and
 - 3) **Full and equal rights should be provided to travel agents for customer refunds and cancellations that occur under the Proposed Conduct**, so that airlines cannot discriminate against agents by disabling access to the refund system for their customers as they did during the pandemic.
- These conditions are appropriate given that the Proposed Conduct will allow these two major airlines to collude on distribution in a way that others in the industry cannot. Despite their size, Qantas and China Eastern should be subject to the same market settings as travel agents for distribution purposes. Both parties should be able to advise the final price they have settled, but they should be prevented from sharing intelligence on the creation of airfare prices and agent commissions.

About the Australian Travel Sector

AFTA is the trusted source for advice and best practice in the travel sector. Our mission is to highlight the integrity of our members through effective approaches in advocacy, industry recognition and awards, and ultimately boosting the confidence of the travelling public.

AFTA administers the Australian Travel Accreditation Scheme (ATAS), which is the largest and most representative accreditation scheme for travel businesses in Australia. All AFTA members are ATAS accredited and recognised for their highest of operational standards including assessment of finances, minimum levels of training and procedures for dealing with consumer grievances. About 85% of consumers are more likely to book with an ATAS accredited travel agency.



Our membership base includes the full spectrum of travel intermediary businesses across Australia including retail and corporate travel agents, tour operators, wholesalers and consolidators. Our members range in size from the largest listed organisations such as Flight Centre, Helloworld, Corporate Travel Management and Webjet, through to small independently owned and operated travel businesses. A large proportion of travel agent members are small to medium businesses, many of whom operate under networks such as Express Travel Group, Travellers Choice and CT Partners. AFTA's membership also includes consolidators, tour operators and wholesalers such as Scenic, APT and The Travel Corporation. There are a total of 1,750 ATAS accredited member locations. A directory of current members is available at [atas.com.au](https://www.atas.com.au)

Dynamics of the proposed conduct

Qantas and China Eastern's Extended Joint Coordination Agreement will enable these two major airlines to act in concert on a broad arrange of activities to deliver codeshare agreements for passengers across their overlapping Australia and mainland China networks and the Sydney-Shanghai route ('the Proposed Conduct').

AFTA notes that travel restrictions have eased significantly in mainland China subsequent to the lodgement of Qantas and China Eastern's application in November 2022, and that additional information may now need to be provided to justify this authorisation. In particular, the Commission may wish to seek additional information about how the Proposed Conduct is contributing to the reinstatement of capacity, given that other carriers servicing China are reinstating capacity at the same speed, if not faster, than Qantas and China Eastern – in the absence of a similar authorisation.¹

While AFTA acknowledges some of the benefits of the Qantas and China Eastern relationship and this code share arrangement, Commission authorisation would facilitate a significant entrenchment of market power on routes where demand is likely to grow rapidly as entry and quarantine restrictions are removed. Careful consideration of the benefits and detriments that might result from the Proposed Conduct is warranted in these circumstances.

More transparency needed on proposed conduct's benefits

AFTA recognises that carrier coordination can improve convenient connections for passengers and create more attractive customer reward programs. As an industry that specialises in coordinating multi-leg itineraries and products on a single ticket, AFTA can also attest to the benefits consumers enjoy from an integrated experience.

However, the benefits of previous authorisations are often overstated and have not been appropriately quantified to allow the Commission to properly weigh consumer benefits against detriments when considering applications for reauthorisation. Ensuring that the stated benefits of the Proposed Conduct materialise should be the Commission's core objective, for there are two detriments to the public that the benefits should be weighed against.

Public detriments in the current operating environment

Proposed conduct does not incentivise much needed increases in capacity

Despite ongoing complexities and operational challenges, major airline carriers have been able to recover much faster in the post-pandemic operating environment than others across the tourism industry. While only a select few travel businesses have been able to breakeven, the airline industry is experiencing immense profitability with the Qantas Group repeatedly announcing significant profit upgrades.²

Underpinning this profitability has been the substantial price increases that carriers have been able to charge for overseas travel as demand for flights outstrips capacity in Australia.³ The inflationary impact of this dynamic has led to all-time high prices for consumers with the Commission finding that there has been a 27 per cent increase in all airfare types and that airlines no longer need to offer discounted fares to fill their aircraft.⁴

¹ Sydney Airport, LinkedIn update on flights to China, 20 January 2022, <<https://www.linkedin.com/feed/update/urn:li:activity:7021683056885317632>>.

