



Australian
Competition &
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Commission

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NEWS RELEASE

ACCC PROPOSES TO DENY QANTAS/CHINA EASTERN COORDINATION AGREEMENT

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In a draft decision, the Australian Competition and Consumer Commission is proposing to deny authorisation for Qantas (ASX:QAN) and China Eastern to coordinate their operations between Australia and China under a proposed Joint Coordination Agreement.

The ACCC considers that the agreement is likely to result in significant public detriment by giving Qantas and China Eastern increased ability and incentive to limit capacity and/or increase airfares on the Sydney – Shanghai route.

“The ACCC understands Qantas’ desire to form an alliance with a Chinese airline to establish a gateway to North East Asia. However, the ACCC’s concern is that they have chosen to do so with their main competitor on the one route between Australia and China on which Qantas operates direct flights,” ACCC Chairman Rod Sims said.

“Qantas and China Eastern together account for more than 80 per cent of capacity (seats flown) on direct services on the Sydney – Shanghai route. They are the two major airlines on the route and the only airlines offering daily flights, and so the major competitive constraint on each other. Competition between them will be greatly reduced under the proposed Agreement.”

The Sydney – Shanghai route accounts for around 24 per cent of all direct flights between China and Australia.

The ACCC accepts that the Agreement will result in some limited public benefits. In particular, under the Agreement, Qantas would co-locate at China Eastern’s terminal in Shanghai. This would provide improved connectivity and convenience for Qantas passengers transferring to a China Eastern flight in Shanghai and would also result in cost savings in processing passengers and freight for Qantas and China Eastern.

However, the range of travel options available to passengers for travel beyond Shanghai would not automatically be increased. Passengers who value this connectivity and convenience are already able to fly with China Eastern directly. Therefore, this public benefit will only be likely to arise for passengers who have a preference to fly with Qantas.

“The ACCC currently considers that these limited benefits will not outweigh the significant public detriment likely to result from Qantas and China Eastern coordinating their services on the Sydney – Shanghai route,” Mr Sims said.

The ACCC is seeking submissions from interested parties in relation to its draft determination, before making a final decision. Submissions are due by 8 April 2015.

Authorisation provides immunity from court action for conduct that might otherwise raise concerns under the competition provisions of the *Competition and Consumer Act (2010)*. Broadly, the ACCC may grant an authorisation when it is satisfied that the public benefit from the conduct outweighs any public detriment.

Further information will be available at www.accc.gov.au