



Proposed Corporate Alliance between Virgin Australia Group and Skywest Airlines

Submission in support of Application for
authorisation

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Executive Summary

Authorisation sought for a Corporate Alliance between Virgin Australia and Skywest Airlines

Virgin Australia and Skywest Airlines (the **Applicants**) seek authorisation to make and to give effect to the Corporate Alliance Framework Agreement and associated agreements, including a Frequent Flyer and Lounge Agreement and a Joint Sales Agreement (the **Corporate Alliance**).

The initiative to enter into the Corporate Alliance Framework Agreement is a joint response from Virgin Australia and Skywest to meet the growing demand for corporate travel in Australia. Travel needs for corporate customers¹ involve a range of regional charter services as well as regional, domestic and international regular public transport (RPT) services.

Under the Corporate Alliance, the Applicants will be able to meet all corporate travel requirements. In particular, the integrated offer of charter services, as well as regional, domestic and international RPT services will provide a higher value service for corporate customers and enhanced convenience and benefits for their employees.

In addition, the Corporate Alliance will be able to offer corporate customers and their employees value-added products and services, such as a comprehensive frequent flyer program (including earn and burn entitlements across a broad network of travel options), frequent flyer status credits (including priority check-in and booking services) as well as access to airport lounges.

An integrated travel offer is an attractive proposition for corporate customers and for their employees because:

- Passengers benefit from integrated booking and check-in across their journey, with enhanced reliability for connecting services and shorter connection times.
- Passengers will also benefit from access to enhanced value added lounge and frequent flyer services, including on charter services.
- Integrated travel and value-added services can be offered at discounted prices across the full suite of services.

Rationale for the Corporate Alliance

The commercial rationale for the Corporate Alliance is clear. Individually, the Applicants are unable to supply a competitive and integrated package of international and domestic RPT services, charter flights, and frequent flyer and lounge products in order to meet the requirements or preferences of corporate customers, particularly in the resources sector. Specifically:

¹ 'Corporate customers' refers to both corporate and government entities seeking non-published pricing for air services and ancillary services such as frequent flyer benefits and lounge access.

- Virgin Australia has no dedicated charter offering; and
- Skywest does not have a comprehensive domestic or international RPT network, its own frequent flyer program or lounges.

The Corporate Alliance will allow the Applicants to jointly provide a competitive integrated travel offer to these corporate customers, comparable to that of Qantas, which is the only airline currently capable of meeting the full suite of customer requirements.

The Applicants anticipate that this will enable them to attract a greater share of corporate customers in competition with Qantas. In turn, the Applicants anticipate this will enable them to make further investment in both charter and RPT services, including by adding further frequencies and acquiring additional aircraft.

For Virgin Australia, the Corporate Alliance is a key element of Virgin Australia's Game Change Strategy.

Scope of the Corporate Alliance

The Corporate Alliance is limited in scope. Cooperation will be limited to cases where corporate customers require or prefer a suite of charter and RPT services. While it extends to the supply of RPT services when those services form part of the integrated offer to be supplied to corporate customers, it does not extend to the supply of RPT services to passengers more generally.

Under the Corporate Alliance, the Applicants seek to:

- subject to regulatory approval by the ACCC, cooperate in relation to the marketing to, tendering for, and contracting with, corporate customers, including joint bidding, pricing and scheduling;
- extend the existing level of cooperation in relation to the Velocity frequent flyer program. Currently, Skywest customers are able to earn and redeem frequent flyer points on Virgin Australia's domestic RPT network. Under the Corporate Alliance, corporate customers will also be able to accrue status credits as well as points on all of Skywest's air services (including charter services) as part of an integrated corporate offer;
- provide eligible passengers with access to Virgin Australia's airport lounges as part of an integrated corporate offer; and
- cooperate in relation to check-in, airport operations, airport handling, service policies and other matters to improve the overall quality of service offered to corporate customers.

Virgin Australia and Skywest will not require customers to accept a joint integrated offer and will continue to independently provide services to meet corporate customers' needs where preferred.

The Corporate Alliance will lead to significant public benefits

The Corporate Alliance will result in significant benefits and no material detriment. In particular, the Corporate Alliance will lead to:

- **Higher quality products and services.** The ability to provide a fully integrated service will provide corporate customers with more choice and a higher value product, which will also be

valued by passengers travelling on those services. In particular, passengers will benefit from:

- assured connectivity between services, including shorter connection times, increased frequency of connecting services and, in conjunction with the Applicants' interline agreement, the convenience of travelling under a single itinerary with through check-in and baggage, reducing the likelihood of lost luggage;
- access to Velocity points, status credits and recognition, including the ability to earn and redeem points on charter services, preferred seating and priority check-in; and
- access to Virgin Australia domestic lounges for eligible passengers.

These benefits are particularly valued by corporate customers that have a fly-in-fly-out (**FIFO**) workforce. Such customers must compete to attract skilled personnel to their operations and need to offer attractive remuneration for employees required to work in remote locations, away from home. In this context, benefits and convenience associated with work travel is an important feature of their overall employment package.

- **Benefits associated with increased competition for corporate customers.** The Corporate Alliance enables Virgin Australia and Skywest to better compete with the only airline capable of providing an integrated service package to corporate customers: Qantas. By offering an integrated product, Virgin Australia and Skywest will be able to offer discounted pricing compared with pricing of services on a stand-alone basis as well as a more attractive product. This increased service and price competition will likely prompt further competitive responses from Qantas and other competitors.
- **Benefits associated with meeting the requirements of a rapidly expanding resources sector.** Mining and other resources companies are a large part of the corporate customer segment in Australia. These companies tend to transport employees and contractors on a FIFO basis. FIFO services have become a critical element in maintaining a fully operating workforce in mining sites across Australia. In Western Australia, over half the workforce is employed on FIFO rosters and the proportion of FIFO employees is set to increase significantly over time. In other areas of Australia, particularly Queensland and South Australia, the number of employees employed on a FIFO basis is also increasing. The Corporate Alliance therefore plays an important role in meeting the increased demand for FIFO services, enabling mining and other resources companies to increase their pool of workers and production, contributing to Australia's economic growth.
- **Cost savings and synergies.** The Applicants will be able to capture synergies in more efficiently responding to tenders for corporate customers. The Applicants will also achieve efficiencies through joint airport operations and sharing of facilities, following final authorisation.

The Corporate Alliance will promote competition

The Corporate Alliance will not lessen competition, or potential competition, in any relevant market. Specifically:

- Virgin Australia does not have a dedicated charter operation. In the absence of the Corporate Alliance it is unlikely to commence its own charter services in competition with Skywest.
- Skywest does not operate domestic and international RPT services, beyond its localised RPT network based in Western Australia. In the absence of the Corporate Alliance it is unlikely to expand its network services in competition with Virgin Australia.

Virgin Australia and Skywest directly compete only on one regional RPT route (Perth–Broome). This competition will be unaffected by the Corporate Alliance, because:

- the Corporate Alliance does not extend to, and no authorisation is sought in respect of, the supply of RPT services to non corporate customers (i.e., the general public); and
- while Virgin Australia's services on these routes are largely directed at public travel, including in the leisure sector, the Skywest services principally support and are contracted to corporate customers. With or without the Corporate Alliance, there will be competition for corporate customers on the Perth-Broome RPT route between Skywest and Qantas.

The Corporate Alliance will increase competition in the relevant markets, by:

- enabling the Applicants to offer a new, superior integrated product to corporate customers; and
- increasing the number of competitors that are capable of supplying a complete service package to corporate customers from one (Qantas) to two.

Interim authorisation is also sought

The Applicants seek interim authorisation to enable them to immediately market to, and jointly tender for, the supply of integrated charter and RPT services to corporate customers. The Applicants wish to be in a position to participate in large tender processes which may commence in early 2012. Accordingly, subject to the grant of interim authorisation, the Applicants propose to begin implementation of the Corporate Alliance by 23 January 2012.

Given that:

- there is no material overlap between the operations of the Applicants;
- the Applicants will not require customers to accept an integrated offer;
- and the Corporate Alliance will have no effect on public services,

the grant of interim authorisation is no risk.

However, there is a significant competitive disadvantage to the Applicants if they are unable to commence marketing and tendering for

corporate customers on an integrated basis as soon as possible. For example, they will be limited in their ability to compete for corporate tenders in early 2012 which require both charter and RPT services. If they miss this opportunity, they will be locked out of the duration of the contracts.

This would also be to the detriment of corporate customers seeking a competitive integrated charter/RPT service offer.

The commercial urgency, together with the significant public benefits associated with the Corporate Alliance and the lack of competitive detriment support the grant of interim authorisation.

**Term of final
Authorisation**

The Applicants submit that the ACCC should authorise the Corporate Alliance for the duration of the Initial Term, being five years.

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

1 The Applicants

1.1 Virgin Australia Airlines



(a) Overview of operations

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 93 aircraft² on approximately 3000 flights per week, to 48 Australian and international destinations.

Virgin Australia serves 28 additional international destinations and 7 additional destinations within Western Australia through codeshare agreements with various partner airlines.³ Further details on the RPT routes in Western Australia, which are subject to a unilateral codeshare agreement with Skywest, are set out in Section 1.3(b).

Virgin Australia also operates Pacific Island services through Polynesian Blue, which is a joint venture with the Samoan Government.⁴

Virgin Australia also services a number of regional routes using aircraft which are wet-leased from Skywest.

On 4 May 2011, the Virgin Blue Group relaunched under the Virgin Australia brand, replacing its domestic brand, Virgin Blue. Its international brands, Pacific Blue and V Australia, will be similarly replaced by the end of 2011, with all flying taking place under the Virgin Australia brand.

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

Since his appointment in May 2010, CEO John Borghetti has pursued Virgin Australia's 'Game Change' strategy, designed to attract higher yield corporate customers 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 travellers.

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 and government accounts.

Virgin Australia aims to bring its 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.⁵ Qantas currently dominates the Australian corporate

² Excluding ATR aircraft wet-leased from Skywest.

³ Once fully implemented, the alliance between Virgin Australia and Singapore Airlines will allow Virgin Australia to serve over 40 additional international destinations.

⁴ The rebranding of Polynesian Blue is contingent on agreement with the Samoan Government.

⁵ 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.

and government sectors and has the largest share of international travel both to and from Australia.⁶ Virgin Australia aims to bring competition to these sectors just as it did to the leisure sector when the airline 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.⁷

Consistent with this business strategy, over the past 18 months Virgin Australia has undertaken a number of initiatives to improve its product and service offer and ensure that it appeals to the full range of travellers, including significant upgrades to its Velocity Rewards program and the Lounge. These, and other initiatives, are described in detail in **Annexure B**.

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

1.2 Skywest Airlines



(a) Overview of operations

Skywest Airlines (**Skywest**) is incorporated in Singapore and is listed on the Australian Stock Exchange and the London Stock Exchange.

Skywest is a Perth-based regional airline with a fleet of 22 aircraft, providing charter, regional RPT and freight transport services within Australia and to selected international destinations. It currently offers approximately 350 services per week.

The destinations served by Skywest, as both RPT and charter services, are shown in Figure 1 below.

Skywest is the sole operator on the regulated Perth-Albany and Perth-Esperance routes, and is one of two permitted carriers on the regulated Perth-Exmouth route (together with QantasLink).

Skywest supplies wet-lease services to Virgin Australia, pursuant to which it currently operates 250 sectors per week.

Skywest also provides air freight services to all its destinations in conjunction with Australian Air Express.

⁶ 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.

⁷ See generally: Presentation By John Borghetti, Virgin Blue Chief Executive Officer, Annual Stockbrokers Conference, Melbourne, 8 June 2010.

Figure 1: Skywest RPT and charter networks⁸

Further information on Skywest's fleet is at **Annexure C**.

(b) Skywest's business model and strategy for growth

Skywest is focused on regional RPT and charter services and aims to retain its existing customers and to grow its share in the markets in which it operates.

More specifically, a key growth opportunity for Skywest in the near to medium term is to increase its share in the rapidly expanding FIFO market segment.⁹

The continuing and growing resources activity in Western Australia means that there are significant opportunities for Skywest to increase its presence in this segment. Skywest estimates that there are resource projects valued at over \$100 billion currently planned or underway in Western Australia. Many of these projects will involve contract charter flying employees to the mine sites. The main challenge for Skywest in growing its share in the FIFO segment is its limited ability to offer the full suite of services that corporate customers demand, including connectivity to a comprehensive domestic and international RPT network and access to a frequent flyer program and lounges.

1.3 Scope of current commercial cooperation between parties

Virgin Australia and Skywest have been strategic partners since 2007. The current scope of their commercial cooperation consists of the following:

⁸ Skywest, *Annual Report 2011*, 17.

⁹ FIFO services involve flying employees to and from their workplace, typically at a mine site. FIFO services can comprise both RPT services and charter services. See Annexure D for further details on these services.

- Skywest is a Velocity partner;
- Virgin Australia places its code on a number of Skywest-operated regional RPT services; and
- Skywest supplies Virgin Australia with wet-lease services.

(a) Velocity

Skywest is a Velocity partner. Under the existing agreement, passengers can earn Velocity points (but not status credits) and redeem Velocity points on Skywest-operated RPT services.

(b) Codeshare Agreement

In January 2008, Virgin Australia and Skywest entered into a Unilateral Codeshare Agreement. Pursuant to this agreement, Virgin Australia places its code on a number of regional services operated by Skywest. The routes on which Virgin Australia currently codeshares are set out in Figure 2 below.

Figure 2: Skywest routes on which Virgin Australia currently codeshares

Origin	Destination
Perth (PER)	Kalgoorlie (KGI) Albany (ALH) Esperance (EPR) Geraldton (GET) Kununurra (KNX) Learmonth (LEA) Busselton (BQB) Port Hedland (PHE) via Geraldton (GET)
Broome (BME)	Kununurra (KNX) Learmonth (LEA) Perth (PER) Port Hedland (PHE)
Albany (ALH)	Busselton (BQB)
Kalgoorlie (KGI)	Melbourne (MEL)
Darwin (DRW)	Broome (BME) Kununurra (KNX)

(c) Australian Regional Airline Network Agreement

On 10 January 2011, Virgin Australia and Skywest entered into the Australian Regional Airline Network Agreement, pursuant to which:

- Virgin Australia wet leases turbo prop aircraft from Skywest in order to commence regional RPT services;
- Skywest operates the services, including by providing the aircraft, crew, maintenance and insurance;
- the aircraft are painted in Virgin Australia livery and flights are sold as Virgin Australia services on the DJ code; and

- Virgin Australia directs the deployment of the services, including specifying destinations, capacity and schedule.

Under this Agreement, Virgin Australia has to date wet leased aircraft which are operated on four regional routes: Sydney–Port Macquarie; Sydney–Canberra; Brisbane–Gladstone and Brisbane–Port Macquarie. Flights between Brisbane–Emerald will commence in January 2012. Additional aircraft are on order to allow the parties to expand these services.

(d) Proposed interline agreement

Virgin Australia and Skywest have also agreed to enter into an interline agreement to ensure through check-in, ticketing and baggage for passengers who connect between Virgin Australia and Skywest services. A passenger purchasing a ticket on a Skywest regional or charter service and then connecting onto a Virgin Australia inter-city service will be able to do so under a stream-lined check-in process and collect baggage at the end of their journey.

As part of this agreement, the parties will also enter into a reciprocal special prorate agreement. Under this agreement, each party will make inventory available at a favourable rate for sale as an interline ticket. For example, Skywest will be able to sell a ticket on its own services with a connection onto a Virgin Australia-operated domestic flight.¹⁰

[Confidential – restriction of publication claimed]

2 The Corporate Alliance

2.1 Proposed Corporate Alliance

The Applicants are seeking authorisation to establish a Corporate Alliance under which the Applicants will jointly market to, tender for, and contract with, corporate customers.¹¹

The cooperation between the Applicants under the proposed Corporate Alliance will be limited to tenders and contracts for corporate customers that involve a suite of services including charter and RPT services where the corporate customer wishes to receive a joint bid from, or to jointly contract with, the Applicants. The cooperation will only extend to the Applicants' RPT services to the extent that they form part of an integrated offer to be supplied to corporate customers. Further, the Applicants will not require any customers to obtain integrated services and will continue to independently supply services to customers who prefer to contract in that way.

