

**PUBLIC REGISTER VERSION**  
**Restriction of publication claimed in part**



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# **Alliance between Virgin Australia and Delta Air Lines**

Submission in support of application for revocation and  
substitution of authorisations

*30 December 2014*

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## Executive summary

### Application for revocation and substitution

Virgin Australia and Delta Air Lines (together the **Applicants**) seek reauthorisation of their existing trans-Pacific<sup>1</sup> metal neutral<sup>2</sup> Alliance<sup>3</sup> involving joint scheduling and pricing of services and revenue sharing for a further period of 10 years.

No matter how good Virgin Australia's domestic product is, it will always face challenges in attracting corporate accounts and high frequency travellers away from its rivals if it cannot offer a competitive international network with destinations, frequencies and an enhanced customer and product offering all of which attract such passengers. This is especially significant on the trans-Pacific, which has the highest share of inbound business purpose traffic of any Australian international route.<sup>4</sup>

With the implementation of the Alliance and with further authorisation Virgin Australia and Delta have strong incentives to and can continue to offer travellers:

- an integrated and comprehensive schedule of online services, offering both codeshare and interline connections<sup>5</sup> to an expanded behind and beyond network of 191 codeshare and interline destinations within North and Central America and 59 codeshare and interline destinations throughout Australasia;
- favourable prorate methodology across the networks allowing savings to be passed onto consumers in the form of reduced fares;
- optimised scheduling and better connecting services with more choice of flights and reduced connection times; and
- greater loyalty program benefits through multiple opportunities to earn and burn frequent flyer points, earn status points and use domestic and international lounges.

The ability under the Alliance to offer passengers attractive behind and beyond networks is valued by both business and leisure passengers and is crucial to the Applicants' ability to continue to sustain and improve route options, frequency, capacity and fares on point-to-point trans-Pacific services between Australia and the United States.

The Alliance assists in making Virgin Australia a stronger competitor not only in the trans-Pacific market but also across all sectors of the domestic Australian market. Through the Alliance, Virgin Australia is able to offer access to feeder

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<sup>1</sup> The trans-Pacific is typically used to describe services between the US and Australia. However, it is noted that Canada could be considered part of the route, given that Vancouver is a transit point for US behind/beyond connections and that US gateways also provide access to Canadian destinations.

<sup>2</sup> A metal neutral alliance is an alliance which is intended to provide incentives to each alliance party to market services irrespective of which party is operating the aircraft.

<sup>3</sup> Joint Venture Agreement, Coordination Agreement, Cooperation Agreements, Marketing Agreement, Codeshare Agreements, Reciprocal Frequent Flyer Program Implementation Agreement and Lounge Usage Agreement.

<sup>4</sup> The trans-Pacific represents 22.3% of total business travel into Australia (Tourism Research Australia, International Visitor Survey).

<sup>5</sup> Under the Alliance, codeshare and interline services are equivalent from a consumer perspective, as discussed in section 5.3.

traffic through the combined Virgin / Delta networks making the continued operation of the trunk routes more commercially viable and enabling sustained capacity and fare levels across these routes. The Alliance not only stimulates competition on the trans-Pacific route but also promotes competition for Australian passengers by providing them with a greater choice of carriers.

**Significant public benefits**

The Alliance delivers a strong third choice for consumers. As the ACCC itself has recognised, the Alliance enables Virgin Australia and Delta to provide real and vigorous competition as an alternative to the established incumbents Qantas and United promoting a competitive fare and service response.<sup>6</sup>

The Alliance delivers the following significant public benefits to Australians, and particularly Australian travellers.

- **Enhanced products and services** for Australian travellers, including:
  - **more frequencies on the trunk routes**, with the choice of twice daily services on Sydney – Los Angeles and daily services on Brisbane – Los Angeles, on either a VA or DL code;
  - **increased destinations across the US, Mexico, Canada, Asia and Australasia**, creating a total of 191 codeshare and interline destinations in the US, Mexico and Canada, 59 codeshare and interline destinations in Australasia and 2 codeshare and interline destinations in Asia, totalling 252 destinations available under the Alliance;
  - **more frequencies on existing codeshare routes**, with Virgin Australia adding a total of 195 additional marketed flights per week on Delta's domestic US routes and Delta adding an additional 110 marketed flights per week on Virgin Australia's domestic Australian routes;
  - **joint schedule optimisation**, with more choice of departure times and more convenient connections;
  - **improved customer connection experience**, for example, with single check-in and through-checked baggage, time saved and more convenient transfers between international and domestic terminals, and better cancellation and disruption management; and
  - **increased capacity for new frequencies and destinations**, as the Alliance enables shared commercial risk and the benefit of feeder traffic to sustain capacity on the trunk route.
- **Greater loyalty program benefits** for Virgin Australia's Velocity and Delta's SkyMiles members, including:
  - **reciprocal earn and burn and status recognition**, with approximately [REstriction of Publication Claimed] members across both programs having utilised the benefit to earn

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<sup>6</sup> 2010 Determination, [4.184].

points across the Alliance networks;

- **reciprocal and favourable airport lounge access**, including full reciprocal access for eligible passengers when travelling the trans-Pacific including any domestic connecting sectors, which has already benefited approximately [REstriction of Publication Claimed] Delta and Virgin Australia guests; and
- **elite member benefits** including priority check-in, boarding, baggage check-in and security lines at participating Virgin Australia and Delta airports, preferred seating, and free excess baggage.

These enhanced services available under the Alliance are of direct benefit and value to Australians travelling for business or leisure.

- An increase in **customer choice and overall market competition**:
  - The Alliance has allowed the Applicants to provide real and vigorous competition to the incumbents on the trans-Pacific, which has in turn promoted a competitive response, particularly from Qantas.
  - The Alliance has enhanced competition for corporate accounts by providing Virgin Australia with the ability to offer beyond US travel and an improved product. Through the Alliance, Virgin Australia has successfully secured [REstriction of Publication Claimed] new corporate accounts, [REstriction of Publication Claimed] renewed accounts, [REstriction of Publication Claimed] expanded accounts and a number of pipeline accounts in FY2014 alone.
  - By enhancing Virgin Australia's competitive position and enabling it to provide a compelling alternative to Qantas, the Alliance in turn promotes competition within the Australian air travel market.
- **Stimulation of inbound tourism to Australia**, particularly to destinations beyond Australia's main international gateways, by leveraging the home brand and market strength of Delta, accessing important source markets throughout the US, and enabling joint marketing initiatives.

In October 2014, Virgin Australia became Tourism Australia's most valuable commercial airline partner in the promotion of Australia through agreed contributions towards sponsorship arrangements and joint marketing activities. According to Tourism Australia Managing Director, John O'Sullivan, the latest expansion to its marketing partnership with Virgin Australia was significant and would further strengthen inbound tourism from two of Australia's highest volume markets – the United States and New Zealand. The impact of this marketing partnership is significantly enhanced under the Alliance.

Through the Alliance with Delta, there is a greater presence and awareness of Virgin Australia and Australian destinations in the US, and a wider and more effective platform for promoting Tourism Australia's campaigns and Australian destinations more generally.

During the 2015 Financial Year, under its marketing partnership with Tourism Australia, Virgin Australia has committed to contribute A\$3 million in cash towards joint marketing activities targeting the United States and New Zealand as well as an additional A\$2.1 million each in sponsorship

arrangements.<sup>7</sup>

- **Greater access to efficiencies and cost savings, [RESTRICTION OF PUBLICATION CLAIMED]**

These benefits would be neither achievable nor sustainable without the Alliance.

The Applicants' goals over the next period of authorisation include the following:

- **[RESTRICTION OF PUBLICATION CLAIMED]**

#### Pro-competitive Effects – No Competitive Detriment

The Alliance has and will continue to promote competition for Australian air travel to the US.

- Under the Alliance, Virgin Australia is and will continue to be better placed to challenge Qantas' continued dominance on the trans-Pacific. The Alliance assists in making Virgin Australia a stronger competitor across all sectors of the market, growing it as an important second international airline for Australia.
- The Alliance has not resulted in any lessening of competition in the market. In fact, the trans-Pacific market in 2014/15 is even more competitive than it was in 2009.
- Since the commencement of joint pricing under the Alliance in January 2012, there has been:
  - a decrease in average industry fare levels;
  - **[RESTRICTION OF PUBLICATION CLAIMED]**; and
  - an increase in capacity and passenger numbers on the trans-Pacific.
- The Alliance has stimulated a strong competitive response from competing airlines, in the form of new routes and frequencies, upgraded aircraft, lower fares, and product enhancements.

Under the counterfactual, neither Virgin Australia nor Delta would be able to sustain the same level of competitive services on the trans-Pacific.

#### Competition on the trans-Pacific

There are large, established and deeply integrated carriers which have been operating on the trans-Pacific for a significant period of time.

Oneworld carrier Qantas, which has been operating on the trans-Pacific since 1954,<sup>8</sup> entered into an integrated alliance with American Airlines in September 2011. This alliance allows Qantas to offer American Airlines extensive network of North American destinations to both leisure and corporate travellers in conjunction with its own significant Australian and international networks connecting to 38

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<sup>7</sup> <http://www.virginaustralia.com/au/en/about-us/media/2014/VA-TOURISM-AUS-2015/>

<sup>8</sup> Qantas began flights to San Francisco on 15 May 1954 on a 60-passenger Qantas Lockheed Super Constellation aircraft with non-stop flights between Sydney, Melbourne and Los Angeles beginning in April 1984: Qantas Media Release, *Qantas celebrates 60 years of flying to the USA*, 8 December 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-celebrates-60-years-of-flying-to-the-usa>.

return trans-Pacific services per week.

Qantas has recently invested in capacity, service enhancements and network optimisation including:

- effective September 2014, replacing the Boeing 747 operations between Australia and Dallas/Fort Worth with an A380 adding an additional 350 seats per week each way with Qantas estimating that the net capacity increase on the route is over 10% per week;<sup>9</sup>
- boosting its capacity on the trunk route by increasing services from Melbourne to Los Angeles from daily to 10 a week in August 2014 immediately after Virgin Australia switched its capacity from Melbourne-Los Angeles to Brisbane;
- rolling out a new inflight dining offering across the network which commenced on US services on 9 December 2014, offering passengers the ability to pre-order their meal online and offering a wider choice of meals and larger servings;<sup>10</sup> and
- introducing a new First Class Lounge and extended Business Class Lounge in Los Angeles with seasonal menus from Neil Perry's Rockpool Group.

Star Alliance member United Airlines is able to offer connecting services beyond the gateways on its broad North American network while also offering onward services to New Zealand through its integrated alliance with Air New Zealand. United Airlines operates from its hubs in Los Angeles, San Francisco, Denver, Chicago and Washington DC. United Airlines commenced its first direct Melbourne-Los Angeles service (six services a week) with a 787-9 Dreamliner aircraft in October 2014 with a ramp up in capacity to daily flights planned in March 2015.<sup>11</sup> Additionally, United Airlines replaced its twice daily Boeing 747 flights from Sydney to Los Angeles and San Francisco with Boeing 777s from March 2014 improving its product offering on these services.<sup>12</sup>

The trans-Pacific is also serviced by a competitive fringe of other operators, for example, Air Canada and Hawaiian Airlines.

Prior to the Alliance, the lack of competition and the dominance of Qantas and United Airlines on the trans-Pacific route between Australia and the US had been widely criticised, both by the public and by other carriers (such as Emirates and Singapore Airlines).<sup>13</sup> As the ACCC has recognised, the Alliance enables Virgin Australia and Delta to provide real and vigorous competition as an alternative to the established incumbents, Qantas and United, on the trans-Pacific in turn

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<sup>9</sup> Travel Daily, *Qantas to operate A380s non-stop DYD-DFW-SYD*, 7 May 2014, <http://www.traveldaily.com.au/news/td-breaking-news-qantas-to-operate-a380s-non-stop-syd-dfw-syd/187232>

<sup>10</sup> Travel Daily, *TD breaking news – Qantas to expand economy meal options*, 12 November 2014, <http://www.traveldaily.com.au/news/td-breaking-news-qantas-to-expand-economy-meal-options/208003>

<sup>11</sup> David Flynn, *United Airlines Boeing 787-9 to go daily on Melbourne-Los Angeles*, Australian Business Traveller, 15 May 2014, <http://www.ausbt.com.au/united-airlines-to-launch-boeing-787-9-on-melbourne-los-angeles>

<sup>12</sup> David Flynn, *United Airlines Boeing 787-9 to go daily on Melbourne-Los Angeles*, Australian Business Traveller, 15 May 2014, <http://www.ausbt.com.au/united-airlines-to-launch-boeing-787-9-on-melbourne-los-angeles>

<sup>13</sup> See for example, ABC 7.30 Report Transcript, *Government protects Qantas route*, 21 February 2006, <http://www.abc.net.au/7.30/content/2006/s1575317.htm> and Sydney Morning Herald, *Emirates steps up its attack*, 28 June 2005, <http://www.smh.com.au/news/business/emirates-steps-up-its-attack-on-qantas/2005/06/27/1119724580223.html>

promoting a competitive fare and service response.<sup>14</sup>

No matter which carrier a consumer chooses to fly, with the Alliance in place, consumers have the choice of better schedules and greater access to behind and beyond destinations at lower prices. The Alliance has increased competition on the trans-Pacific. Reauthorisation of the Alliance will ensure that the competitive pressure remains on Qantas and its alliance with American Airlines, as well as on the other carriers, to continue to drive product and service improvements and the benefits of increased competition for Australian travellers.

### Alliance Background and Rationale

Prior to the introduction of Open Skies in 2008 and the entry of Virgin and Delta in 2009, Qantas and United were the only operators of direct services between Australia and mainland United States, with Qantas operating approximately 75% of available capacity, with little competition on price or service and the ability to command significant fare premiums.

The entry of Virgin and Delta significantly and immediately improved fare competition on the trans-Pacific trunk routes. Since the commencement of Alliance joint pricing, there has been a decrease in average industry fares [RESTRICTION OF PUBLICATION CLAIMED]. However, it is the ability to jointly offer passengers a network of behind and beyond destinations and an integrated product that brings real competition, in terms of both service quality and fares. Passengers want to be able to travel beyond gateway points to destinations throughout Australia and the United States and to be able to conveniently connect to services from their home city. In the year ending September 2014, approximately [RESTRICTION OF PUBLICATION CLAIMED] of Australian origin passengers and [RESTRICTION OF PUBLICATION CLAIMED] of US origin passengers travelling on the trans-Pacific, connected to or from another destination, when flying on the Alliance's trans-Pacific services.<sup>15</sup>

Sustaining profitable trans-Pacific services as a standalone domestic Australian carrier is extremely difficult without frequency, network breadth and depth and capacity given the need to access domestic US connections and the demand characteristics of the routes. The swings in the predominance of Australian inbound to outbound demand mean earnings are volatile, and costs are especially sensitive to exchange rate fluctuations.

In order to offer Australian travellers a competitive product on the trans-Pacific, Virgin Australia requires:

- a strong brand and marketing presence in both Australia and the US;
- access to a deep network of behind and beyond connections; and
- a valued product for business and leisure passengers, combining domestic connectivity, network coverage, frequency, convenience of connections, and an attractive frequent flyer program and lounge offering especially since the trans-Pacific significantly represents 22.3% of total business travel into Australia.

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<sup>14</sup> 2010 Determination, [4.184].

<sup>15</sup> Based on Virgin Australia and Delta passenger data for the 12 months to September 2014. This is a conservative estimate as there would be large proportion of Australian origin passengers and US origin passengers who would be travelling behind or beyond the trans-Pacific on other operators, for which Virgin Australia and Delta would compete.

It is only through an integrated alliance with Delta, that Virgin Australia can meet these requirements.

The trans-Pacific route has the highest share of inbound business purpose traffic of any Australian international route.<sup>16</sup> A competitive North American offering is crucial to Virgin Australia winning and retaining Australian corporate/government accounts and the business of high frequency travellers.

### Alliance Implementation

The Alliance's core rationale, which has been met, was to enable the Applicants to offer a superior and highly competitive product on the trans-Pacific which is valued by customers and enables Virgin Australia and Delta to better compete with the incumbent carriers, for business and leisure passengers as well as for corporate accounts. To date:

- The Alliance was authorised by the ACCC in June 2010.
- Indefinite approval of the Alliance was received from the US Department of Transport in June 2011 and from the New Zealand Ministry of Transport in July 2011.
- The implementation phase of the Alliance began in September 2011, with codeshare on the trans-Pacific trunk route and the first joint scheduling activities commencing in November 2011. Joint pricing of services commenced in January 2012, with the progressive implementation of frequent flyer reciprocity, joint corporate contracting, fare filing delegation, joint promotional activities and improved connectivity initiatives following that.
- From February 2014, the Applicants began a program of closer cooperation to seek further efficiencies and market penetration through the Alliance.

The Applicants propose to further extend the commercial and consumer benefits of the Alliance in the reauthorisation period.

### Change to operating environment

The operating environment on the trans-Pacific has significantly changed since the authorisation of the Alliance in 2010 and is far more competitive now. Between 1 January 2010 and 31 December 2013, capacity on routes from Australia to the United States (including Hawaii) increased by 22%. In addition, there has been significant recent capacity additions by Qantas, United, Jetstar and Hawaiian in 2014. A significant proportion of this growth is attributable to growth in capacity to Hawaii (which is both a destination and a gateway to mainland US destinations). At the same time, routes from Australia to mainland United States showed an 8.5% capacity increase over the same period.

There has been an accompanying increase in passengers on the trans-Pacific routes, with an 18.0% increase in passengers on Australia to United States services including Hawaii, and 6.3% on routes from Australia to mainland United States.

The average industry fare for a United States to Australia round trip ticket in the second quarter of 2014 was almost US\$500 less than it was 6 years earlier, in the

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<sup>16</sup> The trans-Pacific represents 22.3% of total business travel into Australia. (Tourism Research Australia, International Visitor Survey).

second quarter of 2008.<sup>17</sup> This is despite the fact that over the same time period, the costs of operating flights between the US and Australia have increased.

**Counterfactual** [RESTRICTION OF PUBLICATION CLAIMED]

Further information on the counterfactual from the perspective of Virgin Australia and Delta is provided at **Confidential Attachment H** and **Confidential Attachment I**.

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<sup>17</sup> In the second quarter of 2007, the average Industry fare for a United States to Australia round trip ticket was US\$1579.32. In the second quarter of 2014, the average Industry fare for a United States to Australia round trip ticket was US\$294.27 cheaper at US\$1285.05.

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# 1 Application for revocation and substitution

## 1.1 Revocation and substitution

Through revocation and substitution, Virgin Australia and Delta (**the Applicants**) seek continued authorisation of their existing trans-Pacific Alliance for a further ten year period to:

- give effect to the Joint Venture Agreement, Coordination Agreement, Cooperation Agreement, Marketing Agreement, Codeshare Agreements, Reciprocal Frequent Flyer Program Implementation Agreement, and Lounge Usage Agreement (the **Alliance Agreements**) as amended and restated, and provided in **Attachment G**,<sup>18</sup> and
- make and give effect to related agreements contemplated in the Alliance Agreements, including to renew the Alliance Agreements upon the expiration of their current term,

(together, the **Alliance**).

## 1.2 Scope of the Alliance

The Alliance involves coordination and agreement between the Applicants for passenger and freight services on trans-Pacific routes in relation to:

- the planning and management of operations including schedules, capacity, aircraft deployment and routes flown;
- pricing and revenue management;
- sales and marketing activities;
- frequent flyer and lounge program offerings; and
- purchasing and procurement.<sup>19</sup>

The Alliance also enables the sharing of revenue under arrangements founded on the principle of “metal neutrality”.<sup>20</sup>

The coordination allowed under the Alliance has not changed since the ACCC’s 2010 authorisation decision.

## 1.3 The Applicants

The Applicants are Virgin Australia Airlines Pty Ltd; Virgin Australia International Airlines Pty Ltd; Virgin Australia Airlines (NZ) Ltd; and Virgin Australia Airlines (SE Asia) Pty Ltd (together, **Virgin Australia**), and Delta Air Lines, Inc. (**Delta**).

A detailed overview of each of Virgin Australia and Delta are set out in **Attachment A** and **Attachment B**, respectively.

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<sup>18</sup> On 15 November 2012, the Applicants entered into an Amended and Restated Joint Venture Agreement, extending the operation of the joint venture and continuing the deeply integrated cooperation in the areas of planning, revenue and yield management, pricing, marketing and operations.

<sup>19</sup> Cooperation under the Alliance does not relate to cargo-only flights or charter flights operated by either Applicant.

<sup>20</sup> A metal neutral alliance is an alliance which is intended to provide incentives to each alliance party to market services irrespective of which party is operating the aircraft.

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## 2 The supply of trans-Pacific air services

### 2.1 Demand for trans-Pacific travel

The trans-Pacific typically refers to travel between Australia and North America. Demand for air travel reflects the geographic and demographic characteristics of the route and the two regions.

- The trans-Pacific is characterised by ultra long-haul routes. As a result of the distance between Australia and North America, there are only a few viable direct routes between gateways in the East Coast of Australia and the West Coast of the United States (mainly Los Angeles and San Francisco), Hawaii, Vancouver and, most recently, Dallas Fort-Worth.
- As a result of the close cultural, historic and business ties between the two continents, travel reflects a combination of business, leisure and visiting friends and relatives (VFR) purposes. While the majority of passengers travel for leisure or VFR, the United States has the highest proportion of business travellers of all international routes to and from Australia.
- Both Australia and North America are large continents. Australia's population base is highly concentrated in a few urban regions, with dispersed tourist destinations. In contrast, the United States and Canada have populations which are highly dispersed, with likewise dispersed tourist destinations.

As such, the trans-Pacific is not a point-to-point market – only 25% of US-origin passengers and 40% of Australia-origin passengers travel on a point to point trans-Pacific service between Australia and mainland US. The majority of passengers connect from and/or to behind and beyond destinations via the key gateway points.

In addition, there are significant swings in outbound demand for travel on the trans-Pacific, with the route switching between predominantly US-originating and predominantly Australian-originating traffic, largely linked to changes in foreign exchange rates and to macro-economic conditions.

In general, travellers' choice will be influenced by price, travel time, least connections, and, particularly for business-purpose travellers, frequent flyer loyalty programs and lounge access. Given the long-haul nature of the route and the number of connections taken, the level of these services are particularly important to customer choice.

