

**PUBLIC REGISTER VERSION – Restriction of
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**Charter Alliance between Virgin
Australia Regional Airlines and
Alliance Airlines**

Confidential submission in support of application for
authorisation

31 August 2016

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Executive summary

Proposed Charter Alliance

Virgin Australia Regional Airlines Pty Ltd (**VARA**), Virgin Australia Airlines Pty Ltd (**Virgin Australia**) and Alliance Aviation Services Limited (**Alliance Airlines**) (together, **the Applicants**) seek authorisation to make, and give effect to, the proposed Charter Alliance Agreement (the **Charter Alliance**) which provides for the joint tender and supply of services to corporate customers (principally for fly-in fly-out (**FIFO**) employees).

The Charter Alliance allows the Applicants to expand and enhance the range and scope of services offered to, and deliver a more competitive product to, corporate customers.

Under the Charter Alliance:

- the Applicants will deliver an integrated offer of charter and regular passenger transport (**RPT**)¹ services with value-added products and services, including a comprehensive frequent flyer program (including earn and burn entitlements), status credits and associated benefits (including priority check-in and booking services), through check-in on connecting charter and RPT services (subject to the implementation of required system updates) as well as access to airport lounges; and
- the Applicants will be able to achieve operational efficiencies and flexibility in airline operations for corporate customers, including through enhanced fleet flexibility, aircraft maintenance efficiencies, joint procurement of aircraft and parts, co-operative wet leasing arrangements,² joint airport operations (eg joint operations at the Perth bases) and ground handling.

Rationale for Charter Alliance

The Charter Alliance allows two largely complementary businesses to come together to provide an integrated national solution through combining their complementary operational footprints. This is of particular benefit to VARA, as VARA does not currently have charter operations outside of Western Australia. The Charter Alliance will enable VARA to offer a national charter solution to corporate customers.

For Alliance Airlines, the ability to offer an integrated RPT and charter offering, which is something it currently cannot provide, will allow it to put its operations on a more competitive footing.

In addition, the Charter Alliance will enable the Applicants to compete more strongly with Qantas through matching its national, integrated charter and RPT offering and value-added benefits. Value-added benefits offered by Qantas include connectivity between RPT services and charter services and access to a comprehensive frequent flyer program and lounges.

The Applicants are also entering into the Charter Alliance to increase operational efficiencies such as improving fleet and operational flexibility and maximising aircraft utilisation. Providing the most efficient and effective service option to

¹ As defined in the Charter Alliance Agreement.

² A wet lease is a leasing arrangement whereby one airline (the lessor) provides an aircraft, crew, maintenance, and insurance (ACMI) to another airline (the lessee), which pays by hours operated.

corporate customers is particularly important in the context of the mining downturn. The mining downturn has resulted in a reduction in demand for FIFO services and has also led corporate customers to place intense pressure on operators to reduce costs and demand 'more for less'.

**Charter Alliance
will create
significant
public benefits**

The Charter Alliance will result in the following significant public benefits:

- **cost savings and efficiencies from joint operations**, including:
 - integrating the Perth operational bases of VARA and Alliance Airlines to create economies of scale;
 - pooling of rotables³ and parts across the airlines' common fleets;
 - integrating sales and customer service teams;
 - accessing a broader range of aircraft types to offer the "right sized" aircraft to meet customer demand; and
 - accessing a larger pool of resources and equipment to enhance recovery of services in the event of operational disruption.
- **enhanced ability to compete**, leading to more choice for corporate customers, particularly those customers seeking an integrated air travel solution involving RPT and charter outside of Western Australia.
- The ability to provide a national **fully integrated offer** to corporate customers will create a number of benefits. Corporate customers will have more choice and have access to a higher value product, which will also be valued by passengers (predominantly FIFO workers) travelling on those services. In particular, passengers will benefit from:
 - connectivity between services, including shorter connection times, increased frequency of connecting services and, subject to the implementation of required system updates, the convenience of travelling under a single itinerary with through check-in and baggage;
 - access to Velocity points, status credits and recognition, including the ability to earn and redeem points on services, preferred seating and priority check-in;⁴ and
 - access to Virgin Australia and Alliance Airlines' domestic lounges for eligible passengers.

The overwhelming majority of corporate customers are resource companies. As resource companies must compete to attract skilled personnel to work at their remote mine sites, they need to offer attractive remuneration for employees as well as other benefits. In this context, other benefits, such as lounge access and frequent flyer points, and seamless connectivity to RPT

³ Rotables are aircraft components or inventory items that can be repeatedly and economically restored to a fully serviceable condition. Examples of rotables include tyres and oil filters.

⁴ In circumstances where the corporate customer acquires these benefits as part of their overall package.

services are important features of their overall employment package.

**No material
competitive
detriment**

The Charter Alliance will have no material adverse effect on competition.

From a corporate customer perspective, the Charter Alliance does not materially reduce the competitive options available through their procurement processes, but will instead allow the Charter Alliance to provide a more competitive and sustainable service offer and increase the number of operators that can provide an integrated national charter/RPT service package (where that is attractive to the customer).

There is no material overlap between the FIFO services operations of VARA/Virgin Australia and Alliance Airlines in FIFO regions outside Western Australia. There is a degree of overlap between VARA/Virgin Australia and Alliance Airlines in Western Australia. However, there are a number of alternative FIFO operators representing greater than 60% of FIFO capacity. These include: Qantas, Cobham, Skippers Aviation and Airnorth. In addition, most (if not all) FIFO customers are resource companies who have significant bargaining power which they exercise through their procurement process.

**Authorisation
sought for 5
years**

The initial term for the Charter Alliance is five years, with options to renew. Accordingly, the Applicants seek authorisation for an initial five year period.

1 Overview of the Applicants and the Charter Alliance

1.1 The Applicants

The Applicants are VARA, Virgin Australia and Alliance Airlines.

(a) VARA / Virgin Australia

VARA

VARA (formerly Skywest) is headquartered in Perth and was acquired by the Virgin Australia Group in April 2013.

VARA operates a fleet of 14 F100 aircraft and 2 A320 aircraft providing around 150 charter and RPT services per week between Perth and 21 regional destinations in Western Australia.⁵ VARA's only operational base is located in Perth at the dedicated charter terminal, Terminal 2.

VARA is primarily focused on providing closed charter services to support the resources industry in Western Australia. Major charter clients include **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

VARA also operates regional RPT services on behalf of the Virgin Australia mainline business in Western Australia.

Resource companies contract charter services from VARA to transport their FIFO workers to and from their mine sites. The services are sold on an exclusive use "trip basis" to the charter customers and priced by reference to the number of flight hours operated. In other words, VARA is paid per trip operated, irrespective of the number of passengers that travel on each trip. Contracts are generally entered into following a competitive tender process. Contracts are awarded to operators for terms of between 3 and 5 years, with options to renew which potentially extend the contract term out to 7 to 10 years in total. Charter operations are generally to remote mine site locations with dedicated airport infrastructure owned and operated by, or on behalf of, the resource company.

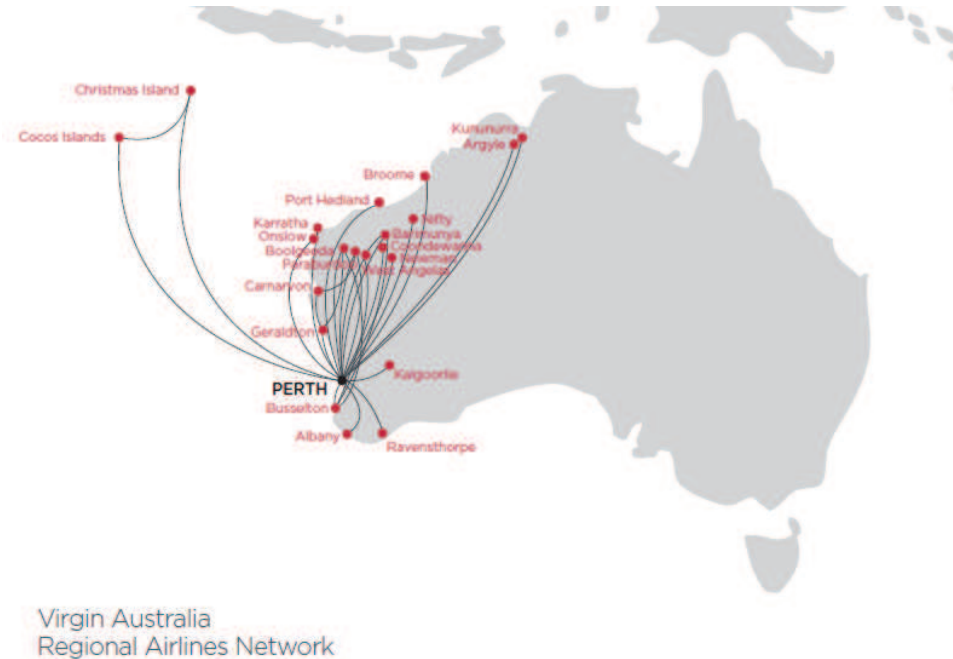
Set out below in [Figure 1](#) is a map of the destinations currently served by VARA.⁶ As shown in [Figure 1](#), VARA's operations are limited to the west coast.⁷

⁵ The number of services operated by VARA will differ from week to week based on customers' needs.

⁶ The map shows all destinations that VARA operates to including both closed charter flights and RPT flights.

⁷ In addition to VARA's own dedicated charter operations, VARA sells charter services using the mainline fleet where there is spare capacity to do so.

Figure 1 VARA route map



Further details as to VARA’s operations are set out in the Submission below and also in **Attachment A**.

Virgin Australia

As the ACCC is aware, the Virgin Australia Group commenced operations in Australia in August 2000 and Virgin Australia Holdings Limited is listed on the Australian Stock Exchange.

Virgin Australia and its subsidiaries currently operate a fleet of 149 aircraft, flying to 44 city and regional destinations and 15 international destinations. Virgin Australia employs over 9,000 people worldwide, and has strategic alliances with five key airline partners: Air New Zealand, Delta Air Lines, Etihad Airways, Singapore Airlines and HNA Aviation Group (which remains subject to the finalisation of documentation and regulatory approvals).⁸

Through the Game Change Program, Game On initiative, the Virgin Vision 2017 and Better Business Program strategies, Virgin Australia has transformed its business from a low cost carrier business into a contemporary airline group offering services in all key segments of the Australian aviation market (including business, budget, leisure, charter, cargo and loyalty). Virgin Australia has also established a reputation for excellence in customer service and operational performance. A general overview of Virgin Australia’s operations is set out at **Attachment B**.

(b) Alliance Airlines

Alliance Airlines is an Australasian-based charter provider, with a customer base largely consisting of mining and resources operators. Alliance Airlines has regional charter bases in Brisbane, Townsville, Cairns, Adelaide, Perth, Melbourne and Auckland.

⁸ As at 24 August 2016.

Alliance Airlines operates a fleet of 28 Fokker F50s, F70s and F100s to provide charter services to a wide range of mine and regional sites principally in Queensland, South Australia/NT and Western Australia. It also operates charter services in New Zealand. Although Alliance Airlines offers RPT services on a small number of scheduled flights to a limited number of destinations (Adelaide/Olympic Dam; Perth/Karratha and Perth/Newman), these flights are almost entirely contracted out to corporate customers on a block seat basis.

Alliance Airlines is listed on the Australian Stock Exchange, and has its headquarters in Brisbane. Alliance Airlines was established in 2002 when Brisbane-based company Queensland Aviation Holdings acquired the assets of the former Flight West Airlines (which was placed in liquidation in 2001).⁹ Since that time, Alliance Airlines has increased its aircraft fleet and operating bases, as the demand for mining/resource FIFO services has increased. Alliance Airlines has FIFO service relationships with some of Australia's largest resource companies, including **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

Given its focus on the mining/resource sector, over the past two to three years, the mining downturn has impacted Alliance Airlines' financial performance.¹⁰ Alliance Airlines has sought to improve its financial performance by selling and leasing Fokker aircraft and parts to other operators and to look for opportunities to diversify its revenue base to reduce reliance on the mining/resource sector.

In November 2015, as part of a broader commercial relationship, Alliance Airlines announced it would acquire the Austrian Airlines' fleet of 15 F100 and 6 F70 aircraft for US \$15 million (with part of the payment comprising the issues of new shares in Alliance Airlines to Austrian Airlines AG).¹¹ The aircraft were agreed to be delivered progressively over a 26 month period which commenced on December 2015. As at 30 August 2016, six aircraft had been delivered to Alliance Airlines - three have been onsold, two have been incorporated into Alliance Airlines' fleet and one is in storage in Bratislava.¹² Alliance Airlines also has favourable aircraft maintenance arrangements with Austrian Airlines as part of their broader commercial relationship.

In July 2016, Alliance Airlines entered into a purchase agreement with KLM Cityhopper to acquire 16 Rolls Royce engines that will be used as spare engines/spare parts for the fleet of F70s.¹³

Set out below in is a map of the current destinations serviced by Alliance Airlines. As noted above, three of the services shown in operate as RPT services, being Adelaide/Olympic Dam; Perth/Karratha and Perth/Newman, although the services are almost wholly contracted on a block seat basis.

⁹ See, for example, 'Queensland Aviation Holdings buys Flight West', *Flight Global* (online), 16 April 2002, <<https://www.flightglobal.com/news/articles/queensland-aviation-holdings-buys-flight-west-146159/>>.

¹⁰ In December 2014, Alliance Airlines announced a profit downgrade and the share price has been trading at depressed levels since. The profitability situation has been exacerbated over the past few years, which has decreased its profit margin from 11% in FY2011 to 6% in FY2016.

¹¹ Alliance Airlines, *Media Release – Alliance Aviation creates a new business and establishes a European presence*, 25 November 2015 <[http://www.allianceairlines.com.au/docs/default-source/default-document-library/2015-11-25---alliance-aviation-\(aqz\)-creates-a-new-business-and-establishes-a-european-presence.pdf?sfvrsn=0](http://www.allianceairlines.com.au/docs/default-source/default-document-library/2015-11-25---alliance-aviation-(aqz)-creates-a-new-business-and-establishes-a-european-presence.pdf?sfvrsn=0)>.

