



Australian Government

International Air Services Commission

DECISION

| | |
|------------------------------|---|
| Decision: | [2020] IASC 206 |
| Variation Of: | [2017] IASC 122 |
| The Route: | Indonesia |
| The Applicant: | Qantas Airways Limited (Qantas) ABN 16 009 661 901 |
| Public Register File: | IASC/APP/202005 |

The Commission varies Determination [2017] IASC 122 to permit the use of the capacity on the Indonesia route for code sharing between Jetstar and KLM Royal Dutch Airlines (KLM). The permission is valid for the duration of the determination commencing from the date of issue of this decision.

1 The application

1.1 On 24 December 2019, Qantas applied to the International Air Services Commission (the Commission) for a variation of determination [2017] IASC 122 to permit the utilisation of the capacity for code share services between Jetstar and KLM Royal Dutch Airlines (KLM) on the Indonesia route. Specifically, it is proposed that KLM will offer code share services on selected flights operated by Jetstar Airways Pty Limited (Jetstar) between Australia and Indonesia, under a free-sale arrangement.

1.2 In accordance with section 22 of the *International Air Services Commission Act 1992* (the Act), on 05 December 2019, the Commission published Qantas' application on the Commission's website inviting submissions about the application for variation to enable KLM to code share on Jetstar services. No submissions were received.

1.3 All non-confidential material supplied by the applicant is available on the Commission's website (www.iasc.gov.au).

2 Air services arrangements

2.1 Under paragraph 7(2)(aa) of the Act, the Commission must not allocate available capacity contrary to any restrictions on capacity contained in a bilateral arrangement(s). Any variation made to an existing allocation of capacity should also not be contrary to any restrictions on capacity contained in a bilateral arrangement(s).

2.2 Under the Australia-Indonesia air services arrangements, Australian designated carriers may enter into code sharing, blocked space or other cooperative marketing arrangements, as the marketing and/or operating airline, with another Australian airline(s), with a Indonesian airline(s) or with airline(s) of a third country. There are, however, a number of conditions which apply to cooperative marketing operations.

3 The Commission's assessment

3.1 Qantas seeks to vary Determination [2017] IASC 122 which allocates 1,300 seats of passenger capacity per week in each direction on the Indonesia route. The determination permits the capacity to be used by Qantas and/or any wholly-owned subsidiary of Qantas, such as Jetstar and the use of the capacity for code sharing between Jetstar and Emirates. Qantas is now seeking to vary the determination to permit KLM to code share on selected flights operated by Jetstar on a free sale basis.

3.2 The Qantas application seeks to vary the Determination to include a condition of a kind referred to in paragraph 15(2)(e) of the Act. In view of this, the application is a transfer application as so defined in subsection 4(1) of the Act and has been assessed in accordance with section 25 of the Act.

3.3 Subsection 25(1) provides that the Commission must make a decision varying the determination in a way that gives effect to the variation requested, subject to subsection 25(2). Subsection 25(2) states that the Commission must not make a decision varying the determination in a way that varies, or has the effect of varying an allocation of capacity if the Commission is satisfied that the allocation, as so varied, would not be of benefit to the public.

3.4 Under section 26 of the Act, in assessing the benefit to the public of a variation of an allocation of capacity, the Commission is required to apply the criteria set out in any policy statement issued by the Minister under section 11.

3.5 Under section 11 of the Act, the Minister made the *International Air Services Commission Policy Statement 2018* (the Policy Statement) which came into effect on 28 March 2018. The Policy Statement sets out the criteria which the Commission is required to apply in assessing the benefit to the public of allocations of capacity.

3.6 Section 18 of the Policy Statement specifically deals with 'transfer applications' such as this one. It provides that, in assessing whether the variation requested would not be of benefit to the public for the purpose of subsection 25(2) of the Act, the Commission is to have regard to the reasonable capability criterion, and may have regard to any of the additional criteria that it considers to be relevant. The Commission is also to have regard to the matters specified in paragraph 18(2)(b) of the Policy Statement to the extent that they are relevant to the variation under consideration.