### 2.2 Services on the trans-Pacific

Passengers can travel between Australia and North America via a range of direct and indirect route options.<sup>21</sup>

There are currently direct services between Australia and North American gateways at Los Angeles, San Francisco, Vancouver, Dallas Fort Worth and Honolulu. Direct services to these gateways operate out of the Eastern Australian capitals of Brisbane, Sydney and Melbourne. The operators on these direct trans-Pacific trunk routes are Qantas, United Airlines, Delta Air Lines / Virgin Australia, Air Canada, Hawaiian Airlines and Jetstar. Further detail about each of these carriers is provided in **Attachment C**.

For other North American locations, there are currently no direct services. These locations are served by either one stop or two stop connections. One stop connections to most major North American locations can be accessed variously through Los Angeles, San Francisco, Dallas Fort Worth,

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<sup>21</sup> As the ACCC has recognised in the past, although the majority of passengers on the trans-Pacific fly direct services, there is a material proportion who utilise indirect services on the route. Particularly given the length of the route and the travel time involved, indirect services do compete with direct services on the trans-Pacific.

Vancouver or Honolulu, with two stop services available through alternative mid-points such as Auckland, New Zealand. In addition, Air New Zealand has recently indicated that it is considering commencing direct services to other US destinations from Auckland, beyond the Los Angeles gateway.<sup>22</sup> For example, a passenger flying from Sydney whose ultimate destination is:

- San Francisco could travel there directly, or could travel via Auckland, Los Angeles or Hawaii; or
- Las Vegas could travel indirectly through Los Angeles or Hawaii and potentially on a one-stop flight through Auckland.

The most commonly utilised one-stop service to mainland US is via Auckland. Other one-stop services include those via Nadi, Fiji, Papeete, Tahiti, Hong Kong, Singapore, Dubai, and Abu Dhabi.

Although consumers have a range of options in traveling to North American gateway destinations and beyond, consistent with the ACCC's approach in prior decisions, this submission focuses on routes between Australia and mainland United States.

### 2.3 Operating and marketing carriers on the trans-Pacific

The introduction of the Open Skies Agreement in 2008 permitted Australian and American airlines to operate unrestricted capacity on routes between any point or points in either country. Prior to this Qantas and United were the only operators of direct services between Australia and the United States, with Qantas offering approximately 75% of available capacity. There was little competition on price or service and the incumbents commanded significant fare premiums.

V Australia (as it then was) commenced direct SYD-LAX services on 27 February 2009, BNE-LAX services on 8 April 2009 and MEL-LAX services on 30 November 2009.<sup>23</sup> Delta commenced direct SYD-LAX services on 1 July 2009.

There are currently four operating carriers offering direct flights on the city-pairs between Australia and the mainland United States: Qantas, United Airlines, Virgin Australia and Delta. Services operated to Hawaii and to the mainland US via New Zealand and via Canada are close substitutes for these services, and are operated by Qantas, Air New Zealand, Hawaiian Airlines, Jetstar, and Air Canada. The current trans-Pacific trunk route service for each of these carriers is set out in Figure 1 below.

Figure 1: Carriers flying direct routes between Australia / New Zealand and North America

Australia	United States	QF	JQ	UA	NZ	AC	DL	VA	HA
Sydney	Los Angeles	✓		✓			✓	✓	
Sydney	Dallas, Fort Worth	✓							
Sydney	Honolulu	✓							✓
Sydney	Vancouver	✓ <sup>24</sup>				✓			

<sup>22</sup> CAPA, *Air New Zealand plans to grow beyond North America's west coast to Las Vegas, Chicago or Houston*, 3 December 2014, <http://centreforaviation.com/analysis/air-new-zealand-plans-to-grow-beyond-north-americas-west-coast-to-las-vegas-chicago-or-houston-198801>

<sup>23</sup> In August 2014, Virgin Australia switched its capacity from the Melbourne – Los Angeles route to the Brisbane – Los Angeles route to concentrate on its main hub of operations.

<sup>24</sup> This service will operate from 3 to 22 January 2015. See Qantas media release, *Qantas customers pack their bags for Vancouver*, 16 September 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-customers-pack-their-bags-for-vancouver>

Australia	United States	QF	JQ	UA	NZ	AC	DL	VA	HA
Sydney	San Francisco			✓					
Melbourne	Los Angeles	✓		✓					
Melbourne	Honolulu		✓						
Brisbane	Los Angeles	✓						✓	
Brisbane	Honolulu		✓						✓
Auckland	Los Angeles				✓				

See further **Attachment D** for data on purpose of travel, passenger volume, capacity and load factors on trans-Pacific routes and **Attachment E** for the 2014 Northern Summer and Northern Winter schedules for trans-Pacific flights.

## 2.4 Dynamics of operating on the trans-Pacific

Given the nature of demand and route characteristics on the trans-Pacific, there are unique dynamics to operations on the trans-Pacific, including the following:

- Carriers need access to effective beyond Australia, trans-Tasman and Northern American domestic networks in order to attract customers and feed passenger traffic on to the trans-Pacific services, so to maximise passenger loads and sustain capacity on the trunk routes, and to service the large proportion of travel beyond the main gateways.
- There is a high degree of sensitivity in earnings to changes in economic activity, jet fuel prices and exchange rates given the long sector length, travel time required to visit Australia, large proportion of US leisure travellers coming to Australia (41.4% for FY14) and the limited leave of US residents. The relative currency strength means that demand can quickly switch from being an outbound dominated route (i.e. Australian residents travelling abroad), to a heavily inbound route. Over the past two decades there have been large swings in the percentage of outbound / inbound mix, varying between 40% / 60% and 65% / 35%.
- There are larger, established and deeply integrated carriers which have been operating on the trans-Pacific for some time which are hedged against these earnings fluctuations by having both a US and Australasian presence. These are:
  - Oneworld carrier Qantas (which has been operating on the trans-Pacific since 1954<sup>25</sup>) has an integrated alliance with American Airlines, pursuant to which it can offer an extensive network of North American destinations, in conjunction with its own significant Australian and international networks, connecting to 38 return trans-Pacific services per week; and
  - Star Alliance member United Airlines is able to offer connecting services beyond the gateways on its broad North American network, while also offering onward services to New Zealand through its integrated alliance with Air New Zealand.

<sup>25</sup> Qantas began flights to San Francisco on 15 May 1954 on a 60-passenger Qantas Lockheed Super Constellation aircraft with non-stop flights between Sydney, Melbourne and Los Angeles beginning in April 1984: Qantas Media Release, *Qantas celebrates 60 years of flying to the USA*, 8 December 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-celebrates-60-years-of-flying-to-the-usa>.

## 2.5 Trans-Pacific air freight transport

Air freight is carried between Australia and the United States in the cargo holds of passenger aircraft and on dedicated air freight services. There are a large number of carriers that provide freight services on the trans-Pacific including passenger carriers (eg, Qantas) and third party dedicated freighters (eg, FedEx and United Parcel Service (**UPS**)). Qantas is the major carrier of air freight between Australian and the United States. In 2013, Qantas carried 34% of the combined inbound/outbound air freight tonnes that travelled across the trans-Pacific and over 70% was carried by Qantas, United, UPS and FedEx.

Qantas also has an interline agreement with American Airlines in respect of the carriage of freight on the trans-Pacific routes. This agreement allows Qantas to access United States Postal Service business, which is otherwise generally restricted to United States carriers and represents a significant proportion of inbound/outbound trans-Pacific air freight tonnes.

Further information on trans-Pacific air freight tonnes is provided in **Attachment F**.

[RESTRICTION OF PUBLICATION CLAIMED]

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## 3 Alliance rationale, implementation and performance

### 3.1 Commercial rationale

Sustaining profitable trans-Pacific services as a standalone domestic Australian carrier is extremely difficult given earnings volatility, the need for a comprehensive North American network, and the entrenched position of incumbents on the route.

As such, to offer a competitive trans-Pacific service, a carrier must have the following:

- **Strong brand and marketing presence in both Australia and US:** A strong brand presence in both the Australian and the United States points of sale which hedges against large swings in the outbound / inbound passenger mix. This is difficult and costly to achieve as a standalone carrier but can be quickly achieved in a cost effective manner through an alliance by leveraging the home advantage of each alliance partner.
- **Strong behind and beyond networks:** Crucial to success on the trans-Pacific is the ability to access effective beyond networks, in order to access feeder traffic to support the trans-Pacific services and to provide a range of destination options for passengers. Due to aircraft range limitations, flying the long trans-Pacific route means that passengers are generally required to travel through key gateway points (Los Angeles, San Francisco, Vancouver, and more recently, Dallas Fort-Worth, and Sydney, Brisbane, Melbourne or Auckland for Australasia). Carriers cannot compete effectively if they do not offer additional city-pair connections.
- **Strong North American network is key for an Australian carrier:** It is particularly important for Australian carriers to have access to a strong North American network, given the gateway hubs represent a very small proportion of the total traffic in the region. For example, the Los Angeles, San Francisco and Dallas Fort-Worth metropolitan catchment areas represent only 11% of the population of the United States.
- **Valued product for business and leisure passengers:** Both leisure and business travellers value domestic connectivity, minimised total travel time, network coverage, frequency, quality of the frequent flyer program (including earn and burn opportunities) and airport lounges, and choice of departure and arrival times. Whilst the majority of passengers travelling on the route

are leisure passengers,<sup>26</sup> the trans-Pacific route has the highest share of inbound business purpose traffic of any Australian international route.<sup>27</sup> A competitive North American network and service offering is particularly key for winning and retaining Australian corporate / government accounts and the business of high frequency travellers.

Through the Alliance, the Applicants have access to both strong North American and Australian networks, facilitating connections and traffic feed onto trans-Pacific trunk routes, enabling the Applicants to better manage load factors and yields in response to demand volatility, making these trunk routes more sustainable.

Further authorisation is required for Virgin Australia and Delta to continue to effectively compete against the incumbent carriers on the trans-Pacific, providing consumers continued access to greater choice, convenience and expanded public benefits. These public benefits will continue to grow as the Alliance matures and greater levels of integration and cooperation take place.

### **3.2 Alliance implementation**

Set out below are the key steps in the implementation of the Alliance:

- The Alliance was authorised by the ACCC in June 2010.
- Indefinite approval of the Alliance was received from the US Department of Transport in June 2011 and from the New Zealand Ministry of Transport in July 2011.
- The implementation phase of the Alliance began in September 2011, with codeshare on the trans-Pacific trunk route and the first joint scheduling activities in commencing November 2011. Joint pricing of services commenced in January 2012, with the progressive implementation of frequent flyer reciprocity, joint corporate contracting, fare filing delegation, joint promotional activities and improved connectivity initiatives following that.
- From February 2014, the Applicants began a program of closer cooperation to seek further efficiencies and market penetration through the Alliance.

### **3.3 Achievements to date**

The Alliance has allowed the Applicants to provide a significantly enhanced product, which has been valued by Australian and North American travellers and attracted more passengers to the Alliance's services. With reauthorisation, further benefits for both the Applicants and consumers can be achieved.

To date, implementation has involved the following joint commercial initiatives:

- Expanded reciprocal codeshare arrangements at favourable prorates with access to inventory in all fare categories. Codeshare arrangements on the trans-Pacific trunk routes and behind and beyond destinations have enabled journeys on a single VA or DL code to a total of 252 codeshare and interline destinations.<sup>28</sup>

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<sup>26</sup> On the trans-Pacific route in 2013, 58% of all passengers travelled for leisure, and business travel accounted for 12%. See Attachment D for further data on the purpose of travel between Australia and the United States in 2012-13 (Source: DIBP).

<sup>27</sup> The trans-Pacific represents 22.3% of total business travel into Australia. (Tourism Research Australia, International Visitor Survey).

<sup>28</sup> Under the Alliance, codeshare and interline connections are treated the same from a consumer stand-point, as described in section 5.2 below.

- Generous lounge and frequent flyer reciprocity, including status recognition, priority check-in, boarding, security screening and baggage for high value guests, on very favourable terms for Velocity and SkyMiles members. Improved status recognition for elite members was rolled out from September 2012 and reciprocal baggage allowance commenced in September 2013.
- Joint schedule optimisation commenced in November 2011 facilitating better connections and more convenient choice of departure times on trans-Pacific trunk routes and on connecting services. The Alliance continues to evaluate opportunities to optimise joint schedules, creating new connection options for consumers and the potential for reduced transit times.
- Cooperation in relation to corporate contracting, **[RESTRICTION OF PUBLICATION CLAIMED]**.
- Introduction of fare filing delegation in each point of sale **[RESTRICTION OF PUBLICATION CLAIMED]**.
- Significant joint promotion activities, including in conjunction with Tourism Australia, promoting the Alliance services and Australia as a tourist destination, for example, the very successful 2014 *Someday* campaign.
- Introduction of Inter Airline Through Check-In on all codeshare and interline routes from January 2013 allowing connecting passengers to check in and receive boarding passes for the entire journey at their point of origin rather than having to go through the check-in process again at the transfer point.

The process of Alliance implementation has been ongoing, with year on year improvements in Alliance performance and the level of service enjoyed by customers. **[RESTRICTION OF PUBLICATION CLAIMED]**

The Applicants expect to see further commercial and consumer benefits as a result of these ongoing initiatives in the short to medium term.

### **3.4 Passengers have responded to the Alliance**

Throughout the period of authorisation, an increasing number of passengers have taken advantage of the enhanced services on offer.

For example, in the year ending April 2014 connectivity beyond and behind the gateway destinations Los Angeles and Sydney grew with:

- **[RESTRICTION OF PUBLICATION CLAIMED]** more passengers flying on a Virgin Australia operated trans-Pacific flight which connected at LAX to/from a Delta-operated flight than in the previous year]; and
- **[RESTRICTION OF PUBLICATION CLAIMED]** more passengers flying on a Delta operated LAX-SYD flight which connected at Sydney to or from a Virgin Australia-operated flight than in the previous year.

The ability and willingness of passengers to interchange between Virgin Australia and Delta flights utilising available online connections is evidence of the commercial and consumer benefits associated with service improvements under the Alliance.

Traffic exchanged between the carriers has increased dramatically under the Alliance, compared with when limited stand-alone codeshare arrangements were in place. For example, in the month of April

2011, prior to Alliance implementation, a total of [RESTRICTION OF PUBLICATION CLAIMED] passengers flew on itineraries that included both a Delta and Virgin Australia operated leg. Whereas, in the month of April 2014, [RESTRICTION OF PUBLICATION CLAIMED] passengers travelled on itineraries that included flights operated both carriers.<sup>29</sup>

The interchangeability between Virgin Australia and Delta flights has also extended to utilisation of the reciprocal frequent flyer benefits and lounge access, with approximately [RESTRICTION OF PUBLICATION CLAIMED] members across both programs already utilising this benefit to earn points across the two carriers since implemented and approximately [RESTRICTION OF PUBLICATION CLAIMED] Delta and Virgin Australia guests utilising the reciprocal and favorable airport lounge access.

Under the Alliance, passengers have greater flexibility and schedule choice as they have access to the combined (and optimised) schedule of both Delta and Virgin Australia. For example, while passengers could theoretically have always chosen to fly one trans-Pacific leg with Delta and the other with Virgin Australia, until joint scheduling, pricing, seamless connections and reciprocal benefits were introduced, this was not an attractive offer to passengers. For example, in April 2011, only [RESTRICTION OF PUBLICATION CLAIMED] passengers travelled on tickets that included a Delta-operated trans-Pacific segment in one direction and a Virgin Australia-operated trans-Pacific segment in the other. In contrast, in April 2014, [RESTRICTION OF PUBLICATION CLAIMED] passengers travelled out on one partner and back on the other.

The Alliance has delivered on its core rationale and has enabled the Applicants to offer a superior product on the trans-Pacific which is valued by customers and enables Virgin Australia and Delta to better compete with the incumbent carriers for business and leisure passengers as well as for corporate accounts.

### 3.5 Immediate future goals

A further period of authorisation will enable the Applicants to continue to explore additional coordination and integration opportunities in order to further improve their service offering, realise new commercial benefits and to continue to provide increased competition and more customer choice.

The Applicants' goals over the next period of authorisation include the following:

- [RESTRICTION OF PUBLICATION CLAIMED]

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## 4 Counterfactual

[RESTRICTION OF PUBLICATION CLAIMED]

Further information on the counterfactual from the perspective of Virgin Australia and of Delta perspective is provided at **Confidential Attachment H** and at **Confidential Attachment I** respectively.

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## 5 Significant public benefits

### 5.1 ACCC concluded that the Alliance was likely to result in public benefits

In its Final Determination, the ACCC considered that the Alliance was likely to enable the Applicants to compete more vigorously and effectively against the established carriers on the route.

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<sup>29</sup> Source: Delta Revenue Pipeline Database.

The ACCC concluded that the Alliance:

- is likely to allow the Applicants to continue to compete on price as well as service offerings through the enhancement and expansion of the Applicants' operations on the trans-Pacific routes;
- is likely to allow more efficient and effective integration of the applicants' trans-Pacific services with their Australian and United States domestic networks which leads to route connectivity benefits for consumers and more sustainable competition on the routes;
- will provide network benefits through increased passenger feeds arising from Delta's domestic network and Delta's marketing of the route in the United States; and
- would be likely to pass on to consumers any cost savings achieved given the level of competition on the trans-Pacific routes.

Each of these benefits has been achieved under the Alliance.

## **5.2 Continued and deeper public benefits will result under reauthorisation**

The Alliance has delivered, and will continue to enable Virgin Australia and Delta to deliver, public benefits in the form of:

- enhanced products and services such as enhanced connectivity, improved online connections, optimised scheduling, and an expanded behind and beyond network;
- greater loyalty program benefits through reciprocal accrual and redemption benefits, status recognition, lounge access and other service offerings;
- increased capacity for new frequencies and destinations;
- increased capacity for efficiencies and cost savings;
- promotion of a competitive response from rivals; and
- stimulation of tourism.

The product, service and loyalty benefits achievable under the Alliance are particularly important to trans-Pacific passengers due to the significant demand for connections, particularly in the US, and the length of total travel time. They are crucial to winning high frequency travellers and a share of the large number of Australian corporate /government accounts which have a trans-Pacific service requirement.

## **5.3 Enhanced products and services - More online connections**

The behind and beyond networks on either side of the trans-Pacific are very significant for any carrier operating on the route. Approximately 70% of the Australia/LAX market is beyond LAX traffic.<sup>30</sup> For Virgin Australia and Delta passengers, approximately [REstriction of Publication Claimed] of traffic from Australia to the US is connecting behind and/or beyond, and approximately

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<sup>30</sup> Based on MIDT data.

[RESTRICTION OF PUBLICATION CLAIMED] of traffic from the US to Australia is connecting behind and/or beyond.<sup>31</sup>

Access to behind and beyond networks is necessary to attract business and leisure traffic and also reflects the limited attractiveness of simply offering a point to point LAX-SYD/BNE service. It is also necessary in order to maximise passenger numbers, making the point-to-point trunk routes commercially viable.

This is reflected in the number of passengers who have flown on a Delta / Virgin Australia trans-Pacific service with a behind or beyond connection in the United States or Australia. As shown in Figure 2 below, around [RESTRICTION OF PUBLICATION CLAIMED] of Australian origin passengers, and around [RESTRICTION OF PUBLICATION CLAIMED] of US-origin passengers, utilised at least one connection when flying on the Alliance's trans-Pacific services.

Figure 2: Percentage of passengers utilising behind and beyond connections on the Alliance (October 2013 – September 2014)<sup>32</sup>

[RESTRICTION OF PUBLICATION CLAIMED]

The ACCC has previously recognised that increased online connections result in public benefits.

Under the Alliance, online connections are provided across itineraries that involve [RESTRICTION OF PUBLICATION CLAIMED]. Generally, the Applicants have codeshare in place on routes which connect directly with trans-Pacific trunk routes at Los Angeles, Sydney and Brisbane. Beyond these, a large network of interline destinations is also available. This gives a total of 191 codeshare and interline destinations in the US, Mexico and Canada, 59 codeshare and interline destinations in Australasia and 2 codeshare and interline destinations in Asia, totalling 252 destinations available under the Alliance (see further **Attachment J** for a complete list of Alliance destinations as at 15 December 2014). The Applicants have made available through-ticketing and baggage and the ability to earn and burn frequent flyer points and utilise lounges throughout both the codeshare and interline networks where they connect with trans-Pacific trunk routes. This is of significant value to passengers as a greater number of online connections increases the Applicants' ability to ensure that customer journeys and overall travel experience are smoother and more convenient.<sup>33</sup> Benefits to consumers include:

- the removal of the risk of forfeiting non-refundable fares if the first flight in a journey is delayed;
- increased convenience in not having to collect and bear baggage mid journey (where applicable); and
- time savings associated with through-check (i.e. passengers do not need to allow time for a second check-in, where applicable).

These forms of benefits are particularly important to consumers on itineraries involving long sectors such as the trans-Pacific and where ease of connection becomes of increasing value to the consumer. For example, where there is not much time between arrival and departure of the connecting flight.

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<sup>31</sup> Based on Virgin Australia and Delta passenger data for the 12 months to September 2014. This is a conservative estimate as there would be large proportion of Australian origin passengers and US origin passengers who would be travelling behind or beyond the trans-Pacific on other operators, for which Virgin Australia and Delta would compete.

<sup>32</sup> Source: PaxIS

<sup>33</sup> The ACCC has considered this in previous determinations, see for example ACCC determination A91227 & A91228 Virgin Blue Airlines Pty Ltd & Air New Zealand, 16 December 2010 and A91247 & A91248 Virgin Blue Airlines Pty Ltd & Etihad, 3 February 2011. See also ACCC determination A91332 & A91333 Qantas Airways Ltd & Emirates, 27 March 2013.

Under the Alliance, Virgin Australia and Delta have had the incentive and ability to continuously increase the opportunities for customers to travel under a single airline code between points of origin and destinations that were previously unavailable on either party's code. Over the time of the alliance to date, Virgin Australia added its code on [REstriction of Publication Claimed] domestic United States city pairs and [REstriction of Publication Claimed] United States- Mexico city pairs operated by Delta, with a total of [REstriction of Publication Claimed] new domestic US codeshare destinations. Delta has added its code on [REstriction of Publication Claimed] new domestic Australian city-pairs and [REstriction of Publication Claimed] new Australia – New Zealand city pairs operated by Virgin Australia, with a total of [REstriction of Publication Claimed] new Australian domestic codeshare destinations.

