



Australian Federation of Travel Agents (AFTA)
**Submission to the Australian Competition &
Consumer Commission (ACCC)**

Qantas Airways Limited & Emirates: AA1000625-1

January 2023



Executive Summary

The Australian Federation of Travel Agents (AFTA) welcomes this opportunity to contribute to the Australian Competition and Consumer Commission (the Commission) regarding Qantas Airways Limited (Qantas) & Emirates' application for Authorisation AA1000625-1.

As the peak body for a broad array of Australian travel professionals, AFTA strives to promote and advocate for competition across the entire travel sector. Healthy competition is critical for the effective operation of markets so that businesses have the incentive to operate efficiently, price competitively and offer products valued by consumers. This in turn delivers benefits to the Australian community and economy through lower prices, innovation and improved product offerings.

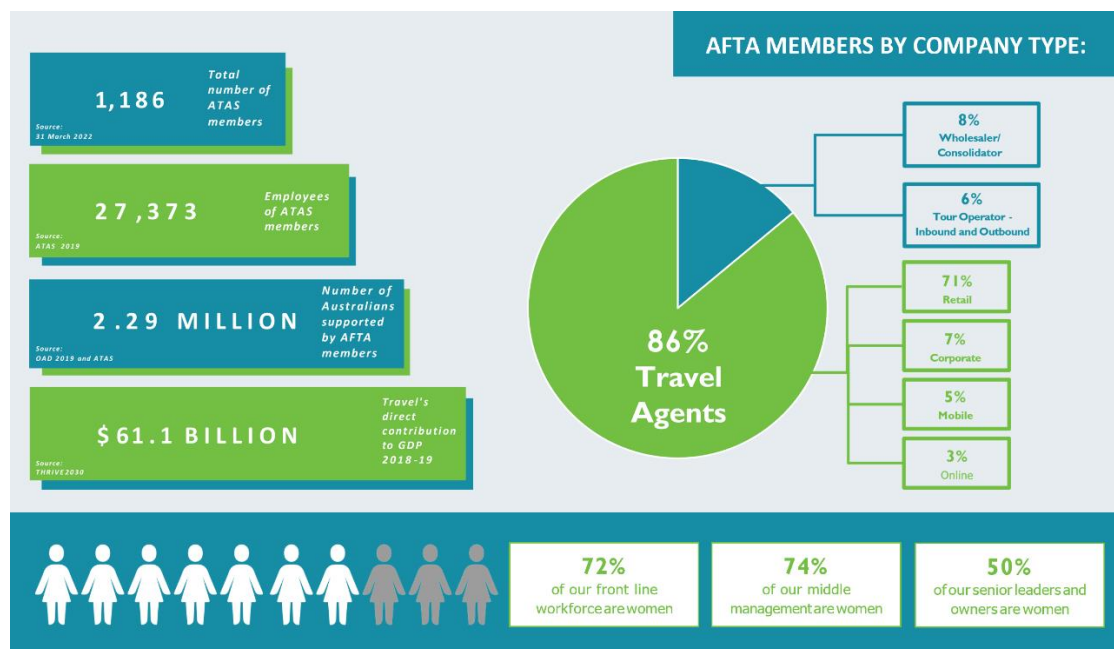
It is for these reasons that AFTA provides the following comments:

