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Proposed Alliance between Virgin Australia Group and Singapore Airlines

Submission in support of Application for
authorisation

20 June 2011

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Executive Summary

Executive summary

Authorisation sought for an Alliance between Virgin Australia and Singapore Airlines

Virgin Australia and Singapore Airlines (the **Applicants**) seek authorisation to make and to give effect to the Alliance Framework Agreement and associated agreements, including Codeshare Agreements, Reciprocal Frequent Flyer and Lounge Agreements and a Special Prorate Agreement (the **Alliance**).

The Alliance fills significant gaps in each of Singapore Airlines' and Virgin Australia's networks, providing Singapore Airlines with an Australian partner and giving Virgin Australia access to the increasingly important Asian market.

The combination of the Applicants' two networks, together with joint scheduling and pricing and favourable prorates, will allow both airlines to offer passengers new services on their codes, better connections at competitive fares and, through reciprocal lounge and frequent flyer programs, more opportunities to earn and burn frequent flyer points, status recognition and use lounges.

The Applicants will also work together to align their in-flight products and airport services to create a seamless travel experience for their passengers.

As all of these service and product improvements will be valued by passengers, the Applicants expect that:

- they will attract additional passengers to their services, increasing revenue. Modelling undertaken by InterVISTAS estimates the Alliance will result in traffic stimulation on Alliance codeshare routes of [restriction of publication claimed]% which will be shared between the Alliance and other competitors, and an increase in total Alliance traffic of [restriction of publication claimed]%;¹
- as a result of passenger stimulation and additional traffic feed for services through the Alliance, existing services would become more profitable and new services which would otherwise not be viable would become commercially sustainable;
- better international connections and new routes, together with joint marketing internationally, will stimulate international tourism to Australia, with significant benefits for the Australian economy; and
- the Alliance will give Australian travellers more choice, especially in the corporate and government accounts sector.

Rationale for and scope of

The Alliance is a key part of Virgin Australia's Game Change strategy.

¹ See Confidential Annexure G for complete analysis

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the Alliance

Virgin Australia aims to attract a higher share of business and corporate customers in closer competition with Qantas.

In addition to offering a deep and broad domestic network, as Virgin Australia already does, in order to attract more corporate passengers, Virgin Australia needs to:

- offer an international network that is comparable with that of Qantas;
- provide an attractive frequent flyer product that allows passengers to earn and burn points on a wide range of services;
- provide high quality in-flight services, such as food, entertainment, level of service and comfort; and
- provide high quality services at the airport, including efficient check-in and lounge access.

Virgin Australia has already commenced rolling out new and improved services in-flight and on the ground. It has also taken steps towards building an international network, through the launch of V Australia-operated services and its alliances with Delta, Etihad and Air New Zealand.

The Alliance will extend this strategy by enhancing the Velocity program, giving Virgin Australia passengers the opportunity to access Singapore Airlines' KrisFlyer lounges and to earn and burn frequent flyer points and earn status points across Singapore Airlines' entire international network.

It will also complete Virgin Australia's "virtual international network" by giving Virgin Australia access to increasingly important Asian destinations:

- Singapore is a key destination for Australian corporate and business travellers and a crucial hub for international flights.
- China and India are among the fastest growing destinations for travel from Australia, while destinations like Japan and Hong Kong have been long established as key destinations for business and leisure travel from Australia. The ability for Virgin Australia to offer coded flights to and within these countries will be very valuable for Australian passengers.

Under the Alliance, Virgin Australia will be able to offer an international network and attractive frequent flyer program that closely matches that of Qantas, while continuing to offer value for money.

At the same time, Singapore Airlines will be able to offer and promote SQ coded flights to destinations throughout Australia, New Zealand and the Pacific Islands. This will enable new online international flights to key tourist destinations beyond the major gateways, such as Cairns, Darwin and Hobart. The Applicants will work together to promote travel to Australia internationally, including through the development of an Air Pass product for incoming international tourists. The Applicants

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consider that this will stimulate international travel to Australia.

Under the Alliance, the [restriction of publication claimed] Australian members of Singapore Airlines' KrisFlyer program will, for the first time, be able to redeem their points on travel within Australia.

The Alliance is complementary to Virgin Australia's existing Alliances with Etihad, Delta and Air New Zealand and will have no effect on their continued implementation and operation.

The Alliance will promote competition for Australian air travel

Under the Alliance, Virgin Australia will be better placed to challenge Qantas' leading position for international air travel to and from Australia, and its dominant position in relation to the supply of services under corporate and government contracts, providing more choice and better value for customers.

The Alliance will make Virgin Australia a stronger competitor across all sectors of the market, growing it as an important second international airline for Australia.

Analysts and industry commentators have recognised that the Alliance will result in a more valuable product being supplied by Virgin Australia and Singapore Airlines, stimulating competition:

- Deutsche Bank has noted "[t]he combination of Virgin / Etihad Delta / Air NZ / SIA now offers a powerful alternative proposition to Qantas, in our view."²
- The Centre for Asia Pacific Aviation has said that the Alliance "...has the potential to transform competition for Qantas in its core domestic and international premium travel markets. For Virgin, SIA completes the puzzle that now stretches east to New Zealand, and North America with Air New Zealand and Delta, respectively, west to the Middle East, North Africa and Europe with Etihad, and now North to Asia with SIA, as well as simultaneously feeding its domestic operation."³
- "In forming an alliance with Asia's airline jewel, Singapore Airlines, Virgin Australia has successfully filled in the last piece of its geographic jigsaw, creating a virtual airline that covers all major global destinations. But more importantly, it has laid the foundations to make its domestic operations a serious contender for business and government passengers."⁴

Public Benefits

The Alliance will immediately deliver significant public benefits, including in the form of:

- **Building the Virgin Australia international network and**

² Cameron McDonald, Deutsche Bank aviation analyst, quoted in: "Virgin signs up to air alliance; Qantas rival reignites fight for flights", Herald Sun, 8 June 2011 at 36.

³ Centre for Asia Pacific Aviation, "Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance," 7 June 2011.

⁴ Elizabeth Knight, "Virgin's overseas links mean business at home", SMH, 8 June 2011 at 6.

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promotion of closer competition with Qantas:

- Expanding and enhancing Virgin Australia's international network in order to create a viable alternative to Qantas' international network.
- Under the Alliance the Applicants will have the ability to offer a broader and more integrated network and to jointly market and promote a competitive alternative corporate offer to Qantas.
- This will result in more choice for all passengers, promoting competition on service and price and stimulating further competitive responses.

• **Enhancing existing products and services:**

- Creation of new online journeys from an extensive network of international destinations serviced by Singapore Airlines to all points within Australia and the Virgin Australia network, creating more choice and convenience for travellers.
- Reciprocal earn and burn and status recognition across Singapore Airlines' and Virgin Australia's loyalty programs.
- Reciprocal access to Singapore Airlines' and Virgin Australia's airport lounges.

• **Potential new services and frequencies:**

- The passenger stimulation and traffic feed anticipated under the Alliance will make new services and frequencies viable and existing services more profitable.
- The Applicants will investigate new route opportunities such as:
 - direct services between **[restriction of publication claimed]**; and
 - additional frequencies and up-gauging of aircraft on routes between Australia's capital cities and Singapore.

• **Stimulation of tourism to Australia, particularly to destinations beyond Australia's main international gateways:**

- The availability of online services from Singapore Airlines' many international source markets to destinations in Australia beyond the international gateways will promote tourism to Australia, particularly in regional areas.
- The Alliance will give the Applicants the incentive and ability to jointly promote travel to Australia and distribute services to Australian destinations internationally, including

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through the establishment of an Air Pass product.

- This will have significant benefits for the tourism and hospitality industry, as well as the broader Australian economy, creating employment and growth opportunities. The contribution of the aviation industry to economic well-being is highly significant: for every \$100 of output produced by the air transport industry, it triggers an additional demand of \$325 and for every 100 jobs created in the aviation industry, 610 jobs are created in other industries.⁵

No adverse effect on competition

Currently, there is very limited overlap between services operated by Virgin Australia and Singapore Airlines only to the extent that both Virgin Australia and Singapore Airlines/ SilkAir operate services to Phuket and Denpasar. Virgin Australia operates direct services from Australia while Singapore Airlines and SilkAir operate one-stop services via Singapore.

There is some potential for overlap between services marketed by Virgin Australia through its alliance with Etihad and services operated by Singapore Airlines.

This overlap will not result in any substantial lessening of competition as:

- there is strong competition from existing competitors;
- there are no significant barriers to further entry and expansion and many competitors have plans to increase their capacity; and
- absent the Alliance, Virgin Australia is not likely to commence operating stand-alone services from Australia to Singapore or to any of Singapore Airlines' other international destinations.

For commercial reasons, Virgin Australia does not intend to codeshare on Singapore Airlines' routes where it has codeshare coverage with Etihad.

Application for Authorisation

The Applicants submit that the ACCC should authorise the Alliance for the duration of the Initial Term of the Alliance or, alternatively, for a period ending no earlier than five years from Commencement Date of the Alliance.

This submission is lodged in support of the application made by Virgin Australia and Singapore Airlines.

⁵ International Civil Aviation Organisation, "Economic Contribution of Civil Aviation – Ripples of Prosperity," at 3.

1 The Applicants

1 The Applicants

1.1 Virgin Australia Airlines



Virgin Australia Airlines commenced operations in Australia as Virgin Blue in August 2000 and is listed on the Australian Stock Exchange. Virgin Australia currently operates 91 aircraft on approximately 3000 flights per week, to 48 Australian and international destinations. It serves 17 additional international destinations and seven additional destinations within Western Australia through codeshare agreements with partner airlines.

On 4 May 2011, the Virgin Blue Group relaunched under a single Virgin Australia brand, replacing the following domestic and international brands:

- Virgin Blue;
- Pacific Blue; and
- V Australia.

These brands will be phased out by Virgin Australia over the coming year and all flying will take place under the Virgin Australia brand.

Virgin Australia also operates Pacific Island services through Polynesian Blue, which is a joint venture with the Samoan Government.⁶

(a) Virgin Australia's business model and strategy for growth

Ten years ago Virgin Blue began its operations as a Low Cost Carrier (**LCC**) serving a small number of domestic Australian routes. Since its entry in 2000, Virgin Blue made a number of changes to its business model in order to take account of changing conditions in the Australian aviation industry and to pursue opportunities to increase its share of passengers and its profitability.

In late November 2005, Virgin Blue re-defined its business model and announced its move towards becoming a New World Carrier (**NWC**). A NWC is a low cost, high value airline model that aims to attract a broader cross section of passengers than the traditional LCC model, through leveraging the airline's low cost foundations and adding valuable new products which appeal to higher yielding passengers. This NWC strategy allowed Virgin Blue to continue low cost operations while strengthening yields and profitability. As part of this strategy, Virgin Blue introduced additional services including, Velocity, The Lounge, self check-in kiosks, premium economy, Corporate plus fares and blue holidays and expanded its network reach by purchasing new aircraft and adding new destinations to its network as well as commencing interlining arrangements with other airlines.

⁶ The rebranding of Polynesian Blue is dependent on agreement with the Samoan Government.

1 The Applicants

Since his appointment in May 2010, CEO John Borghetti has pursued Virgin Australia's 'Game Change' strategy, designed to attract higher yield corporate and business passengers while remaining attractive to leisure passengers. Virgin Australia's Game Change strategy is to improve its network and product in order to expand its passenger base and challenge its closest competitor, Qantas, across more market segments, providing enhanced choice and competition for all Australian passengers.

Virgin Australia's strategy is to retain its competitive position for leisure and visiting friends and relatives (**VFR**) travel in domestic Australia while reducing its exposure to fluctuations in demand for leisure travel by diversifying its passenger base and attracting a higher proportion of Australian corporate, government and international travellers.

Virgin Australia aims to bring its lower cost position and dynamic and innovative brand to all sectors of the Australian air travel market. The leisure market is, and will continue to be, a core segment where Virgin Australia will continue to focus and bring true competition.⁷ Qantas currently dominates the Australian corporate and government sectors and has the largest share of international travel to and from Australia.⁸ Virgin Australia aims to bring competition to these sectors just as it did to the leisure sector when it was first launched.

In order to achieve this strategy Virgin Australia is tailoring its product with the aim of being both cost efficient and delivering a great service that is valued by all passengers.⁹ Key to this strategy is an international network.

Consistent with this business strategy, over the past 12 months Virgin Australia has undertaken the following initiatives to improve its product and service offering and ensure that it appeals to the full range of travellers:

- Significant expansion of its international flight network through authorised alliances with Air New Zealand, Etihad Airways and Delta Airlines.
- The launch of V Australia operated flights to Abu Dhabi, becoming the first Australian carrier to operate services to the Middle East in 20 years.
- Growth of its regional network with the wet leasing of up to 18 new turboprop aircraft operated by Skywest and a codeshare relationship with Skywest, enabling Virgin Australia to service fly-in/fly-out mining centres as well as regional tourist destinations.¹⁰
- The introduction of new, simplified fare classes on domestic and former Pacific Blue services: Saver, Flexi or Premium (Premium Economy / Business) fares, providing more transparency and better value across the fare classes.¹¹
- The announcement of business class seating and service to be rolled out across Virgin Australia's domestic fleet.

⁷ For more details on Virgin Australia's strategy, see: Presentation by John Borghetti, Virgin Blue Chief Executive Officer, Annual Stockbrokers Conference, Melbourne, 8 June 2010.

⁸ For the year ended January 2010, the Qantas Group had a 28.6% share of international passengers into and out of Australia. Virgin Australia estimates Qantas Group has almost a 90% share of Australian corporate and government accounts.

⁹ See generally: Presentation By John Borghetti, Virgin Blue Chief Executive Officer, Annual Stockbrokers Conference, Melbourne, 8 June 2010.

¹⁰ Virgin Blue, Media Release, "Virgin Blue and Skywest sign 10 year strategic alliance to create regional network," 10 January 2011

¹¹ Virgin Australia, Media Release: "Proudly Introducing New Fares form Virgin Australia," 23 May 2011.

1 The Applicants

- The new Airbus A330 service between Sydney and Perth, providing additional capacity and a range of service options.
- A new exclusive food and beverage menu designed by celebrity chef Luke Mangan for both domestic and international services, with a focus on fresh Australian produce.
- Introducing Australia's first premium valet service and direct lounge entry at Sydney Domestic airport, offering premium guests a streamlined, hassle-free experience.
- Upgraded Lounges at Melbourne and Brisbane airports with new lounges announced for Mackay and Coolangatta. **[restriction of publication claimed]**
- New look corporate branding, staff uniforms, livery and interiors.
- The continued growth of services to new domestic and regional leisure destinations including the introduction of services to Ayers Rock (Uluru), Hamilton Island, Rarotonga and Queenstown, which will be made more sustainable under the Alliance.

Further information on Virgin Australia's brand, operations, fleet, network and products are set out in **Annexure B**.

1.2 Singapore Airlines

(a) Overview

Singapore Airlines is the flag carrier of Singapore, operating passenger services with a fleet of over 100 aircraft across an extensive international network. SIA Group offers services to around 101 scheduled destinations in 40 countries, including through alliances, with a particularly strong presence in Asia:

- 27 destinations in Asia, including Singapore, Hong Kong, Tokyo, Seoul and Delhi;
- 14 destinations in Europe, including London, Manchester, Athens, Frankfurt; Istanbul, Milan and Paris;
- routes to the USA (including Los Angeles, New York and San Francisco) and South America (Sao Paulo); and
- other destinations in the Middle East, South West Pacific and Africa.

Singapore Airlines currently operates 92 return services per week to and from five gateways in Australia: Adelaide, Brisbane, Melbourne, Perth and Sydney.

Singapore Airlines is a full service airline with a strong reputation for excellence in customer service and both its leisure and business offerings. It is the world's most awarded airline. Recent awards in 2010 include Conde Nast Traveller (USA)'s *Best Global Airline* for 22 of 23 years; Travel and Leisure Magazine (USA)'s *World's Best International Airline* for the 15th consecutive year; Business Traveller (Asia Pacific)'s *Best Airline* for the 19th consecutive year; Business Traveller USA's *Best Overall Airline in the World* for 21 of 22 years, and Guardian/Observer Travel Awards (UK)'s *Best Long Haul Airline* for the 7th consecutive year.

1 The Applicants

Singapore Airlines is majority government owned and is listed on the Singapore Stock Exchange. In 2010, the International Air Transport Association (**IATA**) named Singapore Airlines the world's second largest airline by market capitalisation (USD14 billion).¹²

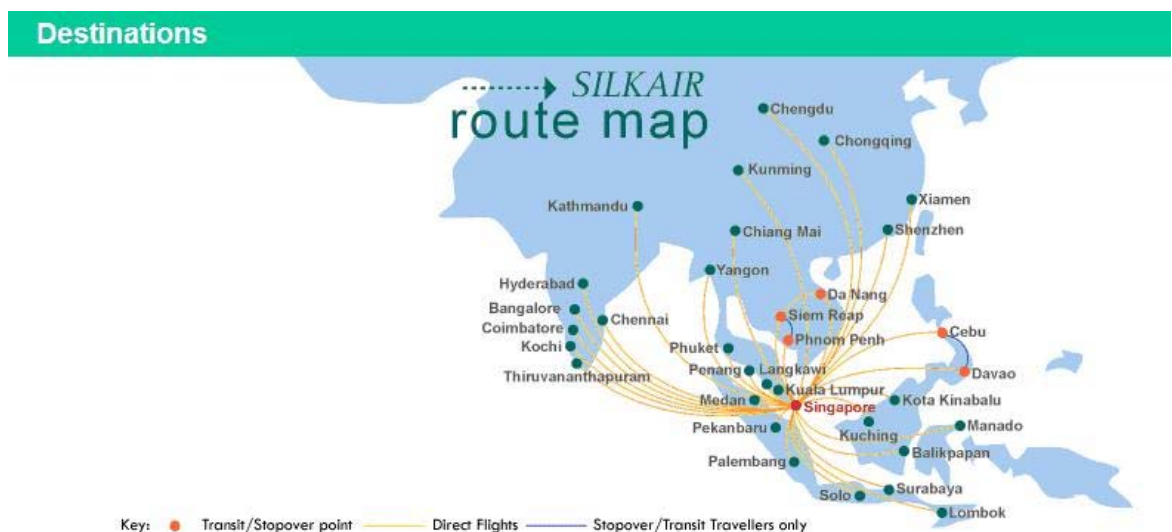
Singapore Airlines recently announced for the 2010/2011 financial year a group net profit of SGD1.09 billion and operating profits of SGD851 million and SGD121 million respectively for Singapore Airlines and SilkAir.

(b) SilkAir

SilkAir is a wholly owned subsidiary of Singapore Airlines, positioned as a premium, short-to-medium haul regional carrier. SilkAir extends Singapore Airlines' footprint in Asia and links Singapore to a multitude of destinations across Asia. SilkAir has evolved to become Asia's premier regional airline and offers over 400 flights a week to 34 exotic destinations across 11 countries, with a fleet of 19 Airbus aircrafts (13 Airbus 320s and 6 Airbus 319s).

Recent awards include: the Singapore "Gold" award in the Effie™ Awards 2011 and the Top 10 Airlines for Best Cabin Service Worldwide 2010 by Smart Travel Asia. SilkAir was inducted into TTG Asia's Travel hall of Fame in October 2010, following its tenth win as Best Regional Airline in the TTG Asia Travel Awards 2009.

Figure 1: SilkAir route network



(c) Other alliances

Singapore Airlines is a member of the Star Alliance. Codeshare partners include SilkAir, Virgin Atlantic, Air New Zealand, Malaysia Airlines, Lufthansa, Scandinavian Airlines, Swiss International Air Lines and US Airways.

Singapore Airlines has a 49% shareholding in Virgin Atlantic, which offers flights to the USA, Africa, Caribbean, Asia and to Australia from its hubs in the UK. The only service to Australia

¹² Ben Mutzabaugh, "US, European airlines no longer world's biggest, IATA says," USA Today, 14 December 2010, <http://travel.usatoday.com/flights/post/2010/12/worlds-biggest-airlines/134876/1>.

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operated by Virgin Atlantic is London – Hong Kong – Sydney. Singapore Airlines has a codeshare relationship with Virgin Atlantic.

Singapore Airlines also has a 32.84% interest in Tiger Airways, a low-cost carrier servicing routes throughout Asia and within domestic Australia. The Tiger Airways model and brand is entirely separate from that of Singapore Airlines and Singapore Airlines does not have any management control over Tiger Airways. Singapore Airlines does not have a codeshare or interline relationship with Tiger Airways.

Further information on Singapore Airlines' operations, fleet, network and products are set out in **Annexure C**.

2 The Alliance

2 The Alliance

2.1 Proposed Alliance

The Applicants are seeking authorisation to establish an integrated network alliance under which the Applicants will:

- codeshare on a freesale basis on each other's regular passenger transport networks; and
- cooperate in relation to check-in, airport operations, frequent flyer programs, lounge access, scheduling, pricing, sales and marketing, bids for corporate and government accounts, service policies, innovation and other associated activities in order to enhance efficiency and improve the overall quality of services offered to passengers.

The Alliance will lead to substantial public benefits and no material detriment.

2.2 Agreements

On 6 June 2011, Virgin Australia and Singapore Airlines entered into an Alliance Framework Agreement in relation to the proposed Alliance. The implementation of the Alliance Framework Agreement is conditional on the Applicants also entering into other interdependent agreements, namely:

- reciprocal codeshare agreements between Singapore Airlines, SilkAir, Virgin Australia Airlines and Pacific Blue Airlines, and between Singapore Airlines, SilkAir and Virgin Australia International Airlines (**Codeshare Agreements**);
 - a Special Prorate Agreement between Singapore Airlines, SilkAir, Virgin Australia Airlines, Virgin Australia International Airlines and Pacific Blue Airlines (**Special prorate Agreement**);
 - a Frequent Flyer and Lounge Agreement (**FFP and Lounge Agreement**); and
 - a Reciprocal Staff Duty Travel Agreement,
- (together **the Alliance**).

The Applicants have executed terms sheets in relation to each of the Codeshare, special prorate and FFP and Lounge agreements.

The Alliance Framework Agreement is subject to authorisation by the ACCC.

Copies of the executed Alliance Framework Agreement and term sheets are set out in **Confidential Annexure A**.

2.3 Scope of the Alliance

The Alliance comprises a number of different joint activities. Not all aspects of the Alliance require authorisation and some limited cooperation may be implemented prior to authorisation. However, all aspects of the Alliance are interdependent upon one another and it is only with an integrated Alliance that the Applicants will be able to achieve their commercial objectives and realise the anticipated benefits.

Under the Alliance:

2 The Alliance

- subject to regulatory approval in Australia, Virgin Australia and Singapore Airlines will fully cooperate on all aspects of their Australia-Singapore services and any international and domestic connecting routes, including joint pricing and scheduling and joint marketing and sales;
- subject to regulatory approval in Australia, cooperate in relation to the marketing of services to corporate and government accounts, including joint bidding and joint pricing;
- cooperate in relation to frequent flyer programs and lounge access to improve the Alliance's overall service offering;
- codeshare on a freesale basis on selected routes within each other's networks and offer special prorates on all coded flights; and
- enter into reciprocal interline arrangements.

The Applicants will also work together to achieve other synergies contemplated in the Alliance Framework Agreement including further product alignment, joint sales and marketing, and coordinated airport processes.

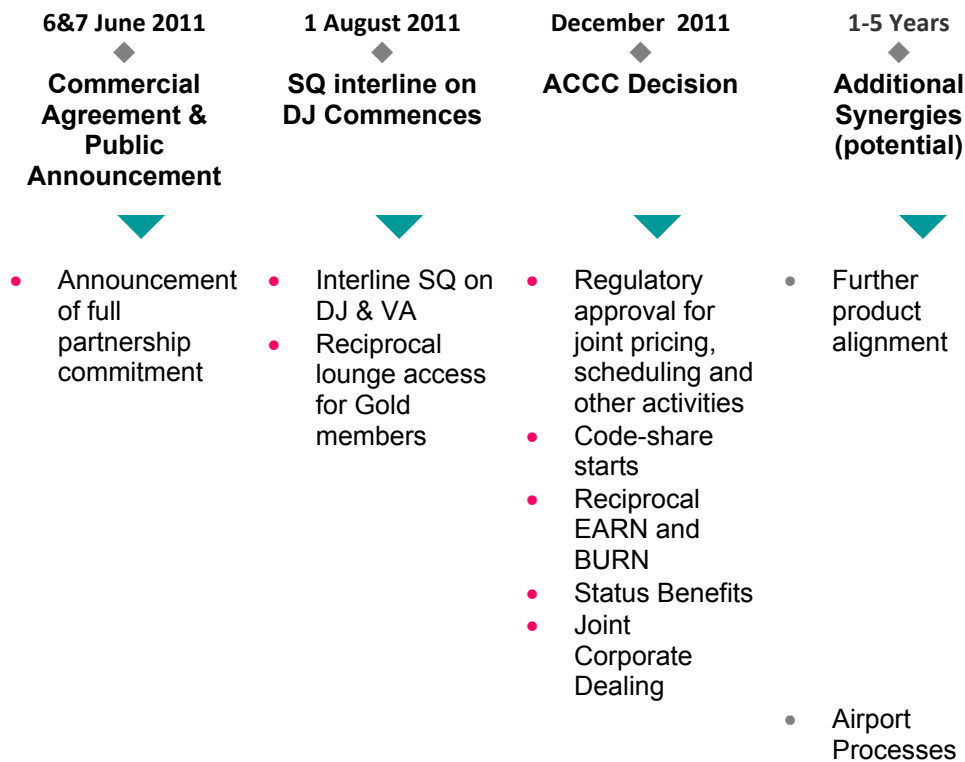
The Applicants do not intend to share revenue at this stage. As the Applicants do not currently operate material overlapping services, this is not necessary to achieve metal neutrality. However, the Alliance Framework Agreement contemplates the possible future implementation of metal neutral policies in the event that the Applicants begin operating any overlapping routes in the future or agree to jointly deploy new services. Further, the Applicants will put in place measures to ensure that their incentives are aligned under the Alliance and each airline has the incentive to fully cooperate.

The Applicants will begin implementing some elements of the Alliance immediately, prior to authorisation. This will enable the Applicants and passengers to begin to realise benefits.

Figure 2 below shows the proposed implementation timeline for each of the elements of the Alliance.

2 The Alliance

Figure 2: Proposed Alliance implementation timeline



Each of the elements of the Alliance is discussed in more detail below.

(a) Interline and reciprocal lounge and frequent flyer benefits

The Applicants will shortly implement an interline agreement and limited aspects of the reciprocal lounge benefits of the Alliance.

From 1 August 2011, KrisFlyer Gold and Velocity Gold members will have reciprocal access to the Applicants' lounges. From the same date, passengers who purchase a Singapore Airlines flight with an onward connection on a Virgin Australia flight (for example, Singapore-Sydney on Singapore Airlines, then Sydney-Canberra on Virgin Australia) will be able to take advantage of an interline arrangement to have check-through of baggage and a single ticket for the whole journey.

Under the Alliance, the Applicants will implement a broad reciprocal frequent flyer and lounge access agreement which will include:

- Reciprocal earn and burn of Velocity and KrisFlyer points across the Applicants' networks;
- Reciprocal status recognition; and
- Reciprocal lounge access for all eligible passengers.

Reciprocal frequent flyer and lounge benefits will apply across the entirety of the networks of each airline.

2 The Alliance

(b) Reciprocal codeshare on existing networks

Under the Alliance the Applicants will implement reciprocal freesale codeshare within each other's networks with favourable pro-rates. A complete list of destinations to which Singapore Airlines, SilkAir and Virgin Australia operate services is set out in **Annexure D**.

- Under the Codeshare Agreements Virgin Australia will be able to place its code (DJ and VA) on all regularly scheduled passenger services operated by Singapore Airlines and SilkAir on routes to/from Australia and New Zealand to Singapore and beyond.¹³ Virgin Australia does not intend to place its code on Singapore Airlines' services where Virgin Australia has a codeshare relationship in place with Etihad. If Virgin Australia were to place its code on both airlines' services, this may result in an inconsistent product and service experience for Virgin Australia passengers on the same route.
- As a result of bilateral restrictions, Virgin Australia is unable to code on services to some of Singapore Airlines and SilkAir destinations including Egypt, Cambodia, the Philippines, Nepal and the Maldives.¹⁴
- In turn, Singapore Airlines (SQ) and SilkAir (MI) will be able to place their code on Virgin Australia's services within Australia and the Pacific and on the trans-Tasman.
- Under existing bilateral agreements Singapore Airlines and SilkAir are unable to place their code on Virgin Australia operated services to Los Angeles.

The Alliance will enable Virgin Australia to offer coded itineraries to many additional international destinations, expanding Virgin Australia's virtual international network. Importantly, it provides Virgin Australia with the ability to offer services between Australia and key destinations in Asia, which are among the fastest growing destinations for Australian travellers and important source markets for business and leisure travel to Australia. These include destinations throughout China, which is the fastest growing source market for travel to Australia, as well as Singapore, Hong Kong, Tokyo, and Delhi.¹⁵

At the same time, reciprocal codeshare will provide important feeder traffic on Virgin Australia's domestic network from Singapore Airlines' international network, making new and existing services more viable and promoting inbound tourism to Australia.

(c) Cooperation on services

Subject to regulatory approval in Australia, the Applicants intend to implement cooperative procedures in relation to scheduling, price, marketing, distribution, sales, and other activities including purchasing and staff travel. This joint coordination will allow the Applicants to optimise and grow the overall scope of their product offering, such that:

- joint marketing, distribution and sales will enable the Applicants to jointly bid for corporate accounts and to enhance and create new corporate offerings through the bundling of international and domestic fares and associated value-adds (such as lounge access and corporate rewards);

¹³ Note, excluding charter services.

¹⁴ Under Australia's bilateral agreements with Italy and Switzerland, capacity offered by Australian designated airlines under codeshare or as a market carrier on services operated by third country carriers is limited. Qantas has been allocated all the capacity available to marketing or codeshare carriers by the IASC.