² Qantas, Qantas Group Market Update – Strong Demand Drives Profit Upgrade, 23 November 2022, <<https://www.qantasnewsroom.com.au/media-releases/qantas-group-market-update-strong-demand-drives-profit-upgrade/>>.

³ Bruno, Angelina, Kathryn Davis, and Andrew Staib. "The Recovery in the Australian Tourism Industry| Bulletin–December 2022." (2022).

⁴ ACCC, Airline competition in Australia, 10 December 2022, <<https://www.accc.gov.au/system/files/Airline%20Competition%20in%20Australia%20-%20December%202022%20report.pdf>>.

Despite demand for airfares having completely recovered in Australia, the Qantas Group has downgraded its forecasts to foreshadow that it is likely to have even less international capacity by the end of FY2023 than previously expected.⁵ The Proposed Conduct is unlikely to contribute to a willingness to accelerate additional capacity upgrades. It is notable that key competitors without equivalent authorisations have demonstrated a more discernible commitment to increase capacity, with Qatar Airways and Singapore Airlines' capacity already back at 100 per cent and 82 per cent of pre-pandemic levels, respectively.⁶

While it is suggested that the Proposed Conduct will support capacity reinstatement and enable China Eastern to sell additional seats, this is counterbalanced by the potential for the applicant's joint control of slots at Sydney airport to limit the ability of other airlines to increase their supply.⁷ Joint marketing activities and distribution channels are described as the primary reason the Proposed Conduct will ensure capacity reinstatement. As the industry with the most reach to market and ability to cross sell Qantas and China Eastern products (irrespective of this authorisation), it is unclear how the Proposed Conduct or its proposed onsite visits to travel agents⁸ will significantly contribute to capacity growth in this regard. In the post-pandemic operating environment, the Commission must ensure that the Proposed Conduct does not further enable increases to prices over increases to capacity.

Proposed conduct will generate less competition on the distribution of airfares

Travel agents have acted as a market balance for consumers at the point of sale, playing an important role as consumer advocates to find best value for money and limiting any detriments of the Proposed Conduct under previous authorisations. However, recent changes to industry commission structures, distribution standards and remuneration models necessitate the consideration of previously unexplored impacts that the Proposed Conduct may have on the distribution of airfares to consumers.

Despite Qantas and other airlines continuing to, as described by them, 'drive their local distribution model via travel agents',⁹ these dominant players have recently cut the commissions paid to Australian travel agents by as much as 80 per cent.¹⁰ The industry has quickly had to realign its business models to adapt to a landscape dominated by the New Distribution Capability (NDC) while responding to other post-pandemic challenges. The shift to NDC has both diminished agents' profitability and seen more costs passed on to consumers through increased service fees, without any lowering of prices by airlines to the end consumer. As a result, the airline industry is using the additional control they have in an NDC world to continue benefiting from travel agent marketing investments while consolidating their direct distribution channels.

It is clear the Qantas and China Eastern's commitment to the local distribution model is not as strong as it was at the time of their previous authorisations. This is impacting the benefits Australian consumers are used to enjoying from travel agents who can often advertise and distribute airfares more efficiently than carriers. However, the following activities are enabling airlines to become the sole price makers and increase the margins on their cheapest products with no pressure from the market:

⁵ Compare Application p.3. par 1.5 with Qantas, Qantas Group Market Update: Strong Demand Accelerates Recovery, 13 October 2022, <<https://www.qantasnewsroom.com.au/media-releases/qantas-group-market-update-strong-demand-accelerates-recovery/>> and Qantas, Qantas and Jetstar Adjust Third Quarter Capacity Settings, < <https://www.qantasnewsroom.com.au/media-releases/qantas-and-jetstar-adjust-third-quarter-capacity-settings/>>.

⁶ Qantas and Emirates, Authorisation Application, 7 November 2022, p.12. par 3.10.