- **If authorisation is provided, an authorisation period beyond 5 years would be presumptive** in circumstances where massive transformations are occurring across the industry in a rapidly evolving post-pandemic landscape;
- There has not been sufficient evidence provided by the applicants to support the continuation of coordination on distribution strategies for passengers and agents. Aligning these activities appears to have the impact of limiting choices for consumers on how they shop and book travel;
- We have not been able to identify any past authorisations that would approve the concentration of supply of a product or service to the levels detailed by the application.
- AFTA supports the ACCC specifying the following conditions in the authorisation under s 88(3) of *The Competition and Consumer Act 2010 (Cth)* to incentivise passenger capacity increases and protect the competitive distribution of airfares;
 - 1) Given the current operating environment and recent pricing activity, it will be critical for the Commission to ensure that the Proposed Conduct leads to capacity increases and not price increases. **Any authorisation should be conditioned upon Qantas and Emirates reporting on the coordination of routes and pricing managed under the Proposed Conduct;**
 - 2) Airlines are already withholding fares from competitive distribution. The Proposed Conduct will increase the cohort of fares that Qantas and Emirates can reserve for their direct channels to deprive consumers of the reduced costs they experience when travel agents are afforded a fair opportunity to compete on distribution. In these circumstances, the Commission should also **impose a condition requiring the applicants to undertake that they will make all fare types and schedules made possible by the Proposed Conduct available to travel agents** through all distribution systems - not only the New Distribution Capability (NDC); and
 - 3) **Full and equal rights should be provided to travel agents for customer refunds and cancellations that occur under the Proposed Conduct**, so that airlines cannot discriminate against agents by disabling access to the refund system for their customers as they did during the pandemic.
- These conditions are appropriate given that the Proposed Conduct will allow these two major airlines to collude on distribution in a way that others in the industry cannot. Despite their size, Qantas and Emirates should be subject to the same market settings as travel agents for distribution purposes. Both parties should be able to advise the final price they have settled, but they should be prevented from sharing intelligence on the creation of airfare prices and agent commissions.

About the Australian Travel Sector

AFTA is the trusted source for advice and best practice in the travel sector. Our mission is to highlight the integrity of our members through effective approaches in advocacy, industry recognition and awards, and ultimately boosting the confidence of the travelling public.

AFTA administers the Australian Travel Accreditation Scheme (ATAS), which is the largest and most representative accreditation scheme for travel businesses in Australia. All AFTA members are ATAS accredited and recognised for their highest of operational standards including assessment of finances, minimum levels of training and procedures for dealing with consumer grievances. About 85% of consumers are more likely to book with an ATAS accredited travel agency.

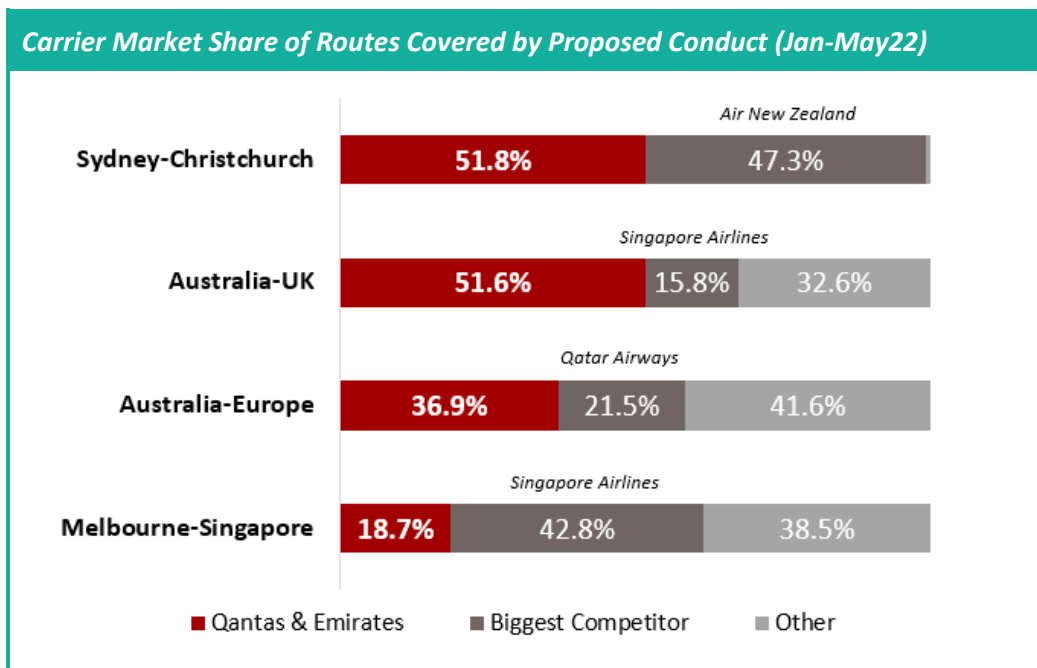


Our membership base includes the full spectrum of travel intermediary businesses across Australia including retail and corporate travel agents, tour operators, wholesalers and consolidators. Our members range in size from the largest listed organisations such as Flight Centre, Helloworld, Corporate Travel Management and Webjet, through to small independently owned and operated travel businesses. A large proportion of travel agent members are small to medium businesses, many of whom operate under networks such as Express Travel Group, Travellers Choice and CT Partners. AFTA's membership also includes consolidators, tour operators and wholesalers such as Scenic, APT and The Travel Corporation. AFTA has a total of 1,750 ATAS accredited member locations. A directory of current members is available at [atas.com.au](https://www.atas.com.au)

