

PUBLIC VERSION – FOR PUBLICATION



FILE NOTE			
Matter name:	Virgin Blue Airlines Pty Ltd & Ors – applications for authorisation – A91227 & A91228		
ACCC	Richard Chadwick, Graeme Woodbridge, Jennifer Orr, Greg Outzen, Darrell Channing, Teresa Nowak, Clare McGinness, Jessica Buik		
Qantas	Brett Johnson, General Counsel Jill Henderson, Deputy General Counsel - Projects & Competition Michele Laidlaw, Head of Legal - Competition Anna Pritchard, Head of Legal - Competition		
Date:	27 October 2010	Time:	3:30pm

Qantas representatives made the following comments in response to questions raised by ACCC staff.

*The Qantas/Jetstar business model*

- Following the collapse of Ansett, Qantas held approximately 90% share of the Australian domestic market which Qantas recognised was temporary given that Virgin Blue had already entered the market as a true low cost carrier operating a different model with a focus on leisure routes.
- At this time, Qantas was operating a mixed domestic product where the on-board experience differed according to the aircraft used. Qantas was concerned with customer feedback that this mixed offering could start to damage the brand.
- In late 2003, Qantas considered establishing a low cost Qantas Group product. Jetstar was subsequently established at a separate location and encouraged to develop a distinct culture.
- The mantra of the Qantas Group is Group profitability, not individual carrier profitability.
- Jetstar was differentiated from Qantas in a number of regards, including:
  - no allocated seating;
  - customers were given the option to purchase additional products and services on board; and
  - no through check of baggage and limited interlining arrangements in place.
- Jetstar operates very much on a point to point basis, entering routes at a low cost base, without any route network focus.

**PUBLIC VERSION – FOR PUBLICATION**

EXCLUDED FROM  
PUBLIC REGISTER

- At Jetstar's launch, the Qantas Group decided that Jetstar should replace Qantas on a number of predominately leisure based routes. This allowed Qantas to remain on those routes with sufficient business and leisure demand or other network considerations.
- Decisions on the routes flown by the Qantas Group carriers are made by the Flying Committee which includes Alan Joyce, Gareth Evans, Bruce Buchanan and Rob Gurney.
- The focus of the Flying Committee has changed over time. At Jetstar's launch, Jetstar and Qantas focussed on separate non-overlapping routes. There are now instances where both Qantas and Jetstar operate on the same route. Jetstar began flying particular routes flown by Qantas where **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- The ACCC draft determination in relation to A91227 & A91228 accurately describes the Qantas/Jetstar business model. The ACCC's characterisation of Jetstar is correct in the way it describes the model focussing on Group profitability.
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**

*Deployment of Jetstar*

EXCLUDED FROM  
PUBLIC REGISTER

- Decisions on the deployment of Jetstar are made on the basis of whether the route under consideration is predominately a leisure, business or combination route. For example, with the exception of routes involving Tokyo, which are business routes, routes between Australia and Japan are operated by Jetstar, with the Jetstar Star Class meeting the needs of the small percentage of business passengers flying on these routes.
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- Jetstar is a point to point operator with a focus on predominately leisure routes. If Jetstar wished to commence operations on a particular route, it could make suggestions, however the decision must go through the Flying Committee. The CEO of the Group ultimately makes the decision.
- Qantas has not historically deployed Jetstar on routes to and from Wellington. This reflects the strong government and business demand into Wellington and the thin nature of the route. **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- It is correct that the Tasman as a whole is predominantly a leisure market and the business traffic represents a smaller proportion of the passenger traffic. This does not mean that Qantas can deploy Jetstar onto the Tasman without consideration of its impact on Qantas and total Group profitability. This analysis would be performed on a route by route basis.

EXCLUDED FROM  
PUBLIC REGISTER

## PUBLIC VERSION – FOR PUBLICATION

- The manner in which the Qantas Group deploys Jetstar has changed over time, however, a primary consideration for the Qantas Group remains to enhance Group profitability.
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**

**EXCLUDED FROM  
PUBLIC REGISTER**

*Trans-Tasman competition*

- As a matter of economic theory, the Commission may be concerned that it could be easier to maximise profitability in a market with one competitor as opposed to two. It is not that the two wouldn't compete, but rather that with a smaller the number of competitors, it would be easier to monitor and anticipate the actions of a competitor.
- Pricing is transparent in the aviation industry. Qantas has internal teams that monitor the fares of its competitors to ensure its prices are competitive.
- Qantas has not taken a position on this Application, **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**.
- The alliance is not necessary to create a stronger competitor – the market is already very competitive and Virgin Blue and Air New Zealand are individually strong competitors.
- Emirates operates as a constraint at a fare level and adds a significant amount of capacity to some trans-Tasman routes. It is an attractive alternative for leisure passengers and those business passengers who have the flexibility to take advantage of Emirates' schedule.
- Qantas seeks to attract both leisure and business passengers by offering a broad range of fares. Qantas recognises that business passengers usually require a number of alternative services throughout the day. Leisure passengers also benefit from such options. In order to maintain its schedule Qantas needs to attract a sufficient number of business and leisure passengers.
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**
- Qantas is not aware of any proposed entry by Tiger Airways onto trans-Tasman routes. **[RESTRICTION OF PUBLICATION CLAIMED - COMMERCIAL IN CONFIDENCE]**

EXCLUDED FROM  
PUBLIC REGISTER

EXCLUDED FROM  
PUBLIC REGISTER