⁷ Deloitte Access Economics Economic, Contribution of Sydney Airport February 2021.

⁸ Qantas and China Eastern, Authorisation Application, 9 November 2022, p.14.

⁹ Qantas and Emirates, Authorisation Application, 7 November 2022, p.36. par 7.17(c).

¹⁰ Australian Frequent Flyer, Airlines Slash Travel Agent Commissions, 30 June 2022, <<https://www.australianfrequentflyer.com.au/airlines-slash-travel-agent-commissions/>>.

- Creating parallel airfare markets to the internationally recognised Global Distribution System (GDS) and forcing travel agents to access these proprietary systems to maintain access to the lowest fares – systems that imposed reduced ‘at-source commissions’ for travel agents;¹¹ and
- Not providing access to all airline availability to travel businesses and reserving sales of the cheapest cohort of airfares to its direct channel with consumers, preventing any competition from travel agents on the efficient distribution of these highly sought-after tickets.¹²

The distortionary impact of these behaviours has been readily apparent since 2019, when travel agents were effectively forced into the NDC channel. With the plan to introduce Qantas’ own NDC called the Qantas Distribution Platform (QDP), Qantas started paying GDS operators less for their hosting services. This resulted in the removal of the traditional GDS segment rebates these operators would pay to agents to support Australian consumers. At the same time, Qantas introduced a \$17.50 channel fee for agents that did not participate in the new model. The channel fee was not applied to tickets issued through Qantas’ direct booking channels or tickets issued using the QDP. However, as QDP did not go live until November 2022, the airline’s dominant market position allowed them to effectively reduce the costs of their commissions for the three-year interim and divert more sales into their direct channel without any consumer benefit.

The Proposed Conduct should not further enable the use of punitive measures to deprive consumers of the reduced costs they experience when travel agents are afforded a fair opportunity to compete on airfare distribution. While Qantas and China Eastern may be able to distribute more fares through their own direct channels under the Proposed Conduct, the above behaviours demonstrate that the proposed coordination may result in a net loss in competition for distribution across the market. If these practices continue, the Proposed Conduct will make it even harder for consumers to assess varying price points and trust what is available on fare aggregator websites without navigating to each airline’s direct sales channel.

Conditions to safeguard competitive distribution

As a regular distributor of both Qantas and China Eastern airfares, our members recognise the value that consumers could derive from a continuation in their relationship provided that appropriate safeguards are established.

If authorisation is provided, a one-year authorisation period is appropriate in circumstances where massive transformations are occurring across the travel industry in a rapidly evolving post-pandemic landscape. Any longer would not provide the Commission the opportunity to reassess the dynamic landscape as travel to and from China comes back online.

Given the current operating environment, it will be critical for the Commission to ensure that the Proposed Conduct leads to capacity increases and not price increases. To increase transparency in the current operating environment with the context of recent pricing activity, any authorisation should be conditioned upon the Qantas and China Eastern reporting on the coordination of routes and pricing managed under the Proposed Conduct.

AFTA strongly believes that the Proposed Conduct also has the potential to generate less competition on the distribution of airfares. Existing practices demonstrate that the airlines are likely to use renewed coordination to grow their direct sales channel at the expense of the consumer value derived from the efficiencies of travel agent distribution. In these circumstances, AFTA supports the ACCC specifying conditions in the authorisation to protect the competitive distribution of airfares.

¹¹ See, Qantas, Lower Pricing via the Qantas Distribution Platform Agency FAQs, 29 November 2022, <<https://www.qantas.com/agencyconnect/au/en/agency-news/agency-news-august-22/qantas-to-introduce-lower-pricing-via-the-qdp/qantas-to-introduce-lower-pricing-via-the-qdp-agency-faqs.html>>.

¹² AFTA can provide further examples on these activities in a closed briefing with the Commission.

In particular, the Commission should require the applicants to undertake that they will make all fare types and schedules made possible by the Proposed Conduct available to travel agents through all distribution systems - not only the New Distribution Capability. Furthermore, full and equal rights should be provided to travel agents in relation to customer refunds and cancellations that occur under the Proposed Conduct, so that airlines cannot discriminate against agents by disabling access to the refund system for their customers as they did during the pandemic.

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