Dynamics of the proposed conduct

Qantas and Emirates' proposed coordination under a Restated Master Coordination agreement will enable these two major airlines to act in concert on a broad array of activities and deliver codeshare arrangements for passenger services across their overlapping Australia-UK/Europe networks and two city-to-city routes ('the Proposed Conduct'). As demonstrated in Figure 1, AFTA notes that the Proposed Conduct would allow Qantas and Emirates to effectively consolidate 51.8 per cent¹ and 18.7 per cent² of the market for the Sydney-Christchurch and Melbourne-Singapore routes, respectively. More significantly, the Proposed Conduct would allow Qantas and Emirates to hold 51.6 per cent of the Australia-UK market³ and 36.9 per cent of the Australia-Europe market.⁴

Figure 1: Carrier Market Share of Routes Covered by Proposed Conduct



While AFTA acknowledges some of the benefits from a continuation of the Qantas and Emirates relationship and this code share arrangement, Commission authorisation would facilitate a significant entrenchment of market power on routes that are often the most highly sought after by Australian consumers. Careful consideration of the benefits and detriments that might result from the Proposed Conduct is warranted in these circumstances as AFTA was unable to identify past authorisations or decisions that would consolidate this level of market power. While increases in supply will occur as other airlines recover, other airlines have identified they are unable to increase supply due to restraints in slots at major ports.⁵

The continuation of this relationship will also increase the barriers for other carriers seeking to operate in the Domestic only market as it entrenches high frequency corporate travellers to dominant airlines. Recent research in the Market Science Journal, has found a stronger willingness-to-pay response when consumers are less likely to shoulder the ticket costs themselves because they are traveling for business. This response suggests that asymmetric incentives induced by business

¹ Qantas and Emirates, Authorisation Application, 7 November 2022, p.61. Annex G, Table 4.

² Ibid, p.58. Annex F, Table 4.

³ Ibid, p.50. Annex E, Table 1.

⁴ Ibid, p.52. Annex E, Table 4.

⁵ Qatar Airways wants to "double flights to Australia" <https://www.executivetraveller.com/news/qatar-airways-wants-to-double-flights-to-australia>

travel explain much of the heterogeneity between business and leisure travellers, and moral hazard may be responsible for a large part of the profitability of frequent-flyer status incentives.⁶

More transparency needed on proposed conduct's benefits

As an industry that specialises in coordinating multi-leg itineraries and products on a single ticket, AFTA can also attest to the benefits consumers enjoy from an integrated experience. However, the benefits of previous authorisations are often overstated and have not been appropriately quantified to allow the Commission to properly weigh consumer benefits against detriments when considering applications for reauthorisation. Indicatively, with reference to reciprocal lounge access,⁷ AFTA notes that Qantas passengers with Oneworld Sapphire status (gold Qantas) already have access to a variety of Oneworld lounges in 15 of the 17 locations where Emirates has a lounge; thereby limiting the extent of the suggested public benefit conferred by the Proposed Conduct.

Ensuring that the stated benefits of their Proposed Conduct materialise should be the Commission's core objective, for there are two detriments to the public that the benefits should be weighed against.

Public detriments in the current operating environment

Proposed conduct does not incentivise much needed increases in capacity

Despite ongoing complexities and operational challenges, major airline carriers have been able to recover much faster in the post-pandemic operating environment than others across the tourism industry. While only a select few travel businesses have been able to breakeven, the airline industry is experiencing immense profitability with Qantas repeatedly announcing significant profit upgrades⁸ and Emirates announcing record half year performances.⁹

Underpinning this profitability has been the substantial price increases that carriers have been able to charge for overseas travel as demand for flights outstrips capacity in Australia.¹⁰ The inflationary impact of this dynamic has led to all-time high prices for consumers with the Commission finding that there has been a 27 per cent increase in all airfare types and that airlines no longer need to offer discounted fares to fill their aircraft.¹¹