¹⁵ See Annexure E: Industry background, especially Figure 1.

2 The Alliance

- joint scheduling, which may involve adding or shifting frequencies, will improve travel coverage and connections for passengers and traffic feed for the Applicants, leading to a more comprehensive joint network with a better spread of routes and frequencies; and
- joint fare setting and favourable prorates will enable the Applicants to offer more competitive fares and avoid double profit mark ups on connecting services.

In order to be motivated to sell each other's network and invest in an optimally planned combined network with increased customer convenience, it is necessary for the Applicants to fully coordinate and to have aligned commercial incentives that would not otherwise exist in the absence of the Alliance. Commercial Rationale for the Alliance

3 Commercial rationale for the Alliance

3 Commercial rationale for the Alliance

3.1 Joint rationale

The proposed Alliance allows each party to combine its strengths in order to fill significant gaps in its existing network, providing Virgin Australia with network coverage in Asia and providing Singapore Airlines with a partner in Australia.

The creation of an integrated international and domestic network through the Alliance will increase passenger numbers on the services of each of the Applicants: Singapore Airlines will be able to offer travel from locations throughout its global network to tourist destinations within Australia, while Virgin Australia will benefit from increased passenger feed on its domestic services. Currently, Qantas is the only airline that can offer a comprehensive international and domestic network for Australian travel. The Alliance will also have this ability. The Alliance will also give both Virgin Australia and Singapore Airlines the incentive to promote Australia as a tourist destination internationally, in order to maximise the passenger benefits of the Alliance. This in turn will have significant benefits for Australian tourism and the Australian economy more generally, as discussed in section 4 below.

For each of the Applicants, the Alliance provides an important opportunity to increase its ability to compete with Qantas, particularly for corporate and government accounts.

The travel budgets of large Australian corporate accounts are typically split 70:30 for domestic:international travel.

Under the Alliance, the Applicants would be able to offer Australian corporate and government clients both international and domestic services bundled with value-added products such as access to both Virgin Australia's and Singapore Airlines' lounges, reciprocal earn and burn of frequent flyer points and status recognition. The ability to offer this package is crucial to their capacity to compete effectively in this market.

Currently, Qantas is the only airline that can offer both a domestic Australian network and an extensive international network, including through the JSA with British Airways on services to Europe and through the oneworld alliance. When bidding for corporate accounts it bundles these two services, offering a discount on international fares if the client also books its domestic fares with Qantas.

The effect of Qantas' bundling strategy is that airlines that lack either a comprehensive domestic or international network are effectively excluded from successfully competing for many corporate accounts.

The ability to attract a greater share of high yielding corporate and government accounts is a key part of Virgin Australia's Game Change strategy, discussed in more detail below. In summary, the Applicants expect that the Alliance will allow them to:

- offer an enhanced network that provides connections within Australia from services throughout Singapore Airlines' international network;
- enhance their ability to compete with the Qantas-Jetstar Group, particularly for corporate and government accounts;
- leverage brand presence and home sales teams in order to achieve marketing synergies; and

3 Commercial rationale for the Alliance

- attract more passengers to their existing services by accessing more feed markets and stimulating demand through improved services and products.

This in turn will increase the revenue of each airline and create efficiencies, including through higher load factors.

3.2 Virgin Australia specific rationale

(a) Overview

The proposed Alliance is a key part of Virgin Australia's Game Change strategy as it will enable it to:

- more effectively compete with Qantas for Corporate and Government contracts;
- offer a broader international network without large capital investment; and
- attract additional passengers to its services, including higher yield passengers, through feed from Singapore Airlines' network and as a result of its improved product.

(b) Attracting a higher share of corporate/government accounts

Virgin Australia's aim to build a contemporary, dynamic airline competing in all market segments has been widely publicised.¹⁶ Virgin Australia is seeking to broaden its customer base in order to reduce its exposure to demand risks associated with the Australian leisure travel market. As leisure travel is discretionary, it is much more susceptible to external shocks to demand. Natural disasters, such as the Queensland floods and cyclone and the Christchurch earthquake, pandemics and global economic conditions have significantly affected demand for leisure travel. While all of the aviation industry is exposed to fluctuations in demand, demand is much more volatile in relation to leisure travel. By increasing its share of corporate and government contracts, Virgin Australia would be able to partially hedge against these uncertainties.

In 2010, the Australian corporate travel sector was valued at approximately \$6.6 billion in annual total transaction value (TTV).¹⁷ Of this, Singapore Airlines estimates that approximately \$1.3 billion is spent on international air travel, while approximately \$3.1 billion is spent on domestic air travel.¹⁸

Currently, Qantas has an overwhelming share of the corporate/government sector, with an estimated 90% share of corporate/government sales. Virgin Australia estimates that it currently has only around 10% share of Australian corporate/government sales and considers that the Alliance provides it with a great opportunity to expand its share. Virgin Australia aims to at least double that share, as illustrated in Figure 3 below.

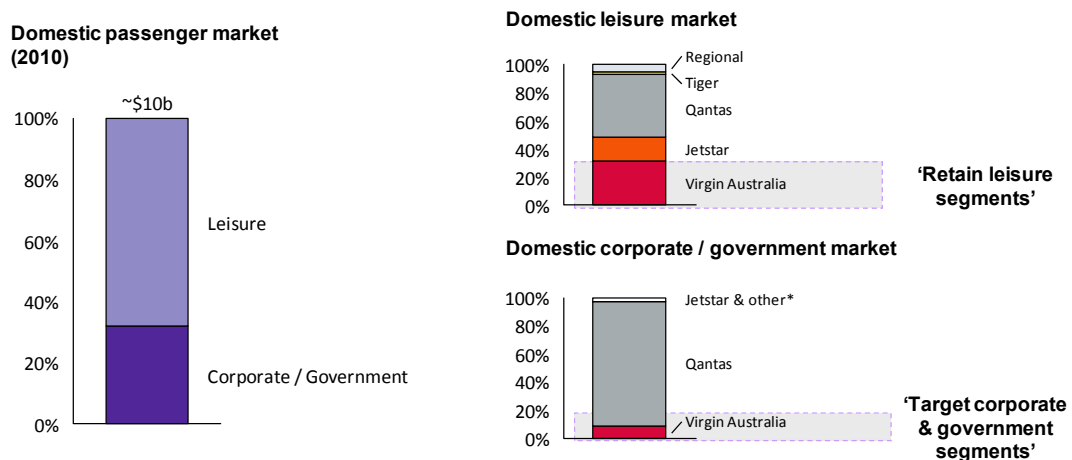
¹⁶ See, for example: "Virgin Australia – the Next Decade: Address by Virgin Australia CEO John Borghetti, American Chamber of Commerce in Australia Lunch, Sydney, 20 May 2011; Geoff Easdown, "Virgin unveils game-change strategy", Courier Mail, 23 February 2011.

¹⁷ Corporate Travel Management Prospectus 2010, prepared by RBS Morgans at 24.

¹⁸ The remainder comprises spending on accommodation, car hire and associated expenses.

3 Commercial rationale for the Alliance

Figure 3: Current shares of Australian corporate and government accounts¹⁹



In Virgin Australia's experience, the key drivers of choice for corporate and business accounts are price, schedule and connectivity and access to loyalty rewards. Figure 4 below shows the results of market analysis of the drivers of choice for business travellers, undertaken for Virgin Australia by Colmar Brunton in May 2010.

Figure 4: Drivers of choice for business travel

[restriction of publication claimed]

These results are consistent with the feedback that Virgin Australia has received from potential corporate and government account customers.

In addition to offering a deep and broad domestic network, as Virgin Australia already does, in order to attract more corporate passengers, Virgin Australia needs to:

- offer an international network that is comparable with that offered by Qantas, including through its Alliances;
- provide an attractive frequent flyer product that allows passengers to earn and burn points on a wide range of services, in particular so that they can earn flights when travelling long haul and redeem for holidays on Virgin Australia's short haul network. Without an extensive long haul network, Velocity is limited in its attractiveness for passengers;
- provide high quality in-flight services, such as food, entertainment, style and comfort; and
- provide high quality services at the airport, including efficient check-in and lounge access.

Virgin Australia's product has changed since the analysis in Figure 4 was undertaken.

Virgin Australia has already commenced rolling out new and improved services in-flight and on the ground as discussed above. It has also taken steps towards building an international

¹⁹ Source: Compiled by Virgin Australia using data from Colmar Brunton, Company reports and BITRE. Note: other includes Tiger and regional airlines.

3 Commercial rationale for the Alliance

network, through the launch of V Australia operated services and its Alliances with Delta, Etihad and Air New Zealand.

However, there is a clear gap in Virgin Australia's network: Asia.

(c) Alliance with Singapore Airlines will fill gap in Virgin Australia's offer

The ability for Virgin Australia to offer services to destinations throughout Asia is critical to Virgin Australia's strategy to build an international network. Access to Singapore Airlines' extensive network throughout Asia will be particularly attractive to Virgin Australia's international business and leisure travellers.

Together with existing alliances with Delta, Etihad and Air New Zealand, the Alliance will give Virgin Australia an international network of over 370 destinations, a truly global network that will more closely match that of Qantas.

This can be seen in the route maps below:

Figure 5: Asian destinations Virgin Australia will be able to offer under the Alliance²⁰

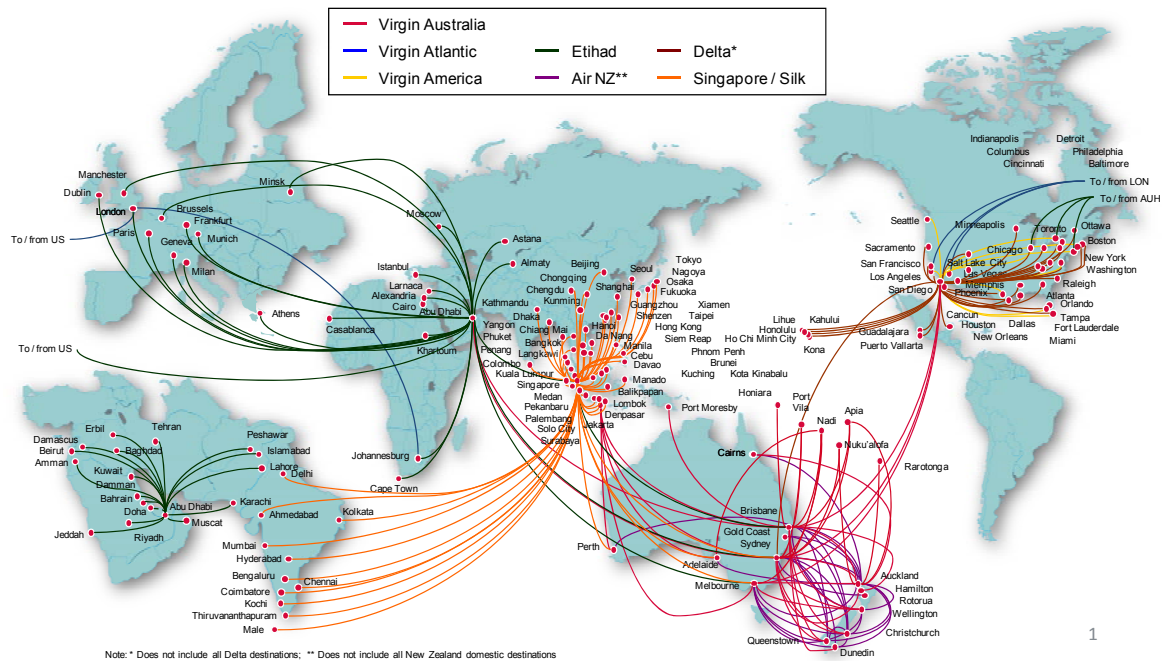


²⁰

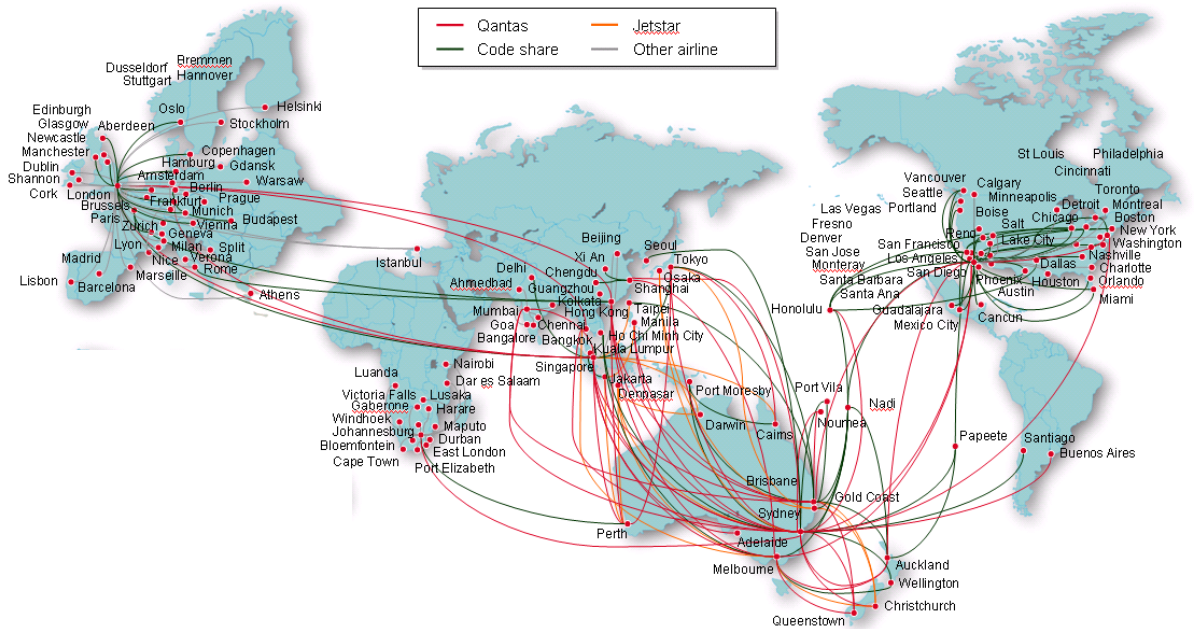
While the Alliance will provide Virgin Australia with the ability to codeshare on Singapore Airlines' services between Brisbane and Singapore, Virgin Australia has an existing codeshare with Etihad on this route. Virgin Australia does not intend to codeshare with both airlines on this route

3 Commercial rationale for the Alliance

Figure 6: Alliance will give Virgin Australia a comprehensive and competitive international network



Qantas Group Network



3 Commercial rationale for the Alliance

(d) Singapore and Asia are critical for Australian business and leisure travel

Asia is already a very important region for both outgoing and incoming Australian travel and its importance, for both business and leisure, is growing at a very fast rate. In particular:²¹

- Approximately 45% of all Australian international travel is to Asia;
- In 2010, 40.1% of short term visitor arrivals in Australia were from Asia and 44.1% of short term resident departures were to destinations in Asia;
- After New Zealand, Singapore is the single largest destination for travel to and from Australia, with 18.1% of travel to and from Australia passing through Singapore;
- The highest growth for travel is to and from China, Singapore and Indonesia, with Japan, South Korea, Malaysia and India growing sources of arrivals to Australia;
- China is second only to New Zealand as the largest source market for inbound travel to Australia.

The ability for Virgin Australia to offer services to Singapore and destinations throughout Asia is particularly important for its ability to attract corporate and government accounts.

Figure 7 shows the top international routes for corporate/government travel by revenue, while Figure 8 shows the top routes for corporate/government travel by passenger numbers.

These illustrate the importance of routes to Singapore and throughout Asia to corporate and government customers [restriction of publication claimed]

The colour-coding in the figures below highlight the routes that Virgin Australia can offer either through its own operated services or through its Alliance partners. [restriction of publication claimed]

Figure 7: Top 40 routes by revenue for corporate and government accounts

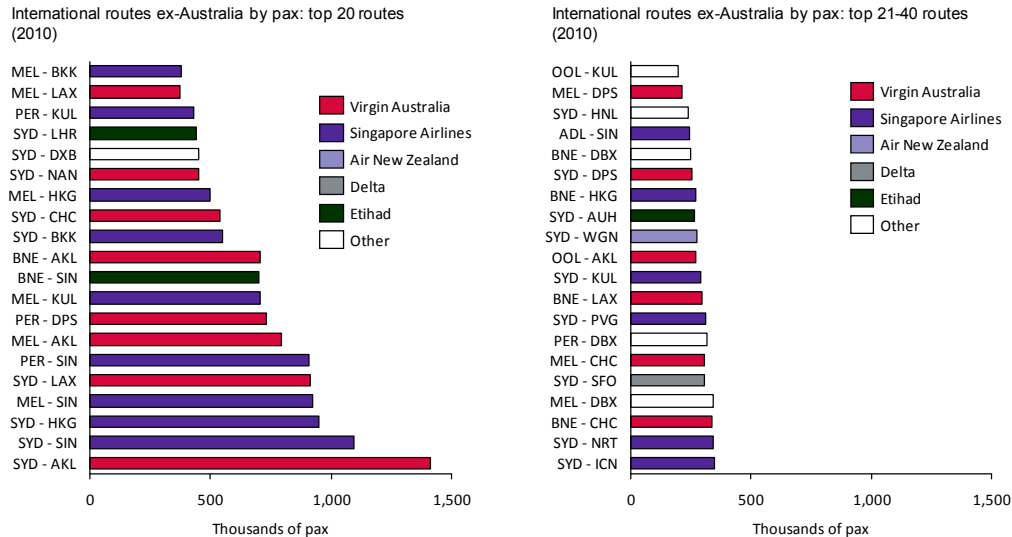
[restriction of publication claimed]

²¹ See Annexure E for further information on travel between Australia and Asia

3 Commercial rationale for the Alliance

Figure 8: Top 40 routes by passenger numbers for corporate and government accounts

Top 40 routes by pax



Through a combination of its current Alliances and the proposed Alliance with Singapore Airlines, Virgin Australia is able to offer services to a network of international destinations comparable to that offered by Qantas. This is illustrated in Figure 9 and Figure 10 below:

Figure 9: Top 40 routes by revenue sold by Qantas, including through Alliance partners

[restriction of publication claimed]

Figure 10: Top 40 routes by revenue sold by Virgin Australia, including through Alliance partners and proposed alliance with Singapore Airlines

[restriction of publication claimed]

(e) Singapore Airlines is an ideal partner with which to challenge Qantas' dominant position for corporate and government accounts

The capacity to offer both a compelling international and domestic network is critical to Virgin Australia's ability to attract a higher share of corporate/government contracts in competition with Qantas.

Typically, Australian corporate/government accounts comprise 30% international travel and 70% domestic travel. Currently, Qantas is the only airline that can provide a comprehensive domestic and international network. In order to successfully compete for large contracts, an airline needs to be able to offer both. This is particularly so given the pricing and contracting strategies employed by Qantas.

3 Commercial rationale for the Alliance

The Applicants understand that,²² Qantas bundles discounts for international and domestic travel.

As Qantas is the only airline that can provide a completely comprehensive domestic and international network its strategy has been largely unchallenged.

By combining the Applicants' networks and strengths, the Alliance will provide Virgin Australia with the ability to really challenge Qantas' dominance in this area and bring competition to corporate/government accounts in order to win a larger share of this business, just as it has to the leisure sector.

The reciprocal frequent flyer, status and lounge benefits and the ability to offer a high quality service on international and domestic services under the Alliance will also be instrumental in providing a product that will be valued by corporate and government customers.

The response of analysts and industry experts to the announcement of the proposed Alliance supports the Applicants' view that the Alliance will stimulate competition for international travel to and from Australia, for domestic travel within Australia and, in particular, for corporate and travel accounts.

Aviation analysts (including from the Centre for Asia-Pacific Aviation (**CAPA**), Deutsche Bank and Colonial First State) consider that the Alliance will allow Virgin Australia and Singapore Airlines to jointly present a corporate offering that is competitive with Qantas. Deutsche Bank analysts have said that the Alliance will enable Virgin Australia to provide "a powerful alternative proposition to Qantas,"²³ while CAPA has predicted it will enable Virgin Australia to win a greater share of the market.²⁴ CAPA has further noted that the Alliance has the potential to "transform competition in Australia-Asia markets and increase competition for Qantas in its core domestic and international premium travel markets."²⁵

Press coverage indicates a general view that the Alliance will deal a "severe blow"²⁶ to Qantas' unchallenged position for corporate and government accounts, noting that while competition is intense for leisure passengers, Qantas currently has a "hold on the lucrative corporate travel market."²⁷ The consensus response to the Alliance has been that passengers will benefit from the improvement in Virgin Australia's competitive position vis a vis Qantas, made possible through cooperation with Singapore Airlines.²⁸

²² The Applicants' understanding is based on feedback from customers during corporate tender processes.

²³ Cameron McDonald, Deutsche Bank aviation analyst, quoted in "Virgin sings up to air alliance, Qantas rival reignites fight for flights," Herald Sun, 8 June 2011.

²⁴ Matt O'Sullivan, "Qantas off course as Virgin signs alliance with Singapore," The Age, 8 June 2011 at 1 and 4; Peter Harbison, Centre for Asia-Pacific Aviation, quoted in "Singapore completes the jigsaw for Virgin," The Age, 8 June 2011 at 15; Dow Jones Newswires, "Update: Virgin Australia, Singapore Airlines In Deal To Connect Flight Networks," 7 June 2011; Matt O'Sullivan, *Virgin's new link adds to Qantas woes*, SMH, 8 June 2011 at 1.

²⁵ Centre for Asia Pacific Aviation, "Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance," 7 June 2011, available at <http://www.centreforaviation.com/news/2011/06/07/virgin-australia-and-singapore-airlines-to-change-the-balance-of-power-with-long-term-alliance/page1>.

²⁶ For example, David Flynn, "Virgin Australia reveals Singapore Airlines as its Asian partner – up next, Star Alliance membership?", Australian Business Traveller, 7 June 2011, <http://www.ausbt.com.au/virgin-australia-reveals-singapore-airlines-as-its-asian-partner-up-next-star-alliance>; Steve Creedy, Aviation writer, "SIA-Virgin tie-up a blow to Qantas," The Australian, 7 June 2011; Matt O'Sullivan, "Virgin tie-up with SingAir delivers next blow to Qantas," The Age, 7 June 2011.

²⁷ Matt O'Sullivan, "Qantas flying into trouble," SMH, 11 June 2011, <http://www.smh.com.au/business/qantas-flying-into-trouble-20110610-1fx09.html#ixzz1PEffEiQW>.

²⁸ For example, Elizabeth Knight, "Virgin's overseas links mean business at home," SMH, 8 June 2011 at 6; Centre for Asia Pacific Aviation, *Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance*, 7 June 2011.

3 Commercial rationale for the Alliance

(f) Joint approach for corporate and government accounts under the Alliance

The ability to jointly approach corporate and government clients under the Alliance is critical to the commercial rationale of both Virgin Australia and Singapore Airlines and is a source of significant public benefits.

The way in which joint approaches for corporate and government accounts will occur under the Alliance will depend on the requirements of individual customers in terms of the services they wish to utilise and any conditions of contracts or tenders.

The Applicants anticipate that in some instances one partner will take the lead in approaching and contracting with the potential customer. Which party will take the lead will depend on any pre-existing relationships with the customer and whether the bulk of the travel is domestic or international. In such circumstances one airline could contract with the customer and supply the services on its code. In these cases, the Applicants will need to ensure that both parties benefit from the contract and have the incentive to supply services without regard to which airline is operating those services. This requires cooperation on pricing and the ability to put in place incentive mechanisms. Without this, the Applicants would have the incentive to compete for the same customer by offering their stand alone services in competition with the Alliance, undermining its core rationale.

In other circumstances, the Applicants will need to have the ability to jointly bid for contracts and jointly price services under those contracts. This is often mandated by customers who will only deal with the operating carrier when considering bids for accounts.

The importance of the alignment of incentives and the ability to coordinate prices and schedules is discussed in further detail in section 3.5 below.

3.3 Singapore Airlines' rationale

Singapore Airlines has a strong brand presence in Australia and is committed to serving the market for international travel to and from Australia. Currently, Singapore Airlines has approximately 10% share of international travel from Australia, which it is keen to grow, and around [restriction of publication claimed] Australian members of its frequent flyer program, KrisFlyer (out of a total membership of [restriction of publication claimed]). However, Singapore Airlines' offer is limited by its inability to offer attractive connections, or the opportunity to redeem KrisFlyer points, in domestic Australia.

Since the collapse of Ansett in 2001, Singapore Airlines has not had the ability to offer connections within domestic Australia. Currently, Singapore Airlines has a limited interline arrangement with Qantas within Australia which does not provide access to coded flights or the ability to access attractive inventory. As Qantas is a key competitor for international travel to and from Australia and a member of competing global alliance,²⁹ oneworld, it is not a suitable alliance partner.

The Alliance is particularly important for Singapore Airlines as it will provide it with access to Virgin Australia's Australian domestic and Pacific network through favourable codeshare arrangements. This will enable Singapore Airlines to:

- Offer Singapore Airlines branded services to incoming international passengers beyond the main Australian gateways, for example offer services from Frankfurt, Germany all the

²⁹ See Annexure F for a description of the global airline alliances.

3 Commercial rationale for the Alliance

way through to popular tourist destinations such as Cairns, Broome or Uluru (Ayers Rock).

- Enhance its offer to Australian corporate customers in competition with one of its closest competitors in the region, Qantas. While Singapore Airlines' international network is compelling, in order to be attractive for Australian corporate accounts it is essential to offer domestic services and also services between Australia and the United States (which it is unable to provide due to bilateral restrictions). Under the Alliance Singapore Airlines will be able to joint bid for corporate accounts. Further detail on the benefits of the Alliance in relation to competition for corporate accounts are provided at section 4.3.
- Provide opportunities for Singapore Airlines' passengers to earn and burn frequent flyer points within Australia. This presents an immediate benefit for the **[restriction of publication claimed]** existing Australian KrisFlyer members who will be able to redeem their existing points balance on Australian domestic flights for the first time. This will increase the value of the KrisFlyer product for Australian travellers, encouraging them to become more active in earning points on long-haul flights as they will have more redemption options.

Singapore Airlines is particularly interested in gaining access to the following connections:

- from Brisbane, to Hobart, Cairns, Townsville, Darwin, Hamilton Island, Launceston, Mackay, Rockhampton, Christchurch, Wellington and Apia (Samoa);
- from Sydney, to Ayers Rock, Canberra, Cairns, Hobart, Coolangatta, Townsville, Hamilton Island, Launceston, Mackay, Rockhampton, Coffs Harbour, Auckland, Christchurch and Wellington;
- from Melbourne, to Coolangatta, Cairns, Townsville, Darwin, Hamilton Island, Launceston, Mackay, Rockhampton, Auckland and Christchurch;
- from Adelaide to Coolangatta, Cairns, Townsville, Darwin, Hamilton Island, Launceston, Mackay, Rockhampton, Auckland, Christchurch and Wellington;
- from Perth to Darwin, Karratha, Port Hedland and Broome; and
- between the Australian capital cities, enabling multi-city travel on the SQ code.

Coding to these destinations would allow Singapore Airlines to provide international flights on its code to destinations throughout Australia that are important for tourism and for business travel, including multiple destination itineraries.

Virgin Australia will only provide Singapore Airlines with the most favourable pro-rates and free-sale codeshare as part of an integrated alliance.

3.4 Applicants are a good strategic fit

The Applicants are a good strategic fit for each other. In particular:

- There is minimal competitive overlap between the Applicants' networks and the Alliance with Singapore Airlines is complementary to Virgin Australia's existing alliances;
- Each airline has aspirations to challenge the dominance of Qantas for Australian corporate and international travel;

3 Commercial rationale for the Alliance

- Each airline fills an important strategic need of the other, by completing Virgin Australia's virtual network and providing Singapore Airlines with access to domestic Australia, and consequently each is committed to a deep and lasting alliance.

Further, as Virgin Australia launches new products and moves to increase its share of higher yield passengers, Singapore Airlines' products and renowned service are a good match for Virgin Australia's new direction.

Singapore Airlines is clearly the strongest potential Asian partner for Virgin Australia in terms of network coverage, frequencies, quality of service and brand presence within Australia.

In contrast, Virgin Australia's existing interline relationships with Malaysia Airlines, Cathay Pacific and Thai International, while valuable, are far more limited in scope.

- Malaysia Airlines interlines, but does not place its code, on the Virgin Australia domestic network. There is also a reciprocal earn and burn frequent flyer relationship which does include status benefits. Malaysia Airlines has just announced its new membership of oneworld, which will see it enter into cooperation arrangements with Qantas. Therefore there is no prospect of a broader relationship with Malaysia Airlines. As a result of both the proposed Alliance and Malaysia Airlines' decision to join oneworld, both parties will discuss termination of their existing relationship;
- Thai Airways interlines onto Virgin Australia's domestic network; and
- Cathay Pacific and Dragonair interline onto Virgin Australia's domestic network.

As noted above, Singapore Airlines currently has a basic interline relationship with Qantas which has strategic limitations due to the airlines' competitive overlap. Singapore Airlines also codeshares with Air New Zealand on services between Singapore and Auckland and they have reciprocal interline and frequent flyer benefits as part of Star Alliance. However this does not provide Singapore Airlines with access to the domestic Australian market.

3.5 Why an integrated alliance is necessary to bring about Alliance objectives

An integrated alliance is necessary to enable Virgin Australia and Singapore Airlines to achieve their commercial objectives and realise expected benefits for passengers.

In recent years there has been an increasing trend towards consolidation in the international aviation industry in a bid by airlines to be more efficient, particularly in the face of rising costs.³⁰ As there are significant limitations on the ability of international airlines to merge, in particular because of national ownership and control requirements, consolidation most often takes the form of alliances. The ACCC has previously acknowledged the "proliferation of airline alliances"³¹ and has noted that they are:

*"...an industry response to strong competition, low yields and low profitability [that] enabled airlines to expand networks and services whilst controlling costs and increasing productivity."*³²

³⁰ See: Department of Infrastructure, Transport, Regional Development and Local Government, Australian Government, "National Aviation Policy White Paper," December 2009 at 46-47.