**5.4 Enhanced products and services - More frequencies on trunk routes and other existing codeshare routes**

By combining the existing trans-Pacific schedules of Virgin Australia and Delta, the Alliance is able to offer passengers a choice of more frequencies on the trunk routes, with double-daily services on SYD-LAX and daily services on BNE-LAX. This provides the immediate benefit to both Australian and Northern American travellers that Virgin Australia can offer its customers 50% more trans-Pacific services and Delta can offer 200% more trans-Pacific services. This expansion comes without having to invest in more aircraft or take on more operational risk. This provides a greater choice of travel times and facilitates better connections, as well as reaccommodation opportunities in the case of disruptions.

Further, Virgin Australia and Delta have not only expanded the number of new coded routes available to passengers in domestic Australia and the US, but have also increased frequencies on routes that they operated prior to the Alliance.

**Figure 3 – Virgin Australia codeshare on Delta routes in the United States – change between January 2011 and July 2014 on codeshare routes that existed in January 2011**

Origin	Destination	Additional flights/week
Cincinnati	Los Angeles	2
New York	Los Angeles	45
Los Angeles	Cincinnati	6
Los Angeles	New York	44
Los Angeles	Orlando	7
Los Angeles	Salt Lake City	42
Orlando	Los Angeles	7
Salt Lake City	Los Angeles	42

**Figure 4 - Delta codeshare on Virgin Australia routes in Australia – change between January 2011 and July 2014 on codeshare routes that existed in January 2011**

Origin	Destination	Additional flights/week
Brisbane	Sydney	27
Melbourne	Sydney	27
Sydney	Brisbane	28
Sydney	Melbourne	28

**5.5 Enhanced products and services - Joint schedule optimisation**

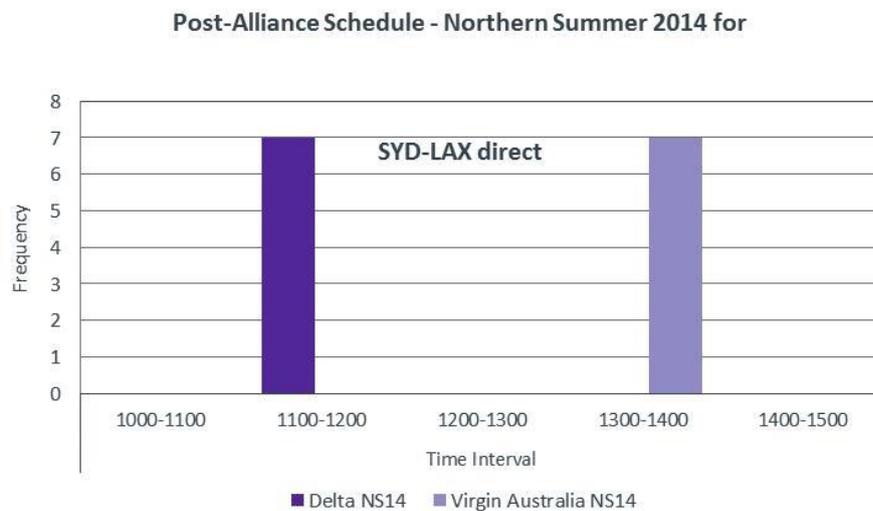
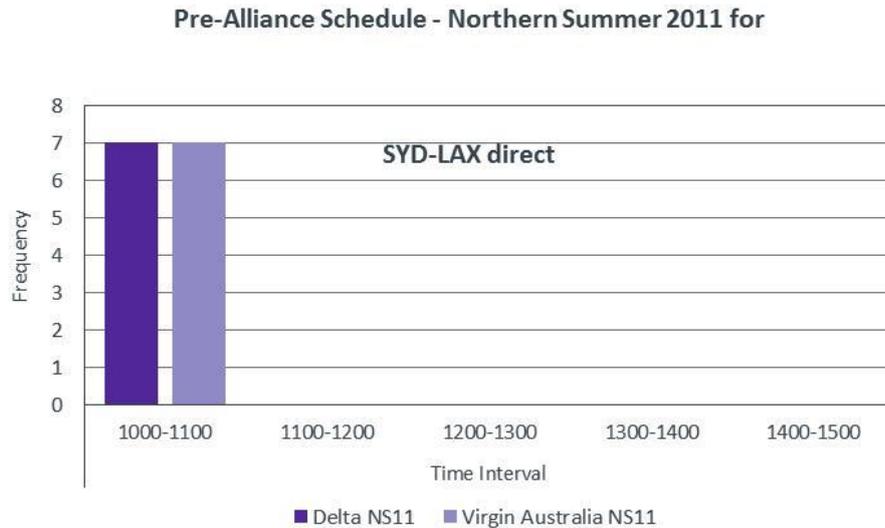
Through joint scheduling under the Alliance, Virgin Australia and Delta are able to offer:

- better schedule spread with a greater number of different departure and arrival times into and out of LAX, and into and out of SYD; and
- more convenient options for connections in the behind and beyond networks.

*(a) Better schedule spread*

Comparing Northern Summer of 2011 with Northern Summer of 2014, the Alliance has increased the choice and convenience of both departure and arrival times from Sydney to LAX and LAX to Sydney. For example, as shown in the figure below, instead of having a choice of one departure time out of Sydney between 10-11am, a passenger flying on Delta or Virgin Australia has the choice of flying at either 11-12pm or 1-2pm. This in turn facilitates schedule optimisation in order to provide more convenient connection times and the opportunity for reaccommodation in the case of disruptions or passenger changes to itineraries.

**Figure 5 – More choice of departure time on trunk routes**



(b) More convenient connections for behind and beyond destinations

The better schedule spread made possible under the Alliance means that passengers are able to benefit from the availability of more convenient connection options in the behind and beyond networks in Australia and the US.

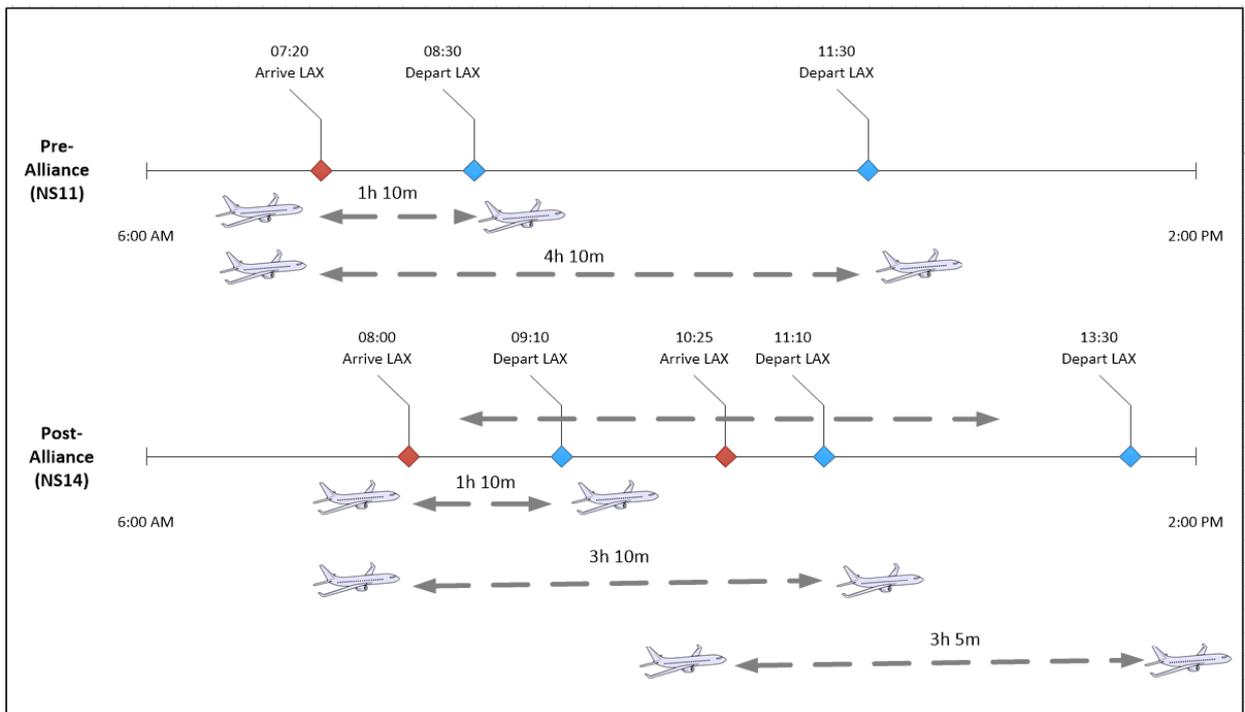
The two most popular routes flown by Delta and Virgin Australia connecting Sydney to a US destination beyond the LAX gateway for the year ending September 2014 were SYD-JFK and SYD-LAS. As shown in Figure 6 below, on each of these routes post-Alliance, passengers had the benefit of more convenient connections with less time spent waiting for the connecting flight.

Figure 6 – Improved connection options to beyond US destinations

Prior to the Alliance Delta and Virgin Australia flights both arrived into Los Angeles from Sydney at 7.20am. After the Alliance, the Delta flight arrived at 8.00am and the Virgin Australia flight arrived over two hours later at 10.25am.

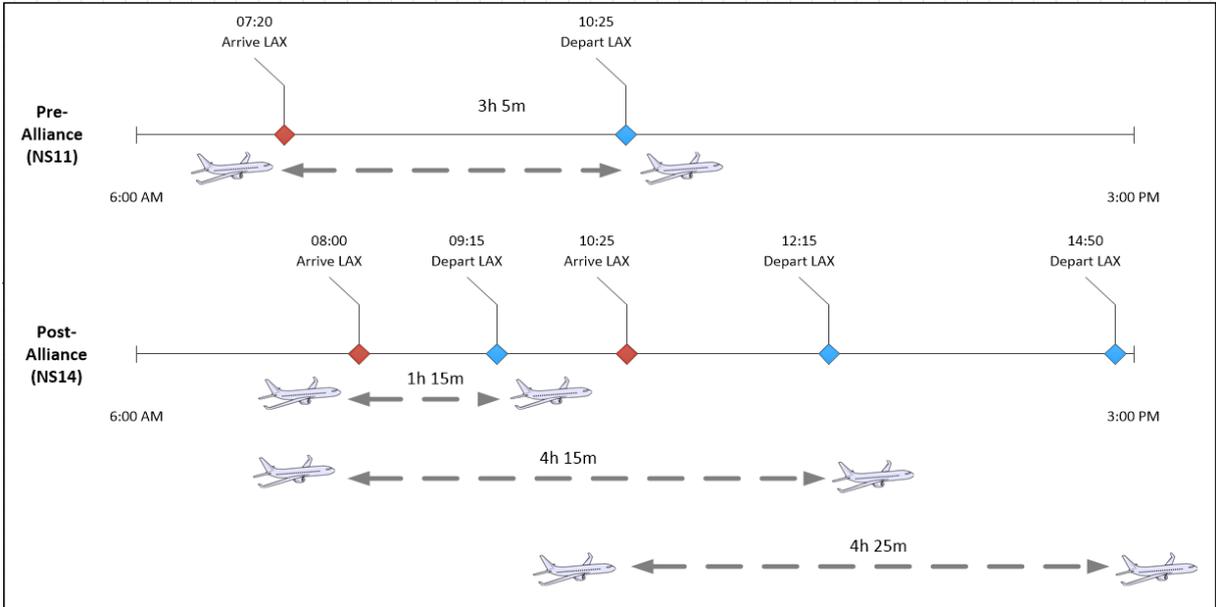
**SYD-JFK**

On SYD-JFK (New York), Virgin Australia or Delta passengers went from two flight options to having three flight options spread over the day, with two of these options saving either 1 hour or 1 hour 5 minutes in transit time depending on which flight option they choose.



**SYD-LAS**

On SYD-LAS (Las Vegas), Virgin Australia or Delta passengers went from one flight option to having three flight options, with two of those options saving either 1 hour 50 minutes or 1 hour 10 minutes in transit time depending on which flight option they chose.

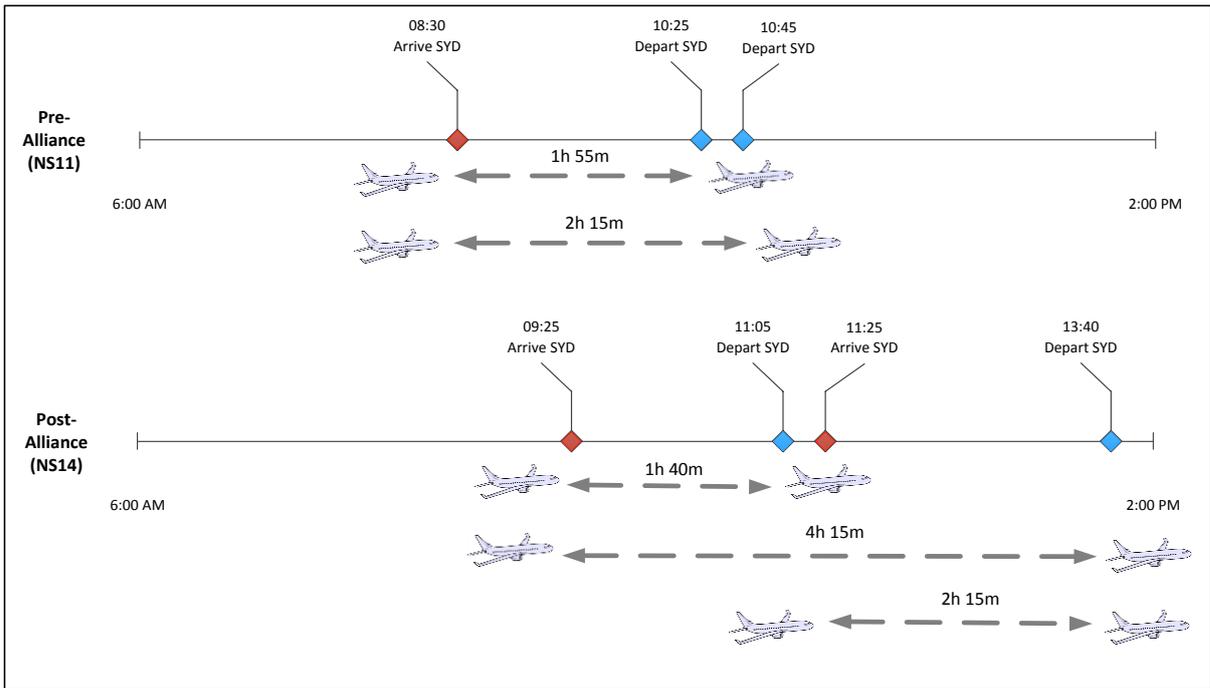


Similarly, the Alliance has also been able to deliver more convenient connections and reduced total travel time for behind Australian domestic connections, for example as shown in Figure 7 below.

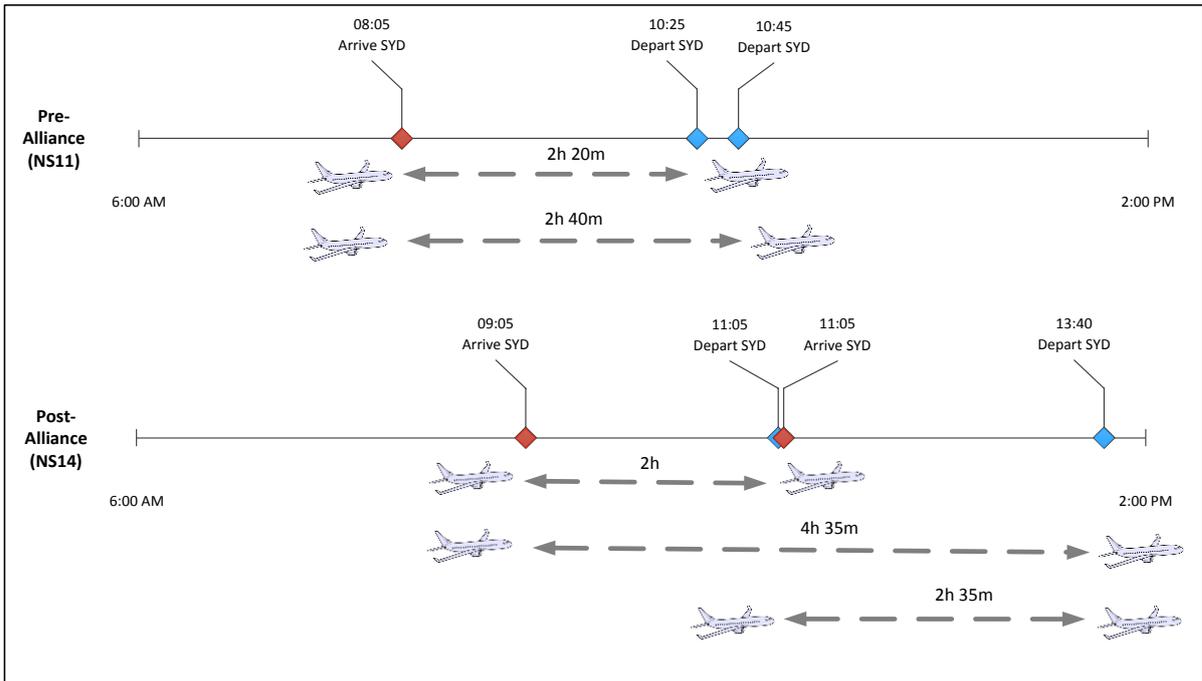
**Figure 7 – Improved connection options from behind destinations in Australia**

On both ADL-LAX and CBR-LAX, Virgin Australia and Delta passengers went from having a choice of two flights out of Sydney which were 20 minutes apart, to having a morning and afternoon Sydney departure, with the potential for reduced transit time. Importantly, the choice of departure time means that passengers can be reaccommodated in the case of disruptions or a change in their travel plans.

ADL-LAX



CBR-LAX



Without the Alliance, Virgin Australia and Delta would not be able to coordinate schedules in order to offer passengers the benefit of joint schedule optimisation as described above. Further authorisation of the Alliance would allow Virgin Australia and Delta to continue to improve schedules and connections between the networks and to offer consumers this enhanced and more convenient offering as an alternative to Qantas.

## 5.6 Enhanced products and services - Improved customer connection experience

### (a) *Single check-in and through-checked baggage*

Under the Alliance, an Australian traveller only has to check-in once to fly from a behind destination such as Hobart to Sydney, then across the trans-Pacific to Los Angeles and then onto a beyond destination such as New York. The traveller receives their boarding passes for the entire journey at their point of origin and their luggage is through-checked to their final destination.

Prior to the Alliance, customers would have to recheck at the transfer point. For example, a person travelling from Hobart to Sydney with Virgin Australia and then from Sydney to Los Angeles with Delta would have to go through the whole check-in process again after arriving in Sydney for the Delta flight.

Being able to through-check from Hobart to New York facilitates seamless, hassle-free connectivity to the behind and beyond networks making the customer journey more convenient, opening up access to a greater number of connecting flight options.

### (b) *Time saved and less hassle with transfers between international and domestic terminals*

The Alliance introduced a free airside shuttle bus between Delta's Los Angeles Airport Terminal 5 to Virgin Australia's Tom Bradley International Terminal for Virgin Australia and Delta guests through-checked from the United States to Australian destinations. This shuttle service not only saves passengers time in their transfer, it also eliminates the need for passengers to clear security again.

In Australia, connecting Virgin Australia and Delta guests in Sydney and Brisbane also have complementary transfers between international and domestic terminals.

Efficiency gains from the improved processes described above have resulted in a better connection experience and a greater ability for customers to make their connections successfully. For example, for Australian passengers travelling home and US passengers travelling to Australia from US behind destinations, the minimum time required for a passenger and their luggage to be transferred from a Delta operated US domestic leg to Virgin Australia operated trans-Pacific leg has been reduced from the two hour Los Angeles airport standard to 90 minutes.

### (c) *Better cancellation and disruption management*

Under the Alliance, Virgin Australia and Delta are better able to minimise disruption to guests in the event of operational flight cancellations. For example, under the Alliance, a passenger whose Virgin Australia flight from Sydney to Los Angeles was cancelled can be re-accommodated onto a later Delta operated flight on the same day. Similarly, a passenger can be re-accommodated onto the later same day Delta service where a cancellation of a connecting flight (eg from Brisbane or Melbourne) would mean that the passenger would be unable to make the Sydney to Los Angeles service operated by Virgin Australia.

## 5.7 Increased capacity for new frequencies and destinations

Under the Alliance, there is greater capacity to invest in new routes and frequencies both on the trans-Pacific and connecting sectors. Increased traffic feed from new frequencies and routes within the US and Australian domestic markets have made Alliance services on the trunk routes more sustainable. The risk of investment in such routes is significantly reduced under the Alliance. This has in turn, contributed to the growth of frequency on connecting Australian and US routes to domestic destinations. For example, new destinations that have been added by Delta since the commencement of the Alliance include: San Jose, Portland, Seattle/Tacoma, Boston and Austin.

By enabling the sharing of commercial risks and providing access to additional passenger traffic, the Alliance facilitates services which Virgin Australia and Delta would not alone be able to offer either in the short term, or at all. As the integration and benefits of the Alliance deepen, new trunk routes are also more likely to become viable. The Alliance will continue to investigate the viability for new trans-Pacific services, such as direct services between [REstriction of Publication Claimed].

## 5.8 Greater loyalty program benefits

### (a) Reciprocal frequent flyer benefits

Through the Alliance, Virgin Australia and Delta have the ability and incentive to closely integrate their loyalty programs and offer passengers valuable loyalty benefits. The favourable frequent flyer program benefits that Velocity members enjoy when travelling with the Alliance provide a competitive alternative to Qantas' Frequent Flyer programme and the global alliances of StarAlliance and Oneworld.

Under the Alliance, Virgin Australia and Delta frequent flyer members can and do earn and burn points and status credits across both airlines, allowing them a greater network across which to accumulate points and a greater network over which to use points.

The figures below show the substantial consumer receipt of this benefit by looking at unique member earn (where unique members are defined the first time that they travel on DL for Velocity members and VA for Skymiles members).

From July 2009 to June 2014:

- **[RESTRICTION OF PUBLICATION CLAIMED]** unique Velocity members earned points on Delta operated flights between Australia and the US.
- **[RESTRICTION OF PUBLICATION CLAIMED]** unique Velocity members earned points on other Delta flights.