2.2 Agreements

On 6 December 2011, Virgin Australia and Skywest entered into the Corporate Alliance Framework Agreement. The Applicants propose to also enter into the following agreements, which are conditional upon the Applicants entering into the Corporate Alliance Framework Agreement:

- a Frequent Flyer and Lounge Agreement; and
- a Joint Sales Agreement.

The Applicants have executed term sheets in relation to these agreements.

¹⁰ Note: this would be sold by Skywest as an XR service for its own operated sector and under the DJ code for the Virgin Australia operated sector. Skywest will not be able to sell the Virgin Australia-operated sector under its own code.

¹¹ Under the Corporate Alliance, corporate customers include both corporate and government entities seeking non-published pricing for air transport services and ancillary services including frequent flyer and lounge benefits.

The executed Corporate Alliance Framework Agreement and term sheets are set out in **Confidential Annexure A**.

2.3 Scope of the Corporate Alliance

Under the Corporate Alliance, the Applicants seek to:

- subject to authorisation, cooperate in relation to the supply of charter air transport services and RPT air transport services (to the extent that these services form part of an integrated offer) to corporate customers, including joint tendering and contracting, joint pricing and scheduling and joint marketing and sales¹²;
- extend the existing level of cooperation in relation to the Velocity frequent flyer program to enable passengers travelling on Skywest-operated services as part of an integrated corporate offer to earn status points and to earn and redeem points on Skywest-operated charter services;
- provide eligible passengers travelling on Skywest-operated services as part of an integrated corporate offer with access to Virgin Australia's Lounge products with Australia;
- cooperate to achieve efficiencies in relation to check-in, airport operations, and airport handling; and
- cooperate in relation to service policies to improve the overall quality of services offered to corporate and government accounts.

The Corporate Alliance is a limited alliance and will not extend to cooperation beyond marketing to, tendering for and contracting with corporate customers. The Applicants have agreed that they will not cooperate in relation to their respective RPT services except to the extent that RPT services form part of an integrated offer to a corporate customer. In particular, the Applicants will not cooperate:

- in relation to the published pricing¹³ of their respective RPT services;
- on capacity or route decisions in relation to their respective RPT services; or
- in relation to the transport of cargo on RPT services.¹⁴

Further details of the Corporate Alliance are set out below.

(a) Cooperation on the provision of an integrated offer to corporate customers

The Applicants intend to cooperate in relation to the provision of an integrated offer of charter and RPT services to corporate customers.

Where a corporate customer requires both charter and RPT services (whether domestic or international or a combination of the two) and the Applicants can provide a better service by jointly supplying services, the Applicants will:

- jointly bid in response to corporate tenders which include a combination of charter and RPT services and jointly contract with such customers, allowing the Applicants to provide an

¹² Corporate Alliance Framework Agreement, clause 5.3

¹³ Published pricing refers to the fares that are publicly available, whether through websites, travel agents or the global distribution system (GDS). This is compared with private fares which are subject to a personalised discount or rebate, for example, as are negotiated by a corporate customer.

¹⁴ Corporate Alliance Framework Agreement, clause 5.4

attractive integrated offer which both includes Skywest's charter services and Virgin Australia's RPT services, as well as frequent flyer and lounge benefits. The integrated offer will be competitive with the package supplied by Qantas in terms of price as well as the quality of products and services offered;

- jointly price and schedule services to corporate customers. Joint scheduling in response to customer needs and to improve connection times between charter and RPT services will ensure that customers have a better travel experience. Joint pricing will enable the Applicants to offer a competitive overall package to corporate customers and to avoid double profit mark ups on connecting services; and
- market an integrated offer to existing and potential corporate customers.

The Corporate Alliance will provide the Applicants with the ability to provide corporate customers with the option of an integrated product and to jointly respond to tenders where a corporate customer has requested that bidders be able to provide both charter and RPT services.

The Applicants will not require customers or potential customers to accept an integrated offer. They will each continue to independently supply corporate customers with services as required. For example, Skywest will continue to supply charter services to corporate customers under its existing arrangements outside the Corporate Alliance and Virgin Australia will continue to independently respond to tenders where no charter services are required. However, it is only with an integrated offer that customers will be able to access the benefits of the Corporate Alliance, including lounge access and Velocity benefits on charter services.

The Joint Sales Agreement will govern the way in which the Applicants jointly market to, tender for and contract with corporate customers. It is proposed that, in relation to a customer, either Virgin Australia or Skywest will take a lead role on preparing and submitting tender responses to each potential Customer, determined in accordance with the following principles:

- Skywest will take the lead role for tenders which are primarily relating to services to be provided within Western Australia but also using the Virgin Australia domestic network (interline);
- Virgin Australia will take the lead role where the tender requires a large national or international component RPT component;
- where one participant has a major revenue relationship with the Corporate Customer, that participant will take the lead unless the customer requests in writing that the other carrier present as the lead carrier;
- where the participant taking the lead role cannot readily be determined under the above principles, the Joint Sales Team (established under the Alliance Agreement) will determine which participant will take the lead role; and
- each airline is to appoint a key person to each tender request.

Where the tender process involves meeting the corporate customer (to provide a pitch or to negotiate terms) both participants may attend and participate in the meetings.

If the participants cannot agree on which of them will have the lead role, either participant may independently submit a response.

Further detail on the proposed cooperation process is set out in Schedule 2 to the Corporate Alliance Framework Agreement.

(b) Frequent flyer and lounge access

Passengers currently have the ability to earn and redeem Velocity frequent flyer points on the Skywest and Virgin Australia networks.

Under the Corporate Alliance, corporate customers will also be able to earn status credits for flights across the Skywest network and on charter services. With status credits, corporate customers will be able to access the benefits that are available under Virgin Australia's tiered Velocity membership scheme. Pursuant to the Frequent Flyer and Lounge Agreement, Skywest customers that achieve gold or platinum Velocity status will be able to have full access to Virgin Australia's domestic lounges.

Authorisation is not required for the Applicants to implement the Frequent Flyer and Lounge Agreement. However, the agreement is conditional upon the implementation of the broader Corporate Alliance. Without the Corporate Alliance, Virgin Australia would not have the incentive to provide Skywest with access to these benefits. In particular, absent the Corporate Alliance, there is no incentive for Virgin Australia to offer status recognition to Skywest customers as that would have the effect of creating a liability (in terms of redemption) borne by Virgin Australia where no corresponding benefit (in terms of purchased flights) would be enjoyed.

2.4 Why is authorisation necessary?

The Applicants require authorisation in order to cooperate on the supply of an integrated offer to corporate customers.

While the proposed joint activities would not be likely to have the effect of lessening competition in any market, the proposed joint bidding activities, which also necessitate joint pricing or the sharing of pricing information, may trigger section 44ZZRD of the CCA as a cartel that includes bid-rigging and price fixing.

The scope of the 'bid rigging' prohibition is unclear and has not been tested. The statutory intention behind these provisions was to prohibit clandestine or collusive practices designed to distort bidding or tender processes and not to hinder genuine consortium bids. This is evident from the Explanatory Memorandum that accompanied the *Trade Practices Amendment (Cartels and other measures) Bill 2008*, which provided:

*"In relation to consortium biddings arrangements, the cartel provisions are not intended to catch legitimate joint bids. Joint bid arrangements between competitors that avoid restrictions on an individual participants' ability to compete for business are less likely to raise concerns."*¹⁵

Nevertheless, the scope of the prohibition is broad and there is a risk that the cooperation proposed by Virgin Australia and Skywest could be captured by the cartel provisions. In particular, the process of determining which party takes the lead on a corporate contract and any associated agreement whether to jointly or independently bid may be per se illegal. Further, as a practical reality, joint bidding requires the joint setting of prices or discounts to the corporate customer, or the sharing of pricing data, raising price fixing risks.

The Applicants will not require any customers to deal with the parties jointly and will therefore not engage in exclusionary conduct.

Therefore, the authorisation is required for technical legal reasons in order to enable the Applicants to put in place an effective and commercially practical joint bidding and contracting arrangement.

¹⁵ Explanatory Memorandum, *Trade Practices Amendment (Cartels and other measures) Bill 2008*, [1.42].

3 Commercial rationale

3.1 Charter services and the FIFO sector

There is a large and growing demand for charter services, especially tailored to meet the needs of fly-in-fly-out workforces (FIFO), within Australia. The resources boom in Australia, especially Western Australia, and the growth of companies engaged in this industry has meant that large numbers of employees and contractors are required on projects which are dispersed throughout Australia and often large distances away from city centres and major airports. The demand for charter services to meet the needs of FIFO workforces is increasing annually¹⁶ and is expected to continue to rise as:

- the level of activity in the Australian mining and resources sector continues to increase, driven by the level of new projects,¹⁷ and
- the lack of local workforces close to project sites necessitates the movement of skilled labour from a broadening geographic region.¹⁸

Large numbers of workers are transported from around Australia, and increasingly internationally, to remote mining sites on charter flights. As a consequence, the charter aviation sector is a large and growing component of corporate travel in Australia. At the same time, FIFO workers must connect from charter services onto domestic and international RPT services. For example, a Brisbane-based engineer who is working on a FIFO roster at Fortescue's mine at Cloudbreak, Western Australia, will need to fly from Brisbane to Perth on an RPT service and then connect to a charter service. Accordingly, large corporate customers like mining, energy and resources companies usually require charter services, as well as RPT services, as part of their corporate purchasing.

The charter sector is characterised by different dynamics from the RPT sector. It generally requires different aircraft which are specifically suited to customer and destination requirements, including short runways and closed airstrips. Pricing and contracting patterns differ from those in the RPT sector and different factors influence profitability.

Charter typically involves the rental of an entire aircraft to run on a private itinerary or flown to a closed (private) air strip. Charter services can be provided under contract or on an ad hoc basis. Schedules and capacity for charter services are dictated by the customer.

For these reasons, charter operations in Australia are generally conducted by specialist charter airlines or general aviation companies. Key competitors in this sector are described in Annexure E. However, Qantas is now also a key competitor in this sector. Following its acquisition of charter-

¹⁶ See: Amanda O'Brien, 'FIFO flights growing at breakneck speed', *The Australian* (online), 15 November 2011 <<http://www.theaustralian.com.au/business/aviation/fifo-flights-growing-at-breakneck-speed/story-e6frg95x-1226195001965>>.

¹⁷ ABARES estimated, at the end of April 2011, there were 94 mining and energy projects throughout Australia at an advanced stage of development, with a record proposed capital expenditure requirement of \$173.5 billion, representing a 31% increase from October 2010. In addition to these projects at an advanced stage of development, according to ABARES, there are a further 179 new mining and energy projects forecast to commence over the next three years, with an estimated capital spend of approximately \$130 billion, *ABARES, Minerals and energy, Major development projects – April 2011 listing, May 2011*.

¹⁸ According to The Chamber of Minerals and Energy of Western Australia Inc, the incremental workforce required for new projects is expected to largely be sourced from FIFO services (rather than local residents, who are scarce due to the remote location of mines and substantial workforce requirement given the large scale of the projects., with approximately 90% of the required workforce in 2011 being FIFO workers, *Western Australia State Growth Outlook 2011, The Chamber of Minerals and Energy of Western Australia Inc, April 2011*.

operator Network Airlines in December 2010, it has a dedicated charter fleet. It also provides charter operations that are operated by Cobham Aviation pursuant to a wet-lease arrangement.¹⁹

Virgin Australia does not operate dedicated charter services and has little experience in this sector.²⁰

Skywest has been providing charter services within Western Australia for around 50 years. It operates a fleet of 22 aircraft suitable for charter services and its current charter customers include BHP Billiton, Newmont, Rio Tinto, Fortescue and Argyle among other mining and resource companies.

More information on the charter and FIFO segments is set out in **Annexure D**.

(a) Joint rationale

The Corporate Alliance will allow the Applicants to combine each airline's strengths in order to provide an improved and competitively priced integrated package of services to corporate customers who require both charter and RPT services.

This integrated package of services includes:

- charter air services;
- RPT services, including regional, domestic and international services;
- better connections between charter and RPT services to minimise travel time and maximise amenity to employees; and
- value-added products and high quality services for employees, such as access to a comprehensive frequent flyer program and member lounges.

The Applicants consider that this integrated package will be highly valuable to corporate customers and to their employees and expect that they will be able to win a higher proportion of corporate accounts as a result of this improved product.

The ability to offer convenient and quality travel and associated benefits has become a key component in mining and energy companies' recruitment and retention policies. In particular, corporate customers view frequent flyer programs as an employee benefit scheme which allows employees to earn points when travelling for business and redeem them when travelling for leisure. Some corporate customers prefer the convenience of dealing with a single point of contact for all their travel requirements. Further, in some cases, requests for tender and potential customers express a preference to have a single airline provide all of their required services.²¹

The Corporate Alliance will allow the Applicants to better meet the needs of these customers, in competition with Qantas.

Currently, Qantas is the only airline that has the ability to offer the full suite of services to corporate customers. In addition to its comprehensive domestic and international RPT network and its frequent flyer and lounge products, Qantas now has a significant charter capability following its acquisition of

¹⁹ Further information on Qantas' charter operations is provided in Annexure E.

²⁰ Virgin Australia operates some ad hoc charter services where it receives a request from a customer and has the operational ability to provide the required services. However, it does not market these services. For example, **[Confidential - Restriction of publication claimed]**

²¹ **[Confidential - Restriction of publication claimed]**

Network Aviation in December 2010 and has announced further expansions to its charter fleet.²² Qantas' bundling strategy to corporate customers means that Qantas has a large, and increasing, share of these customers.

Individually, Virgin Australia and Skywest are unable to offer corporate customers all of the above services in one, competitively priced package. Cooperation under the Corporate Alliance will allow the Applicants to offer this package. Without the Corporate Alliance, Virgin Australia cannot offer dedicated charter services and Skywest does not have access to a domestic and international RPT network. The Corporate Alliance also provides Virgin Australia with the incentive to supply Velocity and Lounge services to Skywest customers.

(b) Virgin Australia's rationale

The Corporate Alliance will enable Virgin Australia to better compete for corporate customers and is an important part of Virgin Australia's Game Change Strategy. The Corporate Alliance provides Virgin Australia with the ability to supply services to corporate customers that require a dedicated charter offer, including some of the largest and most valuable corporate accounts within Australia. Virgin Australia does not have dedicated charter operations and has limited management experience in this area. The Corporate Alliance enables Virgin Australia to supply corporate customers in the mining and resources sector with dedicated charter services without a significant overhaul of its operations or a large capital investment. It will also enhance Virgin Australia's ability to compete for corporate customers with Qantas, the only provider that has the capability to offer the full suite of services.

(i) The Corporate Alliance is a crucial element in Virgin Australia's Game Change Strategy

The well-publicised Game Change strategy aims to build a contemporary, dynamic airline competing in all market segments.²³ A key part of this strategy is to increase Virgin Australia's share of the domestic corporate travel market to 20% by the end of 2012-13.

Broadening its customer base will allow Virgin Australia to reduce its exposure to demand risks associated with the leisure travel market. As leisure travel is discretionary, it is much more susceptible to exogenous demand shocks. Natural disasters, pandemics, terrorist threats and global economic conditions can all significantly reduce demand for leisure travel. While aviation as a whole is impacted by these demand shocks, the demand for corporate travel, particularly FIFO, is less susceptible to them. By increasing its share of corporate and business travellers, Virgin Australia is partially hedging against these uncertainties.

As the ACCC is aware, Virgin Australia has already taken steps to broaden its customer base in domestic and international RPT markets by expanding its network through the launch of V Australia services and by entering into Alliances with Delta, Etihad, Air New Zealand and Singapore Airlines, as well as by improving its value-added products and service offer.

With the Corporate Alliance, Virgin Australia can better access a new segment of the corporate customer market, being those customers that require or prefer an integrated offer that includes dedicated charter services, increasing its ability to win contracts with large companies in the resources sector. Without the Corporate Alliance, Virgin Australia is limited in its ability to offer services to these corporate customers.

²² Qantas, 'Qantas to purchase and grow WA charter operator', (Media Release, 13 December 2010) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2010/dec10/5055>>.

²³ See, for example, Andrew Cleary, "The sky's the limit for Virgin boss", *Australian Financial Review*, 14 October 2011; and "Virgin Australia – the Next Decade: Address by Virgin Australia CEO John Borghetti, American Chamber of Commerce in Australia lunch, Sydney, 20 May 2011.

