QANTAS APPLICATION FOR VARIATION – INDONESIA ROUTE.

This submission is provided to the Commission in response to the recent submission by Qantas Airways (Qantas), addressing the Paragraph 9 Criteria of the Minister's Policy Statement (2018).

The Minister's Policy Statement provides that, in assessing the benefit to the public of a variation of an allocation of capacity, the Commission should have regard to the additional criteria set out in Paragraph 9 of the Statement. The Qantas submission arguably fails to meet the requirements of the additional criteria addressing competition, tourism, and trade. The proposed codeshare adds no capacity or innovation to the market, while reducing competitive tension by easing the pressure on Garuda to grow its own-operated services towards daily.

Competition Criteria

Competition sees firms strive to offer product innovation, lower prices, or greater consumer access to products in a market. Paragraph 9 (c) of the Minister's Policy Statement addresses these elements of competition. Paragraph 9 (b) addresses the concentration of capacity. As Qantas notes, it currently holds 20,076 seats of the capacity allocated for services between Australia and Indonesia, while Virgin Australia, the other Australian carrier offering services, holds 4,924 seats. Market power for a company is not in itself prohibited under consumer law, but the ACCC expresses succinctly the importance of pro-competitive behaviour in a market:

> *Competition encourages individual businesses to innovate and find ways to work more efficiently. This results in:*
>
> - *lower prices*
> - *better quality products and services*
> - *more choice for consumers*
> - *increased prosperity and welfare of all Australians.*[1]

Adding the Garuda code to Qantas services does nothing to lower prices, enhance the quality of products or services offered, or increase the prosperity or welfare of Australians. The proposed codeshare adds no capacity or product innovation. Rather, the proposed codeshare enables Garuda to appear to have more frequency than it currently operates, without adding any competitive capacity on the routes from Indonesia – and in particular from Jakarta. Rather than promote competition, the proposed codeshare would lessen the pressure for Garuda to grow its own capacity in competition with the Qantas group services.

[1] https://www.accc.gov.au/business/competition-and-exemptions/competition-and-anti-competitive-behaviour

Garuda Jet Fleet.

Qantas asserts that Garuda cannot increase capacity between Australia and Indonesia because of its limited fleet size. Garuda returned a number of aircraft to lessors as it restructured during COVID disruptions, including regional jets on expensive wet-leases, and a number of short-haul aircraft. Garuda however now notes[2] that it is in the midst of a fleet revitalization program that has seen the fleet return to 142 aircraft, and that the airline intends to continue fleet expansion to ‘capitalize on growth opportunities.’

Garuda currently operates a fleet of twenty-seven widebody Airbus A330 aircraft dedicated to regional flying. The airline also operates ten Boeing B777-300ER aircraft devoted to long-haul routes, and a short-haul fleet of seventy-four Boeing B737-800NG/Max8 and eighteen Bombardier CRJ1000 NexGen jets. Airfleets[3] shows an active Qantas A330 fleet of twenty-five aircraft and a B737-800NG fleet of seventy-four aircraft.

Eight Brands from Five Airline Groups

Qantas notes in its second submission that there are eight airline brands offering direct services between Australia and Indonesia. These brands belong to five airline groups, and brands include the Garuda subsidiary Citilink, the Qantas subsidiary Jetstar, and the various Batik brands of the Lion Air Group, which includes a Batik Malaysia (formerly Malindo) service from Kuala Lumpur via Bali. Qantas also notes that the capacity available to Australian carriers for services to Indonesia is fully allocated, and as noted above, is held in large part by the Qantas Group.

Elapsed journey times

In its submission[4], Qantas revisits the question of indirect services as competitive alternatives. Where a competing hub lies on or close to the great circle route between the origin and destination cities (high centrality) a midpoint carrier can offer effective indirect competition. This is not the case for the Australia-Indonesia route. The indirect options proposed for travel between Jakarta or Denpasar and East Coast Australia are journeys where significant backhauls are required, for even the closest options. The table below shows the (fastest) additional time and the distance incurred for indirect journeys via Singapore and Kuala Lumpur on the Jakarta-Sydney city-pair.

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[2] https://www.garuda-indonesia.com/au/en/garuda-indonesia-experience/fleets/fleet-revitalization/index

[3] https://www.airfleets.net/flottecie/Qantas.htm

[4] “*In addition to these direct services, established third country carriers, such as Singapore Airlines, serve the market with a one-stop proposition. While the routes offered by the indirect carriers may be less attractive in terms of travelling time, they provide alternative timings and options for travellers that are less time sensitive*.”

Table – Comparison of Direct and Indirect routes between Jakarta and Sydney.

SYD-SIN	6,289km	SYD-KUL	6,579km
SIN-CGK	879km	KUL-CGK	1,125km
11h:50m fastest SQ	7,168km total 29.9% further 4h:15m slower	14h:15m fastest MH	7,704km total 39.6% further 6h:40 slower
SYD-CGK 7h:35	5,517km		5,517km

The significantly greater distance is not only an inconvenience to the passenger. The 30%-40% longer journey via Singapore or Kuala Lumpur significantly erodes the yield (cents per km) for an airline offering that indirect routing. Far from encouraging competition, this substantial yield erosion makes the indirect offer relatively unattractive to the indirect operators. Sampling of pricing for travel in late November 2023 shows Qantas economy fares from Sydney to Jakarta priced from around AUD1,000 for the round-trip journey. On the same dates, Singapore Airlines and Malaysia Airlines are offering fares for their fastest round-trip journey priced between AUD1400-1600 for travel via Singapore and Kuala Lumpur. These higher indirect fares produce very similar yields to those achieved by Qantas on its non-stop flight (9.1c/RPK non-stop for Qantas and 9.7c/RPK via Kuala Lumpur for Malaysia Airlines). Engaging in price competition with Qantas at its AUD1,000 price point would reduce the yield for Malaysia Airlines and Singapore Airlines to around 6.5c/RPK. Even Singapore based low-cost carrier Scoot prices at or above the Qantas and Garuda full-service carrier price points on the Jakarta- Sydney city pair, with its elapsed journey times via Singapore ranging between 13 hours and 24 hours.

In summary:

- the proposed unilateral codeshare adds no capacity, and fails to enhance competition or consumer benefit in either the passenger or the freight market;
- while the Denpasar (Bali) to Australia city pairs are served by a mix of airline brands, the non-stop Jakarta to East Coast Australia services are only operated by Qantas and Garuda, the carriers seeking to codeshare;
- indirect competition between Australia and Indonesia has low `centrality' and offers unattractive alternative routes to both passengers and airlines. Passengers face significantly longer journeys, while airlines are either uncompetitive on price or face diminished yields carrying the passengers via lengthy backhauls; and
- Garuda is currently expanding its fleet to capture market growth.

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