From October 2010 to May 2014:

- **[RESTRICTION OF PUBLICATION CLAIMED]** unique Skymiles members earned points on Virgin Australia operated flights between Australia and the US.
- **[RESTRICTION OF PUBLICATION CLAIMED]** unique Velocity members earned points on other Virgin Australia flights.]

Currently, Virgin Australia's frequent flyer program, Velocity, has 4.5 million members and Delta's SkyMiles program has 80 million, all of whom benefit directly from the reciprocal frequent flyer benefits available under the Alliance.

**[RESTRICTION OF PUBLICATION CLAIMED]**

### (b) Lounge access benefits

The Applicants have implemented full reciprocal lounge access. Under the Alliance, Virgin Australia can offer corporate and business passengers a lounge product that is competitive with that offered by Qantas.

Virgin Australia's eligible Velocity members gain full access to Delta Sky Lounges when travelling on an international itinerary as well as when travelling on a US domestic itinerary connecting to an international journey provided one of the sectors is on the trans-Pacific. For example, an eligible passenger travelling from Perth to New York via Sydney and Los Angeles would have access to Velocity lounges in Perth and Sydney as well as the Delta Sky Lounge in Los Angeles. Delta's Sky Lounges in New York and Los Angeles and the Velocity lounge in Sydney would be available to the passenger on the return journey. Likewise, Delta's eligible SkyMiles members gain full access to Velocity lounges when travelling on either a Delta or Virgin Australia service.

**[RESTRICTION OF PUBLICATION CLAIMED]** This access level is important as it ensures Virgin Australia has a comparable product to its competitors, such as Qantas, which has arrangements for its members to gain lounge access across North American airports. Without reauthorisation, Delta would not be

incentivised to support Virgin Australia's Velocity product, reducing Virgin Australia's ability to provide a competitive product on the trans-Pacific. These lounge benefits are essential to attracting corporate and business travellers.

Lounge access benefits are significant and include the following benefits available to passengers on itineraries that include a trans-Pacific sector:

- business class guests are entitled to use Delta and Velocity lounges when flying on a same day service operated by either Delta or Virgin Australia;
- eligible SkyMiles members are entitled to access Virgin Australia's Lounges throughout Australia when flying on a Virgin-operated services; and
- eligible Velocity members<sup>34</sup> are entitled to access Delta's Sky Lounges when flying on Delta-operated flight at the following destinations:
  - Los Angeles, USA
  - Atlanta, USA
  - Boston, USA
  - Chicago, USA
  - Cincinnati, USA
  - Dallas, USA
  - Detroit, USA
  - Fort Lauderdale, USA
  - Honolulu, USA
  - Indianapolis, USA
  - Jacksonville, USA
  - Manila, Philippines
  - Memphis, USA
  - Miami, USA
  - Milwaukee, USA
  - Minneapolis, USA
  - Nashville, USA
  - New Orleans, USA
  - New York JFK, USA
  - New York La Guardia, USA
  - New York Newark, USA
  - Orlando, USA
  - Philadelphia, USA
  - Portland, USA
  - Raleigh-Durham, USA
  - Salt Lake City, USA
  - San Diego, USA
  - San Francisco, USA
  - Santiago, Chile
  - Sao Paulo, Brazil
  - Seattle, USA
  - Tampa, USA
  - Tokyo, Japan
  - Washington DC Reagan National, USA
  - West Palm Beach, USA

Lounge access is therefore an important benefit for many passengers. The high value that many passengers place on lounge access is evidenced by the increase in lounge usage under the Alliance over time. For example:

- **[RESTRICTION OF PUBLICATION CLAIMED]** Delta Elite members used Virgin Australia domestic lounges in Adelaide, Brisbane, Cairns, Canberra, Gold Coast, Mackay, Melbourne, Perth and Sydney between 1 October 2012 and 29 May 2014. This equates to around **[RESTRICTION OF PUBLICATION CLAIMED]** members using lounges each year. This

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<sup>34</sup> Gold and Platinum Velocity Members.

number has grown from [REstriction of Publication Claimed] Delta Elite members using Virgin Australia domestic lounges in 2011.

- [REstriction of Publication Claimed] Velocity members used Delta lounges in the first four months of 2014. In 2013, [REstriction of Publication Claimed] Velocity members used the Delta lounges and in 2012, [REstriction of Publication Claimed] Velocity members used the Delta lounges. This also represents strong growth since 2011 when [REstriction of Publication Claimed] Velocity members used the Delta lounges.

Passengers using reciprocal lounge access have directly benefited from service improvements under the Alliance.

As the ACCC has previously recognised,<sup>35</sup> lounge access and other value-added services have a significant impact on consumer satisfaction and preferences when choosing which airline to fly with. Passenger surveys consistently show that all travellers value a range of non-price factors, including network breadth and depth, frequency, loyalty programs including lounge access, ease of booking and value for money (as opposed to price).

As noted above, lounge access is particularly valued by business travellers, especially those travelling on the long haul trans-Pacific routes, many of whom will have connecting flights and therefore, in-airport transfer time. Without the depth of lounge access made available under the Alliance, it would be very difficult for Virgin Australia to attract corporate accounts. Correspondingly without higher yielding corporate accounts, Virgin Australia would be unable to justify the investment in international lounges to attract that type of customers.

(c) *Elite member benefits*

Progressively since September 2012, the Alliance has implemented a number of benefits for SkyMiles and Velocity high value and elite members.

The Applicants launched additional benefits for eligible members in September 2012, which included Priority Baggage<sup>36</sup>, Priority Boarding<sup>37</sup>, Priority Screening<sup>38</sup> and Priority Check-in<sup>39</sup>. These offers allow elite Velocity members the benefit of priority over the general customer base resulting in an expedited travel service which is extremely important for regular business travellers and provides a valuable alternative to the status benefits provided by Qantas. This is a tangible benefit for approximately [REstriction of Publication Claimed] of all Velocity frequent flyer members travelling on Delta aircraft.

Continued operation of the Alliance provides further incentives for the Applicants to deepen integration of their loyalty programs, making both programs more competitive, and allowing them to leverage the respective strengths of both their membership. Currently, Virgin Australia and Delta are exploring the potential for a deeper loyalty program relationship, [REstriction of Publication Claimed].

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<sup>35</sup> ACCC, *Determination : Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand*, 16 December 2010, [5.116] – [5.120].

<sup>36</sup> Priority Baggage allows elite Velocity members' bags to be placed first on the baggage collection belt on arrival.

<sup>37</sup> Priority Boarding allows Velocity elite members to board the aircraft prior to the general boarding.

<sup>38</sup> Priority Screening allows elite Velocity members to pass through a designated security screening queue allowing fast boarding.

<sup>39</sup> Priority Check-in allows elite Velocity members to check-in through a designated check-in queue and counters which allows faster check-in.

## 5.9 Competitive response from rivals - more choice and competition on the trans-Pacific

Prior to the Alliance, the lack of competition and the dominance of Qantas and United Airlines on the trans-Pacific route between Australia and mainland US had been widely criticised, both by the public and by other carriers (such as Emirates and Singapore Airlines).<sup>40</sup>

In its consideration of authorisation for the Alliance, the ACCC accepted that:

*“the Alliance is likely to enhance the applicants’ product and service offering, and may lead to lower fares (to the extent that cost savings and efficiency gains are passed through to consumers). The ACCC considers that this has the potential to trigger a competitive reaction from Qantas Group. This may lead to better price and service offerings and potentially lower fares for Qantas Group passengers. In turn, Qantas Group’s reaction to the Alliance could stimulate a second round competitive response from the Alliance.”<sup>41</sup>*

ACCC Chairman, Graeme Samuel noted that:

*“The ACCC considers the joint venture is likely to assist Virgin and Delta to compete more effectively against the incumbents on the route – Qantas and United Airlines”.<sup>42</sup>*

Under the Alliance, Virgin Australia is, and will continue to be, better placed to challenge Qantas’ continued dominance on the trans-Pacific and in relation to Australian corporate and government accounts.

### (a) More choice for Australian passengers

The Alliance assists in making Virgin Australia a stronger competitor across all sectors of the market, growing it as an important second international airline for Australia. Through the Alliance, Virgin Australia is able to offer:

- a stronger behind and beyond network and more online connections across Australia/New Zealand and North/Central America, in closer competition with Qantas/American Airlines and United/Air New Zealand;
- access to feeder traffic through the combined Virgin Australia / Delta networks, making the continued operation of the trunk routes more commercially viable, and enabling sustained capacity and fare levels across these routes; and
- a more compelling and valuable frequent flyer proposition, offering tangible product benefits to Australian passengers.

As such, the Alliance not only stimulates competition on the trans-Pacific route, but also promotes competition for Australian passengers generally by providing Australian passengers with a viable choice in carriers.

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<sup>40</sup> See for example, ABC 7.30 Report Transcript, *Government protects Qantas route*, 21 February 2006, <http://www.abc.net.au/7.30/content/2006/s1575317.htm> and Sydney Morning Herald, *Emirates steps up its attack*, 28 June 2005, <http://www.smh.com.au/news/business/emirates-steps-up-its-attack-on-qantas/2005/06/27/1119724580223.html>

<sup>41</sup> 2010 Determination at [5.203].

<sup>42</sup> ACCC media release, *ACCC allows Virgin Blue and Delta joint venture*, 10 December 2009, <http://www.accc.gov.au/media-release/accc-allows-virgin-blue-and-delta-joint-venture>

(b) *An effective alternative for corporate travellers*

As described above, since the Alliance commenced, there has been a significant increase in the depth and breadth of network and destinations within domestic United States and Australia and real improvements in both Virgin Australia's and Delta's product offering such as through reciprocal loyalty benefits. These benefits are particularly valuable to passengers on the trans-Pacific because of the high proportion of corporate travellers on the route and is integral to the Applicants' ability to provide an attractive corporate offering in closer competition with Qantas. This results in the further significant benefit of more choice for corporate travellers and the promotion of competition for the corporate traveller dollar, not just on the trans-Pacific, but for travel to, from and within Australia in general.

In the short time since implementation of the Alliance, these benefits have had a notable effect in attracting, gaining and maintaining corporate travel accounts. As a result of Virgin Australia's ability to offer online connections to services on Delta's network, together with an attractive loyalty proposition, Virgin Australia has been able to secure a number of brand new corporate accounts which require both Australian and US travel.

In FY2014 alone, Virgin Australia has been successful in securing the following corporate customers:

- [REstriction of Publication Claimed] new accounts in corporate committed business ([REstriction of Publication Claimed] in committed annual revenue);
- [REstriction of Publication Claimed] accounts in renewed corporate committed business ([REstriction of Publication Claimed] in committed annual revenue);
- expansion of [REstriction of Publication Claimed] renewed accounts (delivering [REstriction of Publication Claimed] in incremental revenue); and
- a number of pipeline accounts over the next [REstriction of Publication Claimed] (estimated to be worth approximately [REstriction of Publication Claimed]).

Virgin Australia and Delta have been able to jointly assess the value of corporate accounts, taking into consideration both the Australian and US point of sale, in order to provide discounts to attract potential customers, making their corporate offer more attractive.

Notable new customers which have switched to Virgin Australia's corporate offering following Alliance implementation include: [REstriction of Publication Claimed]

Further, the Alliance has allowed Virgin Australia to integrate Delta codeshare services into the Virgin Australia Small and Medium Enterprise (SME) program, *Accelerate*. The Accelerate database has [REstriction of Publication Claimed] SME corporations (and is growing) which now have access to an enhanced network, being able to purchase tickets to Los Angeles and then onwards to [REstriction of Publication Claimed] destinations in the US, Canada and Mexico via the Alliance network. These flight purchases accumulate towards the SME's yearly revenue balance which then triggers an annual rebate based on their total spend. From July 2013 to September 2014, the amount of revenue that Virgin Australia has put on Delta operated flights through the Accelerate program was [REstriction of Publication Claimed]. Since the launch of Delta code on Virgin Australia operated flights through the Accelerate program in March 2014, the amount of revenue Delta has generated for Virgin Australia is [REstriction of Publication Claimed] to September 2014.

Delta also has its own small and medium enterprise program, SkyBonus, which, through the Alliance, has benefitted Australian travel. In 2013, Delta had [REstriction of Publication Claimed] SkyBonus accounts that involved a segment of the flight which touched Australia, account for [REstriction of Publication Claimed] in flown revenue.

Corporate customers will further benefit from the Alliance as the Applicants increase cooperation on corporate accounts:

- [RESTRICTION OF PUBLICATION CLAIMED]
- The Applicants continue to assess opportunities for new accounts and estimate that the deep integration through the Alliance partnership is likely to attract a further [RESTRICTION OF PUBLICATION CLAIMED].

Without the Alliance, the separate corporate offerings of Virgin Australia and Delta would not be able to compete as effectively with Qantas / American Airlines for customers who require both Australian and US travel.

(c) Promoting more competition by triggering responses from rivals

As the ACCC has recognised, the Alliance enables Virgin Australia and Delta to provide real and vigorous competition as an alternative to the established incumbents, Qantas and United, on the trans-Pacific, in turn promoting a competitive fare and service response.<sup>43</sup> This has been the experience as shown below:

Figure 8 – Competitive responses to the Alliance

Carrier	Competitive response and enhanced product and service offering
Qantas	<ul style="list-style-type: none"> <li>• Qantas entered into an alliance with American Airlines in September 2011 (which merged with US Airways in 2013) as a result of which, it has the ability to offer an extensive product and service offering to both leisure and corporate travellers. The alliance combines Qantas’ significant presence on the trunk and strong offering in domestic Australia with American Airlines’ widespread domestic network in the US. Under this alliance, Qantas and American Airlines have offered services to the new hub of Dallas Fort-Worth.</li> <li>• Qantas has recently invested in capacity and network optimisation including the following: <ul style="list-style-type: none"> <li>– In May 2014, Qantas announced a network revamp which saw an A380 replacing the Boeing 747 operations between Australia and Dallas / Fort Worth (effective from September 2014) adding an additional 350 seats a week on the route each way. Also as part of this capacity addition, Qantas retimed their services to operate directly from Sydney, rather than operating through a triangular arrangement via Brisbane. Although use of the larger aircraft meant Qantas reduced frequencies on the route, Qantas estimated the net capacity increase on the route was over 10% per week.<sup>44</sup></li> <li>– In August 2014, Qantas again boosted its capacity on the trunk route, by increasing services from Melbourne to Los Angeles from daily to 10 a week. This increase came immediately after Virgin Australia switched its capacity from Melbourne-Los Angeles to Brisbane, in order to concentrate on that hub, filling the capacity removed by Virgin Australia. Qantas is clear that “the US is one of our [Qantas]’ most</li> </ul> </li> </ul>

<sup>43</sup> 2010 Determination, [4.184].

<sup>44</sup> Travel Daily, *Qantas to operate A380s non-stop DYP-DFW-SYD*, 7 May 2014, <http://www.traveldaily.com.au/news/td-breaking-news-qantas-to-operate-a380s-non-stop-syd-dfw-syd/187232>

Carrier	Competitive response and enhanced product and service offering
	<p><i>important markets and we will now offer our [Qantas'] customers 45 return services per week to North and South America".<sup>45</sup></i></p> <ul style="list-style-type: none"> <li>• Qantas has also undertaken increased investment in service enhancements. For example: <ul style="list-style-type: none"> <li>– Qantas has recently rolled out a new inflight dining offering across their network, to commence on the US services from 9 December 2014, offering passengers the ability to pre-order their meal online, and offering a wider choice of meals and larger servings.<sup>46</sup></li> <li>– Qantas even more recently has introduced a new First Class Lounge and extended Business Class Lounge in Los Angeles with seasonal menus from Neil Perry's Rockpool Group. The first class lounge opened on 18 December 2014.<sup>47</sup></li> </ul> </li> </ul>
Jetstar	<ul style="list-style-type: none"> <li>• Jetstar has boosted its services between Australia and Honolulu recently, reinstating non-stop services between Melbourne and Honolulu in 2013 instead of flying Melbourne – Honolulu via Sydney.<sup>48</sup></li> <li>• Jetstar is also set to commence services between Brisbane and Honolulu in December 2014, operating three services a week during peak season and two services per week in off-peak season on an Airbus A330. Jetstar has indicated the Brisbane-Honolulu route will eventually be operated by a Boeing 787 Dreamliner as Jetstar continues to take delivery of more aircraft.<sup>49</sup></li> </ul>
United Airlines	<ul style="list-style-type: none"> <li>• United Airlines commenced its first direct Melbourne-Los Angeles service (six services a week) in a 787-9 Dreamliner aircraft in October 2014 with a ramp up in capacity to daily flights planned in March 2015.<sup>50</sup></li> <li>• Additionally, United Airlines replaced its twice daily Boeing 747 flights from Sydney to Los Angeles and San Francisco with Boeing 777s from March 2014, improving its product offering on these services.<sup>51</sup></li> </ul>
Air New Zealand	<ul style="list-style-type: none"> <li>• Air New Zealand will add three additional flights between Auckland and Los Angeles (stepping up from twice daily to three times a day on three days of</li> </ul>

<sup>45</sup> News.com.au, "Qantas to boost flights on US and South American routes", 22 August 2014, <http://www.news.com.au/travel/qantas-to-boost-flights-on-us-and-south-american-routes/story-e6frfq7r-1227033501068>

<sup>46</sup> Travel Daily, "TD breaking news – Qantas to expand economy meal options", 12 November 2014, <http://www.traveldaily.com.au/news/td-breaking-news-qantas-to-expand-economy-meal-options/208003>

<sup>47</sup> Travel Daily, QF LAX First Class lounge, 18 December 2014.

<sup>48</sup> Jetstar Media Release, Jetstar helps more holidaymakers escape to islands, 1 August 2012, <http://www.jetstar.com/mediacentre/latest-announcements/detail?id=54e7356f-5966-4bb3-9b2c-ebef77432265&language=en>

<sup>49</sup> Jetstar Media Release, Jetstar makes waves with direct flights between Brisbane and Hawaii, 2 April 2014, <http://www.jetstar.com/mediacentre/latest-announcements/detail?id=82452dbe-5b94-4f5b-8aaa-e0aad8e57d70&language=en>.

<sup>50</sup> David Flynn, United Airlines Boeing 787-9 to go daily on Melbourne-Los Angeles, Australian Business Traveller, 15 May 2014, <http://www.ausbt.com.au/united-airlines-to-launch-boeing-787-9-on-melbourne-los-angeles>

<sup>51</sup> David Flynn, United Airlines Boeing 787-9 to go daily on Melbourne-Los Angeles, Australian Business Traveller, 15 May 2014, <http://www.ausbt.com.au/united-airlines-to-launch-boeing-787-9-on-melbourne-los-angeles>

Carrier	Competitive response and enhanced product and service offering
	<p>the week) on B777 aircraft with connections to/from key Australian points from April 2015. This represents a 20% boost in total capacity.<sup>52</sup></p> <ul style="list-style-type: none"> <li>• Air New Zealand has also just announced that it will launch direct flights between Auckland and Buenos Aires, Argentina, strengthening their network in the Pacific Rim. Flights are set to begin from December 2015.<sup>53</sup></li> <li>• Air New Zealand is also expected to announce a new direct route between Auckland and either Las Vegas, Houston or Chicago using its new fuel efficient long-range Boeing 787-9 Dreamliners.<sup>54</sup></li> </ul>
Hawaiian Airlines	<p>Hawaiian has recently announced upgrades to its services from Brisbane to Hawaii:</p> <ul style="list-style-type: none"> <li>• upgrading from Boeing 767-300ERs to A330s;<sup>55</sup></li> <li>• increasing from 3 to 4 weekly return flights, from March 2014; and</li> <li>• making schedule changes in order to improve connection times with onwards flights to mainland US.<sup>56</sup></li> </ul>

(d) *Increased competition for Qantas*

Despite the emerging presence of Virgin Australia and Delta in recent years, Qantas continues to maintain the highest share of trans-Pacific routes, in terms of number of flights, capacity and passenger numbers. For example, as shown in Figure 9 below. in 2013, 46.1% of trans-Pacific passengers flew Qantas compared to Virgin Australia and Delta's combined 21.4%.

<sup>52</sup> Air New Zealand Travel Agent News, *Air New Zealand adds more flights to its North American routes*, 10 September 2014, <http://www.airnztravelagent.com/air-new-zealand-adds-more-flights-its-north-american-routes>

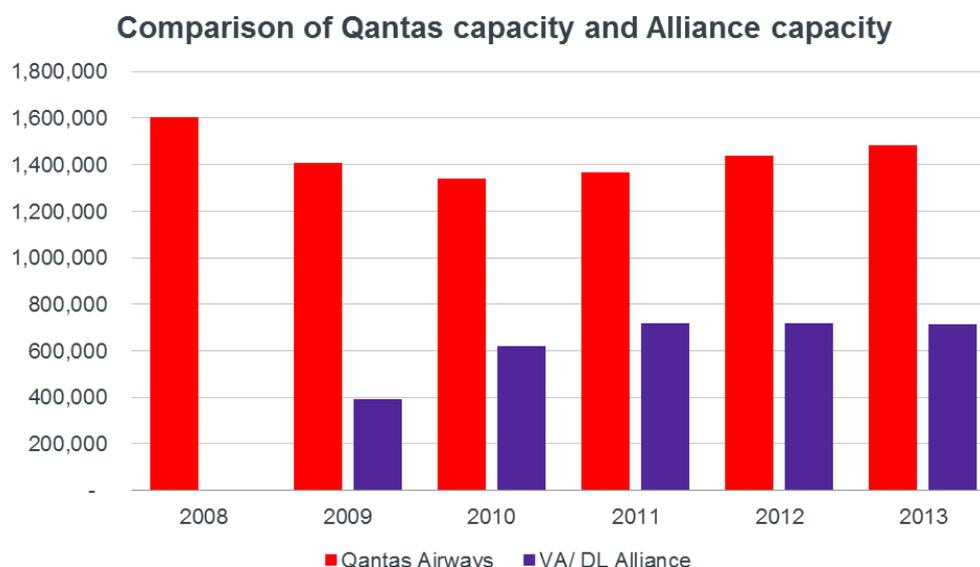
<sup>53</sup> Air New Zealand media release, *Air New Zealand to fly direct to Argentina*, 12 December 2014, <http://www.airnewzealand.com.au/press-release-2014-air-new-zealand-to-fly-direct-to-argentina>

<sup>54</sup> CAPA, *Air New Zealand plans to grow beyond North America's west coast to Las Vegas, Chicago or Houston*, 3 December 2014, <http://centreforaviation.com/analysis/air-new-zealand-plans-to-grow-beyond-north-americas-west-coast-to-las-vegas-chicago-or-houston-198801>

<sup>55</sup> Hawaiian Airlines, *Aussie Anniversary: Hawaiian Airlines celebrates 10 years of Sydney service and announces plans for Airbus A330 upgrade from Brisbane*, 15 May 2014, <http://investor.hawaiianairlines.com/phoenix.zhtml?c=82818&p=irol-newsArticle&ID=1931580>

<sup>56</sup> Steve Creedy, *Hawaiian Beefs up its Brisbane run with eyes on a daily service*, *The Australian*, 28 November 2014.