In this context, Virgin Australia has recently sought to supply RPT services to a number of mining companies which required an integrated service offer. **[Confidential - Restriction of publication claimed]**

(ii) Charter is a gap in Virgin Australia's service offer

Virgin Australia has identified the supply of dedicated charter services to corporate customers as a key gap in its service offer. Virgin Australia's existing charter offer is very limited – charter flights are only provided on a small number of RPT routes at the request of a customer and where operationally possible.

Given that corporate customers are increasingly seeking supply of a range of air services and ancillary products as part of the one tender, the ability to offer charter services that fly direct into a closed strip or on a short runway will also be increasingly critical to attracting corporate customers.

The proposed Corporate Alliance is an effective and efficient way for Virgin Australia to commence supply of charter services to such customers. While its smaller aircraft, such as the Embraer E190 aircraft, could in theory be used for dedicated charter operations, this would be an inferior offer compared with the Corporate Alliance and would compromise Virgin Australia's RPT services as:

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While the newer ATR aircraft, such as those wet-leased from Skywest, are able to service all the relevant charter destinations, this would still be an inferior offer compared with the Corporate Alliance because, similar to the above, the aircraft would need to be redeployed from scheduled regional RPT services to charter services and would be at a significant cost disadvantage given they are brand new.

For the same reasons, Qantas did not purchase new aircraft to supply charter services and instead first acquired Network Aviation, an established Perth-based charter operator.

(iii) The Corporate Alliance gives Virgin Australia the ability to compete with Qantas for corporate customers

The supply of air services to corporate customers is an attractive market segment that has grown rapidly over the past few years.

As it stands, Qantas is the only airline that can provide a comprehensive and complete offer of services to corporate customers. Qantas has a comprehensive domestic and international RPT network and, with the acquisition of Network Aviation in December 2010, it now also has a strong charter offer. The Corporate Alliance provides Virgin Australia with the ability to compete with Qantas in the supply of an integrated offer to corporate customers. The Corporate Alliance brings together the services and strengths of the Applicants, which can pose a stronger challenge to Qantas' service offer.

(c) Skywest's rationale

Skywest has a strong reputation as a specialised remote charter operator in Western Australia. Skywest operates charter services throughout Western Australia for a range of corporate customers, particularly in the mining and resource sector.

While Skywest currently supplies services to corporate customers, it cannot alone offer an integrated product that includes RPT services and value-added services. Over the past year, customers, especially mining companies have increasingly expressed a preference for a full suite of services, which not only include air services so that employees can travel to and from capital cities anywhere in Australia (or even from New Zealand) through to mine sites, but also a comprehensive frequent flyer program and lounge access.

Since Qantas has entered this segment through its acquisition of Network Airlines and can now provide an offer that satisfies all the travel requirements of customers, including by providing frequent flyer benefits on charter services, Skywest is concerned that it will lose market share, posing a significant threat to the success of its corporate business

Qantas leverages its unique position as the only carrier with an extensive domestic and international network through its use of bundling strategies, providing discounts to corporate customers on the condition that they acquire a certain percentage of both their domestic and international service requirements from Qantas, or a discount on international travel where they guarantee a certain volume of domestic travel.

Skywest has received feedback from customers that Qantas is now including charter services in its bundled offer to corporate customers. Skywest is concerned that this will result in a loss of business with core customers as they switch purchasing to Qantas in order to comply with their contracts. Qantas is expanding its regional services within Western Australia, including through the addition of services from Perth to Geraldton and additional services to Exmouth.²⁴ Qantas has signalled further expansion and Skywest understands that it has been applying for slots and space at regional airports in both Western Australia and Queensland.

The Corporate Alliance is a response to this trend. The Corporate Alliance provides Skywest with the ability to compete with Qantas to retain its existing corporate customers where those customers want an integrated offer. It also provides Skywest with the ability to grow its corporate customer base in the medium to longer term by offering a more attractive and competitive product package.

3.2 Applicants are a good strategic fit

The Applicants have been strategic partners since 2007 and have a good working relationship.

The Applicants are a good strategic fit in that they each contribute different yet equally important elements to the Corporate Alliance. Virgin Australia contributes a strong domestic and international RPT network, a comprehensive frequent flyer program in Velocity and has customer lounges at several airports in Australia. Skywest contributes a strong charter offer and a small localised RPT network in Western Australia. The combination of these elements enables the Applicants to provide a better, integrated offer to corporate customers. Further, there is no material competitive overlap between the operations of the Applicants.

3.3 Authorisation sought

The Applicants seek authorisation to make, and to give effect to, the Corporate Alliance Framework Agreement and associated agreements contemplated by the Corporate Alliance Framework Agreement, including a Frequent Flyer and Lounge Agreement and a Joint Sales Agreement.

The Applicants note that some elements of the Corporate Alliance, such as the Frequent Flyer and Lounge Agreement, could be implemented without authorisation. However, it is only with an integrated alliance that the Applicants would have the incentive to implement all of the elements of the Corporate Alliance.

As part of the implementation of the Corporate Alliance, the Applicants will make investments in service and product alignment, rescheduling, marketing, and other joint activities. This investment is justified by the benefits the Applicants expect will accrue over the term of the Corporate Alliance. The

²⁴ Qantas, 'QantasLink launches new route with inaugural Perth-Geraldton service,' (Media Release, 21 November 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/nov11/5332>>.

Initial Term of the Corporate Alliance is five years. The Applicants submit that the ACCC should authorise the Corporate Alliance for the Initial Term.

An authorisation period of no less than five years is appropriate for commercial arrangements of this nature, particularly given the investments required for implementation as well as the length of corporate customer contracts (typically 3 years). The Applicants note that the request for a minimum authorisation period of five years is consistent with the period granted to other airline alliances including the Qantas' alliances with British Airways and with American Airways, and Virgin Australia's alliances with Delta, Etihad and Singapore Airlines.

3.4 Interim authorisation is necessary and risk free

The Applicants seek interim authorisation to make, and to give effect to, the Corporate Alliance, pending the outcome of the ACCC's final decision on authorisation so that the Applicants can implement cooperation by 23 January 2012 in order to begin marketing an integrated offer and be ready to respond to corporate tenders by early 2012.

The factors that the ACCC considers in assessing whether interim authorisation should be granted are as follows:²⁵

- the degree to which the arrangements appear to be anti-competitive;
- the level of urgency of the request;
- the impact (if any) on the relevant markets;
- the possible harm to the applicant if the request for interim authorisation is denied;
- the possible harm to other parties (such as customers or competitors) if the request for interim authorisation is granted or denied; and
- any other possible benefits or detriments to the public.

The Applicants do not materially overlap in terms of the services that they provide under the Corporate Alliance and the scope of the Corporate Alliance is confined to areas where Virgin Australia's and Skywest's services do not overlap.²⁶ Therefore, the Corporate Alliance will have no effect on services provided to the general public and is not anti-competitive. Given the limited nature of the Corporate Alliance and the fact that customers will be free to choose whether to contract with the Applicants on a joint basis in order to access an integrated offer or on an individual basis, the grant of interim authorisation would be risk free.

The Corporate Alliance will immediately generate public benefits through the choice of a new integrated offer and improved product to corporate customers. This product will be valued by corporate customers and their employees and will create more competition in the corporate contract sector.

With no material overlap and no detriment, the grant of interim authorisation will not lessen competition or harm other parties or the public.

²⁵ ACCC, *Guide to Authorisation*, March 2007, pp 49–52.

²⁶ The Applicants note that the supply of RPT services is explicitly carved out of the scope of the Corporate Alliance (see clause 5.4).

On the other hand, the Applicants have strong commercial reasons which support the urgency of the request for interim authorisation. The Applicants wish to begin to implement and market the Corporate Alliance as soon as possible in order to participate in upcoming corporate tender processes for Western Australia-based corporate accounts.

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More generally, the Applicants wish to commence implementing and marketing the Corporate Alliance for existing customers and for potential customers, in order to achieve benefits for both the Applicants and for customers.

The request for interim authorisation is therefore urgent.

There will be significant harm to the Applicants if the request for interim authorisation is denied. If the ACCC refused to grant interim authorisation, the Applicants will be limited in their ability to participate in upcoming tender processes as they cannot, alone, provide corporate customers with an attractive and competitive integrated offer which satisfies all of their needs.

In previous matters, the ACCC has recognised the commercial imperatives associated with airline travel and has acknowledged that the ability to immediately begin marketing and selling new services is crucial to ensure the new services are viable and to generate demand for those services. The ACCC has also recognised that the urgency associated with these commercial imperatives means that the grant of interim authorisation is warranted. The ACCC has also been willing to allow interim authorisation when it has found that the networks of the two airlines were complementary (and not competing directly).²⁷

The ACCC is familiar with this industry and has granted final authorisation for similar alliances in the past, including where there was significantly more overlap between the operations of the alliance. Given this, the ACCC ought to readily be able to assess whether it considers there are likely to be any detriments arising from the proposed Corporate Alliance.

The Applicants consider that there are clear benefits and no detriments associated with the Corporate Alliance.

²⁷ In assessing the alliance between Qantas and Orangestar, the ACCC granted interim authorisation for two key reasons. First, the ACCC found that the networks of the two airlines were complementary (and not competing directly). Second, the ACCC considered that the claim was urgent.

More recently, in considering whether to grant interim authorisation to Virgin Australia and Etihad, the ACCC noted that a significant lead time was required to market and sell tickets before the commencement of long-haul services (such as those being introduced by Virgin Australia under the Alliance). The ACCC found that, Virgin Australia would have suffered significant detriment if it was unable to jointly schedule and commence selling services in advance of final authorisation. The ACCC also noted the Virgin Australia and Etihad Airways had route protection plans in place should final authorisation not be ultimately granted.

In relation to the decision to grant interim authorisation to Qantas and American Airlines, the ACCC noted the coordinated sales and marketing was likely to be necessary to generate the sustained level of demand required to ensure long-haul services viability. The ACCC also gave consideration to the fact that the two airlines did not compete directly on any routes and were unlikely to do so absent the Alliance. The ACCC noted that it was reasonable to allow the parties time to deliver on the claimed public benefits and did not consider the grant of interim authorisation would have permanent changes in the markets.

See: ACCC, Qantas Airways and Orangestar, Draft Determination: Application for Authorisation: A40107–A40109 (12 July 2006), 14 at [3.8]–[3.9]; ACCC, Virgin Blue Airlines Pty Ltd & Ors and Etihad Airways – applications for authorisation A91247 and A91248 – request for interim authorisation – Reasons (23 September 2010); ACCC, Qantas Airways Limited and American Airlines Inc – applications for authorisation A91265 and A91266 – request for interim authorisation – Interim authorisation decision (9 June 2011).

4 Public benefits arising from the Corporate Alliance

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

The *Competition and Consumer Act 2010* (Cth) does not define 'public benefit' but the Australian Competition 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."²⁸

The direct beneficiaries of the Corporate Alliance will include existing and potential passengers on charter and RPT services within and international services to and from Australia, corporate and government clients, the Australian resources sector and the wider Australian economy, as well as the Applicants themselves. More broadly, the competition and efficiency enhancing effects of the Corporate 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 *Guide to Authorisation*.²⁹ That is, "anything of value to the community generally" is a public benefit for the purposes of the authorisation test.³⁰

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."³¹ Under the 'public benefit standard' or 'total welfare standard', different beneficiaries are treated equally.³²

4.2 More choice and enhanced products and services

Through the integration of the Virgin Australia and Skywest RPT networks and charter operations, the Corporate Alliance will allow the Applicants to provide a higher level of service to corporate customers, and the passengers travelling on their services.

(a) Integrated product at a competitive price

The Corporate Alliance will provide customers who prefer a single airline to satisfy all their travel needs or who require an integrated offer, including charter and RPT services and frequent flyer and lounge benefits, with more choice of service providers. Under the Corporate Alliance, the Applicants will be able to provide customers with the option of purchasing a package of national and international RPT services, regional RPT services and charter services, together with an attractive frequent flyer program and lounge access. For customers who would like this product, they currently can only acquire an integrated product from Qantas. Therefore the Corporate Alliance will provide them with more choice.

The Corporate Alliance will provide each airline with the incentive and ability to price the components of the product at a competitive level, given that they will share in the benefit of winning a larger

²⁸ 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.

²⁹ Re Qantas Airways Ltd (2004) ACompT 9 at 50; ACCC, *Guideline to Authorisation*, March 2007 at 34.

³⁰ Re Qantas Airways Ltd (2004) ACompT 9 at 51.

³¹ Re VFF Chicken Meat Growers' Boycott Authorisation (2006) ACompT 9 at 75.

³² As compared with a 'consumer welfare standard'; see also Re VFF Chicken Meat Growers' Boycott Authorisation (2006) ACompT 9 at 75.

component of work and will benefit from economies of scale. While the Applicants have not yet had the opportunity or the ability to have detailed discussions about pricing strategies, the Applicants anticipate that they will be able to offer discounts on a bundled product for those passengers who choose an integrated product, providing customers with a better product at a more competitive price than would be available if contracting separately with each party.

(b) Increased convenience for passengers and value-added benefits

The ability to jointly schedule services to corporate passengers will enable the Applicants to adjust the timing of services to ensure that charter services efficiently connect with RPT services. This will provide increased convenience for passengers by minimising travel time. At the same time, access to lounges will increase the amenity of the travel experience. If passengers earn a sufficient level of status credits (for gold, passengers need to earn 500 credits and fly four eligible sectors³³), they will be able to access Virgin Australia's lounges as well as a range of other benefits including advance seat selection and priority check-in.³⁴

Passengers travelling on integrated corporate air services will also benefit from accessing the full benefits of Velocity, Virgin Australia's frequent flyer program. All passengers that fly on services provided under the Corporate Alliance will be able to accrue frequent flyer points and status credits across the full suite of air services, including charter services. Passengers can then use the Velocity frequent flyer points that they accrue when they are travelling for leisure purposes. Corporate customers, particularly companies with a large FIFO workforce, view these ancillary benefits as highly desirable because the provision of a comprehensive frequent flyer program is a key employee benefit that can be used to attract a higher skilled workforce in a market where there is a shortage of suitable workers. These FFP and lounge benefits would not be made available to passengers without the broader Corporate Alliance.

In conjunction with the interline arrangement between the Applicants, cooperation in relation to check-in and other airport services under the Corporate Alliance, will enable passengers to enjoy a more seamless travel experience with the ability to complete their journeys across the Applicants' charter and RPT networks under a single itinerary, with streamlined check-in and with their baggage checked through to the final destination. Corporate travellers will benefit from this increased convenience and a reduced likelihood of luggage being lost. The Applicants will also work together to ensure that check-in services and departure and arrival terminals are collocated to further minimise inconvenience and delay to passengers.

These are valuable benefits³⁵ which create efficiencies both for the corporate customers and for the individual employees using their services.

For example, under the Corporate Alliance:

³³ An eligible sector is a flown journey from an origin to a destination on a Virgin Australia booking (DJ or VA Flight number).

³⁴ Further details about the benefits associated with Gold Membership in the Velocity program: <<http://www.velocityrewards.com.au/content/Status/GoldStatus/index.htm>>.

³⁵ The benefits from enhanced products and services are rated as being very important to passengers in customer surveys. These surveys consistently show that airline satisfaction is not solely based on the price of the service but is also closely tied to the additional services offered by airlines. The ACCC has previously accepted that improved value-added products, as well as better schedules and frequencies are valued by passengers and are a direct source of public benefits. See, for example: ACCC, *Determination: Applications for authorisation lodged by Virgin Australia and Singapore Airlines in respect of an airline alliance between the applicants*, 1 December 2011, [4.43-4], [4.56], [4.52], [4.50-1]; ACCC, *Determination: Applications for authorisation lodged by Virgin Blue Airlines Pty Ltd and Others in respect of an airline alliance between the applicants* (16 December 2010) [4.56], [5.96], [5.106], [5.133]-134], [5.127], [5.116].

