

Competition Commission of Singapore

45 Maxwell Road

Singapore 069118

Sent by email.

04 April 2019

**Strictly Confidential**

Dear Ming Jie,

**Application to vary Undertaking given by Emirates and Qantas Airways Limited ('Qantas') to the Competition Commission of Singapore ('CCS') dated 28 March 2013 ('Undertaking') in respect of the Singapore-Brisbane Route.**

Introduction

In 2012 Emirates and Qantas notified the CCS of their proposed alliance. In 2013 the CCS issued a Decision approving the alliance. This Decision was subject to the Parties providing the CCS with an Undertaking in respect of certain routes. More specifically, pursuant to Clause 3 & Schedule A of the Undertaking, Emirates and Qantas are required to meet certain minimum seat capacity conditions in respect of the Singapore-Melbourne and Singapore-Brisbane routes ('Conditions'). These Conditions remain in effect today.

Since the publication of the Decision (and operation of the Conditions), the market has changed, making it a more challenging environment for Emirates to continue to meet the base seat capacity in respect of the Singapore-Brisbane Route. Specifically, overcapacity, declining revenues and rising costs have resulted in Emirates suffering substantial losses on this route. As a consequence of these adverse changes in market conditions and ensuing poor financial performance, it is no longer commercially feasible for Emirates to operate this route. Accordingly, Emirates is compelled to seek a variation to the Conditions in respect of the Singapore-Brisbane Route. More particularly, in order to be able to withdraw from the route, Emirates requests that it be fully released from the minimum base seat condition in respect of the Singapore-Brisbane Route with effect from the IATA Summer Season 2019 and that the overall Base Seat Capacity for the Singapore-Brisbane Route in Schedule A of the Undertaking be reduced to remove the capacity allocation assigned to Emirates.

In support of this application to vary the Undertaking, Emirates sets out below pertinent information in support of its request to be released from its Base Seat Capacity for Singapore (SIN)-Brisbane (BNE).

Unless otherwise provided, terms used herein shall have the same definition as those used in the Undertaking.

Material Change in Market Conditions: the market conditions in respect of Singapore-Brisbane have changed significantly since 2013

Clause 8(a)(iii) of the Undertaking allows the Parties to apply for a variation to the Conditions in the event of a Material Change in Market Conditions. Since 2013, competition and capacity on the Singapore-Brisbane Route has changed significantly justifying a variation to the Conditions.

Over time, Emirates and Qantas have faced increased competition from Singapore Airlines. In past years, Singapore Airlines has increased frequency and used larger capacity aircraft<sup>1</sup>. In fact, Singapore Airlines now accounts for 62% of the published seats on the Route, while Emirates accounts for 21% and Qantas accounts for the remaining 17%. Table 1 summarises capacity and share over time.

Table 1: Market shares SIN-BNE v.v.

Carrier	2016			2017			2018			2019		
	Seats	% of Total Seats	Market Share %	Seats	% of Total Seats	Market Share %	Seats	% of Total Seats	Market Share %	Seats	% of Total Seats	Market Share %
EK	159,024	15%	14%	258,114	22%	17%	256,700	21%	18%	262,800	21%	-
QF	208,877	20%	37%	206,996	17%	35%	202,119	17%	38%	216,810	17%	-
SQ	689,646	65%	46%	725,722	61%	44%	753,112	62%	40%	788,400	62%	-
Total	1,057,547	100%	96%	1,190,832	100%	97%	1,211,931	100%	96%	1,268,010	100%	-

Source: Capacity - Dii; Market Shares - CBI/MIDT, Market Share Data Only Available for 2016 through 2018

Table 2 also shows that while Emirates and Qantas only offer a single-daily service, Singapore Airlines offers four daily services, all of which are operated by wide-body aircraft. This service offering places Singapore Airlines in a favourable position to target consumers in all cabins.

Table 2: Direct Airline Capacity and Schedules on SIN-BNE v.v.

