

Ms Sue McIntosh  
Executive Director  
International Air Services Commission  
GPO 630  
Canberra  
ACT  
2601

19 July 2012

Dear Ms McIntosh,

**Submission in response to the application by Qantas to extend the code share arrangement with South African Airways**

Further to my email correspondence this is my submission objecting to the continuation of the code share arrangement between Qantas and South African Airways (SAA).

My objection to this application is based on the fact that after 10 years the code share arrangement has not delivered any benefit to the public and that there has been no fundamental shift in any of the inherent factors that led the IASC to determine that the code share arrangement between Qantas and SAA should not be permitted to be extended beyond 31 December 2012, notwithstanding that the IASC has now permitted an interim extension to 31 March 2013.

I would like to state my unease at the new development whereby the IASC have now started to meet directly with both Qantas and SAA, this is a privilege that has not been extended to any other interested parties and which can be construed as being preferential treatment in favour of Qantas and SAA. In addition the details of the discussions at those meetings have not been made public.

Qantas and SAA continue to assert that the continuation of the code share arrangement is in the public interest despite the IASC previously finding that this is not the case. Both Qantas and SAA have once again provided detailed and lengthy submissions in support of their case but do not explicitly prove how the code share arrangement benefits the public other than to threaten that should the code share arrangement not be permitted to continue that one or both carriers would withdraw their services from the Australia – South Africa route.

An analysis contrasting the prices of services on the two routes between Australia and South Africa of similar distance and duration will show that the monopolistic situation that has arisen through the application of the code share has led to unreasonably high fares on the Australia - South Africa routes. For example the route between Sydney and Johannesburg is similar in duration and distance to the route between Sydney and Los Angeles and yet the price to fly to Johannesburg is \$600 more than the price to fly to Los Angeles (\$1,899 vs. \$1,299) and currently the price to fly to Johannesburg is the highest for any route sold by Qantas for travel from Sydney.

In their submission SAA and Qantas state that their code share arrangement whereby each carriers buys a hard block of 40% of the available capacity on one another's respective Australian flights ensures that there is competition on the route. I disagree with their argument and assert that this arrangement simply guarantees that at least 40% of the capacity is presold for every flight, a situation that any airline would envy.

Qantas and SAA make arguments and submissions regarding the economics of the Australia – South Africa routes, most of which have been redacted allegedly due to claims of commercial confidentiality. Firstly, as this data has been generated internally by Qantas and SAA and has not been audited, I suggest that the IASC view this data with

a degree of scepticism. Secondly, most of these economic issues are common to all the routes serviced by Qantas and therefore do not explain the reasons for the higher fares on the Australia – South Africa route and as these are the inherent characteristics of the airline industry if Qantas cannot operate with them perhaps they should shut down their operations and engage in an alternate business. In their submission SAA even go so far as to quote inefficient aircraft as one reason for their "difficulties" on the route, the inference of which is that they believe that IASC should permit them to engage in anti-competitive behaviour to compensate for SAA's poor management decisions!

The submissions by Qantas and SAA should also be considered in light of what they have chosen not to disclose. Neither airline has mentioned that they choose to operate old and inefficient aircraft on the route. Why if this route is so economically difficult do Qantas use their old and inefficient Boeing 747-400ER aircraft rather than the newer and more efficient Airbus A380 aircraft and SAA continue to use their older Airbus A340-300 aircraft rather than their newer and more efficient Airbus A330-200 aircraft on the route? Why did neither airline mention that should they withdraw market forces would ensure that competitors would continue to service the route? How did SAA make a submission to the IASC 4 July 2012 when the IASC only published Qantas's submission on 5 July 2012? I would submit that there is an element of pre-planned collusion in their submissions rather than a mere response by SAA to the original submission.

It is my submission that after 10 years the code share arrangement has not delivered any benefit to the public and it is now time to test the counterfactual which is that the code share arrangement should not be permitted to continue and that after a reasonable period (one to three years) the effect on the public interest of this prohibition can be evaluated.

As this submission is made in strict confidence I request that my name, address and contact details be redacted in should this submission be published.

Yours sincerely,