¹² Alliance Airlines, *Media Release – Alliance Announced Sale of First Aircraft from European Fleet Purchase*, 13 July 2016 <<http://www.allianceairlines.com.au/docs/default-source/default-document-library/2016-07-13---sale-of-first-aircraft-from-european-fleet-purchase.pdf?sfvrsn=0>>.

¹³ Alliance Airlines, *Media Release – Alliance Aviation Fokker Fleet Strategy*, 6 July 2016 <[http://www.allianceairlines.com.au/docs/default-source/default-document-library/alliance-aviation-\(aqz\)-06-july-2016-fleet-strategy.pdf?sfvrsn=0](http://www.allianceairlines.com.au/docs/default-source/default-document-library/alliance-aviation-(aqz)-06-july-2016-fleet-strategy.pdf?sfvrsn=0)>.

Figure 2 Alliance Airlines route map



A detailed overview of the operations of Alliance Airlines is set out in **Attachment C**.

1.2 Proposed Charter Alliance

VARA and Alliance Airlines are entering into the Charter Alliance in order to be able to expand and enhance the range and scope of services offered to Australian corporate customers and achieve operational efficiencies.

Under the Charter Alliance, the Applicants will:

- jointly bid for, and contract with, corporate customers, including joint pricing and scheduling of services for those customers;
- offer eligible passengers of those customers with access to the Velocity frequent flyer program, including the ability to accrue status credits (and gain access to associated benefits) as well as points on all of Alliance Airlines' air services (including charter services) as part of an integrated corporate offering;
- offer eligible passengers of those customers with access to Virgin Australia's airport lounges as part of an integrated corporate offering;
- cooperate in relation to check-in, airport operations, airport handling, service policies and other matters to improve the overall quality of service offered to corporate customers; and

- jointly optimise operations, including procurement and deployment of aircraft engines and spare parts and maintenance and ground-handling services, to achieve cost savings and efficiencies.

The Charter Alliance is limited to operations in Australia.

It is expected that the provision FIFO services to resource companies will form the majority of the work that the Applicants will jointly bid for under the Charter Alliance. Tourism operators who want to obtain a regular service on a charter basis to a remote tourist location could also potentially become corporate customers of the Charter Alliance and be supplied services by the Applicants under the Charter Alliance.

In each case, the resource company or the tourism operator will contract for a dedicated charter service, or for block seats on a suitable RPT service.

Otherwise, the Applicants will continue to supply air transport (charter or block RPT sales) services to the following customers on a standalone basis:

- government customers;
- charter brokers; and
- ad-hoc charter customers (generally supplied on a short term basis).¹⁴

While the supply of services to corporate customers under the Charter Alliance may include an RPT service on Virgin Australia's domestic network, the Charter Alliance does not extend to the supply of RPT services more generally.

VARA and Alliance Airlines have had prior commercial relationships in relation to the supply of wet leased¹⁵ aircraft by Alliance Airlines to Virgin Australia. Between 27 April 2015 to 5 July 2015, VARA used Alliance Airlines' aircraft to supply RPT and charter services in Western Australia and in 2012 to 2014, Virgin Australia used Alliance Airlines aircraft to supply RPT services operating out of Brisbane. Both Virgin Australia and VARA used Alliance Airlines to provide ad-hoc services from time to time to cover aircraft unserviceability or crew shortages. Alliance Airlines also uses VARA on a similar basis.

Virgin Australia and Alliance Airlines have also recently entered into a Wet Lease Services Agreement for a two year period, with an option to extend. Under the Wet Lease Services Agreement:

- Virgin Australia wet leases Fokker 70 jets from Alliance Airlines on Brisbane-Emerald and Emerald-Brisbane for RPT services;
- Alliance Airlines operates the services by providing the aircraft, crew maintenance and insurance of the aircraft, with Virgin Australia retaining responsibility for all other inputs; and
- the aircraft remain in Alliance Airlines livery but flights are sold as Virgin Australia services on the VA code through VA's distribution channels and are scheduled by Virgin Australia.

¹⁴ Ad-hoc charter services are defined in clause 1 of the Charter Alliance Agreement as "the provision of Charter Services to a client for: (a) a term which is less than 3 months; or (b) a term which is greater than 3 months but less than 12 months provided that no more than, on average, 1 service per week is provided."

¹⁵ A wet lease is a leasing arrangement whereby one airline (the lessor) provides an aircraft, crew, maintenance, and insurance (ACMI) to another airline (the lessee), which pays by hours operated.

2 Demand for FIFO services

Set out below is a description of:

- the nature of FIFO service demand;
- FIFO customers, the primary customer segment of charter services in Australia;
- FIFO procurement processes; and
- the services provided to FIFO customers and the customer considerations in selecting a FIFO air transport solution.

2.1 The nature of FIFO demand

FIFO services involve the movement of workforces from their homes to remotely located worksites and back. Most FIFO services in Australia are supplied to resource companies because of the remote nature of Australia’s mine sites.

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

The demand for charter services is therefore inherently linked to, and derived from, the demand due to the construction associated with the development of new mining projects and ongoing mining operations of established projects. As a consequence, the demand for charter services reflects the geographic location and the cyclical or fluctuating nature of resource prices and demand.

2.2 FIFO customers

There are a range of resource companies utilising FIFO work practices and the FIFO solution they require can differ greatly from company to company.

The major resource companies utilising FIFO work practices and a description of their operations are set out in [Figure 3](#) below.

Figure 3 Description of the major resource companies that require FIFO solutions in Australia

Operator	Description of operations
Anglo American	Anglo American is a global mining business (headquartered in London) producing copper, platinum, diamonds, iron ore, nickel and phosphate. It operates more than 7 mines in Australia, in Qld and NSW.
Arrow Energy	Arrow Energy is a leading coal seam gas company with five producing products, interests in three gas-fired power stations and plans to deliver a world-class liquefied natural gas export facility in Gladstone with an expected capacity of eight million tonnes a year.
Bechtel	Bechtel is a global construction and civil engineering company with an Australian portfolio spanning mines, minerals processing facilities, LNG installations, refineries, chemical plants, power stations, and telecommunications infrastructure. It is a contractor for gas proponents Chevron, Santos, BG Group and Origin

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Operator	Description of operations
	Energy/ConocoPhillips.
BG Group/Shell	BG Group is a wholly owned subsidiary of Royal Dutch Shell with operations in 25 countries. In Australia it owns Queensland Gas Company, which operates coal seam gas extraction within the Surat and Bowen Basins.
BHP Billiton	BHP Billiton produces iron ore, copper, coal and nickel in Australia and operates over 23 mines in WA, SA, NT and Qld.
Chevron	Chevron is an oil and gas company with three LNG projects in Western Australia (including Gorgon and Wheatstone). It holds petro petroleum titles to resources located offshore Western Australia and onshore at Barrow Island.
Citic Pacific Mining	Citic Pacific Mining (wholly owned by Citic Limited) was established to manage the construction and operation of the Sino Iron project, an integrated magnetite iron ore mining, processing and port operation located in the Pilbara in WA.
Fortescue Metals Group	Fortescue Metals Group produces around 165 million tonnes of iron ore per annum from mines and mining assets in the Pilbara in WA.
Glencore	Glencore is a global commodity trading and mining company with significant interests in a range of commodity industries, including coal, copper, cotton, grain and oilseeds, nickel, oil and zinc. In Australia, it operates mines in NSW, WA and the NT.
Hancock Prospecting	Hancock Prospecting is an Australian mineral exploration company with mining assets in the Pilbara in WA. It produces iron ore from 5 current projects in WA.
Inpex	Inpex is a worldwide oil and gas exploration and production company with operations in over 25 countries. It has a number of projects in Australia and Timor Sea, most notably the Ichthys LNG plant being constructed off the North West coast of Western Australia along with a pipeline to Darwin in the NT.
Middlemount Coal	Middlemount Coal is an incorporated joint venture between Peabody Energy Australia Pty Ltd and Yancoal Australia Ltd. It operates the Middlemount Mine in Qld, which produces coal and coking coal for export.
MMG	MMG is a global resources company that mines, explores and develops base metal projects around the world. It operates mines in Tasmania, WA, and Qld, where it extracts and produces base and precious metals.
Newcrest Mining	Newcrest Mining is an Australian based gold mining company with operations in four countries, focusing on the development, mining and sale of gold. In Australia, it has operations in Cadia Valley (NSW) and Telfer (WA).
Origin	Origin is Australia's largest energy retailer, operating one of Australia's largest power generation portfolios and holding one of the largest gas reserves in Eastern Australia. It has a diverse exploration portfolio including the Bowen, Surat and Cooper / Eromanga basins in Central Australia, the Otway and Bass basins in SA, the Browse and Perth Basin in WA and the Bonaparte and Beetaloo Basin in the NT. Origin is also a partner in Qld's AP LNG project.
Rio Tinto	Rio Tinto produces iron ore, coal, bauxite, alumina, aluminium,

Operator	Description of operations
	uranium, diamonds and salt from over 30 operating sites and processing plants in Australia, mainly in WA and Qld.
Santos	Santos operations span across natural gas, oil, LNG, hydraulic fracturing, liquids marketing. Santos has operations across Australia in the NT, WA, SA, Vic, NSW and Qld.
Senex	Senex is a Perth-based company with two core areas of activity: oil exploration and production in the Cooper Basin and coal seam gas appraisal development in the Surat Basin in southern Qld.
Woodside Petroleum	Woodside is an Australian petroleum exploration and production company. It is the largest operator of oil and gas production in Australia and with operations concentrated in WA, in particular Woodside operates numerous LNG facilities in north-west of Australia including the North West Shelf and Pluto LNG Plant.

As reflected in [Figure 3](#) above, the largest concentration of resource operations in Australia are located in Western Australia and Queensland and principally include iron ore and coal operations as well as large oil and gas projects, with a range of smaller (but substantial) mining and resource related operations in South Australia, the Northern Territory and New South Wales.

While the location of operations differ, all of the customers in [Figure 3](#) are large, well-resourced and run sophisticated procurement processes. These processes are outlined in more detail below.

2.3 FIFO procurement processes

Typically, FIFO customers will conduct a procurement process for FIFO aviation services, where FIFO operators are invited to participate in a tender process to supply charter/RPT services to the customer according to detailed specifications.

FIFO customers determine the tender terms and processes. Requests for tenders typically require FIFO operators to submit a detailed proposal to meet the customers' requirements for air services (in terms of routes and frequencies). In particular, operators are typically asked to specify:

- the services that will be supplied - RPT and/or charter services;
- the aircraft to be used in supplying the services;
- the total number of passengers and cargo that can be carried on the aircraft (and how this varies with weather conditions and fuel reserves);
- other benefits that can be supplied, principally the value-added benefits, such as frequent flyer points and lounge access as well as catering and comfort options;
- the proposed schedule for the services;
- an outline of operational capability in the event of schedule disruption due to aircraft unavailability;
- the price of the services as well as the price for additional ad-hoc services, including the per unit price for particular components of the service (such as labour/crew, fuel, ground handling, air navigation charges, airport charges, insurance and maintenance);
- capability to meet the prescribed service standards, including standards around safety and risk management, as well as compliance and auditing procedures; and

- other provisions that would be attractive to customers including KPIs/targets to reduce costs where appropriate, including parameters around when the provider will downgauge/upgauge aircraft to meet changes in demand, or reduce on-board crew numbers based on passenger numbers.

Following submission and assessment of the proposals, FIFO customers enter into commercial discussions and negotiations with one or more operators around requirements. Customers typically contract with a preferred operator for the provision of these services for a 3-5 year term with 2-5 year extension options in favour of the customer.

As an illustration of the tender process, tender materials from recent tenders for a small, a medium and a large customer are provided in **Confidential Attachment J**.

2.4 FIFO solutions

Given the varied nature of FIFO services required, FIFO solutions can involve a combination of different air transport solutions. For instance, FIFO solutions may involve:

- the provision of a charter service (ie, a charter flight from a location close to a worker's residence to the mine/work site); or
- the purchase of seats on RPT services (ie, a RPT flight from a location close to a worker's residence to a suitably located RPT airport and then transport by road to the mine/work site); or
- the provision of a combination of the two services (ie, a RPT flight followed by a charter flight to the mine/work site).

(a) Charter services

Charter services involve the exclusive contracted transportation of passengers by air, generally supplied at a fixed rate (per trip) to a customer based on their ongoing regular requirements or for a specified itinerary or group of itineraries. Given the logistical integration of labour movements for mine operations, schedules and capacity for charter services are largely dictated by the customer.

Trip rates, while fixed in the contracts, are typically subject to adjustments for exogenous factors. For example, the trip rate is adjusted in line with changes in fuel costs, the exchange rate and CPI. In addition to the per trip charge, fixed passenger fees and charges may be applied separately.

Charter services are generally operated to remote aerodromes to support mine sites/resource operations with dedicated airport infrastructure owned and operated by, or on behalf of, the resources company. Some charter services are also operated to small regional airports and remote areas not serviced by RPT routes or where there is insufficient existing RPT capacity or infrequent RPT services.

Due to the nature of FIFO shifts, FIFO charter demand tends to be concentrated between Tuesday and Thursday, resulting in low aircraft utilisation outside of these peaks. The low utilisation nature of the operation drives the use of low capital cost, older aircraft. BITRE estimates suggest that 72.4% of charter services are provided by aircraft that are more than 10 years old, and 51.2% by aircraft that are more than 20 years old.¹⁶

¹⁶ BITRE, *General Aviation Activity Report* (2013) 9.

Charter services are not subject to the same regulatory regime that applies for RPT services and are not generally permitted to publicly sell tickets for a published schedule service. The frequency of charter services that can be operated on RPT routes are also often restricted.¹⁷

For all the above reasons, whilst charter services provide effective solutions for FIFO customers, they are not available or competitively relevant to supply air travel services to the general public.

(b) RPT services

RPT services are also used for FIFO purposes, where there is an RPT airport close to operations that can be reached by road.

When a corporate customer chooses to use an RPT service as part of its FIFO solution, the customer only pays for the seats they use on that service. In some cases, to ensure security of supply, customers will book a block of seats on an RPT service (often referred to as a blocked booking). The advantage of an RPT solution is therefore potentially lower cost and greater flexibility to adapt to changing FIFO needs, where the customer's capacity demands do not make a charter solution viable.

