



Australian Government
International Air Services Commission

Mr Andrew Dawson
Inquiry Secretary – Trade
Joint Standing Committee on Foreign Affairs, Defence and Trade
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Dawson

**INQUIRY INTO AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIPS WITH
THE MIDDLE EAST**

Thank you for your letter of 11 April 2014, inviting the International Air Services Commission (IASC) to make a submission to the Trade Sub-Committee's inquiry into Australia's trade and investment relationships with the countries of the Middle East.

The IASC is an independent statutory authority established under the *International Air Services Act 1992* (the Act). The object of the Act is, inter alia, to enhance the welfare of Australians by promoting economic efficiency through competition in the provision of international air services. The Act is complemented by a policy statement from the Minister, who is the Minister for Infrastructure and Regional Development. The policy statement sets out public benefit criteria to be applied by the Commission in assessing applications.

The Commission's primary responsibility is to serve the object of the Act by allocating capacity entitlements to Australian airlines for the operation of international airline services. The capacity allocated by the Commission comes from entitlements available to Australia's international carriers under air services arrangements between Australia and other countries. Only Australian carriers are able to apply for capacity entitlements with the Commission. These entitlements are negotiated by the Department of Infrastructure and Regional Development (the Department).

The development of Australia's international aviation policy and negotiation of Australia's bilateral air services arrangements are primarily the responsibility of the Department.

The Commission adjudicates in situations where two or more Australian carriers are competing for the same limited capacity available on a route. Also, where an Australian carrier is the operating airline, or where the bilateral air services arrangements count code share seats against the capacity entitlement of the marketing (non-operating) carrier, the use of allocated capacity by an Australian carrier for code sharing must be approved by the IASC.

In its 2012-13 Annual Report, the Commission noted that most of the growth in international airline services operated into and out of Australia during the year came from overseas airlines, and while Australian airlines were allocated additional capacity on several routes, they handed back capacity on others. This was accompanied by an increase in applications by Australian airlines to use allocated capacity for code sharing. This trend towards code sharing reflects the strategy of Australia's major airlines, Qantas and Virgin Australia, of maintaining and expanding their international networks through global alliances, of which code sharing is an integral part.

In most situations, the Commission considers that code sharing offers benefits to consumers. Code sharing can provide simpler booking options for passengers travelling to multiple destinations, better connectivity and shorter travelling times, and often includes other consumer benefits such as the ability to earn and redeem frequent flyer points on partner airlines. It may also reduce over-all operating costs for airlines which benefits consumers if the savings are passed on. This is only likely to occur, however, when the code share partners face sufficient competition from other airlines, whether alone or as partners in competing alliances.

The Commission recognises that code sharing is a key feature of major airline alliances and has authorised code share applications where it has no serious concerns that the proposed code share would reduce competition. In some instances, however, in particular where the partner airlines are code sharing on parallel operated services and there is limited competition from other airlines, the Commission may have concerns.

In relation to the Middle East, which is an intermediate point on Australia's Europe routes, the Commission has approved code sharing by Qantas and Emirates and by Virgin and Etihad on a number of routes. In arriving at its decisions, the Commission noted the determinations of the Australian Competition and Consumer Commission that these alliances would be likely to result in public benefits through enhanced products and services offered by the airlines, and improved operating efficiency.

In general terms, the Commission has taken the view that there is already substantial competition on these routes and that any anti-competitive detriment would be outweighed by public benefits arising from the code sharing. In the case of Virgin Australia and Etihad, the entry of a new carrier marketing services to Abu Dhabi and through to Europe is likely to increase competition and service options for travellers.

Should you wish to find out more about the work of the IASC, you can visit its website: www.iasc.gov.au. The website contains a complete list of determinations and decisions issued by the IASC since its establishment in 1992. Alternatively, you may contact the Executive Director of the IASC Secretariat, Ms Marlene Tucker, on (02) 62671107 or by email at marlene.tucker@infrastructure.gov.au.

Yours sincerely

Dr Jill Walker
Chairwoman
International Air Services Commission