

The Sydney Morning Herald

SE **Business**
HD **Qantas beats free trade rush to China**
BY Elizabeth Knight
WC 768 words
PD 18 November 2014
SN The Sydney Morning Herald
SC SMHH
ED First
PG 21
LA English
CY © 2014 Copyright John Fairfax Holdings Limited.
LP

Qantas on Monday became the first cab off the rank to capitalise on all that free trade goodwill flowing between **China** and Australia. The flying kangaroo is looking to expand its relationship with code-share partner **China** Eastern to what it calls a "joint agreement".

The five-year joint agreement will involve co-ordinating the two airlines' schedules, flights and pricing, a move that will require the approval of competition authorities in both countries.

TD

Given the ribbon-cutting ceremony on the deal was attended by the **Chinese** President Xi Jinping one would expect the airline partnership may not find too much pushback from **China**'s anti-trust regulators. And the Australian regulator, the Australian Competition and Consumer Commission, has plenty of form in letting these airline partnerships proceed.

The ACCC has previously given the green light to Virgin and its foreign partners as well as allowing Qantas to do deals with American Airlines and Emirates.

Qantas now runs only one service to Shanghai using its own aircraft and there is no suggestion that its financially troubled international mainline operation will be looking to add much more capacity in the near future. There could be some additional flights down the track out of Perth or Brisbane but customers will not necessarily be flying on Qantas metal.

Indeed, neither airline needed a free trade agreement to undertake this new partnership. In a sense the timing was as much opportunistic and symbolic as anything else.

But the deal represents Qantas finding a deeper relationship in the Asian region. It has been considered a hole in the Qantas network since the airline moved its European route through the Middle East rather than Asia.

Arguably Qantas is still shy a proper dance partner in other parts of Asia, especially when compared with its Australian competitor, Virgin, which has very strong ties with Singapore Airlines.

However, **China** is a market that is only now becoming more important as the pace of **Chinese** tourists and Australian **business** travellers between the two countries is growing quickly.

(Australia Post also cashed in on the **China** wave, announcing it had joined with UnionPay International and Bank of **China** to launch Australia's first UnionPay multi-currency travel card to support Australians travelling to **China** for **business** and leisure.)

The free trade agreement signed on Monday won't provide an overnight rush but it will grow over time as tariffs roll off many goods and services.

But it's the flip side to the **China** Eastern/Qantas relationship that will set some pulses racing. As Qantas moves ever closer to splitting its international and domestic divisions it opens the way for allowing Qantas to sell up to 49 per cent of its stock to a foreign player. Emirates has consistently

held it does not want an **equity** tie-up with Qantas but **China** Eastern's appetite for an **equity** tie could be different.

While **China** Eastern is a state-owned enterprise and is not subject to an easing of the direct investment restrictions contained in the FTA, it is not precluded from buying into Qantas down the track, as long as it receives approval from Australia's Foreign Investment Review **Board**.

Meanwhile the **China**/Australia FTA has been lauded as significant boon for Australian agricultural and services industries opening up **Chinese** markets and reducing tariffs.

As expected the agreement removes the tariffs on **dairy** products over four to 11 years and on beef within nine years and sheep meat within eight years.

Tariffs on Australian **wine** exports to **China** are also set to fall to zero over the next four years. Other goods, including barley, seafood, skins, leather and horticultural products are to see tariffs eliminated over coming years

The effects on the broader Australian economy of these and other agricultural and processed food initiatives are forecast to benefit the Australian economy by \$18 **billion** over 10 years as about 95 per cent of exports to **China** will become tariff free.

Australia's services industry is also set to become a major beneficiary of the FTA with banks and financial services companies, insurance, funds management, securities, securitisation and financial futures all now set to get greater access to the **Chinese** market.

Equally important has been the declaration of an official **Chinese** RMB clearing bank in Sydney allowing Australian trading in the currency.

There is plenty of meat in the FTA and while there will be some disappointments around the phasing out of trade barriers, the agreement is generally more extensive than most had hoped for.

CO chea : China Eastern Airlines Corp Ltd | qntas : Qantas Airways Ltd

IN i75 : Airlines | iairtr : Air Transport | itsp : Transportation/Shipping | i7501 : Scheduled Passenger Airlines

RE austr : Australia | china : China | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcosz : Developing Economies | easiaz : Eastern Asia

PUB Fairfax Media Management Pty Limited

AN Document SMHH000020141117eabi0002x