Where there is a broad range of RPT services at ports proximate to mining operations, customers may choose RPT services to serve their workforce in a cost effective and flexible manner, shifting the risk of utilising the aircraft from the customer to the operator.

2.5 Factors relevant to selecting a FIFO solution

Resource companies select the appropriate FIFO solution (a charter service, seats on an RPT service or a mix of the two) based on a number of factors including:

- **mine/work site location** – whether there is an onsite airport or airstrip at the mine/work site or whether the mine/operation is proximate to a regional RPT airport which is accessible by road;
- **airport capacity** – Some regional airports do not have the required infrastructure to accept RPT services (eg airports with low pavement classification numbers (weak pavements), narrow runways or gravel strips);
- **regulatory requirements** – the relevant state-based regulatory environment (which can determine whether airlines can offer charter or RPT services on specific routes);
- **number of FIFO passengers to be transported** – whether there is adequate RPT capacity to meet those requirements or conversely whether there is a sufficient number of passengers to fill a dedicated charter service;
- **security of supply** – charter solutions will ensure adequate seat availability for the customer's FIFO workers at required times, this can also be achieved to a certain extent through taking a block seat arrangement on an RPT service;
- **control over schedule** – charter solutions provide the customer with control and flexibility over the schedule to meet the customer's shift timings and changing FIFO requirements;
- **cost** – the comparative cost of a charter solution or an RPT solution will depend on the number of FIFO passengers required to be transported and a number of the other factors listed above;

¹⁷ See, for example, *Transport Co-ordination Regulations 1985* (WA) regs 8BA-BB.

- **choice of operators/schedule** – RPT routes which are serviced by multiple carriers offer increased choice for the customer and their passenger as well as alternative solutions in the event of a disruption;
- **broader relationships with a particular airline** – some customers prefer a “one stop shop” solution with an airline who can meet their requirements across a range of destinations and travel requirements; and
- **value adds** – services that an airline can offer to the customer’s employees, such as frequent flyer points and lounge access, capability to connect to other destinations.

The FIFO solution chosen varies from customer to customer and site to site, and depends on whether the project is in its construction, production or care and maintenance phase.¹⁸ For example:

- **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**
- FMG use a mixture of RPT and charter services to support its Western Australia activities. Each of its three major mine sites have their own private aerodromes at Christmas Creek, Cloudbreak and Solomon serviced by charter flights, with their rail and shipping activities in Port Hedland being supported by RPT services. Charter flights are supplied on a set trip rate, with fuel, head taxes and catering being passed through at cost price. These services are currently supported by Qantas, QantasLink, Jetstar and Alliance Airlines.

[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

As reflected in the above examples, resource companies often use a combination of services (on both small and larger aircraft) to meet their needs, sometimes in combination with land transport. FIFO services are therefore heterogeneous in nature.

The result is that the particular characteristics of FIFO services are diverse or heterogeneous across customers. However, regardless of the FIFO solution required, resource companies require a consistent and reliable level of air transport service and will typically contract with one or more air transport operators to ensure they are supplied this.

3 FIFO operators

As the demand for FIFO services is heterogeneous and tailored to the specific needs of each customer, a wide range of large and smaller FIFO providers (with a range of aviation operations) support the industry’s needs.

FIFO air service providers use a variety of different business models to service the needs of their customers. Further, given the highly regionalised nature of demand, some operators may have a strong or large presence in a particular area or on a particular route, while other operators may have a broader range of operations across a region or state or even on a national basis (principally Qantas).

Operators supplying FIFO air services to customers include:

- RPT operators (where an RPT service can wholly meet those requirements);
- charter only operators; and
- integrated RPT and charter operators.

¹⁸ Fifofacts.com, *What?*, (19 August 2016) <<http://fifofacts.com/what.html>>.

A FIFO operator requires aircraft, an operational base, spare parts and maintenance, aircraft crew, ground staff and maintenance staff, and operational expertise and accreditation.

Figure 4 presents key information on the major FIFO operators in Australia. Further information on these FIFO operators (excluding the Applicants) is set out below. Detailed information on the Applicants is set out in **Attachment A** and **Attachment C**.

Figure 4 Overview of FIFO Operations in Australia

Operators	Region/s of air service operations ¹⁹	Services provided to FIFO customers	Total fleet size	Key FIFO customers
Qantas	National	RPT	118 in total including: B737-800 (67), A332-200 (18), A333 (10), 747-400 (5), 747-400ER (6), A380-800 (12)	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
QantasLink [Sunstate, Eastern Australian Airlines, Network, Cobham]	National	RPT; Charter	78 in total including: Q200 (3), Q300 (11), Q400 (31), F100 (15), B717 (18)	
Jetstar	National	RPT	70 including: A320 (53), A321 (6), B787-8 (11)	
Virgin Australia	National	RPT; Charter ²⁰	119 total aircraft as at 30 June 2016 including: ATR72 (14), E190 (13), B737-800 (81), ²¹ A330-200 (6), B777-300ER (5)	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

¹⁹ This represents their regions of air service and is not limited to their FIFO operations.

²⁰ Virgin Australia operates a small number of charter flights from Brisbane to other parts of Southern Queensland, including Miles and Roma. In the case of Roma, this is due to the regulatory restrictions preventing Virgin Australia flying RPT services on this route and in the case of Miles this is due to airport infrastructure restrictions.

²¹ This total of 81 includes three B737-800 aircraft that Virgin Australia is currently operating for Tigerair.

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Operators	Region/s of air service operations ¹⁹	Services provided to FIFO customers	Total fleet size	Key FIFO customers
Virgin Australia Regional Airlines	Western Australia	Charter; RPT	16 aircraft in total as at 30 June 2016 including: F100 (14), A320 (2)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Cobham	Western Australia; South Australia	RPT; Charter	8 aircraft (BAe 146/RJ 100, BAR 146, Embraer 190)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Alliance Airlines	National	Charter; limited RPT supported by FIFO contract	28 aircraft (F100, F70, F50)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Aimorth	Western Australia; East Coast; Northern Territory	Charter; RPT	12 aircraft (Embraer 120 and 170, Metroliner 23)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Skippers Aviation	Western Australia	Charter	28 aircraft (F100, Embraer Brasilia, De Havilland Dash-8, 23 turbo prop)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Skytrans	Torres Strait; Queensland	Charter	4 36-seater Dash-8 Aircrafts	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
JetGo	East Coast; Queensland	Charter	3 Embraer Regional Jets	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Pel Air (Regional Express)	Western Australia; Queensland; East Coast; South Australia	Charter	18 aircraft (with a further access to 40 Saab aircraft owned by Regional Express)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]
Rossair / Air South	Central Australia; South Australia	Charter	3 aircraft (Embraer Brasilia 120, Beechcraft 1900D and Cessna 441 Conquest)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]

Operators	Region/s of air service operations ¹⁹	Services provided to FIFO customers	Total fleet size	Key FIFO customers
Corporate Air	East Coast, South Australia; ACT	Charter	16 aircraft (Saab 340B+WT, Fairchild Metro 23, Cessna 441 Conquest, Cessna 404 Titan, Beech 58 Baron)	-
Pearl Aviation	Northern Territory	Charter	Turbine aircraft (B200 Kingair, Metro23 Airliner)	-
Maroomba Airlines	Western Australia	Charter; RPT	Beechcraft King Air aircraft (1-9 seats) and a Dash 8-100 series aircraft (36 seat)	[CONFIDENTIAL–RESTRICTION OF PUBLICATION CLAIMED]

3.1 Qantas

Qantas has an extensive RPT network domestically and internationally through its mainline brand, Jetstar and QantasLink, and has significant charter operations through its charter division (formerly known as Network Aviation). Qantas supplies its corporate customers with an integrated offer connecting charter services to RPT services, and associated traveller features, such as frequent flyer points, status credits and lounge access. More details on Qantas’ offering are set out in **Attachment D**.

Qantas’ resource customers include [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

Qantas has approximately 126 aircraft in its mainline fleet which is used for its RPT operations in Australia and internationally.

QantasLink also operates 92 aircraft including 18 Boeing 717-200 (these are operated by Cobham under contract), 14 F100s, 3 Bombardier Dash 8-200/Q200, 16 Dash 8-Q300 and 31 Bombardier Dash 8-Q400 turboprop aircraft out of its regional bases across Australia.

3.2 Cobham

Cobham is a diversified international aviation provider, with significant operations in Australia and in the UK. In Australia, Cobham supplies closed charter services and sub-contracted helicopter services as well as operates charter and RPT services for Qantas under a long-term contract.²²

²² Mitchell Bingemann, ‘Cobham Aviation Services wins \$1.2bn QantasLink contract’, *The Australian* (online), 6 July 2016 <<http://www.theaustralian.com.au/business/companies/cobham-aviation-services-wins-12bn-qantaslink-contract/news-story/103d697551de5d1d0f2f709254b37ca2>>.

Cobham supplies a number of air services to the government including border protection, civil maritime surveillance and search and rescue services.²³

FIFO customers of Cobham include **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

As at July 2016, Cobham's fleet included the following aircraft:

- for Qantas freight: BAe 14-100, BAe 146-300;²⁴ and
- for passenger transport:²⁵
 - Boeing 717 for QantasLink;
 - Embraer 190 and BAe 146/RJ series for Cobham's own charter operations; and
 - BAe 146 jets for Cobham's own operations on gravel/unpaved runways (charter).

3.3 Airnorth

Airnorth commenced operations in 1978, initially providing only charter services. It is now a major aviation operator in Northern Australia, having expanded its operations to include over 300 RPT and charter services to 20 destinations across the Northern Territory, Queensland, Victoria and Western Australia, as well as to East Timor and the Philippines. Airnorth carries over 300,000 passengers annually.

Airnorth also operates contract and ad-hoc charter services for various companies undertaking mining, defence and government activity. Airnorth earns 40% of its revenue from charter services.

Airnorth was acquired by Bristow Helicopters Australia Pty Ltd in 2015 (85% share with the balance acquired in 2016). This investment has enabled Airnorth to extend its operations beyond fixed wing capability to include rotary wing, further improving the airline's capabilities to offer its clients a full service point-to-point logistics solutions.

Resource customers of Airnorth include **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

After recently receiving new Embraer E170 aircraft, Airnorth's fleet as at July 2016 included the following aircraft: Embraer 170 Jet and Embraer 120 Brasilia, and Metroliner 23.²⁶

3.4 Skippers Aviation

Skippers Aviation (**Skippers**) is a RPT and charter operator based in Perth that commenced operations in 1990.²⁷ Skippers claims to be the 'largest provider of FIFO services to the WA mining industry'²⁸ with significant charter operations on the west coast as well as regional RPT services in WA. Skippers currently operates over 100 regular flights per week in support of 15 major mining

²³ See, for example, Cobham, 'Media Release – Search and Rescue boost as new capability comes online', 29 January 2016, <<http://www.cobhamaviationservices.com/news/news-media-releases/search-and-rescue-boost-as-new-capability>>.

²⁴ Cobham, *Air Freight* (11 July 2016) <<http://www.cobhamaviationservices.com/what-we-do/air-freight>>.

²⁵ Cobham, *Passenger Transport* (11 July 2016) <<http://www.cobhamaviationservices.com/what-we-do/passenger-transport>>.

²⁶ Airnorth, *Our Fleet* (11 July 2016) <<http://www.airnorth.com.au/flying-with-us/on-board/our-fleet>>.

²⁷ Skippers Aviation, *About Skippers* (11 July 2016) <<http://www.skippers.com.au/ProfileAbout.asp>>.

²⁸ Skippers, *Skippers Charters* (11 July 2016) <<http://www.skippers.com.au/Charter.asp>>.

companies.²⁹ Offering a low cost base, Skippers claims to be one of the most competitive FIFO operators in Australia.

Skippers also offers specialised charters for search and rescue and med-evac operations and has the ability to access remote sites.

Customers of Skippers include **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

After recently acquiring F100 aircraft, the Skippers' fleet as at July 2016 consists of 28 aircraft (including Embraer Brasilia, F100 and De Havilland Dash-8 turbo prop aircraft).³⁰

3.5 Pel-Air (Rex)

Based in Mascot, Rex has an extensive RPT network in regional Victoria, Tasmania, South Australia Far North Queensland, and Western Australia.

Pel-Air Aviation is a wholly-owned subsidiary of Regional Express Holdings Limited (Rex) that began performing FIFO charter services in 1984.³¹ Pel-Air specialises in providing FIFO charters, corporate jet charters, freight charters, defence support missions, aero-medical services for Ambulance Victoria and Air Tours charters.³²

Rex's resource customers include **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

Pel-Air operates both turboprop and corporate jet aircraft in Australia, including the following: SAAB 340, Westwind Jet and King Air B200C. As at July 2016 Pel-Air has a fleet size of 18 aircraft and further access to over 40 Saab aircraft owned by Regional Express.

3.6 Skytrans

Skytrans is a Queensland-owned and operated airline and charter business. Skytrans was founded in 1990 as a charter airline, and began RPT flights in 1993. Skytrans now offers 56 RPT services and 18 charter services in alliance with their sister airline West Wing Aviation, and provides freight services for communities in the Cape York and Torres Strait region (including provision of medical supplies, mail, critical cargo and live exports).

Skytrans was placed in voluntary administration in January 2015 after losing three regulated RPT routes to rival Regional Express in a Queensland tender in October 2014. This loss made business conditions particularly difficult for Skytrans at a time when it was also facing a decline in charter work for the resources industry.³³ After being placed in voluntary administration, Skytrans received a rescue buy-out by Collings Holdings Airlines. The investment was intended to allow the airline to resurrect permanent RPT services for people living in the Cape York and Torres Strait regions, as these areas faced isolation in absence of Skytrans routes.

In September 2015, Skytrans secured a \$25 million contract to transport QGC FIFO workers³⁴ This contract includes 18 return flights per week from Brisbane.³⁵

²⁹ Skippers, *Skippers Charters* (11 July 2016) <<http://www.skippers.com.au/Charter.asp>>.

³⁰ Skippers Aviation, *About Skippers* (11 July 2016) <<http://www.skippers.com.au/ProfileAbout.asp>>.

