

Proposed Qantas and Cathay Pacific codeshare rejected

A pair of Airbus A330s from Cathay Pacific and Qantas at Sydney Airport. (Rob Finlayson)

Australia's International Air Services Commission (IASC) has knocked back Qantas's application to forge a deeper codeshare arrangement with Cathay Pacific.

In a draft ruling published on May 24, the IASC said the proposed codeshare arrangement on flights between Australia and Hong Kong was likely to "entrench and expand the market position of Qantas and Cathay Pacific, to the detriment of Virgin Australia's competitive position and the position of any potential future entrants on the route".

"If this occurs, it is likely to weaken competition on the route, leading to an increase in prices and/or a reduction in other benefits to consumers," the IASC draft decision said.

"The Commission finds that the likely public benefits of the variation are substantially outweighed by the likely public detriment that would follow from the proposed aviation."

In early 2018, Qantas sought regulatory approval for Cathay Pacific to add its CX airline code on 35 Qantas-operated flights a week from Brisbane, Melbourne and Sydney to Hong Kong.

The codeshare flights on these routes would only be sold as part of a through journey involving connections either beyond Hong Kong on Cathay Pacific or its regional wing Cathay Dragon to destinations in India, Sri Lanka and Vietnam, among other countries, or to other Australian domestic destinations from

Brisbane, Melbourne and Sydney on Qantas.

Qantas also planned to add its QF airline code on 35 Cathay Pacific-operated flights a week from the same three Australian cities and Hong Kong. However, this did not require regulatory approval.

The proposed codeshare expanded on an existing arrangement that has been in place since late 2018, where Qantas added its QF airline code on selected Cathay Pacific/Cathay Dragon flights out of Hong Kong – as well as on Perth-Hong Kong and Cairns-Hong Kong, and Cathay Pacific added its CX airline code on selected Qantas Australian domestic flights.

The Australian carrier said in its submissions to the IASC the expanded codeshare covering Brisbane, Melbourne and Sydney to Hong Kong would have no adverse impact on the competitive dynamics on point-to-point routes between Australia and Hong Kong.

Rather, it was focused on attracting connecting passengers and a “a pro-competitive expansion of each carrier’s ability to sell and market itineraries”.

However, the application was opposed by Virgin Australia, the only other airline offering nonstop passenger flights between Australia and Hong Kong.

In its submission to the IASC, Virgin Australia rejected Qantas’s assertion there would be no adverse impact on the competitive dynamics on point-to-point routes between Australia and Hong Kong.

Instead, giving Cathay Pacific the ability to sell Qantas-operated flights under the codeshare agreement – even if it was only for connecting itineraries – was likely to lead to higher passenger load factors on Qantas’s flights between Australia and Hong Kong.

This would give Qantas a greater ability to adopt different strategies on pricing and inventory management and result in a potentially significant detrimental impact on competition, Virgin Australia said.

The IASC draft decision said the proposed codeshare was likely to lead to a market structure which made it more difficult for Virgin Australia to compete, as well as raise the barriers for new entrants on the route.

“It is likely Virgin will have a weakened, and perhaps materially weakened, position that may make it difficult for Virgin to sustain its operations,” the IASC draft decision said.

“The commission considers it likely that a material decline in Virgin Australia’s market position would cause it to reconsider its service offerings on the route.

“Any reduction or cessation of Virgin Australia’s service offerings on the route would be detrimental to competition as it would then leave the two largest carriers, Qantas and Cathay Pacific, to operate under the proposed code share arrangement.”

Qantas said in a statement it was reviewing the decision and considering its next steps.

“We’re disappointed with the draft decision to reject our application to expand our codeshare with Cathay Pacific,” a Qantas spokesperson said in an emailed statement to *Australian Aviation*.

“The codeshare has already delivered great benefits for our customers and expanding it would create even more options for travellers and improve opportunities for frequent flyers.”