Despite demand for airfares having completely recovered in Australia, Qantas has downgraded its forecasts to foreshadow that it is likely to have a smaller international capacity by the end of FY2023 than previously expected.¹² The Proposed Conduct is unlikely to contribute to a willingness to accelerate additional capacity upgrades given no other airline can access the QF / EK slots at major airports. It is notable that key competitors without equivalent authorisations have demonstrated a more discernible commitment to increase capacity, with Qatar Airways and Singapore Airlines' capacity already back at 100 per cent and 82 per cent of pre-pandemic levels, respectively.¹³

While it is suggested that the Proposed Conduct has facilitated capacity expansions under previous authorisations, it is likely that the pre-pandemic supply of airfare capacity would still have kept pace

⁶ Reaching for Gold: Frequent-Flyer Status Incentives and Moral Hazard, [Volume 41, Issue 3 Market Science](#).

⁷ Qantas and Emirates, Authorisation Application, 7 November 2022, p.20. Figure 6.

⁸ Qantas, Qantas Group Market Update – Strong Demand Drives Profit Upgrade, 23 November 2022, <<https://www.qantasnewsroom.com.au/media-releases/qantas-group-market-update-strong-demand-drives-profit-upgrade/>>.

⁹ Emirates, Emirates Group announces record half-year performance for 2022-23, Undated <<https://www.emirates.com/media-centre/emirates-group-announces-record-half-year-performance-for-2022-23/>>.

¹⁰ Bruno, Angelina, Kathryn Davis, and Andrew Staib. "The Recovery in the Australian Tourism Industry| Bulletin–December 2022." (2022).

¹¹ ACCC, Airline competition in Australia, 10 December 2022 <<https://www.accc.gov.au/system/files/Airline%20Competition%20in%20Australia%20-%20December%202022%20report.pdf>>.

¹² Compare Application p.3. par 1.5 with Qantas, Qantas Group Market Update: Strong Demand Accelerates Recovery, 13 October 2022, <<https://www.qantasnewsroom.com.au/media-releases/qantas-group-market-update-strong-demand-accelerates-recovery/>>.

¹³ Qantas and Emirates, Authorisation Application, 7 November 2022, p.12. par 3.10.

with demand in the counterfactual, had natural market conditions prevailed. AFTA acknowledges that the Proposed Conduct may trigger a competitive response from rivals to further increase capacity, but this is counterbalanced by joint Qantas and Emirates control of slots at major ports that could limit the ability of other airlines to increase their supply.¹⁴ In the post-pandemic operating environment, the Commission must ensure that the Proposed Conduct does not further enable increases to prices over increases to capacity.

Proposed conduct will generate less competition on the distribution of airfares

Travel agents have acted as a market balance for consumers at the point of sale, playing an important role as consumer advocates to find best value for money and limiting any detriments of the Proposed Conduct under previous authorisations. However, recent changes to industry commission structures, distribution standards and remuneration models necessitate the consideration of previously unexplored impacts that the Proposed Conduct may have on the distribution of airfares to consumers¹⁵.

Despite Qantas, Emirates and other airlines continuing to, as described by them, 'drive their local distribution model via travel agents',¹⁶ these dominant players have recently cut the commissions paid to Australian travel agents by as much as 80 per cent¹⁷ and have stated publicly that COVID has driven a lot of permanent change in how airlines do business.¹⁸ The Travel industry has quickly had to realign its business models to adapt to a landscape determined by the airlines to be the New Distribution Capability (NDC) while responding to other post-pandemic challenges. The shift to NDC has both diminished agents' profitability and seen more costs passed on to consumers through increased service fees, without any lowering of prices by airlines to the end consumer. As a result, the airline industry is using the additional control they have in an NDC world to continue benefiting from travel agent marketing investments while consolidating their direct distribution channels.

It is clear that Qantas and Emirates' commitment to the local distribution model is not as strong as it was at the time of their previous authorisations. This is impacting the benefits Australian consumers are used to enjoying from travel agents who can often advertise and distribute airfares more efficiently than carriers. In particular, the following activities are enabling airlines to become the sole price makers and therefore increase the margins on their cheapest products with no pressure from the market:

- Creating parallel airfare markets to the internationally recognised Global Distribution System (GDS) and forcing travel agents to access proprietary systems to maintain access to the lowest fares (when available) – systems that impose reduced 'at-source commissions' for travel agents;¹⁹ and
- Not providing access to all airline availability to travel businesses and reserving sales of the cheapest cohort of airfares to its direct channel with consumers, preventing any competition from travel agents on the efficient distribution of these highly sought-after tickets.²⁰

¹⁴ Deloitte Access Economics Economic, Contribution of Sydney Airport February 2021.

