

19 July 2023

Mr Tony Hilton
Director, Competition Exemptions
Australian Competition & Consumer Commission

Via email: exemptions@acc.gov.au

Dear Mr Hilton,

Qantas and Emirates authorisation application – AA1000625

Thank you for the opportunity to comment on the Qantas Airways Limited (**Qantas**) and Emirates authorisation application.

Sydney Airport (**SYD**) supports a competitive aviation market within Australia and internationally, particularly as the aviation industry continues to recover from the COVID-19 pandemic.

SYD does not object to the continued alliance between Qantas and Emirates. The alliance has offered, and (if authorisation is granted) will likely continue to offer, benefits to passengers in the form of increased connectivity and convenience between Australia and destinations abroad.

However, when assessing the competitiveness of the supply of international air passenger transport services between Australia and international destinations, SYD encourages the ACCC to take into consideration that the ability of rival airlines to compete effectively (including their ability to respond in a pro-competitive way to their competitors' price and service decisions) may be limited in the light of:

- the relevant bilateral air service agreements (**ASAs**) negotiated between Australia and other countries, which restrict the number of international flights and passengers to and from Australia; and
- the impact of the COVID-19 pandemic on airlines' networks and capacity utilisation.

This is particularly relevant as:

- there are no longer any Australian airlines that operate services from Sydney to Europe via the Middle East, with both Qantas and Virgin Australia no longer operating services; and
- historically, alliances between airlines have, at times, led to airlines consolidating capacity on routes, rather than maintaining or growing capacity and routes. Where this has occurred, this has resulted in less choice and connectivity for passengers, and often higher airfares.

Impact of bilateral ASAs

SYD considers that when assessing the extent of competition an airline faces on international routes, it is crucial to carefully consider whether the competitive constraint posed by rival airlines may be limited due to restrictions contained in bilateral ASAs.

ASAs are bilateral government treaties, which allow airlines to operate international services. These arrangements often include capacity restrictions on the number of flights and number of passengers on international services. Demand is currently meeting, or exceeding, restrictions placed on several markets. This limits an airline's ability to

compete, including to expand its operations to and from Australia, in response to their competitors' price and service decisions.

By way of an example, there are significant restrictions contained in the current bilateral ASA between Australia and Qatar that limit the ability for Qatar Airways to operate additional services into Sydney and other key Australian markets. Qatar Airways is limited to operate a maximum of 28 services per week to Australia's major ports,¹ which have all been fully utilised. In contrast, the bilateral ASA between Australia and United Arab Emirates is far less restrictive. It allows for up to 168 services per week to major Australian ports² (six times more than the allocation under the ASA between Australia and Qatar), and a significant portion of this allocation remains unutilised. This means that Qatar Airways' ability to compete effectively, including to increase capacity and number of flights, is constrained. The operation of the bilateral ASA likely results in overall less choice for consumers and higher airfares on these routes. In this regard, SYD believes that the liberalisation of bilateral ASAs would enhance competition on routes connecting Australia to the world.

The impact of the COVID-19 pandemic on carriers' networks and capacity utilisation

When assessing the extent of the competitive constraint posed by rival airlines on particular routes, SYD encourages the ACCC to carefully consider not only the availability of alternative routes, but also the ability and the likelihood of other airlines fully utilising those alternative routes to facilitate capacity restoration and expansion.

The aviation industry continues to recover from the COVID-19 pandemic. Many carriers have emerged from the pandemic as much smaller airlines with substantially smaller global footprints. As these carriers continue to restore their global network, they may have limited ability to respond to their competitors' price and service decisions on certain routes.

By way of an example, Etihad Airways currently operates routes to over 60 destinations around the world compared to over 80 destinations before the pandemic. SYD expects that even if Etihad Airways can fully recover its global network, it may only be able to operate at around 75% of its pre-pandemic passenger capacity. This is because the overall capacity between Etihad Airways' hub in Abu Dhabi and Sydney has substantially reduced from daily Airbus A380 and Boeing 777-300ER services at its peak capacity before the pandemic, to a daily mix of Boeing 777-300ER and 787-9 services, with only a few Airbus A380 services during the northern summer peak months. It is not clear whether Australia will be a focus of Etihad Airways' future global network strategy as it moves away from operating ultra long-haul flights³ or whether Etihad Airways intends to fully restore its routes and fleet structure to Australia given the adjustments it had made to other Australian routes.⁴

During the week commencing 7 July 2023, the route capacity between SYD and the United Arab Emirates remains 29% lower than it was in the same period in 2019.⁵ As a consequence, fares on routes between Australia and Europe via the Middle East are significantly higher than pre-pandemic. Indeed, data compiled between January to

¹ See: <https://www.infrastructure.gov.au/sites/default/files/documents/growth-potential-foreign-airlines-northern-summer2023-april2023.pdf>

² Ibid.

³ See: <https://www.reuters.com/business/aerospace-defense/etihad-airways-plans-triple-passengers-double-fleet-amid-strategy-shift-2023-04-27/>

⁴ See: <https://www.executivetraveller.com/news/etihad-axes-brisbane-flights>

⁵ Source: SRS Analyser.

April 2023 suggests that average return economy air fares from Australia to Europe are 63% above comparable pre-pandemic fares.⁶

If you have further questions in relation to this submission, please direct them to Lisa Lucak (Senior Legal Counsel) at [REDACTED]

Sincerely,

[REDACTED]

Rob Wood
Executive General Manager Aviation

⁶ Data compiled by travel search engine Kayak.com.au from searches made since early January 2023 up to w/c 10 April 2023 for travel between the beginning of June and end of September 2023. Source: <https://www.theguardian.com/world/2023/apr/17/australians-face-50-hike-in-air-fares-to-fly-to-europe-this-year-data-suggests>