Figure 9: Comparison of Qantas capacity and Alliance capacity on Australia to mainland USA services for 2008 – 2013 (BITRE)



Qantas has recently made public statements about its competitiveness on the trans-Pacific and has demonstrated its ability and willingness to exercise flex on the trunk route. When Virgin Australia announced in July 2014 that it would be increasing services between Brisbane and Los Angeles, and as a result, would cease services between Melbourne and Los Angeles, Qantas soon after responded that it would increase its Melbourne to Los Angeles services from daily to 10 per week.<sup>57</sup>

Qantas itself considers that it is competing “*extremely well*” on the trans-Pacific route, where it retains the dominant market share and a pricing premium over its rivals and believes it has “*a yield premium over our competitors on that route*”. This competitiveness extends across all the key features on the trunk route, and Qantas has said that “*we think we have got more connections, better product, better ground and air services, so we think we are very, very competitive*”.<sup>58</sup>

Reauthorisation of the Alliance will ensure that the competitive pressure remains on Qantas and its alliance with American Airlines, as well as on the other carriers, to continue to drive product and service improvements and the benefits of increased competition for Australian travellers.

### 5.10 Stimulation of tourism

In 2013, the USA was Australia’s fourth largest inbound market for visitor arrivals and third largest market for total expenditure with a total spend of \$2.6bn.<sup>59</sup>

In October 2014, Virgin Australia became Tourism Australia’s most valuable commercial airline partner in the promotion of Australia through agreed contributions towards sponsorship arrangements and joint marketing activities. According to Tourism Australia Managing Director, John O’Sullivan, the latest expansion to its marketing partnership with Virgin Australia was significant, and would further strengthen inbound tourism from two of Australia’s highest volume markets – the United States and New Zealand. The impact of this marketing partnership is significantly enhanced under the Alliance.

<sup>57</sup> Qantas media releases, *Qantas boosts services to the US and South America*, 8 December 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-boosts-services-to-the-us-and-south-america>

<sup>58</sup> Jamie Freed, *trans-Pacific route a cruise for Qantas*, Australian Financial Review, 18 June 2014, p18.

<sup>59</sup> Tourism Australia, *USA: Market Profile 2014*, [http://www.tourism.australia.com/documents/Markets/MarketProfile\\_USA\\_May14.pdf](http://www.tourism.australia.com/documents/Markets/MarketProfile_USA_May14.pdf)

Through the Alliance with Delta there is a greater presence and awareness of Virgin Australia and Australian destinations in the US and a wider and more effective platform for promoting Tourism Australia's campaigns and Australian destinations more generally.

The Alliance:

- makes Australia more accessible and convenient as a tourist destination by enhancing the Alliance's product and service offering (including making it easier for foreign leisure travellers to visit non-gateway destinations in Australia through improved connections and scheduling) and to easily connect onto trans-Pacific services from their home city;
- enhances capacity and one stop access to Australia, leading to an overall increase in the number of passengers visiting Australia or transiting through Australia on their way to destinations in New Zealand and the Pacific; and
- incentivises the parties to exploit synergies through joint rather than separate tourism promotion activity; and
- allows more effective investment in the promotion of Australia as a destination (including leveraging the brand, profile and sales and marketing presence of each Applicant in their respective home markets).

The greater ability to stimulate tourism from the United States and North America under the Alliance is particularly important to enabling Australia to compete for the US tourist dollar against more proximate, high quality holiday destinations such as Mexico, the Caribbean and Europe. This is especially the case given the limited amount of paid annual leave to which US residents are entitled.

(a) *Visitor arrivals and expenditure*

The enhanced connectivity to beyond destinations available under the Alliance allows more international tourists to easily reach areas beyond gateways and spend in local economies. This stimulation of tourism through the Alliance has a significant impact in relation to generating benefits for regional Australian travel as well as benefits for travel related sectors, such as hospitality and the broader Australian economy. Tourism Australia reports that 45 cents in every tourist dollar is spent in regional Australia and every dollar spent on tourism generates 91 cents in other parts of the economy, which is a higher multiplier than those achieved for mining, agriculture and financial services.<sup>60</sup>

Further, the contribution of the aviation industry to economic well-being is highly significant. The ICAO has estimated that for every \$100 of output produced by the air transport industry, it triggers an additional demand of \$325 and for every 100 jobs created in the aviation industry, 610 jobs are created in other industries.<sup>61</sup>

(b) *Joint marketing of the Alliance and Australian destinations*

The Alliance allows more efficient and effective marketing strategy and expenditure. Under the Alliance, the parties can engage in more effective joint marketing initiatives and campaigns to actively promote Australian and US destinations. As a result, the Alliance can achieve greater impact campaigns at a lower cost.

For example, Virgin Australia and Delta ran a joint marketing campaign in the USA from March 2014 to April 2014, in conjunction with Tourism Australia, to promote travel to Australia and increase awareness of Virgin Australia's brand in domestic USA. The "Someday Campaign" offered US

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<sup>60</sup> Tourism Australia, 2010: *Setting the foundation (2010-2014) – Tourism Australia's journey 2010 to 2013*, [http://www.tourism.australia.com/documents/Statistics/TACP8132\\_2020\\_Update\\_2013-SP.pdf](http://www.tourism.australia.com/documents/Statistics/TACP8132_2020_Update_2013-SP.pdf)

<sup>61</sup> International Civil Aviation Organisation, "Economic Contribution of Civil Aviation – Ripples of Prosperity," at 3.

residents 52 “Somedays” to choose from – 52 Australian holiday experiences for two, including 7 nights’ accommodation and a unique Australian travel experience. The campaign was based around the central website [www.australiasomeday.com](http://www.australiasomeday.com) where Americans had the chance to win 1 of 52 unique “Someday” trips “Down Under”. Both the campaign and the holidays on offer focused on iconic Australian locations and experiences, showcasing one potential Australian holiday destination for each week of the year.

Figure 10: “Someday Campaign” website marketing



Figure 11: “Someday Campaign” website marketing

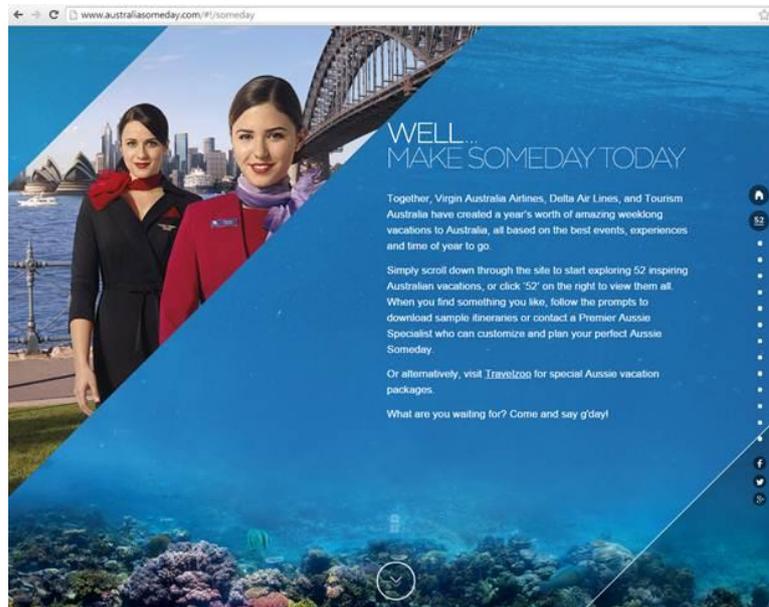


Figure 12: “Someday Campaign” newspaper marketing



The Someday competition received extensive publicity and the campaign was highly successful with over [REstriction of Publication Claimed] visits to the website, more than [REstriction of Publication Claimed] entries and a website dwell time of over 13 minutes - more than triple the industry standard. The campaign delivered over 250 million ‘impressions’ through a combination of print, digital, and Delta media channels. As a result, there was a significant lift for Australia as a top-of-mind vacation destination for Americans, going from 11% to 22%.<sup>62</sup> In November 2014, the Someday Campaign won the Gold Adrian Award at the HSMIA Adrian Awards which honour creative and best practices in hospitality, travel and tourism-related marketing.<sup>63</sup>

Amongst other joint promotional activity, such as major fundraising dinners with the Australian Chamber Orchestra, promoting flights from Australia to New York, the Applicants have recently launched a joint campaign to promote the benefits of the Alliance with the slogan, “From the Harbour to Hollywood, Sydney to LA Twice a Day” funded by Delta. During the 2015 Financial year, under its marketing partnership with Tourism Australia, Virgin Australia has agreed to contribute A\$3 million in cash towards joint marketing activities targeting the United States and New Zealand, as well as an additional A\$2.1 million each in sponsorship arrangements.<sup>64</sup> As noted above, these contributions will have a far greater impact if the Alliance is reauthorised.

### 5.11 Increased capacity for efficiencies and cost savings

The Alliance allows the Applicants greater opportunity to access efficiencies and cost savings such as:

- faster, more cost-effective and less risky growth in network coverage, connectivity and schedule through creating a virtual network rather than investing in own-metal operations;

<sup>62</sup> The Wall Street Journal, *Campaign Performance Study Overview: Pre/Post Campaign Study – Research Results*, 16 May 2014.

<sup>63</sup> <http://www.adrianawards.com/>

<sup>64</sup> Virgin Australia media release, *Tourism Australia and Virgin Australia expand global marketing deal for 2015*, 29 October 2014, <http://www.virginaustralia.com/au/en/about-us/media/2014/VA-TOURISM-AUS-2015/>

- avoidance of duplicated fixed costs of distribution by leveraging the home brand presence and network of each Alliance partner;
- more efficient and effective brand exposure, marketing budget allocation and sales impact;
- increased load factors, decreasing the average cost per seat sold;
- the incentive to expand the extent of codeshare destinations and offer lower cost codeshare inventory and interline pricing, compared to a standalone codeshare; and
- opportunities for other cost savings for efficiencies in other areas, either operational or in terms of customer experience (for example, Delta and Virgin Australia shared the cost of introducing a shuttle which helped reduce the minimum required connection times between their respective terminals in Los Angeles).

As a result of the Alliance, the Applicants have already achieved efficiencies by utilising each other's sales, marketing and customer-service team and operations in Australia and United States. As currently implemented, Delta operates and coordinates the US operations, with Virgin Australia's sales team utilising Delta's sales and revenue management teams. Similarly Delta utilises Virgin Australia's teams in Australia which means that there is better efficiency through shared resources. This allows each airline to leverage the home presence of its partner to achieve more in terms of sales and marketing without the need for the generation of additional costs.

In relation to corporate accounts in particular, this efficiency through shared resources allows the Alliance to service each domestic market. Virgin Australia sales has a team of [RESTRICTION OF PUBLICATION CLAIMED] sales managers and support staff, of which [RESTRICTION OF PUBLICATION CLAIMED] Business Development Managers are strategically located in Los Angeles and New York, and are dedicated to selling and supporting the Alliance. While this offers strategic support for the Alliance in key markets, this level of sales support could never be sufficient to provide coverage for the US market for corporate travellers. Under the Alliance, the Delta sales force is tasked with selling to their [RESTRICTION OF PUBLICATION CLAIMED] strong contracted accounts all over North America, which ensures that the Alliance as a whole has sufficient coverage to compete with competitor alliances, such as Qantas / American Airlines and Air New Zealand / United Airlines.

With reauthorisation, the Applicants will continue to look for efficiencies and cost savings through the Alliance, which, given the competitive market, they will have the incentive to pass on to consumers through lower fares and better service.

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## 6 No competitive detriment

### 6.1 ACCC assessment

In its initial authorisation decision, the ACCC concluded that the Alliance would be unlikely to result in any significant diminution of competition in any of the relevant markets.<sup>65</sup> Instead, the ACCC considered that the Alliance was likely to:

- enhance the ability of Virgin Australia and Delta to compete vigorously and effectively against the incumbent carriers Qantas and United (which would continue to have a dominant share of capacity); and

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<sup>65</sup> The ACCC analysed the impact of the Alliance on competition in relation to the following markets: (a) passenger air transport for leisure travellers between Australia and the United States; (b) passenger air transport for business travellers on a city pairs basis between Australia and the United States; and air freight transport services between Australia and the United States. ACCC, Determination for applications A91151, A91152, A91172 & A91173 lodged by Virgin Blue Airlines (and other related Virgin companies) and Delta Air Lines, 10 December 2009, [4.25].

- allow sustainable competition on the route.

The experience under the Alliance supports these conclusions.

## 6.2 Pro-competitive effect in relation to passenger services

### (a) *More effective and sustainable competition*

The Alliance has not, and will not (following reauthorisation), result in any material anticompetitive detriment either in relation to trans-Pacific services or in relation to any individual city-pair.

As predicted in the ACCC's Final Determination, the Alliance has allowed Virgin Australia and Delta to provide consumers with a more effective and sustainable competitive alternative to for consumers across the trans-Pacific than would have been achievable without the Alliance. This in turn has provided consumers with the benefit of enhanced services and price offerings from all carriers with Qantas and United responding to the increased competitive rivalry. No matter which carrier a consumer chooses to fly, with the Alliance in place, consumers have the choice of better schedules and greater access to behind and beyond destinations at lower prices.

The Alliance has enabled the provision of an improved service offering that consumers value. At the same time: the Alliance has been accompanied by:

- a reduction in average industry fare levels;
- an increase in industry capacity and passenger numbers;
- a reduction in the average fares of each Applicant such that consumers are able to enjoy a higher service level at a lower price point than would be possible without the Alliance; and
- the maintenance of the Applicant' capacity on the trans-Pacific, enabling investment in connecting services that would not have been possible without the Alliance.

### (b) *Positive impact at an industry level: trans-Pacific fares, capacity and passengers*

#### Trans-Pacific average fares

The Alliance has no ability to have an anti-competitive impact on trans-Pacific fares. Based on the schedules for Northern Summer and Northern Winter 2014, Qantas and United make up 74% of the capacity flying between Australia and mainland USA.

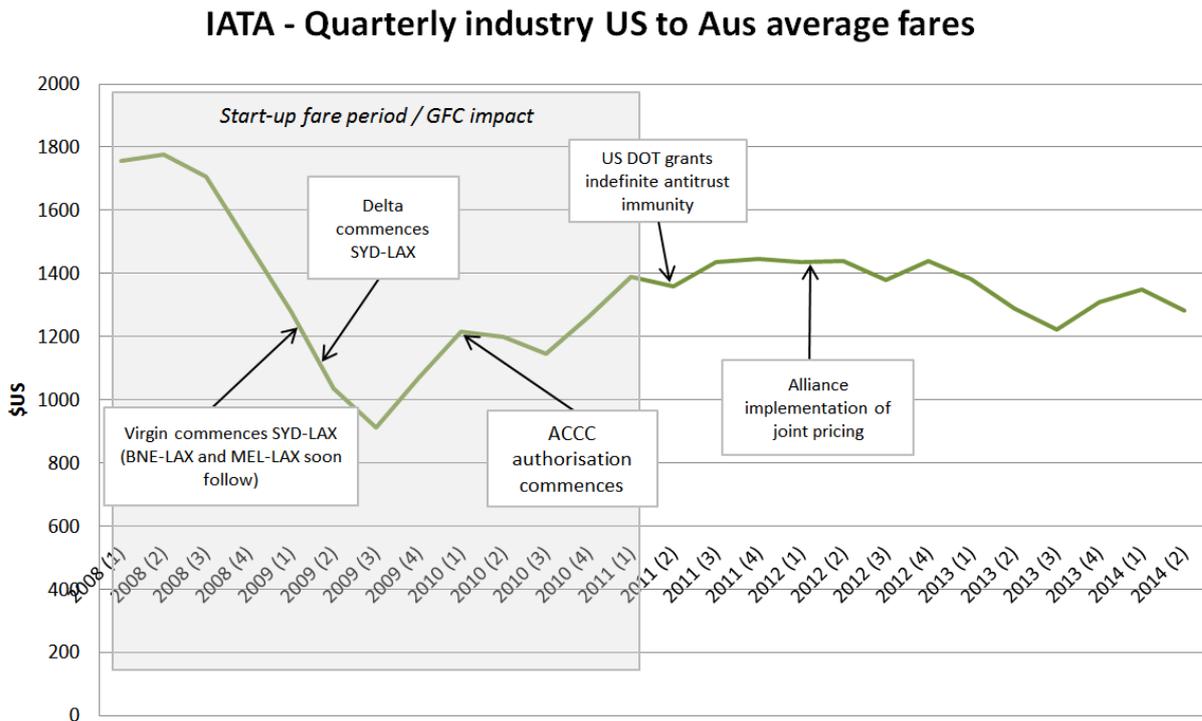
However, the improved product available under the Alliance has placed competitive pressure on Qantas and United to respond with better service-price offerings for consumers.

As shown in Figure 13 below, average industry fare levels have declined over time. The average industry fare for a United States to Australia round trip ticket in the second quarter of 2014 was almost US\$500 less than it was 6 years earlier, in the second quarter of 2008.<sup>66</sup> Over the same time period, the costs of operating flights between the US and Australia have increased. In particular, there have been substantial increases in the cost of jet fuel over this time period.

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<sup>66</sup> In the second quarter of 2007 the average Industry fare for a United States to Australia round trip ticket was US\$1579.32. In the second quarter of 2014 the average Industry fare for a United States to Australia round trip ticket was US\$294.27 cheaper at US\$1285.05.

Figure 13: Quarterly industry US to Aus average fares 2008- to July 2014<sup>67</sup>



Trans-Pacific capacity and passengers

Both trans-Pacific passengers and capacity have increased since the Alliance.

Between 1 January 2010 and 31 December 2013, capacity on routes from Australia to the United States (including Hawaii) increased by 22%. Additional recent capacity additions by Qantas, United, Jetstar and Hawaiian in 2014 make this increase even more significant. A significant proportion of this growth is attributable to growth in capacity to Hawaii, which is both a destination and a gateway. At the same time, routes from Australia to mainland United States had a 8.5% capacity increase over the same period.

There has been an accompanying increase in passengers on the trans-Pacific routes, with an 18.0% increase in passengers on Australia to United States services including Hawaii, and 6.3% on routes from Australia to mainland United States.

**[RESTRICTION OF PUBLICATION CLAIMED]**

At an industry level, the combination of the global recession and the substantial increase in capacity caused by the entry of Virgin Australia and Delta on the trans-Pacific resulted in exceptionally low fares and passenger revenue. Average fares between the US and Australia, according to the Bureau of Transportation Statistics Origin and Destination (O&D) data, plummeted by nearly 50 percent from mid 2008 to mid 2009. Total O&D revenue on US- Australia routes dropped over 38 percent from second quarter 2008 to second quarter 2009.

<sup>67</sup> This data is sourced from IATA and includes flights between the US and Australia sold through the GDS system. This represents all “indirect” sales channels such as travel agents and online comparators and booking engines, which comprise the majority of ticket sales. It does not include “direct” sales channels such as bookings made at the airport or using Virgin Australia or Delta’s website. Average fares include taxes and charges.

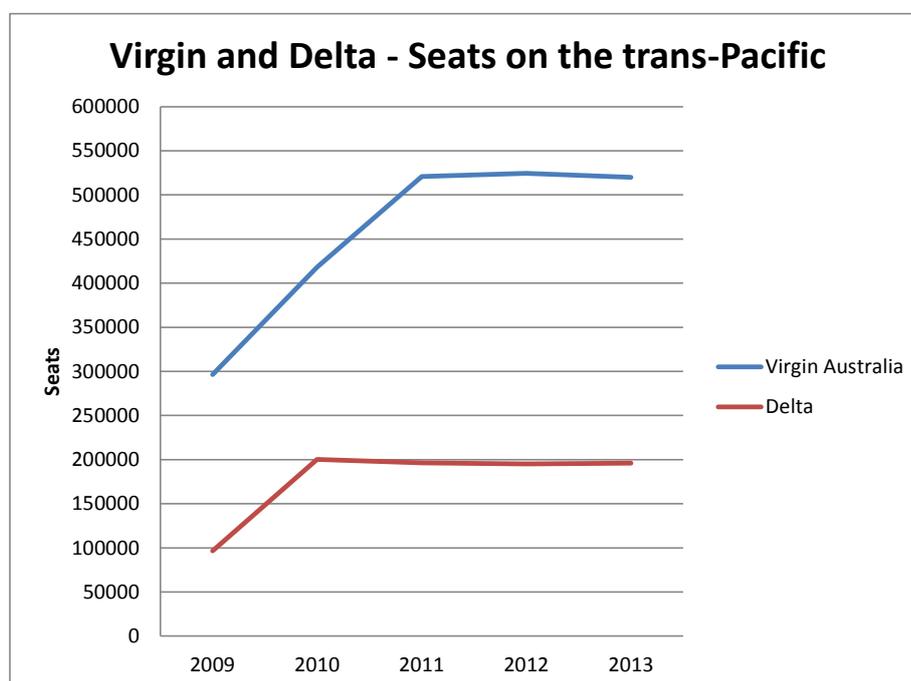
Following the implementation of joint pricing, consumers have been able to access a better product at a lower average fare. Consumers have also received the benefit of Virgin Australia’s ability to respond more quickly to competitor activity (eg, sales or product improvements) with reciprocal fare filing delegation at each point of sale further stimulating competition and gains to consumers regardless of the carrier they choose.