¹⁵ Airlines slash payments to Aussie travel agents <https://www.9news.com.au/national/airlines-slash-commission-to-australian-travel-agents/0365696b-766e-43ff-beb7-40bd79dcd72a>

¹⁶ Qantas and Emirates, Authorisation Application, 7 November 2022, p.36. par 7.17(c).

¹⁷ Australian Frequent Flyer, Airlines Slash Travel Agent Commissions, 30 June 2022, <<https://www.australianfrequentflyer.com.au/airlines-slash-travel-agent-commissions/>>.

¹⁸ Travel weekly Commission cuts <https://www.travelweekly.com.au/article/this-is-another-unwelcome-blow-afta-slams-qantas-commission-cuts/>

¹⁹ See, Qantas, Lower Pricing via the Qantas Distribution Platform Agency FAQs, 29 November 2022,

<<https://www.qantas.com/agencyconnect/au/en/agency-news/agency-news-august-22/qantas-to-introduce-lower-pricing-via-the-qdp/qantas-to-introduce-lower-pricing-via-the-qdp-agency-faqs.html>>.

²⁰ AFTA can provide further examples on these activities in a closed briefing with the Commission.

The distortionary impact of these behaviours has been readily apparent since 2019, when travel agents were effectively forced into the NDC channel. With the plan to introduce Qantas' own NDC called the Qantas Distribution Platform (QDP), Qantas started paying GDS operators less for their hosting services. This resulted in the removal of the traditional GDS segment rebates these operators would pay to agents to support Australian consumers. At the same time, Qantas introduced a \$17.50 channel fee for agents that did not participate in the new model. The channel fee was not applied to tickets issued through Qantas' direct booking channels or tickets issued using the QDP. However, as QDP did not go live until November 2022, the airline's dominant market position allowed them to effectively reduce the costs of their commissions for the three-year interim and divert more sales into their direct channel without any consumer benefit.

The Proposed Conduct should not further enable the use of punitive measures to deprive consumers of the reduced costs they experience when travel agents are afforded a fair opportunity to compete on airfare distribution. While Qantas and Emirates may be able to distribute more fares through their own direct channels under the Proposed Conduct, the above behaviours demonstrate the proposed coordination has resulted in a net loss in competition for distribution across the market. If these practices continue, the Proposed Conduct will make it even harder for consumers to assess varying price points and trust what is available on fare aggregator websites without navigating to each airline's direct sales channel.

Conditions to safeguard competitive distribution

As a regular distributor of both Qantas and Emirates airfares, our members recognise the value that consumers could derive from a continuation in their relationship provided that appropriate safeguards are established.

An authorisation period beyond 5 years would be presumptive in circumstances where massive transformations are occurring across the travel industry in a rapidly evolving post-pandemic landscape. Given the current operating environment, it will be critical for the Commission to ensure that the Proposed Conduct leads to capacity increases and not price increases in those 5 years. To increase transparency in the current operating environment with the context of recent pricing activity, any authorisation should be conditioned upon Qantas and Emirates reporting on the coordination of routes and pricing managed under the Proposed Conduct.

AFTA strongly believes that the Proposed Conduct also has the potential to generate less competition on the distribution of airfares. Existing practices demonstrate that the airlines are likely to use renewed coordination to grow their direct sales channel at the expense of the consumer value derived from the efficiencies of travel agent distribution. In these circumstances, AFTA supports the ACCC specifying conditions in the authorisation to protect the competitive distribution of airfares.

In particular, the Commission should require the applicants to undertake that they will make all fare types and schedules made possible by the Proposed Conduct available to travel agents through all distribution avenues - not only the New Distribution Capability. Furthermore, full and equal rights should be provided to travel agents in relation to customer refunds and cancellations that occur under the Proposed Conduct, so that airlines cannot discriminate against agents by disabling access to the refund system for their customers as they did during the pandemic.

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