Carrier	Summer							Winter						
	Route	Flt #	Local Dep	Local Arr	Aircraft	Weekly Seats	Route	Flt #	Local Dep	Local Arr	Aircraft	Weekly Seats		
EK Emirates	SIN-BNE	EK 432	15:35	00:55	777-300ER	2,520	SIN-BNE	EK 432	10:10	19:40	777-300ER	2,520		
	BNE-SIN	EK 433	02:35	08:15			BNE-SIN	EK 433	02:35	08:10				
QF QANTAS	SIN-BNE	QF 052	20:30	06:05	A330-300	2,079	SIN-BNE	QF 052	20:00	05:55	A330-300	2,079		
	BNE-SIN	QF 051	12:00	18:15			BNE-SIN	QF 051	11:50	17:55				
SQ Singapore Airlines	SIN-BNE	SQ 255	00:45	10:35	A350-900	1,771	SIN-BNE	SQ 255	00:45	10:45	A350-900	1,771		
	BNE-SIN	SQ 236	14:30	20:45			BNE-SIN	SQ 236	14:45	20:45				
	SIN-BNE	SQ 265	07:20	16:55	777-200	1,897	SIN-BNE	SQ 265	07:15	16:55	777-200	1,897		
	BNE-SIN	SQ 266	18:10	00:15			BNE-SIN	SQ 266	18:10	00:10				
	SIN-BNE	SQ 245	09:40	19:30	A350-900	1,771	SIN-BNE	SQ 245	09:45	19:45	A350-900	1,771		
	BNE-SIN	SQ 246	23:55	06:20			BNE-SIN	SQ 246	23:25	05:10				
	SIN-BNE	SQ 235	21:30	07:05	A350-900	2,121	SIN-BNE	SQ 235	21:15	07:15	A350-900	2,121		
	BNE-SIN	SQ 256	09:10	15:30			BNE-SIN	SQ 256	09:10	15:10				

Source: Dii and GDS

Note: SQ will deploy "Regional" A350-900 on SQ 235/256 effective Jan 7, 2019

<https://www.routesonline.com/news/38/airlineroute/281963/singapore-airlines-adds-a350-regional-service-to-brisbane-from-jan-2019/>

With the increased capacity and high frequency it offers, Singapore Airlines has been able to grow its premium passenger base over the years, a segment that is critical to route sustainability. Table 3 below shows the high share that Singapore Airlines attracts in First and Business Class. By 2018 Singapore Airlines accounted for 79% of the first class market and 55% of the business class market on this Route. As the data shows, Emirates, disadvantaged by its single-daily service and lack of home market strength, has struggled to capture this high-yielding premium passenger segment.

<sup>1</sup> <https://www.routesonline.com/news/38/airlineroute/252812/singapore-airlines-increases-brisbane-service-from-late-may-2016/>  
<https://www.routesonline.com/news/38/airlineroute/270451/singapore-airlines-further-expands-australia-service-in-n17/>

Table 3: Market share by cabin

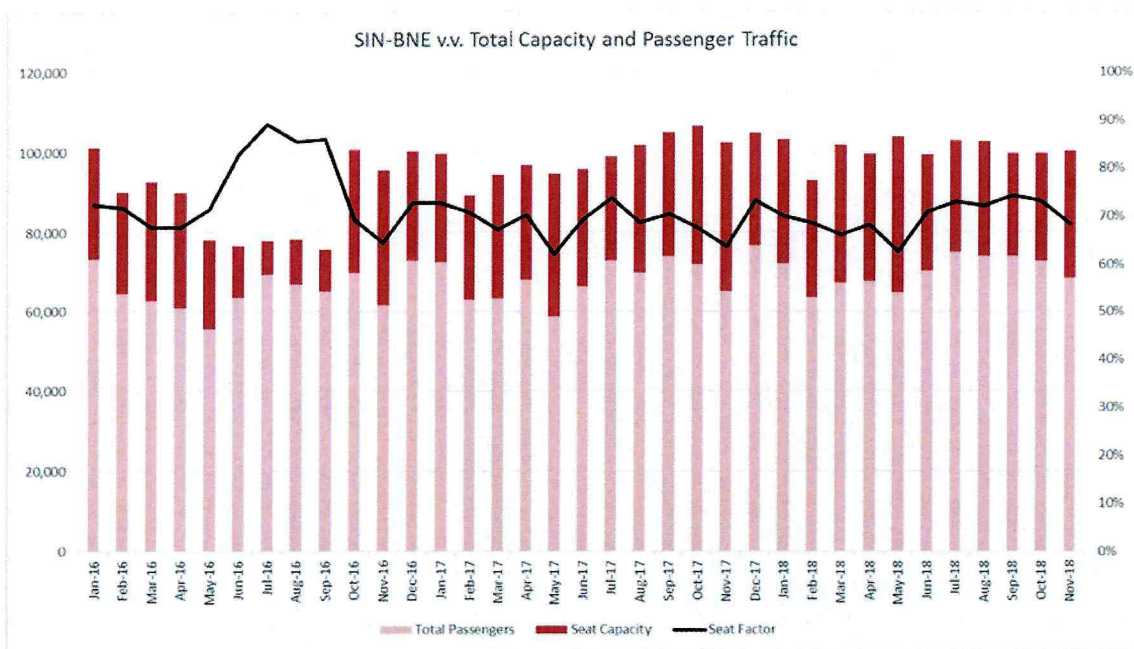
Cabin Market Shares by Operating Carrier by Year on SIN-BNE v.v.																
Year	First Class				Business Class				Economy Class				All Classes			
	EK	QF	SQ	Other	EK	QF	SQ	Other	EK	QF	SQ	Other	EK	QF	SQ	Other
2016	10%	0%	84%	5%	11%	45%	41%	2%	12%	39%	47%	2%	12%	39%	47%	2%
2017	10%	0%	88%	3%	15%	39%	43%	3%	19%	35%	44%	2%	18%	35%	45%	2%
2018	9%	2%	79%	10%	12%	29%	55%	3%	26%	33%	39%	3%	24%	32%	41%	3%