Virgin Australia Airbus A330-200 VH-XFD operating the inaugural VA87 from Melbourne to Hong Kong on July 5 2017. (Virgin Australia)

Cathay Pacific, Qantas and Virgin Australia the only three airlines with nonstop Australia-Hong Kong flights

Currently, Cathay Pacific serves six destinations in Australia – Adelaide, Brisbane, Cairns, Melbourne, Perth and Sydney – from its Hong Kong hub with a mix of Airbus A330-300s, A350-900s and Boeing 777-300ERs offering business, premium economy and economy. This does not include freighter services. Cairns flights are ending in October.

It is the only Hong Kong-based carrier offering nonstop flights to Australia, after Virgin Australia alliance partner Hong Kong Airlines withdrew its flights to Cairns and the Gold Coast in October 2018.

Qantas offers nonstop flights from Brisbane, Melbourne and Sydney to Hong Kong with a mix of Airbus A330s, A380s and Boeing 747s and 787-9s.

Virgin Australia started serving the Special Administrative

Region (SAR) with its own aircraft in July 2017, when it began nonstop flights on the Melbourne-Hong Kong route with two-class Airbus A330-200s.

It added daily Sydney-Hong Kong services, again with A330-200 equipment, in July 2018.

Table 5a: Airlines' market share: frequency, seats operated, passengers carried

Airline	Frequency Share*	Seats operated (capacity share)**	Passengers carried (market share of passenger traffic)**
Cathay Pacific	65.3%	63.4%	65.1%
Qantas	23.1%	26.1%	26.4%
Virgin Australia	11.6%	7.9%	6.6%
Hong Kong Airlines (ceased operating at the end of October 2018)	Nil	2.6%	1.9%

*sourced from the International Airlines Timetable Summary, Northern Winter 2018-2019

** sourced from BITRE

Table 5b: Airline load factors on the Australia-Hong Kong route

Airline	Seat utilisation (Load Factor)		
	2016	2017	2018
Cathay Pacific	Inbound: 88.6% Outbound 88.5%	85.0% 85.7%	82.8% 81.5
Hong Kong Airlines*	Inbound: 67.3% Outbound: 67.3%	68.1% 64.3%	58.5% 62.9%
Qantas Airways	Inbound: 81.5% Outbound: 77.8%	79.5% 78.3%	82.3% 78.7%
Virgin Australia	Inbound: 0 Outbound: 0	64.5% 66.2%	66.3% 65.3%

Source: BITRE

*Hong Kong Airlines ceased operating on the route at the end of October 2018

A summary of the frequency, capacity and passenger share on the Australia-Hong Kong market from the IASC draft decision. (IASC)

Submissions in response to the IASC draft decision were due by June 7.

The full draft decision can be read on the IASC website.

The proposed codeshare flights are shown in bold in the table below:

Flight Number/Routing	Qantas flights	Cathay Pacific flights
Brisbane-Hong Kong	QF97 10:10–17:25	CX156 00:55 – 07:30 CX146 11:15 – 20:25 (3,4,6,7)
Hong Kong-Brisbane	QF98 20:15 – 07:00+1	CX157 13:10 – 23:35 CX147 21:20 – 09:55+1 (2,3,5,6)
Melbourne-Hong Kong	QF29 09:40 – 17:20	CX134 07:30 – 15:05 CX104 14:20 – 21:50 CX178 23:45 – 07:05+1
Hong Kong-Melbourne	QF30 20:10 – 07:35+1	CX105 00:10 – 11:10 CX163 11:05 – 22:05 CX135 19:05 – 06:10+1
Sydney-Hong Kong	QF127 10:20 – 18:00 QF117 21:20 – 05:00+1	CX110 07:35 – 15:20 CX162 10:15 – 17:55 CX100 14:15 – 21:35 CX138 21:55 – 05:15+1

<p>Hong Kong-Sydney</p>	<p>QF128 19:30 – 06:55+1 QF118 22:35 – 10:00+1</p>	<p>CX139 09:10 – 20:20 CX111 18:50 – 06:15+1 CX161 21:30 – 08:50+1 CX101 23:55 – 10:50+1</p>
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Source: Qantas

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