³¹ Pel-Air, *FIFO* (11 July 2016) <<http://www.pelair.com.au/FIFO/FIFO.aspx>>.

³² Pel-Air, *Home* (11 July 2016) <<http://www.pelair.com.au/default.aspx>>.

³³ Jamie Freed, 'Skytrans goes into administration' *Sydney Morning Herald* (online), 6 January 2015 <<http://www.smh.com.au/business/skytrans-goes-into-administration-20150106-12inex.html>>.

³⁴ Cameron Atfield, 'Contract sees jobs fly back to Skytrans', *Sydney Morning Herald* (online), 9 September 2015 <<http://www.smh.com.au/business/aviation/contract-sees-jobs-fly-back-to-skytrans-20150909-gjiwd4.html>>.

As at July 2016, Skytrans' fleet consists of four 36-seater Dash-8 Aircraft.³⁶

3.7 JetGo

JetGo is a privately-owned Australian airline and charter business that commenced operations in 2012. JetGo's services include RPT services, on demand or ad hoc charter for corporate, resource, government and private customers both domestically and internationally.

JetGo specialises in providing scheduled FIFO services for mining and energy companies, aircraft leasing services, providing aircraft on an Aircraft, Crew, Maintenance and Insurance (ACMI) basis to other companies, and special missions such as medivac.³⁷

As at July 2016, JetGo's fleet consists exclusively of Embraer Regional Jets.³⁸

3.8 Other operators

(a) Rossair / Air South

Established in 1963, the wholly Australian-owned Rossair claims to be 'Australia's longest running air charter provider'³⁹. In November 2013, Rossair merged with Air South to serve the corporate FIFO business sectors.⁴⁰ Rossair operates its fleet out of Adelaide Airport where it is the only charter airline to offer a private flight lounge and onsite parking.

Rossair specialises in providing the following charter services:

- corporate and government charters;
- FIFO charters for the resources sector, specialising in oil, gas and mining industries, including the provision of specific drug and alcohol testing within the privacy of Rossair's flight lounge;
- freight and cargo charters (including goods such as machinery and seafood); and
- specialised charters for holidaymakers and VIP travellers.⁴¹

In May 2015, Rossair was awarded a contract to provide FIFO services to the workforce for the remote Challenger gold mine in South Australia by WPG Resources Ltd. Pursuant to this contract, Rossair provides an upwards of four flights a week to the Challenger mine's airstrip.⁴²

As at July 2016, Rossair / Air South's fleet included the following aircraft: Embraer Brasilia 120 (30 seats), Beechcraft 1900D (19 seats) and Cessna 441 Conquest (9-10 seats).⁴³

³⁵ Cameron Atfield, 'Contract sees jobs fly back to Skytrans', *Sydney Morning Herald* (online), 9 September 2015 <<http://www.smh.com.au/business/aviation/contract-sees-jobs-fly-back-to-skytrans-20150909-gjiwd4.html>>.

³⁶ Steve Creedy, 'Cape demand puts Skytrans back in the air', *The Australian* (online), 23 October 2015 <<http://www.theaustralian.com.au/business/aviation/cape-demand-puts-skytrans-back-in-the-air/news-story/bf26a2f0869ed37c0787f24eb9a9a759>>.

³⁷ JetGo Australia, *About us* (29 July 2016) <<http://www.jetgo.com/our-company>>.

³⁸ JetGo, *Aircraft* (29 July 2016) <<http://www.jetgo.com/our-aircraft>>.

³⁹ Rossair Charter, *Home* (29 July 2016) <rossaircharter.com.au>.

⁴⁰ Richard Evans, 'Rossair merges with Air South', *The Advertiser* (online), 26 November 2013 <<http://www.adelaidenow.com.au/business/rossair-merges-with-air-south/story-fni6uma6-1226768712259>>.

⁴¹ Rossair, *Services* (8 August 2016) <<http://rossaircharter.com.au/services/>>.

⁴² Sharon Masige, 'Rossair wins Challenger mine FIFO contract', *Australian Mining* (online), 17 May 2016 <<https://www.australianmining.com.au/news/rossair-wins-challenger-mine-fifo-contract/>>.

⁴³ Rossair, *Our Aircraft* (8 August 2016) <<http://rossaircharter.com.au/our-aircraft/>>.

(b) Corporate Air

Corporate Air is an aviation provider in eastern and southern Australia with bases in Brisbane, Sydney, Goulburn, Canberra (Head office), Melbourne, Adelaide and the Cooper Basin.

At the time of establishment in 1972, Corporate Air operated a small air charter business and flying school out of Canberra. Corporate Air now provides a variety of air charter services including: corporate and business charter flights, FIFO services, overnight freight, airborne remote sensing services, search and rescue and outback tour services, across clientele including corporate, government, convention and sporting organisations.

As at July 2016, Corporate Air has a fleet of 16 aircraft including the following aircraft Saab 340B+WT, Fairchild Metro 23, Cessna 441 Conquest and Cessna 404 Titan.

(c) Pearl Aviation

Pearl Aviation is an Australian aviation operator based at Darwin. It is the aviation subsidiary of the Paspaley Group of Companies.

Pearl Aviation provides charter air services to the resources sector as well as local and Federal Governments, the Defence Department and International agencies, including FIFO charters, VIP and ad-hoc charters for both short and long distance, oil rig crew transfer charters and special mission aviation (for example, border protection, search and rescue, and medical evacuation).⁴⁴

In addition to its main base at Darwin International Airport, Pearl Aviation has secondary bases at Brisbane International Airport, Alice Springs Airport and Broome International Airport.

Pearl Aviation operates a fleet of turbine aircraft throughout Australia including the B200 Kingair and Metro23 Airliner aircraft.⁴⁵

(d) Maroomba Airlines

Maroomba Airlines has been providing charter services since 1985 and is based at Perth, Western Australia.

Maroomba Airlines services 60,000 passengers annually, providing: RPT services, Corporate/VIP charters, Medical Operation charters, freight services and short and long term ad-hoc and FIFO charters. Maroomba Airlines offers FIFO services for all sectors of the mining industry, and to various regional destinations.⁴⁶

As at July 2016, Maroomba Airlines' fleet consists of a Beechcraft King Air aircraft (9 seats) and a Dash 8-100 series aircraft (36 seats).⁴⁷

⁴⁴ Pearl Aviation, *Contract Services* (10 August 2016) <<http://www.pearlav.com.au/about.html>>.

⁴⁵ Pearl Aviation, *Aircraft Details* (10 August 2016) <<http://www.pearlav.com.au/aircraft-details.html>>.

⁴⁶ Maroomba Airlines, *About Maroomba Airlines* (19 August 2016) <<http://maroomba.com.au/about-us/>>.

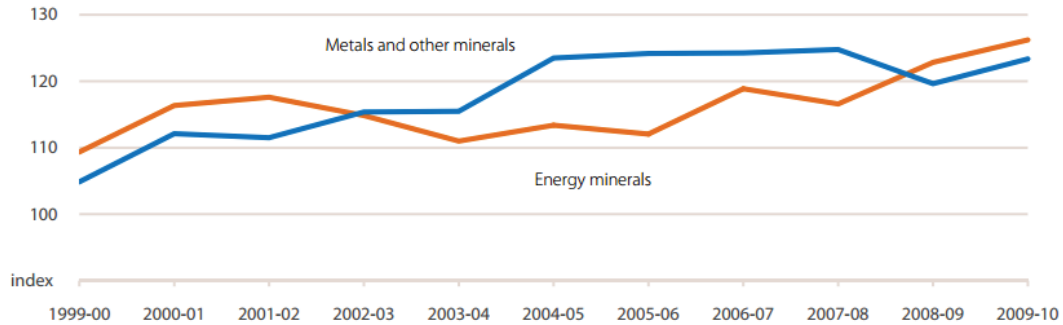
⁴⁷ Maroomba Airlines, *Our Fleet* (19 August 2016) <<http://maroomba.com.au/our-fleet/>>.

4 The state of FIFO air services: demand and supply

4.1 The mining boom: 2003 to 2013

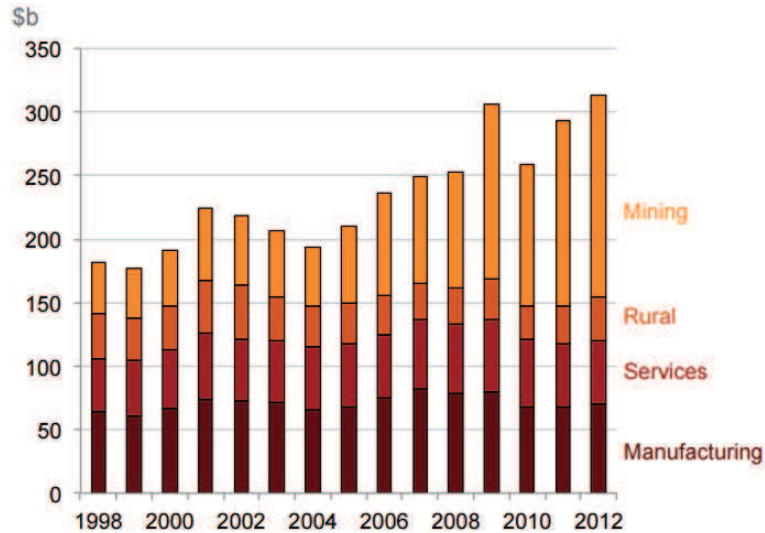
From at least 2003 through to about 2013, the Australian resources sector rapidly and significantly expanded, representing the second biggest mining boom in Australian history and a substantial transformation of the Australian economy.⁴⁸ Figure 5 and Figure 6 below show the growth in mining production over this period – as a function over time (Figure 5) and as a proportion of Australian export revenues (Figure 6).

Figure 5 Mine production, 1999-00 to 2009-10 (Base 1997-98 = 100)



Source: ABARES, Australian mineral statistics, March Quarter 2011.

Figure 6 Exports by sector, 1998-2012

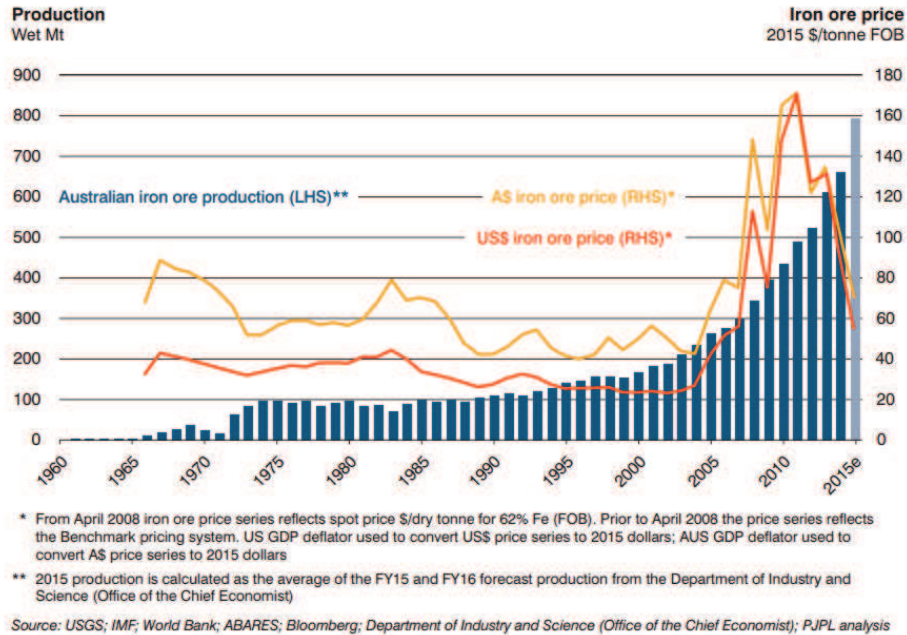


Source: Grattan Institute, *The mining boom: impacts and prospects*, July 2013 (sourced from ABS)

⁴⁸ See, for example, Grattan Institute, *The mining boom: impacts and prospects*, (July 2013) 5.

Following a subdued period of production during the global financial crisis in 2008 and 2009, resource exploration and production picked up again over the period from 2010 to 2012. The mining boom was primarily driven by strong demand for coal, iron ore and other non-ferrous ores from overseas countries such as China and India. For example, over the period 2001-05 to 2011-12, black coal exports from Queensland were estimated to increase by 5% on average.⁴⁹ Iron ore growth over this time was even more significant (Figure 7).

Figure 7 Australian iron ore production and price⁵⁰



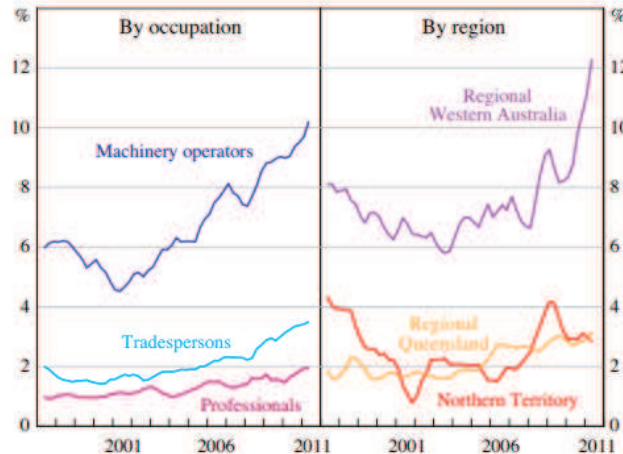
There was a correspondingly very large increase in employment in remote areas in Western Australia, Northern Territory and Queensland, reflected in the general large increase in employment in these regions, as recorded in ABS data in Figure 8 below.⁵¹

⁴⁹ Tourism Research Australia, *The Economic Impact of the Current Mining Boom on the Australian Tourism Industry* (2013) 4.

⁵⁰ Port Jackson Partners, Policy Paper commissioned by the Mineral Council of Australia, *Iron ore: the bigger picture* (July 2015), 9.

⁵¹ Tourism Research Australia, *The Economic Impact of the Current Mining Boom on the Australian Tourism Industry* (2013) 6.