³¹ ACCC, "Qantas Airways Limited and British Airways Plc Applications for authorisation (A91195 and A91196) Final Determination," 31 March 2010 at [2.58].

³² ACCC, "Qantas Airways Limited and British Airways Plc Applications for authorisation (A30226 and A30227) Final Determination," 8 February 2005 at [4.44].

3 Commercial rationale for the Alliance

Strategic alliances are used by airlines as a strategy for growth.³³ By improving the overall product and service levels offered, strategic alliances can realise efficiencies to attract more passengers, enhance profit margins and reduce risk. These alliances can take a variety of forms including integrated alliances, simple codeshare arrangements, marketing alliances and interline agreements.

An integrated alliance is one in which the parties work together in a deep partnership to achieve a common commercial objective, undertaking joint activities that may benefit one party disproportionately to the other, but which have overarching benefits for the partnership as a whole. Joint pricing and scheduling is key to such a partnership, as it enables the parties to work together to achieve the best outcome for the partnership.

The Applicants have identified the mutual benefits of an integrated alliance and have agreed to enter into codeshare, special prorate and reciprocal frequent flyer and lounge agreements as the foundation for such an alliance. Each of these agreements is conditional upon one another and upon the execution of the Alliance Framework Agreement.

The key commercial relationships which underpin the integrated alliance are discussed in more detail below.

(a) Full reciprocity on FFP, lounge and systems

Under an integrated alliance, the parties will have the incentive to fully cooperate on FFP and lounge products. Reciprocal earn and burn and status recognition may have the effect of creating a liability (in terms of redemption) borne by one party where no benefit (in terms of purchased flights) is equally enjoyed. As a result, under an arm's length alliance the parties may allow limited earn rights on each others' services but not reciprocal burn rights and no status recognition. However as this is an integrated alliance the Applicants have agreed to unrestricted reciprocity despite the fact that this may result in imbalance in payment flows.

Similarly, the Applicants have the incentive to market the services of the other party and to drive sales onto the other party's network, as this would result in shared benefit for the Alliance.

Finally, the parties have agreed to invest considerable funds and resources in systems and products in order to achieve a genuinely seamless product and experience for passengers, including bookings check-in systems, product alignment and marketing. This investment is justified and motivated by the benefit the Applicants expect will accrue over the term of the Alliance.

(b) Joint scheduling and pricing

Joint scheduling and pricing are integral to the Alliance.

Without the ability to coordinate prices and schedules, the Applicants would be limited in their ability to achieve the commercial objectives (and resulting public benefits) of providing better connections, new services on a single code and at competitive fares. They would be unable to leverage increased passenger numbers and feed in order to launch new services and they would not be able to provide joint corporate offers, using both the international and domestic services of each airline with coordinated pricing.

³³ SC Morrish and RT Hamilton, "Airline alliances- who benefits?" *Journal of Air Transport Management*, 8 (2002) 401-407, at 403.

3 Commercial rationale for the Alliance

Joint scheduling is important as it enables the Applicants to adjust schedules in order to create better connection times and more online journey options utilising the international network of each airline and the domestic network of Virgin Australia. Further, as the Applicants expect that the Alliance will result in additional passengers travelling on their services, making new frequencies and services viable, they require the ability to jointly determine what new services and frequencies will be offered, which airline is best placed to operate those services, and when they should be scheduled so as to maximise the efficiency and connectivity of the services.

Joint pricing allows the Applicants to jointly bid for Australian corporate and government accounts in closer competition with Qantas. As discussed above, the method of bundling discounts on international and domestic services means that the ability to jointly determine discounts for international and domestic services is essential for the Applicants to successfully compete in this segment of the market.

The Applicants require the ability to jointly approach corporate/government customers. Some requests for tender for large corporate accounts specify that airlines may only lodge bids for services they operate, not services they market. A recent example of this is a 2011 request for tender from a large resources company. In such a case, Virgin Australia would be unable to tender for international services operated by Singapore Airlines, or its other Alliance partners, without a joint approach with Alliance partners. Further, some corporate/government customers prefer the convenience of dealing with a single point of contact for their travel requirements. It would not be possible, for example, for Singapore Airlines to provide a bid for a corporate account that involved domestic travel in Australia without doing so jointly with Virgin Australia as it will be unable to offer SQ code on domestic services unless they connect to an international sector. These examples illustrate why the ability to jointly approach corporate customers is crucial to the Alliance.

Without the ability to jointly price the coded services, there is a risk that the Applicants would merely be competing against each other for the same customers, rather than competing with Qantas and other airlines to get new customers onto their services. Without joint pricing, the Applicants could undercut the price at which each airline offers coded services, to the detriment of the Alliance, resulting in competition amongst Singapore Airlines and Virgin Australia for a customer that already would have flown on their services. Instead the airlines need the ability jointly to compete with other airlines for new passengers and the incentive to place passengers on each others' coded flights without preference.

(c) Special pro-rates

Under the Alliance the Applicants will provide favourable prorates to one another. They would not have the incentive to do so under an arm's length agreement as they would be concerned that the other airline would simply undercut them in the market.

[restriction of publication claimed] This is illustrative of how the incentives of partner airlines change when they are free to compete against each other for the supply of coded services. The deep level of cooperation necessary to achieve the Alliance benefits would not be possible in such a scenario.

Without an integrated Alliance, airlines will ordinarily seek a profit margin on the passengers they put on their respective codeshare partner's aircraft, which in turn will be seeking a profit on the seat they are selling to the marketing carrier. This has the effect of increasing fares compared with the position under an integrated alliance, in which incentives are aligned.

3 Commercial rationale for the Alliance

3.6 Relationship to existing Alliances

Etihad Alliance

The proposed Alliance would not change Virgin Australia's existing alliances with Etihad, Delta and Air New Zealand. This Alliance is complementary to the existing alliances and fills gaps in Virgin Australia's current offer, providing Virgin it with access to destinations throughout Asia not currently offered by Virgin Australia or its other Alliance partners.

The Alliance contemplates the ability for Virgin Australia to place its code on any Singapore Airlines or SilkAir services. However, for commercial reasons, Virgin Australia does not intend to codeshare on Singapore Airlines routes where it has codeshare coverage with Etihad. To do so may result in an inconsistent product and service for Virgin Australia passengers on the same routes.

Star Alliance

The Alliance would not have an impact on Singapore Airlines' membership of the Star Alliance as no Australian airlines are currently members of Star Alliance.

Virgin Atlantic

Neither Virgin Australia nor Singapore Airlines has an integrated alliance relationship with Virgin Atlantic. However for completeness we note that Virgin Atlantic is part owned by Singapore Airlines and part owned by Sir Richard Branson through Virgin Enterprises Limited. Virgin Australia is also part owned by Sir Richard Branson through Virgin Enterprises Limited. Despite this common shareholding, there is no management relationship between Virgin Atlantic and Virgin Australia.³⁴ This will not change under the Alliance. Nevertheless, given the size of Singapore Airlines' shareholding in Virgin Atlantic, when providing market share data throughout this submission, Virgin Atlantic's market share has been included in the share of the proposed Alliance to provide the most conservative position for analysis.

³⁴ There are currently reciprocal frequent flyer arrangements (including earn and burn, and status credits); limited codeshare and interline arrangements (Virgin Atlantic codeshares on a small number of Virgin Australia's domestic Australian routes – SYD-BNE/MEL.CBR/OOL/ADL – and V Australia interlines on a small number of Virgin Atlantic routes to enable "round the world" fares to be constructed.

4 Public benefits arising from the Alliance

4 Public benefits arising from the Alliance

4.1 What are public benefits and how should they be assessed?

The Competition and Consumer Act does not define 'public benefit' but the Tribunal has defined it as "anything of value to the community generally, any contribution to the aims pursued by the society including as one of its principal elements (in the context of trade practices legislation) the achievement of the economic goals of efficiency and progress."³⁵

The direct beneficiaries of the Alliance will include existing and potential passengers on international services to and from Australia, corporate and government clients, and the Australian tourism industry, as well as the Applicants themselves. More broadly, the competition and efficiency enhancing effects of the Alliance are of value to the community generally.

The Applicants consider that the ACCC should assess the benefits by applying 'a public benefit standard' or 'total welfare standard' as applied by the Tribunal in *Qantas Airways* and consistent with the ACCC's *Guideline*.³⁶ That is, "anything of value to the community generally" is a public benefit for the purposes of the authorisation test.³⁷

In determining whether the identified benefits are public benefits or private benefits, it is important to note that the Tribunal has previously defined 'public' in this context to be all members of society in their various roles, including "as investors, shareholders or workers as well as consumers and also people incidentally affected by market outcomes."³⁸ Under the 'public benefit standard' or 'total welfare standard', different beneficiaries are treated equally.³⁹

4.2 Enhanced products and services

(a) More choice of flights and better connections

Through codeshare and interline arrangements, the Alliance will provide passengers with the ability to purchase journeys across the entire international and Australian domestic networks offered by the Applicants.

This will immediately increase the choice of coded journey options for passengers. Passengers will have access to better connections and a broader schedule on either the Virgin Australia or Singapore Airlines codes. The Alliance will enable seamless connections between the points currently served by Virgin Australia in domestic Australia, New Zealand and the Pacific with Singapore Airlines' extensive international network of destinations set out in **Annexure D**.

For Australian consumers, this will create new online journeys on Virgin Australia or Singapore Airlines code. In some cases, the Alliance creates online journeys which were previously unavailable travelling on any single airline code. In other cases, the Alliance will mean better connection times, more direct routings and ease of booking to destination. Where the Alliance

³⁵ Re 7-Eleven (1994) ATPR 41-357 at 42,677; See also Re VFF Chicken Meat Growers' Boycott Authorisation (2006) ACompT 9 at 75; Queensland Co-operative Milling Association Ltd (1976) ATPR 40-012 at 17,242; Re Qantas Airways Limited [2004] ACompT 9 at 163.

³⁶ Re Qantas Airways Ltd (2004) ACompT 9 at 50; ACCC, *Guideline to Authorisation*, March 2007 at 34.

³⁷ Re Qantas Airways Ltd (2004) ACompT 9 at 51.

³⁸ Re VFF Chicken Meat Growers' Boycott Authorisation (2006) ACompT 9 at 75.

³⁹ As compared with a 'consumer welfare standard'; see also Re VFF Chicken Meat Growers' Boycott Authorisation (2006) ACompT 9 at 75.

4 Public benefits arising from the Alliance

enables the Applicants to offer new services on their code (and with accompanying frequent flyer benefits) that match those already offered by competing airlines, this provides passengers with more choice of airlines for travel to a wide range of destinations from locations throughout Australia.

For international travellers, this will allow them to access online journeys on Singapore Airlines' services to destinations throughout Australia, beyond the international gateways.⁴⁰

Examples of online journeys on a single code enabled by the Alliance include:

- Canberra – Beijing;⁴¹
- Gold Coast – Tokyo;⁴²
- Hobart – Hanoi;⁴³
- Darwin – Singapore;⁴⁴
- Coffs Harbour-Colombo;⁴⁵ and
- Canberra – Kolkata or Chennai or Bangalore.⁴⁶

As the ACCC has previously recognised, the opportunities for online connection are a significant benefit that is valued by consumers.⁴⁷ Both business and leisure customers value online services for the following reasons:

- increased convenience;
- the increased likelihood of making the connecting flight in the event of a delay on a journey sector;
- the increased ability to purchase flexible fares;
- reduced likelihood of luggage being lost;
- the ability to fly on one's preferred air service brand and to accrue points and status credits; and

⁴⁰ This leads to significant tourism benefits, which are discussed below at 4.6.

⁴¹ Qantas currently offers this service. Under the Alliance, passengers will have more choice of carrier.

⁴² Qantas currently offers this service. Under the Alliance, passengers will have more choice of carrier.

⁴³ Under the Alliance passengers will be able to undertake an online journey on this route under either Singapore Airlines or Virgin Australia Code, with the resulting convenience, and collect frequent flyer points for the whole journey. Qantas currently offers this service via interline only. Under the Alliance a passenger would have two stops rather than three stops on this itinerary.

⁴⁴ Jetstar is currently the only operator on this route. Under the Alliance, passengers will have more choice of carrier and service model.

⁴⁵ Under the Alliance passengers will be able to undertake an online journey on this route under either Singapore Airlines or Virgin Australia Code, with the resulting convenience, and collect frequent flyer points for the whole journey. Qantas currently offers this service via interline only.

⁴⁶ Under the Alliance passengers will be able to undertake an online journey on this route under either Singapore Airlines or Virgin Australia Code, with the resulting convenience, and collect frequent flyer points for the whole journey. Qantas currently offers this service via interline only.

⁴⁷ ACCC, "Determination : Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, [5.82]; [5.87]

4 Public benefits arising from the Alliance

- in relation to codeshare services, frequently price. Unlike separate 'mix and match' fares, online flights that are part of a favourable codeshare service, such as will be available under the Alliance, are not subject to double marginalisation.

For the reasons discussed in section 3.5, the Applicants would be unlikely to enter into a broad and favourable codeshare arrangement absent the Alliance.

(b) Value added services

Under the Alliance, passengers will benefit from reciprocal lounge and loyalty program access, including reciprocal earn and burn of frequent flyer points and reciprocal status recognition across the entirety of the Applicants' networks.

As the ACCC has previously recognised,⁴⁸ these value-added services have been shown to have a significant impact on consumer satisfaction and preferences when choosing which airline to fly with. Passenger surveys consistently show that all travellers value a range of non-price factors, including network breadth and depth, frequency, loyalty programs, ease of booking and value for money (as opposed to price).⁴⁹

Further, as discussed in section 0 above, the ability to earn and burn frequent flyer points and to access lounges are key drivers of choice for corporate and government accounts.

Frequent Flyer benefits

Under the Alliance, members of Virgin Australia's and Singapore Airlines' loyalty programs will be able to earn and burn reciprocal frequent flyer point benefits across the networks, dramatically increasing the opportunities for passengers of either of the Applicants to earn and redeem points.

There are approximately 2.4 million members of Virgin Australia's Velocity program and approximately [restriction of publication claimed] % of Virgin Australia passengers are members of Velocity. Under the Alliance, these 2.4 million people will gain the opportunity to earn and redeem points across the whole of Singapore Airlines' network, greatly increasing the value of their existing points.

Approximately [restriction of publication claimed] Australians are members of Singapore Airlines' KrisFlyer program. These members currently do not have the opportunity to redeem points for travel in Australia. Under the Alliance, they will gain immediate access to this opportunity, greatly increasing the value of their existing points.

These are significant benefits which will be valued by many passengers.

In particular, passengers value the ability to earn points on long haul international services and redeem points for domestic travel.

⁴⁸ ACCC, "Determination : Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, [5.116] – [5.120]

⁴⁹ Examples of passenger survey results are provided in **Annexure G**.

4 Public benefits arising from the Alliance

The Alliance will enhance the attractiveness of both Virgin Australia's Velocity program and Singapore Airlines' KrisFlyer program, assisting them to better compete with Qantas' frequent flyer program and to attract corporate and government travelers.⁵⁰

Lounges

Under the Alliance, eligible Singapore Airlines passengers will be able to access the domestic lounges of Virgin Australia and eligible Virgin Australia passengers will be able to access Singapore Airlines international lounges globally. Virgin Australia does not currently offer international lounges, except through its existing Alliance relationships and Singapore Airlines does not currently offer access to Australian domestic lounges.⁵¹

There are over [restriction of publication claimed] Gold members of Virgin Australia's Velocity program. Under the Alliance they will immediately gain access to Singapore Airlines' lounges at 13 international terminals.⁵²

There are almost [restriction of publication claimed] KrisFlyer Elite Gold and PPS Club Members who are eligible for Lounge access, including more than [restriction of publication claimed] Australian members. Under the Alliance they will immediately gain access to Virgin Australia's domestic Lounges at Sydney, Melbourne, Brisbane, Canberra, Adelaide and Perth, as well as forthcoming lounges at Coolangatta and Mackay.

These are significant benefits which will be valued by many passengers.

Lounge access is particularly valued by business travellers. Without lounge access, it is difficult to attract corporate accounts, and without higher yielding corporate accounts, Virgin Australia cannot justify the investment in international lounges. In improving its ability to offer a lounge product competitive with that offered by Qantas, it will assist Virgin Australia in creating a credible corporate alternative to Qantas under the Alliance.

Absent the Alliance, it would not be feasible for either airline to match this offer. It may be possible for either airline to obtain lounge access from other carriers on a pay per passenger basis (which becomes a variable seat cost). However, such arrangements are very costly as, absent a broader alliance, other carriers do not have the incentive to provide this access on favourable terms, if at all. Virgin Australia lacks the scale, and in particular the volume of higher yield traffic, on international routes to justify the substantial investment in its own lounges.

Similarly, in the absence of an integrated alliance, airlines would be reluctant to offer such broad based lounge reciprocity due to the operating and capital costs associated with the increased lounge usage. Most domestic and international lounges are space constrained and airlines are therefore tend to restrict the basis on which the guests of airline partners can access their lounges.

⁵⁰ Qantas' frequent flyer program has 7.8 million members and brings in ancillary revenues of over \$1 billion a year for Qantas. Virgin Australia needs to enhance its frequent flyer program, through more earn and burn opportunities, in order to better compete with Qantas. See: Qantas media release, "New Enhancements for Qantas Frequent Flyer and Plans for Major Loyalty Alliance with Optus", 17 May 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/may11/5110>; Dan Warne, "Qantas earns over \$1 billion per year from Frequent Flyer points", Australian Business Traveller, 3 June 2011, <http://www.ausbt.com.au/qantas-earns-over-1billion-per-year-from-frequent-flyer-points>.

⁵¹ See Annexures B and C for more detail on lounge locations.

⁵² Singapore Airlines operates KrisFlyer Silver Lounges at international terminals at the following airports: Singapore, Adelaide, Brisbane, Melbourne, Perth, Sydney, Amsterdam, London-Heathrow, San Francisco, Hong Kong, Taipei, Manila, Bangkok, and Kuala Lumpur. It also operates KrisFlyer Gold Lounges at Singapore Airport.

4 Public benefits arising from the Alliance

(c) Increased passenger numbers

In the Applicants' commercial aviation experience, the Alliance will result in increases in the number of passengers travelling on their services. This is because:

- passengers will value the enhanced products and services available under the Alliance and choose to travel on the Alliance's services;
- the combination of the Applicants' networks will result in increased feed onto services: passengers travelling on Singapore Airlines' international services will provide feed for Virgin Australia's domestic Australian, Pacific Islands and trans-Tasman services, while Australian passengers will be more likely to choose to fly internationally with Singapore Airlines under the Alliance than absent the Alliance; and
- new connecting journeys will stimulate further travel as new destinations and more convenient travel is made available.

In order to quantify this anticipated increase in passenger numbers and assess the commercial benefit of the Alliance, Virgin Australia has asked InterVISTAS to estimate the likely impact of the Alliance on passenger numbers.

In performing this analysis, InterVISTAS used a Quality Service Index (QSI) model. QSI was originally created by the US Civil Aeronautics Board in the 1970s, and has since been adopted by the aviation industry as a commercial tool. For decades QSI has been widely used by airlines, airports and route analysts around the world for assessing the effect of any changes to service levels on a route.

In undertaking the QSI analysis, InterVISTAS used the QSI model developed and maintained by Sabre, one of the largest information technology services providers to the commercial aviation industry. This was supplemented by traffic stimulation components of the model which have been developed in-house by InterVISTAS and are used by InterVISTAS to advise a range of aviation industry stakeholders including airlines, airports and government bodies.

The InterVISTAS analysis, and a more detailed description of the methodology used, is provided at **Confidential Annexure G**.

Consistent with industry experience and the Applicants' commercial expectations, the InterVISTAS modelling anticipates a strong passenger response to the improved service available under the Alliance. InterVISTAS forecasts this improved product offering on Alliance codeshare routes will generate overall traffic stimulation of **[restriction of publication claimed]**%, which will be shared between the Alliance and other competitors. InterVISTAS estimates that there will be an increase in total Alliance traffic of **[restriction of publication claimed]**% (comprising a share in the total market stimulation as well as market share gain from customers switching away from other competitors).

The increase in passenger numbers is itself evidence of the value of the service improvements under the Alliance, which constitute significant public benefits. Increased passenger numbers will result in further benefits in the form of:

- new services and frequencies that would not have been viable absent the Alliance; and
- benefits for the Australian tourism industry.

These are discussed below.

4 Public benefits arising from the Alliance

(d) Potential new routes and frequencies

The Alliance is expected to lead to the introduction of additional frequencies and make new routes more viable. This is because the Alliance's services would attract traffic feed from the networks of both Applicants. Further, the Applicants can utilise the marketing and distribution strength of each party, particularly in its home market, which will enable better promotion of these services. Combined passenger feed will mean that new routes and frequencies would reach acceptable load factors earlier than would be the case for each carrier operating individually. By working through the Alliance, the Applicants will assess which airline is better suited to operating on a route and can jointly promote the services.

Further, the Applicants anticipate that the extra feed and opportunities for joint promotion available under the Alliance will improve the profitability of routes that are currently underperforming, increasing the likelihood that they will continue to be operated.

The Applicants have not yet been able to investigate in detail the new routes that may be offered under the Alliance. However, the Applicants believe that there may be potential for the introduction of [restriction of publication claimed], operated by one of the Applicants and marketed by both.

[restriction of publication claimed] The ability to connect to other Australian destinations is particularly important because international travellers to northern Australia typically visit multiple destinations as part of an itinerary (for example, Kakadu/Top End, Uluru/Red Centre, Great Barrier Reef, Sydney in one trip).

The Applicants' ability under the Alliance to offer seamless connections, including with favourable prorates, across Singapore Airlines' international network and Virgin Australia's domestic network will enable routes like these to be introduced. The ability to coordinate schedules and the incentive to jointly market these services will ensure that both Applicants facilitate their introduction and work to maintain their viability. New routes like these would also have direct benefits for tourism.

Further, Singapore Airlines anticipates that, as a result of the connectivity to Virgin Australia's network, it will be able to introduce further capacity onto its services between Singapore and Australia, including through the deployment of larger capacity aircraft, such as the A380, on its current routes.

While the Applicants have not had further discussions about likely new routes, the Alliance Framework Agreement specifically contemplates that the Applicants will jointly examine the commencement or expansion of services, particularly new direct services.

The ACCC has previously acknowledged that direct services give rise to a public benefit in the form of increased choice and convenience arising from, amongst other things, reduced travel time.⁵³ The ACCC has also found that the introduction of new direct services and additional frequencies is a direct public benefit.⁵⁴ The introduction of new services would also have the effect of stimulating market growth, in particular by making tourism to Australian destinations beyond the major international gateways more convenient.

⁵³ ACCC, "Determination: Air New Zealand and Air Canada Authorisation Application – in relation to a Cooperation Agreement A91097 and A90198", 27 January 2009 at [6.68].

⁵⁴ ACCC, "Determination: Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, at [5.133].

4 Public benefits arising from the Alliance

4.3 The Alliance will result in more choice, promoting competition

The Applicants' commercial rationale for entering the Alliance is the ability to offer travellers services and products with features and qualities superior to that which either airline can offer alone so that they can attract more passengers to their services. In particular, the Applicants are entering into the Alliance to enable them to provide a joint offering to corporate and government passengers which is comprehensive in terms of schedule and network, through which international and domestic fares are bundled together with value-adds such as reciprocal frequent flyer and lounge benefits. The Alliance will enable the Applicants to provide a corporate offer which more closely matches the services offered by Qantas. Hence, the commercial driver of the Alliance is fundamentally competitive. The broader and more integrated network and the ability to jointly market and promote a competitive alternative corporate offer to Qantas are the essential features of the Alliance which result in more choice for business and leisure travellers and for corporate and government accounts, promoting competition across the relevant markets.

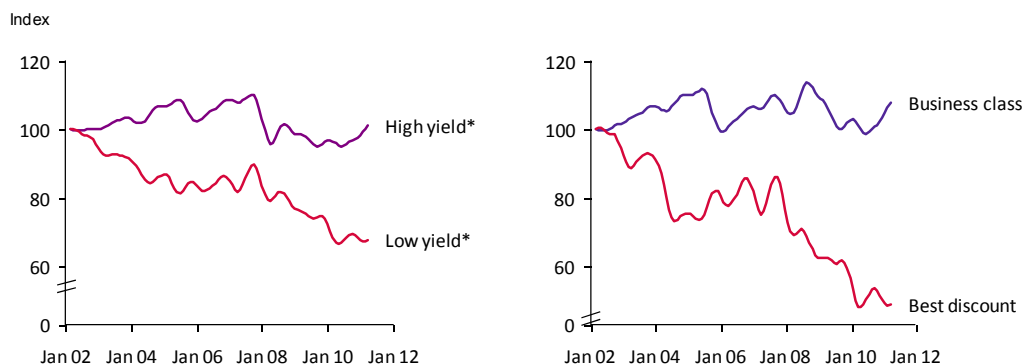
4.4 Promotion of competition for international and corporate travel

From the perspective of Australian travellers, Qantas is the one airline that can offer both business and leisure passengers an integrated service package of high frequency, extensive domestic connections and a deep and broad network of international destinations (served directly and through alliances), with strong frequent flyer benefits. As discussed in section 0 above, Qantas leverages its unique position through its bundled pricing strategy, limiting the ability of other airlines to compete for contracts. As a consequence, Qantas dominates the corporate travel sector, with around 90% share of corporate/government contracts.

This dominance has resulted in Australian corporates having less choice with little competition on price or service. In contrast, Virgin Australia is a strong competitor for Australian domestic leisure travel and there has been fierce competition on service and price within the domestic market. The effect of the different level of competition on average fares can be seen in the figures below.

Figure 11: Business class and high yield fares have remained high⁵⁵

Domestic airfares index
(Mar 2002 – Apr 2011)



⁵⁵

Real 13 month moving average, indexed to March 2002. *High yield comprises business class and full economy, low yield comprises restricted economy and best discount. Source: BITRE

4 Public benefits arising from the Alliance

It is clear that, as set out in section 3, absent the Alliance, both Virgin Australia and Singapore Airlines have relatively weak competitive corporate offers against Qantas. The Alliance will immediately address this by providing the Applicants with access to international and domestic networks, the ability to jointly price these services, and the incentive and ability to offer passengers enhanced frequent flyer and lounge products. As such, the Alliance immediately enables the Applicants to offer a product to corporate and government customers that addresses the key drivers for customer choice in this sector and closely matches Qantas' offer. This will provide more choice for Australian passengers and will stimulate further competition with Qantas.

This will have real benefits for Australian consumers in terms of price and service quality.

The response of analysts and industry experts to the announcement of the proposed Alliance supports the Applicants' view that the Alliance will stimulate competition for international travel to and from Australia, for domestic travel within Australia and, in particular, for corporate and travel accounts.

Aviation analysts (including from the Centre for Asia-Pacific Aviation (**CAPA**), Deutsche Bank and Colonial First State) consider that the Alliance will allow Virgin Australia and Singapore Airlines to jointly present a corporate offering that is competitive with Qantas. Deutsche Bank analysts have said that the Alliance will enable Virgin Australia to provide "a powerful alternative proposition to Qantas,"⁵⁶ while CAPA has predicted it will enable Virgin Australia to win a greater share of the market.⁵⁷ CAPA has further noted that the Alliance has the potential to "transform competition in Australia-Asia markets and increase competition for Qantas in its core domestic and international premium travel markets."⁵⁸

Press coverage indicates a general view that the Alliance will deal a "severe blow"⁵⁹ to Qantas' unchallenged position for corporate and government accounts, noting that while competition is intense for leisure passengers, Qantas currently has a "hold on the lucrative corporate travel market."⁶⁰ The consensus response to the Alliance has been that passengers will benefit from the improvement in Virgin Australia's competitive position vis a vis Qantas, made possible through cooperation with Singapore Airlines.⁶¹

Singapore Airlines is viewed as "an ideal south-east Asian partner, given its excellent connectivity and superior product and service offering."⁶² The Alliance will give Virgin Australia

⁵⁶ Cameron McDonald, Deutsche Bank aviation analyst, , quoted in "Virgin sings up to air alliance", Herald Sun, "Qantas rival reignites fight for flights", Herald Sun, 8 June 2011.

⁵⁷ Matt O'Sullivan, "Qantas off course as Virgin signs alliance with Singapore", The Age, 8 June 2011 at 1 and 4; Peter Harbison, Centre for Asia-Pacific Aviation, quoted in "Singapore completes the jigsaw for Virgin," The Age, 8 June 2011 at 15; Elizabeth Knight, "Singapore completes the jigsaw for Virgin", The Age, 8 June 2011 at 15; Dow Jones Newswires, "Update: Virgin Australia, Singapore Airlines In Deal To Connect Flight Networks", 7 June 2011; Matt O'Sullivan, "Virgin's new link adds to Qantas woes", SMH, 8 June 2011 at 1.

⁵⁸ Centre for Asia Pacific Aviation, "Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance", 7 June 2011, <http://www.centreforaviation.com/news/2011/06/07/virgin-australia-and-singapore-airlines-to-change-the-balance-of-power-with-long-term-alliance/page1>

⁵⁹ For example, Steve Creedy, Aviation writer, "SIA-Virgin tie-up a blow to Qantas", The Australian, 7 June 2011; Matt O'Sullivan, "Virgin tie-up with SingAir delivers next blow to Qantas", The Age, 7 June 2011; David Flynn, "Virgin Australia reveals Singapore Airlines as its Asian partner – up next, Star Alliance membership?", Australian Business Traveller, 7 June 2011, <http://www.ausbt.com.au/virgin-australia-reveals-singapore-airlines-as-its-asian-partner-up-next-star-alliance>

⁶⁰ Matt O'Sullivan, "Qantas flying into trouble", SMH, 11 June, <http://www.smh.com.au/business/qantas-flying-into-trouble-20110610-1fx09.html#ixzz1PEffEiQW> .

