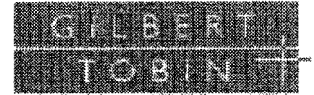


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LAWYERS

13 September 2011

Richard Chadwick
General Manager, Adjudication
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

Copies to: Darrell Channing / Clare McGinness / Imogen Hartcher-O'Brien

Public register version

Dear Dr Chadwick

Virgin Australia and Singapore Airlines – Applications for Authorisation of Alliance

We refer to the email from Imogen Hartcher-O'Brien, dated 6 September 2011, which requested information from Virgin Australia.

Virgin Australia's response to each of those questions is set out below. We also enclose responses to requests for the following data:

- Further detail on the level of competition on potential overlap routes (Attachment A); and
- Data underlying Figure 5 of Annexure E to the Applicants' Submission (enclosed files).

1 What type of information does Virgin Australia anticipate would be provided by it to Singapore Airlines under the Alliance Framework Agreement? We note the definition of Confidential Information in clause 1 of the Alliance Framework Agreement and specifically the types of information listed in subcategory (b).

Under the Alliance, Virgin Australia and Singapore Airlines will share information to the extent necessary in order to enable cooperation in relation to the areas of authorised conduct, including: corporate accounts, pricing and scheduling of services, new services, frequent flyer and lounge services, joint purchasing and any other areas of cooperation contemplated in the Alliance Framework Agreement. This information will include confidential information such as pricing; load factors; route performance; forecast profitability (for example to assess potential services); product initiatives; passenger numbers and profiles and details of frequent flyer program members.

2 Has Virgin undertaken a risk assessment around the uses that information referred to in 1 above may be put to, including the use to which it may be put by Singapore and its subsidiaries?

Under the proposed Alliance, Virgin Australia will share similar information with Singapore Airlines as it does with its other alliance partners: Delta, Etihad Airways and Air New Zealand. Information sharing is necessary in order to achieve cooperation and the alliance objectives. However, it is in the strong

commercial interests of Virgin Australia to ensure that information shared under any alliance agreement is treated carefully and quarantined from any competitors of Virgin Australia. For example, Virgin Australia and Air New Zealand continue to compete in relation to services to the Pacific Islands. As such, Virgin Australia and Air New Zealand have in place information sharing protocols and confidentiality regimes to ensure that information shared in order to give effect to the trans-Tasman alliance is quarantined from other parts of the respective businesses.

Virgin Australia will take similar steps to ensure that information shared with Singapore Airlines is treated appropriately.

We anticipate that the ACCC's question is directed towards whether Virgin Australia is concerned that Singapore Airlines might share its information with Tiger Airways. We note that Tiger Airways is not a subsidiary of Singapore Airlines. [Confidential – Restriction of publication claimed]

Virgin Australia does not consider that information sharing under the Alliance poses risks to its business.

3 How has Virgin responded to entry by Tiger Airways on a route and its continued presence, if at all?

Virgin Australia vigorously competes against Qantas and Jetstar and, where present, Tiger Airways, and Strategic Airlines. [Confidential - Restriction of publication claimed]

Tiger Airways has resumed limited operations since CASA lifted its suspension of Tiger Airways' Air Operator Certificate (AOC). As a result of the conditions placed by CASA on its AOC, Tiger Airways is limited to operating 18 daily sectors, unless CASA approves further services. Currently Tiger Airways offers very limited services in the form of daily services on Melbourne-Brisbane/Gold Coast/Perth and 5 x daily services from Melbourne-Sydney.

Prior to the suspension of its AOC, Tiger Airways offered very low fares. However, its service levels were also very low. It had poor customer satisfaction, particularly in relation to its high level of ancillary charges, and was voted the worst domestic airline in Choice's domestic airline satisfaction surveys for 2009 and 2010.¹ It also had comparatively poor on-time performance² and, as the CASA suspension illustrates, poor levels of safety and management oversight.³ Virgin Australia considers that Tiger Airways' strategy of offering very low fares was necessary in order to maintain load factors. While Tiger Airways' fares were low, they did not represent good value in terms of the level of service offered. [Confidential - Restriction of publication claimed]

The Alliance will have no effect on Virgin Australia's incentives to compete with Tiger Airways.