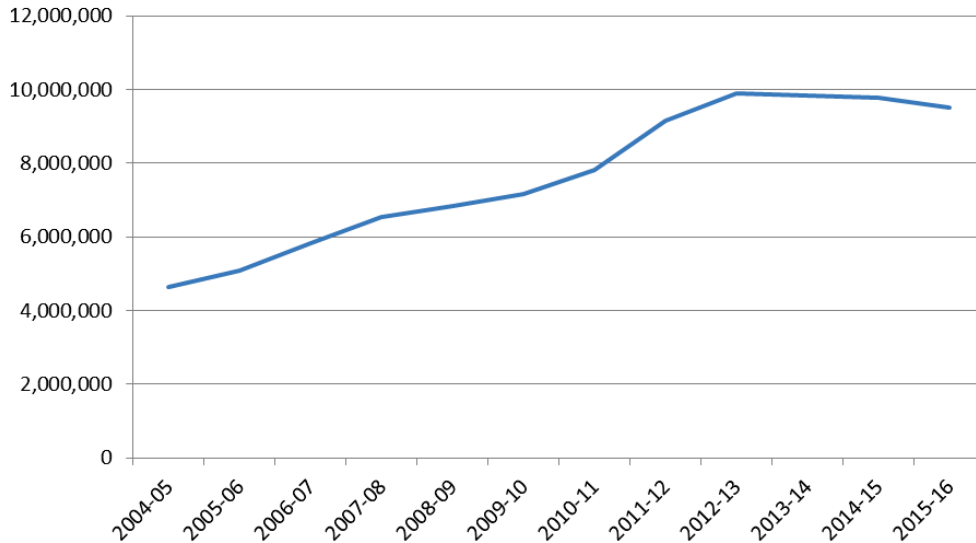
Figure 8 Employment trends during the mining boom



Source: ABS⁵²

The increase in employment has, in substantial respects, been met through FIFO labour, resulting in a significant increase in demand for FIFO aviation services. This growth in FIFO aviation services, is reflected in the growth in air travel, for example as shown in Figure 9⁵³ below, the number of domestic passengers travelling through Perth airport doubled from 2004-05 to 2012-13, primarily due to the strong increase in resource-related air traffic.

Figure 9 Domestic passengers travelling through Perth airport, 2004-05 to 2015-16



Source: Perth airport statistics.

⁵² Reserve Bank of Australia, *Research Discussion Paper 'The Mining Industry: From Bust to Boom'*, RDP 2011-08, 33.

⁵³ See, also, Amanda O'Brien, 'FIFO flights growing at breakneck speed', *The Australian* (online), 15 November 2011 <<http://www.theaustralian.com.au/business/aviation/fifo-flights-growing-at-breakneck-speed/story-e6frg95x-1226195001965>>.

Airlines responded to meet the increased demand for FIFO services. For instance, Qantas' intra-state services in Western Australia grew by 22% in 2010-11 largely due to demand from the mining and energy sector.⁵⁴ Network Aviation (now QantasLink), increased its fleet size to include 2 F100 jets and 6 Embraer Brasilias turboprops during the boom in response to a significant growth in customers, particularly in Western Australia including [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

VARA also expanded its charter fleet to add two A320s and five F100s between 2010 and 2015. Virgin Australia entered new routes to service the mining industry, including Brisbane-Gladstone, Brisbane-Emerald, Brisbane-Moranbah and Brisbane-Mt Isa. With the introduction of competition and capacity, passenger movements between Brisbane and Gladstone increased from 48,000 to 350,000 between 2010-11 and 2011-12.⁵⁵

The increase in demand also prompted the establishment of new airlines, including Strategic Airlines in 2008 (later branded as Air Australia) and JetGo in 2012.

Regional airports also benefited from the mining boom. For example, in the period from 2008 to 2013, passengers to Roma (Queensland) increased by an average of 41.6% every year, and passengers to Newman (WA) increased by an average of 26.5% every year.⁵⁶ The significant growth in FIFO travel also led to significant investment in airports including the consolidation of the terminal infrastructure at Perth Airport, and construction of a parallel runway and terminal upgrade at Brisbane Airport.⁵⁷

Further detail on the mining boom is set out in **Attachment E**.

4.2 The mining downturn: 2013 to 2016 and beyond

Since mid-2013, the mining industry as a whole has been in decline as shown by the annual growth in capital expenditure in the mining sector by volume over time (see **Figure 10** below).⁵⁸

⁵⁴ Warren Truss MP, 'Regional Airlines' bumpy ride needs a smooth landing' (speech delivered at the Regional Aviation Association of Australia Conference, Sunshine Coast, 12 October 2012) <http://raaa.com.au/convention/historic/2012/_pdf/sessions/Warren-Truss.pdf>.

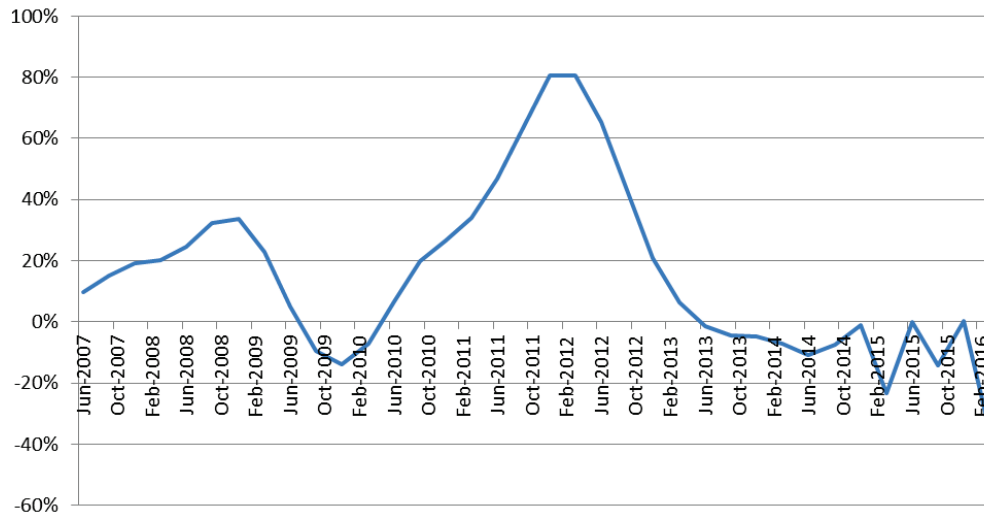
⁵⁵ Tourism Research Australia, *The Economic Impact of the Current Mining Boom on the Australian Tourism Industry* (2013) 15.

⁵⁶ Warren Truss MP, 'Key note address' (speech delivered at the 2013 Regional Aviation Association of Australia Conference, Coolumb, 10 October 2013) <http://minister.infrastructure.gov.au/wt/speeches/2013/wts002_2013.aspx>.

⁵⁷ Tourism Research Australia, *The Economic Impact of the Current Mining Boom on the Australian Tourism Industry* (2013) page 14.

⁵⁸ Greg Jericho, 'The mining investment boom is over, so where to now?', *The Guardian* (online), 29 August 2014 <<https://www.theguardian.com/business/grogonomics/2014/aug/29/mining-investment-boom-is-over-so-where-to-now>>.

Figure 10 Annual growth in capital expenditure in the mining sector, by volume



Source: ABS Cat. No. 5625.0

The general downturn across a range of mining sectors has resulted in:

- delayed development of new mines;
- reduced FIFO operations at some existing mines; and
- the closure of mines.

Figure 11 below provides more details of resource companies' responses to the mining downturn.

Figure 11 Resource companies responding to the mining downturn

Response to downturn	Examples of customers
Delay in the development of new operations	<ul style="list-style-type: none"> • Rio Tinto's Mount Pleasant mine⁵⁹ • Adani's coal mine in the Galilee basin⁶⁰
Reduction of existing operations	<ul style="list-style-type: none"> • Rio Tinto's Kestrel mine⁶¹ • BHP Billiton-Mitsubishi's Blackwater mine⁶²

⁵⁹ ABC, 'Rio Tinto cites lack of capital for delays in developing Mount Pleasant mine', Media Release, 27 March 2015, <<http://www.abc.net.au/news/2015-03-27/rio-tinto-cites-lack-of-capital-for-delays-in-developing-mount-/6352146>>.

⁶⁰ Giles Parkinson, 'Adani puts Galilee coal mine on hold pending recovery in coal price', *Renew Economy* (online), 4 February 2016 <<http://reneweconomy.com.au/2016/adani-puts-galilee-coal-mine-on-hold-pending-recovery-in-coal-price-67892>>.

⁶¹ Sue Neales, 'Good times dry up as mining boomtown Emerald deserted', *The Australian* (online), 28 February 2015 <<http://www.theaustralian.com.au/business/mining-energy/good-times-dry-up-as-mining-boomtown-emerald-deserted/news-story/a1b9dadcd0ee68f97486e82c9d048f5>>.

⁶² Barry Fitzgerald, '75,000 jobs to go in mining's new phase', *The Australian* (online), 2 July 2014 <<http://www.theaustralian.com.au/business/75000-jobs-to-go-in-minings-new-phase/news-story/ff17a119feb5727da5df694eb7429f9f>>.

Response to downturn	Examples of customers
	<ul style="list-style-type: none"> • BHP Billiton's Olympic Dam mine⁶³ • Bechtel's QCLNG construction project⁶⁴ • Yancoal's Donaldson mine⁶⁵ • South32's Worsley Alumina business in WA⁶⁶ • South32's Illawarra coal mine in New South Wales⁶⁷ • South 32's Groote Eylandt manganese mine in the Gulf of Carpentaria⁶⁸ • OZ Minerals' Prominent Hill mine⁶⁹ • Independence Group's Long nickel mine in Kambalda⁷⁰ • Grange Resources at its Savage River mine and Port Latta plant⁷¹ • BC Iron's joint venture project with Fortescue Metals Group at Nullagine⁷² • CBH Resources at its Endeavour mine⁷³ • Rio Tinto's iron ore operations in the Pilbara⁷⁴
Delay work on existing mines / mothball mines	<ul style="list-style-type: none"> • Atlas Iron's iron ore operations in the Pilbara⁷⁵ • Iluka's Jacinta-Ambrosia mine⁷⁶

⁶³ Peter Kerr, 'BHP to cut 35 per cent of jobs at Olympic Dam under plan to raise productivity', *Sydney Morning Herald* (online), 2 December 2015 <<http://www.smh.com.au/business/mining-and-resources/bhp-to-cut-36-per-cent-of-jobs-at-olympic-dam-under-plan-to-raise-productivity-20151201-gld2kq.html>>.

⁶⁴ Ben Hagemann, '150 redundancies for Bechtel at QCLNG', *Australian Mining* (online) 20 January 2015 <<https://www.australianmining.com.au/news/150-redundancies-for-bechtel-at-qclng-3/>>.

⁶⁵ Peter Kerr, '92 New South Wales coal jobs are in doubt as Yancoal puts Donaldson mine on ice', *Australian Financial Review* (online), 2 March 2016 <<http://www.afr.com/business/mining/92-new-south-wales-coal-jobs-are-in-doubt-as-yancoal-puts-donaldson-mine-on-ice-20160301-gn80pl>>.

⁶⁶ Peter Kerr, 'South32 cuts 700 Australian jobs on half-year profit of just \$US26m', *Australian Financial Review* (online), 25 February 2016 <<http://www.afr.com/business/mining/south32-cuts-700-australian-jobs-on-half-year-profit-of-just-us26m-20160224-gn2ztp>>.

⁶⁷ Peter Kerr, 'South32 cuts 700 Australian jobs on half-year profit of just \$US26m', *Australian Financial Review* (online), 25 February 2016 <<http://www.afr.com/business/mining/south32-cuts-700-australian-jobs-on-half-year-profit-of-just-us26m-20160224-gn2ztp>>.

⁶⁸ Peter Kerr, 'South32 cuts 700 Australian jobs on half-year profit of just \$US26m', *Australian Financial Review* (online), 25 February 2016 <<http://www.afr.com/business/mining/south32-cuts-700-australian-jobs-on-half-year-profit-of-just-us26m-20160224-gn2ztp>>.

⁶⁹ Clint Jasper, 'Regional Australia shedding jobs as mining downturn, drought take hold', *ABC News* (online), 19 February 2016 <<http://www.abc.net.au/news/2016-02-18/regional-job-losses-timeline/7179444>>.

⁷⁰ Clint Jasper, 'Regional Australia shedding jobs as mining downturn, drought take hold', *ABC News* (online), 19 February 2016 <<http://www.abc.net.au/news/2016-02-18/regional-job-losses-timeline/7179444>>.

⁷¹ Clint Jasper, 'Regional Australia shedding jobs as mining downturn, drought take hold', *ABC News* (online), 19 February 2016 <<http://www.abc.net.au/news/2016-02-18/regional-job-losses-timeline/7179444>>.

⁷² Tess Ingram, 'More than 2000 mining jobs cut in 2016', *Sydney Morning Herald* (online), 6 March 2016 <<http://www.smh.com.au/business/mining-and-resources/more-than-2000-mining-jobs-cut-in-2016-20160305-gnbn39.html>>.

⁷³ Peter Kerr, 'South32 cuts 700 Australian jobs on half-year profit of just \$US26m', *Australian Financial Review* (online), 25 February 2016 <<http://www.afr.com/business/mining/south32-cuts-700-australian-jobs-on-half-year-profit-of-just-us26m-20160224-gn2ztp>>.

⁷⁴ Ben Hagemann, 'Job cuts loom closer for Rio Tinto Pilbara operations', *Australian Mining* (online), 10 March 2016 <<https://www.australianmining.com.au/news/job-cuts-loom-closer-for-rio-tinto-pilbara-operations/>>.

⁷⁵ Ebonnie Spriggs, 'Atlas Iron: Pilbara town Port Hedland bracing for impact of mine shutdowns', *ABC News* (online), 13 April 2015 <<http://www.abc.net.au/news/2015-04-13/atlas-iron-ore-shut-down-to-hit-town/6388064>>.