**[RESTRICTION OF PUBLICATION CLAIMED]**

*(c) Ability to sustain capacity and invest in connections*

As the global recession unfolded in 2008, fares and passenger revenue in many intercontinental routes declined as passenger demand plummeted. While most intercontinental routes experienced reduced capacity to some degree, the US-Australia route encountered a nearly 20 percent boost in capacity and two new carriers Virgin Australia and Delta.

**Figure 16: Virgin Australia and Delta’s capacity on the trans-Pacific**



As shown in Figure 16 above, since the implementation of the Alliance, Virgin Australia and Delta have not reduced capacity. Since ACCC authorisation on 1 January 2010, Virgin Australia was able to increase capacity due to the reduced risk of investment and both Virgin Australia and Delta have been able to sustain capacity levels since 2011. Without the benefit of feeder traffic and increased passenger numbers under the Alliance it is likely that lower capacity levels would have resulted.

*(d) Significant competitive constraint imposed by other carriers*

As discussed above, on routes to the mainland US, the Alliance faces significant competitive constraint from Oneworld carrier Qantas and its integrated Alliance with America’s largest airline American Airlines and from the Star Alliance United/ Air New Zealand. For example, in 2013, 61.7% of trans-Pacific passengers flew Qantas or United compared to Virgin Australia and Delta’s combined 21.4%. Additional significant competitive constraint is offered from airlines offering one stop services via Hawaii and Canada, including Hawaiian Airlines, Air Canada and Jetstar.

The Alliance has and will continue to promote competition for Australian air travel.

**6.3 Pro-competitive effect [RESTRICTION OF PUBLICATION CLAIMED] on air freight**

There are a large number of air freight suppliers on the trans-Pacific including:

- Qantas which carried 34% of the trans-Pacific air freight in 2013 and has a special agreement granting it access to US postal freight; and
- UPS which carried 23%.

[RESTRICTION OF PUBLICATION CLAIMED]

Both of these effects would benefit consumers.

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## **7 Conclusion**

For the reasons set out in this submission, the Applicants submit that the ACCC ought to revoke the existing authorisations A91151, A91152, A91172 and A91173 and substitute them with the authorisation of the Alliance for a further period of 10 years. In this regard, the Applicants note that both US DOT and NZ MOT approvals are indefinite. Given the lack of competitive detriment associated with the Alliance, and the clear public benefits, there is no regulatory risk to a longer period of authorisation.

## Attachment A Virgin Australia Group



### A.1 Introduction

The Virgin Australia Group (**Virgin Australia**) commenced operations in Australia in August 2000. Virgin Australia Holdings Limited (**VAH**) is listed on the Australian Stock Exchange.<sup>68</sup> Virgin Australia and its subsidiaries currently operate a fleet of 137 aircraft<sup>69</sup> on approximately 3000 flights per week to over 450 Australian and international destinations through its brands, Virgin Australia and Virgin Samoa, and through its codeshare partners.

### A.2 Business Strategy

Over the past four years, Virgin Australia's key business strategies have been aimed at transforming Virgin Australia from a low cost carrier to a premium carrier and capitalizing on the resulting competitive advantages, underpinned by its key alliances and partnerships with some of the world's leading airlines. These strategies have been achieved through the successful implementation of the Game Change Program, including the Game On initiative. Virgin Australia is now focused on Virgin Vision 2017, with the aim of becoming Australia's favourite airline group by 2018.

#### Game Change Program (2010-2012)

In 2010, Virgin Australia launched the Game Change Program, a business strategy aimed at transforming Virgin Australia from a low cost carrier to a premium carrier. Virgin Australia achieved the following six fundamental goals in the Game Change Program:

- **Diversified revenue** - Virgin Australia achieved its goal of entering the less volatile and price sensitive corporate and government markets, which now represent approximately 25% of its domestic revenue base.
- **Created a global network** - Virgin Australia now offers access to over 450 global destinations through its operations and its strategic alliances and partnerships.
- **Accessed growth and expansion markets** - Virgin Australia fast tracked its presence in the growing regional passenger traffic, charter market through the acquisition of SkyWest and the budget leisure market through the acquisition of 60% of Tigerair Australia.
- **Maintained cost advantage** - Virgin Australia maintained a disciplined cost culture despite continuing investment in improving product and customer satisfaction, with an underlying unit cost growth (excluding fuel) of [RESTRICTION OF PUBLICATION CLAIMED] in the [RESTRICTION OF PUBLICATION CLAIMED] financial years respectively.
- **Upgraded product and services** - Virgin Australia updated its product and service offering through the launch of Business Class on its domestic network, the re-launch of Velocity and the initiation of a number of technological, security and other improvements for customers and staff.

<sup>68</sup> Virgin Australia's international airlines are held by Virgin Australia International Holdings Pty Ltd, which is owned by VAH shareholders and comprehensively serviced and funded by VAH.

<sup>69</sup> As at 30 June 2014.

- **Invested in its people** - Virgin Australia received the 2014 Skytrax World Airline Award for Best Airline Staff Service in the Australia-Pacific region (awarded for the fourth consecutive year) and the 2013 Randstad Award for Most Attractive Airline Employer in Australia.

#### Game On (2012 - 2014)

In August 2012, Virgin Australia transitioned to the Game On initiative, which was scheduled to be fully completed by June 30, 2015. Virgin Australia focused on fast-tracking the Game Change Program and the Game On initiative and, in August 2014, announced the successful completion of both initiatives.

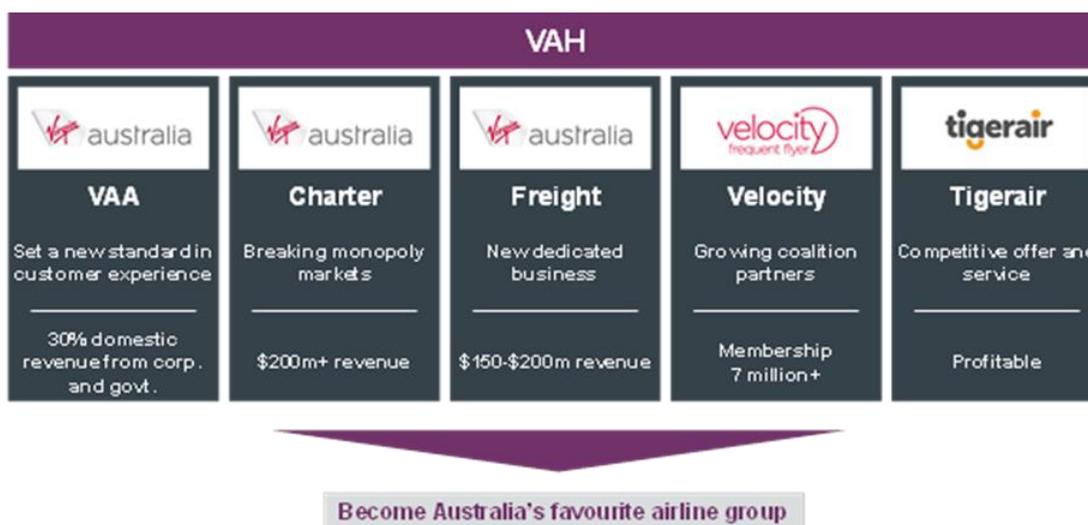
The Game On initiative was designed to capitalize on the competitive advantages achieved under the Game Change Program by focusing on the following key strategic pillars:

- **Implementing a business efficiency program** - Virgin Australia has delivered additional efficiencies in productivity gains through its business efficiency program, which focused on achieving improved efficiency benchmarks, including fuel efficiency and aircraft utilization. By focusing on a number of key areas, which included, among other things, group fleet optimization, network optimization and process and group procurement improvements, Virgin Australia was able to deliver productivity gains of [REstriction of Publication CLAIMED] for the financial year ended June 30, 2013 and [REstriction of Publication CLAIMED] for the financial year ended June 30, 2014.
- **Building a transformational loyalty business** - Virgin Australia has increased Velocity membership and engagement, [REstriction of Publication CLAIMED], resulting in the widest retail offering of any loyalty program in Australia.
- **Increasing access to global markets** - Virgin Australia has expanded its global reach by increasing codeshare and interline revenue.
- **Further enhancing the guest experience through in-flight innovation and on-the-ground service** - Virgin Australia has provided further innovative customer product and services.
- **Enhancing Virgin Australia's people and service excellence** - Virgin Australia has continued to enhance frontline training and development for staff.

#### Virgin Vision 2017 (current)

Following the early completion of the Game Change Program and the Game On initiative, Virgin Australia announced its new three year strategy, Virgin Vision 2017.

Under Virgin Vision 2017, Virgin Australia's focus is to become Australia's favourite airline group. Virgin Vision 2017 aims to maximize Virgin Australia's potential by extracting value from the business, consolidating the benefits from the Game Change Program and Game On initiative, setting a new standard in customer experience to assure stable future revenue streams and enabling Virgin Australia to deliver sustainable profitability.



Over the next three years, Virgin Vision 2017 will focus on the following six key areas:

- **Capitalize on growth business opportunities -**
  - *Velocity Frequent Flyer:* Virgin Australia intends to grow membership to more than 7 million members, diversify Velocity's partner mix, increase partner numbers and strengthen member engagement.
  - *Charter:* Virgin Australia plans to significantly increase the revenue from Virgin Australia's charter business by the financial year ending June 30, 2017.
  - *Freight:* Virgin Australia seeks to launch a freight division in the financial year ending June 30, 2015 which is expected to significantly increase revenue attributable to the freight business.
  - *Tigerair Australia:* Virgin Australia will continue the Tigerair Australia transformation program by further improving customer satisfaction, driving incremental revenue growth, delivering cost synergies and developing an efficient operating platform and network footprint to achieve profitability by the financial year ending June 30, 2017.
- **Drive yield enhancement** - Virgin Australia seeks to increase corporate and government domestic revenue to 30% of domestic revenue base by June 30, 2017 and increase interline and codeshare revenue through the strengthening and expanding existing alliance partnerships.
- **\$1 billion cost program** - Virgin Australia plans to expand the business efficiency program introduced under the Game Change Program to target by June 30, 2017 AU\$1 billion in cumulative productivity gains since the program's initiation through enhanced procurement, improved productivity and streamlined operations.
- **Optimize the balance sheet** - Virgin Australia aims to optimize and maintain the balance sheet to further improve the liquidity and gearing position of Virgin Australia.
- **New standard in customer experience** - Virgin Australia will continue to place a strong focus on product and service to set a new standard in customer experience
- **Develop people to their full potential** - Virgin Australia seeks to remain the employer of choice in the industry and Australia.

### A.3 Virgin Australia's Operations

Virgin Australia is a domestic and international passenger airline with an extensive domestic and international short and long haul network serviced through its own aircraft and those of its network alliance partners.

Virgin Australia focuses on routes with high traffic volume where it has an established market position in order to improve its network and enable passengers to connect more conveniently to and from the major Australian and international airports that it services. Virgin Australia continuously reviews and revises its routes based on profitability analysis and customer demand.

The following table sets forth Virgin Australia's key operating statistics for the past three financial years:

<u>Year ended June 30</u>	<u>Unit</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Passengers carried .....	millions	20.0	19.3	19.4
Available seat kilometres .....	billions	42.2	41.8	39.8
Revenue passenger kilometres ...	billions	33.1	31.3	31.1
Load factor <sup>(1)</sup> .....	%	78.4	75.6	78.1

(1) Load factor decreased in financial year ended June 30, 2013 compared to financial year ended June 30, 2012 largely as a result of the targeting of higher yields opposed to higher loads.

Virgin Australia's domestic operations service all major Australian cities and main regional ports for both corporate and leisure travel. Virgin Australia currently operates approximately 3,400 domestic scheduled flights and approximately 160 charter flights per week, connecting all major Australian airports. Virgin Australia maintains a focus on expanding its presence in regional Australia through the launch of new services, increased flight frequency and ongoing network optimization. Virgin Australia has established a track record for effectively entering into new markets, with ten new domestic markets between June 30, 2011 and June 30, 2014, including seven new regional ports.

Virgin Australia flies to 14 international short haul destinations on its own aircraft departing from and arriving at airports within Southeast Asia, the Pacific and New Zealand, including Fiji, Auckland, Wellington and Denpasar. Virgin Australia's international long haul services consist of 14 flights per week to Los Angeles and three flights per week to Abu Dhabi. In addition to the routes directly flown by its own aircraft, Virgin Australia's international short haul and international long haul network is strengthened by its strategic alliances and partnerships, which enable its customers to access over 450 destinations worldwide, including interline destinations.

### A.4 Other strategic alliances and partnerships

#### Air New Zealand

The Air New Zealand alliance was launched in July 2011 and has driven strong growth in passenger numbers on Virgin Australia's trans-Tasman services. The alliance enables Virgin Australia to offer additional departure times and increased choice of flight times for trans-Tasman travel. Virgin Australia has worked closely with Air New Zealand to optimize schedules for flights across the Tasman and offer reciprocal benefits to customers. For example, during New Zealand's peak ski season (between July and September) in 2013 and 2014, the alliance added an additional 30,000 and 40,000 seats respectively, to services between Queenstown and Brisbane and Melbourne and Sydney. The alliance also offered the first international flight to the Sunshine Coast in Queensland with its flight operated by Air New Zealand from Auckland, New Zealand. The alliance has also increased capacity between Auckland and Perth with the introduction of Air New Zealand's Boeing 777 on the route. In September 2013, the ACCC and the New Zealand Minister of Transport granted conditional authorisation for Virgin Australia and Air New Zealand to continue their Australasian Airline Alliance Agreement and associated agreements until October 31, 2018.

### Etihad Airways

The Etihad Airways alliance received ACCC authorization in February 2011 and received clearance from the United Arab Emirates Department of Transport in September 2010. Together, Virgin Australia and Etihad Airways currently offer 35 services a week from Australia to Abu Dhabi, enabling one-stop connections to the United Kingdom, Europe, the Middle East and North Africa. The alliance continues to expand and now covers codeshare destinations in, among other countries, the United Kingdom, France, Germany, Italy, Netherlands, Belgium, Greece, Ireland, Russia, Jordan, Oman, Kenya, Saudi Arabia and Lebanon.

### Singapore Airlines

The Singapore Airlines alliance received ACCC authorization in December 2011 and authorization from the Singaporean Competition Commission in October 2011. Singapore Airlines began codesharing on Virgin Australia's domestic services in February 2012 and Virgin Australia launched codeshare on Singapore Airline's international services in March 2012 to Singapore, China, South Africa and the United Kingdom. Virgin Australia and Singapore Airlines have since expanded their codeshare agreement to other destinations, including Vietnam, India, Malaysia, Japan, Thailand, Indonesia and a number of countries across Europe.

### Other complementary international alliances including the Virgin Group

Virgin Australia's four strategic alliances are complemented by key partnerships with other airlines that provide for additional international leisure and business destinations.

For instance, in October 2011, Virgin Australia launched codeshare on Hawaiian Airlines' daily flight services between Sydney and Honolulu and on connecting services to the neighbouring islands of Maui, Kauai and Hawaii. In July 2012, Virgin Australia commenced codesharing on Virgin America's services from Los Angeles to eight destinations across the United States. In August 2013, Virgin Australia commenced codesharing on airberlin's services from Abu Dhabi to Dusseldorf and Berlin. In May 2014, South African Airways commenced codesharing on Virgin Australia's trans-Continental network. In October 2014, this alliance was expanded with Virgin Australia codesharing on South African Airways' service from Perth to Johannesburg.

### *Interline agreements*

Interline agreements between airlines facilitate travel for passengers who require flights with more than one airline to reach their final destination. These standard industry agreements allow passengers to travel across the networks of multiple airlines with the convenience of a single reservation. Certain interline agreements allow airlines to issue boarding passes and check baggage to the passenger's final destination, alleviating the need for passengers to check in with multiple airlines.

In addition to its strategic alliances and key partnerships, Virgin Australia also has interline arrangements with approximately 40 carriers for inbound and outbound traffic to or from Australia and New Zealand.

[RESTRICTION OF PUBLICATION CLAIMED]

## **A.5 Fleet overview**

At June 30, 2014, Virgin Australia and its subsidiaries operated a fleet of 137 aircraft and Tigerair Australia operated 13 aircraft. Virgin Australia expects to increase its fleet to [RESTRICTION OF PUBLICATION CLAIMED], excluding [RESTRICTION OF PUBLICATION CLAIMED] expected to be operated by Tigerair Australia.

The average age of the aircraft in Virgin Australia's mainline fleet (excluding the former SkyWest fleet which is principally used for Virgin Australia's charter operations and the fleet operated by Tigerair Australia) was 4.8 years as of June 30, 2014. Including the aircraft acquired in the SkyWest acquisition and the fleet operated by Tigerair Australia, the average age was [RESTRICTION OF PUBLICATION

**CLAIMED**]. The relatively young age of its fleet enables Virgin Australia to recognise leading fuel efficiency and environmental performance, while providing its customers with a contemporary in-flight experience.

The following table sets forth the composition of Virgin Australia's aircraft fleet for the periods indicated:

**[RESTRICTION OF PUBLICATION CLAIMED]**

- The Embraer E190 aircraft is a short to mid-range aircraft with a seating capacity of approximately 98 passengers. The Embraer 190 aircraft in the Virgin Australia fleet are operated on its domestic routes, such as Melbourne-Canberra. The engine type on the Embraer 190 is the CF34-10.
- The Boeing 737-700 aircraft is a mid-range aircraft with a typical seating capacity of 128 passengers. The Boeing 737-700 aircraft in the Virgin Australia fleet are operated on its domestic routes, such as Brisbane-Mackay. The engine type on the 737-700 is the CFMI CFM56-7B.
- The Boeing 737-800 aircraft is a mid-range aircraft with a typical seating capacity of 176 passengers. The Boeing 737-800 aircraft in the Virgin Australia fleet are operated on many of its domestic routes, such as Brisbane-Sydney and Brisbane-Melbourne and its short haul international routes, such as Sydney-Denpasar. The engine type on the 737-800 is the CFMI CFM56-7B.
- The Airbus A330-200 aircraft is a medium to long-range aircraft with a typical seating capacity of 279 passengers. The Airbus A330-200 aircraft in the Virgin Australia fleet are operated on its trans-Continental Perth routes, such as Sydney-Perth. The engine type on the Airbus A330-200 is the Rolls Royce Trent 772B.
- The Boeing 777-300ER aircraft is a long-range aircraft with a seating capacity of 361 passengers. The Boeing 777-300ER aircraft in the Virgin Australia fleet are operated on its long-haul international routes, Sydney-Abu Dhabi, Brisbane-Los Angeles, Sydney-Abu Dhabi and Sydney-Los Angeles. The engine type on the 777-300ER is the GE90-115B.
- The ATR-72 aircraft is a short-range aircraft with a seating capacity of 68 passengers. The ATR-72 aircraft in the Virgin Australia fleet are operated predominantly on its domestic regional routes, such as Sydney-Albury and also on the Sydney-Canberra route. The engine type on the ATR-72 is the Pratt & Whitney Canada 127M.
- The Airbus A320 aircraft is a medium-range aircraft with a maximum seating capacity of 180 passengers. The Airbus A320 is operated by Virgin Australia on certain domestic routes, such as Perth-Derby. The Airbus A320 is also used by Tigerair Australia. The engine types on Virgin Australia's two Airbus A320 aircraft are the International Aero Engines IAE V2500-A1 and IAE V2527-A5. The engine type on Tigerair Australia's Airbus aircraft is the International Aero Engines IAE V2527-A5.
- The Fokker 100 aircraft is a short to mid-range aircraft with a seating capacity of 100 passengers. The Fokker 100 aircraft is operated by Virgin Australia on certain domestic routes, such as Perth-Broome. The engine type on Virgin Australia's Fokker 100 aircraft is the Rolls-Royce Tay 650-15.
- The Fokker 50 aircraft is a turboprop powered short-range aircraft with a maximum seating capacity of 48 passengers. The Fokker 50 aircraft is operated by Virgin Australia on certain domestic routes, such as Perth-Geraldton. The engine type on Virgin Australia's Fokker 50 aircraft is the Pratt & Whitney Canada 125B.

The composition of Virgin Australia's fleet is based on its medium-term and long-term fleet plans and is regularly reviewed. The composition of Virgin Australia's fleet is also influenced by airport

restrictions, passenger demand and regional requirements such as those relating to noise and exhaust levels.

In making aircraft procurement, retirement or disposal decisions, Virgin Australia considers a number of factors, including aviation demand forecasts, current fleet capacity, current and future aircraft requirements, safety, operating efficiency, market demand for a particular aircraft type, capital structure, cash flow, purchase and leasing costs, tax, interest rates, the trade-off between the cost savings on fuel consumption with new aircraft versus the maintenance costs of aging aircraft, financing costs and depreciation expense of acquiring newer aircraft.

Of Virgin Australia's 137 aircraft (excluding the Tigerair Australia fleet), [REstriction of Publication Claimed] are currently subject to off-balance sheet operating leases and the remaining [REstriction of Publication Claimed] are recorded on-balance sheet as either owned, or subject to financing, by Virgin Australia. [REstriction of Publication Claimed]

#### **A.6 Loyalty program: Velocity**

Velocity was originally launched in 2005 and was re-launched in August 2011 as part of the Game Change Program. It now offers global coverage, a range of new partners and unique benefits for members, including status benefits for Virgin Australia's most frequent travellers. In 2012, Velocity became a dedicated business group within Virgin Australia, assisting in driving growth opportunities and enabling it to become a leading loyalty program in Australia.

Since its re-launch, Velocity membership has increased significantly. At June 30, 2014, Velocity had 4.5 million members, an increase of over 0.8 million members from the previous financial year and 2.0 million members since re-launch. Over the period from June 30, 2010 to June 30, 2014, Velocity billings and points redeemed have grown at a [REstriction of Publication Claimed].

As part of Virgin Australia's relationship with its strategic alliance partners and other partner airlines, including the Virgin Group, the frequent flyer programs of Virgin Australia and these partner airlines have been linked through bilateral and reciprocal agreements, giving members the opportunity to earn and redeem points on all strategic alliance partner and Virgin Group flights around the world. Points can be also earned by purchasing goods and services from Velocity's network of non-airline partners, such as credit card issuers, retail merchants, hotels and car rental companies. Points accrued can then be redeemed for a variety of rewards, including air travel, upgrades and non-travel awards such as hotel stays, travel experiences and car hire.