3.7 'Reasonable capability criterion' is defined in section 8 of the Policy Statement to mean the extent to which Australian carriers are reasonably capable of obtaining the necessary approvals to operate on and service the route and of using the capacity allocated under the determination. The 'additional criteria' to which the Commission may have regard are set out in section 9 of the Policy Statement.

3.8 The Commission considered the application of the reasonable capability criterion to the circumstances of this application. The Commission notes that Qantas and its wholly-owned subsidiary, Jetstar, are established international carriers, and therefore finds that the airlines are reasonably capable of obtaining the necessary regulatory approvals and of using the capacity allocated under the determination.

3.9 The Commission did not have regard to the additional criteria in section 9 of the Policy Statement. The Commission notes that it received no adverse submissions opposing the variation sought in the Qantas transfer application. This means that the variation sought by Qantas has not been contested, and would not limit the ability of other carriers to apply for or utilise capacity on the route. In these circumstances, there is nothing before the Commission to indicate that its assessment of benefit to the public for the purpose of subsection 25(2) of the Act would be assisted by having regard to the additional criteria.

3.10 The Commission finds that the matters specified in paragraph 18(2)(b) of the Policy Statement are not relevant to the variation under consideration. There is nothing to suggest that Qantas' application involves speculative activity, and Qantas has exercised the allocation in question for a period of more than six months.

3.11 Having considered the criteria set out in section 18 of the Policy Statement, the Commission is satisfied that the allocation, as proposed to be varied permitting KLM to code share, as marketing carrier, on flights operated by Jetstar on the Australia-Indonesia route, would be of benefit to the public. Therefore, in accordance with section 25 of the Act, the Commission must make a decision varying the determination in a way that gives effect to the variation requested in the transfer application.

3.12 Subsection 15(1) of the Act empowers the Commission to include such terms and conditions in a determination as it thinks fit. Paragraph 15(2)(e) requires the inclusion of a condition stating the extent to which the carrier may use capacity allocated under a determination in joint services with another carrier.

3.13 The Commission has decided to add conditions permitting the use of the capacity for the provision of code share services between Jetstar and KLM on the Indonesia route. As required by section 23 of the Policy Statement, the Commission has decided to include a condition requiring the airlines to take all reasonable steps to ensure that passengers are informed of the carrier that is actually operating the flight.

3.14 Nothing in this decision should be taken as indicating either approval or disapproval by the Australian Competition and Consumer Commission (ACCC). This decision is made without prejudicing, in any way, possible future consideration of code share operations by the ACCC.

4 Decision varying Determination [2017] IASC 122 allocating capacity to Qantas on the Indonesia route ([2020] IASC 206)

4.1 In accordance with section 25 of the Act, the Commission varies [2017] IASC 122 which allocates capacity to Qantas Airways Limited on the Indonesia route, by:

adding the following conditions to the Determination:

- The capacity may be used by Jetstar to provide code share services with KLM Royal Dutch Airlines in accordance with the code share agreement between Jetstar and KLM Royal Dutch Airlines made effective on 17 December 2019 and the air services arrangements between Australia and Indonesia.
- Qantas must apply to the Commission for approval of any proposed variations to the code share agreement between Jetstar and KLM which would change the relevant commercial aspects of the agreement from a free sale code share arrangement to a block space, or vice versa, or if the airlines propose to add third country routes on which the airlines will code share where Australian capacity will be used for services on that route.
- To the extent that the capacity is used to provide code share services on the route, the airlines must take all reasonable steps to ensure that passengers are informed, at the time of booking, of the carrier actually operating the flight. Nothing in this determination exempts the airlines from complying with the Australian Consumer Law.

4.2 This decision comes into effect from the date of issue and is valid for the duration of Determination [2017] IASC 122.

Dated: 21 January 2020


IAN DOUGLAS
Chairperson


KAREN GOSLING
Commissioner