Response to downturn	Examples of customers
	<ul style="list-style-type: none"> • ABM Resources' Old Pirate gold mine in the Tanami desert⁷⁷
Cease operations and close mine sites	<ul style="list-style-type: none"> • BHP Billiton's Gregory Crinum Mine near Emerald in central Queensland⁷⁸ • Glencore's Tahmoor coal mine in NSW⁷⁹ • Cliff Natural Resources operations in Western Australia⁸⁰ • Consolidated Minerals Woodie Woodie manganese mine⁸¹ • BC Iron joint venture with Fortescue Metals Group at Nullagine⁸² • Panoramic Resources' Savannah mine in Western Australia's Kimberley region⁸³ • Mincor Resources at its Mariner and Miitel mines⁸⁴ • Cockatoo Coal at its Baralaba mine⁸⁵ • Queensland Nickel's operations⁸⁶

As there are very few new resources projects coming online, reductions in the size of FIFO workforces and the closure of mines, demand for FIFO air services has waned over the past few years and there is substantial excess capacity to support FIFO services.

An examination of traffic on key mining routes shows the extent of the impact on FIFO air services from the mining downturn. For example, there was a 20.1% decrease in annual traffic on the

⁷⁶ Valerina Changarathil, 'Iluka to mothball Jacinth-Ambrosia mine in South Australia, axe 33 jobs', *The Advertiser* (online), 16 February 2016 <<http://www.adelaidenow.com.au/business/iluka-to-mothball-jacinthambrosia-mine-in-south-australia-axe-33-jobs/news-story/a6275142cda833457c6ef5ca659fd414>>.

⁷⁷ Clint Jasper, 'Regional Australia shedding jobs as mining downturn, drought take hold', *ABC News* (online), 19 February 2016 <<http://www.abc.net.au/news/2016-02-18/regional-job-losses-timeline/7179444>>.

⁷⁸ Jessica Lodge, 'BHP Billiton starts closing Gregory Crinum Mine near Emerald in central Queensland', *ABC News* (online), 13 November 2015 <<http://www.abc.net.au/news/2015-11-13/bhp-starts-closing-gregory-crinum-mine-near-emerald/6938014>>.

⁷⁹ Editorial, 'Glencore to close Tahmoor mine in NSW due to low coal prices', *Sydney Morning Herald* (online), 2 June 2016 <<http://www.smh.com.au/business/mining-and-resources/glencore-to-close-tahmoor-coal-mine-in-nsw-due-to-low-price-20160602-gp9rmp.html>>.

⁸⁰ Rebecca Curtin, 'Esperance Port expansion delayed as biggest user Cliffs Natural Resources winds down production', *ABC News* (online), 9 May 2015 <<http://www.abc.net.au/news/2015-05-09/questions-over-delays-to-esperance-port-expansion/6455072>>.

⁸¹ Laura Gartry, 'Woodie Woodie manganese mine in Pilbara to close with loss of almost 400 jobs', *ABC News* (online), 22 January 2016 <<http://www.abc.net.au/news/2016-01-22/consmin-pilbara-woodie-woodie-manganese-mine-mothballed/7108330>>.

⁸² Peter Kerr, 'BC Iron suspends joint-venture mine with Fortescue', *Australian Financial Review* (online), 11 December 2015 <<http://www.afr.com/business/mining/iron-ore/bc-iron-suspends-jointventure-mine-with-fortescue-20151211-glldad>>.

⁸³ Tess Ingram, 'Nickel price bloodbath in WA as Mincor, Panoramic announce closures', *Sydney Morning Herald* (online), 27 January 2016 <<http://www.smh.com.au/business/mining-and-resources/nickel-price-bloodbath-in-wa-as-mincor-panoramic-announce-closures-20160127-gmevw8.html>>.

⁸⁴ Tess Ingram, 'Nickel price bloodbath in WA as Mincor, Panoramic announce closures', *Sydney Morning Herald* (online), 27 January 2016 <<http://www.smh.com.au/business/mining-and-resources/nickel-price-bloodbath-in-wa-as-mincor-panoramic-announce-closures-20160127-gmevw8.html>>.

⁸⁵ Clint Jasper, 'Regional Australia shedding jobs as mining downturn, drought take hold', *ABC News* (online), 19 February 2016 <<http://www.abc.net.au/news/2016-02-18/regional-job-losses-timeline/7179444>>.

⁸⁶ ABC, 'Clive Palmer's Queensland Nickel creditors vote to liquidate debt-laden company', 23 April 2016 <<http://www.abc.net.au/news/2016-04-22/clive-palmer-queensland-nickel-creditors-vote-to-liquidate/7349930>>.

Perth-Port Hedland route in 2015 and a 19.6% decrease in annual traffic on the Brisbane-Moranbah route.⁸⁷

Overall, there was a 10.3% decrease in Australian charter flights over the year June 2015 to June 2016.⁸⁸

The decreases in demand for charter services has impacted on all FIFO operators. For example, **Figure 12** below shows the impact of the mining downturn on Alliance Airlines' business. In particular, it shows that Alliance Airlines flight hours and flights per aircraft declined by 30% and 24%, respectively, over the four year period FY2013 and FY2016.

Figure 12 Alliance Airlines – flight hours and flights

	FY2013	FY2014	FY2015	FY2016
Aircraft	25	27	25	28
Flight hours	31,940	25,162	24,285	24,317
Flights hours per aircraft	1,278	932	971	901
Total flights	22,887	19,294	18,786	18,774
Flights per aircraft	915	715	751	695

The mining downturn has also impacted on Virgin Australia, with significant reductions in capacity on regional RPT routes focused on servicing FIFO customers.⁸⁹

⁸⁷ BITRE, *Domestic aviation activity Statistical Report* (2015).

⁸⁸ BITRE, *Domestic aviation activity*, June 2016.

⁸⁹ See, for example, Daniel Palmer and Mitchell Bingemann, 'Virgin Australia records third-quarter loss', *The Australian* (online) 2 May 2016, <<http://www.theaustralian.com.au/business/aviation/virgin-australia-records-thirdquarter-loss/news-story/d021055e8a535cbb58d679016f577eb7>>.

In addition to the downturn resulting in decreased demand for FIFO services, resource companies are also exerting pressure on FIFO operators to deliver enhanced value through reduced prices.⁹⁰ Examples of this are set out in **Figure 13** below.

Figure 13 Examples of FIFO customers exerting pressure on FIFO operators

Response	Examples of FIFO customers
Negotiated price decreases for their services	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
Reduced the number of services	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
Reduced costs by switching their charter requirements from high frequency, low gauge aircraft (such as F50s) to low frequency, high gauge aircraft (such as F100s and A320s)	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
Obtained volume price discounts by aggregating their air travel requirements (eg combining regions and sites to create a national package) in order to receive greater discounts	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

Attachment E sets out further detail on the mining downturn, including the decrease in demand for FIFO services and the likely further decrease over the next few years.

The downturn has led FIFO operators to look to other sources of income to counterbalance the impact of the decline in FIFO demand.⁹¹ FIFO operators that have diversified their operations include:

- Cobham, which has a UK parent that provides specialist aviation solutions to defence, government and major commercial customers under long term contracts, has diversified its business in Australia by also supplying aviation services to government. In particular, it supplies the Australian Government with border protection, civil maritime surveillance and search and

⁹⁰ Rhiannon Hoyle, 'Machines a vision of mining's future', *The Australian* (online), 29 July 2016 <<http://www.theaustralian.com.au/business/mining-energy/machines-a-vision-of-minings-future/news-story/cdad47f2ae907b0ca11bf36f85fabd6b>>.

⁹¹ Jamie Freed, 'FIFO aviation operator Cobham to raise \$941m amid mining slowdown', *Sydney Morning Herald* (online), 27 April 2016 <<http://www.smh.com.au/business/aviation/fifo-aviation-operator-cobham-to-raise-941m-amid-mining-slowdown-20160426-gofqx3.html>>.

rescue services.⁹² As noted above, in addition to FIFO/charter operations, it operates commercial passenger and freight aircraft for Qantas under a long term contract.⁹³

- Airnorth, Skippers and JetGo, in the face of the decline in FIFO services, have focused on marketing and promoting their RPT capabilities to leisure passengers and tourism operators.
- Corporate Air and Rossair / Air South Charter have also focused on marketing and promoting their charter services to sporting, luxury and tourism clients as opposed to FIFO customers.
- VARA has increased its RPT flying on behalf of Virgin Australia.
- Alliance Airlines has diversified its operations to further explore revenue opportunities in wet leasing, dry leasing, engine sales and leasing, spare parts sales and aircraft sales in and outside of Australia.⁹⁴ In addition, Alliance Airlines has expanded into tourism charter services in Australia and New Zealand. For example, Alliance Airlines entered into a three year contract with Tauck Tours, a US tour operator that specialises in tour groups, to operate charter flights in Australia and New Zealand.

FIFO operators have also restructured their operations in response to the downturn in demand. For example:

- VARA decommissioned and sold its fleet of Fokker 50 aircraft in the first half of 2016 to curtail significant losses associated with the operation of the fleet caused by the reduction in demand for 50 seat charter services due to mine closures and client requests to upgauge to larger aircraft to reduce costs.
- Qantas⁹⁵ has also restructured its fleet and downgauged aircraft on key mining routes.⁹⁶ Qantas introduced Fokker F100 aircraft on some services from Perth to Port Hedland, Karratha, Newman and Broome in 2015 and has diverted 737 and 717 aircraft that were previously on these routes to other routes on the east coast that are subject to high tourist demand.⁹⁷ It has also replaced 737 aircraft with 717 aircraft on key routes. Qantas recognises the commercial importance of restructuring, noting in its 2015 annual report that: “network changes and dynamic capacity management supported yield gains in a mixed demand environment”,⁹⁸ such as that of the FIFO sector.

Even after diversifying operations and restructuring fleet, there is excess capacity in the FIFO sector as a result of the downturn and therefore operators are competing vigorously for corporate customers, with some operators approaching customers that are close to being out of contract ahead of them commencing their tender procurement processes.

⁹² See, for example, Cobham, ‘Media Release – Search and Rescue boost as new capability comes online’, 29 January 2016, <<http://www.cobhamaviationservices.com/news/news-media-releases/search-and-rescue-boost-as-new-capability>>.

⁹³ Mitchell Bingemann, ‘Cobham Aviation Services wins \$1.2bn QantasLink contract’, *The Australian* (online), 6 July 2016 <<http://www.theaustralian.com.au/business/companies/cobham-aviation-services-wins-12bn-qantaslink-contract/news-story/103d697551de5d1d0f2f709254b37ca2>>.

⁹⁴ Alliance Airlines, *Media Release – Alliance Aviation creates a new business and establishes a European presence*, 25 November 2015 <[http://www.allianceairlines.com.au/docs/default-source/default-document-library/2015-11-25---alliance-aviation-\(aqz\)-creates-a-new-business-and-establishes-a-european-presence.pdf?sfvrsn=0](http://www.allianceairlines.com.au/docs/default-source/default-document-library/2015-11-25---alliance-aviation-(aqz)-creates-a-new-business-and-establishes-a-european-presence.pdf?sfvrsn=0)>.

⁹⁵ See, for example, Matt O’Sullivan, ‘Mining slowdown hits Perth Airport as charter airlines under pressure’, *Sydney Morning Herald* (online), 27 April 2015 <<http://www.smh.com.au/business/mining-slowdown-hits-perth-airport-as-charter-airlines-under-pressure-20150422-1mr1mi.html>>.

⁹⁶ Qantas acknowledges it has made these network changes “in response to ongoing demand weakness from the resources sector” - see Qantas, *Annual Report* (2015) 17.

⁹⁷ Michael Smith, ‘Qantas tweaks network as tourism boom replaces mining gloom’, *Australian Financial Review* (online), 28 January 2016 <<http://www.afr.com/business/transport/aviation/qantas-tweaks-network-as-tourism-boom-replaces-mining-gloom-20160128-gmft2q>>.

⁹⁸ Qantas, *Annual Report* (2015) 17.

5 Rationale for the Charter Alliance

The Charter Alliance is a commercial response to the limitations of each of VARA and Alliance Airlines' current charter and FIFO service capacity. The commercial context for entry into the Charter Alliance has been the substantial downturn in demand for FIFO services with the end of the mining boom.

The downturn has placed pressure on Alliance Airlines' business, which is focussed almost entirely on charter operations for mining and resource FIFO needs, lacking operational diversification and other value-add service features (RPT services, connectivity and value add services such as a frequent flyer program).

Similarly, VARA (which has no operations outside of Western Australia), lacks the operational capacity to bid for east coast charter work, even for customers for whom it has existing corporate relationships.

In a context of the continuing mining downturn, the Charter Alliance enables the Applicants to increase operational efficiencies and flexibility, including increasing aircraft utilisation, and to deepen and improve the competitiveness of their corporate customer offering.

The Charter Alliance allows two largely complementary businesses to come together to provide a national integrated offering to corporate customers. The Applicants are a good strategic fit in that they fill gaps in each airline's product offering. The Applicants see the Charter Alliance as enhancing their ability to compete for national corporate customers against Qantas and charter operators that are aligned with Qantas, including Cobham and Airnorth.

While VARA has a strong charter offering in Western Australia, it lacks an operational presence on the east coast and in Central Australia to be able to competitively bid for corporate customers in these regions. The Charter Alliance will provide VARA with access to Alliance Airlines' east coast bases to pursue new opportunities in these regions. **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

In short, the Charter Alliance enables VARA to offer a national solution to corporate customers.

Alliance Airlines benefits from the ability to integrate RPT and charter services as part of its service offering under the Charter Alliance. The Charter Alliance is a commercial response by Alliance Airlines to its mining and resource customer base which is, in the context of the mining downturn, increasingly putting pressure on Alliance Airlines to do "more for less" and to provide enhanced value services, which it cannot currently offer. Through the Charter Alliance, Alliance Airlines will be able to respond to customer's expectations.

In particular, Alliance Airlines will be able to offer FIFO customers value-added benefits available through VARA (such as participation in the Velocity frequent flyer program, including accrual of frequent flyer points and status credits, as well as lounge access, to eligible passengers) and connectivity to Virgin Australia's extensive RPT network. The integration of RPT connectivity and frequent traveller benefits will broaden Alliance Airlines' access to resource companies for whom these features are important.

The Charter Alliance will also enable Alliance Airlines to offer RPT connectivity and other service benefits to other corporate customers for whom these features are important. In contrast to other charter and FIFO operators, such as Qantas, Cobham and Airnorth, Alliance Airlines' business has been largely limited to the resource sector. The lack of diversification poses a business risk to Alliance Airlines given the cyclical nature of resource demand and therefore FIFO demand.