¹ See: <http://www.choice.com.au/reviews-and-tests/travel/general-travel/airline-travel/domestic-airline-satisfaction-survey-2010/page/domestic%20flyers%20at%20a%20glance.aspx>

² BITRE data shows that, prior to its suspension, Tiger Airways had significantly worse on time performance than other carriers. In June 2011 its on-time performance was 67.9% (compared with 83.4% for Qantas, 79.5% for Jetstar and 79.2% for Virgin Australia). In May 2011 its on-time performance was 73.9% (compared with 87.1% for Qantas, 81.2% for Jetstar and 83.8% for Virgin Australia). See: <http://www.btre.gov.au/info.aspx?ResourceId=214&NodeId=104>

³ See: http://www.casa.gov.au/scripts/nc.dll?WCMS:STANDARD::pc=PC_100504

4 What is the nature of the partnership that Virgin has with REX referred to at p.66 of the Submission?

Virgin Australia and REX have an interline relationship. Virgin Australia passengers can check-through their baggage on connections from Sydney, Melbourne, Brisbane, Adelaide and Townsville onto REX's regional Australian services.

A complete list of the airlines with which Virgin Australia has an interline relationship is provided on Virgin Australia's website at: <http://www.virginaustralia.com/Personal/Flightinfo/AirlinePartners/More/index.htm>

5 Can you please clarify what Virgin means when it states in the Submission that "For commercial reasons, Virgin Australia does not intend to codeshare on Singapore Airlines' routes where it has codeshare coverage with Etihad"?

[Confidential - Restriction of publication claimed]


However Virgin Australia has indicated that for commercial reasons it does not intend to codeshare on Singapore Airlines' routes where it has codeshare coverage with Etihad.

This is because Virgin Australia considers that to do so would result in product and brand confusion. Customers want to know what to expect when they purchase a Virgin Australia ticket or enter into a corporate contract with Virgin Australia, particularly in terms of which alliance partner will be the operating carrier for particular destinations. Further, a key commercial rationale for the proposed alliance with Singapore Airlines is to fill a gap in Virgin Australia's offer. As illustrated in section 3(c) of the Applicants' Submission, Virgin Australia has a gap in its international services as it does not currently offer significant services to Asian destinations. The Alliance with Singapore Airlines will allow Virgin Australia to fill this gap and complement its existing alliances with Etihad, Delta and Air New Zealand.

Please contact us if you would like to discuss this letter or require further information from the Applicants.

Yours faithfully

Gilbert + Tobin



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Attachment A – Competition on potential overlap routes

Figure 13 of the Applicants' Submission provided a snapshot of the competitors operating on city pairs with a potential overlap under the Alliance (see page 55). The table below provides more detail on some of the competitors operating on these city pairs, the routings and frequencies they offer and their estimated share of passengers.

In relation to this information:

- Not all competitors are shown in relation to travel between each city pair.
- The carriers identified are operating carriers only. Many other airlines offer coded services, including Lufthansa and Olympic Air, which were included in Figure 13.
- The routing is provided for the most direct route only. Carriers which offer a non-stop or a 1-stop service will usually also be able to offer a more indirect routing.
- Estimated share of passengers is based on data for travel from Australia to a particular country destination, rather than a city. In some cases, this will represent all or most of the international traffic from Australia, for example passenger share for travel to Greece should equate to passenger share for travel to Athens. However, in the case of services to Denpasar and to Phuket, travel to these cities will comprise only a portion of travel from Australia to Indonesia and Thailand respectively.
- In the case of travel to Phuket and to Denpasar, frequencies for indirect routings via Bangkok and Jakarta have not been included. For example, while Thai Airways offers 4 weekly direct services from Perth to Phuket, travel via Bangkok would be substitutable for many passengers.