Velocity is comprised of a tiered structure of increasing status benefits represented by Red, Silver, Gold and Platinum. Status benefits include priority check-in, global lounge access and complimentary baggage allowances and are supplemented by in-flight differentiation and recognition for Velocity members. Status and recognition are reciprocal across all four of Virgin Australia's strategic alliance partners.

Velocity has the widest retail offering of any loyalty program in Australia and was recognized in five categories at the 2014 Freddie Awards: Program of the Year, Best Customer Service, Best Promotion, Best Redemption Ability and Best Elite Program. In addition, the IdeaWorks' SwitchFly survey named Velocity as having the best Reward Seat Availability in the Asia Pacific region and the second best in the world.

#### **A.7 Tigerair Australia**

On July 8, 2013, Virgin Australia acquired a 60% interest in Tigerair Australia from Tiger Airways. The acquisition has enabled Virgin Australia to secure a presence in the budget leisure market to complement the premium and leisure position of its core business.

Tigerair Australia and Virgin Australia maintain total brand separation. Since completion of the acquisition, Virgin Australia has committed to work closely with Tiger Airways to deliver improved financial performance and expedite the Tigerair Australia transformation program. The transformation program aims to achieve profitability by the 2017 financial year by further improving customer

satisfaction, driving incremental revenue growth, delivering cost synergies and developing an efficient operating platform and network footprint.

The Tigerair Australia board of directors is comprised of six members, with three members nominated by Virgin Australia, two by Tiger Airways and one independent director. [**RESTRICTION OF PUBLICATION CLAIMED**]

On October 17, 2014, Virgin Australia announced that it had entered into an agreement to acquire the remaining 40% of Tigerair Australia. Tigerair Australia continues to operate as a separate airline and will not be rebranded to Virgin Australia's branding.

#### **A.8 Employees**

At June 30, 2014, Virgin Australia had more than 9,400 employees throughout Australia, New Zealand and the United States. The majority of Virgin Australia's workforce is located in Brisbane and Sydney. Virgin Australia also works with third-party contractors in order to supplement certain insourced services.

## Attachment B Delta Air Lines

### B.1 Introduction

Delta Air Lines (**Delta**) was founded in 1928 and commenced passenger operations in the United States in the 1930s. Headquartered in Atlanta, Delta today serves nearly 165 million customers each year.

### B.2 Operations and fleet

Delta and the Delta Connection carriers, its codeshare partners, offer service to 333 destinations in 64 countries on six continents. Delta has hubs in Atlanta, Cincinnati, Detroit, Minneapolis (St. Paul), New York (LaGuardia and JFK), Seattle, Salt Lake City, Paris (Charles de Gaulle), Amsterdam and Tokyo (Narita). Delta operates a fleet of more 760 aircraft, ranging in size from the Boeing 717-200 to the McDonnell Douglas MD-90<sup>70</sup>.

Figure B.1: Delta fleet

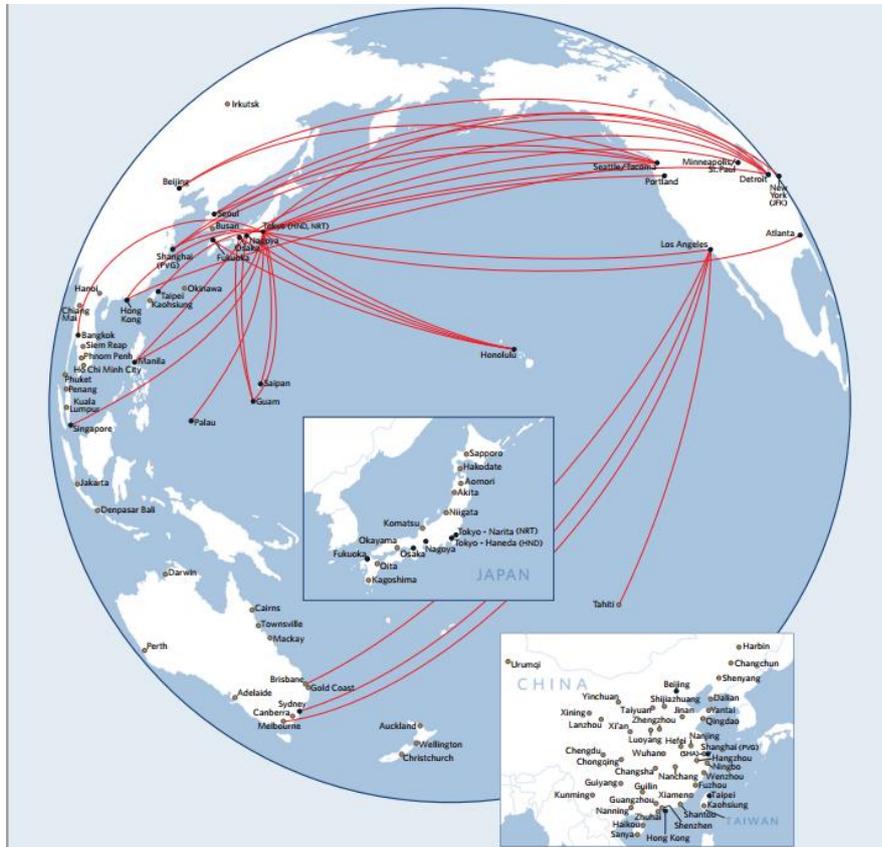
Aircraft type	Number in fleet	Seats
B717-200	36	110
B737-700	10	124
B737-800	73	160
B737-900ER	22	180
B747-400	16	376
B757-200	134	168 / 174 / 180 / 182 / 184
B757-300	16	224 / 234
B767-300	16	208 / 226 / 261
B767-300ER	58	211
B767-400ER	21	246
B777-200ER	8	772
B777-200LR	10	291
A319-100	57	126
A320-200	69	150
A330-200	11	234
A330-300	21	293
MD-88	117	149
MD-90	65	160
<b>Total</b>	<b>760</b>	

<sup>70</sup> Excluding certain aircraft owned or leased by third party contract carriers on Delta's behalf.

Figure B.2: Delta North American route map



Figure B.3: Delta Asia-Pacific route map



### B.3 Codeshare and interline partners

Delta has been a long leader in airline alliances. In 1993, Northwest Airlines (which merged with Delta in 2008) launched a leading trans-Atlantic alliance with KLM Royal Dutch Airlines. Delta is a founding member of the SkyTeam global alliance, which commenced in 2000, and participates in a trans-Atlantic joint venture with Air France-KLM and Alitalia, as well as a newly formed joint venture with Virgin Atlantic.

- In June 2000, Delta, along with Aeromexico, Air France and Korean Air founded SkyTeam, one of the three major airline alliances. Today, SkyTeam has a current membership of 20 airlines, and in that time, has doubled the number of flights offered and nearly doubled the destinations flown, offering an extensive global network with 1,052 destinations. SkyTeam, headquartered in Amsterdam, has grown to become the world's second largest alliance. In addition to codesharing, SkyTeam partners coordinate airport connections while offering expanded lounge access, frequent flyer benefits and consistent service at airports worldwide. Via SkyTeam, Delta has introduced its brand into hundreds of markets where the airline previously had no presence.
- With over 250 daily trans-Atlantic flights and a fleet of 144 aircraft, the joint venture between Air France-KLM, Alitalia and Delta provides customers with a vast route network offering more frequencies, competitive fares and harmonised services on all trans-Atlantic flights. The joint venture network is structured around seven main hubs: Amsterdam, Atlanta, Detroit, Minneapolis, New York-HFK, Paris-CDG and Rome Fiumicino, together with Cincinnati, Lyon, Milan, Memphis and Salt Lake City. The joint venture offers customers access to 300 destinations beyond the 27 North American gateways and 200 destinations beyond the 31 European gateways through Europe, Asia and Latin America.
- In 2012, Delta and Virgin Atlantic announced a fully integrated, metal neutral, joint venture on flights between the United States, Mexico and Canada and the United Kingdom, to be implemented from the end of 2013. The joint venture combined the trans-Atlantic network of both carriers between the United Kingdom and North America, with 31 peak-day round-trip flights, with cooperation on services, reciprocal frequent flyer benefits and shared lounge access.

Including its worldwide alliance partners, Delta offers customers more than 15,000 daily flights.

## Attachment C Carriers on the trans-Pacific

### C.1 Major carriers over time

The following table shows the major carriers operating on the trans-Pacific since 1991.

Year	Qantas	American	United	Continental	Northwest	Delta	Virgin Australia	Air New Zealand
1991								
1992								
1993	 codeshare with							
1994	 codeshare with							
1995	 codeshare with							
1996	 codeshare with							
1997	 codeshare with							
1998	 codeshare with							
1999	 codeshare with							
2000	 codeshare with							
2001	 codeshare with							
2002	 codeshare with							
2003	 codeshare with							
2004	 codeshare with							
2005	 codeshare with							
2006	 codeshare with							
2007	 codeshare with							
2008	 codeshare with							
2009	 codeshare with					 interline with		
2010	 codeshare with		 <sup>71</sup>			 <sup>72</sup> codeshare with		
2011	 alliance with					 alliance with		
2012	 alliance with					 alliance with		
2013	 alliance with					 alliance with		
2014	 alliance with					 alliance with		

<sup>71</sup> United Airlines acquired Continental Airlines in October 2010, with integration completing in March 2012.

<sup>72</sup> Delta Air Lines acquired Northwest Airlines in 2008. Northwest Airlines continued to operate under its own name and brand until integration of the carriers completed in January 2010.

## C.2 Qantas Airways



Established in Queensland in 1920, Qantas is Australia's largest domestic and international carrier.<sup>73</sup> The Qantas Group employs approximately 32,500 people and offers services across a network covering 182 destinations in 44 countries (including those covered by codeshare partners), Asia and the Pacific, the Americas, Europe and Africa.<sup>74</sup> Qantas has the largest frequent flyer program membership in Australia, with 10.2 million members. Qantas is part of the Oneworld alliance.

The primary aviation businesses of the Qantas Group operate under two major brands – Qantas and Jetstar.<sup>75</sup> Qantas, QantasLink and Jetstar operate nearly 5,600<sup>76</sup> domestic flights a week serving 59 city and regional destinations in all states and mainland territories. Jetstar also operates 160 domestic flights a week in New Zealand. Qantas and Jetstar operate more than 970 international flights each week.<sup>77</sup>

The Qantas Group operates a total passenger fleet of 252 aircraft.<sup>78</sup>

Qantas and QantasLink					
Airbus A380-800	6	Boeing 747-400ER	6	Boeing 747-400	21
Boeing 767-300	26	Boeing 737-800	41	Boeing 737-400	21
Bombardier Dash 8	21	Airbus A330-300	10	Airbus A330-200	7
Boeing 717-200	11	Bombardier Q400	21		
Jetstar					
Airbus A320-200	48	Airbus 321-200	6	Airbus A330-200	7

In respect to its Pacific operations, Qantas Group has a 30% stake in Jetstar Pacific. Qantas Group has a 49% interest in Jetstar Asia through the Singapore-based Newstar Investment Holdings Pte L. Through the Asia Pacific region, the Qantas Group flies to 37 destinations. Qantas has been operating on the trans-Pacific route since 1959. In October 2008 Qantas launched its A380 services from Melbourne and Sydney to Los Angeles, with the frequency of services having only increased since. The Qantas Group today operates up to 45 return services per week between Australia and the US. This includes 34 return services to Los Angeles, 4 between Sydney and San Francisco and 7 between Sydney and Honolulu. The 34 return service flights to Los Angeles are made up of by 14 flights from Sydney, 14 flights from Melbourne and 6 flights from Brisbane.<sup>79</sup>

The new generation A380 and B787 remain central to the future of the Qantas Group's flying businesses. Qantas views the B787 aircraft as ideal for point-to-point flying on medium density short

<sup>73</sup> Qantas, 'Qantas at a Glance' at page 1, available at <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

<sup>74</sup> Ibid.

<sup>75</sup> In addition to the Qantas and Jetstar brands, the Qantas Group operates a number of other airline-related businesses. These include Qantas Link, Q Catering, Qantas Freight, Express Ground Handling, and partial ownership of listed company Helloworld Ltd (formerly Jetset Travelworld Ltd) which in turn owns a range of companies including Qantas Holidays, Harvey World Travel, Jetset Travel, Travelworld, bestflights.com.au, Atlantic Pacific Travel, United Travel, Go Holidays and Viva Holidays. The Qantas Group has a 30% stake in the Jetstar Pacific brand. The Qantas Group also has a 49% interest in the Singapore-based Newstar Investment Holdings Pte Ltd, which owns and operates the value-based intra-Asia airlines Jetstar Asia and Valair.

<sup>76</sup> Qantas operates 2,400 flights, QantasLink operates 2,000 flights and Jetstar operates 1,200 flights.

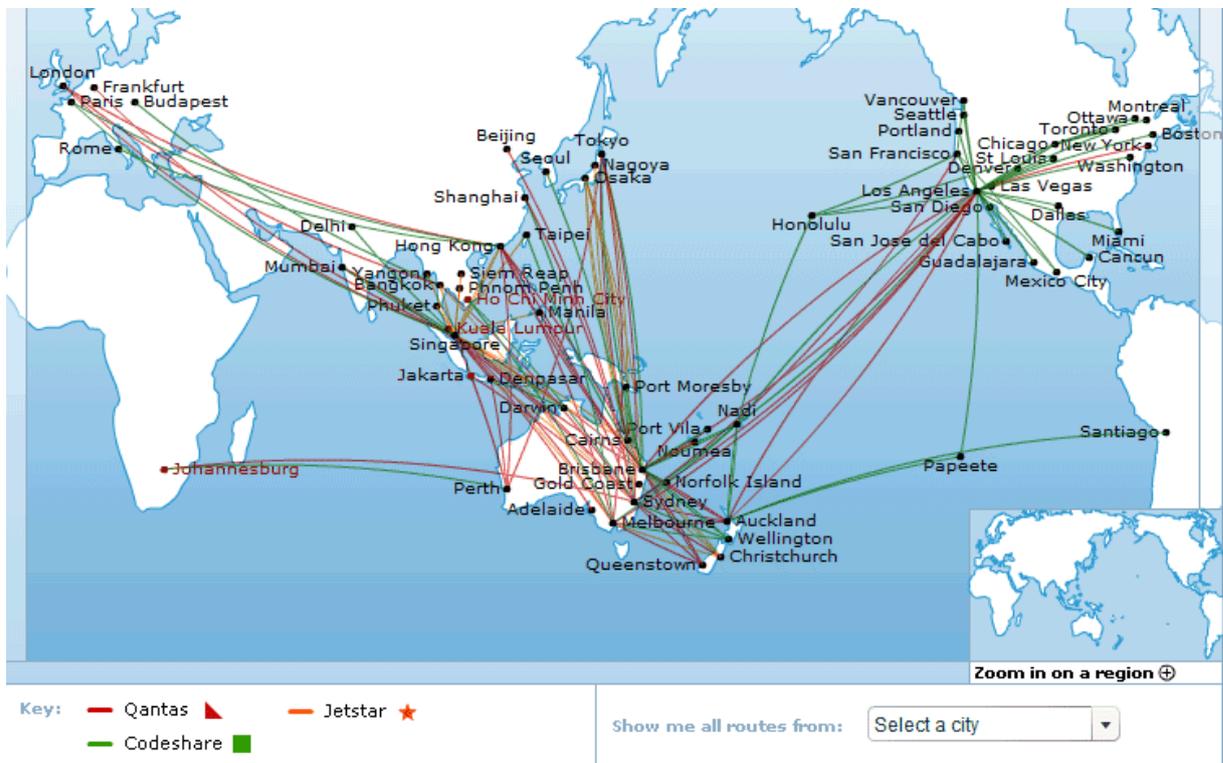
<sup>77</sup> Qantas operates 630 flights and Jetstar operates 340.

<sup>78</sup> Qantas, 'Qantas at a Glance' at page 7, available at <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

<sup>79</sup> Qantas, 'Qantas at a Glance' at page 30, available at <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

and long haul routes. The A380 will replace B747s on dense long haul routes including the trans-Pacific. The A380 fleet will grow to 20 aircraft by 2015/16.

Figure C.1 – Qantas international network<sup>80</sup>



### C.3 American Airlines



American Airlines is a founding member of the Oneworld alliance and is the largest carrier in the world. American Airlines flies nearly 6,700 flights per day to more than 330 domestic and international destinations in 54 countries.<sup>81</sup> Along with its own trans-Pacific services, American Airlines also codeshares on Cathay Pacific trans-Pacific flights from Los Angeles, San Francisco, New York/Kennedy, and from Vancouver, Canada to Hong Kong and beyond to Japan, Malaysia, Singapore, Indonesia, and Thailand. American Airlines has a fleet of 627 aircraft.<sup>82</sup>

<sup>80</sup> <http://www.qantas.com.au/travel/airlines/australia-new-zealand-route-map/global/en>.

<sup>81</sup> American Airlines, "Airlines at a Glance" at page 1, available from [http://www.aa.com/arriving/ponca\\_r2d2/US\\_Airways\\_Side\\_by\\_Side\\_Factsheet.pdf](http://www.aa.com/arriving/ponca_r2d2/US_Airways_Side_by_Side_Factsheet.pdf).

<sup>82</sup> American Airlines, "Flight Statistics" available from <http://www.aa.com/i18n/amrcorp/corporateInformation/facts/fleet.jsp>.

American Airlines	
MD-80	163
Airbus A319	15
Airbus A321	5
Boeing 737-800	226
Boeing 757-200	93
Boeing 767-200ER	10
Boeing 767-300ER	58
Boeing 777-200ER	47
Boeing 777-300ER	10

American Airlines' major hub is located in Dallas/Fort Worth with other large hubs located in Chicago O'Hare, Miami, San Juan and St Louis. American Airlines also has significant operations at Boston, New York JFK and LaGuardia, and Raleigh/Durham. It is the leading carrier between North and South America. Of note, American Airlines has a significant presence at Los Angeles Airport (LAX) providing passengers from Qantas flights a large number of connection options. Of its operations at LAX, American Airlines notes:

*American's operations at Los Angeles International Airport (LAX), the most popular and centrally located airport in the Los Angeles area, are in the same facility – rather than split across multiple terminals, as is the case with other airlines – allowing for more convenient connections for customers. American is situated in the newest terminal at LAX and features a popular Admirals Club that is newer and larger than other airline lounges.*

*United was the biggest airline at LAX for many years but there has been a steady shift, with American now the carrier with the largest market share at 14.73 percent versus United 13.68 percent, as of December 2008, according to Los Angeles World Airports. American has the leading domestic schedule and is growing internationally, especially to Latin America. By connecting at American hubs in Dallas/Fort Worth, Miami and JFK, Los Angeles travellers can fly to anywhere they want to go in Latin America, Asia and Europe. International service from LAX is a key part of American's operations, including destinations such as Tokyo, London, Cabo San Lucas and El Salvador.<sup>83</sup>*

Qantas and American Airlines began their relationship in 1989 through the world's first codeshare agreement.<sup>84</sup> American Airlines then ceased its own operations to Australia in 1992. Since that time, American Airlines has had a codeshare arrangement with Qantas, codesharing on both Qantas' trans-Pacific and domestic Australian and New Zealand operations. Qantas additionally codeshares on American Airlines' domestic United States operations. This is in addition to the other areas of cooperation between the two carriers facilitated by participation in the Oneworld alliance.

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<sup>83</sup> American Airlines, 'International Network Backgrounder – For American Airlines, International Service Continues to Be a Strength' available from <http://hub.aa.com/en/nr/factsheet/international-network-backgrounder>.

<sup>84</sup> Qantas, 'Qantas at a Glance' available at <http://www.qantas.com.au/infodetail/about/FactFiles.pdf>.

Figure C.2 - American Airlines Los Angeles Network<sup>85</sup>



#### C.4 United Airlines

United Airlines (with United Express) operates more than 5,100 flights a day to 374 domestic and international destinations.<sup>86</sup> United operate from its hubs Los Angeles, San Francisco, Denver, Chicago and Washington DC as well as from its international hubs in Guam and Japan. United is the largest US carrier to China. In 2012, United Airlines and United Express carried more passenger traffic than any other airline in the world with nearly two million flights carrying 140 million customers. In 2013 4.3% of United’s annual revenue came from flights in the Pacific region (\$212 million). United Airlines has a mainline fleet of 698 aircraft and a regional operating fleet of 562.<sup>87</sup>

United Fleet	
Airbus 319/320	55
Boeing 757-200/300	108
Boeing 747-400	23
Boeing 767-200/300/400	51
Boeing 737-500/700/800/900	278
Boeing 777-200	74
Boeing 787-800/900	12

<sup>85</sup> [http://www.airlineroutemaps.com/maps/American\\_Airlines\\_from\\_San\\_Francisco](http://www.airlineroutemaps.com/maps/American_Airlines_from_San_Francisco).

<sup>86</sup> United Holdings, “Corporate Fact Sheet” available from <http://newsroom.unitedcontinentalholdings.com/corporate-fact-sheet>.

<sup>87</sup> United, “Company Information” available from <http://ir.united.com/phoenix.zhtml?c=83680&p=irol-homeProfile#overview>.