The ability of the two businesses to co-operate operationally and for new customer opportunities through the Charter Alliance enables the Applicants to fill strategic gaps in their product offering enabling them to provide a superior product to charter customers. The Applicants see the Charter

Alliance as enhancing their capacity to compete for national charter/FIFO customers against Qantas and other FIFO operators.

The operational flexibility and synergies achievable under the Charter Alliance provides the capacity to offer a lower cost solution to customers. The Charter Alliance will enable VARA and Alliance Airlines to achieve efficiencies through optimising operations, including aircraft, spare parts, maintenance and ground-handling services, to achieve cost savings and efficiencies through the joint supply of services to corporate customers.

The ability to integrate the operation of the charter fleets of the two airlines, also gives the Applicants a broader range of aircraft to offer to customers to enable the Applicants to customise solutions to meet customers' needs. For example, currently VARA cannot offer a customer a charter service with less than 100 seats. Under the Charter Alliance, VARA gains access to Alliance Airlines' fleet of 50 and 80 seat aircraft to meet such a need. Similarly, Alliance Airlines cannot meet the needs of a charter customer requiring an aircraft with greater than 100 seats. The Charter Alliance will provide Alliance Airlines with access to VARA's fleet of A320 aircraft.

6 Framework for analysis of the Charter Alliance

6.1 Relevant markets

Given the highly heterogeneous nature of demand and aviation operators' different solutions to meet those requirements, there is some complexity in adopting a simple market definition. The Applicants consider that the appropriate starting point, given the Charter Alliance contemplates cooperation between the Applicants with respect to the supply of an integrated package of air services and ancillary products to corporate customers under contract, is to consider the proposed Charter Alliance in the context of the supply of contracted aviation services to corporate customers, principally for FIFO purposes.

Under the Charter Alliance, the Applicants' cooperation, and consequently, a large proportion of the anticipated public benefits, are derived in relation to the supply of contracted services to corporate customers and their employees or customers.

As the ACCC has previously noted in its consideration of the Virgin Australia – Skywest Airlines alliance:

“...a broad distinction may be drawn between corporate customers and the general public (comprising business and leisure passengers). Public customers take the regular service offerings by airlines as given, and choose the price, timing and service offer that best meets their needs. Corporate customers often require a more tailored solution to meet their business needs, for examples, large tariff volumes, negotiation of volume discounts, access to a large number of origin/destination points, high frequency of services on select routes, etc.”⁹⁹

Further, in the ACCC's consideration of Virgin Australia's acquisition of SkyWest in 2013, the ACCC focused on services provided to or from Western Australian destinations in considering the relevant markets.¹⁰⁰

⁹⁹ ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, 19.

¹⁰⁰ ACCC, *Virgin Australia Holdings Limited - proposed acquisition of Skywest Airlines (Australia) Pty Ltd*, Merger Register Entry, available at: <<http://registers.accc.gov.au/content/index.phtml/itemId/1099824/fromItemId/751043>>.

In this context, it is appropriate to focus on the services that will be provided by the Applicants pursuant to the Charter Alliance. As set out above, the overwhelming majority of corporate customers are resource companies requiring a FIFO service for their employees or customers. A FIFO service can be:

- seats on a RPT service;
- a charter service; or
- a combination of the two.

The relevant market context for the assessment of the proposed Charter Alliance is accordingly a market in which charter and RPT operators compete to meet the specific requirements of corporate charter customers, particularly for FIFO services, as distinct from the general public (business and leisure passengers) and other charter services.

Given the regionalised nature of demand and supply for FIFO services, the competitive interplay between operators for corporate customers is largely regional in scope. From the customer perspective, contracted services to one destination in one region are not a substitute for services to a destination in another region. From the operator's perspective, while aircraft are mobile, operational efficiencies tend to mandate a regional base to support charter or RPT operations in that region and to maximise aircraft utilisation. VARA's experience is that there are material costs to establishing a base in another region, and in a period whether there is no growth in demand (and in fact demand is declining), these costs will tend to be prohibitive. On the other hand, in the event that operators in one region were not competitively offering services to customers in that region, or there was significant growth potential, then the most likely source of outside competition would come from charter operators in another region seeking to seize that opportunity.

Overall, the Applicants consider that the assessment of competitive effects and public benefits arising from the proposed Charter Alliance do not turn on any particular market definition being adopted.

6.2 Counterfactual

Absent the Charter Alliance, VARA and Alliance Airlines would continue to provide their existing services but would be limited in competing for the customers that are likely to immediately benefit from the superior offering that will be made available under the Charter Alliance.

For VARA, in the counterfactual, it would continue to have a significant gap in its charter offering on the east coast of Australia and in Central Australia. While Virgin Australia has RPT services in those regions, VARA is limited in its ability to offer charter services outside of Western Australia without a significant investment in aircraft, new bases and crew and Virgin Australia does not have the right aircraft type or aircraft availability to operate contracted charter services in those regions.

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For Alliance Airlines, in the counterfactual, it would continue to face challenges in growing its charter business as well as maintaining its existing business due to its ability to be able to offer an integrated RPT and charter solution and value adds.

In the counterfactual, the Applicants would not have the incentive or commercial opportunity to cooperate, invest and implement all of the elements of the Charter Alliance. In particular, the Applicants would be unable to align operations to create significant efficiencies (limiting their capacity to exploit such efficiencies in order to deliver a superior competitive offer to corporate customers). Further, Virgin Australia would have no commercial incentive to offer comprehensive frequent flyer benefits (such as status credits) or lounge access to Alliance Airlines' passengers, and Alliance Airlines would have no commercial incentive to allow VARA to use its bases and aircraft.

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

7 Significant public benefits

7.1 Overview

The ACCC concluded in respect of its assessment of the Virgin Australia – Skywest alliance in 2012 that there would be public benefits to large corporate customers with FIFO workforces, including the benefits of promoting competition with Qantas:

The ACCC considers that the Corporate Alliance is likely to result in public benefits, specifically to large corporate customers with fly-in-fly-out workforces (for example, mining companies). The ACCC considers that the Corporate Alliance will promote competition by enabling the applicants to match the extensive integrated service package offered to corporate customers by Qantas.¹⁰¹

Similar to the Virgin Australia – Skywest alliance, the Charter Alliance will enable VARA and Alliance Airlines to deliver public benefits in the form of:

- significant cost savings and efficiencies from joint operations;
- enhanced ability to compete leading to more choice for corporate customers that want an integrated suite of RPT and charter services.
- increased convenience and value-added benefits, including
 - connection on to Virgin's domestic RPT network;
 - access to frequent flyer benefits;
 - access to lounge benefits; and
 - access to elite member benefits (e.g. priority check-in, priority baggage, priority boarding and additional baggage allowance);

¹⁰¹ ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, i.

7.2 Significant cost savings and efficiencies

The Charter Alliance will create significant cost savings to both fixed and marginal costs which will enable the Applicants to realise significant synergies and cost savings as follows:

- integrating the Perth operational bases of both airlines to realise economies of scale – as these two charter bases are co-located in Terminal 2 at Perth airport, there will be clear efficiency gains that will flow from an integration of operations and personnel at these bases;
- pooling of rotables, engines and parts across common fleet types – in particular, the common use of the F100 aircraft will allow for significant cost savings;
- integrating sales and customer service teams;
- accessing a broader range of aircraft types to offer the “right sized” aircraft to meet customer demand, which will increase operational flexibility and aircraft utilisation; and
- accessing a broader range of resources and equipment for recovery in the event of operational disrupt.

The Applicants will also explore whether efficiencies can be achieved through combining the Perth airport lounges which are both located in Terminal 2.

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The Applicants have not yet had the opportunity to identify all areas, or assess the magnitude of likely cost savings under the Charter Alliance but would expect through ongoing co-operation under the Charter Alliance to be able to identify and realised additional savings and efficiencies.

The ACCC has previously recognised the significant public benefits that flow from cost savings and efficiencies that can be achieved through airline alliances, and specifically in the context of a corporate charter alliance:

The ACCC considers that the Corporate Alliance may result in lower fares for corporate customers by removing or reducing double marginalisation. Double marginalisation occurs where suppliers of complementary products, such as Virgin Australia and Skywest, independently charge a price which includes a mark-up over their costs to maximise their individual profits and do not take account of the impact of these prices on demand for the other airlines’ services. The net result is higher prices on connecting routes than if the two firms were to coordinate their pricing, for example, through a cooperation agreement or alliance such as the Corporate Alliance. The applicants do not coordinate their prices under their current commercial agreement.

A cooperation agreement between suppliers of complementary services can generate economic benefits in the form of economies of scope, such as reduced risks and operational costs, increased investment and innovation, reduced transaction and contracting costs. The ACCC considers that some of these benefits may be realised by the applicants under the Corporate Alliance.

Further, the ACCC considers that some transactional cost savings might also be achieved by corporate customers who choose to contract with Virgin Australia and Skywest under the Corporate Alliance, to the extent it enables them to move away from contracting with multiple airlines to contracting with one party.¹⁰²

¹⁰² ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, 24-25.

7.3 Enabling the delivery of a superior product to corporate customers nationally

The Charter Alliance will enable the Applicants to provide an integrated travel offer, including charter and RPT services and frequent flyer and lounge benefits, to corporate customers on a national basis. Individually, the Applicants cannot currently provide such an offer.

The Charter Alliance will therefore increase the choice of service providers with a national, integrated travel offer from one to two. Currently, mining and resources customers with operations on the east coast that would like an integrated offer only have the choice of Qantas.

The Charter Alliance will provide each airline with the incentive and ability to jointly offer customers an integrated product.

Through the Charter Alliance, the Applicants will be able to offer customers a more compelling, competitively priced product than each Applicant could provide separately. In particular, the Applicants intend to explore all opportunities to leverage existing excess capacity across the combined scope of operations, resulting in lower fixed and marginal costs. The realisation of “scope economies” from minimising excess capacity across the larger scope of operations, will allow the Applicants to provide more competitive customer pricing and services (that is these cost savings will inevitably result in a superior price/service outcome for corporate customers).

In the current environment, offering a quality product is critical to remaining competitive with corporate customers consistently seeking ‘more for less’. The Charter Alliance therefore allows the Applicants to jointly meet corporate customers’ requirements in a more efficient manner.

7.4 Enhanced ability to compete for corporate customers

As noted above in section 5, the Applicants’ commercial rationale for entering the Charter Alliance is the ability to combine operations which will lead to significantly operational efficiency. These efficiencies will enable the Applicants to jointly offer corporate customers a superior offering of RPT services, charter services and value-add services on a national basis.

Currently, Qantas is in a superior (and in part unique) position to provide a full suite of corporate-related services which include charter services, RPT (domestic and international) services and frequent flyer and lounge benefits, to corporate customers on the east coast and Central Australia.

Corporate customers have given both of the Applicants feedback during tender processes that Qantas is the only provider of the ‘one stop shop’ on a national basis. In a situation where some customers are looking to package their national air services requirements in order to get a more competitive “global” price offer from Qantas, the Charter Alliance will enable the Applicants to match that integrated product offering and compete head to head with Qantas.

The main commercial driver of the Charter Alliance is therefore to promote the competitive position of the Applicant. This enhanced competitive position will increase overall competition for corporate charter customers, and particularly competition against Qantas, which is a substantial public benefit for Australian corporate customers.

The Charter Alliance is likely to elicit a competitive response from Qantas. The Applicants expect Qantas to respond to the Charter Alliance with further investments¹⁰³ in its charter services on the east coast and/or by offering more competitive pricing of its ‘one stop shop’, resulting in further

¹⁰³ Following its acquisition of Network Aviation in 2011, now branded Qantaslink, Qantas has invested in expanding its charter operations increasing its fleet and the services offered. Network’s F100 fleet has since grown from just two aircraft to 15, with a further two aircraft to join the fleet by the end of 2016. In 2014 Network Aviation commenced RPT services on behalf of the Qantas Group, and in 2015, Network started operating under the QantasLink brand.

decreases in the average price paid for services by corporate customers and further improvements in product and service quality.

The ACCC has previously recognised the likelihood of Qantas competitively responding to an integrated travel offer to corporate customers in its assessment of the Virgin Australia – Skywest alliance in 2012. In that assessment, the ACCC concluded that:

The supply of the integrated product to corporate customers] has the potential to trigger a competitive response from Qantas, resulting in public benefits such as lower prices and higher levels of service being offered to corporate customers in Australia in the future.¹⁰⁴

Such a response is likely to lead to better price and service offerings for corporate customers. In turn, Qantas' response to the Charter Alliance could stimulate a further competitive response from the Applicants.

7.5 Increased convenience for passengers and value-added benefits

As the ACCC has previously recognised,¹⁰⁵ lounge access and other value-added services are becoming “standard in the resources sector, and fly-in-fly-out workers now expect these types of benefits.”¹⁰⁶ These employee directed travel benefits can be important for mining and resource customers as part of providing an overall attractive employee benefit package.

Given this, these product features can be crucial to attract corporate customers and provide an integrated offering to those customers. The Charter Alliance allows the Applicants to combine the charter capacity of Alliance Airlines with these additional service features that can be provided through VARA.

The ability to jointly schedule services for corporate customers will enable the Applicants to adjust the timing of services to ensure that charter services efficiently connect with RPT services. This will provide increased convenience for passengers by minimising travel time. It will also allow the optimal sized aircraft to be deployed on routes so that the most effective and efficient solution is provided to customers.

Corporate customers will have the ability to incorporate their charter flights into the Velocity frequent flyer program so that their FIFO passengers will be able to accrue frequent flyer points and status credits across the full suite of air services, including charter services. Passengers can then use the Velocity frequent flyer points that they accrue when they are travelling for leisure purposes. If passengers earn a sufficient level of status credits (for gold, passengers need to earn 500 credits and fly four eligible sectors¹⁰⁷), they will be able to access Virgin Australia's lounges as well as a range of other benefits including advance seat selection and priority check-in.¹⁰⁸

Corporate customers, particularly companies with a large FIFO workforce, view these ancillary benefits as highly desirable because the provision of a comprehensive frequent flyer program is a key employee benefit that can be used to attract a higher skilled workforce in a market where there is a shortage of suitable workers.