⁶¹ For example, Elizabeth Knight, "Virgin's overseas links mean business at home", SMH, 8 June 2011 at 6; Centre for Asia Pacific Aviation, "Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance", 7 June 2011.

⁶² SMH, Virgin tie-up with SingAir delivers next blow to Qantas, 8 June 2011.

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access to the critical Asian market, in particular China and India,⁶³ bringing about new connections between Australia and India, which would enable “an unmatched one-stop product on several fast-growing Australia-India city pairs”.⁶⁴

Comments by analysts have also supported the proposition that coordination between Virgin Australia and Singapore Airlines is necessary in order to jointly market the Alliance corporate offer,⁶⁵ considering that the Alliance will allow Virgin Australia to “market a full service international airline” to corporate customers.⁶⁶

Indeed, the reaction of the share market to the announcement of the Alliance is indicative of this response: on 7 June Qantas’ shares dropped 2.3% on the ASX. This shift was widely considered to be as a result of the increased competitive position of Virgin Australia as against Qantas,⁶⁷ with commentators noting that “the reaction of the Qantas share price says the deal will increase competition.”⁶⁸

The Alliance will also promote competition with other airlines. As discussed above, the enhanced Alliance product and service offering will lead to increased passenger numbers for the Alliance on international routes and connecting domestic sectors. These additional passengers will be won from existing competitors, as well as through market stimulation. In a competitive market such as the Australia-Asia market, customer switching and enhanced product offerings will be met with a strong competitive reaction from existing competitors. In particular, Cathay Pacific, Malaysia Airlines and Emirates, as well as the Qantas-Jetstar Group/British Airways, are likely to respond to the Alliance by competing more vigorously on price and on product and service offerings.

(a) Qantas’ competitive response to Virgin Australia’s Game Change Strategy

Qantas’ competitive response to date to Virgin Australia’s Game Change strategy and its product innovations is evidence of the pro-competitive effects likely to arise from the Alliance.

Qantas recognises the threat that Virgin Australia’s Game Change strategy represents and is embarking on a commercial strategy to limit Virgin Australia developing a strongly competitive offer.

In a recent media statement announcing capacity reductions by Qantas, Alan Joyce reinforced Qantas’ intention to keep its share of the market, saying: “With Qantas continuing to lead the premium market and Jetstar offering consistently low fares in the leisure market, we are well-placed to retain our profit-maximising 65 per cent domestic market share. Our extensive fleet renewal strategy will support growth and improve product for both airlines.”⁶⁹ Commentators noted that this statement showed “that there remains a ‘line in the sand’ for Qantas’ domestic

⁶³ Steve Creedy, ‘Virgin’s Singapore fling completes global jigsaw’, *The Australian*, 8 June 2011 at 23.
⁶⁴ Centre for Asia Pacific Aviation, *Virgin Australia and Singapore Airlines to change the balance of power with long-term alliance*, 7 June 2011, <http://www.centreforaviation.com/news/2011/06/07/virgin-australia-and-singapore-airlines-to-change-the-balance-of-power-with-long-term-alliance/page1>. Singapore Airlines and SilkAir currently serve 10 cities in India.
⁶⁵ Naxz Ressas, Colonial First State portfolio manager, quoted in: Andrew Cleary, “Virgin plays Asia card”, *AFR*, 8 June 2011 at 1.
⁶⁶ John Durie, *Flying high*, *The Australian*, 8 June 2011 at 36.
⁶⁷ For example, see: Jordan Chong, “Qantas shares dive after Virgin-SIA deal”, *SMH*, 7 June 2011.
⁶⁸ Chanticleer, “Borghetti on right flight path”, *AFR*, 8 June 2011.
⁶⁹ Qantas media statement, “Qantas Adjusts Capacity, Capital Expenditure to Match Demand”, 15 June 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/jun11/5126>

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market position” and Qantas “will do whatever it takes to maintain a 65 per cent-plus domestic market share.”⁷⁰

Recent examples of the Qantas Group’s strategic response to Virgin Australia’s improved products and corporate strategy are outlined below.

Frequent flyer products and fare structure

Following Virgin Australia’s May 2011 rebranding and product launch, including the introduction of its new fare structure and announcement of a revamped frequent flyer program, Qantas has responded with changes to its own products:

- Qantas has made changes to its frequent flyer program, such as creating a new “Platinum One” status level for the most frequent flyers, increasing bonus points earned for flying in premium cabins and making Optus an alliance partner.⁷¹
- In response to Virgin Australia’s new fare structure, Qantas has reduced its Flexi Saver fares to match Virgin Australia’s fares on certain competing routes. However, at the same time Qantas has also placed further restrictions on when these matching fares can be purchased. Nevertheless, the effect of Virgin Australia’s new fare structure, combined with this competitive response, has been to dramatically reduce average restricted economy fares in June 2011.⁷²

Analysts have called Qantas’ “two-pronged pre-emptive strike on [Virgin Australia]”,⁷³ “defensive measures intended to increase the attractiveness of Qantas to the corporate travel market and thereby reduce the incentive to switch to Virgin Australia.”⁷⁴ Following the announcement regarding the changes to the Qantas frequent flyer program, Qantas chief executive, Alan Joyce, noted that its frequent flyer program “is a huge driver of people’s behaviours” and that the changes will “set our program apart from the rest”.⁷⁵ Alan Joyce also said that Qantas does not “have to cling to the business market” which is “very happy to stay with Qantas”, highlighting the need for Virgin Australia to improve its product to compete with Qantas in this sector.

Perth Services

Virgin Australia recently introduced new A330 services to Perth, which feature a business class cabin as well as Virgin Australia’s new fare structure including ‘flexible fares’ at significantly lower prices than offered by Qantas. Qantas has responded by:

- deploying internationally-configured aircraft on domestic routes to Perth. It has announced it will be operating its Sydney-Perth services on an internationally configured

⁷⁰ Stephen Bartholomeusz, Qantas slows planes for fast gains, Business Spectator, 15 June 2011, <http://www.businessspectator.com.au/bs.nsf/Article/Qantas-Alan-Joyce-Virgin-Australia-John-Borghetti--pd20110615-HU4K4?opendocument&src=rss>

⁷¹ Matt O’Sullivan, “Qantas pumps up loyalty program”, SMH, 18 May 2011, <http://www.smh.com.au/business/qantas-pumps-up-loyalty-program-20110517-1erbw.html>

⁷² See: BITRE, “Domestic Air Fare Indexes”, summary available at http://www.bitre.gov.au/statistics/aviation/air_fares.aspx (accessed on 17 June 2011).

⁷³ Steve Creedy, Aviation writer, “Qantas looks to lock in elite frequent flyers”, The Australian, 20 May 2011 at 32.

⁷⁴ Steve Creedy, Aviation writer, “Qantas looks to lock in elite frequent flyers”, The Australian, 20 May 2011 at 32.

⁷⁵ Matt O’Sullivan, “Qantas pumps up loyalty program”, SMH, 18 May 2011, <http://www.smh.com.au/business/qantas-pumps-up-loyalty-program-20110517-1erbw.html>

4 Public benefits arising from the Alliance

B747 (with Skybed Business Class seats), and will also upgrade its Brisbane-Perth daily services from a B767 to an A330 aircraft.⁷⁶

- increasing services on the Melbourne-Perth routes, by 4,300 seats per week (or 15%).⁷⁷

Response to Virgin Australia's strategic Alliances

- Qantas' announcement of a joint business agreement with American Airlines came one day after Virgin Australia's alliance with Delta Air Lines received tentative approval from the US Department of Transportation.⁷⁸
- Following the announcement of the proposed Alliance with Singapore Airlines, a spokesperson for Qantas has said that the Alliance intensified the need to implement a new strategy for Qantas' international business.⁷⁹

The Alliance will allow Virgin Australia to more closely match the products offered by Qantas, providing consumers with more choice. This is particularly so for corporate and government accounts sector in relation to which Qantas faces little current competition. Choice promotes competition with direct benefits to consumers in terms of service quality and price.

The experience in the domestic Australian market demonstrates that Qantas and other airlines will respond to the Alliance, stimulating further competition.

As the ACCC has previously accepted, enhanced competition results in better consumer outcomes and is a clear public benefit.⁸⁰

4.5 Benefits of a second integrated Australian airline

A stronger Virgin Australia will promote competition for air travel within and to/from Australia giving Australian travellers the choice of a second international Australian based airline.

The Australian Government supports a strong and viable Australian based aviation sector, with its National Aviation Policy White Paper noting that "[p]erhaps more than any other country, Australia depends on air transport", and that "aviation is a critical enabler for the broader economy". The White Paper makes clear that Australia should have an open and competitive international aviation market that serves the national interest by benefiting tourism, trade and consumers and allows Australian and overseas airlines to expand, and maintain a vibrant Australian-based aviation industry.⁸¹

Significant public benefits flow from having a strong aviation sector. As outlined below in more detail, this has a direct beneficial impact on the Australian tourism and hospitality sector. The benefit of this is particularly pronounced given the difficulties facing that sector following natural disasters such as the Queensland floods and cyclone in early 2011. The broader Australian economy will also benefit through the creation of employment and growth opportunities. The

⁷⁶ Qantas media release, "Wide-Body Aircraft to Target East/West Growth", 16 February 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/feb11/5079>.

⁷⁷ Qantas media release, "Wide-Body Aircraft to Target East/West Growth", 16 February 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/feb11/5079>.

⁷⁸ Steve Creedy, Aviation writer, "Qantas tie-up to slash US fares", The Australian, 13 May 2011 at 35.

⁷⁹ Andrew Cleary, "Virgin plays Asia card with Singapore deal", AFR, 8 June 2011 at 51.

⁸⁰ ACCC, "Determination: Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, [5.203], [5.210], [5.212]-[5.213].

⁸¹ Department of Infrastructure, Transport, Regional Development and Local Government, Australian Government, "National Aviation Policy White Paper," December 2009.

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contribution of the aviation industry to economic well-being is highly significant: for every \$100 of output produced by the air transport industry, it triggers an additional demand of \$325 and for every 100 jobs created in the aviation industry, 610 jobs are created in other industries.⁸²

4.6 Stimulation of tourism

All of the benefits described above will result in market stimulation. This increase in passenger numbers will have a direct benefit for tourism in Australia.

Increases in tourism are clearly public benefits. The ACCC has previously acknowledged that “there is a public benefit in increased tourism resulting from increased capacity and lower fares” within aviation markets.⁸³ Similarly, the Tribunal has previously found that “increased tourism has a benefit for the general community as a result of the funds that will be injected into the community from increased travel.”⁸⁴

The key drivers of incremental tourists to Australia as a result of the Alliance will arise from:

- the improved product offered by the Alliance, in particular in the form of broader travel coverage, better international and domestic connections, significantly more online destinations, and potential new routes and increased frequencies;
- the increased competition in the Australian markets for international travel to and from Australia and greater customer choice via the creation of a second comprehensive network in competition with Qantas, with specific benefits for dual destination international travellers;
- the incentives to jointly promote travel on Virgin Australia and Singapore Airlines services; and
- the Alliance’s improved distribution channels through the combination of Virgin Australia’s and Singapore Airlines’ respective sales forces and their respective strengths in their home markets.

These benefits would not arise absent the Alliance.

The likelihood that the Alliance will result in stimulation to Australian tourism is reflected in the positive reaction of analysts and government and industry commentators in response to the Alliance’s announcement. For instance, Queensland Premier Anna Bligh has stated that the Alliance would “provide strong connections into and through our State from many international destinations” and that “if it is easier to get here more people will come.”⁸⁵

(a) Importance of tourism to Australia

Tourism is a highly significant industry to Australia:

⁸² International Civil Aviation Organisation, “Economic Contribution of Civil Aviation – Ripples of Prosperity”, at 3.
⁸³ ACCC, “Determination: Virgin Blue and Delta Airlines Authorisation Application A91151, A91152 and A91153” (10 December 2009) at [4.137].

⁸⁴ *Re Qantas Airways Ltd* (2004) ACompT 9 at 743.

⁸⁵ Queensland Government Joint Statement Media Release, “Singapore Airlines and Virgin Australia alliance a boon for Queensland”, 7 June 2011.

4 Public benefits arising from the Alliance

- In the year ended 31 March 2011, approximately 5.5 million international tourists aged over 15 years travelled to Australia.⁸⁶
- Tourism is growing at a faster rate than Australia's GDP, growing by 3.2% to \$34 billion, compared to 2.3% for the economy as a whole.⁸⁷ Tourism accounts for 2.6% of total GDP.⁸⁸
- For the year ended 31 March 2011, international visitor expenditure was \$18 billion. Visitors from Asia had the highest expenditure, spending \$9.3 billion.⁸⁹
- In the year ending June 2010, the total inbound economic value consumed by both resident and non-resident visitors within Australia was approximately \$94 billion, of which almost \$23 billion was consumed by international tourists.⁹⁰
- In the longer term, total tourism consumption is forecast to reach \$106.7 billion in 2020 with annual average growth of 1.2%.⁹¹ The majority of growth in total tourism consumption is expected to come from stronger international visitation.⁹²
- China is now Australia's largest source market in terms of economic value, worth \$3.4 billion, followed by the UK (\$2.7 billion), New Zealand (\$1.7 billion) and the USA (\$1.7 billion).⁹³ Chinese tourists are forecast to generate approximately \$6 billion of total inbound economic value by 2020.⁹⁴
- Tourism made up 9% of Australia's total exports in 2009/10.⁹⁵
- 4.5% of the Australian population was employed in a tourism related industry in 2009/10.⁹⁶

The aviation industry is central to the continued growth of the Australian tourism industry. As an island nation, 99% of inbound tourists to Australia arrive on commercial passenger flights.⁹⁷

In its Aviation White Paper, the Australian Government has said that "continued growth of international air services is vital to support further growth in international business, trade and tourism" for Australia.⁹⁸

⁸⁶ Department of Resources, Energy and Tourism, Tourism Research Australia, "International Visitors in Australia – March 2011 Quarterly Results of the International Visitors Survey", 8 June 2011, at 1.

⁸⁷ Minister for Resources, Energy and Tourism media release, "Tourism GDP Growth Exceeds Economy Average", 15 December 2010,

<http://minister.ret.gov.au/mediacentre/mediareleases/pages/tourismgdpgrowthexceedseconomyaverage.aspx>

⁸⁸ Department of Resources, Energy and Tourism, "Key Facts Australian Tourism Sector", May 2011.

⁸⁹ Department of Resources, Energy and Tourism, Tourism Research Australia, "International Visitors in Australia – March 2011 Quarterly Results of the International Visitors Survey", 8 June 2011, at 4.

⁹⁰ Australia Bureau of Statistics, "Australian National Accounts: Tourism Satellite Account", 2009-10, 15 December 2010.

⁹¹ Department of Resources, Energy and Tourism, Tourism Research Australia, "Forecast - Tourism Forecasting Committee 2011 Issue 1", May 2011, at 3.

⁹² Department of Resources, Energy and Tourism, Tourism Research Australia, "Forecast - Tourism Forecasting Committee 2011 Issue 1", May 2011, at 3.

⁹³ Department of Resources, Energy and Tourism, Tourism Research Australia, "International Visitors in Australia – March 2011 Quarterly Results of the International Visitors Survey", 8 June 2011, at 5.

⁹⁴ Department of Resources, Energy and Tourism, Tourism Research Australia, "Forecast - Tourism Forecasting Committee 2011 Issue 1", May 2011.

⁹⁵ Department of Resources, Energy and Tourism, "Key Facts Australian Tourism Sector", May 2011.

⁹⁶ Department of Resources, Energy and Tourism, "Key Facts Australian Tourism Sector", May 2011.

⁹⁷ Department of Infrastructure, Transport, Regional Development and Local Government, Australian Government, "National Aviation Policy White Paper," December 2009, at 31.

4 Public benefits arising from the Alliance

The Department of Energy, Resources and Tourism has noted that:

“Reliable and regular transport services are required to deliver tourists to destinations scattered far and wide across Australia, particularly to regional areas. ...Aviation, as a major enabler of tourism, has a particularly important role to play in supporting the government’s vision for growth of the tourism sector in Australia.”⁹⁹

As Australia is geographically large with limited land transport options, aviation links to destinations outside the main Australian gateways are particularly important for tourism. It is clear that enhanced aviation services have a direct and positive impact on the numbers of tourists visiting Australia, access to destinations, and revenue growth in the Australian tourist industry.

(b) Increased international tourism to Australia, including to destinations beyond the main gateways

The Alliance will encourage increased international tourism to Australia by providing connections between destinations throughout Australia and Singapore Airlines’ international network.

In particular, the Alliance will increase the ease with which passengers can travel from source markets throughout Asia to destinations within Australia.

As discussed in Annexure E, Asia is Australia’s largest and fastest growing source of tourists with around 40% (over 2.3 million) of all international tourists in 2010 arriving from a destination in Asia.¹⁰⁰ This growth has been primarily driven by emerging economies including China, Indonesia and India.

China, in particular, is currently Australia’s largest source market in terms of economic value, worth \$3.4 billion, and this is expected to double by 2020.

The Alliance will provide feed from Asia, a critical market for Australia, through Singapore Airlines and SilkAir’s extensive Asia network onto Virgin Australia’s domestic network and into Australia. The Alliance will also provide important feed from other parts of Singapore Airlines’ international network, including Europe.

Providing online connections between Virgin Australia’s domestic Australian network and Singapore Airlines’ international network will increase the convenience and attractiveness of visiting Australia.

[restriction of publication claimed]

The role that strong alliances play in drawing more tourism traffic feed from around the world has also been noted in the academic literature.¹⁰¹

⁹⁸ Department of Infrastructure, Transport, Regional Development and Local Government, Australian Government, “National Aviation Policy White Paper,” December 2009, at 6.

⁹⁹ Australian Government: Department of Resources, Energy and Tourism, “Tourism and Transport”, http://www.ref.gov.au/tourism/policy/tourism_and_transport/Pages/TourismandTransport.aspx.

¹⁰⁰ Department of Resources, Energy and Tourism, Tourism Research Australia, “Forecast - Tourism Forecasting Committee 2011 Issue 1”, May 2011, at 23.

¹⁰¹ John Bowen, “Airline hubs in Southeast Asia: national economic development and nodal accessibility”, *Journal of Transport Geography* 8 (2000) 25-41 at 39.

4 Public benefits arising from the Alliance

The Alliance will enable a number of new promotional opportunities for Australian tourism that will generate substantial additional economic benefits that are not available absent the Alliance.

Under the Alliance, Virgin Australia and Singapore Airlines will also have the ability and incentive to jointly market Australia in their home markets, and together with their combined distribution channels.

4.7 Cost savings and efficiencies

As discussed above, the Applicants expect that the enhanced service offering under the Alliance will result in increased passengers on each route. The QSI analysis undertaken by InterVISTAS supports this. Based on existing capacity, increased passengers will increase load factors and reduce costs per seat sold. Where additional capacity is deployed by the Applicants in response to increased passenger numbers this may have the effect of offsetting the higher load factors but is a benefit in its own right and will further stimulate passenger growth. In other cases, increased load factors will lower operating costs and increase efficiencies and profitability of services. As the ACCC has previously acknowledged, where an alliance results in passenger stimulation, both the reduction in cost per seat sold and increased capacity are public benefits.¹⁰²

The Alliance creates the opportunity for reduced connecting services costs. Under the Alliance the Applicants will make available favourable prorates on codeshare services, lowering the cost of flight inventory. This will enable the parties to offer a more competitive combined air fare for connecting services than is possible under an arms-length arrangement. As a result of the alignment of benefits and incentives under the Alliance, the parties will not have the incentive to seek to profit-maximise on each leg of a journey, with the result that the Applicants will be able to pass on to passengers the benefits of lower cost inventory, resulting in lower fares under the Alliance compared with the counterfactual.

Further, the Alliance provides Virgin Australia with the ability to expand its international network without the requirement to undertake large capital expenditure and without the significant risk of operating stand alone services. In this way, the Alliance is a more efficient and cost-effective way for Virgin Australia to provide services than in the counterfactual.

The primary objective of the Alliance is not to reduce costs; it is to improve the services and product offered by each airline and their ability to compete for corporate and government accounts.

However, the Alliance does create opportunities for the Applicants to realise synergies and efficiencies. In particular, the Applicants will:

- Engage in joint marketing of services and destinations, allowing them to exploit synergies and utilise existing distribution and marketing strengths to more efficiently market services. For example, Singapore Airlines will market internationally Australian domestic connections on Virgin Australia's services, while Virgin Australia will market within Australia international connections on Singapore Airlines' services. This will create efficiencies by enabling the parties to achieve more by spending less.

¹⁰² ACCC, "Determination: Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, [5.192]

4 Public benefits arising from the Alliance

- Investigate opportunities for further synergies including through joint airport operations, such as the sharing of IT services, sharing of airport facilities and staff and joint procurement.

The Applicants have not yet had the opportunity, which authorisation of the Alliance would permit, to identify all areas, or assess the magnitude, of likely cost savings under the Alliance.

5. Framework for analysis of competitive effects

5 Framework for analysis of competitive effects

5.1 Relevant Markets

The Alliance facilitates Virgin Australia's entry into the Australia-Asia market as well as enhancing its existing presence in the broader Australia-UK/Europe market.

Detailed background industry information on these markets is provided in **Annexure E**.

The Applicants' existing air transport services have the potential to overlap in respect of:

- a broader Australia-UK/Europe market, via different intermediate points. Virgin Australia, through its alliance with Etihad, offers services between Australia and UK/Europe via Etihad's hub in Abu Dhabi, while Singapore Airlines operates services between Australia and UK/Europe via its hub in Singapore; and
- the Australia-Asia market, in relation to:
 - the Brisbane-Singapore route: Virgin Australia, through its alliance with Etihad, offers three times weekly coded services operated by Etihad, while Singapore Airlines offers 19 weekly frequencies;
 - services to Denpasar: Virgin Australia operates a total of 36 weekly direct frequencies to/from Sydney, Melbourne, Brisbane, Adelaide and Perth, while Singapore Airlines operates three weekly one-stop frequencies from Singapore; and
 - services to Phuket: Virgin Australia operates four weekly direct frequencies to/from Perth, while SilkAir operates 28 services via Singapore.¹⁰³

The ACCC has previously considered the following markets:

- the supply of international air transport services for leisure passengers travelling between Australia and Asia ;
- the supply of international air transport services for business passengers on a point to point basis between Australia and Asia;
- the supply of international air transport services for leisure passengers travelling between Australia and Europe, via various mid-points;
- the supply of international air transport services for business passengers on a point to point basis between Australia and Europe, via various mid-points; and
- the supply of air transport services for leisure and business passengers travelling on domestic Australian routes.

¹⁰³

For Australian travellers, these services are not close substitutes as services operated by Singapore/SilkAir [would be] one stop services via Singapore. Further, an itinerary between Australia to Denpasar via Singapore would involve significant backtracking, increasing travel time and reducing convenience.

5. Framework for analysis of competitive effects

These markets are consistent with the ACCC's findings in the recent authorisations of the Joint Services Agreement between Qantas and British Airways (**JSA authorisation**)¹⁰⁴ and the airline alliance between Virgin Blue Airlines Pty Ltd and Others (now Virgin Australia) and Etihad (**Etihad alliance authorisation**).¹⁰⁵

As recognised by the ACCC in previous assessments of these markets,¹⁰⁶ a large number of competitors currently operate services in the Australia-UK/Europe market, which include end point carriers based in Australia or Europe, as well as mid-point carriers based in the Middle East and Asia.

With respect to the product dimension, the ACCC found in the JSA authorisation that there were separate product markets for time-sensitive (business) and price-sensitive (leisure) passengers, given the limitations in demand and supply side substitutability on long haul routes between Australia to Europe.

In assessing the JSA, the ACCC considered that regional and point to point geographic markets were appropriate for the leisure and business passenger markets respectively.

In the Etihad alliance authorisation, the ACCC accepted that there were regional markets for the supply of international air transport services in a broader Australia-UK/Europe market and a narrower regional market (in that scenario, the Australia-Middle East market).

In relation to short-haul routes, such as within domestic Australia and on the trans-Tasman, the ACCC has previously found that there is a continuum of demand side substitution possibilities between business and leisure passengers, and, as such, there is no separate product market for business and leisure travel. It further accepted that there is a single regional market for travel, rather than route by route markets.¹⁰⁷

In relation to domestic air travel, the ACCC noted in the JSA authorisation that the primary way that an international alliance could lessen competition in the market for domestic travel was by directing domestic on-carriage or feeder traffic to a particular carrier, at the expense of the competitive position of other domestic carriers.

Here, the competitive effect in the market for domestic air travel is a positive one. For the reasons set out in section 4.3, the Alliance will enhance competition between Virgin Australia and the Qantas-Jetstar Group, Virgin Australia's closest competitor in domestic Australia, as it will give Virgin Australia the opportunity to better match Qantas' network, feeder traffic and

¹⁰⁴ ACCC, "Determination: Applications A91195 and A91196 for Revocation and Substitution of Authorisation", 31 March 2010.

¹⁰⁵ ACCC, "Determination: Applications A91247 and A91248 for authorisation", 3 February 2011.

¹⁰⁶ For example, ACCC, "Determination: Applications A30226 and A30227 for Revocation and Substitution of Authorisation", 8 February 2005; ACCC, "Determination: Applications A91195 and A91196 for Revocation and Substitution of Authorisation", 31 March 2010.

¹⁰⁷ ACCC, "Determination: Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand", 16 December 2010, at 35-30.

5. Framework for analysis of competitive effects

distribution strength.¹⁰⁸ In relation to the Etihad Alliance, the ACCC concluded that the Alliance would be likely to enhance competition in the domestic passenger market.¹⁰⁹

As the Alliance does not extend to cargo services, it is not necessary to consider the Alliance in the context of markets for the air transport of cargo.

The Applicants submit that the benefits and competitive effects of the Alliance should also be considered in the context of the supply of air transport services to Australian corporate and government customers. This sector has unique characteristics with different distribution channels and distinct pricing when compared with the general travel markets. The ACCC has previously found a separate market for corporate and government customers in the context of travel agency services.¹¹⁰ However, the competition and public benefits analysis will apply equally irrespective of whether this is considered as a separate market or as a sector of the broader markets discussed above.

¹⁰⁸ The Alliance will not have a detrimental impact on the ability of other domestic operators to successfully compete. Tiger Airways is a low cost carrier servicing point to point routes. It maintains its competitive position by having the lowest cost base, and offering the lowest fares in the market. Its business model is not dependent on network coverage or feed. Other regional operators are specialised in their operations and maintain their competitive position by offering services on thin routes that they are able to operate on aircraft specifically suited to these routes. Their business model is similarly not dependent on network coverage or feed.

¹⁰⁹ ACCC, Determination: Applications for authorisation lodged by Virgin Blue Airlines and Etihad Airways, February 2011, at [4.73].

¹¹⁰ ACCC, "Jetset Travelworld Limited – proposed acquisition of Stella Travel Services Holdings Pty Ltd", Public Competition Assessment, 28 September 2010, at 6.

6. Competition Assessment

6 Competition Assessment

6.1 Overview

The Alliance will not give rise to a substantial lessening of competition in any relevant market.

Virgin Australia and Singapore Airlines are not close competitors in any market. There is minimal overlap between the services operated or marketed by Virgin Australia and Singapore Airlines. Any overlap, or potential for overlap, will not raise any material competition issues, particularly as Virgin Australia does not intend to place its code on Singapore Airlines' services where it has codeshare coverage with Etihad.

The Alliance would not significantly lessen potential competition between Virgin Australia and Singapore Airlines as, absent the Alliance Virgin Australia would be unlikely to enter the Australia-Singapore/Asia market as an independent carrier.

Even if this were not the case, the removal of any potential competition from Virgin Australia cannot be said to result in a substantial lessening of competition as:

- there is sufficient competition from existing carriers; and
- any flights operated by Virgin Australia would necessarily be a very small proportion of capacity on a route.

In fact, the Alliance will promote competition, especially in relation to:

- international travel from Australia, particularly to Asia; and
- Australian corporate and government accounts,

as it will enable Virgin Australia to attract a larger share of passengers and to more closely compete with and challenge Qantas.

6.2 Market analysis: Australia-Europe/Asia

There is minimal overlap between routes operated by Singapore Airlines and serviced by Virgin Australia (through its airline alliance with Etihad). The only overlap is in relation to international passenger services from Australia to UK/Europe via Abu Dhabi (with Virgin Australia) or via Singapore (with Singapore Airlines) as well as between Australia and Phuket/Denpasar (with Virgin Australia operating direct flights to these ports and Singapore Airlines/Silk Air operating indirect flights via Singapore).

These potential overlapping services are set out below:

6. Competition Assessment

Figure 12: Route overlap on direct services offered by Virgin Australia and Singapore Airlines¹¹¹

Destinations served		
Europe	Middle East	Asia
Athens (ATH)	Abu Dhabi (AUH)	Singapore (SIN)
Frankfurt (FRA)		Denpasar (DPS)^
Istanbul (IST)*		Phuket(HKT)^
London (LHR)		
Manchester (MAN)		
Milan (MXP)*		
Moscow (DME)		
Munich (MUC)		
Paris (CDG)		

* Virgin Australia currently has interline arrangements on these routes only.

^ Services operated by Virgin Australia are direct services from Australia. Services operated by Singapore Airlines and SilkAir are via Singapore. Therefore, an Australian passenger travelling on SQ/MI services would need to do so via Singapore which is a significantly less attractive routing, particularly for services to Denpasar as this would involve a significant amount of backtracking. These services are therefore not close substitutes for Australian travellers.

Routes on which both Virgin Australia and Singapore Airlines currently offer direct (or, in the case of European destinations, one stop) services on their own code are in bold.

As discussed in section 3.6, Virgin Australia does not intend to place its code on Singapore Airlines' services where it has codeshare coverage with Etihad

As a result, the Alliance will not result in any reduction in competition on these overlapping routes between Virgin Australia and Singapore Airlines.

In any event, the Alliance would not result in a substantial lessening of competition in any market. This is because:

- any overlap would be minimal, applying only to selected city pairs;
- the Alliance parties would be constrained by the strong existing competition within all the relevant markets and the potential for further expansion and new entry.