Figure C.3 – United Airlines domestic network<sup>88</sup>

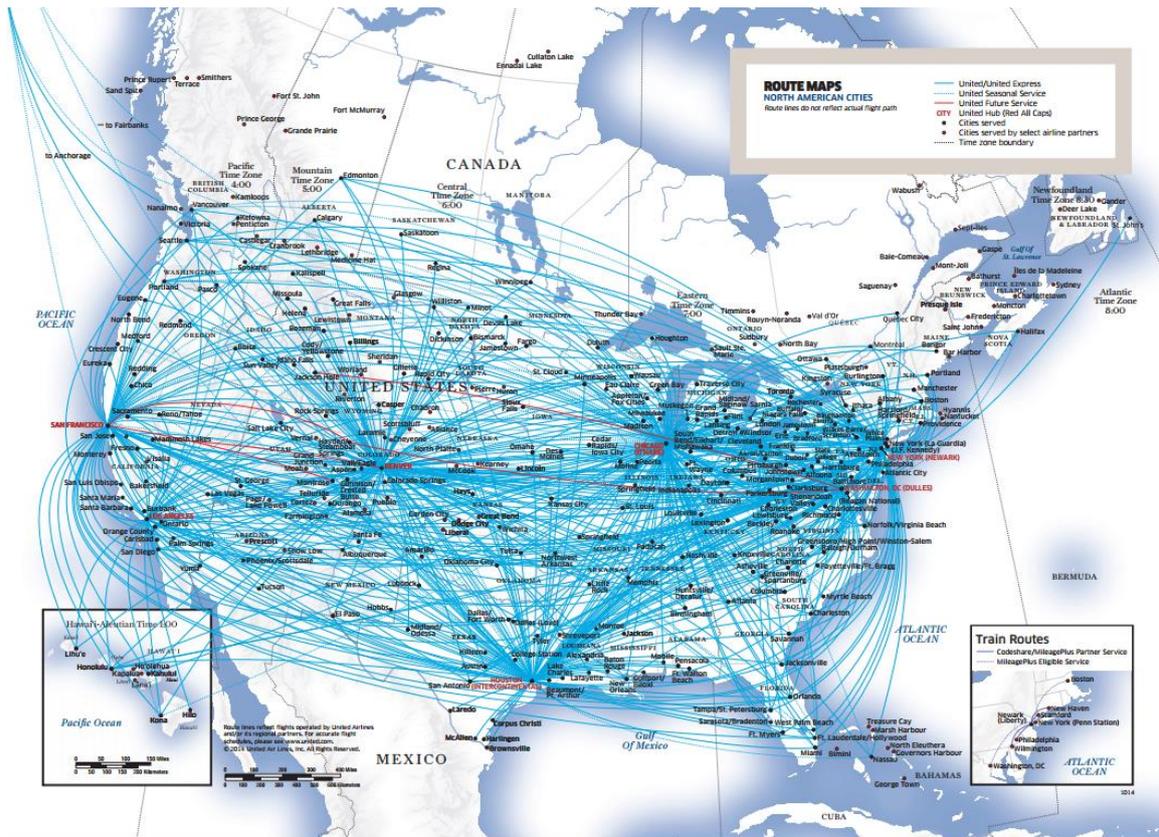


Figure C.4 – United Airlines international network<sup>89</sup>



<sup>88</sup> [http://www.united.com/CMS/Documents/pdfs/route-maps/UAL\\_NA\\_Map\\_2014\\_10\\_01.pdf](http://www.united.com/CMS/Documents/pdfs/route-maps/UAL_NA_Map_2014_10_01.pdf).

<sup>89</sup> [http://www.united.com/CMS/Documents/pdfs/route-maps/UAL\\_WORLD\\_Map\\_2014\\_10\\_01.pdf](http://www.united.com/CMS/Documents/pdfs/route-maps/UAL_WORLD_Map_2014_10_01.pdf).

### C.5 Air New Zealand

Air New Zealand is the national carrier of New Zealand, with the New Zealand Government owning 52.3% of the company.<sup>90</sup> The carrier operates scheduled passenger flights to 13 domestic destinations and 26 international destinations.<sup>91</sup> Air New Zealand's route network includes Australasia and the South Pacific, with long-haul services to Asia, Europe and North America.

Air New Zealand operates indirect services from Sydney, Melbourne and Brisbane to Los Angeles, San Francisco and Vancouver via Auckland. Passengers flying from Perth, Adelaide, Cairns and the Gold Coast can also connect to these Los Angeles, San Francisco and Vancouver services. Air New Zealand has an operating fleet of 104 aircraft.

Air New Zealand					
Boeing 777-300ER	6	Boeing 777-200ER	8	Boeing 787	2
Boeing 767-300ER	5	Airbus A320	23	Boeing 737-300	6
ATR72-600	4	ATR72-500	11	Q300	23
Beech 1900D	17				

In 1999 Air New Zealand became a full member of the Star Alliance Group, the world's largest global airline alliance. While the Star Alliance has no member flying domestically within Australia, Air New Zealand flies from Auckland to Perth, Adelaide, Cairns and the Gold Coast as well as to Sydney, Melbourne and Brisbane. This allows it to match Qantas and American Airlines in providing one-stop itineraries from these secondary cities to North America via Auckland (whereas Qantas provides such itineraries via Sydney, Melbourne or Brisbane).

Over the past 10 years Air New Zealand has been expanding its long haul aircraft fleet, purchasing 8 Boeing 777-200ERs and 4 Boeing 737 aircraft. In utilising its increasing long haul capabilities, Air New Zealand has been increasing its servicing of Pacific routes, specifically Auckland to San Francisco, Wellington to Fiji and Christchurch to the Cook Islands. The airline has further plans to expand its schedule of Pacific flights, waiting upon regulatory approval before it begins direct flights between Auckland and Shanghai.

Air New Zealand and United Airlines have been granted antitrust immunity by the United States Department of Transportation enabling them to coordinate services between United States and New Zealand. The Department of Transportation order is a grant of broad-based world-wide immunity from United States antitrust law for United and Air New Zealand. This immunity allows a very high level of operational cooperation for all United and Air New Zealand alliance activities including revenue sharing, route planning, flight scheduling, purchasing, marketing sales and distribution.

<sup>90</sup> Air New Zealand, 'Company Profile: Shares on Issue' available at [http://www.airnewzealand.com.au/aboutus/corporateprofile/shares\\_on\\_issue/default.htm](http://www.airnewzealand.com.au/aboutus/corporateprofile/shares_on_issue/default.htm).

<sup>91</sup> Star Alliance, 'Star Alliance Member Airline: Air New Zealand' available at <http://www.staralliance.com/en/meta/airlines/NZ.html>.

Figure C.5 – Air New Zealand international network<sup>92</sup>



## C.6 Jetstar



Jetstar Airways is a wholly owned subsidiary of Qantas and operates as the low-cost carrier part of the Qantas Group's two-brand strategy. Formed in 2003, Jetstar provides services to 19 domestic destinations and 17 international destinations across Asia, North America and Oceania. It is currently the third largest airline (by domestic market share) and a top five international airline by capacity share.<sup>93</sup>

Jetstar continues to strengthen its service on the trans-Pacific, having recently purchased 4 Boeing 787-8s. Jetstar currently offers direct flights between Honolulu and Sydney and Melbourne, with direct flights between Honolulu and Brisbane set to commence on 15 December 2014.

Jetstar Airways has an operating fleet of 71 aircraft.<sup>94</sup>

<sup>92</sup> <http://www.airreview.com/AirNZ/Map-World.jpg>.

<sup>93</sup> Jetstar Airways, 'About Jetstar Airways in Australia' available at <http://www.jetstar.com/au/en/about-us/our-company/jetstar-airways>.

<sup>94</sup> Jetstar Airways, 'Jetstar Group Fleet' available at <http://www.jetstar.com/au/en/about-us/our-fleet>.

Jetstar Airways	
Airbus A320	54
Boeing 787-8	7
Airbus A321	6
Airbus A330-200	4

Figure C.6 – Jetstar domestic and international network<sup>95</sup>



95

[http://c.fareportal.com/gcms/portals/2/seo-includes/responsive/images/airlines\\_content/JQ-routemap-big.jpg](http://c.fareportal.com/gcms/portals/2/seo-includes/responsive/images/airlines_content/JQ-routemap-big.jpg)



C.8 Air Canada



Air Canada is the national carrier of Canada and operates more than 1,500 flights a day to 181 domestic and international destinations. The primary aviation businesses of Air Canada operate under two major brands – Air Canada and Air Canada Rouge.<sup>98</sup> Air Canada has a total operating fleet of 364 aircraft.<sup>99</sup>

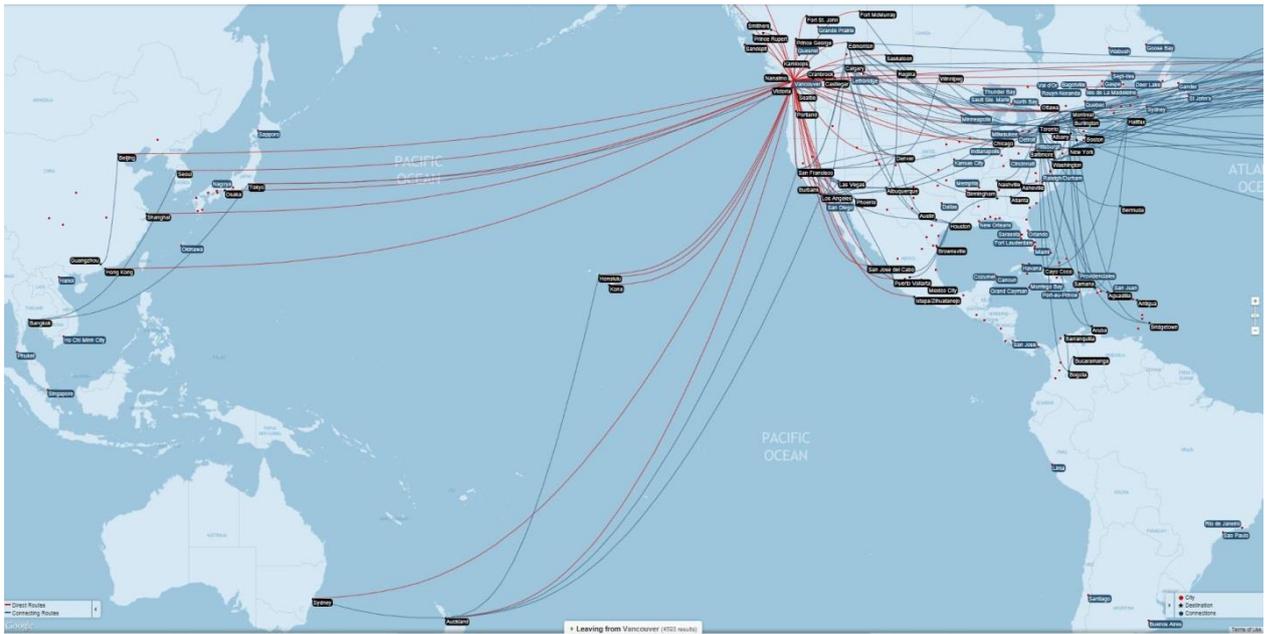
Air Canada					
Boeing 777-300ER	17	Boeing 777-200LR	6	Airbus A330-300	8
Boeing 787-8	6	Boeing 767-300ER	21	Airbus A321-200	10
Airbus A320-200	41	Airbus A319-100	18	Embraer 190	45
Air Canada Express					
Bombardier CRJ 705	16	Bombardier CRJ 200	25	Bombardier CRJ 100	5
Bombardier Q400	26	Embraer 175	15	Bombardier Dash 8-300	26
Bombardier Dash 8-100	34	Beechcraft 1900D	17		
Air Canada Rouge					
Boeing 767-300ER	8	Airbus A319-100	20		

On the trans-Pacific, Air Canada offers direct flights between Vancouver and Sydney and Auckland (operated by Air New Zealand). It also offers connecting flights from Vancouver to Los Angeles through its subsidiaries Air Canada Rouge and Air Canada Express. As a founding member of the Star Alliance and a codeshare partner with United Airlines, Air Canada has been able to offer connecting services to most major US cities.

<sup>98</sup> In addition to the Air Canada and Air Canada Rouge brands, Air Canada owns and operates a number of other subsidiaries. These include Air Canada Cargo, Air Canada Vacations and Air Canada Express.

<sup>99</sup> Air Canada, 'Our Fleet' available at <http://www.aircanada.com/en/about/fleet/>.

Figure C.8 – Air Canada Vancouver network<sup>100</sup>



From Australia, Air Canada offers non-stop services to Vancouver and a range of one-stop services including to Anchorage, Chicago, Denver, Las Vegas, Los Angeles, New York, Palm Springs, Phoenix, Portland, San Francisco and Seattle in the US, among other destinations in North America.

<sup>100</sup> <http://ac.fltmaps.com/en>.

**Attachment D Key metrics**

**D.1 Purpose of travel between Australia and the United States 2012-13** (Source: DIBP)

Calendar Year	Leisure	Visiting friends and relatives	Business	Education	Convention /conference	All Others	Total
2012	55.5%	16.4%	13.4%	2.7%	6.0%	6.9%	100%
2013	58.2%	15.9%	12.2%	2.7%	5.4%	5.6%	100%

**D.2 Passenger, capacity and load factors** (Source: BITRE)

[see separate document]

## Attachment E 2014 schedules for trans-Pacific flights

### E.1 Northern Summer 2014

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
AC	SYD		YVR	270	7	1020	0735
AC	SYD	YVR	YYZ	270	7	1020	1622
AC	YVR		SYD	270	7	2340	0815
AC	YYZ	YVR	SYD	270	7	2015	0815
DL	JFK	LAX	SYD	226	7	1805	0620
DL	LAX		SYD	291	7	2223	0620
DL	SYD	LAX	JFK	291	1	1105	1745
DL	SYD	LAX	JFK	291	6	1105	1748
DL	SYD		LAX	291	7	1105	0800
HA	BNE		HNL	259	4	1835	0755
HA	HNL		BNE	259	4	1005	1600
HA	HNL		SYD	294	7	1240	1920
HA	SYD		HNL	294	7	2120	1105
HA	AKL		HNL	294	3	2355	1040
HA	HNL		AKL	294	3	1440	2155
JQ	HNL	SYD	MEL	303	2	0915	1850
JQ	HNL		MEL	303	2	0945	1725
JQ	HNL		SYD	303	6	0915	1550
JQ	MEL	SYD	HNL	303	1	1415	0745
JQ	MEL		HNL	303	2	1630	0700
JQ	SYD		HNL	303	6	1800	0745
NZ	AKL		HNL	234	5	1100	2145
NZ	AKL	RAR	LAX	234	1	1645	1230
NZ	AKL		LAX	304	1	1700	1015
NZ	AKL		LAX	332	7	1940	1255
NZ	AKL		LAX	332	7	2130	1445
NZ	AKL		SFO	379	4	1915	1215
NZ	AKL		SFO	304	1	1915	1230
NZ	AKL		SFO	332	2	1915	1230
NZ	AKL		YVR	304	5	2000	1415
NZ	HNL		AKL	234	5	2300	0625

**PUBLIC REGISTER VERSION**

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
NZ	LAX		AKL	332	7	2145	0545
NZ	LAX		AKL	332	7	2230	0630
NZ	LAX		AKL	304	1	2315	0715
NZ	LAX	RAR	AKL	234	1	2315	1000
NZ	SFO		AKL	304	1	2115	0525
NZ	SFO		AKL	332	2	2115	0525
NZ	SFO		AKL	379	4	2130	0525
NZ	YVR		AKL	304	5	2000	0500
QF	BNE		LAX	364	7	1035	0640
QF	DFW		BNE	364	7	2155	0500
QF	DFW	BNE	SYD	364	7	2155	0815
QF	HNL		SYD	229	3	1055	1735
QF	JFK	LAX	SYD	364	7	1850	0735
QF	LAX		BNE	364	7	2345	0645
QF	LAX		MEL	484	7	2330	0820
QF	LAX		SYD	484	7	2205	0610
QF	LAX		SYD	364	7	2350	0735
QF	MEL		LAX	484	7	0910	0635
QF	SYD		DFW	364	7	1320	1345
QF	SYD		HNL	229	3	1940	0925
QF	SYD	LAX	JFK	364	7	0950	1705
QF	SYD		LAX	364	7	0950	0630
QF	SYD		LAX	484	7	1305	0945
TN	AKL	PPT	LAX	294	3	1440	1100
TN	LAX	PPT	AKL	294	2	2310	1100
TN	LAX	PPT	AKL	294	1	2359	1100
UA	CNS		GUM	155	2	0035	0525
UA	GUM		CNS	155	2	1850	2340
UA	LAX	SYD	MEL	269	7	2200	0945
UA	LAX		SYD	269	7	2200	0610
UA	MEL	SYD	LAX	269	7	1120	1040
UA	SFO		SYD	269	7	2220	0625
UA	SYD		LAX	269	7	1350	1040
UA	SYD		SFO	269	7	1445	1125

**PUBLIC REGISTER VERSION**

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
VA	BNE		LAX	361	4	1015	0630
VA	LAX		BNE	361	4	2350	0700
VA	LAX		MEL	361	3	2340	0830
VA	LAX		SYD	361	7	2215	0620
VA	MEL		LAX	361	3	1100	0830
VA	SYD		LAX	361	7	1340	1025

**E.2 Northern Winter 2014**

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
AC	SYD		YVR	349	7	1225	0740
AC	SYD	YVR	YYZ	349	5	1225	1650
AC	SYD	YVR	YYZ	349	2	1225	1651
AC	YVR		SYD	349	7	2340	1020
AC	YYZ	YVR	SYD	349	7	2000	1020
DL	JFK	LAX	SYD	226	7	1700	0800
DL	LAX		SYD	291	7	2226	0800
DL	SYD	LAX	JFK	291	1	1305	1738
DL	SYD	LAX	JFK	291	6	1305	1740
DL	SYD		LAX	291	7	1305	0800
HA	BNE		HNL	294	4	2230	1150
HA	HNL		BNE	294	4	1450	2040
HA	HNL		SYD	294	7	1155	1920
HA	SYD		HNL	294	7	2120	1015
HA	AKL		HNL	294	3	0030	1010
HA	HNL		AKL	294	3	1435	2230
JQ	BNE		HNL	303	3	1655	0600
JQ	HNL		BNE	303	3	0845	1425
JQ	HNL		MEL	303	1	0730	1610
JQ	HNL		MEL	303	2	0845	1725
JQ	HNL	BNE	MEL	303	1	0845	1925
JQ	HNL		SYD	303	7	0815	1550
JQ	MEL	BNE	HNL	303	1	1345	0600
JQ	MEL		HNL	303	2	1630	0600

**PUBLIC REGISTER VERSION**

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
JQ	MEL		HNL	303	1	1730	0700
JQ	SYD		HNL	303	7	1755	0640
NZ	AKL		HNL	234	4	1120	2115
NZ	AKL	RAR	LAX	234	1	1730	1130
NZ	AKL		LAX	332	7	1915	1030
NZ	AKL		LAX	304	3	2030	1145
NZ	AKL		LAX	332	7	2245	1400
NZ	AKL		SFO	304	3	1605	0730
NZ	AKL		SFO	304	1	1930	1055
NZ	AKL		SFO	332	6	1930	1055
NZ	AKL		YVR	304	6	2000	1215
NZ	HNL		AKL	234	4	2230	0645
NZ	LAX		AKL	304	3	1945	0545
NZ	LAX		AKL	332	7	2100	0700
NZ	LAX		AKL	332	7	2200	0800
NZ	LAX	RAR	AKL	234	1	2245	1150
NZ	SFO		AKL	304	1	1945	0555
NZ	SFO		AKL	332	6	1945	0555
NZ	SFO		AKL	304	3	2100	0710
NZ	YVR		AKL	304	6	1830	0530
QF	BNE		LAX	364	7	1130	0630
QF	DFW		SYD	484	7	2010	0605
QF	HNL		SYD	235	3	1005	1735
QF	HNL		SYD	297	1	1005	1735
QF	JFK	LAX	SYD	364	7	1835	0935
QF	LAX		BNE	364	7	2350	0755
QF	LAX		MEL	364	3	1930	0600
QF	LAX		MEL	484	7	2250	0940
QF	LAX		SYD	484	7	2220	0820
QF	LAX		SYD	364	7	2355	0935
QF	MEL		LAX	484	7	1155	0710
QF	MEL		LAX	364	3	1800	1315
QF	SYD		DFW	484	7	1525	1345
QF	SYD		HNL	235	3	1945	0825

**PUBLIC REGISTER VERSION**

Operating Airline	Origin	Through point	Destination	Seats	Flights /wk	Departure Time	Arrival Time
QF	SYD		HNL	297	1	1945	0825
QF	SYD	LAX	JFK	364	7	1155	1705
QF	SYD		LAX	364	7	1155	0630
QF	SYD		LAX	484	7	1500	0945
QF	SYD		YVR	364	2	1450	0945
QF	YVR		SYD	364	2	2345	1000
TN	AKL	PPT	LAX	294	2	1625	1015
TN	LAX	PPT	AKL	294	1	2240	1300
TN	LAX	PPT	AKL	294	2	2345	1300
UA	CNS		GUM	118	2	0120	0600
UA	GUM		CNS	118	2	1930	0025
UA	LAX		MEL	252	1	2130	0815
UA	LAX		MEL	252	5	2230	0915
UA	LAX		SYD	269	1	2230	0840
UA	LAX		SYD	269	6	2240	0840
UA	MEL		LAX	252	5	1115	0650
UA	MEL		LAX	252	1	1515	1050
UA	SFO		SYD	269	1	2230	0835
UA	SFO		SYD	269	6	2235	0835
UA	SYD		LAX	269	7	1140	0630
UA	SYD		SFO	269	7	1430	0915
VA	BNE		LAX	361	7	1115	0630
VA	LAX		BNE	361	7	2305	0710
VA	LAX		SYD	361	7	2150	0750
VA	SYD		LAX	361	7	1140	0630

**Attachment F Air freight data (inbound and outbound tonnes)**

Airline	Total Air Freight (Tonnes)						Air Freight Share				
	2009	2010	2011	2012	2013		2009	2010	2011	2012	2013
Delta Air Lines	3,285	7,381	6,105	5,769	5,446		5%	9%	7%	7%	7%
Federal Express Corporation	9,762	11,404	11,989	10,296	8,201		15%	14%	14%	12%	10%
Hawaiian Airlines	373	449	599	1,479	2,840		1%	1%	1%	2%	3%
Jetstar	1,350	1,803	1,908	2,386	3,042		2%	2%	2%	3%	4%
Qantas Airways	27,779	29,976	28,634	30,743	28,108		42%	36%	34%	35%	34%
United Airlines	5,918	6,206	5,103	4,813	3,716		9%	7%	6%	5%	4%
United Parcel Service	14,188	18,556	22,156	21,038	19,254		21%	22%	26%	24%	23%
Virgin Australia	3,747	7,685	8,425	11,935	12,575		6%	9%	10%	13%	15%
<b>Total</b>	<b>83,183</b>	<b>88,461</b>	<b>84,918</b>	<b>83,459</b>	<b>66,402</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: BITRE

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**Attachment G Executed copies of agreements**

[RESTRICTION OF PUBLICATION CLAIMED]

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**Attachment H Virgin Australia confidential counterfactual**

**[RESTRICTION OF PUBLICATION CLAIMED]**

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**Attachment I      Delta confidential counterfactual**

**[RESTRICTION OF PUBLICATION CLAIMED]**

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**Attachment J Alliance destinations**

[see separate document]