Operators by city pair on potential overlap routes						
City pairs	Operating carrier	Route			Frequencies (pw)	Estimated share of Pax on route (country level)
		Non-stop	1 stop	2 stop	Min freq	
SYD/MEL/BNE/PER/ADL - ATH	Qantas/BA	-	-	AU-SIN-LHR-ATH	28	6%
		-	-	AU-BKK-LHR-ATH	13	
		-	-	AU-HKG-LHR-ATH	21	
	Thai International	-	AU-BKK-ATH	AU-HKT-BKK-ATH	3	13%
	Emirates	-	AU-DXB-ATH	AU-SIN-DXB-ATH	7	27%
		-	-	AU-KUL-DXB-ATH	7	
		-	-	AU-BKK-DXB-ATH	7	
	Etihad	-	AU-AUH-ATH	AU-SIN-AUH-ATH	7	19%
	Singapore Airlines	-	AU-SIN-ATH	-	3	21%
	SYD/MEL/BNE/PER/ADL - FRA	Qantas/BA	-	AU-SIN-FRA	AU-SIN-LHR-FRA	7
-			-	AU-BKK-LHR-FRA	12	
-			-	AU-HKG-LHR-FRA	21	
Thai International		-	AU-BKK-FRA	AU-HKT-BKK-FRA	14	5%
Malaysia Airlines		-	AU-KUL-FRA	-	5	4%
Emirates		-	AU-DXB-FRA	AU-SIN-DXB-FRA	14	19%
		-	-	AU-KUL-DXB-FRA	7	
		-	-	AU-BKK-DXB-FRA	7	
Etihad		-	AU-AUH-FRA	AU-SIN-AUH-FRA	14	4%
Singapore Airlines		-	AU-SIN-FRA	-	14	12%
Air China		-	AU-PVG-FRA	AU-PVG-PEK-FRA	7	1%
		-	AU-PEK-FRA	-	5	
	-	AU-HKG-FRA	AU-CNS-HKG-FRA	7		
Cathay Pacific	-	-	AU-ADL-HKG-FRA	7	4%	

SYD/MEL/BNE/PER/ADL - LHR	Qantas/BA	-	AU-SIN-LHR	-	28	32%
		-	AU-BKK-LHR	-	13	
		-	AU-HKG-LHR	-	21	
	Thai International	-	AU-BKK-LHR	AU-HKT-BKK-LHR	14	2%
	Malaysia Airlines	-	AU-KUL-LHR	-	14	6%
	Emirates	-	AU-DXB-LHR	AU-SIN-DXB-LHR	35	19%
		-	-	AU-KUL-DXB-LHR	7	
		-	-	AU-BKK-DXB-LHR	7	
	Etihad	-	AU-AUH-LHR	AU-SIN-AUH-LHR	18	4%
	Singapore Airlines	-	AU-SIN-LHR	-	21	12%
Air China	-	AU-PEK-LHR	AU-PVG-PEK-LHR	5	0.3%	
Cathay Pacific	-	AU-HKG-LHR	AU-CNS-HKG-LHR	28	6%	
	-	-	AU-ADL-HKG-LHR	7		
SYD/MEL/BNE/PER/ADL - DME	Thai International	-	AU-BKK-DME	AU-HKT-BKK-DME	3	4%
	Emirates	-	AU-DXB-DME	AU-SIN-DXB-DME	14	20%
		-	-	AU-KUL-DXB-DME	7	
		-	-	AU-BKK-DXB-DME	7	
	Etihad	-	AU-AUH-DME	AU-SIN-AUH-DME	7	9%
	Singapore Airlines	-	AU-SIN-DME	-	7	15%
	Air China	-	Nil DME flights	-	0	6%
Cathay Pacific	-	AU-HKG-DME	AU-CNS-HKG-DME	3	10%	
	-	-	AU-ADL-HKG-DME	3		
SYD/MEL/BNE/PER/ADL - CDG	Qantas/BA	-	-	AU-SIN-LHR-CDG	28	27%
		-	-	AU-BKK-LHR-CDG	13	
		-	-	AU-HKG-LHR-CDG	21	
	Thai International	-	AU-BKK-CDG	AU-HKT-BKK-CDG	10	3%
	Malaysia Airlines	-	AU-KUL-CDG	-	7	6%