¹¹¹ The Figure lists only the destinations to which both Virgin Australia markets services on its code and Singapore Airlines operates direct (one stop for European destinations) services from Australia. We consider that there is potential overlap between the Applicants' services only with respect to routes where both Virgin Australia and Singapore Airlines supply direct services ie, Athens, Frankfurt, London, Moscow, Munich, Paris and Singapore, given that: (1) two stop or more services are unlikely to provide a strong constraint on direct one stop services, for either leisure or business passengers; (2) services do not overlap where Singapore Airlines supplies services under an arm's length codeshare given that it does not participate in joint schedule or fare setting on those routes; (3) Virgin Australia does not compete on routes where it has only an interline arrangement with Etihad (ie, Istanbul, Milan, and Geneva).

6. Competition Assessment

(a) Strong existing competitors

As set out in Annexure E there are currently a large number of strong competitors which service routes:

- Between Australia and Asia, there are more than 20 operators, carrying approximately 11.5 million passengers per year¹¹² on many daily flights between Australia and destinations throughout Asia. In particular, Qantas/Jetstar, Emirates, Thai International, Cathay Pacific, Malaysia Airlines and AirAsia X.
- Between Australia-UK/Europe, there are more than 12 operators and many more code share carriers competing to carry approximately 5.2 million passengers¹¹³ per year on many daily flights between Australia and destinations throughout Europe. In particular, Qantas/British Airways and Emirates, the two largest competitors, are present on each of the potential overlapping city pairs.
- Between Australia-Denpasar, there are at least 9 airlines operating a combined 89 direct and 38 one-stop flights per week. In particular, Qantas/Jetstar, Air Asia Indonesia, Strategic Airlines, and Garuda.¹¹⁴
- Between Australia-Phuket, there are at least 6 airlines operating a combined 11 direct and 84 one-stop flights per week. In particular, Qantas/Jetstar, Thai International and Strategic Airlines.¹¹⁵

In the recent JSA authorisation, the ACCC concluded that the Australia-UK/Europe and Australia-South East Asia leisure markets are subject to “significant levels of competition” due the expansion and new entry of mid-point carriers.¹¹⁶ In particular, the ACCC noted the recent entry by Air Asia X on routes to the UK/Europe.

Figure 14 below lists the competitors operating direct (one stop for European destinations) services by the most direct route on each of the potential overlapping city pairs. (ie, via South East Asia, Middle East and some hubs located in North Asia).

¹¹² See Annexure E

¹¹³ See Annexure E

¹¹⁴ Currently, the following airlines operate direct services between Australia and Denpasar: Garuda (29xweekly); Jetstar (24x weekly); Air Asia Indonesia (28xweekly); Strategic Airlines (6xweekly); Skywest Airlines (2xweekly). The following airlines also offer 1-stop services from Australia: Malaysia Airlines, Thai Airways, Cathay Pacific and China Airlines.

¹¹⁵ Currently, the following airlines operate direct services between Australia and Phuket: Jetstar (3xweekly); Thai Airways (60 weekly 1 stop services via Bangkok and an additional 4 weekly direct services from Perth); Strategic Airlines (4xweekly). The following airlines also offer 1-stop services from Australia: Malaysia Airlines (14xweekly); Cathay Pacific/Dragon Air (10xweekly).

¹¹⁶ ACCC, “Determination of Applications A91195 and A91196 for revocation and substitution of authorisation”, 31 March 2010, at 49.

6. Competition Assessment

Figure 13: Competitors on city pairs with potential overlap¹¹⁷

Competitors by city pair and intermediate point			
City pairs	SE Asia	Middle East	North Asia
SYD/MEL/BNE/PER/ADL-ATH	Qantas/BA; Thai International;	Emirates; Olympic Airways	n/a
SYD/MEL/BNE/PER/ADL-FRA	Qantas/BA; Thai International; Malaysia Airlines	Emirates	Air China; Cathay Pacific
SYD/MEL/BNE/PER/ADL-LHR	Qantas/BA; Thai International; Malaysia Airlines	Emirates	Cathay Pacific; Air China
SYD/MEL/BNE/PER/ADL-DME	Thai International	Emirates	Air China; Cathay Pacific;
SYD/MEL/BNE/PER/ADL-CDG ¹¹⁸	Qantas/BA; Malaysia Airlines; Thai International	Emirates	Qantas/BA; Cathay Pacific; Korean Air; Japan Airlines; Air China; China Eastern
SYD/MEL/BNE/PER/ADL-MUC	Qantas/BA Lufthansa	Emirates; Qatar	Air China
SYD/MEL/BNE/PER/ADL-SIN ¹¹⁹	Qantas/BA; Emirates; Jetstar	n/a	n/a

(b) Low barriers to entry and expansion

The ACCC recognised in its assessment of the Qantas/British Airways JSA that there were no substantial barriers to entry or expansion on the relevant routes between Australia and UK/Europe, including via mid-points in Asia.¹²⁰ Specifically, the ACCC concluded that there were no significant regulatory barriers to entry or expansion on the routes between Australia and UK/Europe involving the leisure or business passenger markets.¹²¹

¹¹⁷ Includes end point, mid point and code share carriers.

¹¹⁸ Services operated by Virgin Australia/Etihad on the Brisbane-Paris route has two stops.

¹¹⁹ Virgin Australia/Etihad operate direct services to Singapore from Brisbane only.

¹²⁰ ACCC, "Determination of Applications A91195 and A91196 for revocation and substitution of authorisation", 31 March 2010 at 50.

¹²¹ ACCC, "Determination of Applications A91195 and A91196 for revocation and substitution of authorisation", 31 March 2010 at 48.

6. Competition Assessment

These conclusions are supported by the fact that a number of carriers have, or have announced their intentions to, expand their capacity with respect to services from Australia to Asia/Europe in the short to medium term, including:

- **Emirates**, which has significantly increased its total market share from 11% in 2005 to approximately 19% in 2010,¹²² recently stated that it intends to grow its services to utilise its full capacity entitlement under the Australia-UAE ASA (currently 84 flights per week), and at which point it will seek to increase to 100 flights per week at the next ASA negotiation. It has currently scheduled a capacity increase on the Sydney-Dubai routes from October 2011;¹²³
- **AirAsia X**, which captured more than 1% of total market share within one year of commencing its services to London,¹²⁴ currently operates daily services between Melbourne, Perth and the Gold Coast to Kuala Lumpur. It has stated that it may look to publicly list its shares in Europe and Asia in 2011 to fund its fleet expansion, with plans to triple its fleet to 35 over the next six years as it adds more international destinations.¹²⁵ It also recently launched its Kuala-Lumpur-Paris services in February 2011, on A340 equipment with 327 passenger capacity including 18 premium seats. Air Asia X has reportedly suspended plans to launch a Manchester service in 2011, due to the increase of the UK Air Passenger Duty in November 2010.¹²⁶ With respect to its Asian operations, it has also been expanding into North Asia, with recent new services to Tokyo and Seoul. Air Asia X is negotiating with the Malaysian government for approval to launch services to Sydney;¹²⁷
- **Qatar Airways**, another new player which was able to gain almost 1% total market share within one year of entering the market,¹²⁸ currently operates daily services between Melbourne and Doha, with connections onto UK/Europe. It has a number of widebody aircraft on order which would allow them to grow capacity and potentially serve Brisbane, Sydney and Perth in the next few years.¹²⁹ It recently increased its capacity on a number of existing routes to Europe;¹³⁰
- **Malaysia Airlines** is expecting to receive five of its six Airbus A380 orders in 2012, with plans to operate the superjumbo jet to European cities, primarily the London and Amsterdam routes;¹³¹

¹²² Department of Infrastructure and Transport, "Submission to the ACCC before draft decision on proposed alliance between Virgin Blue Group and Etihad Airways Limited", 22 October 2010, at 7.

¹²³ Andrew Heasley, "Emirates eyes surge in flights", SMH, 11 May 2011, <http://www.smh.com.au/travel/emirates-eyes-surge-in-flights-20110510-1eh6e.html>.

¹²⁴ Department of Infrastructure and Transport, "Submission to the ACCC before draft decision on proposed alliance between Virgin Blue Group and Etihad Airways Limited", 22 October 2010, at 7.

¹²⁵ Centre for Asia Pacific Aviation, "Air Asia X and Jetstar go head-to-head with long haul expansion plans", 23 December 2010, <http://www.centreforaviation.com/news/2010/12/23/airasia-x-looking-to-europe-and-new-zealand-to-expand-jetstar-looking-a-little-closer-to-home/page1>.

¹²⁶ Centre for Asia Pacific Aviation, "Air Asia X and Jetstar go head-to-head with long haul expansion plans", 23 December 2010, available at <http://www.centreforaviation.com/news/2010/12/23/airasia-x-looking-to-europe-and-new-zealand-to-expand-jetstar-looking-a-little-closer-to-home/page1>.

¹²⁷ Centre for Asia Pacific Aviation, "Air Asia X and Jetstar go head-to-head with long haul expansion plans", 23 December 2010, <http://www.centreforaviation.com/news/2010/12/23/airasia-x-looking-to-europe-and-new-zealand-to-expand-jetstar-looking-a-little-closer-to-home/page1>.

¹²⁸ Department of Infrastructure and Transport, "Submission to the ACCC before draft decision on proposed alliance between Virgin Blue Group and Etihad Airways Limited", 22 October 2010, at 7.

¹²⁹ Air Transport Intelligence, News, "Qatar Airways orders five more 777s", 6 April 2011.

¹³⁰ Air Transport Intelligence, News, "Qatar Airways to boost capacity on existing routes in March", 19 January 2011.

¹³¹ Air Transport Intelligence, News, "MAS details A380 delivery plan", 27 May 2011.

6. Competition Assessment

- a number of Chinese carriers have entered the market aggressively, including Air China, China Eastern, China Southern and Hainan Airlines (see Annexure E for more detail); and
- several other established mid-point carriers have added capacity in recent years or have a number of aircraft on order, including Cathay Pacific¹³² and Thai International.

Additionally, a number of Indian airlines, including Air India, have expressed an interest in serving Australia directly from India. Air India has received approval from Indian Authorities to begin services to Melbourne.¹³³ These services would have connections onto UK/Europe.

The above examples of expansion and potential new entry support the proposition that barriers to entry and expansion in the Australia-Asia and Australia-UK/Europe markets are not substantial.

(c) No risk of substantial lessening of competition

Under no potential scenario would the Alliance result in a substantial lessening of competition in any relevant market:

- Virgin Australia/Etihad and Singapore Airlines are not each others' closest competitors on the potential overlapping routes in terms of product or frequency.
- The Alliance would not result in material aggregation. Further, the Applicants would have no ability to exercise any market power through raising fares, reducing or withholding capacity or decreasing service quality without losing passengers to a number of alternative carriers with similar services in the relevant markets and routes.
- There will remain a large number of strong competitors operating high frequency services between Australia and Asia and Australia and the UK/Europe (and many more carriers which supply services through a combination of their own aircraft and codeshare services). These competitors include both Full Service Airlines and Low Cost Carriers.
- In particular, the two largest operators and closest competitors in terms of size and services to the Alliance, with a combined passenger share of over 50% of the Australia-Europe market, namely Qantas/British Airways and Emirates, both have extensive schedules, connection times and frequencies on routes to Asia and on to Europe, such that each will continue to have the incentive and ability to expand capacity in the event of any attempted exercise of market power.
- Further strong competition in the Australia-Asia and Australia-UK/Europe markets is evidenced by recent and planned capacity expansions of existing carriers and potential entrants.
- Accordingly, the Alliance will not have a substantial impact on competition in this market given the strength and number of existing competitors and their consistent growth on these routes, as well as potential new entry from carriers based in emerging regions such as India and China.

¹³² Air Transport Intelligence, News, "Cathay Pacific orders 27 widebodies", 9 March 2011
¹³³ Air Transport Intelligence, News, "Air India receives go-ahead for Melbourne flights", 21 April 2011

6. Competition Assessment

6.3 Domestic Australia

The Alliance will not have the effect of any lessening competition in the market for air passenger services within Australia.

The Applicants are not competitors or potential competitors within this market.

Singapore Airlines' minority interest in Tiger Airways does not give it any control or influence over Tiger Airways' operations. Singapore Airlines has no management influence over Tiger Airways. Further, Singapore Airlines does not have any codeshare, interline or other partnership arrangements with Tiger Airways.

In any event, under the Alliance, Virgin Australia and Singapore Airlines would not have the ability or incentive to exercise any market power in the Australian domestic market given the strong competitive constraint from Qantas/Jetstar.

To the contrary, the Alliance will result increase competition in the domestic market by providing Virgin Australia with the ability to more closely match Qantas' offer.

6.4 No increase in the likelihood of coordinated conduct under the Alliance

The Alliance will not increase the likelihood of coordinated effects in any market. The factors which facilitate coordinated conduct are not currently present in either the Australia-UK/Europe or Australia-Singapore/Asia markets because:

- no relevant market exhibits signs of coordinated conduct and all are highly competitive and dynamic markets with a large number of airlines currently operating on relevant routes;
- airline service and price offerings lack transparency which enables cheating without risk of detection and punishment;
- leisure travellers comprise the vast majority (over 80% in the Australia-Asia market) of total passengers in both markets, making demand highly price elastic and removing incentives to coordinate by withholding capacity and/or increasing prices;
- products and services are not homogenous and there are a range of full service and low cost carriers with different business models and cost bases; and
- barriers to entry and expansion are relatively low, particularly for mid-point carriers which have greater flexibility to adjust their capacity for their onward journeys as they have the ability to leverage and consolidate traffic from the spokes of their hub. This is evidenced by the emergence of new players such as Qatar and Air Asia X, the Chinese airlines and Emirates.

The Alliance will not change these market conditions. Further, there is no economic literature or other evidence that would support a conclusion that coordinated effects are likely in passenger airline markets.

6.5 Enhanced competition under the Alliance

For the reasons set out in section 4.3, the Alliance will have significant pro-competitive effects, in particular in relation to the provision of services to Australian corporate/government accounts. Any potential lessening of competition that may arise under the Alliance would be more than offset by the pro-competitive effects of the Alliance.

7. Counterfactual Analysis

7 Counterfactual Analysis

7.1 Counterfactual

The relevant counterfactual in the absence of the Alliance would be a less competitive outcome with substantially fewer benefits for travelling passengers and for the Australian economy.

In the counterfactual each of Virgin Australia and Singapore Airlines would continue to offer their present services with their limitations for competing against Qantas for international travel to and from Australia and for corporate and government accounts. Virgin Australia would continue to have a significant gap in its international network and be unable to match the demand for travel to and from Asia.

If the Applicants are unable to implement an integrated, authorised alliance they may implement some limited forms of cooperation, including interline arrangements and some limited codeshare arrangements. However, for the reasons outlined in section 3.5 it is only with an integrated alliance that they would have the incentive to cooperate, invest and implement all of the elements of the Alliance. In particular, in the counterfactual the Applicants would not have the incentive to offer favourable reciprocal codeshare, frequent flyer or lounge benefits across their networks. Nor would they have the ability to jointly approach corporate and government accounts, which is the key commercial rationale for the Alliance. Limited cooperation would result in fewer commercial benefits for the Applicants and fewer public benefits.

In the counterfactual, Virgin Australia would be limited in its ability to offer an international network and offer to corporate and government clients that competes with that of Qantas. Consequently, the significant benefits in terms of improved services and value added products which will be valued by passengers and the significant benefits for tourism and, through it the Australian economy, will not be realised.

In the counterfactual Virgin Australia would not be likely to commence operating stand-alone flights to Singapore and other destinations serviced by Singapore Airlines. As Virgin Australia's experience with the launch of point to point international services operated by V Australia has shown, without access to behind and beyond codeshare connections on favourable terms and to feeder traffic these routes would not be viable

8. Conclusion

8 Conclusion

For the reasons set out in this submission, the Applicants submit that:

- The Alliance will result in significant and substantiated public benefits in the form of enhanced products and services and potential new services, which will be valued by passengers.
- This will result also in the promotion of competition, particularly for international air travel to and from Australia and for corporate and government accounts. By increasing Virgin Australia's network reach, the Alliance will assist to build a second international airline for Australia and a viable alternative to Qantas.
- As a result of valuable schedule and product enhancements, access to feed and joint marketing, the Alliance will stimulate inbound tourism to Australia, particularly to destinations beyond the major Australian gateways. This will result in significant benefits for the Australian tourism industry and, as a consequence, the Australian economy.
- These benefits clearly outweigh any detriment from the Alliance. The Alliance will result in no discernable lessening of competition as there is limited overlap between the Applicants' existing services, strong existing competition in all relevant markets and there will be no loss of potential competition.

The Applicants seek authorisation to make, and to give effect to, the Alliance Framework Agreement and associated agreements contemplated by the Alliance Framework Agreement, including a special prorate agreement, codeshare agreements, a frequent flyer and lounge agreement and reciprocal staff duty travel agreement (together **the Alliance**).

The Applicants will make significant investment in IT, booking and checking-in systems, product alignment and marketing to ensure the success of the Alliance. The Initial Term of the Alliance has been set at ten years so as to ensure adequate time to achieve a return on that investment

The Applicants submit that the ACCC should authorise the Alliance for the Initial Term of the Alliance or, alternatively, for a period ending no earlier than five years from the authorisation date. An authorisation period of no less than five years is appropriate for commercial arrangements of this nature, particularly given the significant investment required for implementation. The Applicants note that the request for a minimum authorisation period of five years is consistent with the period granted to other airlines alliances including the Qantas/British Airways JSA, and Virgin Australia's alliances with Delta Air Lines and with Etihad Airways.

Annexure A

**Annexure A – Confidential: Executed Airline Alliance
Framework Agreement and Code Share Agreement**

[restriction of publication claimed]

Annexure B

Annexure B – Virgin Australia Group



New look and branding

On 4 May 2011, the “Virgin Australia” name and brand was introduced for the airline’s domestic and international operations as part of its Game Change strategy. The Game Change strategy is designed to expand Virgin Australia’s passenger base, increasing its appeal to all travellers, including the corporate and business segments, while maintaining its core base of leisure travellers. The relaunch of the airline marks the next stage of its evolution, having commenced operations 10 years ago first as a low cost carrier, then transitioning to a new world carrier business model in late 2005.

The new name and branding, along with new livery, product and service offering will be implemented across all of the company’s current airlines in order to build one strong, consolidated brand which will be recognised globally. As part of the new look and rebranding of the airline, Virgin Australia has recently announced the following strategies and services:

- new, simplified fare classes on domestic and former Pacific Blue and Polynesian Blue services: Saver, Flexi or Premium (Premium Economy / Business) fares;
- Business Class seating and service, to be rolled out across the domestic fleet;
- new Virgin Australia livery, staff uniforms and interiors;
- new exclusive food and beverage menu designed by Luke Mangan for domestic and international flights; and
- redesigned airport terminals, Australia’s first premium valet service and direct lounge entry at Sydney Domestic airport, as well as upgraded lounges at Melbourne and Brisbane airports with new lounges announced for Mackay and Coolangatta. **[restriction of publication claimed]**

Figure 1: New Virgin Australia livery



Annexure B

Operations

Virgin Australia Group operates services to 31 Australian and 17 international destinations including the USA, UAE, New Zealand, Indonesia, Thailand, Papua New Guinea, Fiji, Samoa, Tonga, Vanuatu and the Cook Islands. The Virgin Australia Group currently services domestic and international destinations under the following brands: Virgin Australia (domestic), Pacific Blue (short haul international), V Australia (full service international) and Polynesian Blue (joint venture with the Samoan Government). The Virgin Australia brand will be rolled out to the Pacific Blue and V Australia operations by the end of 2011.

(a) Long haul international operations and virtual international network

Virgin Australia's international flight network has seen recent significant expansion through authorised alliances with Air New Zealand, Etihad Airways and Delta Air Lines, connecting passengers to Europe via the Middle East, to destinations throughout the US and beyond to Canada and Mexico and providing access to more trans-Tasman frequencies and destinations trans-Tasman.

Virgin Australia Group's long haul international airline, currently branded V Australia, was launched as a full service carrier in 2009, offering services on the trans-Pacific and more recently, to the Middle East, on the following routes:

- Sydney-Los Angeles daily (commenced February 2009).
- Brisbane-Los Angeles four flights per week (commenced April 2009).
- Melbourne-Los Angeles three flights per week (commenced December 2009).
- Sydney-Abu Dhabi services three times per week (commenced February 2011). Through the Etihad Alliance, passengers are able to connect to more than 14 destinations in Europe on a one stop service.

Virgin Australia Group currently operates a fleet of four Boeing B777-300ER aircraft for its international services. The Boeing 777-300ER aircraft offer 33 Business Class lie-flat beds, 40 Premium Economy club seats and 288 Economy seats configured as follows:

- **International Business Class**, a 2-3-2 configuration with a fully horizontal 6'2" flat bed. This class offers a personal work station with laptop power, USB slot and 12.1" touch screen for in-flight entertainment.
- **International Premium Economy Class**, a 2-4-2 configuration with 38" seat pitch, 20" seat width and recline of up to 9". The seats are leather and have adjustable head and footrests. This class also offers a personal work station with laptop power, USB slot and 10.6" touch screen for in-flight entertainment.
- **International Economy Class**, a 3-3-3 configuration with 32" seat pitch, 18.8" seat width and recline of up to 6". It offers USB power and a 9" touch screen for in-flight entertainment.

Virgin Australia Group currently has arrangements with Alaska Airlines (in Los Angeles) to provide international lounge facilities to International Business Class passengers and Gold Velocity frequent flyer members. Virgin Australia passengers travelling on V Australia services to Los Angeles also have access to Air New Zealand Lounges in the Sydney, Brisbane and Melbourne international terminals. Gold Velocity members (and Business Class guests) have

Annexure B

access to Delta Lounges in the USA if flying onwards with Delta and also Virgin Atlantic Clubhouses if flying onwards on a Virgin Atlantic flight.

(a) Domestic operations

Virgin Australia's domestic operations were originally launched in 2000 by Sir Richard Branson's Virgin Group as "Virgin Blue". On 23 May 2011, Virgin Australia introduced new, simplified fare classes on domestic, former Pacific Blue services and Polynesian Blue flights:

- **'Saver'** fares provide the best possible price with the choice to pre-purchase a checked baggage allowance and the option to purchase in-flight entertainment or food and beverage on board. Customers can cancel or change the booking up to 24 hours before the scheduled departure for a fee;
- **'Flexi'** fares include food and beverage, checked in baggage allowance and priority check-in. The fare is fully flexible and no fees apply to change the time and date of the booking up to 24 hours before the scheduled departure; and
- **'Premium'** (Premium Economy / Business where available) fares includes unlimited food and beverage, priority check-in, access to Virgin Australia lounges and a generous checked baggage allowance.

Business Class is already available for sale on the Airbus A330-200 and will be available for sale on the Boeing 737-800 in the last quarter of 2011. Features include luxury seating with 62 inch pitch, Luke Mangan meal service, dedicated washroom facilities and amenity kits, pillows and blankets on three hour and longer flights.

Figure 2: New Boeing B737 interiors



Virgin Australia currently operates approximately 2,700 flights a week to 31 Australian destinations from its primary hub in Brisbane. As of July 2011, it operates a fleet of 69 Boeing 737 and Embraer E-Jet aircraft for its domestic and services. It recently added two new wide bodied Airbus A330-200 aircraft to its domestic fleet, providing a three times daily service between Sydney and Perth. An additional two Airbus A330-200 aircraft will commence operation in mid 2012. The new Boeing 737-800 Business and Economy Class interiors that were introduced as part of the new branding will be rolled out across the majority of Virgin Australia's current domestic fleet by the end of the year.

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(b) Regional operations

In January 2011, Virgin Australia Group and Skywest airlines entered into a long term strategic alliance to service regional Australia, particularly the fly-in fly-out resources sector market, under which Virgin Australia and Skywest will codeshare on a number of each other's domestic networks and allows reciprocal earn and burn for passengers.

Virgin Australia recently announced the introduction of up to 18 ATR72 turboprop aircraft, the first six of which would replace its current Embraer E170 fleet, with additional aircraft flying to new regional destinations. Four ATR72's will be introduced in 2011, with an additional four in 2012.

(c) Short haul international operations

Virgin Australia Group's launched the Pacific Blue brand in 2004, which consists of two carriers. Both will carry the Virgin Australia branding by the end of 2011.

Pacific Blue Airlines (NZ) Limited (**PBNZ**) is the New Zealand-based subsidiary of the Virgin Australia Group and operates services on trans-Tasman routes between Australia and New Zealand. Under the Virgin Australia-Air New Zealand alliance, PBNZ will operate approximately 30% of the projected capacity on the trans-Tasman sectors (Air New Zealand will operate approximately 70%).

Pacific Blue Airlines (Aust) Pty Ltd (**PBA**) operates services between Australia and New Zealand, Fiji, Thailand, Vanuatu, Papua New Guinea, the Cook Islands, the Solomon Islands and Tonga as a designated Australian international carrier. PBA operates aircraft wet leased from PBNZ and Virgin Blue.

Pacific Blue currently has aircraft based in both Australian and New Zealand ports. Pacific Blue operates a fleet of 15 Boeing 737-800 aircraft (five of which are wet-leased from Virgin Australia).

Virgin Australia also operates services to Denpasar.



The Virgin Australia Group also has a joint venture with the Samoan Government, Polynesian Blue. It operates between Sydney, Brisbane, Auckland and Apia with a single Boeing 737-800. Polynesian Blue is part of the Alliance. Its rebranding is dependent on agreement with the Samoan Government.

Velocity Rewards and the Virgin Australia Lounge

Velocity, Virgin Australia's loyalty program, was launched in November 2005. Velocity allows members to earn and redeem Velocity Points on Virgin Australia Group flights and on a range of products and services with Virgin Australia's Program Partners, as well as global lounge access with Virgin Australia reciprocal partners. Virgin Australia has frequent flyer agreements with Air New Zealand, Delta Air Lines, Skywest, Virgin Atlantic, Virgin America, Emirates, Etihad, Airlines PNG, Hawaiian Airlines and Malaysia Airlines.

The program will be relaunched later in 2011. Virgin Australia has recently made changes to the way Status Credits are earned in preparation of this relaunch and to make the Velocity program easier to compare with other frequent flyer programs around the world:

- Status Credits are earned based on fare class purchased and miles flown rather than per dollar spent; and

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- the number of Status Credits required to upgrade and maintain the level of membership as well as the rate at which Status Credits are earned has been adjusted.

Members' lounge facilities are located at the Sydney, Melbourne, Brisbane, Adelaide, Canberra and Perth domestic terminals. Virgin Australia Business and Premium Economy customers, Velocity gold and airline partner reciprocal status members receive complimentary access to the Virgin Australia Lounge. Passengers can also benefit from a more stream lined, fast tracked screening and entry process at selected airports:

- Australia's first premium valet service and direct lounge entry at Sydney Domestic airport;
- Melbourne Priority Screening security lane; and
- Express Entry priority queue in Sydney, Melbourne and Brisbane lounge receptions.

Figure 3: Virgin Australia's new Melbourne airport lounge



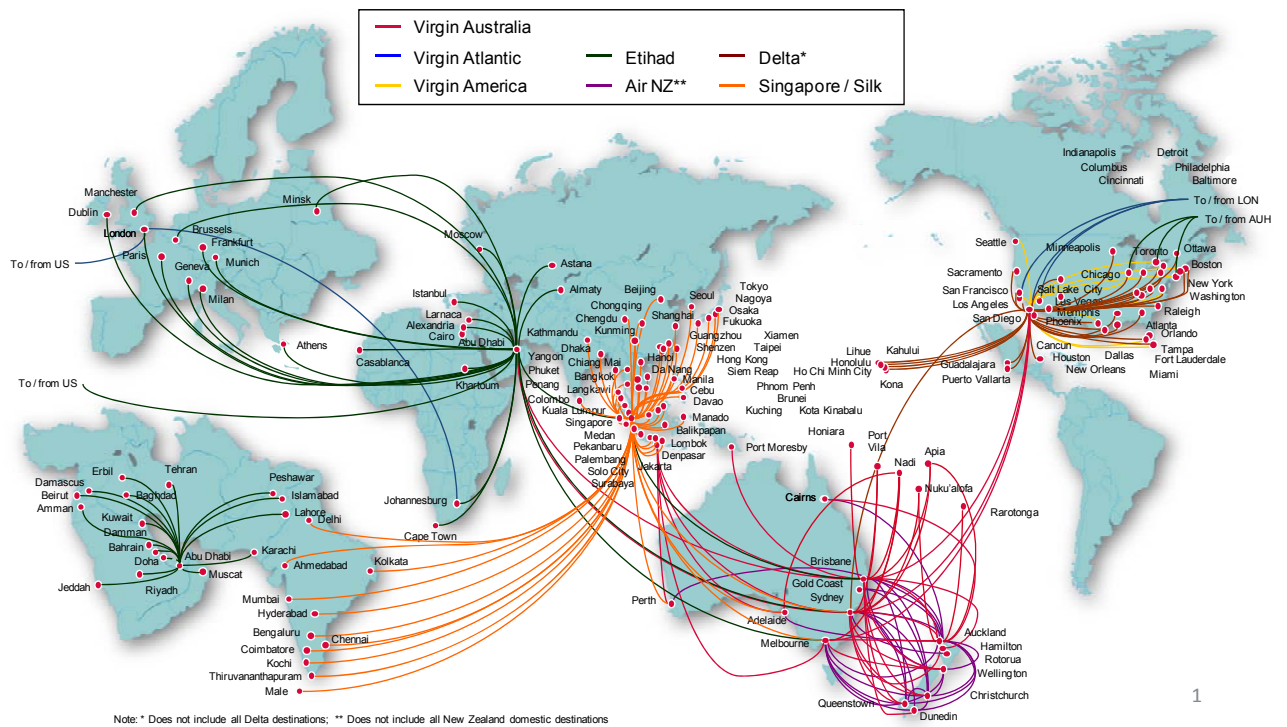
Virgin Australia recently opened its upgraded Melbourne lounge on 23 May 2011 with a range of product enhancements including a Luke Mangan designed menu and a range of premium wines. The Brisbane lounge upgrades are continuing in June 2011, which is expected to complete by the end of July 2011. Virgin Australia has also recently announced that it would open its first lounges in Mackay and Coolangatta by the end of 2011.