Source: MIDT

Notwithstanding the fact that Singapore Airlines’ share in the economy class cabin has dropped marginally over time, Table 3 shows that it still retains the largest share of the economy cabin. This is expected to further grow in 2019, with the deployment of a different aircraft configuration that will add more economy seats back to the market.

In addition to noting that Singapore Airlines is a strong competitor in the market, Table 4 illustrates that there is also over capacity. Specifically, despite the added seats in the market, passenger demand has not warranted the increase and the average combined seat factor on the route, according to BITRE data, has remained at roughly 70%. Put simply capacity exceeds demand.

Table 4: Capacity exceeds demand



Source: BITRE Statistics

In summary growing competition from Singapore Airlines and overcapacity has impacted the Route and contributed to Emirates’ adverse performance. The consequences of these changes in market conditions on Emirates performance are further explained below.

Material Adverse Financial Performance: Singapore-Brisbane is not a financially viable route for Emirates

[REDACTED – CONFIDENTIAL INFORMATION]

Qantas is unable to backfill Base Seat Capacity resulting from Emirates withdrawal from the Singapore-Brisbane Route

Prior to seeking this variation, the Parties did consider the feasibility of Qantas back filling Emirates' capacity on this route. However, Qantas does not have spare aircraft to deploy on this Route. Furthermore, based on the above mentioned BITRE data that shows over supply on the Route, it is reasonable to submit that no such backfilling is actually required. By removing Emirates' Base Seat Capacity condition in respect of Singapore-Brisbane, sufficient capacity remains to meet demand.

Conclusions

Pursuant to Clause 8(a) of the Undertaking, the Parties can apply for a variation to the Conditions in certain circumstances, including a Material Change in Market Conditions and Material Adverse Financial Performance. For the reasons listed above, these circumstances have been satisfied and Emirates finds itself in a position where it can no longer operate the Singapore-Brisbane route. In such circumstances, Emirates needs the flexibility to vary the deployment of its fleet in order to react to these changes in market conditions and adverse financial performance.

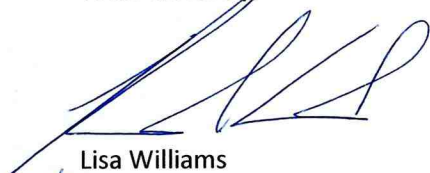
Accordingly, Emirates requests that:

- it be released from the Base Seat Capacity in respect of the Singapore-Brisbane Route as soon as possible so that it can withdraw its service during the IATA Summer Season 2019; and
- the Emirates allocation of Base Seat Capacity for Singapore-Brisbane be removed from Schedule A of the Undertaking in its entirety.

Notwithstanding this request, the parties remain committed to the Singapore market overall. For Emirates part, it will continue to serve the Singapore market from Dubai to Singapore and will continue to operate fifth freedom services from Singapore to Melbourne. With the reestablishment of its hub in Singapore, Qantas will also continue to operate both of the Relevant Routes and is committed to meeting its base seat capacity for each of these Routes.

We look forward to receiving your decision in respect of this application. In the meantime, please do not hesitate to contact us if you require additional information.

Yours sincerely



Lisa Williams



Senior Legal Adviser