- A geologist residing in Melbourne with a FIFO role at Brockman can book all her air travel requirements to (and from) Brockman as two connecting flights, through one point of contact. For example, she could fly Perth-Melbourne on Virgin Australia's RPT services on a Flexi fare, then Perth-Newman on a Skywest-operated charter flight. Based on this itinerary, the employee is likely to earn sufficient Velocity status credits (and frequent flyer points) on these services to upgrade to a Velocity Gold Membership after four return trips,³⁶ after which she will have access to the Virgin Australia lounges at Melbourne and Perth airports, as well as other travel benefits like priority check-in. In conjunction with the interline arrangements between the Applicants, this traveller would be able to check in her luggage through to Brockman at the Virgin Australia counter in Melbourne and vice versa for the return trip.
- A FIFO project manager living in Christchurch and working at Cloudbreak can travel, under a single itinerary, across Virgin Australia's domestic and international networks (including through its alliance with Air New Zealand), on a one-stop Business Class service from Christchurch-Perth, and a Skywest-operated charter flight from Perth-Cloudbreak. He could earn Velocity status credits and frequent flyer points on each leg of the journey, and if eligible, access Virgin Australia's domestic lounges at Sydney and Perth airports and Air New Zealand's lounge in Christchurch airport. Based on this itinerary, the employee is likely to earn sufficient Velocity status credits (and frequent flyer points) on these services to upgrade to a Velocity Gold Membership after two return trips,³⁷ enabling complimentary lounge access. In conjunction with the interline arrangements between the Applicants, and the arrangements between Virgin Australia and Air New Zealand, this passenger can check in his luggage from Christchurch through to his final destination at Cloudbreak.
- A senior manager at a mining company, who resides in Perth, regularly needs to fly between Perth and an iron ore mine site in West Angeles and for business meetings in Singapore and throughout Asia. He can access the benefits of an integrated offer when flying between home, the mine site and international meetings. For example, he can complete a journey between West Angeles and Singapore under a single itinerary and a streamlined check-in process through a combination of Skywest-operated charter services, Virgin Australia-operated domestic RPT services and services supplied by Virgin Australia through its alliance with Singapore Airlines. He would be able to earn Velocity status credit and frequent flyer points across both domestic and international services and access Virgin Australia's domestic lounge in Perth airport, as well as Singapore Airlines' lounge in Singapore at Changi airport. In conjunction with the interline arrangements between the Applicants, and the arrangements between Virgin Australia and Skywest and Singapore Airlines respectively, this passenger can check in his luggage from his point of origin through to Singapore.

(c) Opportunities for new routes, frequencies and increased capacity

The Applicants anticipate that the Corporate Alliance will allow them to win a greater share of corporate contracts, attracting more passengers and increasing load factors on RPT services and improving utilisation of charter aircraft. As a result, the Corporate Alliance will create more opportunities for the Applicants to expand their services by adding frequencies, acquiring new aircraft to expand charter operations and, potentially, to commence new routes. This in turn will provide customers with additional convenience and choice and stimulate further competition.

Further, the Corporate Alliance will provide Virgin Australia and Skywest with more opportunities to expand charter services beyond Western Australia to meet increasing demand in other states, particularly in Queensland.

³⁶ Based on the purchase of Flexi fares.

³⁷ Based on the purchase of Business fares.

4.3 Promotion of competition in the supply of air transport services to corporate customers

As noted above in section 3, the Applicants' commercial rationale for entering the Corporate Alliance is the ability to offer corporate customers an integrated service offer. Currently, Qantas is the only airline that can supply a full suite of services which include charter services, RPT (domestic and international) services and frequent flyer and lounge benefits. The Corporate Alliance will allow Virgin Australia and Skywest to compete head to head with Qantas in the supply of this integrated offer to corporate customers. The main commercial driver of the Corporate Alliance is therefore pro-competitive. The effects of this competition will have real benefits for Australian corporate customers in terms of both lower prices and higher service quality.

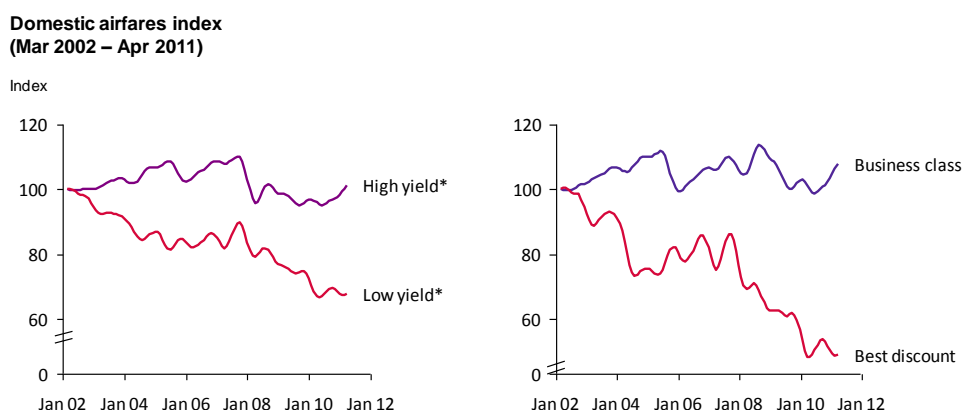
(a) The number of competitors able to provide a complete service package to corporate customers will increase from one to two

The Corporate Alliance will promote competition in the supply of air transport services to Australian corporate customers by providing a comparable alternative to Qantas. In particular, the Corporate Alliance will bring together different yet equally important elements of the Applicants' current service offers to provide a new integrated competitive offer to corporate customers. Virgin Australia will provide a strong domestic and international RPT network, the comprehensive Velocity frequent flyer program and Virgin Australia lounges. Skywest will provide specialised charter services and a localised RPT network in Western Australia.

(b) The Applicants will be able to exert increased competitive pressure on Qantas

As Virgin Australia has previously submitted with respect to its alliance with Singapore Airlines, Qantas' dominance in supplying corporate customers has meant that average fares for business class passengers have remained high over time (see Figure 3 below). In contrast, Virgin Australia has competed strongly in the Australian domestic leisure travel market with Qantas such that average fares have decreased over time.

Figure 3: Business class and high yield fares have remained high over time³⁸



Under the Corporate Alliance, Virgin Australia and Skywest are seeking to provide a competitive and compelling offer to corporate customers. Under the Corporate Alliance, the Applicants will be able to offer more competitive pricing to corporate customers than on a stand-alone basis as they will be able to offer discounts on bundled products.

³⁸ 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

By providing a second option for corporate customers that prefer a full suite of products and services, the Corporate Alliance will bring competition to this market which is likely to have the effect of lowering prices.

(c) Qantas' expected competitive response

The Corporate Alliance is likely to elicit a strong competitive response from Qantas.

Qantas is already in the process of building up the weakest element of its own integrated offer, being charter operations. As noted above in section 3, Qantas recently acquired a network charter operator, Network Aviation in December 2010.³⁹ Qantas subsequently announced that it was investing in its charter operations with the expansion of its fleet.⁴⁰

The Applicants expect Qantas to respond to the Corporate Alliance with further investments in its charter services and/or by offering more competitive pricing, resulting in further decreases in the average price paid for services by corporate customers and further improvements in product and service quality.

Competition on non-price elements will also be fostered by the Corporate Alliance. Qantas may add, for example, further enhancements to its frequent flyer program or may build additional lounges in regional airports if it considers that the Applicants are winning business corporate customers at its expense.

The ACCC has previously recognised the likelihood of Qantas competitively responding to improved services in the context of Virgin Australia's alliance with Singapore Airlines. In that context, the ACCC concluded that improved Alliance products have "the potential to trigger a competitive reaction from Qantas. This may lead to better price and service offerings for Qantas passengers. In turn, Qantas' reaction to the Alliance could stimulate a second round competitive response from the Alliance." The ACCC concluded that the Alliance had the potential to result in public benefits by stimulating competition between the applicants and Qantas, including in respect of corporate and government passengers.⁴¹

4.4 Benefits associated with meeting the requirements of a rapidly expanding resources sector

As noted above, mining and resources companies represent a large part of the corporate customer segment that the Corporate Alliance is seeking to attract. The Applicants consider that a key benefit of the Corporate Alliance is the ability to meet the requirements of these companies which ultimately, as explained below, leads to an increase in Australia's economic growth.

It is estimated that the national FIFO workforce totals approximately 50,000 people (including contractors and additional service providers).⁴² These workers fly a total of approximately 3.5 million sectors per annum travelling between home and work.⁴³

³⁹ Qantas, Media Release: Qantas to purchase and grow WA charter operator, 13 December 2010, <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2010/dec10/5055>>.

⁴⁰ Qantas, Media Release: Qantas to Boost Aircraft Fleet, 17 February 2011, <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/feb11/5081>>.

⁴¹ ACCC, Determination, Applications lodged by Virgin Australia and Singapore Airlines in respect of an airline alliance between the Applicants, 1 December 2011, [4.62]-[4.63].

⁴² Paul Cleary, 'FIFO jobs leave hole in regions', *The Australian* (online), 23 July 2011 <<http://www.theaustralian.com.au/news/features/fifo-jobs-leave-hole-in-regions/story-e6frg6z6-1226099602731>>.

⁴³ Based on 50,000 FIFO employees working on a 2 week on 2 week off roster, assuming that they fly 2 sectors per one-way trip, for example live in Melbourne and work in Paraburdoo, necessitating a connection in Perth. This estimate excludes all additional work travel.

(a) Western Australia

As noted in Annexure D, FIFO services have become a critical element in maintaining a fully operating workforce in mining sites across Western Australia. The number of employees in the resources sector in Western Australia that are currently employed on a FIFO basis is currently 52%.⁴⁴ Of these employees, a large number reside in Perth. However, increasingly, significant numbers of employees travel from the east coast of Australia or even New Zealand to work on a rotational basis in the Pilbara. For example, Newcrest is flying workers from Orange to the Telfer mine in Western Australia. It is expected that this number (currently 50) will grow to around 330 per week.⁴⁵

With the level of investment in the State's mining industry reaching \$28.3 billion in 2010–11 and set to grow rapidly over the next few years, these trends are likely to continue. That is, the proportion of FIFO employees that need to travel from interstate and indeed, overseas, will rise over time. It is this dynamic which is driving some mining companies to seek a complete service package from an airline.

Qantas has also recognised the opportunity that this changing competitive dynamic represents. In this context, the CEO of Qantas, Alan Joyce, noted at the time that Qantas acquired Network Aviation that "[t]his is an important market [the FIFO market], and a growth market, and Qantas will now become a key player in meeting the needs of the resources sector. This will significantly enhance the scope of what Qantas can offer the mining sector, bringing new competition to the marketplace."⁴⁶

Under the Corporate Alliance, the changing needs of the resources sector will be better met through the Applicants' ability to offer a competitive integrated package to mining companies. In particular, the provision of charter services to meet FIFO needs will play an important part in the mining boom. Increased FIFO services will allow mining companies to employ more people on a FIFO basis. This will mean that companies can increase production thereby increasing Australia's economic growth, a clear and significant public benefit.

(b) Other areas of Australia

The mining boom is not limited to Western Australia. For example, in Queensland, there are a vast number of liquefied natural gas (LNG) projects that are yet to be developed.⁴⁷

The Queensland Government noted that:⁴⁸

Economic studies indicate a 28 Mtpa LNG industry could generate over 18 000 direct and indirect jobs in Queensland. Over 4 300 of these jobs are expected to be in the Surat Basin region.

The projected increase in employment in regional mining areas in Queensland in addition to the fact that some companies, such as BMA (the BHP Billiton Mitsubishi Alliance)⁴⁹ are shifting to a 100%

⁴⁴ Andrew Duffy, 'WA FIFO numbers skyrocket', *Australian Mining* (online) <<http://www.miningaustralia.com.au/news/wa-fifo-numbers-skyrocket>>.

⁴⁵ NSW Government, Submission No 145 to House Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 31 October 2011, 10.

⁴⁶ Qantas, 'Qantas to purchase and grow WA charter operator,' (Media Release, 13 December 2010) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2010/dec10/5055>>.

⁴⁷ See, for further details, Queensland Government, 'The LNG Opportunity,' <<http://www.industry.qld.gov.au/key-industries/810.htm>>.

⁴⁸ Queensland Government, 'Queensland's LNG Industry: A once in a generation opportunity for a generation of employment,' November 2010, 4 <<http://www.industry.qld.gov.au/key-industries/810.htm>>.

⁴⁹ Shift Miner, 'Clear for landing – regions clamber for FIFO', 15 August 2011, 1, 4 <<http://issuu.com/shiftminer/docs/118-smm>>.

FIFO workforce, is likely to increase the demand for FIFO services significantly and rapidly. The Corporate Alliance will enable the Applicants to be in a better position to match this demand.

In New South Wales, the significance of the mining industry has increased over the past decade in terms of contribution to employment, investment and export revenue. The industry is expected to grow by 67%,⁵⁰ with a large number of projects in the development or planning stages, including the \$1.9 billion expansion of the Cadia East gold mine near Orange; the \$1.1 billion development of the Xstrate Mangoola coal mine near Muswellbrook and the \$400 million open-cut coal mine at Mt Pleasant which is currently under consideration.⁵¹ The NSW Minerals Council estimates there are approximately 50 new projects and extensions worth \$14 billion planned over the next decade.⁵²

Over 2000-10, the mining industry has more than doubled its workforce to 34,000, or 1% of the total New South Wales workforce.⁵³ In 2009-10, mining-related exports comprised \$14 billion or 45% in total New South Wales commodity export value, increasing by 133% in the past decade, compared to an increase of only 65% of exports as a whole.⁵⁴

FIFO work practices are also widely used in by the mining sector in the large infrastructure and development projects in the Northern Territory. These projects include the Xstrata McArthur River Mine near Borroloola, the Newmonth Tanami projects, the Rio Tinto Alcan Gove operation and the GEMCO manganese operation at Groote Eylandt.⁵⁵ Over 3,000 FIFO workers are expected to commence work on the proposed INEX Ichthys Project at Blaydin Point between 2012 and 2016.⁵⁶

FIFO is also an established and critical work practice in South Australia due to the nature and remote location of much of the resources industry. The majority of these resources would not be viable without FIFO as an option.⁵⁷ The South Australian mining industry has quadrupled over the past decades, from four mines in 2001 to 12 major operating mines in 2011, with a further 27 projects in various stages of development and 80 prospective sites.⁵⁸ Major mine sites in South Australia include BHP Billiton's Olympic Dam (which has the world's largest uranium deposit, the fourth largest copper deposit, and the fourth largest gold deposit) and OneSteel's Middle Back Ranges and Iron Chieftain iron ore mines.

4.5 Cost savings and efficiencies

The primary objective of the Corporate 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 customers with an integrated

⁵⁰ NSW Government, Submission No 145 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 31 October 2011, 8.

⁵¹ NSW Government, Submission No 145 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 31 October 2011, 8.

⁵² Dr Nikki Williams, 'Developments and Challenges for the NSW minerals industry' (Speech delivered at Mining NSW, Orange Ex-Services Club, 30 August 2011) < <http://www.nswmin.com.au/Media-Speeches-and-Info/Reports-Speeches/2011-Speeches/default.aspx>>.

⁵³ NSW Government, Submission No 145 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 31 October 2011, 5.

⁵⁴ NSW Government, Submission No 145 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 31 October 2011, 7.

⁵⁵ Northern Territory Government, Submission No 131 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 24 October 2011, 3.

⁵⁶ Northern Territory Government, Submission No 131 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 24 October 2011, 3.

⁵⁷ South Australian Chamber of Mines and Energy, Submission No 130 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 24 October 2011, 6.

⁵⁸ South Australian Chamber of Mines and Energy, Submission No 130 to House of Representatives Standing Committee on Regional Australia, Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia, 24 October 2011, 2.

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

- engage in joint bidding and tendering which will allow the Applicants to capture synergies and utilise existing negotiation strengths to more efficiently respond to tenders and bid for services; and
- investigate opportunities for further synergies including through joint airport operations, such as the sharing of IT services, sharing of airport facilities and staff, including consolidation of check-in services, and joint procurement of ground handling services, leading to efficiencies and cost savings. For example, the Applicants intend to co-locate their check-in counters where applicable and to share staff. In the Applicants' experience, Virgin Australia's check-in is busy in the morning while Skywest's is busy in the afternoon. By consolidating operations, the Applicants can better serve customer needs in peak time while creating efficiencies.

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

5 Framework for analysis of competitive effects

The Corporate Alliance contemplates cooperation between the Applicants with respect to the supply of an integrated package of air transport services and ancillary products to corporate customers under tender or contract.

Virgin Australia and Skywest do not currently compete to supply an integrated offer to corporate customers as they do not have the individual ability to tender for, or contract with, customers on this basis.