Codeshare and interline partners

Virgin Australia has entered into a range of codeshare and interline arrangements with partners, which provide travellers with access to a global airline network. These partners include its strategic Alliance partners Air New Zealand, Delta Air Lines, Etihad and Skywest. Virgin Australia also has interline arrangements with the following carriers for inbound traffic into Australia: Aerolíneas Argentinas, Aircalin, Air Austral, Air Mauritius, Air Tahiti Nui, Airlines PNG, Cathay Pacific/Dragon Air, China Southern, Emirates, Garuda Indonesia, Hawaiian Airlines, Malaysia Airlines, Qatar Airways, Royal Brunei, South African Airways, Thai Airways, Vietnam Airlines and Virgin Atlantic. Its domestic partners include REX.

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Figure 4: Virgin Australia's international network



Annexure C

Annexure C – Singapore Airlines

Singapore Airlines was founded in 1972, evolving from a regional airline to an international airline with a modern fleet of 108 aircraft with annual revenues of S\$12 707 million, carrying 16 480 thousand passengers in 2009/2010

Alliances

Singapore Airlines is a member of the world's largest global alliance, Star Alliance. The members of Star Alliance are set out below:


Codeshare relationships

Currently, Singapore Airlines has codeshare relationships with the following airlines:

- Air Canada
- Air India
- Air New Zealand
- All Nippon airways
- Asiana Airlines
- EGYPTAIR
- Garuda Indonesia
- Kuwait Airways
- LOT Polish airlines
- Lufthansa
- Malaysia Airlines
- Scandinavian Airlines
- SilkAir
- South African airways
- Swiss International Air Lines
- Turkish Airlines
- US Airways
- Virgin Atlantic Airways

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Figure 2: Singapore Airlines Products and Services

Singapore Airlines Products and Services	
	<p>Suites exclusively available onboard the A380:</p> <ul style="list-style-type: none"> • the largest ever seat, at up to 35 inches across • standalone bed; not one converted from a seat • a multi-port with power supply, headphone connection, USB ports and more • exquisite menus are created by the Singapore Airlines International Culinary Panel
	<p>First Class:</p> <ul style="list-style-type: none"> • 35-inches wide, sleeping in any position with crisp linen • A personal 23-inch LCD screen
	<p>Business class</p> <ul style="list-style-type: none"> • an all Business Class service to New York (Newark) and Los Angeles on an A340-500 fitted with 100 Business Class seats • 1-2-1 forward facing cabin layout and largest ever full-flat bed • a centralized, all-in-one business panel • in-seat power supply and USB ports • 15.4-inch personal widescreen LCD
	<p>Economy</p> <ul style="list-style-type: none"> • 1-2-1 forward facing cabin • in-seat power supply • 10.6-inch personal screen • soft, warm fleece blanket, a range of toiletries and a writing kit comprising postcards, envelopes, and writing pad


Singapore Airline has the following services:

- **Singapore Girl:** the internationally-recognisable icon providing the high standards of care and service that customers have come to expect of Singapore Airlines

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- **SIA Mobile:** Allows customers to book flights and access KrisFlyer services using selected mobile phones, BlackBerry and iPhone devices.
- **New Singapore Airlines Service Centre in ION Orchard:** 8,500 square feet of understated East-meets-West luxury, with cream and earth tones conveying the warmth of Asian hospitality.
- **Solitaire Priority Passenger Service (PPS):** Club members PPS Club members with Singapore mobile numbers can use Message Service (SMS) text message to contact Singapore Airlines.
- **KrisFlyer:** Singapore Airline's Frequent Flyer Program

Figure 3: KrisFlyer Benefits

		KrisFlyer	KrisFlyer Elite Silver	KrisFlyer Elite Gold
On Singapore Airlines, SilkAir, Virgin Atlantic and Star Alliance Airlines				
Earn Kris Flyer miles that can be redeemed for free travel awards		•	•	•
Priority airport standby*			•	•
Increased check-in baggage allowance				•
Priority airport check-in				•
Priority boarding				•
Priority baggage handling				•
On Singapore Airlines, SilkAir and Star Alliance airlines				
Earn qualifying miles towards Kris Flyer Elite Silver and Elite Gold status		•	•	•
Priority reservation waitlist			•	•
On Singapore Airlines, SilkAir and Virgin Atlantic				
25% tier bonus on actual miles flown			•	•
On Singapore Airlines and Star Alliance airlines				
Star Alliance Gold lounge access**				•
On Singapore Airlines and SilkAir				
SilkAir lounge access***				•
Earn PPS Value towards PPS Club status on Singapore Airlines Suites, First or Business Class****		•	•	•

* Except for Kris Flyer Elite Silver members on Virgin Atlantic.

**A guest can be invited as long as he/she is accompanied by the Elite Gold member and the guest is travelling on a Star Alliance flight on the same day.

***A guest can be invited as long as he/she is accompanied by the Elite Gold member and the guest is travelling on a SilkAir flight on the same day.

****If a member flies on Singapore Airlines Suites, or First or Business Class on Singapore Airlines or SilkAir and chooses to credit the flight miles to a Kris Flyer airline partner's frequent flyer programme, these flights will still be recognised for PPS Club qualification. Members need to present both the airline partner's membership card and their valid Kris Flyer Membership Card at check-in to credit mileage and PPS Value.

Annexure C

Long haul Singapore Airlines Fleet

Singapore Airlines has a young passenger fleet of 108 aircraft, with an average age of 6 years and 4 months, as of May 2011. The airline provides its international services utilising fleet of aircraft comprising of nineteen A330-300 aircraft, five A340-500 aircraft, eleven A380-800 aircraft in fleet and eight on order, seven B747-400 aircraft, thirty-five B777-200 aircraft and thirty-one B777-300 aircraft.

Singapore Airlines launched a cabin renewal programme in 2010 on selected Boeing 777-200 and Boeing 777-300 aircraft.

Figure 4: Singapore Airlines Fleet

Aircraft Type	No. of Aircraft	Capacity	No. of First	No. of Business	No. of Economy
A330-300	19	285	-	30	255
A340-500	5	100	-	100	-
A380-800	11	471	12*	60	399
B747-400	9	375	12	50	313
B777-200/ -200ER	66	288	12	42	234
		285	-	30	255
		323	-	30	293
		266	-	38	228
B777-300	12	332	18	49	265
		284	8	50	226
B777-300ER	19	278	8	42	228

Figure 5: Long haul Singapore Airlines Network

Region	Point	Frequencies
West Asia Africa		
Bangladesh	Dhaka (DAC)	7
Egypt	Cairo (CAI)	4
India	Ahmedabad (AMD)	2
	Bangalore (BLR)	7
	Chennai (MAA)	7
	Kolkata (CCU)	4
	Mumbai (BOM)	14
	New Delhi (DEL)	14
Kuwait	Kuwait City (KWI)	3
Maldives	Male (MLE)	10
Saudi Arabia	Jeddah (JED)	4

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Region	Point	Frequencies
	Riyadh (RUH)	4
South Africa	Cape Town (CPT)	3
	Johannesburg (JNB)	7
Sri Lanka	Colombo (CMB)	7
UAE	Abu Dhabi (AUH)	7
	Dubai (DXB)	11
North Asia		
China	Beijing (PEK)	21
	Guangzhou (CAN)	7
	Hong Kong SAR (HKG)	49
	Shanghai (PVG)	35
Japan	Fukuoka (FUK)	5
	Nagoya (NGO)	7
	Osaka (KIX)	14
	Tokyo (HND)	7
	Tokyo (NRT)	7
South Korea	Seoul (ICN)	21
Taiwan	Taipei (TPE)	18
South East Asia		
Brunei	Bandar Seri Begawan (BWN)	5
Indonesia	Denpasar (DPS)	21
	Jakarta (CGK)	49
Malaysia	Kuala Lumpur (KUL)	17
Phillipines	Manila (MNL)	28
Thailand	Bangkok (BKK)	28
Vietnam	Hanoi (HAN)	7
	Ho Chi Minh City (SGN)	14
Americas		
North America	Houston (IAH)	7
	Los Angeles (LAX)	12
	New York (EWR) "	7
	New York (JFK) "	7
	San Francisco (SFO)	14
South America	Sao Paulo (GRU)	
Europe		

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Region	Point	Frequencies
Denmark	Copenhagen (CPH)	3
France	Paris (CDG)	7
Germany	Frankfurt (FRA)	14
	Munich (MUC)	7
Greece	Athens (ATH)	2
Italy	Milan (MXP)	7
	Rome (FCO)	2
Turkey	Istanbul (IST)	4
Netherlands	Amsterdam (SPL)	7
Russia	Moscow (DME)	7
Spain	Barcelona (BCN)	7
United Kingdom	London (LHR)	21
	Manchester (MAN)	7
Switzerland	Zurich (ZRH)	7

Figure 6: Singapore Airlines Schedule (Non-Stop AU and NZ)

Origin	Destination	Time Series	Effective Feb-Apr-2011
Adelaide	Singapore	Flights per Week	7
Auckland	Singapore	Flights per Week	12
Brisbane	Singapore	Flights per Week	12
Christchurch	Singapore	Flights per Week	7
Melbourne	Singapore	Flights per Week	21
Perth	Singapore	Flights per Week	17
Sydney	Singapore	Flights per Week	28

SilkAir

SilkAir is Singapore's Airline's major passenger subsidiary. SilkAir took the skies in February 1989 as Tradewinds the Airline, evolving into SilkAir in 1992. As the regional wing of Singapore Airlines, SilkAir is dedicated to providing safe, reliable and affordable air transportation services of the highest quality. SilkAir flies one of the youngest fleets in the Asian region, with an average age of 5.8 years as of May 2011.

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Figure 7: SilkAir Fleet (as of June 2011)

As of Jun 2011 Aircraft Type	Seat Capacity			No. of Aircrafts
	J	Y	TTL	
319B	8	112	120	2
319C	8	120	128	4
320A	16	126	142	4
320C	12	138	150	9

SilkAir products and services**(a) Preflight:**

- Internet check in with seat selection
- Standard baggage allowance of 30kg for Business Class passengers, and 20 kg for Economy class passengers
- Additional 10kg baggage allowance for customers with diving equipment travelling to Cebu, Davao, Langkawi, Lombok, Phuket and Manado
- 10kg baggage allowance for infants plus stroller/pushchair or infant car seat
- Through check-in from SilkAir to Singapore Airlines points

(b) Inflight Services

- Dual class cabin configuration (Business & Economy)
- Premium Service
- Inflight meals with a focus on Asian offerings
- Freshly plated meals in Business class, served in courses ala restaurant style
- Full bar service with wide selection of drinks onboard
- Short silent feature screenings (on flights with flight time of more than 1.5 hours)
- Wide selection of reading materials onboard, including SilkWinds – SilkAir's inflight magazine
- Duty-free inflight shopping – "Skyshop"
- Warm and friendly cabin crew service

(c) Value added services

- Enjoy an assortment of privileges, including exclusive discounts on accommodation, dining, shopping and tourist attractions and transport services, when customers present their SilkAir boarding pass within 7 days of arrival in Singapore.

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- KrisFlyer, Singapore Airlines' Frequent Flyer Programme, of which SilkAir is a partner, allows members to earn or redeem frequent flyer miles on eligible Singapore Airlines or SilkAir flights.
- The PPS Club is reserved for frequent travellers on SilkAir's Business Class or Singapore Airlines' premium classes. PPS Club members enjoy personalized benefits and greater levels of preferential treatment.

(d) **SilkAir Codeshare partners**

- Singapore Airlines
- Malaysia Airlines
- Garuda Indonesia

Partially Owned subsidiary: Tiger Airways

Tiger Airways does not have a Frequent Flyer Program, but instead has a "Privilege" program call "Stripe", offering passengers special promotions. Tiger Airways currently has no codeshare or partnering arrangements.

Tiger Airways' product includes Standard Economy Seats with no Personal TV Screen.

Annexure D

Annexure D – Virgin Australia and Singapore Airlines/SilkAir destinations (as at 17 June 2011)

Figures 1 and 2 below shows the destinations to which Virgin Australia and Singapore Airlines currently service.

Figure 1: Current VA and DJ destinations

Region	Point
Australia	Adelaide (ADL)
	Albury (ABX)
	Ayers Rock (AYQ)
	Ballina/Byron (BNK)
	Brisbane (BNE)
	Broome (BME)
	Cairns (CNS)
	Canberra (CBR)
	Christmas Island (XCH)
	Cocos (Keeling) Island (CCK)
	Coffs Coast
	Darwin (DRW)
	Fraser Coast (Hervey Bay) (HVB)
	Gold Coast (OOL)
	Hamilton Island (HTI)
	Hobart (HBA)
	Karratha (KTA)
	Launceston (LST)
	Mackay (MKY)
	Melbourne (MEL)
	Mildura (MQL)
	Newcastle (NTL)
	Newman (ZNE)
	Perth (PER)
	Port Hedland (PHE)
	Port Macquarie (PQQ)
	Rockhampton (ROK)
	Sunshine Coast (MCY)
	Sydney (SYD)
	Townsville (TSV)
	Whitsunday Coast (PPP)
New Zealand	Auckland (AKL)
	Christchurch (CHC)

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Region	Point
	Dunedin (DUD)
	Hamilton (HLZ)
	Queenstown (ZQN)
	Wellington (WLG)
Pacific Islands	Apia, Samoa (APW)
	Honiara, Solomon Islands (HIR)
	Nadi, Fiji (NAN)
	Nuku’Alofa, Tonga (TBU)
	Port Vila, Vanuatu (VLI)
	Rarotonga, Cook Islands (RAR)
Papua New Guinea	Port Moresby (POM)
Thailand	Phuket (HKT)
Indonesia	Denpasar (DPS)
Middle East	Abu Dhabi (AUH)
North America	Los Angeles (LAX)

Figure 2: Current SQ and MI destinations

Notes: Destinations in blue are SilkAir services. Destinations with an asterisk (*) means both Singapore Airlines and SilkAir offer services to that point.

Region	Point
West Asia Africa	
Bangladesh	Dhaka (DAC)
Egypt	Cairo (CAI)
India	Ahmedabad (AMD)
	Bangalore (BLR)*
	Chennai (MAA)*
	Coimbatore (CJB)
	Hyderabad (HYD)
	Kochi (COK)
	Kolkata (CCU)
	Mumbai (BOM)
	New Delhi (DEL)
	Thiruvananthapuram (TRV)
Cambodia	Phnom Penh (PNH)
	Siem Reap (REP)
Nepal	Kathmandu (KTM)
Myanmar	Yangon (RGN)
Kuwait	Kuwait City (KWI)
Maldives	Male (MLE)
Saudi Arabia	Jeddah (JED)

Annexure D

Region	Point
West Asia Africa	
	Riyadh (RUH)
South Africa	Cape Town (CPT)
	Johannesburg (JNB)
Sri Lanka	Colombo (CMB)
UAE	Abu Dhabi (AUH)
	Dubai (DXB)
North Asia	
China	Beijing (PEK)
	Chengdu (CTU)
	Chongqing (CKG)
	Guangzhou (CAN)
	Hong Kong SAR (HKG)
	Kunming (KMG)
	Shanghai (PVG)
	Shenzhen (SZX)
	Xiamen (XMN)
Japan	Fukuoka (FUK)
	Nagoya (NGO)
	Osaka (KIX)
	Tokyo (HND)
	Tokyo (NRT)
South Korea	Seoul (ICN)
Taiwan	Taipei (TPE)
South East Asia	
Brunei	Bandar Seri Begawan (BWN)
Indonesia	Balikpapan (BPN)
	Denpasar (DPS)
	Jakarta (CGK)
	Lombok (AMI)
	Manado (MDC)
	Medan (MES)
	Palembang (PLM)
	Pekanbaru (PKU)
	Solo (SOC)
Singapore	Surabaya (SUB)
	Singapore (SIN)*
Malaysia	Kota Kinabalu (BKI)
	Kuala Lumpur (KUL)*
	Kuching (KCH)
	Langkawi (LGK)

Annexure D

<i>Region</i>	<i>Point</i>
West Asia Africa	
	Penang (PEN)
Phillipines	Cebu (CEB)
	Davao (DVO)
	Manila (MNL)
Thailand	Bangkok (BKK)
	Chiang Mai (CNX)
	Phuket (HKT)
Vietnam	Da Nang (DAD)
	Hanoi (HAN)
	Ho Chi Minh City (SGN)
Americas	
North America	Houston (IAH)
	Los Angeles (LAX)
	New York (EWR)
	New York (JFK)
	San Francisco (SFO)
South America	Sao Paulo
Europe	
Denmark	Copenhagen (CPH)
France	Paris (CDG)
Germany	Frankfurt (FRA)
	Munich (MUC)
Greece	Athens (ATH)
Italy	Milan (MXP)
	Rome (FCO)
Turkey	Istanbul (IST)
Netherlands	Amsterdam (SPL)
Russia	Moscow (DME)
Spain	Barcelona (BCN)
UK	London (LHR)
	Manchester (MAN)
Switzerland	Zurich (ZRH)
Australia and New Zealand	
Australia	Adelaide (ADL)
	Brisbane (BNE)
	Melbourne (MEL)
	Perth (PER)
	Sydney (SYD)
New Zealand	Auckland (AKL)
	Christchurch (CHC)

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Annexure E – Industry background

Australia-Asia overview

Asia is an important and growing region for Australian travel. Currently, approximately 45% of all Australian international travel is to Asia.¹³⁴ Asia is also an increasingly important source of travellers to Australia, and is expected to continue to be a key driver of Australia's future tourism growth in the short and longer term.

Particular high growth regions include North East Asia, South East Asia, India and Japan, which all experienced double-digit growth in visitor arrivals to Australia.¹³⁵ Over the period to 2020, Asia's share of inbound arrivals to Australia is forecast to increase from 38% to 42%.¹³⁶ Over the same period, China is expected to become Australia's second largest inbound market in terms of arrivals, after New Zealand.¹³⁷

Figure 1 below shows that the top five inbound markets by growth in 2010 were China, South Korea, Indonesia, Japan and Malaysia. There was also strong growth recorded from India, Singapore and the Middle East.

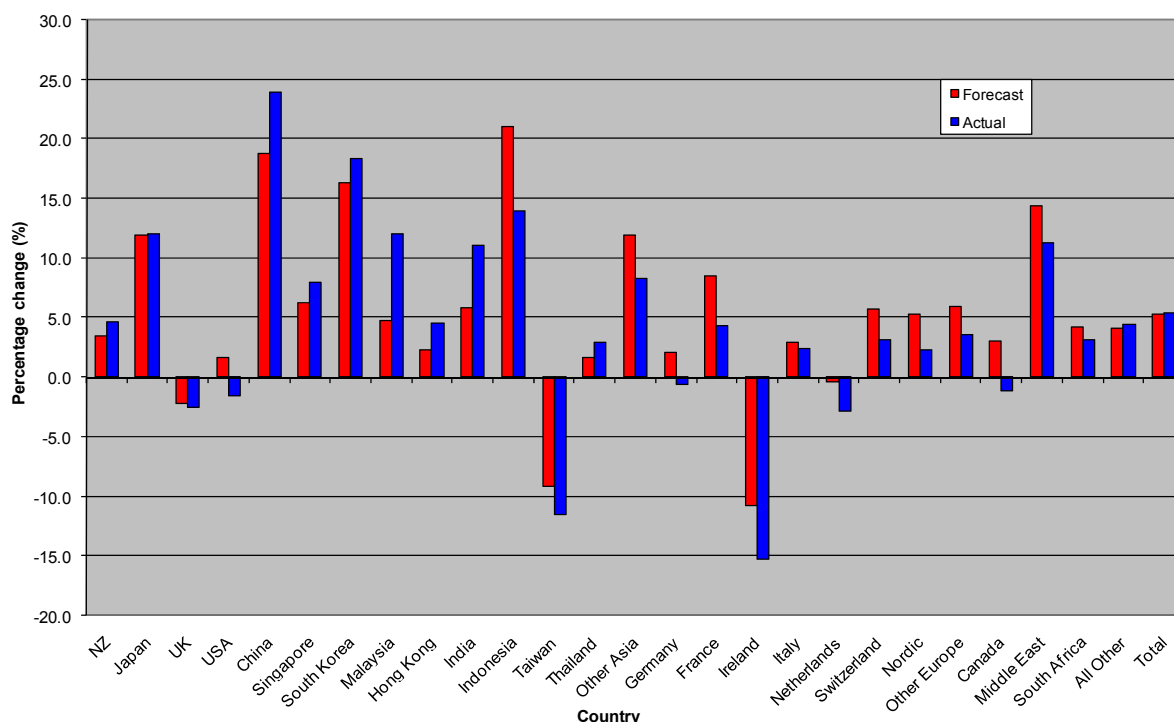
¹³⁴ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 23.

¹³⁵ Tourism Australia, "Tourism Australia says Asia is driving inbound tourism growth", 6 April 2011; Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 4.

¹³⁶ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2010 Issue 2", Tourism Research Australia, November 2010, at 6.

¹³⁷ Department of Resources, Energy and Tourism, Tourism Research Australia, "Forecast - Tourism Forecasting Committee 2010 Issue 2", November 2010, at 6.

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Figure 1: International visitor arrival growth rates by market, 2010¹³⁸

Asia is a key driver of tourism growth in Australia

In 2010, the number of short term visitor arrivals to Australia was approximately 5.9 million,¹³⁹ with a forecast of 6.1 million arrivals in 2011.¹⁴⁰ Close to 2.4 million of these visitors were from Asia.¹⁴¹

Figure 2 below shows the top sources of tourism in the 2010 calendar year. New Zealand is Australia's largest inbound market, accounting for almost 20% of visitors. Asia as a region comprises 40% of arrivals to Australia, led by China, Japan Singapore and Malaysia.

¹³⁸ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 13.

¹³⁹ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 12.

¹⁴⁰ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 17.

¹⁴¹ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 21.

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Figure 2: International short term visitor arrivals by market, 2010¹⁴²

Destination	Arrivals '000	%
New Zealand	1,162	19.7%
Total Asia	2,361	40.1%
<i>China</i>	<i>454</i>	<i>7.7%</i>
<i>Japan</i>	<i>398</i>	<i>6.8%</i>
<i>Singapore</i>	<i>308</i>	<i>5.2%</i>
<i>Malaysia</i>	<i>237</i>	<i>4.0%</i>
<i>South Korea</i>	<i>214</i>	<i>3.6%</i>
<i>Hong Kong</i>	<i>164</i>	<i>2.8%</i>
<i>India</i>	<i>139</i>	<i>2.4%</i>
<i>Indonesia</i>	<i>124</i>	<i>2.1%</i>
<i>Taiwan</i>	<i>87</i>	<i>1.5%</i>
<i>Thailand</i>	<i>84</i>	<i>1.4%</i>
<i>Other Asia</i>	<i>152</i>	<i>2.6%</i>
Total Europe	1,325	22.5%
<i>UK</i>	<i>647</i>	<i>11.0%</i>
<i>Germany</i>	<i>163</i>	<i>2.8%</i>
<i>France</i>	<i>97</i>	<i>1.6%</i>
<i>Other Europe</i>	<i>678</i>	<i>11.5%</i>
USA	472	8.0%
Canada	122	2.1%
Middle East	116	2.0%
South Africa	62	1.1%
Other World	264	4.5%
TOTAL	5,885	100.0%

China is the fastest growing outbound market in the world

China is the fastest growing outbound market in the world, with annual growth of 13.5% in the period 2006 to 2010, and growth of 20% in 2010.¹⁴³ This has been driven by strong economic growth and rapid expansion of direct airline capacity by a number of Chinese carriers.¹⁴⁴ Civil Aviation of China has indicated that China plans to invest more than RMB 1.5 trillion (USD230 billion) in civil aviation as part of a new five year plan.¹⁴⁵ China's passenger traffic is expected

¹⁴² Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 23.

¹⁴³ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.

¹⁴⁴ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.

¹⁴⁵ Asia Today, "China to Invest RMB 1.5 Trillion Civil Aviation Industry", 20 April 2011, <http://asiatoday.com/pressrelease/china-invest-rmb-15-trillion-civil-aviation-industry-0>.

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to reach 450 million by the end of 2012, while its airports will exceed 230 and fleet size will surpass 4,500 planes.¹⁴⁶

China is also the fastest growing inbound market for Australia, with visitors from China to Australia increasing by 25.8% in 2011.¹⁴⁷ In 2010, Australia accounted for 0.8% share of China's total outbound market of 56 million, and 3.6% share of China's Out of Region travel market (travel outside of North East Asia) of 12.6 million, ranking 10th among China's out-of-region outbound destinations.¹⁴⁸ The average annual growth of Chinese visitors to Australia between 2010 and 2020 is currently forecast at 7.2%, which would increase visitor arrivals from China to over 900,000 by 2020¹⁴⁹ and make it the largest inbound market for Australia in terms of economic value and second largest by visitor volume.¹⁵⁰

On 2 March 2011, Australia and China signed a new Memorandum of Understanding (**MoU**) with China, highlighting the importance of China as a key travel market for Australia and aimed at promoting travel between the two countries. The new MoU with China will also increase the number of seats available to Australian and Chinese airlines by up to 8,000 seats per week.¹⁵¹ Further, the Approved Destination Status (**ADS**) scheme promoting travel for groups to China and Australia, has been expanded to over 135 destinations, and facilitates greater streamlining of the visa process for Chinese travellers to Australia.¹⁵²

Asia is the top regional destination for Australian travel

In 2010, the number of short term resident departures from Australia was approximately 7.1 million, of which approximately over 3.1 million was to a destination in Asia.¹⁵³

Figure 3 below shows the short term resident departures by destination in the 2010 calendar year. New Zealand is the largest outbound market with 15% of outbound passenger movements by short term Australian residents. Asia is the top region for Australia travel, accounting for almost 45% of all short term resident departures in 2010.

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- ¹⁴⁶ Asia Today, "China to Invest RMB 1.5 Trillion Civil Aviation Industry", 20 April 2011, <http://asiatoday.com/pressrelease/china-invest-rmb-15-trillion-civil-aviation-industry-0>.
- ¹⁴⁷ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 4.
- ¹⁴⁸ Tourism Australia, "China Market Profile 2011", at 4 and 5.
- ¹⁴⁹ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.
- ¹⁵⁰ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.
- ¹⁵¹ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.
- ¹⁵² Prime Minister of Australia media release, "Bilateral meeting further Australia's economic ties with China", 26 April 2011, <http://www.pm.gov.au/press-office/bilateral-meeting-further-australias-economic-ties-china-beijing>.
- ¹⁵³ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 21.

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Figure 3: Short term resident departures by market, 2010¹⁵⁴

Destination	Departures '000	%
New Zealand	1,065	15.0%
Total Asia	3,139	44.1%
Indonesia	739	10.4%
Thailand	448	6.3%
China	337	4.7%
Singapore	259	3.6%
Malaysia	245	3.4%
Hong Kong	214	3.0%
Other Asia	897	12.6%
USA	684	9.6%
Total Europe	1,138	16.0%
UK	457	6.4%
Other Europe	681	9.6%
Fiji	311	4.4%
Other World	774	10.9%
TOTAL	7,111	100.0%

Singapore is Australia's largest aviation city hub

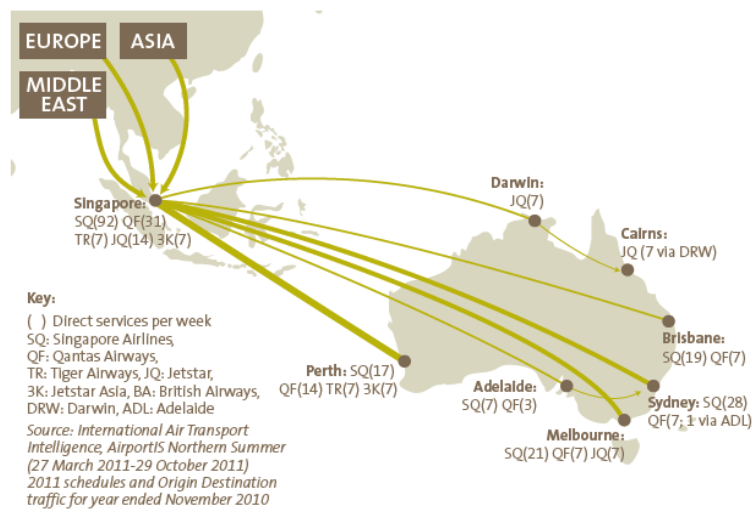
Singapore is one of the most important destinations for Australian travellers, connecting all major Australian airports to markets throughout Asia, Europe and the Middle East. It is a crucial international hub as well as Australia's second largest aviation hub after New Zealand (largest by city), with travel to/from or via Singapore accounting for 18.1% of passenger traffic to/from Australia.¹⁵⁵

Figure 4 below shows the routes from Australia to Singapore and beyond, which include destinations in Asia, Europe and the Middle East.

¹⁵⁴ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 21.

¹⁵⁵ By first country/city port of call for departures from Australia or last country/port of call for arrivals to Australia. See Department of Infrastructure and Transport, BITRE, "Statistical Report, Aviation: International Airline Activity 2009-10", at 9 and 14.

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Figure 4: Australia-Singapore and beyond routes¹⁵⁶

Regulation of aviation services between Australia and Singapore

The home country of an airline looking to fly between Australia and Asia must have the necessary underlying traffic rights which are negotiated between governments, known as Air Services Agreements (**ASAs**). Services on Australia-Asia routes would therefore require traffic rights to be available at both ends of the route, as well as any the intermediate point.

For Australian-designated airlines, capacity is allocated by Australia's International Air Services Commission (**IASC**), taking into account traffic rights available to Australian airlines. Capacity for airlines designated by other countries will be allocated by the equivalent regulator.

