

General Counsel
Brett Johnson



15 July 2011

Dr Richard Chadwick
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Australian Competition & Consumer Commission
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By Email

Dear Richard

Virgin Australia and Singapore Airlines - Applications for Authorisation A91267 & A91268

Thank you for your letter of 24 June 2011 and for the opportunity to comment on the request for authorisation made by Virgin Australia and Singapore Airlines in relation to their proposed alliance.

The international aviation industry has a number of unique characteristics that distort effective competition and give rise to profound challenges for participants. These include:

- heavy government regulation restricting routes and capacity flown and prohibiting consolidation;
- government ownership or support of virtually all international carriers;
- extremely high fixed costs and very low marginal costs; and
- the importance (and tyranny) of geographic location.

These features make it very difficult for non-Government owned airlines to recover their cost of capital on international routes. Unsubsidised end-of-route operators (such as Qantas and Virgin Australia) are particularly disadvantaged. These challenges are exacerbated by the increasing price and service sensitivities of modern travellers and the susceptibility of the industry to exogenous shocks that can quickly erode margins (such as volcanic eruptions, earthquakes, fuel price increases etc).

As the only effective way of overcoming the restrictive international regulatory environment, airlines based in different countries have developed cooperative arrangements to provide passengers with a wider route network and more efficient range of services. It is now well documented that these forms of cooperation, and in particular, fully integrated immunised alliances, generate substantial public benefits including lower fares, enhanced networks and more seamless travel.

They enable participants to:

- realise some of the benefits of consolidation which is prohibited by aviation regulation;
- increase their efficiency by reducing operational costs including by utilising each partner's core network strength together with sales and marketing presence particularly in the relevant home markets;
- better manage capacity in an industry that is susceptible to exogenous shocks in costs and demand; and
- enhance the attractiveness of their services by offering greater convenience, a larger network utilising their flight codes with a greater frequency of flights, usually at a lower cost.

Given the complex and restrictive regulatory environment under which international airlines are forced to operate and the huge capital investment required to commence and operate services on any

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international route, Qantas believes that international alliance which demonstrate real public benefits need to be positively encouraged by anti-trust regulators and Governments.

It is only with a network of such immunised alliances that any non-government owned international airline can hope to deliver a comprehensive network product to its customers and a sustainable return on its capital investment for its shareholders. For an industry faced with negligible return on invested capital, low yields, low profitability, regular exposure to exogenous 'shocks' and strong competition, integrated alliances represent an important (indeed, essential) way to maintain a global network while controlling costs and increasing productivity.

In these circumstances, Qantas does not object to authorisation of the proposed alliance between Virgin Australia and Singapore Airlines.

If you have any further questions regarding this matter or would like to arrange a meeting to discuss our response, please contact me or Anna Pritchard, Head of Legal - Competition on (02) 9691 5515.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brett Johnson', with a long horizontal flourish extending to the right.

Brett Johnson
General Counsel