Under the Corporate Alliance, the Applicants will be able to supply a 'total solution' to these corporate customers, cutting across a range of air passenger transport services, including markets for the supply of charter air services, domestic RPT services and international RPT services.

A detailed background of the charter and FIFO air services industry and the broader domestic aviation market, including the key operators in Australia, is provided in **Annexures D and E**.

The existing services of the Applicants overlap in relation to the supply of the following services:

- intra-Western Australia RPT air transport services: Virgin Australia and Skywest currently offer overlapping services on one RPT route within Western Australia (Perth-Broome);⁵⁹ and
- domestic air freight services.

There is limited overlap in the Applicants' international operations – Skywest operates one international service, being the Geraldton–Bali service. Virgin Australia operates flights to Bali, but not from Geraldton.

Air freight services are explicitly carved-out of the scope of the Corporate Alliance. Except to the extent that they form part of a contract with a corporate customer, RPT services are also explicitly excluded from the scope of the Corporate Alliance.⁶⁰

⁵⁹ Virgin also operates on the Perth-Darwin route, on which Skywest also services via Broome on a seasonal basis.

⁶⁰ See Corporate Alliance Framework Agreement, clause 5.4

Under the Corporate Alliance, the Applicants' cooperation, and consequently, a large proportion of the anticipated public benefits, will be limited to the supply of air transport services to corporate customers. Accordingly, the Applicants submit that the relevant markets for assessing the competitive effects arising from the Corporate Alliance should be limited to corporate customers, being a segment in the markets for the supply of:

- regular domestic air passenger transport services within Australia;
- regular international air passenger transport services to and from Australia; and
- charter services within Australia.

However, the Applicants consider that the assessment of competitive effects and public benefits arising from the proposed Corporate Alliance does not turn on the market definition adopted. This is because the Corporate Alliance either increases competition or leaves it unchanged in the relevant markets.

6 Competition Assessment

The Corporate Alliance is unlikely to substantially lessen competition in any relevant market. Rather, the Corporate Alliance is likely to increase competition for the supply of services to the corporate/government sector.

6.1 The Corporate Alliance will promote competition for the supply of services to corporate/government customers

As discussed above, the Corporate Alliance will enable the Applicants to offer an improved product to corporate customers, which is comparable to that offered by Qantas. For those customers who require or prefer an integrated offer, they will have a choice of airline providers for the first time. This choice will promote competition with Qantas, to which it will be likely to respond through price and service improvements.

6.2 No lessening of competition for the supply of charter services within Australia

The Corporate Alliance will not lessen competition in the market for the supply of charter services within Australia. Virgin Australia does not currently operate in this market and, absent the Corporate Alliance, Virgin Australia is unlikely to commence operating its own charter services in competition with Skywest. As discussed in section 3 above, entry into this market by Virgin Australia would necessitate the significant acquisition of a dedicated fleet of aircraft and considerable investment of management time and strategic positioning and would be at a material cost disadvantage if it did so. **[Confidential - Restriction of publication claimed]** the Corporate Alliance will increase the ability of Virgin Australia to compete in this sector by giving it the opportunity to build relationships with corporate customers in Western Australia and prompting further investment in increased frequencies and fleet.

As outlined in Annexure D, there are a number of charter operators in Western Australia that closely compete with Skywest. In particular, Qantas (Network Aviation), Alliance Airlines, Cobham and Skippers are considered to be the leading charter operators in competition with Skywest in Western Australia. Skywest currently competes vigorously with these operators and will continue to do so under the Corporate Alliance.

6.3 No lessening of competition for the supply of domestic or international RPT services

There is very limited competitive overlap between the operations of Virgin Australia and Skywest. The only route on which they both operate is Perth-Broome. Skywest does not have domestic or international RPT networks (apart from the routes on its localised Western Australian network and one international service, as discussed in section 1.2 and shown in Figure 1), or offer any competing value-

added products such as a frequent flyer program and member lounges. In the absence of the Corporate Alliance, Skywest is unlikely to be a competitor with Virgin Australia for broader domestic or international network services or for frequent flyer services. In order to enter this market, Skywest would need to make significant investments in aircraft, airport facilities, management and staff. It would also be inconsistent with Skywest's business model. Therefore, the Corporate Alliance will result in no loss of actual or potential competition in RPT markets.

Further, the Corporate Alliance explicitly excludes joint pricing and capacity conditions on RPT services that are supplied to the general public. While RPT services will be provided to corporate customers as part of an integrated offer, pricing for corporate customers is separate from those made publicly available and does not influence publicly available pricing. Pricing to corporate customers is personalised to that customer, based on the volume and value of services purchased. It is individually negotiated and typically involves either a discount off published fares (on a best fare of the day minus discount basis) or a specifically negotiated price. As such, joint pricing of RPT services in the context of corporate accounts will not have a flow-on effect on services supplied to the general public.

For these reasons, the Corporate Alliance would not result in a lessening of competition in any market, or in any other detriment.

6.4 Counterfactual Analysis

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

In the counterfactual each of Virgin Australia and Skywest would continue to offer their present services and would have a limited ability to provide corporate customers with an integrated offer. For the reasons outlined in section 2, in the counterfactual, the Applicants would not have the incentive to cooperate, invest and implement all of the elements of the Corporate Alliance. In particular, the Applicants would not have the incentive to offer frequent flyer or lounge access across their networks, resulting in fewer commercial benefits for the Applicants and fewer public benefits.

As a consequence the significant benefits associated with improved service quality and enhanced products and services for corporate customers and their employees, increased price and service competition with Qantas, as well as the benefits for Australia's economic growth, will not be realised.

7 Conclusion

For the reasons set out in this submission, the Applicants submit that the ACCC should grant interim authorisation to the Corporate Alliance. The requirement of urgency is met as the Applicants want to commence cooperating by 23 January 2012 in order to be prepared to submit joint bids in response to tenders that will commence in early 2012. Without interim authorisation by this date, the Applicants would forego a significant opportunity to supply these customers **[Confidential - Restriction of publication claimed]** and would be locked-out from that supply for the term of the contracts. It would also be to the detriment of corporate customers seeking a competitive integrated charter/RPT service offer.

The Applicants submit that the ACCC should grant final Authorisation because the Corporate Alliance:

- will not result in any detriments or substantially lessen competition in any relevant market or lead to a loss of potential competition; and
- will result in significant and substantiated public benefits including a more attractive integrated product for corporate customers, in closer competition with Qantas. The Corporate Alliance will result in enhanced products and services that will be valued by passengers and, by meeting Australian business needs for FIFO services, will contribute to Australia's economic growth. Further, it will enable the Applicants to achieve cost savings and synergies.

Annexure A – Confidential: Executed Agreements

[Confidential - Restriction of publication claimed]

Annexure B – Virgin Australia Group



B1 Virgin Blue's transformation into Virgin Australia: a brief history

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 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.

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.

B2 New look and branding

On 4 May 2011, the "Virgin Australia" name and brand was introduced for the airline's domestic 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 NWC business model in late 2005.

The new name and branding, along with new livery, product and service offer will be implemented across all of the company's current airlines by the end of 2011 in order to build one strong, consolidated brand which will be recognised globally.

B3 Game Change Strategy

As part of its Game Change Strategy, Virgin Australia has undertaken the following initiatives in order to improve its product and service offer 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, Delta Airlines and, subject to final authorisation, Singapore 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'⁶¹ of up to 18 new turboprop aircraft operated by Skywest and a codeshare relationship with Skywest, enabling Virgin Australia to service additional regional destinations.⁶²
- The opening of new regional routes with the introduction of the new ATR aircraft.
- The introduction of new, simplified fare classes on domestic and Pacific Blue services: Saver, Flexi or Premium (Premium Economy / Business) fares, providing more transparency and better value across the fare classes.⁶³
- The announcement of business class seating and service to be rolled out across Virgin Australia's domestic fleet. Virgin Australia commenced sales of its full Business Class product on Boeing 737 aircraft between the east coast to Perth in September 2011.
- 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 regional lounges announced for Mackay and Coolangatta (the Gold Coast). The expansion and upgrade of the Sydney and Perth lounges is planned for 2012.
- 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.

Figure B1: New Virgin Australia livery



⁶¹ A wet lease is a leasing arrangement whereby one airline (lessor) provides an aircraft, complete crew, maintenance, and insurance to an airline (the lessee), which pays by hours operated.

⁶² Virgin Blue, Media Release, "Virgin Blue and Skywest sign 10 year strategic alliance to create regional network," 10 January 2011.

⁶³ Virgin Australia, Media Release: "Proudly Introducing New Fares form Virgin Australia," 23 May 2011.

B3 Operations

Virgin Australia Group operates services to 32 Australian and 17 international destinations including the USA, UAE, New Zealand, Indonesia, Thailand, Papua New Guinea, Fiji, Samoa, Tonga, Vanuatu and the Cook Islands.

(a) Long haul international operations and virtual international network

Virgin Australia's international flight network has recently seen significant expansion through authorised alliances with Air New Zealand, Etihad Airways, Delta Air Lines and Singapore Airlines, connecting passengers to Europe via the Middle East and Singapore, to destinations throughout Asia and onwards to India, Africa and the Middle East, to numerous cities within 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 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.

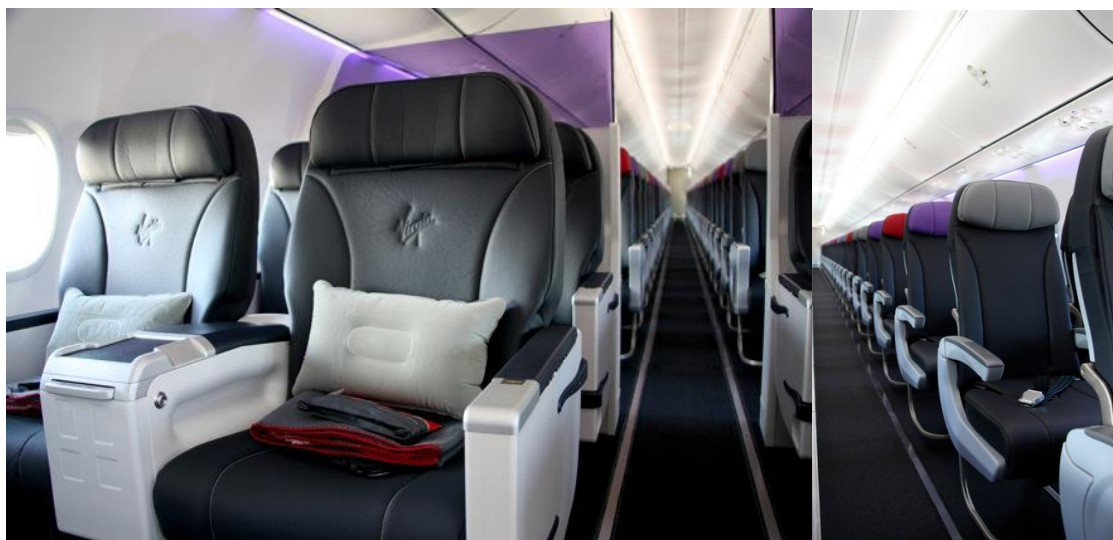
(b) Domestic operations

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, 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 currently 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. All domestic Virgin Australia jet flights will have business class from January 2012. Features include luxury seating with 62 inch pitch, Luke Mangan-created meal service, dedicated washroom facilities and amenity kits, pillows and blankets on three hour and longer flights.

Figure B2: 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.

(c) Regional operations

In January 2011, Virgin Australia and Skywest entered into a wetlease agreement, which is part of a long term strategic alliance, in order to service regional Australia.

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 ATR72s have been introduced in 2011, with an additional four due in 2012.

(d) 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 operates approximately 30% of the projected capacity on the trans-Tasman sectors (Air New Zealand operates 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 Australia.

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.

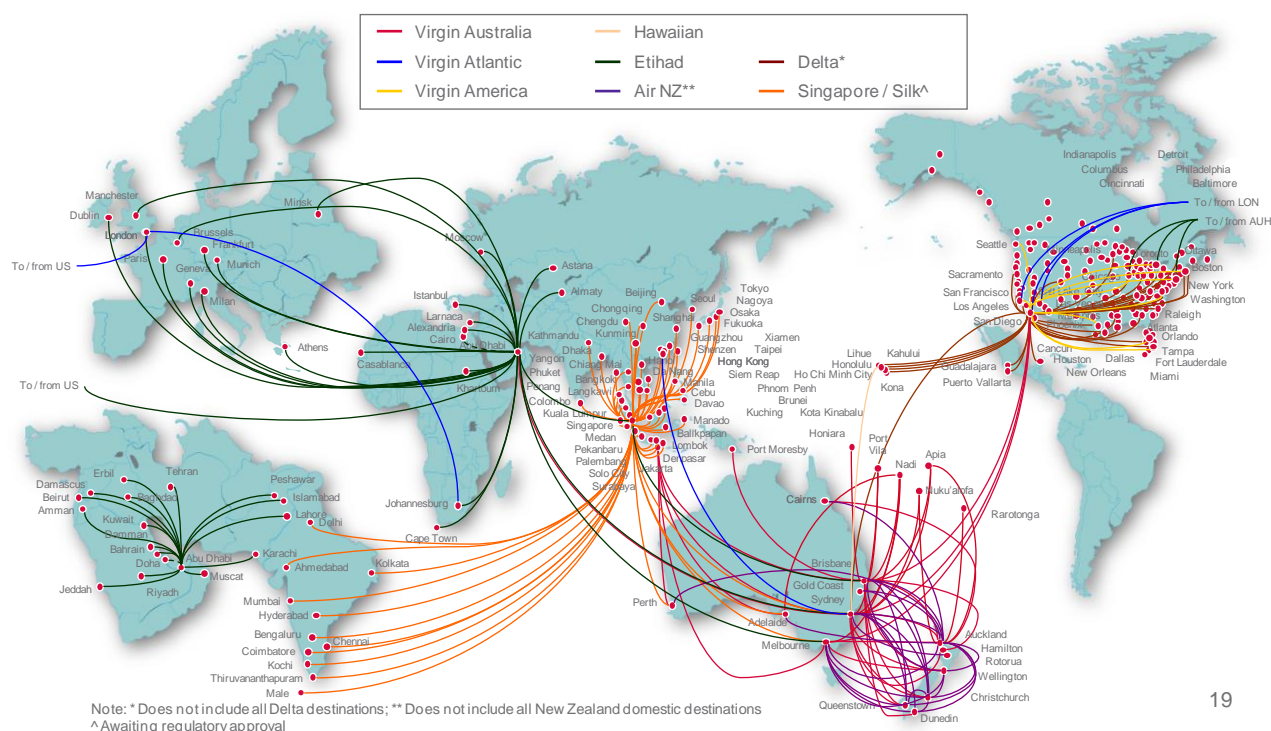


The Virgin Australia Group also has a joint venture with the Samoan Government, Polynesian Blue. It operates between Sydney, Brisbane, Auckland and Apia with a single Boeing 737-800. Its rebranding is dependent on agreement with the Samoan Government.

B4 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 (see Figure B4). These partners include its strategic Alliance partners Air New Zealand, Delta Air Lines, Etihad, Singapore Airlines, Silk Air and Skywest. Virgin Australia also has interline arrangements with the following carriers for inbound and outbound traffic to/from Australia and New Zealand: 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, Singapore Airlines and Silk Air, Thai Airways, Vietnam Airlines and Virgin Atlantic.

Figure B4: Virgin Australia's international network



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(e) 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, Etihad, and Singapore Airlines.

The program was relaunched in August 2011. Virgin Australia 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
- 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.

As part of the relaunch of Velocity, Virgin Australia recently ran a promotion offering an instant Velocity 'status match' deal for Qantas frequent flyer members with silver, gold or platinum status. An on-the-spot upgrade was offered to the equivalent level of Velocity membership, valid for 12 months.

Virgin Australia has also expanded the Velocity program's appeal by partnering with a range of non-airline partners, including Westfield.

There are currently 2.75 million members of Velocity.

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.

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 upgraded Brisbane lounge re-opened in July 2011. Virgin Australia will open its first lounges in Mackay and Coolangatta in early 2012.

Figure B4: Virgin Australia's new Melbourne airport lounge



Annexure C – Skywest Airlines

C1 Skywest's operations

Skywest was originally formed as Carnarvon Air Taxis in 1963. Each year, Skywest flies approximately 360,000 RPT passengers, covering 17 destinations and providing an essential link for regional communities, tourists and businesses. Skywest caters for regional Western Australians, international and domestic tourists; corporate travellers and FIFO mining staff.