Australia's air services arrangements with Singapore are amongst the most liberal compared with Australia's ASAs with other countries. The Australia-Singapore ASA¹⁵⁷ does not impose any restrictions on Australian-designated airlines operating services beyond Singapore to Europe and places limited restrictions on services beyond Singapore to a number of points in Asia.¹⁵⁸

Qantas is currently allocated unlimited capacity and frequency on the Singapore route for all services other than all-cargo services.¹⁵⁹

¹⁵⁶ Tourism Australia, "Singapore Aviation Profile 2011".

¹⁵⁷ Department of Foreign Affairs and Trade, "Agreement between the Government of the Commonwealth of Australia and the Government of The Republic of Singapore relating to Air Services", <http://www.info.dfat.gov.au/Info/Treaties/treaties.nsf/AllDocIDs/D4A7BB3E7468E6E2CA256AFD001A8109>.

¹⁵⁸ Department of Foreign Affairs and Trade, "Agreement between the Government of the Commonwealth of Australia and the Government of The Republic of Singapore relating to Air Services", <http://www.info.dfat.gov.au/Info/Treaties/treaties.nsf/AllDocIDs/D4A7BB3E7468E6E2CA256AFD001A8109>.

¹⁵⁹ Determination for the renewal of Determination [2003] IASC 120 allocated capacity on the Singapore route to Qantas ([2007] IASC 1160) is for ten years from 31 October 2008.

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Competitors in the Australia-Asia market

The Australia-Asia market is dynamic and characterised by strong competition between a large number of full service carriers as well as budget airlines, with many recently announced new entrants. The South East Asian aviation environment is rapidly evolving. Jetstar has expanded its long haul operations, based in Singapore, in recent years¹⁶⁰ while Singapore Airlines has recently announced its intentions to establish a new low cost long haul airline in response to competition from Jetstar and AirAsia X.¹⁶¹ Qantas has also announced that it may develop a full service carrier to be based in Singapore¹⁶² and Malaysian Airlines has announced it will enter the oneworld alliance and is in talks with Qantas about cooperation possibilities in South East Asia.¹⁶³

The main competitors on routes between Australia and Asia are set out below.

Qantas/British Airways

Qantas-Jetstar Group

Qantas is Australia's largest domestic and international carrier. It offers services across a network covering 182 destinations in 44 countries (including those covered by code share partners in Australia, Asia and the Pacific, the Americas, Europe, the Middle East and Africa).¹⁶⁴ Through its alliance relationships, Qantas FrequentFlyer members are able to redeem points on flights to around 625 destinations globally.¹⁶⁵

As at 1 September 2010, Qantas operated a fleet of 252 aircraft, comprising Boeing 747s, 767s, 737s and 717s, Airbus A380s, A330s, A320s, Bombardier Dash 8s and Bombardier Q400s.¹⁶⁶

Internationally, the group operates with 970 international flights a week (Qantas: 630; Jetstar: 340).¹⁶⁷ Domestically, the Group operates around 5,600 flights per week. Jetstar also operates 160 domestic flights a week in New Zealand.

The new generation A380 and B787 remain central to the future of the Qantas Group's flying businesses. Qantas views the B787 aircraft as ideal for point-to-point flying on medium density short and long haul routes, and has stated that it will facilitate Jetstar's growth into Europe and in Asia.¹⁶⁸

With respect to its other operations in Asia, Qantas holds interests in Jetstar Asia and Valuair (through a 49% shareholding in its parent company) which are intra-Asia airlines based in Singapore. Jetstar Asia operates with a fleet of 10 A320 aircraft from Singapore to 20

- ¹⁶⁰ Brendan Sobie, "Asia to fuel Jetstar's next expansion phase", Flightglobal, 28 October 2009, <http://www.flightglobal.com/articles/2009/10/28/334050/asia-to-fuel-jetstars-next-expansion-phase.html>.
- ¹⁶¹ Matt O'Sullivan, "Jetstar targeted by Singapore Airlines' new budget carrier", SMH, 26 May 2011, <http://www.smh.com.au/travel/travel-news/singapore-airlines-to-take-on-jetstar-with-budget-offshoot-20110526-1f5z2.html>; Centre for Asia Pacific Aviation, "SIA's long-haul low-cost subsidiary strategy to restore growth after a lost decade", 26 May 2011, <http://www.centreforaviation.com/news/2011/05/26/sias-long-haul-low-cost-subsidary-strategy-to-restore-growth-after-a-lost-decade/page1>.
- ¹⁶² Top News Singapore, "Qantas said may start carrier in Malaysia", 14 May 2011, <http://www.topnews.com.sg/content/26308-qantas-said-may-start-carrier-malaysia>.
- ¹⁶³ oneworld news release, "Malaysia Airlines to join oneworld alliance", 6 June 2011.
- ¹⁶⁴ Qantas Fact File, September 2010, <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.
- ¹⁶⁵ Qantas, Frequent Flyer, <http://www.qantas.com.au/flyer/dyn/program/index>.
- ¹⁶⁶ Qantas Fact File, September 2010, <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.
- ¹⁶⁷ Qantas Fact File, September 2010, <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.
- ¹⁶⁸ Qantas Fact File, September 2010, at 7, <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

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destinations across Asia and into Australia, to Cairns, Darwin and Perth. Two A330-200 aircraft will be based in Singapore from December 2010 and March 2011.¹⁶⁹

Qantas also owns a 27% interest in Jetstar Pacific, which operates domestic services in Vietnam.

Qantas has the largest frequent flyer program membership in Australia, with 7.8 million members.¹⁷⁰ In response to the “very competitive environment, Qantas recently announced additional FFP rewards and new fare structure for Jetstar, including more options to earn points and status credits on Jetstar flights.¹⁷¹ Qantas is part of the oneworld alliance.

British Airways (International Airlines Group)

British Airways, based in Waterside, is the flag carrier and largest airline in the UK based on fleet size, international flights and international destinations. Its main hub is London Heathrow Airport, and it also operates hubs at Gatwick Airport and at London City Airport through its fully owned subsidiary BA CityFlyer. On 24 January 2011, the merger between British Airways and Iberia (flag carrier of Spain) was completed upon listing of the shares in the International Airlines Group (**IAG**), creating Europe’s third largest airline and the world’s sixth largest carrier by revenue (after Delta, Lufthansa, United Continental, Air France-KLM and AMR.¹⁷² British Airways holds 55% of the IAG parent, while Iberia will hold the remaining 45%. British Airways and Iberia each retain their own individual brands.

British Airways’ fleet comprises 234 aircraft, with 57 Boeing 747-400 aircraft and 43 Boeing 777-200ER.¹⁷³ As at 2007, it had 12 Airbus A380 and 24 Boeing 787s on order, including in their orders options on another 25 aircraft in total.¹⁷⁴ These aircraft have not yet been added to its fleet.

British Airways is a founding member of the oneworld alliance and has a transatlantic joint business with American Airlines and Iberia.¹⁷⁵ As well as an oneworld alliance frequent flyers program, British Airways has an ‘Executive Club’, which allows members to earn and redeem British Airways ‘Miles’.¹⁷⁶

Qantas/British Airways JSA

Since 1995, Qantas and British Airways have offered coordinated services on routes between Australia and Europe via Asia through the JSA, which was granted authorisation for a further five years from March 2010. Qantas and British Airways coordinate in relation to scheduling, sales and marketing, pricing, holiday products and frequent flyer programs, amongst other activities, on routes between Australia and the UK/Europe, including its intermediate points in Asia, namely Singapore, Bangkok, Hong Kong, Tokyo and Shanghai.

¹⁶⁹ Qantas Fact File, September 2010, at 18, <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

¹⁷⁰ Qantas media release, “New Enhancements for Qantas Frequent Flyer and Plans for Major Loyalty Alliance with Optus”, 17 May 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/may11/5110>.

¹⁷¹ Qantas media release, “New Enhancements for Qantas Frequent Flyer and Plans for Major Loyalty Alliance with Optus”, 17 May 2011, <http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/may11/5110>.

¹⁷² Centre for Asia Pacific Aviation, “British Airways and Iberia merger completed; plan to add more airlines to group”, 26 January 2011, <http://www.centreforaviation.com/news/2011/01/26/british-airways-and-iberia-merger-completed-planning-to-add-more-airlines-to-the-group/page1>.

¹⁷³ British Airways, Fleet facts, http://www.britishairways.com/travel/csr-new-aircraft/public/en_gb.

¹⁷⁴ British Airways, Environment – our future fleet, September 2007, http://www.britishairways.com/travel/csr-new-aircraft/public/en_gb.

¹⁷⁵ British Airways, Our transatlantic joint business, http://www.britishairways.com/travel/joint-business-launch/public/en_gb.

¹⁷⁶ British Airways, Executive Club, http://www.britishairways.com/travel/ecpartnrair/public/en_gb.

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Qantas Frequent Flyers can earn points and Status credits on eligible flights with Qantas and British Airways, as well as access to airport lounges worldwide. On British Airways operated flights from Sydney, Singapore or Bangkok to London, Qantas Frequent Flyers can earn reciprocal points and credits as if they were travelling on Qantas.¹⁷⁷

Cathay Pacific

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled cargo and passenger services to more than 110 destinations around the world.¹⁷⁸ Cathay Pacific has a fleet of 128 aircraft, including 32 Airbus A330-300 aircraft, with an additional 88 aircraft on order.¹⁷⁹ In March 2011, Cathay Pacific announced the acquisition of 15 new Airbus A330-300 aircraft and 10 new Boeing 777-300ER aircraft, and is in discussions which, if successfully concluded, will result in the acquisition of 14 further aircraft.¹⁸⁰

Cathay Pacific currently operates over 80 flights per week between the major Australian cities and Hong Kong. It recently increased its services to Perth (ten flights per week), Brisbane (11 flights per week), Cairns (once daily flights) and Sydney (four flights daily) in November 2010.¹⁸¹ It also offers three flights a day from Melbourne and daily flights from Adelaide. Cathay Pacific recently added 22 destinations to its network through codeshare arrangements with airlines in Central and Latin America, the United States, Canada and Japan. Dragonair, a member of the Cathay Pacific Group, also added services to Shanghai and Japan.¹⁸²

Cathay Pacific is a founding member of the oneworld alliance and has entered into codeshare agreements with 16 other international airlines, including American Airlines, British Airways, Japan Airlines, and Malaysia Airlines.¹⁸³ It also has joint operating services with Air China.¹⁸⁴ Cathay Pacific is a partner of Asia Miles, Asia's leading travel reward program. Asia Miles has over 400 partners in nine categories, including 20 airline partners, and more than 3.8 million members. Members can earn and redeem Asia 'Miles' to over 1000 destinations worldwide.¹⁸⁵ Cathay Pacific also participates in the frequent flyer programmes of all oneworld member airlines, and offers a Marco Polo Club, which is an exclusive programme that offers a range of privileges to Cathay Pacific's most frequent flyers designed to enhance their journey.

Malaysia Airlines

Malaysia Airlines is based in Kuala Lumpur and flies over half a million passengers daily to over 100 destinations worldwide.¹⁸⁶ Malaysia Airlines currently operates around 47 weekly services

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- ¹⁷⁷ Qantas flyer, "On sale now", 16 June 2010, <https://www.qantas.com.au/agents/dyn/qf/policies/QfJSAFlyer160610.pdf>.
¹⁷⁸ Cathay Pacific, About Us, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/missionstatement.
¹⁷⁹ Cathay Pacific, Aircraft Fact Sheet, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/factsheet?refID=175e1f8eab6b9010VgnVCM10000021d21c39.
¹⁸⁰ Cathay Pacific, Annual Report 2010, http://downloads.cathaypacific.com/cx/investor/annualreports/2010_annual-report_en.pdf.
¹⁸¹ Steve Creedy, "Cathay Pacific to expand Australian services", The Australian, 6 August 2010, <http://www.theaustralian.com.au/business/aviation/cathay-pacific-to-expand-australian-services/story-e6frg95x-1225901796376>.
¹⁸² Cathay Pacific, Annual Report 2010, http://downloads.cathaypacific.com/cx/investor/annualreports/2010_annual-report_en.pdf.
¹⁸³ Cathay Pacific, Alliance and Partnership Fact Sheet, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/partnerships.
¹⁸⁴ Cathay Pacific, Alliance and Partnership Fact Sheet, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/partnerships.
¹⁸⁵ Cathay Pacific, Asia Miles Fact Sheet, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/factsheet?refID=51c7cd5d499cf010VgnVCM32000011d21c39.
¹⁸⁶ Malaysia Airlines, Our Story, <http://www.malaysiaairlines.com/hq/en/corporate-info/our-story.html>.

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to the five major Australian cities, recently increasing the frequency of its flights including doubling the daily direct services between Sydney and Kuala Lumpur, near daily flights between Adelaide and Kuala Lumpur¹⁸⁷ and introducing non-stop services between Perth and Kota Kinabalu (three flights per week using new Boeing 737-800 aircraft).¹⁸⁸ Kota Kinabalu was announced as Malaysia Airlines' new eastern hub for onward travel to North Asian points including China, Japan and South Korea in December 2010, which will shorten flights to those destinations by about 90-120 minutes by bypassing the usual stopovers in Kuala Lumpur.¹⁸⁹ Malaysia Airlines' fleet consists of 79 aircraft, with the majority being 37 Boeing 737-400 aircraft.

Malaysia Airlines has codeshare agreements with 23 airlines, including Cathay Pacific, Dragon Air, Singapore Airlines, Southern China Airlines and Thai Airways International.¹⁹⁰ It is currently pursuing key players in India and Turkey.¹⁹¹ Malaysia Airlines also runs a frequent flyer program for travellers which offers benefits with a variety of partner airlines, banks, credit-card issuers, hotels and lifestyle retailers around the world.¹⁹² It was recently announced that Malaysia Airlines would join the oneworld alliance and begin flying as a designated member in late 2012,¹⁹³ with potential cooperation between Qantas and Malaysia Airlines in the Malaysian and South-East Asian markets.¹⁹⁴

Malaysia Airlines' 5-Year Network Plan involves focussing efforts and resources on their core network in ASEAN, China and India. Its second main focus is to develop further its 'hub-and-spoke' network in Australia and Europe to improve traffic flows and for profitable growth. To serve its core network better, Malaysia Airlines is looking at acquiring long range narrowbody aircraft which will allow them to operate new routes profitably where its Airbus 330 is too large and its Boeing 737-400 lacks the range.¹⁹⁵ The complementary fleet plan involves an increase in fleet size, fewer aircraft types and an inclination towards more agile and fuel efficient aircraft for the short and medium haul.¹⁹⁶

Thai Airways International

Thai International is the national carrier of Thailand and is majority owned by the government of Thailand. It operates flights from its home base in Bangkok to over 72 destinations around the world and within Thailand, including 41 cities in South Asia, 14 cities in the Indian Subcontinent,

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- ¹⁸⁷ David Flynn, "Malaysia Airlines to run six flights per week between Adelaide and Kuala Lumpur", Australian Business Traveller, 26 November 2011, <http://www.ausbt.com.au/malaysia-airlines-to-run-six-flights-per-week-between-adelaide-and-kuala-lumpur>.
- ¹⁸⁸ Aviation News, "Opening of Kota Kinabalu, Sabah Malaysia Airlines-Perth non-stop flights", 16 January 2011, http://www.auairs.com/html/92912_Opening-of-Kota-Kinabalu-Sabah-Malaysia-Airlines--Perth-non-stop-flights.html.
- ¹⁸⁹ Asia-Pacific Business Traveller, "MAS launches new services from improved Kota Kinabalu hub", 16 December 2010, <http://asia.businessstraveller.com/asia-pacific/news/mas-launches-new-services-from-improved-kota-kinabalu-hub>.
- ¹⁹⁰ Malaysia Airlines, Partner Airlines, <http://www.malaysiaairlines.com/hq/en/corporate-info/partner-airlines.html>.
- ¹⁹¹ Malaysia Airlines, "Five Star Value Carrier: Business Transformation Plan", January 2008, [http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20\(BTP%202\).pdf](http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20(BTP%202).pdf).
- ¹⁹² Malaysia Airlines, About Enrich, <http://www.malaysiaairlines.com/hq/en/enrich/about-enrich.html>.
- ¹⁹³ The Star online, "MAS expected to benefit from oneworld membership", 7 June 2011, <http://biz.thestar.com.my/news/story.asp?file=/2011/6/7/business/8847661&sec=business>.
- ¹⁹⁴ Steve Creedy, "Qantas, Malaysia Airlines to build ties, says Alan Joyce", The Australian, 6 June 2011, <http://www.theaustralian.com.au/business/aviation/qantas-malaysia-airlines-to-build-ties-says-alan-joyce/story-e6frg95x-1226070096848>.
- ¹⁹⁵ Malaysia Airlines, "Five Star Value Carrier: Business Transformation Plan", January 2008, at 40, [http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20\(BTP%202\).pdf](http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20(BTP%202).pdf).
- ¹⁹⁶ Malaysia Airlines, "Five Star Value Carrier: Business Transformation Plan", January 2008, at 41, [http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20\(BTP%202\).pdf](http://www.malaysiaairlines.com/content/dam/mas/master/en/pdf/corporate-info/Business%20Transformation%20Plan%20(BTP%202).pdf).

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7 cities in China, 13 cities in the UK/Europe, Los Angeles in the USA and Johannesburg in South Africa.¹⁹⁷ Thai International is currently expanding and modernising its fleet according to its corporate strategic plan 2011-12, as evidenced by the 26 new orders with more to come, and 21 aircraft being decommissioned.¹⁹⁸

Thai International currently operates over 44 non-stop flights per week to Thailand out of Sydney (18 weekly flights), Brisbane (daily flights), Perth (daily flights) and Melbourne (double daily flights).¹⁹⁹

Thai International is a founding member of the Star Alliance network. Thai International also has codesharing agreements with six airlines, including China Airlines, Malaysia Airlines and Emirates.²⁰⁰ It runs a frequent flyer scheme named Royal Orchid Plus which allows participators to earn 'miles' with Thai Airways and Royal Orchid Plus partners.²⁰¹

AirAsia X

AirAsia X is a Malaysian-based low cost, high frequency, point-to-point airline operating on long haul routes, and is a sister company of the larger AirAsia airline.²⁰² It uses the same booking system as AirAsia, which has established a 50/50 joint venture company with Expedia, the first joint venture worldwide between a low cost carrier and an online travel agent.²⁰³ This will provide a stronger distribution channel for AirAsia X into Australia (previously passengers could only book online on the AirAsia website).

AirAsia X offers flights out of the Gold Coast, Melbourne, Perth and Darwin to Malaysia, China, India, Indonesia, Singapore, Thailand and Europe via its hub in Kuala Lumpur. It will add an extra daily service between Perth and Bali in response to increased passenger demand from 1 July 2011.²⁰⁴ It added six new destinations during the first quarter of 2011 (Mumbai, Delhi, Tehran, Seoul, Tokyo and Paris). Pending regulatory approval from the Malaysian government, there may be an expansion of its network with possible services to Sydney.²⁰⁵

Within four years of operation, AirAsia X has become Asia's biggest long haul budget carrier, and is continuing to pursue a successful high growth strategy where other low cost, long haul carriers have failed, such as Hong Kong carrier Oasis and British based Flyglobespan.²⁰⁶ In 2009 and 2010, it was named World's Best Low Cost Airline in the annual World Airline Survey by Skytrax.²⁰⁷ In 2009 AirAsia X became the first low cost carrier to Europe, at promotional fares of around a quarter of the most common fares on the routes, with most of the passengers

¹⁹⁷ Thai's Network, http://www.thaiairways.com.au/thai_our_network.asp.

¹⁹⁸ Thai Airways, Thai Board Resolutions 2011, <http://www.thaiairways.com/about-thai/public-information/en/thai-board-resolutions-2011.htm>.

¹⁹⁹ Thai's Network, http://www.thaiairways.com.au/thai_our_network.asp.

²⁰⁰ Thai Airways, Codeshare agreements, <http://www.thaiairways.com/frequent-flyer/en/codeshare-flights.htm>.

²⁰¹ Thai Airways, Royal Orchid Plus, <http://www.thaiairways.com/frequent-flyer/en/about-royal-orchid-plus.htm>.

²⁰² AirAsia X, Booking, <https://booking.airasia.com/Search.aspx>.

²⁰³ Daily Finance, "Expedia's Partnership with AirAsia is Just the Ticket for Growth", 23 May 2011, <http://www.dailyfinance.com/2011/05/23/expedias-partnership-with-airasia-is-just-the-ticket-for-growth/>.

²⁰⁴ Travel Blackboard, "AirAsia extends daily Perth-Bali service", 13 May 2011, <http://www.etravelblackboardasia.com/article.asp?id=75296&nav=2>.

²⁰⁵ Travel Genius, Air Asia X, http://www.airtravelgenius.com/ar/air_asia_x Cheap flights.htm.

²⁰⁶ AFP, "Resilient Air Asia X defies doubters", 2 June 2011, <http://www.google.com/hostednews/afp/article/ALeqM5jVTKAevHqDQ4inAoRsVDkZPQEnBq?docId=CNG.de0ec84c8fb5d8c9b27ca87dd5e9a6a9.1a1>.

²⁰⁷ Travel Blackboard, "AirAsia extends daily Perth-Bali service", 13 May 2011, <http://www.etravelblackboardasia.com/article.asp?id=75296&nav=2>.

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originating in Australia.²⁰⁸ In 2010, AirAsia X became the first low cost carrier to introduce premium flatbed seats for long haul flights.²⁰⁹ It reported a first quarter load factor of 81% in 2011, an increase of six percentage points from the same quarter last year.²¹⁰

According to its most recent annual report, by the end of 2010 it intended to increase its fleet size from eight long haul aircraft (six A330 aircraft and two A340 aircraft) to 11, and up to 25 by 2015.²¹¹ Five of its present fleet are new A330 aircraft purchased through financing raised on its own balance sheet strength and cashflow. In 2010, AirAsia X intended to maintain its focus on core markets in Australia, Greater China and India, and start to open up new markets in Korea and Japan.²¹²

Chinese carriers

Chinese airlines in particular have recently entered and expanded aggressively into the Australia-Asia market, with direct capacity forecast to grow by 33% in 2011.²¹³

- Following the increase in its Guangzhou-Sydney/Melbourne flights and the launch of its Brisbane services in November 2010,²¹⁴ China Southern Airlines, Asia's largest carriers by passenger numbers, has also recently confirmed that it will offer direct flights between Cairns and China within five years²¹⁵ and announced plans to extend their Australian air services to three daily Sydney flights and twice daily Melbourne flights.²¹⁶
- Hainan Airlines launched a thrice-weekly Hangzhou-Shenzhen-Sydney service in January 2011. However, it reduced this to twice weekly due to a slow market response in Hangzhou and Shenzhen. The thrice-weekly schedule is planned to resume in June 2011.²¹⁷
- Air China adjusted its Australian flight schedule from 18 to 15 flights per week after Chinese New Year. Currently, it is operating five direct flights from Beijing to Sydney, four flights from Beijing to Sydney via Shanghai, and four flights from Beijing to Melbourne via Shanghai.²¹⁸
- China Eastern Airlines is planning to add daily services to Sydney and Melbourne respectively, from its current five times weekly Shanghai-Sydney and four times weekly Shanghai-Melbourne services, by June 2011.²¹⁹

²⁰⁸ Centre for Asia Pacific Aviation, "Air Asia X to London: Long haul low cost arrives in Europe – seriously", 17 February 2009, <http://www.centreforaviation.com/news/2009/02/17/airasia-x-to-london-long-haul-low-cost-arrives-in-europe---seriously/page1>.

²⁰⁹ The Age, "AirAsia X introduces premium flatbed seats for long-haul", 13 April 2010,

<http://www.theage.com.au/photogallery/travel/airasia-xs-budget-beds-20100413-s72q.html?selectedImage=1>.

²¹⁰ Chong Pooi Koon and Rishaad Salamat, "AirAsia X Wants to Increase Japan Flights, Routes, CEO Says", Bloomberg, 4 May 2011, <http://www.bloomberg.com/news/2011-05-04/airasia-x-wants-to-increase-japan-flights-routes-ceo-says.html>.

²¹¹ AirAsia Annual Report 2009, <http://www.airasia.com/my/en/corporate/irannualreport.html>.

²¹² AirAsia Annual Report 2009, <http://www.airasia.com/my/en/corporate/irannualreport.html>.

²¹³ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.

²¹⁴ Business China, "China Southern Expands International Routes, Faces Pressure from Fuel Costs, Railways", 1 June 2011, <http://en.21cbh.com/HTML/2011-6-1/5MMjUzXzlxMDI5MQ.html>.

²¹⁵ The Cairns Post, "China Southern Airlines confirms direct flights to Cairns", 9 June 2011, http://www.cairns.com.au/article/2011/06/09/168421_local-news.html.

²¹⁶ Tourism Australia, "Quarterly Update", May 2011 at 6.

²¹⁷ Tourism Australia, "Quarterly Update", May 2011 at 6.

²¹⁸ Tourism Australia, "Quarterly Update", May 2011 at 6.

²¹⁹ Tourism Australia, "Quarterly Update", May 2011 at 6.

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- The Queensland Tourism Minister has stated that she would be lobbying for Strategic Airlines to fly between China and a regional port in Queensland.²²⁰

Other Asian carriers

A large number of other airlines also fly between Australia and Asia.

- South East Asian carriers include Royal Brunei Airlines, Garuda Indonesia, Philippine Airlines, and Vietnam Airlines. Garuda, Indonesia's national carrier, recently announced a new third hub (Makassar), which will serve direct daily flights to Australia.
- Other North East Asian carriers with services to Australia include Japan Airways and Korean Air.

See Figures 5 and 6 below for a list of other carriers which operate on routes between Australia and Asia.

Capacity and passenger traffic: Australia-Asia

Capacity

Asia as a whole accounts for an approximately 56% share of operated seats (based on non-stop services) to/from Australia.²²¹ Of this, South East Asia has a 39% share and North East Asia accounts for 17.1% of operated seats.²²²

In 2010, international seat capacity into Australia increased 6.8% to 17.7 million, driven by capacity growth of low cost carriers from Asian markets.²²³ Load factors also increased 0.7% to 88% in January 2011.²²⁴

In 2011, the strongest growth in capacity is expected from China (33%) and Indonesia (20%), while Japan (natural disasters), Thailand, Taiwan and South Africa (cancelled services) are the only major markets for which seat capacity is forecast to decline.²²⁵

The new MoU with China will increase the number of seats available to Australian and Chinese airlines by up to 8,000 seats per week.

Passenger traffic

Figure 5 below lists the market shares of carriers operating on routes between Australia and destinations in Asia by total passenger numbers. The Qantas/British Airways JSA has the largest market share with a 25.2% share of total passengers, followed by Singapore Airlines with a significantly smaller 14.7% share. There are a number of other airlines with substantial shares, in particular Cathay Pacific, Malaysia Airlines, Thai International and AirAsia X.

²²⁰ The Cairns Post, "China Southern Airlines confirms direct flights to Cairns", 9 June 2011, http://www.cairns.com.au/article/2011/06/09/168421_local-news.html.

²²¹ Department of Infrastructure and Transport, BITRE, "Aviation: International airline activity 2009-10", at 15.

²²² Department of Infrastructure and Transport, "Aviation: International airline activity 2009-10", at 15.

²²³ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 9.

²²⁴ Tourism Australia, "Quarterly Market Update", May 2011 at 2.

²²⁵ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 37.

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Figure 5: Total passenger share of airlines in the Australia-Asia market, 12 months to December 2010, derived from country of origin/destination²²⁶

Carrier	Passengers (#)	Share (%)
V Australia (VA)	93,951	0.8%
Pacific Blue (DJ)	427,311	3.7%
Etihad (EY)	15,135	0.1%
Singapore Airlines (SQ)	1,692,086	14.7%
Virgin Atlantic (VS)	85,292	0.7%
<i>Qantas Airways (QF)</i>	<i>1,510,877</i>	<i>13.2%</i>
<i>Jetstar Airways (JQ)</i>	<i>1,316,477</i>	<i>11.5%</i>
<i>British Airways (BA)</i>	<i>64,939</i>	<i>0.6%</i>
Qantas/BA JSA	2,892,294	25.2%
Jetstar Asia (3K)	5,509	0.0%
Cathay Pacific (CX)	1,009,559	8.8%
Malaysia Airlines (MH)	680,260	5.9%
Thai International (TG)	626,088	5.5%
AirAsia X (D7)	632,442	5.5%
Indonesia AirAsia (QZ)	263,392	2.3%
Garuda Indonesia (GA)	461,605	4.0%
Emirates Airline (EK)	298,019	2.6%
Korean Air (KE)	240,493	2.1%
China Southern Airlines (CZ)	262,827	2.3%
Air China (CA)	221,133	1.9%
China Eastern Airlines (MU)	200,935	1.8%
Vietnam Airlines (VN)	202,368	1.8%
China Airlines (CI)	146,436	1.3%
Asiana Airlines (OZ)	134,184	1.2%
Philippine Airlines (PR)	134,744	1.2%
Royal Brunei Airlines (BI)	94,703	0.8%
JALways (JO)	111,298	1.0%
Japan Airlines (JL)	112,294	1.0%
Transbrasil (TR)	96,703	0.8%
Airnorth (TL)	37,582	0.3%
EVA Air (BR)	37,845	0.3%
Strategic Airlines (VC)	20,706	0.2%
Viva Macau (ZG)	13,455	0.1%
Air New Zealand (NZ)	69,254	0.6%

²²⁶ Sourced from passenger card data collected and compiled by Department of Immigration and Citizenship.

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Air Niugini (PX)	20,263	0.2%
Aegean Airlines (A3)	8,327	0.1%
Continental Airlines (CO)	23,236	0.2%
Other	107,950	0.9%
Total	11,479,676	100.0%

Of the above listed carriers, only Etihad and Emirates are based outside of Australia and Asia. There are a number of low cost carriers also included in the figure above, namely AirAsia X, and Strategic Airlines.