	Emirates	-	AU-DXB-CDG	AU-SIN-DXB-CDG	14	19%
		-	-	AU-KUL-DXB-CDG	7	
		-	-	AU-BKK-DXB-CDG	7	
	Etihad	-	AU-AUH-CDG	AU-SIN-AUH-CDG	14	5%
	Singapore Airlines	-	AU-SIN-CDG	-	7	12%
	Air China	-	AU-PEK-CDG	AU-PVG-PEK-CDG	7	0.7%
	Cathay Pacific	-	AU-HKG-CDG	AU-CNS-HKG-CDG	10	7%
		-	-	AU-ADL-HKG-CDG	7	
		-	-	AU-HKG-AMS-CDG	10	
	Japan Airlines	-	AU-NRT-CDG	-	7	0.2%
China Eastern	-	AU-PVG-CDG	-	10	0.6%	
SYD/MEL/BNE/PER/ADL -MUC	Qantas/BA	-	-	AU-SIN-LHR-MUC	28	31%
		-	-	AU-BKK-LHR-MUC	13	
		-	-	AU-HKG-LHR-MUC	21	
	Thai International	-	AU-BKK-MUC	AU-HKT-BKK-MUC	7	5%
	Emirates	-	AU-DXB-MUC	AU-SIN-DXB-MUC	14	19%
		-	-	AU-KUL-DXB-MUC	7	
		-	-	AU-BKK-DXB-MUC	7	
	Etihad	-	AU-AUH-MUC	AU-SIN-AUH-MUC	7	4%
	Singapore Airlines	-	AU-SIN-MUC	-	7	12%
	Air China	-	AU-PEK-MUC	AU-PVG-PEK-MUC	5	1%
Qatar	-	AU-DOH-MUC	-	7	2%	
Lufthansa	-	-	-	-	0%	
SYD/MEL/BNE/PER/ADL - SIN	Qantas/BA	AU-SIN	-	-	51	28%
	Malaysia Airlines	-	AU-KUL-SIN	-	47	1%
	Emirates	AU-SIN	-	-	14	7%
	Etihad	AU-SIN	-	-	3	1%
	Singapore Airlines	AU-SIN	-	-	92	48%

	Tiger Airways	AU-SIN	-	-	7	4%
	Jetstar	AU-SIN	AU-CGK-SIN	-	7	6%
-		AU-DPS-SIN	-	4		
PER-HKT	Pacific Blue	PER-HKT	-	-	4	3%
	Thai International	PER-HKT	PER-BKK-HKT	-	4	38%
	Malaysia Airlines	-	PER-KUL-HKT	-	3	4%
	Singapore/Silk Air	-	PER-SIN-HKT	-	17	9%
	Tiger Airways	-	PER-SIN-HKT	-	7	1%
	Jetstar / Jetstar Asia	-	-	PER-CGK-SIN-HKT	2	15%
		-	-	PER-DPS-SIN-HKT	4	
	Air Asia / X	-	PER-KUL-HKT	-	7	7%
SYD/MEL/BNE/PER/ADL - DPS	Pacific Blue	AU-DPS	-	-	36	19%
	Jetstar	AU-DPS	-	-	19	23%
	Garuda	AU-DPS	-	-	31	24%
	Air Asia / X	AU-DPS	-	-	28	16%
	Singapore/Silk Air	-	AU-SIN-DPS	-	21	6%
Source						
Capacity & Frequency Data from APG September 2011						
Arrivals & Departures Market share by Country, Department of Immigration and Citizenship (YE Jun 11)						
Services operated by Etihad on the Brisbane-Paris route have two stops Etihad operates services to Singapore from Brisbane only						