C2 The Skywest Fleet

(a) Fokker 100



Skywest currently operates 9 Fokker 100 aircraft, with another undergoing work for deployment into service in late 2011

The Fokker 100 is a jet aircraft with a maximum cruise speed of 760 km/h, and with an unrestricted climb its maximum cruise altitude is 35,000 feet. The Fokker 100 also has the smallest noise footprint of any jet aircraft in its class and can operate to most sealed airports without the need for major modifications to the local infrastructure.

Skywest is continuing the upgrade of its fleet with the planned introduction of an integrated Global Navigation Satellite System (GNSS). The integrated GNSS will deliver more accurate aircraft tracking performance, which will allow for shorter approaches at night and in bad weather, as well as saving time and fuel and significantly enhancing safety and schedule reliability. Importantly it gives Skywest enhanced capability to increase the number of overall flights per day and allows the aircraft to land at night at the remote and unattended airfields typical of major mining operations.

(b) Fokker 50



Skywest currently operates 8 Fokker 50 aircraft.

The Fokker 50 aircraft is configured with 46 seats for Skywest operations, ensuring a high level of comfort including ample cabin baggage space, extended seat pitch (extra leg-room) and full in-flight catering facilities.

The aircraft are ideally suited to Western Australian operating conditions offering a fast, efficient and comfortable service, with the best payload/range characteristics in its class.

The high-winged design is also well suited to gravel runways in the more remote locations.

(c) Airbus A320



With a much larger capacity than the current Fokker aircraft, the A-320, VH-FNP, entered service in November 2010 in the mining charter operations area. Skywest Airlines believes this aircraft to be the largest aircraft used in FIFO operations anywhere in the world.

Skywest's A-320 continues its overall fleet bias towards passenger comfort through the generous allowance of extra passenger leg room. FNP is configured to hold 162 passengers rather than the usual 180 seats that is more common for this aircraft type with overseas operators.

(d) ATR-72 500

Skywest has recently taken delivery of its first three ATR-72 500 aircraft. Skywest anticipates the addition of up to 18 aircraft into its fleet as part of its wet lease agreement with Virgin Australia.

The ATR 72 is a twin-engine turboprop short-haul regional aircraft. It seats up to 68 passengers in a single-class configuration and is operated by a two pilot crew. The ATR 72-500 is the latest development of the ATR 72.

The ATR 72-500 fully meets its customer requirements in a rapidly evolving market and is playing a major role in the growth of regional carriers. It offers the lowest seat-mile costs in its class and great efficiency and reliability - the key to efficient regional operation.



Annexure D – Industry background

D1 Regulation of intra-state air services in Western Australia

There are three broad categories of licences issued for intrastate air services operations in Western Australia:

- regulated regular public transport - regulated routes (mixture of networks, protected routes and subsidised air services) are approved by the Minister for Transport and consist of routes where there are insufficient passengers to support open competition.⁶⁴ Figure D1 below illustrates these regulated networks and routes;
- deregulated regular public transport - since 28 February 2011, there are a total of 11 deregulated routes in Western Australia that connect Perth with Broome, Busselton, Geraldton, Kalgoorlie, Kambalda, Karratha, Kununurra, Paraburdoo, Port Hedland, Newman and Ravensthorpe;⁶⁵
- charter services and other private operations are free from intervention on the proviso that they do not operate on a route which is served by RPT services. In this category will be FIFO operations contracted to resource companies and tourist or business charter flights.

Regular public transport services operate according to a published schedule.⁶⁶ Charter services are services that are not regular public transport services.⁶⁷ Typically charter licensees will be constrained in that they cannot operate to an advertised published schedule, sell tickets individually and fly with any great frequency to specified airports, and have more relaxed reporting requirements compared to regular public transport operators.⁶⁸

In Western Australia, charter services on all regular public transport routes are limited to one service per client per calendar week (Monday to Sunday).⁶⁹ Additional charter services require Ministerial approval. The Department of Transport has indicated there are two principles which will guide charter operations flying on the same routes as regular public transport services:

- communities should be able to benefit from mining development in their area; and
- charter operations should not detract from the regular public transport services provided to the community.⁷⁰

⁶⁴ The TCR presently specifies 15 airports to which special conditions apply: *Transport Co-ordination Regulations 1985* (WA) schedule 3.

⁶⁵ WA Department of Transport, *Air Services* <<http://www.transport.wa.gov.au/aviation/1346.asp>>.

⁶⁶ *Transport Co-ordination Regulations 1985* (WA) reg 3.

⁶⁷ *Transport Co-ordination Regulations 1985* (WA) reg 3.

⁶⁸ *Transport Co-ordination Regulations 1985* (WA) regs 8BA-BB.

⁶⁹ WA Department of Transport, *Intrastate Air Services* <<http://www.transport.wa.gov.au/aviation/15829.asp>>.

⁷⁰ WA Department of Transport, *Aviation framework – frequently asked questions* <www.transport.wa.gov.au/AviationFramework_FAQs.pdf>.

Figure D1: Regulated routes in Western Australia⁷¹



⁷¹ WA Department of Transport, *Intrastate Air Services 2010 Presentation to Stakeholders* (9 April 2010) <<http://www.transport.wa.gov.au/aviation/19582.asp>>. Note: This map was part of a presentation on the proposed framework for regulated air services in 2010 and do not reflect the correct number of operators on each route i.e. only the Perth-Learmonth route (Western Coastal Network) currently has two operators.

Figure D2 below lists the carriers currently servicing regular public transport routes in Western Australia. Much of the capacity on these routes is sold in blocks to corporate customers.

Figure D2: Airlines currently operating on regular public transport routes⁷²

Carrier	Regional centre
Airnorth	Services Perth, Broome, Karratha, Kununurra and Port Hedland
Cobham Aviation	Services Perth and Kambalda
Golden Eagle Airlines	Services Broome, Derby, Fitzroy Crossing and Halls Creek
Qantas / Qantaslink	Services Perth, Broome, Exmouth, (Learmonth), Kalgoorlie, Karratha, Kununurra, Exmouth, Newman, Paraburdoo and Port Hedland
Skippers Aviation	Services Perth, Carnarvon, Kalbarri, Laverton, Leinster, Leonora, Meekatharra, Monkey Mia, Mt Magnet and Wiluna
Skywest	Services Perth, Albany, Broome, Busselton, Esperance, Exmouth (Learmonth), Geraldton, Kalgoorlie, Karratha, Kununurra, Newman, Paraburdoo and Port Hedland
Air Australia	Services Perth and Derby
Virgin Australia	Services Perth, Broome, Kalgoorlie, Karratha, Kununurra, Newman and Port Hedland. In addition, provides services to the Indian Ocean Territories of Christmas Island and Cocos Island.

D2 Charter services

In 2005, air charter comprised approximately 22% of all general aviation activity (measured in hours).⁷³

Charter services are generally priced on a per trip basis. If charter services are provided on a contractual basis, trip rates are typically subject to adjustments for exogenous factors. For instance, the trip rate may increase with changes in the cost of fuel, the exchange rate and CPI. In addition to the per trip charge, passenger fees and charges may be applied separately.

Charter operations and other private flight operations are not regulated to the same extent as RPT services. This means that charter operators cannot operate to an advertised published schedule, sell tickets individually and operate frequent services to specified airports.⁷⁴

Some charter services can be provided on RPT routes on an exclusive-use basis or with a large proportion of seats sold as a block to an individual customer.

Charter services are typically provided in older aircraft. BITRE estimates suggest that 77% of charter services are provided by aircraft that are more than 10 years old, and 50% in aircraft that are more than 20 years old.⁷⁵ Figure D3 shows the types of aircraft used for charter flying in 2009.

⁷² WA Department of Transport, *Air Services* <<http://www.transport.wa.gov.au/aviation/1346.asp>>.

⁷³ BITRE, *Report 111 – General Aviation: An industry overview*, (2005) 83.

⁷⁴ *Transport Co-ordination Regulations 1985* (WA) regs 8BA-BB.

⁷⁵ BITRE, *General Aviation Activity 2009* (2010) 6.

Figure D3: Aircraft performing any charter flying, 2009⁷⁶

Aircraft make	Number of aircraft	Number of landings (thousands)	Hours flown								Regional Airline	Total
			Private	Business	Training	Agriculture	Aerial Work	Test & Ferry	Charter			
Fixed wing, single engine												
Cessna	395	192.1	9.6	1.4	25.6	0.2	5.1	1.1	102.3	0.6	145.9	
Gippsland	35	21.9	0.3	-	0.3	0.0	0.5	0.1	16.8	0.0	18.0	
De Havilland	40	13.7	0.3	0.2	0.3	0.0	0.1	0.1	6.9	0.0	7.8	
Piper	54	19.3	1.1	0.4	3.5	0.1	0.2	0.2	5.1	0.0	10.4	
Beechcraft	21	3.6	0.6	0.3	0.1	0.0	-	-	2.8	0.0	3.8	
Mooney	7	2.0	-	0.1	1.1	0.0	0.0	0.0	0.9	0.0	2.1	
Other	32	8.3	0.2	1.4	1.5	0.0	-	-	3.4	0.0	6.5	
Subtotal	584	261.0	12.1	3.7	32.4	0.2	5.9	1.4	138.2	0.6	194.6	
Fixed wing, multi-engine												
Cessna	187	67.5	1.0	0.9	1.3	0.0	1.6	0.6	44.7	6.4	56.6	
Piper	172	51.9	1.6	0.9	3.1	0.0	1.3	0.5	37.2	2.4	47.0	
Beechcraft	155	47.9	1.3	1.3	2.0	0.0	1.0	0.3	35.6	3.8	45.2	
Fairchild	59	34.2	-	0.0	0.5	0.0	0.0	0.2	26.9	6.8	34.4	
Fokker	32	29.6	0.0	0.0	0.1	0.0	0.0	0.4	21.4	19.5	41.4	
Aero Commander	39	34.2	0.1	0.1	-	0.0	0.9	0.4	18.0	0.0	19.4	
Embraer	27	14.7	0.0	-	0.4	0.0	0.0	0.1	11.1	8.6	20.2	
De Havilland	20	14.6	0.0	0.0	0.1	0.0	0.0	0.2	10.9	5.5	16.7	
British Aerospace	14	9.2	0.1	-	0.1	0.0	0.0	0.3	9.1	2.7	12.2	
Britten Norman	21	20.9	-	0.0	0.4	0.0	-	0.5	7.7	0.0	8.7	
Israel Aircraft	9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	3.0	
Saab	5	3.8	0.0	0.0	0.1	0.0	0.0	-	2.2	1.6	3.9	
Gates Learjet	13	2.5	0.1	0.4	0.1	0.0	2.3	-	2.1	0.0	5.0	
Partenavia	22	4.2	0.3	0.2	1.6	0.0	0.4	-	1.8	0.0	4.4	
CASA	4	1.6	0.0	0.0	-	0.0	0.2	0.1	1.3	0.0	1.6	
Bombardier	6	1.1	0.2	1.3	-	0.0	0.0	-	0.8	0.0	2.3	
Dornier	4	1.6	0.0	-	-	0.0	-	-	0.6	0.6	1.3	
Ted Smith	6	0.5	-	-	0.0	0.0	0.0	-	0.5	0.0	0.5	
Other	28	9.9	0.3	1.9	0.3	0.0	0.2	0.1	4.7	5.1	12.5	
Subtotal	823	351.4	5.0	7.1	10.1	0.0	7.9	3.7	239.5	63.0	336.2	
Total	1 407	612.4	17.1	10.8	42.5	0.2	13.8	5.1	377.7	63.6	530.8	

D3 FIFO charter services

FIFO arrangements are used to meet employment demand or match labour skills in different regions across Australia. A significant proportion of charter flights in Australia are purchased by the mining and resources industry for transport of rotational staff to remote locations on a FIFO basis.

It is estimated that the national FIFO workforce totals approximately 50,000 people (including contractors and additional service providers).⁷⁷

FIFO is also referred to as long distance commuting or commute mining.⁷⁸ FIFO operations have largely replaced the construction of residential towns as a means of addressing skills shortages and accommodating workers for remote area mining operations, particularly for construction projects.

⁷⁶ BITRE, *General Aviation Activity 2009* (2010) 37.

⁷⁷ Paul Cleary, 'FIFO jobs leave hole in regions', *The Australian* (online), 23 July 2011 <<http://www.theaustralian.com.au/news/features/fifo-jobs-leave-hole-in-regions/story-e6frg6z6-1226099602731>>.

⁷⁸ Chamber of Minerals & Energy Western Australia, 'Fly In/Fly Out: A sustainability perspective', January 2005, 4.

The increased use of FIFO and other long distance commuting practices has been facilitated by the growth of the resources sector, pressures on local housing supply and prices, preferences to live in metropolitan areas, the economics of the Australian aviation industry (including increased direct flights from the capital cities to regional centres, such as Brisbane/Sydney/Melbourne to Karratha) and Government policies that are broadly supportive of FIFO arrangements.

Apart from the resources sector, other large employers utilising FIFO work practices include the Australian Rail Track Corporation and the Tasmanian Railways Corporation, which deliver rail projects funded under the National Building Program.

Air services to meet FIFO requirements can include charter flights as well as scheduled RPT services, both domestic and international.

(e) Growth on routes servicing the resource industry

Accurate data on the size of the FIFO sector are difficult to obtain as BITRE currently collects data on charters from only a small number of operators. However the scheduled airline data collected by BITRE shows the strong growth on routes servicing the resource industry, particularly on routes in the Pilbara in Western Australia. Strong growth is also apparent on routes in Queensland. The figures below show that the resources sector is one of the key drivers of growth in the domestic aviation sector.

FigureD4: RPT routes servicing the resources industry in Western Australia⁷⁹

Route	Growth 2009-10 to 2010-11	Average Annual Growth 2000-01 to 2010-11
Karratha – Perth	9%	14.5%
Perth – Port Hedland	15.5%	15.8%
Kalgoorlie – Perth	11.7%	2.7%
Newman – Perth	20.6%	19.6%
Paraburdoo – Perth	42.2%	18.7%

FigureD5: RPT routes used by the resources industry in Queensland⁸⁰

Route	Growth 2009-10 to 2010-11	Average Annual Growth 2000-01 to 2010-11
Brisbane – Mackay	16.4%	14.8%
Brisbane – Rockhampton	-2.2%	10.0%
Brisbane – Gladstone	33.1%	8.6%
Brisbane – Emerald	34.3%	17.4%
Brisbane – Mt Isa	13.8%	7.4%

⁷⁹ Department of Infrastructure and Transport, Submission No 138 to House Standing Committee on Regional Australia, *Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia*, 17 October 2011, 2.

⁸⁰ Department of Infrastructure and Transport, Submission No 138 to House Standing Committee on Regional Australia, *Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia*, 17 October 2011, 3.

(f) FIFO in Western Australia

In recent years, FIFO services have become a critical element in maintaining a fully operating workforce at mining sites across Western Australia. In 2005, 42.3% of all mining employees were employed on a FIFO basis.⁸¹ That number is now over 50%. Further, in 2009, close to half of the publicly listed mining companies in Western Australia used FIFO services. Similarly, this number is now likely to be over 50%.

With the level of investment in the State's mining industry reaching \$28.3 billion in 2010–11 (which was an increase of 29% from 2009–10)⁸² and set to grow rapidly over the next few years, the proportion of FIFO employees is likely to increase significantly which will in turn increase the demand for FIFO services. A new \$120 million regional domestic terminal catering for up to 36 aircraft at Perth airport is being built to meet the needs of regional airlines servicing Western Australia, particularly the resources sector.⁸³ Construction began in August 2011 and is expected to be completed in December 2012.⁸⁴

As at September 2011, the Department of Mines and Petroleum, Western Australia, estimated that it will have \$108 billion worth of resource projects under construction or in the committed stage of development (see Figure D6 below for the projects that are currently underway or proposed).⁸⁵ A further \$194 billion has been identified for planning or possible projects in coming years.⁸⁶ These high levels of investment will continue to drive the rapid expansion of the resources sector and will lead to a significant increase in the number of employees in remote parts of Western Australia.

