



Australian Government

Department of Infrastructure and Transport

Dr Richard Chadwick
General Manager
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

Dear Dr Chadwick

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

Thank you for your letter of 24 June 2011. The Department of Infrastructure and Transport (the Department) thanks the ACCC for its invitation to provide a submission on the proposed alliance between Virgin Australia and Singapore Airlines. I apologise for the delay in responding.

The Department recognises that it is a matter for the ACCC to determine the relative merits of arguments presented by the applicants on the public benefits and the effect on competition of the proposed alliance. However, to assist the ACCC in coming to a determination, the Department has taken the opportunity to provide the ACCC with contextual information on Australia's air services arrangements and the Australian Government's aviation policy settings.

Australia's air services arrangements

As you would be aware, the Department is responsible for negotiating air services agreements with foreign governments. These bilateral agreements typically set out the number of flights that airlines of the two countries can operate, cities they can serve in the other country and rights to operate via or beyond to third countries. The agreements typically also include provisions related to such matters as airline ownership and control, competition law, safety and security.

The International Air Services Commission is responsible for allocating the available capacity negotiated under air services agreements to the Australian airlines that apply to use it.

Article 12 of the text of the Air Services Agreement at Attachment A to the Confidential Memorandum of Understanding signed in Singapore on 23 September 2003 (CMU), and given operational effect by paragraph 2 of the CMU, sets out the commercial opportunities available to airlines. The proposed alliance is permitted by and consistent with the rights granted to airlines under this article.

The proposed alliance is also permitted by and consistent with the cooperative rights granted to airlines under Australia's air services arrangements with other countries. However, the relevant air services agreements between Singapore and other third countries will ultimately determine what services can be operated beyond Australia and beyond Singapore under the alliance.

Australian Government policy settings and the proposed alliance

The Australian Government's aviation policy framework is set out in its Aviation White Paper, in which the Government outlined its commitment to pursuing the liberalisation of international aviation to benefit consumers, broader Australian industry and provide Australia's airlines with the opportunity to compete effectively with their global rivals. The White Paper also stresses the importance of ensuring a strong Australian-based aviation industry.

While the aviation industry has seen some recovery post the Global Financial Crisis, the profitability of the industry remains fragile and has been subject to unforeseen events such as natural disasters in New Zealand and Japan, and unrest in the Middle East. Increasing fuel prices have also impacted upon the industry. The International Air Transport Association has downgraded its 2011 airline industry profit forecast to \$4 billion, a 54% fall compared with the \$8.6 billion profit forecast in March 2011, and a 78% drop compared with the \$18 billion net profit recorded in 2010.

The creation of alliances such as the one proposed are part of a trend in global aviation that allows airlines to grow their networks internationally within the constraints of the bilateral system.

The Australian Government's aviation policy settings are designed to encourage the development of a second Australian international airline capable of competing effectively with other international carriers. The proposed alliance is consistent with these objectives.

As you would be aware, it has been a recognised trend within the aviation industry for airlines to enter into co-operative arrangements. Major airlines around the world have joined one of the three major alliances: Oneworld, Star Alliance and Sky Team. Taken together, the three dominate world air traffic.

There has also been a growth in airlines focusing on the virtual expansion of their international networks. The most recent Australian example is the approach taken by Virgin Australia in pursuing its 'virtual international network' via partnerships with Etihad Airways and Delta Air Lines, and the proposed arrangement with Singapore Airlines, in order to compete more effectively with the integrated network offered by other international airlines (including Qantas).


The Department notes the proposed alliance is similar to the approved alliances Virgin Australia has with both Delta and Etihad. Based on the information submitted by the applicants to the ACCC, the proposed alliance has minimal overlap in terms of international markets to which both Singapore and Virgin Australia operate, and is likely to result in lower prices, improvements in service offerings and an increase in the number of city pairs available for consumers.

In addition, the proposed cooperation in relation to frequent flyer programs and lounge access, should allow Virgin Australia to compete more effectively against its international competitors for business traffic and increase the choice available for the business segment of the market.

The Singapore Australia market is highly competitive, with a range of third country airlines active in the market. Given the depth of this competition and the information outlined above we do not believe there will be any anti-competitive impact from the proposed alliance.

Thank you again for inviting the Department to provide a submission. I can be contacted on 02 6274 7739 should you wish to discuss this matter further or require any additional information.

Yours sincerely



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