



Ms Isabelle Arnaud  
Director  
Adjudication Branch  
Australian Competition and Consumer Commission

Dear Ms Arnaud

**Qantas and Air New Zealand applications for authorisation**

Thank you for your letter of 19 April 2006 providing Virgin Blue with the opportunity to supply a written submission regarding the applications by Qantas and Air New Zealand (**applicants**) for authorisation of their Tasman Networks Agreement (TNA).

**1. Overall response to the applications for authorisation**

Virgin Blue considers that the TNA is likely to have an overall adverse effect on competition on the trans-Tasman routes. Regardless of the arguments advanced by the applicants in their applications to the Commission, the effect of the TNA will be to combine the 2 largest existing competitors on routes across the Tasman. On the applicants' own figures, following the implementation of the TNA, the applicants will jointly control between 75% and 80% of the passengers travelling on trans-Tasman routes. Virgin Blue considers that this share is likely to be even higher if:

- (a) particular trans-Tasman routes were analysed (eg routes to and from Wellington); or
- (b) business passengers were analysed separately from other passenger (leisure and VFR passengers).

Nevertheless, Virgin Blue recognises that the task of the Commission under the *Trade Practices Act 1974* is to consider the public detriment that would arise from the TNA, in particular as a result of the lessening of competition, and consider whether this detriment is outweighed by any public benefits flowing from the agreement.

**2. Pacific Blue's trans-Tasman operations**

In order to assist the Commission in its consideration of the applications for authorisation, Virgin Blue sets out below a summary of its current trans-Tasman operations.

Trans-Tasman operations are conducted by Pacific Blue, a wholly owned subsidiary of Virgin Blue Holdings Limited. Virgin Blue deploys aircraft to Pacific Blue which is then responsible for the operation of those aircraft.



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Pacific Blue's current trans-Tasman network consists of the following weekly frequencies:

Route	Frequency
Brisbane – Auckland (return)	6 frequencies per week
Coolangatta – Auckland (return)	2 frequencies per week
Brisbane – Christchurch (return)	9 frequencies per week
Melbourne – Christchurch (return)	3 frequencies per week
Sydney – Christchurch (return)	5 frequencies per week
Brisbane – Wellington ( return)	3 frequencies per week

The above schedule represents 2.8% of the total weekly flying for the Virgin Blue Group (being Virgin Blue's Australian network, Pacific Blue's trans-Tasman network and Pacific Blue's South Pacific Island network). As at the date of this letter, Virgin Blue envisages that the frequency of services in its trans-Tasman schedule for the Northern Winter period will be the same as outlined in the table above.

### 3. Matters for consideration

In considering the applications Virgin Blue encourages the Commission to take note of the volatility of the trans-Tasman operations; including the recent departure of 2 major international airlines and the unlikely prospect that they will be replaced in the foreseeable future.

Also we encourage the Commission to consider the following:

- Removal of wing-tip flying could result in the creation of an entry barrier for new airlines as TNA capacity is spread across optimum time slots;
- Spreading the schedule has the capability to redirect corporate traffic carried by other airlines currently operating in different time slots; potentially marginalising their operations;
- Carriers other than the applicants might not have the schedule ability or flexibility to pick up capacity withdrawn under the TNA or the aircraft availability to operate on all routes such as Wellington which has significant runway constraints;
- Reduction of capacity at key times for the corporate market could result in higher fares for corporate and other travellers;



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- What happens to the capacity that is removed from the trans-Tasman routes, will it be used to target specific routes/competitors in the South Pacific;
- The risks potentially inherent in day-to day co-ordination of pricing, scheduling and revenue management are considerable and could, at worst, challenge the continuance of a contested market;
- The TNA has the potential through the resultant power of the combined market share to enable the applicants to exert considerable influence, either deliberately or inadvertently, over other players in the market;
- Whether all markets across the trans-Tasman really competitive or whether only specific routes are competitive?

We would be grateful if the Commission could consider the matters raised above. If you have any queries in relation to any of the information set out in this letter, please do not hesitate contact me.

Yours sincerely

**Karam Chand**  
**General Manager Commercial – International**  
**Virgin Blue Airlines Pty Limited**