Perth Airport reports that, in 2010–2011, approximately 2.2 million passenger movements (or 27% of the total) through the airport's domestic terminal were directly related to the resources sector.⁸⁷ This is forecast to increase in the coming years. These figures do not include charter flights, which make up a significant proportion of FIFO flights from Perth. Landed tonnage figures used to indicate the number of passengers on charter flights show a 50% increase in 2010/11, compared to the 2007/08 peak.⁸⁸ BHPB, Rio Tinto and Fortescue Metals Group are all planning multi-billion dollar expansions in the coming decade which are expected to require significant additional workforces and, with that, a significant increase in FIFO capacity.

The Chamber of Minerals and Energy, Western Australia, reports that the resources industry in Western Australia employs around 90,000 people, 52% of whom are employed on FIFO rosters. By 2015 these numbers are expected to increase to 110,000 people with 57% employed on FIFO rosters.⁸⁹

⁸¹ Chamber of Minerals & Energy Western Australia, 'Fly In/Fly Out: A sustainability perspective', January 2005, 9.

⁸² Department of Mines and Petroleum (WA), Mining and Petroleum Investment – Update as at 1 September 2011.

⁸³ Perth Airport, *Construction of new terminal to commence this month* (Media release, 24 August 2011).

⁸⁴ Perth Airport, *Construction of new terminal to commence this month* (Media release, 24 August 2011).

⁸⁵ Department of Mines and Petroleum, Government of Western Australia, *Mining and Petroleum Investment – Update as at 1 September 2011*, (2011) <<http://www.dmp.wa.gov.au/12410.aspx>>.

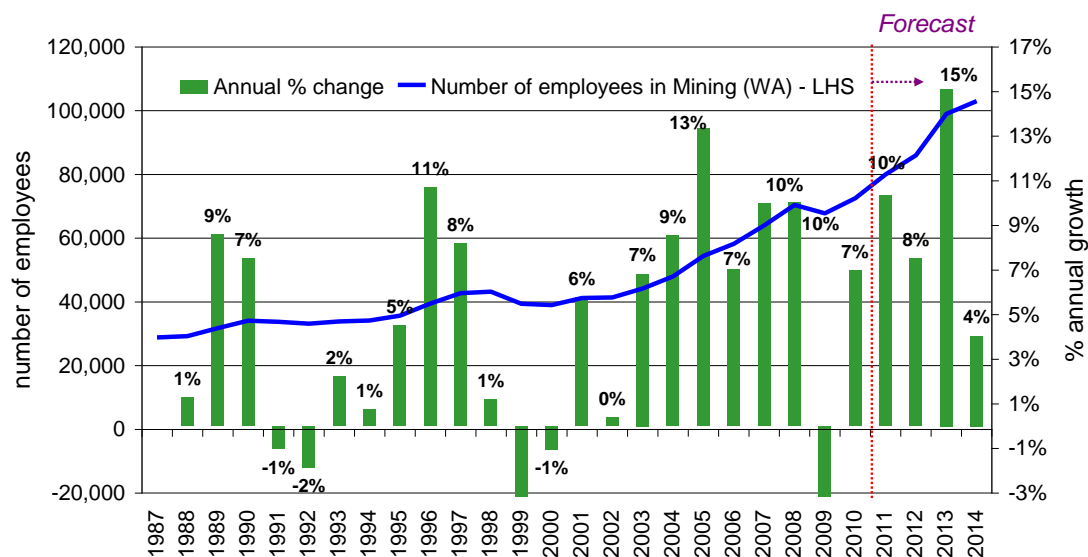
⁸⁶ Department of Mines and Petroleum, Government of Western Australia, *Mining and Petroleum Investment – Update as at 1 September 2011*, (2011) <<http://www.dmp.wa.gov.au/12410.aspx>>.

⁸⁷ Amanda O'Brien, "FIFO flights growing at breakneck speed", *The Australian*, 15 November 2011

⁸⁸ Aviation WA, 'Significant and rapid expansion in Fly-In, Fly-Out (FIFO) flights to Perth', 15 November 2011 <<http://www.aviationwa.org.au/>>.

⁸⁹ Amanda O'Brien, "FIFO flights growing at breakneck speed", *The Australian*, 15 November 2011

Figure D7: Projected growth in employees in the mining sector in Western Australia



Source: Department of Mines and Petroleum (WA).

(g) FIFO on the east coast

There is a lack of accurate and recent quantitative data on the extent of FIFO operations nationally across all industries. However, there are a number of trends and factors which are contributing to the growth of FIFO operations across other parts of Australia as well as an increased use of FIFO workforce which originate from the east coast of Australia, including:

- The FIFO workforce currently servicing Western Australia sites is expected to expand into parts of Queensland and New South Wales where there is a higher skills shortage and unemployment rate than Western Australia.⁹⁰
- The New South Wales central west is emerging as a mining hub, with large towns such as Orange and Dubbo marketing and developing themselves as new service for local mining operations.⁹¹ This may lead to some opportunities for increased FIFO activity, with Newcrest Mining already flying its local mining engineers from Orange (as well as Brisbane) to its Telfer mine in Western Australia.⁹²
- As a result of the proposed expansion of gasfield development and mining activity in Queensland, the State government is projecting that over 18,000 direct and indirect jobs in Queensland will be generated by the seven announced LNG projects in Queensland (six proposed for Gladstone and one for Bowen). Of these, over 4,300 jobs are expected to be in the Surat Basin region.
- In anticipation of the next phase of the mining boom in Queensland, a number of Queensland coastal communities (Cairns, Gold Coast, Sunshine Coast, Whitsundays and Fraser Coast) are

⁹⁰ Kim Christian, 'Miners look east amid poaching claims,' *The Sydney Morning Herald* (online), 22 June 2011 <<http://news.smh.com.au/breaking-news-business/miners-look-east-amid-poaching-claims-20110622-1gf1t.html>>.

⁹¹ Jessica Burke, 'Orange mining's new FIFO centre', *Australian Mining* (online), 1 August 2011 <<http://www.miningaustralia.com.au/news/orange-minings-new-fifo-centre>>.

⁹² Kim Christian, 'Miners look east amid poaching claims,' *The Sydney Morning Herald* (online), 22 June 2011 <<http://news.smh.com.au/breaking-news-business/miners-look-east-amid-poaching-claims-20110622-1gf1t.html>>.

gearing up to become FIFO source regions under the Queensland Government's Work for Queensland initiative.⁹³

- A number of mining companies such as BHP (BMA) have been approved to use a 100% FIFO workforce for its new operations in Central Queensland.⁹⁴ BHP is assessing potential sources of skilled labour in North Queensland, the Sunshine Coast, the Gold Coast and Toowoomba.⁹⁵
- Job cuts by BlueScope Steel at its Port Kembla plant near Wollongong and its Western Port hot strip mill in Victoria, have prompted that mining companies such as BHP Billiton to encourage steel workers to apply for positions in its Pilbara and Queensland coal mine operations.⁹⁶

⁹³ Daniel Strudwick, 'Cairns bids to host fly-in, fly-out miner workforce', *The Cairns Post* (online), 16 August 2011 http://www.cairns.com.au/article/2011/08/16/178421_local-news.html.

⁹⁴ Andrew Duffy, 'Gov under fire for 100% Caval Ridge FIFO,' *Australian Mining* (online), 13 October 2011 <<http://www.miningaustralia.com.au/news/gov-under-fire-for-100--caval-ridge-fifo>>.

⁹⁵ Kathy Sundstrom, 'Push to join mine jobs plan', *Sunshine Coast Daily* (online), 27 July 2011 <<http://www.sunshinecoastdaily.com.au/story/2011/07/27/fly-in-fly-out-workers-jobs-sunshine-coast/>>.

⁹⁶ Kim Christian, 'Axed steel workers could go FIFO in QLD', *The Sydney Morning Herald* (online), 31 August 2011 <<http://news.smh.com.au/breaking-news-business/axed-steel-workers-could-go-fifo-in-ql-20110831-1jlss.html>>.

Annexure E – Key competitors in domestic RPT and charter segments

E1 Qantas Group

The Qantas Group is Australia's largest domestic and international carrier, and the eleventh largest airline group in the world based on passenger numbers and distance flown.⁹⁷

(a) Domestic operations

The Qantas Group operates over 5,700 domestic RPT services per week to around 60 city and regional destinations in all states and mainland territories using three complementary airline brands – Qantas (nearly 2,400 flights), QantasLink (nearly 2,000 flights) and Jetstar (approximately 1,200 flights).⁹⁸

Figure E1 lists the destinations currently serviced by the Qantas Group within domestic Australia.

Figure E1: Qantas domestic RPT network

Destinations currently serviced by the Qantas Group	
NSW & ACT	Sydney, Canberra, Albury, Armidale, Ballina, Coffs Harbour, Dubbo, Gladstone, Lord Howe Island, Moree, Newcastle, Port Macquarie, Tamworth, Wagga Wagga
Victoria	Melbourne, Avalon, Mildura, Mount Hotham
Queensland	Brisbane, Cairns, Gold Coast, Barcaldine, Biloela, Blackall, Bundaberg, Charleville, Cloncurry, Emerald, Fraser Coast, Gladstone, Hamilton Island, Horn Island, Longreach, Mackay, Maroochydore, Moranbah, Mount Isa, Proserpine, Rockhampton, Roma, Sunshine Coast, Townsville, Weipa
Northern Territory	Darwin, Alice Springs, Ayers Rock, Gove
Western Australia	Perth, Broome, Exmouth, Geraldton, Kalgoorlie, Karratha, Kununurra, Paraburdoo, Port Hedland, Newman
South Australia	Adelaide, Olympic Dam, Port Lincoln
Tasmania	Hobart, Launceston, Devonport

(b) Fleet

As at 30 June 2011, the Qantas Group fleet comprised of a total 283 aircraft (278 passenger aircraft and five dedicated freight aircraft).⁹⁹ This included the addition of two Fokker F100s and seven Embraer 120 Brasilia aircraft through the acquisition of Network Aviation in December 2010.¹⁰⁰ In February 2011, the Qantas Group announced that it would boost its domestic, resources charter and international fleets through a combination of new aircraft orders, leases and lease extensions. In

⁹⁷ Qantas, *Annual Report 2011* (2011) 15.

⁹⁸ Qantas, *Fact File* (2010) 1 < <http://www.qantas.com.au/travel/airlines/company/global/en>> and Qantas, *Annual Report 2011* (2011) 15.

⁹⁹ Qantas, *Annual Report 2011* (2011) 15.

¹⁰⁰ Qantas, *Annual Report 2011* (2011) 15.

particular, Qantas CEO Alan Joyce announced that Qantas intended to increase the Network Aviation F100 fleet five-fold.¹⁰¹

Figure E2: Qantas' fleet

Brand	Aircraft	Total
Qantas	A380-800	10
	B747-400	20
	B747-400ER	6
	A330-200	8
	A330-300	10
	B767-300ER	25
	B737-400	19
	B737-800NG	46
	B717-200	11
	Q200/Q300	21
	Q400	22
	Fokker F100	2
	EMB 120	7
Total Qantas		207
Jetstar	A320-200	56
	A321-200	6
	A330-200	9
Total Jetstar		71
Qantas Freight	B737-300SF	4
	B767-300	1
Total Qantas Freight		5
Total Qantas Group		283

(c) Qantas brands

Qantas operates services under a number of airline brands.

Qantas is a full-service domestic and international airline, offering services to a wide network of destinations.

Jetstar was launched in 2004 as a low fare domestic airline and part of Qantas' two-brand strategy, aimed at the leisure and budget segment. It commenced international services in 2006 and services

¹⁰¹ Qantas, 'Qantas Group to Boost Aircraft Fleet' (Media Release, 17 February 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/feb11/5081>>.

within domestic New Zealand domestic in 2009.¹⁰² Jetstar (Australia) is Australia's third largest airline by domestic market share, currently servicing 17 Australian domestic destinations and 15 short and long haul international destinations.¹⁰³

QantasLink is a full-service regional airline supporting Qantas' domestic and international networks, with a network of 56 metropolitan and country destinations across all states and territories. It commenced its first international destination, Port Moresby, in July 2010.¹⁰⁴ Qantas has invested more than \$850 million in 28 new Q400 aircraft for the QantasLink fleet since 2006, with the current fleet of 25 Q400 aircraft to grow to 28 over the next 18 months.¹⁰⁵ The QantasLink fleet includes five Q200, 16 Q300 and 11 B717 aircraft.

Qantas has recently announced a number of QantasLink expansions:

- significant product, service and schedule offers throughout regional Queensland including new services, increased capacity on existing routes, additional aircraft and a new Qantas Regional Lounge in Emerald;¹⁰⁶
- roll-out of Next Generation Check-in technology across 21 regional airports, including 16 QantasLink ports, as well as the introduction of Q Bag Tag technology;¹⁰⁷ and
- new Western Australian services including the new Perth-Exmouth route, growing the QantasLink Western Australian regional network to nine destinations, and increased capacity on other routes include almost 7,000 extra seats per week between Perth and Broome, Kalgoorlie, Karratha, Newman, Paraburdoo and Port Hedland.¹⁰⁸

QantasLink is also overseeing the operation of the Qantas Group's recently acquired Western Australian resources charter airline Network Aviation.

(d) Network Aviation / Qantas

Network Aviation is a supplier of tailored charter flights across Western Australia and beyond since 1998.¹⁰⁹ It was acquired by Qantas in December 2010.¹¹⁰

¹⁰² Qantas, *Fact File* (2010) 1 <<http://www.qantas.com.au/travel/airlines/company/global/en>> and Qantas, *Annual Report 2011* (2011) 5.

¹⁰³ Jetstar, *Our Company* <<http://www.jetstar.com/au/en/about-us/our-company>>.

¹⁰⁴ Qantas, 'Qantaslink expands investment in regional Queensland', (Media Release, 28 September 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/sep11/5186>>.

¹⁰⁵ Qantas, 'Qantaslink expands investment in regional Queensland', (Media Release, 28 September 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/sep11/5186>>.

¹⁰⁶ Qantas, 'Qantaslink expands investment in regional Queensland', (Media Release, 28 September 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/sep11/5186>> ; Qantas, 'Further Boost for QantasLink Cairns-Weipa Services' (Media Release, 19 May 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/may11/5112>> and Qantas, 'Capacity Groth for QantasLink in Queensland' (Media Release, 7 March 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/mar11/5083>>.

¹⁰⁷ Qantas, 'Next Generation Check-in Regional Implementation Begins' (Media Release, 10 March 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/mar11/5084>>.

¹⁰⁸ Qantas, 'QantasLink Ready to Launch Exmouth, WA Services' (Media Release, 2 February 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/feb11/5069>> and Qantas, 'Qantas to Further Expand WA Operations' (Media Release, 19 January 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/jan11/5062>>.

¹⁰⁹ Network Aviation, 'Making a difference - our company'. Available at: <<http://www.networkaviation.com.au/making-a-difference/our-company.html#solutions-unhi>>.

¹¹⁰ Qantas, Media Release: Qantas to purchase and grow WA charter operator, 13 December 2010, <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2010/dec10/5055>>.

Network Aviation specialises in mining and infrastructure industry support, routing and emergency freight and corporate charter, identifying the resource sector as an area where it has become a valuable partner for many resource companies.¹¹¹ Network Aviation operates charter flight services from its terminal at Perth Domestic Airport to the Pilbara and Kimberly regions, Goldfields region, including Leonora and Leinster and the Midwest region, including Cue and Mileura Station.¹¹² Network Aviation can also arrange charter flights to destinations such as Karratha, Newman, Port Hedland, Exmouth and Broome.¹¹³

Network Aviation's objective is to be a 'premium service provider for Jet and Turbo-prop aircraft in Australia and overseas.'¹¹⁴

Network Aviation operates a fleet of modern, jet and turbo-prop aircraft that can carry from 30 to 100 passengers into sites with sealed or unsealed airstrips. Its fleet includes 7 Embraer Brasilias and 2 Fokker 100 Jets; the former being a 30-seat regional turbo-prop aircraft and the latter being a modern 100-seat jet aircraft.¹¹⁵

In addition to its own aircraft, Network Aviation has existing alliances with other operators, allowing a rapidly-accessed fleet potential to consist of over 25 aircraft across fixed-wing and rotary options ranging from 4 to 100 seats.¹¹⁶

Qantas also recently announced in February 2011 that it would be expanding the Network Aviation fleet with the purchase of 10 Fokker 100s.¹¹⁷

(e) Related businesses

In addition to its airline operations, Qantas also operates a number of related businesses, including Qantas Frequent Flyer, Australia's largest loyalty program, with 7.9 million members and more than 400 partners. For FY2011, Qantas Frequent Flyer increased underlying EBIT to a record \$342 million.¹¹⁸ Qantas recently introduced a new domestic fare structure across its domestic mainline and regional networks, including further frequent flyer benefits when travelling on Qantas services.¹¹⁹

Qantas is a founding member of the oneworld alliance.

