HD **Qantas, Rio close in on FTA**

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ANZ, Qantas and Rio Tinto were among the major Australian companies to deepen their relationship with their Chinese partners.

Qantas has taken its most significant step into what is tipped to become the world's biggest aviation market within two decades after striking a landmark joint venture with powerhouse carrier China Eastern, but the deal is set to be scrutinised by the competition regulator.

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The two carriers said yesterday they would seek regulatory approval in Australia and China for the joint venture, which builds upon their existing codeshare deal and is designed to increase the number of flights between Australia and the Chinese mainland.

"There is a huge opportunity in this market for Australian businesses to do business in China, especially post the free trade agreement,'' Qantas chief executive Alan Joyce told the Australia-China CEO Roundtable.

"The timing could not be more opportune.''

It was one of a flurry of deals from banking to resources signed in Canberra yesterday at a ceremony attended by Chinese President Xi Jinping and Tony Abbott.

Mining giant Rio Tinto used yesterday's trade deal to announce a second extension to its West Australian Channar iron ore joint venture with Chinese state-owned Sinosteel.

Rio chief executive Sam Walsh said the Channar joint venture was one of China's longest-running and most successful partnerships with Australia and a model for economic co-operation between the two countries.

The original Channar joint venture was one of the largest Chinese investments in the world and the first overseas mining project entered into by a Chinese enterprise when it was signed in 1987. It was originally for the production of 200 million tonnes of iron ore, which was then extended in 2010 for a further 50 million tonnes.

ANZ meanwhile outlined two memorandums of understanding. The first will extend its relationship with the China Development Bank and could boost available finance for the development of new mineral resources projects.

A separate MoU signed by the two banks and rail major Aurizon and China's Baosteel details co-operation for the potential development of the proposed West Pilbara Iron Ore Project. Such a deal could involve the development of mine, processing, rail and port infrastructure — including a new deepwater port at Anketell and a 280km railway in an investment that could run into the billions of dollars.

Investment banker, director and author of a government report on making Australia a financial centre, Mark Johnson, said the trade agreement would not only fuel direct investment into China by financial services companies, but also allow legal, accounting and other back office services to follow them into that market.

"It is not really our money that they want, but our expertise,'' Mr Johnson said.

As a $1.8 trillion pool, Australia's retirement savings industry is already the fourth biggest in the world, fuelling large and sophisticated services that would be welcomed in developing economies.

"It is an opportunity to export those skills we have developed in asset management, stock selection and even back office systems,'' Mr Johnston said.

He said it could require the Australian government to complete some of the unfinished business of the financial centre report recommendations, such as the investment manager regime, that would allow Australian companies to manage offshore money in Australia on behalf of Australian clients.

Commonwealth Bank chief Ian Narev said the trade agreement would continue to "pave the way for the ongoing development of business opportunities for both Australian and **Chinese** businesses", and would help further strengthen the economies of both nations.

For Qantas, the deal with **China** Eastern proposes that the two airlines be able to co-ordinate schedules and pricing on the key Sydney-Shanghai route where they both fly.

Mr Joyce said it would allow flight times between the two carriers to be more complementary — currently they depart at almost the same time. **China** Eastern also flies to Melbourne and Cairns from Shanghai.

"Our passengers will also get access to **China** Eastern's lounges and there will be more co-ordination on product,'' Mr Joyce added.

While the **China** Eastern joint venture will face regulatory scrutiny in both countries, Mr Joyce said there were strong consumer benefits in the transaction. "There is an opportunity for new routes, including Shanghai to Brisbane, Adelaide and Perth,'' he said, noting that the focus of the deal was not cost-cutting.

"This is a revenue opportunity. It is for revenue and consumer benefit and taking part in the growth opportunity of **China**,'' he said, noting that the two carriers were hoping to secure approval by mid-next year.

"There is no intention to rationalise capacity,'' he said.

But Australian Competition & Consumer Commission chairman Rod Sims said the regulator would scrutinise the deal.

"In these authorisation matters, you have to look at the detriments to competition as well as the benefits,'' Mr Sims said.

"A key issue will be the consequences for competition on these routes."

China is predicted to become the world's biggest airline market in 20 years, as the number of passengers flying globally more than doubles from 3.3 **billion** this year to 7.3 **billion** by 2034. Qantas also has a codeshare agreement with Guangzhou-based carrier **China** Southern.

The **China** Eastern deal is designed to complement the Qantas-Emirates partnership for Europe, Middle East and North Africa and the Qantas-American Airlines partnership for the US.

In July, parliament passed important changes to the Qantas**Sale** Act that allowed an expansion from ownership limits on the airline of 25 per cent for individual investors and 35 per cent for a foreign-owned airline.

But under a deal between the Coalition and Labor, foreign ownership limits for individuals and foreign airlines remained limited to 49 per cent.

Mr Joyce said there had been no discussion with **China** Eastern or any other foreign carrier about taking an **equity stake** in Qantas.

"We are not engaging with anyone on that,'' he said, noting that Qantas management was firmly focused on its $2 **billion** cost-saving program that is expected to return the airline to profitability this year.

Additional reporting: Sarah-Jane Tasker

CO chea : China Eastern Airlines Corp Ltd | craaus : Rio Tinto Ltd | qntas : Qantas Airways Ltd | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group

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