Proportion of business versus leisure traffic: Australia-Asia

Approximately 13.5% of all short term Australian resident departures to Asia are for a business purpose.²²⁷

Figure 6 below lists destinations in Asia in order of the total number of short term resident departures, disaggregated by reason for travel, ie Holiday, VFR, Business and Other, and shows the proportion of business travellers of the total departures for each destination. The top five Asian destinations in order of highest to lowest numbers of business traffic are China, Singapore, Hong Kong, Malaysia and Indonesia.

Figure 6: Reason for travel by destinations in Asia, 12 months to December 2010²²⁸

Asian Destinations	Holiday	VFR	Business	Other	Total	Business (%)
Indonesia	636,924	38,301	34,655	29,317	739,197	8.2%
China (excludes SARs and Taiwan)	114,372	100,402	94,117	27,682	336,573	22.2%
Singapore	107,396	49,154	77,044	25,808	259,402	18.2%
Japan	99,479	26,683	24,656	13,607	164,425	5.8%
Thailand	373,303	30,712	25,341	18,888	448,244	6.0%
Malaysia	136,180	56,156	35,404	17,171	244,911	8.4%
Hong Kong (SAR of China)	97,000	53,242	46,264	17,596	214,103	10.9%
India	51,097	80,284	20,187	13,925	165,492	4.8%
Korea, Republic of (South)	11,983	15,614	12,066	5,460	45,122	2.8%
Vietnam	107,481	59,881	12,052	8,962	188,376	2.8%
Philippines	44,851	59,586	13,408	9,463	127,308	3.2%
Taiwan	12,002	17,635	8,305	3,558	41,501	2.0%
Sri Lanka	16,730	16,731	1,497	3,312	38,270	0.4%
Cambodia	15,939	7,890	1,992	3,260	29,081	0.5%
East Timor	3,836	2,413	5,598	7,404	19,250	1.3%

²²⁷

²²⁸

Sourced from passenger card data collected and compiled by Department of Immigration and Citizenship. Sourced from passenger card data collected and compiled by Department of Immigration and Citizenship, derived from country of origin/destination. "Business" includes business, convention/conference and exhibition. Data includes short term resident departures only.

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Pakistan	2,124	10,719	750	1,271	14,864	0.2%
Bangladesh	2,768	6,829	1,020	1,542	12,158	0.2%
Nepal	7,509	1,803	692	1,069	11,072	0.2%
Brunei Darussalam	1,750	1,435	993	864	5,042	0.2%
Laos	3,895	1,760	1,334	1,418	8,407	0.3%
Macau (SAR of China)	2,330	964	1,607	405	5,307	0.4%
Burma (Myanmar)	2,460	1,665	348	214	4,687	0.1%
Maldives	4,424	136	358	84	5,002	0.1%
Afghanistan	548	1,451	1,099	1,543	4,641	0.3%
Mongolia	968	231	1,218	267	2,685	0.3%
Kazakhstan	221	169	1,039	385	1,815	0.2%
Bhutan	759	11	51	69	889	0.0%
Uzbekistan	238	46	26	133	444	0.0%
Kyrgyzstan	53	65	156	112	386	0.0%
Armenia	31	173	1	104	309	0.0%
Azerbaijan	55	67	28	73	222	0.0%
Georgia	53	55	51	56	215	0.0%
Tajikistan	0	22	51	0	73	0.0%
Turkmenistan	2	2	0	51	55	0.0%
Korea, Democratic People's Republic of (North)	0	0	0	0	0	0.0%
South-East Asia, nfd	53	0	0	0	53	0.0%
TOTAL	1,858,812	642,286	423,406	215,076	3,139,580	100.0%

Figure 7 below shows the distribution between the main carriers on all routes between Australia and Asia by reason for travel over the 12 months to December 2010.

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Figure 7: Total Asian market shares of airlines by Reason for Travel, 12 months to December 2010²²⁹

Carrier	Holiday	VFR	Business	Other	Total
V Australia (VA)	2.3%	0.1%	0.2%	0.6%	1.4%
Pacific Blue (DJ)	8.5%	0.5%	0.8%	2.4%	5.4%
Etihad (EY)	0.1%	0.2%	0.2%	0.1%	0.1%
Virgin Atlantic (VS)	0.6%	1.2%	1.0%	1.0%	0.8%
Singapore Airlines (SQ)	10.6%	18.9%	21.4%	18.9%	14.3%
<i>Qantas (QF)</i>	7.6%	11.7%	29.6%	14.1%	11.9%
<i>Jetstar (JQ)</i>	18.6%	6.6%	2.9%	8.2%	13.3%
<i>British Airways (BA)</i>	0.5%	0.4%	0.9%	0.6%	0.6%
Qantas/BA Alliance	26.7%	18.7%	33.5%	22.9%	25.7%
Cathay Pacific (CX)	4.5%	10.2%	14.6%	9.0%	7.4%
Malaysia Airlines (MH)	5.6%	8.1%	5.8%	6.8%	6.2%
Thai International (TG)	7.3%	4.4%	4.1%	6.3%	6.2%
Air Asia X (D7)	7.1%	5.1%	1.5%	4.4%	5.8%
Garuda (GA)	8.0%	1.9%	2.0%	3.5%	5.6%
Emirates (EK)	1.9%	4.6%	2.0%	3.2%	2.5%
Korean Air (KE)	0.4%	1.4%	1.0%	1.3%	0.8%
China Southern (CZ)	0.9%	3.9%	2.0%	2.1%	1.7%
Air China (CA)	0.7%	2.5%	1.7%	1.5%	1.3%
China Eastern (MU)	0.7%	2.6%	1.1%	1.6%	1.2%
Vietnam Airlines (VN)	1.4%	5.0%	1.1%	1.8%	2.1%
China Airlines (CI)	0.4%	1.6%	0.6%	0.9%	0.7%
Asiana Airlines (OZ)	0.1%	0.7%	0.7%	0.6%	0.4%
Royal Brunei (BI)	0.9%	1.9%	0.4%	0.9%	1.0%
Philippine Airlines (PR)	0.7%	3.3%	0.8%	1.6%	1.3%
Tiger Airways (TR)	1.1%	1.3%	0.2%	0.7%	1.0%
JAL (JL)	0.5%	0.3%	1.1%	0.6%	0.6%
Strategic Airlines (VC)	0.5%	0.0%	0.1%	0.1%	0.3%
Jetstar Asia (3K)	0.0%	0.0%	0.0%	0.0%	0.0%
Other	8.4%	1.6%	2.2%	7.1%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The figure above shows that Qantas alone (not including total JSA market share) accounts for almost 30% of short term Australian business travel to Asia. Singapore Airlines has the second largest share of Australian business travellers to Asia, while Virgin Australia has only a

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Sourced from passenger card data collected and compiled by Department of Immigration and Citizenship, derived from country of origin/destination. "Business" includes business, convention/conference and exhibition. Data includes short term resident departures only.

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comparatively negligible 2.2% share. Other carriers with significant shares of business travellers include Cathay Pacific and Malaysia Airlines.

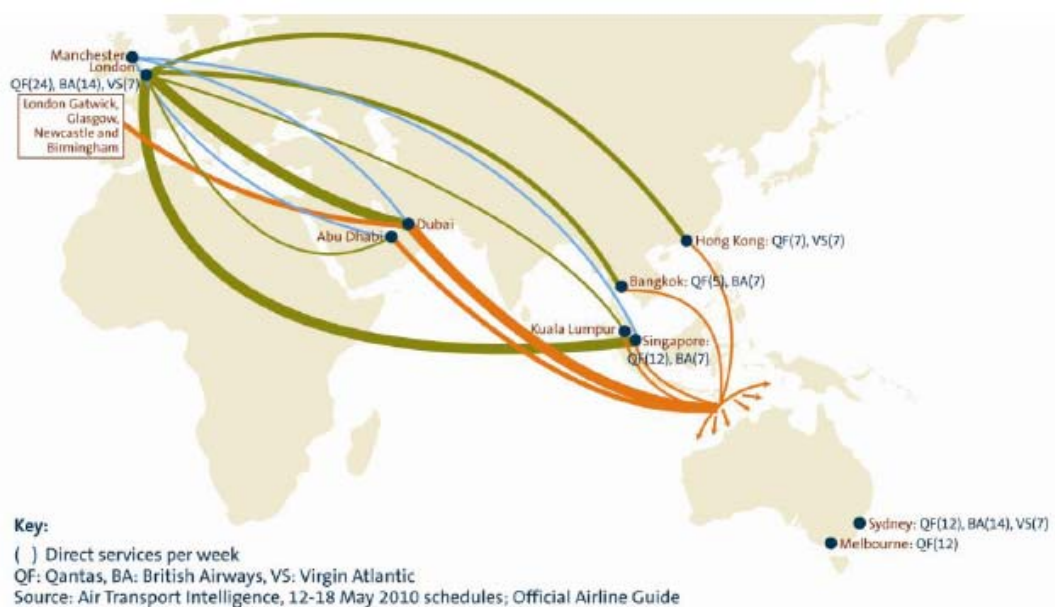
Australia-UK/Europe overview

Passenger traffic from Australia to Europe accounts for approximately 16% of short term resident departures in the 12 months to 2010.²³⁰ The UK accounts for more than half of these passengers travelling to Europe.²³¹

South East Asia is the most popular mid-point destination for passengers travelling between Australia and the UK/Europe, with 39% share of operated seats to/from Australia. The Middle East accounts for 5.7%.²³²

All passenger flights between Australia and UK/Europe stop at an intermediate point in order to refuel, change crew and service the aircraft. Figure 8 below shows the major Asian and Middle Eastern hubs through which airlines operate direct flights between Australia and Europe.

Figure 8: Routes between Australia and Europe²³³



Regulation of aviation services between Australia and the UK/Europe

Australia has negotiated ASAs with 22 countries in UK/Europe. These are Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy,

²³⁰ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 21.

²³¹ Department of Resources, Energy and Tourism, Tourism Forecasting Committee, "Forecast 2011 Issue 1", Tourism Research Australia, May 2011, at 21.

²³² Department of Infrastructure, Transport, Regional Development and Local Government, "Statistical Report, Aviation – International Airline Activity 2009-10" at 15.

²³³ Tourism Australia, *United Kingdom Aviation Profile 2011* at 10.

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Luxembourg, Malta, Netherlands, Norway, Poland, Russia, Spain, Sweden, Switzerland and the UK. Some of these agreements are undergoing the treaty process and are in interim effect.²³⁴

None of the agreements between Australia and the listed countries prevent an Australian-designated airline from flying via Singapore, nor a European-designated airline flying via Singapore to Australia. As Singapore has a liberal air services regime, and has negotiated ASAs with more than 100 countries, regulatory barriers or expansion on routes between Australia and Europe via Singapore are low.

Under Australia's bilateral agreements with Italy and Switzerland, capacity offered by Australian designated airlines as a marketing (or codeshare) carrier on services operated by third country carriers is limited. Qantas has been allocated by the IASC all the capacity available to marketing (codeshare) carriers.

Arrangements between Australia and the UK

In July 2006, previous restrictions under the Australia-UK bilateral ASA limiting the capacity and frequency that Australian designated airlines may operate on the UK route were removed.²³⁵ End carriers were previously limited to 28 frequencies per week. Qantas is currently allocated unlimited capacity and frequency on the UK route.²³⁶

Arrangements between Australia and the United Arab Emirates

Travel between Australia and the UAE is currently limited to a total of 126 services per week of capacity to/from Sydney, Melbourne, Brisbane and Perth under the Australia-UAE bilateral ASA.²³⁷

Virgin Australia is currently allocated three services per week of capacity in each direction for services to/from Sydney, Melbourne, Brisbane and Perth on the UAE route.²³⁸

Qantas is allocated unlimited capacity and frequency for all-cargo services.²³⁹

Competitors in the Australia-UK/Europe market

The Australia-UK/Europe market is characterised by strong competition between a large number of competitors, comprising of:

²³⁴ Department of Infrastructure and Transport, see <http://www.infrastructure.gov.au/aviation/international/agreements.aspx>.

²³⁵ Department of Foreign Affairs and Trade, "Agreement between the Government of the Commonwealth of Australia and the Government of the United Kingdom of Great Britain and Northern Ireland for Air Services between and through their Respective Territories", <http://www.info.dfat.gov.au/Info/Treaties/treaties.nsf/AllDocIDs/5C5821C6FB1D53A3CA256AFC0002429E>.

²³⁶ Determination allocating capacity on the United Kingdom route to Qantas ([2006] IASC 105) is for ten years from 1 September 2006.

²³⁷ As at 9 February 2010. See DITRDLG, Register of Capacity, <http://www.infrastructure.gov.au/aviation/international/capacity.aspx>; Department of Foreign Affairs and Trade, "Agreement with the United Arab Emirates and Australia", <http://www.austlii.edu.au/au/other/dfat/treaties/2005/8.html>.

²³⁸ Determination allocating capacity on the United Arab Emirates route to V Australia ([2010] IASC 118), which is for five years from 25 October 2011).

²³⁹ [2006] IASC 106.

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- end-point carriers operating services on their own aircraft which are designated airlines of either Australia or the UK/Europe, that transit through intermediate points such as Asia or the Middle East;
- mid-point carriers operating services on their own aircraft based in Asia or the Middle East and which fly from Australia to the UK/Europe through their hub; and
- code share carriers which offer services between Australia and Europe through a combination of their own aircraft and code share services.

While European carriers such as Lufthansa have withdrawn from routes between the Australia-UK/Europe, new operators have emerged on these routes such as Qatar Airways and AirAsia X. Qatar Airways operates daily services from the UK to its hub in Doha, and recently commenced daily Melbourne-Doha services in January 2010. Air Asia X is the first low cost carrier to the UK, commencing flights from Kuala Lumpur to the UK in March 2009,²⁴⁰ and is reporting a first quarter load factor of 81% in 2011.²⁴¹

The main carriers offering services on routes between Australia and the UK/Europe are summarised below. Further detail on a number of the airlines listed below, which also operate on routes between Australia and Asia, is set out above.

End point carriers

- *Qantas/British Airways JSA* operates direct daily flights to London and Frankfurt from over 58 domestic and regional cities in Australia on Qantas, Qantaslink and Jetstar operated services. Through the JSA, passengers can travel to over 90 beyond destinations throughout the UK and Europe. Travellers have a choice of stopovers from points in Australia to London and Frankfurt including Singapore, Bangkok, Hong Kong and Mumbai.
- *Virgin Atlantic* operates daily services between Sydney to London via Hong Kong.
- *Air Austral* is a French regional airline which commenced services between Sydney to Paris via Saint Denis Roland Garros, Reunion Island in April 2009.

Midpoint carriers based in the Middle East

- Emirates

Emirates is the Middle East's largest carrier, flying to 11 of the EU's member states (27 destinations in Europe) and operating a total of 32 daily flights to and from the EU via its hub in Dubai.²⁴² Emirates is wholly owned by the government of Dubai.²⁴³ Emirates has a fleet of 148 aircraft, including 15 Airbus A380 super-jumbos, with an additional 200

²⁴⁰ Centre for Asia Pacific Aviation, "Air Asia X to London: Long haul low cost arrives in Europe – seriously", 17 February 2009, <http://www.centreforaviation.com/news/2009/02/17/airasia-x-to-london-long-haul-low-cost-arrives-in-europe---seriously/page1>.

²⁴¹ Chong Pooi Koon and Rishaad Salamat, "Air Asia X Wants to Increase Japan Flights, Routes, CEO Says", Bloomberg, 4 May 2011, <http://www.bloomberg.com/news/2011-05-04/airasia-x-wants-to-increase-japan-flights-routes-ceo-says.html>.

²⁴² Emirates and the EU, Partners in Growth, http://www.emirates.com/au/english/about/public_affairs/emirates_and_the_eu/emirates_and_the_eu.aspx.

²⁴³ Emirates, *The Emirates Story*, http://www.emirates.com/english/about/the_emirates_story.aspx.

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planes on order and plans to increase to 169 aircraft in 2012.²⁴⁴ The Emirates fleet is projected to increase to 235 by 2017.²⁴⁵ Emirates currently flies to over 100 destinations in over 60 countries.

Emirates has recently stated that it intends to increase its services to Australia from 63 to 70 flights per week from 2 October 2011, and plans to work towards its limit of 84 per week under the Australia-UAE ASA.²⁴⁶

Emirates currently operates multiple daily services between Australia (Sydney, Melbourne, Brisbane and Perth) to the UK/Europe via Dubai including to Athens, Frankfurt, Geneva, London, and Istanbul, Manchester, Milan, Moscow, Munich and Paris.

Emirates has never belonged to, nor has any plans to, join a global alliance.²⁴⁷ Emirates consider that membership of an alliance would put an 'artificial brake' on its plans to grow its business.

Emirates offer a three-tiered Skywards membership rewards program. Emirates currently operates code share flights with a number of airlines, including Virgin Australia, Japan Airlines, Korean Air, Philippine Airlines and Thai Airways.²⁴⁸

- *Qatar Airways*

Qatar Airways is a carrier based in Doha, Qatar. It is one of only six airlines awarded a 5-star rating by Skytrax and was voted third best airline in the world in the annual 2010 Skytrax survey. Qatar Airways has a current fleet size of 96 aircraft with more than 200 aircraft on order. It is expected to have a fleet size of 110 aircraft by 2013.²⁴⁹

Qatar Airways operates twice daily services from Melbourne (commenced 6 December 2009) via its hub in Doha, including all of the overlapping services between Virgin Australia and Singapore Airlines except for Dublin. The Melbourne flights are operated using Boeing 777-200 Long Range aircraft.

Qatar Airways' Privilege Club Qmiles loyalty programme has reciprocal agreements with Asiana Airlines' Asiana Club, bmi's Diamond Club, Lufthansa's Miles and More, Middle East Airlines' Cedar Miles, All Nippon Airways' Mileage Club, United Airlines' Mileage Plus, and US Airways' Dividend Miles frequent flyer schemes. Qatar Airways has also indicated that it wishes to join the Star Alliance provided there are sufficient benefits offered.²⁵⁰

²⁴⁴ SMH, *Emirates eyes surge in flights*, 11 May 2011, available at <http://www.smh.com.au/travel/emirates-eyes-surge-in-flights-20110510-1eh6e.html> (accessed 24 May 2011).

²⁴⁵ http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=436499&version=1&template_id=48&parent_id=28 (accessed 24 May 2011).

²⁴⁶ Andrew Heaseley, "Emirates eyes surge in flights", SMH, 11 May 2011, <http://www.smh.com.au/travel/emirates-eyes-surge-in-flights-20110510-1eh6e.html>.

²⁴⁷ Emirates, Competition, http://www.emirates.com/au/english/about/public_affairs/competition.aspx.

²⁴⁸ Emirates FAQs, Codeshare, <http://www.emirates.com/english/help/faqs/FAQDetails.aspx?faqCategory=193393>.

²⁴⁹ Qatar Airways Fleet, <http://www1.qatarairways.com/au/en/our-fleet.html>.

²⁵⁰ USA Today, "Qatar Air CEO, Star Alliance should invite us to join", <http://travel.usatoday.com/flights/legacy/item.aspx?type=blog&ak=68495247.blog>.

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Qatar Airways currently has code share agreements with All Nippon Airways, Asiana Airlines, bmi (British Midland), Lufthansa, Malaysia Airlines, Middle East Airlines, Philippines Airlines, United Airlines and US Airways.²⁵¹

Midpoint carriers based in Asia

- *Cathay Pacific* currently operates services from all major Australian cities to Europe, via Hong Kong. Cathay Pacific launched services to two new destinations in 2010, Milan and Moscow.
- *Malaysia Airlines'* second main focus (after its core markets in ASEAN, China and India) is to develop further its 'hub-and-spoke' network in Australia and Europe to improve traffic flows and for profitable growth.
- *Thai International* currently operates flights out of Sydney, Gold Coast, Perth and Melbourne to Europe, through Bangkok.
- *AirAsia X* currently operates services to/from Melbourne/Perth direct to London via Kuala Lumpur.
- Other carriers which fly between Australia and the UK/Europe include:
- via South East Asia: Royal Brunei Airlines, Garuda Indonesia, Philippine Airlines, Vietnam Airlines;
- via China: Air China, China Airlines, China Eastern, China Southern and EVA Air; and
- via other parts of North Asia: Japan Airways, Korean Air.

Code share carriers

A large number of carriers offer services between Australia and Europe using their own aircraft on some sectors (eg, Europe to Asia) and code sharing with other airlines, including:

- *Scandinavian Airlines (SAS)* is the joint national airline of Sweden, Denmark and Norway, and offers services between Sydney to Copenhagen and beyond, via Tokyo or Beijing. Qantas and SAS recently ended their frequent flyer partnership in April 2011.²⁵² SAS is a member of the Star Alliance.
- *Finnair* is a major carrier on routes between Europe and Asia, with a fleet of over 60 aircraft.²⁵³ It offers daily services between Sydney and Helsinki via Hong Kong or Bangkok and is a member of the oneworld alliance.
- *Air New Zealand* is New Zealand's national flag carrier currently supplies services between Sydney-London via Auckland and Asia. Air New Zealand is a member of the Star Alliance.

²⁵¹ Codeshare Partners, <http://www1.qatarairways.com/au/en/code-share-partners.html>.

²⁵² John Walton, "Qantas and SAS end frequent flyer partnership", Australian Business Traveller, <http://www.ausbt.com.au/qantas-and-sas-end-frequent-flyer-partnership>.

²⁵³ Finnair in brief, http://www.finnairgroup.com/group/group_1.html.

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- *Air France and KLM* merged in 2004 and is one of the world's largest airline partnerships. Air France is based in Paris and is one of the founding members of the SkyTeam alliance. Air France offers daily services between Australia and Paris via Singapore.
- Other carriers include Alitalia, Lufthansa, Olympic Airways and Middle Eastern Airlines.

Passenger traffic: Australia-UK/Europe

Figure 9 below lists the market shares of carriers on routes between Australia and Europe by total passenger numbers. The figure shows that the top three airlines by total passenger share are Qantas/British Airways, followed by Emirates and Singapore Airlines. Qantas/British Airways' share is two and a half times that of Singapore Airlines.

Figure 9: Total passenger share of airlines in the Australia-Europe market, 12 months to December 2010, derived from country of origin/destination²⁵⁴

Carrier	Passengers (#)	Share (%)
V Australia/Pacific Blue (VA/DJ)	71,314	1.4%
Etihad (EY)	290,942	5.6%
Singapore Airlines (SQ)	641,295	12.4%
Virgin Atlantic (VS)	75,351	1.5%
<i>Qantas Airways (QF)</i>	<i>1,216,814</i>	<i>23.6%</i>
<i>Jetstar Airways (JQ)</i>	<i>166,535</i>	<i>3.2%</i>
<i>British Airways (BA)</i>	<i>214,693</i>	<i>4.2%</i>
Qantas/BA JSA	1,598,043	30.9%
Emirates (EK)	1,030,280	19.9%
Cathay Pacific (CX)	337,681	6.5%
Malaysia Airlines (MH)	295,872	5.7%
Thai Airways International (TG)	216,879	4.2%
Qatar Airways (QR)	85,365	1.7%
Air New Zealand (NZ)	79,250	1.5%
AirAsia X (D7)	65,158	1.3%
Royal Brunei Airlines (BI)	59,209	1.1%
Korean Air (KE)	56,929	1.1%
Air China (CA)	34,470	0.7%
China Airlines (CI)	25,858	0.5%
Asiana Airlines (OZ)	20,512	0.4%
Air Austral (UU)	7,331	0.1%
Other	182,454	3.5%
Total	5,166,863	100.0%

254

Sourced from passenger card data collected and compiled by the Department of Immigration and Citizenship.

Annexure F

Annexure F – Airline alliances

Star Alliance

Star Alliance network is the global leading airline network, in terms of daily flights, destinations and countries flown to and amount of member airlines. It was established in 1997 as the first truly global airline alliance to offer customers worldwide reach and a smooth travel experience²⁵⁵. It comprises 27 member airlines, 4023 aircraft and serves 1160 airports. Its members include; Adria, Aegean, Air Canada, Air China, Air New Zealand, ANA, Asiana Airlines, Austrian Air, Blue1, bmi, Brussels Airlines, Continental Airlines, Croatia Airlines, Egyptair, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, Spanair, Swiss, TAM, TAP Portugal, Thai Airways, Turkish Airlines, United and US Airways²⁵⁶.

Sky Team

SkyTeam is a network which serves 898 destinations, in 169 countries and has a fleet of 3140 aircraft including those of related carriers.

It currently has 13 members; Aeroflot, Aeromexico, Air Europa, Air France, Alitalia, China Southern, Czech Airlines, Delta Air Lines, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, TAROM – Romanian Air Transport, and Vietnam Airlines. Its future members which will enter the network in 2011/12²⁵⁷ are China Eastern, Shanghai Airlines, China Airlines, Garuda Indonesia, Aerolineas Argentinas, Saudi Arabian Airlines and Middle East Airlines – Air Liban.

Oneworld

Oneworld is the third largest airline alliance in the world. Oneworld is comprised of 12 member airlines: American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malév Hungarian Airlines, Mexicana, Qantas, Royal Jordanian and S7 Airlines. These airlines serve almost 900 airports in nearly 150 countries.²⁵⁸

²⁵⁵ Star Alliance, About, <http://www.staralliance.com/en/about/>.

²⁵⁶ Star Alliance, Member Airlines, <http://www.staralliance.com/en/about/airlines/>.

²⁵⁷ SkyTeam, Future Members, <http://www.skyteam.com/about/carriers/futuremembers.html>.

²⁵⁸ Cathay Pacific, Fact Sheet oneworld, http://www.cathaypacific.com/cpa/en_AU/aboutus/cxbackground/factsheet?refID=2105cd5d499cf010VgnVCM32000011d21c39.

Annexure G

Annexure G – InterVISTAS’ QSI analysis

Annexure H

Annexure H – Passenger preference surveys

Figure 1: Fiftyfive5 survey - Passengers' reasons for selecting airline, year ending May 2010

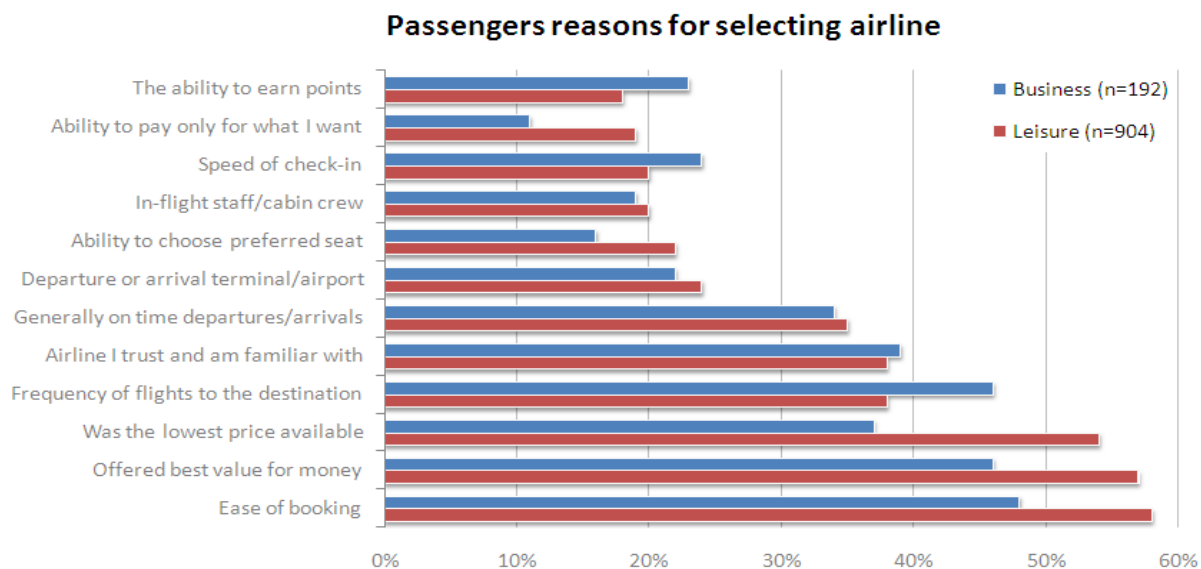


Figure 2: Results of Choice survey for Australian domestic air travel, 2009

Airline	Number of Respondents	Good Standard of Service	Easy to Book	Frequent flyer points	Had flown with airline before	Best Schedule	Safety Record	Value for Money	Total
Jetstar	641	7%	20%	6%	4%	31%	2%	65%	135%
Qantas	2095	29%	23%	54%	29%	26%	17%	12%	188%
Virgin Blue	1311	30%	39%	13%	15%	30%	7%	73%	207%
REX	104	19%	14%	9%	13%	33%	5%	19%	112%
Tiger	82	6%	11%	-	-	6%	2%	89%	114%

Annexure H

Figure 3: Results of Choice survey for Australian domestic air travel, 2010

DOMESTIC AIRLINE SATISFACTION SURVEY RESULTS												
Airline ¹	Overall score (%)		Cost	In-flight service	In-flight entertainment	Seat comfort	Leg room	Food quality	Redeeming FFP points	Timeliness of flight (departing/arriving on time)	Baggage allowance	Check-in process
Virgin Blue (1514 – 3485)	73		****	****	***	****	***	***	****	****	****	****
Rex (77 – 201)	71		***	****	**	****	***	***	***	****	****	****
Qantas (3701 – 5125)	68		****	****	***	***	***	***	****	****	****	****
Jetstar (863 – 2044)	60		****	***	**	***	***	**	*** (A)	****	****	***
Tiger Airways (194 – 533)	56		****	***	**	***	***	**	na	****	***	***
RATING SYSTEM 0 – 10% 21 – 30% 31 – 40% 41 – 50% 51 – 60 % 51 – 70% 71 – 90% 81 – 90% 91 – 100% NOTES na Not applicable – Tiger Airways does not have a frequent flyer/loyalty scheme. (A) Jetstar is a partner of the Qantas Frequent Flyer programs.												

¹in order of overall satisfaction score; the number of replies is listed in brackets

Annexure I

**Confidential Annexure I – Virgin Australia supplementary
counterfactual**

[Confidential to Virgin Australia – restriction of publication claimed]