E2 Alliance Airlines

Alliance Airlines is a charter operator that specialises in FIFO operations for the resources industry across Australia. Alliance is headquartered in Brisbane, with major bases in Cairns, Townsville, Perth, Adelaide and Essendon, servicing FIFO and general charter customers nationally.¹²⁰

¹¹¹ Network Aviation, 'Solutions'. Available at: <<http://www.networkaviation.com.au/making-solutions/our-services.html#solutions-hi>>.

¹¹² Network Aviation, 'Charter Flights Perth Western Australia'. Available at: <<http://www.networkaviation.com.au/perth-western-australia/charter-flights.html>>.

¹¹³ Network Aviation, 'Charter Flights Perth Western Australia'. Available at: <<http://www.networkaviation.com.au/perth-western-australia/charter-flights.html>>.

¹¹⁴ 'Making a difference – our company' Network Aviation, 'Making a difference - our company'. Available at: <<http://www.networkaviation.com.au/making-a-difference/our-company.html#difference-hi>>.

¹¹⁵ Network Aviation, 'Solutions'. Available at: <<http://www.networkaviation.com.au/making-solutions/our-services.html#solutions-hi>>.

¹¹⁶ <http://www.networkaviation.com.au/perth-western-australia/charter-flights.html> 'Charter Flights Perth Western Australia'

¹¹⁸ Qantas, *Annual Report 2011* (2011) 7.

¹¹⁸ Qantas, *Annual Report 2011* (2011) 7.

¹¹⁹ Qantas, 'Qantas Launches New Domestic Fares and Frequent Flyer Enhancements' (Media Release, 7 July 2011) <<http://www.qantas.com.au/regions/dyn/au/publicaffairs/details?ArticleID=2011/jul11/5147>>.

¹²⁰ Alliance Airlines, *About us* (2011) <<http://www.allianceairlines.com.au/about-us/>>.

In July 2011, Alliance announced a major expansion of its Adelaide operations, as a second national maintenance facility for its rapidly growing jet fleet.¹²¹ A Fokker 100 will be permanently based in Adelaide for the first time in the fourth quarter of 2011.¹²²

Alliance's core business includes long-term FIFO charter contracts. Such contract charter work is usually conducted on behalf of the resource sectors that operate in remote areas, where the supply of a skilled human workforce is limited. With aircraft based in many ports around Australia, Alliance fleet aircraft can transport workers from population centres direct to remote work sites throughout the country, including Lawn Hill, Phosphate Hill, Olympic Dam, Prominent Hill, Nickel West and Cannington.

Alliance's customers are major mining and energy companies including BHP Billiton, Newcrest, Citic Pacific, Incitec Pivot, MMG, Santos and OZ Minerals.

Alliance also provides charter services to several major travel companies to fly holidaymakers on charter flights from around Australia to key South Australian tourist destinations including Kangaroo Island, the Flinders Ranges, Lake Eyre and Coober Pedy.¹²³

Alliance also provides a daily scheduled return RPT service between Perth and Karratha.

As at October 2011, the Alliance fleet consists of the following aircraft:¹²⁴

Figure E3: Alliance Airlines' fleet

Aircraft	Total
Fokker 50	5
Fokker 70	2
Fokker100	18

E3 Air Australia

Air Australia, formerly Strategic Airlines, is a scheduled passenger and charter airline which received its AOC in September 2009. It initially began operations with one Airbus A330 aircraft to service an Australian Defence Force contract.¹²⁵ Air Australia was relaunched under the new branding and business model on 15 November 2011 as a new low cost international and domestic carrier, and is part of the Air Australia Group. It offers RPT services to international destinations (Bali, Phuket and Honolulu) and domestic Australian destinations, initially including Melbourne, Brisbane, Perth, Port Hedland and Derby.

Air Australia has also recently been granted the rights to operate services between Australia and China and Australia and the USA.

¹²¹ Travel Blackboard, 'Alliance Airlines expands in Adelaide,' *Travel Blackboard* (online), 29 July 2011 <<http://www.etravelblackboard.com/article/121511/alliance-airlines-expands-in-adelaide>>.

¹²² Travel Blackboard, 'Alliance Airlines expands in Adelaide,' *Travel Blackboard* (online), 29 July 2011 <<http://www.etravelblackboard.com/article/121511/alliance-airlines-expands-in-adelaide>>.

¹²³ Travel Blackboard, 'Alliance Airlines expands in Adelaide,' *Travel Blackboard* (online), 29 July 2011 <<http://www.etravelblackboard.com/article/121511/alliance-airlines-expands-in-adelaide>>.

¹²⁴ Search conducted on CASA Civil Aircraft Register on 5 October 2011 using 'Alliance Airlines' in search parameters for 'Registration holder' and 'Registration operator'.

¹²⁵ Strategic, *Strategic Airlines awarded Australian AOC*, (Media release, 29 September 2009).

Air Australia CEO Michael James has stated that the airline would initially be focusing routes currently under-serviced by the Qantas Group, particularly international flights from Brisbane and Melbourne.¹²⁶

The Air Australia fleet comprises of A330-200 and A320-200 aircraft, offering full service Business and Economy Classes. This will be expanded from three A320s to six by mid-2012, and from one A330 to three by May 2012.¹²⁷

Air Australia launched its first aircraft in Western Australia in early 2010, an A320, with the intention of servicing FIFO customers in the resources sector.¹²⁸

Air Australia offers airline sub charter and aircraft leasing services. Air Australia founder Michael James, recently stated that the airline intends to refocus on the resources sector.¹²⁹

As at March 2011, the Air Australia fleet consists of the following aircraft:¹³⁰

Figure E4: Air Australia's Fleet

Aircraft	Total
Airbus A320-200	6
Airbus A330-200	1

Three of Air Australia's A320 fleet operate in Australia, and the other three in Europe.¹³¹ It has indicated that it intends to move to seven leased A330s over the next three years, with the A330 fleet growing to three by the first quarter of next year. It is also expanding its A320 fleet, with an additional aircraft later in 2011 and possibly another in early 2012.¹³²

E4 Cobham Aviation Services Australia

Cobham, formerly National Jet Systems, is a leading provider of contracted air passenger and freight services to large civil and government organisations in Australasia, and the only third party operator which flies on behalf of Qantas. Cobham (Australia) is owned by Cobham plc, a leading international aerospace, defence technology and systems company with operations in five continents, including in the US, UK, Australia and some EU countries.

¹²⁶ Kim Agius, 'New budget airline Air Australia 'a warning to Qantas', *news.com.au* < <http://www.news.com.au/travel/news/new-budget-airline-air-australia-a-warning-to-qantas/story-e6frfq80-1226185329702>>.

¹²⁷ Kim Agius, 'New budget airline Air Australia 'a warning to Qantas', *news.com.au* < <http://www.news.com.au/travel/news/new-budget-airline-air-australia-a-warning-to-qantas/story-e6frfq80-1226185329702>>.

¹²⁸ Strategic, *Strategic Airlines brings new options to WA with A320* (Media release, 8 February 2010).

¹²⁹ Steve Creedy, 'Strategic Airlines looks beyond \$90m contract loss the airline's founder is predicting a small profit this year', *The Australian* (online), 18 March 2011 < <http://www.theaustralian.com.au/business/aviation/strategic-airlines-looks-beyond-90m-contract-loss-the-airlines-founder-is-predicting-a-small-profit-this-year/story-e6frg95x-1226023451821>>.

¹³⁰ Steve Creedy, 'Strategic Airlines looks beyond \$90m contract loss the airline's founder is predicting a small profit this year', *The Australian* (online), 18 March 2011 < <http://www.theaustralian.com.au/business/aviation/strategic-airlines-looks-beyond-90m-contract-loss-the-airlines-founder-is-predicting-a-small-profit-this-year/story-e6frg95x-1226023451821>>.

¹³¹ Steve Creedy, 'Strategic Airlines looks beyond \$90m contract loss the airline's founder is predicting a small profit this year', *The Australian* (online), 18 March 2011 < <http://www.theaustralian.com.au/business/aviation/strategic-airlines-looks-beyond-90m-contract-loss-the-airlines-founder-is-predicting-a-small-profit-this-year/story-e6frg95x-1226023451821>>.

¹³² Steve Creedy, 'Air Australia looks beyond \$90m contract loss the airline's founder is predicting a small profit this year', *The Australian* (online), 18 March 2011 < <http://www.theaustralian.com.au/business/aviation/strategic-airlines-looks-beyond-90m-contract-loss-the-airlines-founder-is-predicting-a-small-profit-this-year/story-e6frg95x-1226023451821>>.

Cobham operates air charter services throughout Australia, Papua New Guinea and the Asia Pacific region for major resource companies such as Santos, Rio Tinto, BHP Billiton, Chevron, Minara Resources and OK Tedi Mining.¹³³ Cobham also offers regular scheduled air services to Kambalda in the Western Australian Goldfields.¹³⁴ Figure D5 shows a map of Cobham's air services network.

Figure E5: Cobham route network – contracted air services



Cobham is a high capacity air freight operator, flying more than 2,500 scheduled and charter flights per year on behalf of its major freight client Australian Air Express and other clients.¹³⁵ It operates scheduled air freight services out of capital city airports, during curfew hours unavailable to most other aircraft types, as well as charter flights throughout Australia and the Asia Pacific.¹³⁶

Cobham also provides specialist flight operations to government and civil agencies in Australia and the Asia Pacific. Clients include providing maritime air surveillance services for the Australian Government's Border Protection Command (since 1994) and operating and maintaining the Tenix LADS Laser Airborne Depth Sounding aircraft on its worldwide deployments.¹³⁷

Cobham's fleet includes the following aircraft:

- 10 Bombardier Dash 8 turboprops and 17 British Aerospace BAe 146 Regional Jets in Australia and Papua New Guinea;¹³⁸
- a dedicated BAe146QT freight aircraft used to operate scheduled airfreight services between capital city airports;
- 10 highly modified Bombardier Dash 8 maritime patrol aircraft which each year fly 2,500 missions and 15,000 hours for the Australian Government's Border Protection Command;¹³⁹ and

¹³³ Cobham, *Charters* (2011) < <http://www.cobham.com.au/charters.htm>>.

¹³⁴ Cobham, *Charters* (2011) < <http://www.cobham.com.au/charters.htm>>.

¹³⁵ Cobham, *Freight Services* (2011) < <http://www.cobham.com.au/freight.htm>>.

¹³⁶ Cobham, *Freight Services* (2011) < <http://www.cobham.com.au/freight.htm>>.

¹³⁷ Cobham, *Special Mission* (2011) <<http://www.cobham.com.au/mission.htm>>.

¹³⁸ Cobham, *Oil, Mining and Gas* (2011) <<http://www.cobham.com.au/omg.htm>>.

¹³⁹ Cobham, *Special Mission* (2011) <<http://www.cobham.com.au/mission.htm>>.

- 11 Boeing B717 aircraft which Cobham flies on behalf of QantasLink under a long-term dry lease arrangement, whereby Qantas provides the physical aircraft and Cobham provides all the necessary resources and infrastructure to provide the air service.¹⁴⁰

E6 Skippers

Skippers is a charter operator based in Perth. It is considered to be the largest provider of FIFO services to the Western Australian mining industry.¹⁴¹ It currently operates over 100 regular flights per week in support of 15 major mining companies. The flights are generally operated on a closed charter arrangement. Skippers commenced operations in 1990.

Skippers operate on a large number of routes, including:¹⁴²

- Barrick Gold - Darlot
- Western Areas - Forrestania
- Barrick Gold - Granny Smith
- Crescent Gold - Laverton
- Newmont Mining - Jundee
- Barrick Gold - Lawlers
- St Barbara Mines - Leonora
- Barrick Gold - Plutonic
- Panoramic Resources - Savannah Nickel Mine
- Ngarda Civil - Yarrie
- Anglo Gold Ashanti- Sunrise Dam
- Newcrest Mining - Telfer
- Pilbara Iron -West Angelas / Lombadina /Barrimunya
- Karara Mining - Karara
- Sandfire Resources - Meekatharra

Further, Skippers also fly to many regional centres within Western Australia.¹⁴³

As at October 2011, the Skippers' fleet consists of the following 26 aircraft with a total capacity of 768 seats.¹⁴⁴

Figure E6: Skippers' fleet

Aircraft	Total
Bombardier Dash 8-300	6
Bombardier Dash 8-100	4
Embraer EMB 120 Brasilia	6
Fairchild Metro 23	5
Cessna 441 Conquest II	5

¹⁴⁰ Cobham, *Airline Services* (2011) <http://www.cobham.com.au/airline_services.htm#aircraft>.

¹⁴¹ Skippers, 'Skippers Charters'. <<http://www.skippers.com.au/Charter.asp>>.

¹⁴² Skippers, 'Skippers Charters', <<http://www.skippers.com.au/Charter.asp>>.

¹⁴³ Skippers, 'Skippers Charters', <<http://www.skippers.com.au/Charter.asp>>.

¹⁴⁴ Search conducted on CASA Civil Aircraft Register on 24 October 2011 using 'Skippers' in search parameters for 'Registration holder' and 'Registration operator'. See also Skippers, *About Skippers* <<http://www.skippers.com.au/ProfileAbout.asp>>.

E5 Pel-Air (Regional Express)

Pel-Air is part of the Regional Express group the largest operator of corporate jet, express freight jet and turboprop aircraft in Australia. It is based in Mascot, with operational facilities in Brisbane, Darwin and Nowra.

Pel-Air carries out specialised charter work for the resource sectors (FIFO), Victoria State Government (Air Ambulance contract), Australian Defence Force (training support), Australian Government (passenger transport) and Australian Air Express (freight).¹⁴⁵

It is the leading specialised freighter fleet operator in Australia, flying on behalf of all the major freight forwarders operating in Australia.¹⁴⁶

It was recently awarded a three year contract for the supply of jet aircraft services to support the Australian Defence Force training, worth approximately \$47 million.¹⁴⁷

It, in conjunction with Careflight International, provides a range of Medical Evacuation and Medical Retrieval services, flying to Australia, New Zealand, Papua New Guinea, Fiji, Vanuatu, Solomon and Cook Islands and New Caledonia.¹⁴⁸

Pel-Air currently has 22 jet and turbo prop aircraft in its charter fleet including:¹⁴⁹

- 12 Learjets and Westwind jet aircraft on call 24 hours a day, seven days a week for executive charters; and
- a SAAB 340A, Westwind 1124 and Fairchild Metro III for freight operations.

E6 Tiger Airways

Tiger Airways is a low-cost airline with operations throughout Asia and within domestic Australia.

In Australia, Tiger Airways currently services routes to Perth, Brisbane, the Gold Coast, Melbourne and Sydney using eight Airbus 320 aircraft¹⁵⁰. As at 16 November 2011, Tiger Airways received approval from CASA to increase daily frequencies from 22 to 32 sectors per day.

E7 Other charter operators

In addition, there are over 280 smaller air charter companies operating within domestic Australia which provide a range of charter operations.¹⁵¹

¹⁴⁵ Rex, 'Rex subsidiary Pel-Air Aviation awarded Australian Defence Force Contract', (Media Release, 7 October 2011).

¹⁴⁶ Pel-Air Aviation, *Freight Charter* < <http://pelair.com.au/index.php?apg=freight>>.

¹⁴⁷ Rex, 'Rex subsidiary Pel-Air Aviation awarded Australian Defence Force Contract', (Media Release, 7 October 2011).

¹⁴⁸ Pel-Air Aviation, *Pel-Air Aviation* < <http://pelair.com.au/index.php?apg=medivac>>.

¹⁴⁹ Pel-Air Aviation < <http://pelair.com.au/>>.

¹⁵⁰ Steve Creedy, 'Tiger Airways wins CASA approval to lift daily flight frequency after 6-week grounding', *The Australian*, 16 November 2011.

¹⁵¹ BITRE, *Report 111 – General Aviation: An industry overview*, (2005) 83.