¹⁰⁴ ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, 23.

¹⁰⁵ See, for example, ACCC, *Final determination – Applications for authorisation lodged by Virgin Australia and Singapore Airlines in respect of an airline alliance between the applicants*, 1 December 2011, 23–24.

¹⁰⁶ ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, 22.

¹⁰⁷ An eligible sector is a flown journey from an origin to a destination on a Virgin Australia booking.

¹⁰⁸ Further details about the benefits associated with Gold Membership in the Velocity program: <<http://www.velocityrewards.com.au/content/Status/GoldStatus/index.htm>>.

Cooperation in relation to check-in and other airport services under the Charter Alliance will enable passengers to enjoy a more seamless travel experience with the ability to complete their journeys across the Applicants' charter and RPT networks under a single itinerary, with streamlined check-in and with their baggage checked through to the final destination (subject to the implementation of required system updates). FIFO travellers will benefit from this increased convenience and a reduced likelihood of luggage being lost. The Applicants will also work together to ensure that check-in services and departure and arrival terminals are co-located to further minimise inconvenience and delay to passengers.

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

For example, under the Charter Alliance the following scenarios may be realised:

- A senior engineer residing in Adelaide with a role at a mine in the Surat Basin can book all of her air travel requirements to (and from) the mine through one point of contact. For example, she could fly Adelaide-Brisbane on Virgin Australia's RPT services on a Flexi fare, then Brisbane-Miles on an Alliance Airlines-operated charter flight. Based on this itinerary, the employee is likely to earn sufficient Velocity status credits (and frequent flyer points) on these services to upgrade to a Velocity Gold Membership after 5 return trips,¹⁰⁹ after which she will have access to the Virgin Australia lounges at Adelaide and Brisbane airports, as well as other travel benefits like priority check-in. This traveller would also be able to check in her luggage through to Miles at the Virgin Australia counter in Adelaide and vice versa for the return trip.
- Similarly, a FIFO project manager living in Sydney and working at a mine in the Bowen Basin can travel on a single itinerary from Sydney-Brisbane on a Flexi fare on a Virgin RPT service and then Brisbane-Emerald on an Alliance Airlines-operated charter flight. He could earn Velocity status credits and frequent flyer points on each leg of the journey, and if eligible, access Virgin Australia's domestic lounges at Sydney and Brisbane airports. Based on this itinerary, the employee is likely to earn sufficient Velocity status credits (and frequent flyer points) on these services to upgrade to a Velocity Gold Membership after 7 return trips¹¹⁰ enabling complimentary lounge access. This passenger will be able to check his luggage in from Sydney through to his final destination in Emerald.

8 No material competitive detriment

There is no material overlap between VARA/Virgin Australia and Alliance Airlines in FIFO regions outside Western Australia. In Western Australia, there are a number of alternative FIFO operators representing over 60% of FIFO capacity, including Qantas, Cobham, Skippers and Airnorth. In addition, most (if not all) FIFO customers are resource companies who have significant bargaining power which they exercise through their procurement process.

These constraints are such that the Charter Alliance will have no material adverse effect on competition.

¹⁰⁹ Based on the purchase of Flexi fares.

¹¹⁰ The FIFO project manager would qualify for Gold Membership after the first flight (Sydney-Brisbane) of the 7th return trip. Based on the purchase of Flexi fares.

(a) Competitors are vigorous and effective

Virgin Australia has estimated¹¹¹ the proportion of aircraft capacity supporting FIFO services in the FIFO regions (Figure 14), including charter services as well as an estimate of the proportion of capacity on RPT services that is used for FIFO customers.

Figure 14 Estimated share of operating capacity used for FIFO services by region, 2015
[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

In addition to Qantas, there are a number of FIFO operators that compete vigorously for corporate FIFO contracts. These include:

- Cobham, which has a substantial presence in Western Australia and North Queensland. As noted in Section 3 above, Cobham is a strong international aviation operator with a significant part of its business in Australia dedicated to providing regional and freight services on behalf of Qantas providing it with a diversified revenue stream as well as enhancing overall aircraft utilisation (and hence reduce its unit costs). Cobham has a number of major corporate customers including [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]
- Airnorth, which has an operating base and a number of corporate charter customers in Western Australia and is the largest corporate charter operator in Central Australia. Airnorth would be well placed to expand into the west coast in response to a competitive opportunity. Airnorth already has established customer relationships with large resources companies, including [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED] As noted above, Airnorth also has a codeshare relationship with Qantas, which enables it to provide an integrated offer to its customers;
- Skippers Aviation, which has a significant charter operation in Western Australia with a fleet of well-suited aircraft to fly the key routes in the region, including directly to sites that have gravel/unpaved airstrips;
- Rex/Pel-Air is principally a regional RPT operator but it has sizeable charter operations including bases, fleet and crew, on the east coast, and the capability to increase services quickly and efficiently;
- Skytrans, which has a sizeable presence in Central Australia. After being awarded a valuable contract from [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED] Skytrans has shown it is capable of meeting major mining and resources operators' needs; and
- Corporate Air, which has a sizeable presence in Central Australia and has a number of different aircraft for its corporate customers.

Competition is vigorous when mining and resources operators conduct tender processes.

Confidential Attachment G shows the recent tender wins and losses, including who else participated in those processes. As shown in the table, while there is competition between the Applicants in these

¹¹¹ The methodology adopted involved the following steps: Take a 1 week snapshot of the actual flown routes in that week from FlightAware, stripping out ad-hoc flights; Assign capacity based on aircraft flown; Weight the route based on FIFO traffic (i.e. charter is 100% FIFO, RPT is a smaller percentage based on Virgin Australia's best estimates of capacity); and Result is a weighted FIFO capacity by carrier. It is important to note that the majority of the capacity for Qantas and Virgin Australia is from RPT services.

processes, all other WA operators will invariably compete in these processes and therefore there is no material adverse impact on competition as a result of the Charter Alliance.

Section 3 above on FIFO operators provides further information on the operations and fleet sizes of these airlines. The route maps of these operators are set out in **Attachment D**.

(b) Significant bargaining power of corporate customers

Corporate customers – those that will be supplied services by the Applicants under the Charter Alliance – are predominantly large, well-resourced resource companies, with sophisticated procurement expertise.

Customers such as BHP Billiton, Rio Tinto, FMG, Bechtel, Chevron, Adani and Hancock Prospecting, among others, hold significant bargaining power which they bring to negotiations with their FIFO operators. FIFO operators have a large fixed cost base and rely on their contracts with the charter customers to cover both the fixed and variable costs of their operations. Consequently the loss of, or opportunity to win, a charter contract can have a significant impact on a FIFO operator's profitability. This provides the charter customer with significant leverage when the contract is due to expire or is up for renewal.

For example, VARA's contracted total charter revenue for FY2016 of **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

Similarly, Alliance Airlines' FIFO charter revenue for FY2016 of **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

As noted above in the examples in section 4.2, customers determine the key commercial contract terms and use the tender processes to strongly negotiate overall lower prices, and also use their negotiating position to secure contract terms that allow them scope to achieve price competition during the life of the contract.

Increasingly, a number of customers are wanting to leverage their combined spend to get a more favourable overall offer for their total business (a 'one stop shop'). A recent example of a customer seeking this fully integrated, national offering is set out in **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

9 Conclusion

For the reasons set out in this submission, the Applicants submit that the ACCC ought to grant authorisation of the Charter Alliance for a period of five years. The Charter Alliance will create significant public benefits without material competitive detriments.

Attachment A – VARA

A.1 History

Virgin Australia Regional Airlines (**VARA**), formerly Skywest, is an Australian-owned regional airline based in Western Australia at the Perth International Airport.

Virgin Australia Holdings acquired Skywest in May 2013, re-branding it as VARA.

At the time it was acquired, Skywest had a fleet of 32 aircraft, providing charter, regional RPT and freight transport services within Australia and to selected international destinations. It offered approximately 420 services per week.

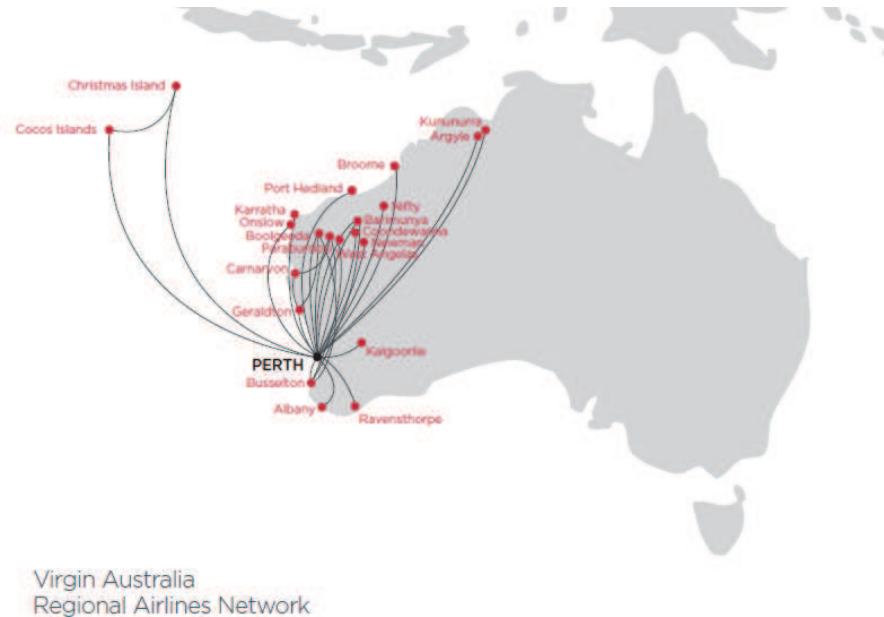
A.2 Operations and services

VARA currently offers the following services:¹¹²

- network of scheduled RPT flights;
- contracted charter services –provided to FIFO customers on long-term contracts.
- ad-hoc corporate, group and leisure charter services – ad-hoc charter services are available throughout Australia and South-East Asia for any type of group travel journey utilising both VARA and Virgin Australia’s fleet.

With a strong presence in Western Australia, VARA operates services predominantly across regional towns in Western Australia. A route map of VARA is set out below in [Figure 15](#).

Figure 15 VARA route map



¹¹² Alliance Airlines, *Alliance Airlines Services* (1 July 2016) <<http://www.allianceairlines.com.au/services>>.

Since acquiring Skywest in 2013, VARA has simplified its fleet and network to become a Western Australian operator with a primary focus on charter services to FIFO customers. Currently, VARA's fleet comprises two main types F100s and A320s (Figure 16).

Figure 16 VARA Fleet

Aircraft	No of aircraft
Fokker 100	14
Airbus A320	2
Total	16

VARA's key customers are **[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]**

In terms of its FIFO services, Figure 17 below shows the services offered by VARA each week, by route and by customer.

Figure 17 VARA – FIFO services operating every week

Aircraft type	From	Destination (Customer)	Services
F100	Perth	Broome - RPT	13
		Barimunya (Rio)	8
		Coondewanna (BHP/Rio)	1
		Derby - RPT	5
		Geraldton - RPT	12
		Argyle (Rio)	3
		Kalgoorlie - RPT	6
		Kununurra - RPT	4
		Karratha - RPT	16
		Nifty (Birla Nifty)	2
		Boolgeeda (Rio)	9
		Onslow (Bechtel)	25
		Paraburdoo - RPT	2
		Port Hedland - RPT	3
		Ravensthorpe (FQM)	1
		West Angelas (Rio)	13
		Newman - RPT	6
		Albany	Boolgeeda (Rio)
	Busselton	Barimunya (BHP/Rio)	2
		Boolgeeda (Rio)	2
		West Angelas (Rio)	2
Geraldton	Boolgeeda (Rio)	1	
Boolgeeda	Busselton (Rio)	3	
	Geraldton (Rio)	2	
West Angelas	Broome (Rio)	1	
ATR on behalf of VARA	Brisbane	Emerald (Middlemount Coal)	2
		Miles (Leightons)	2
		Miles via Maroochydore or Gold Coast (QGC)	1
		Roma (MPC)	1
B737 on behalf of VARA	Perth	Boolgeeda (Rio)	1
A320	Perth	Cocos Is / Christmas Is – RPT (IOT)	1
		Coondewanna (BHP)	5
		Karratha - RPT	1
		Boolgeeda (Rio)	3
		Boolgeeda (Rio) utilising VA 737-800	4
		Christmas Is / Cocos Is – RPT (IOT)	1
TOTAL			150

Attachment B – Virgin Australia Group

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.¹¹³ Virgin Australia and its subsidiaries currently operate a fleet of 149 aircraft on approximately 3000 flights per week to over 450 Australian and international destinations through its brands, Virgin Australia, Virgin Samoa, Tiger Air, and through its codeshare partners.¹¹⁴ Virgin Australia currently employs over 9,000 people worldwide.

B.1 Business Strategy

Virgin Australia has transformed its business from a low cost carrier to a contemporary airline group with a strong presence in all segments of the Australian aviation market.

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;
- created a global network;
- accessed growth and expansion markets;
- maintained cost advantage;
- upgraded product and services; and
- invested in its people.

Game On (2012-2014)

In August 2012, Virgin Australia transitioned to the Game On initiative, which was scheduled to be fully completed by 30 June 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 capitalise on the competitive advantages achieved under the Game Change Program by focusing on the following key strategic pillars:

- implementing a business efficiency program;
- building a transformational loyalty business;
- increasing access to global markets;
- further enhancing the guest experience through in-flight innovation and on-the-ground service; and

¹¹³ 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.

¹¹⁴ As at 30 June 2016.

- enhancing Virgin Australia's people and service excellence.

Virgin Vision 2017 (current)

Under Virgin Vision 2017, Virgin Australia's focus is to become Australia's favourite airline group. Virgin Vision 2017 aims to maximise 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.

Virgin Vision 2017 will focus on the following six key areas:

- **Capitalise on business growth opportunities** -
 - *Velocity Frequent Flyer*: Virgin Australia intends to grow membership to more than seven million members by end of 2017, 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 has launched a freight division, Virgin Australia Cargo, 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.
- **Optimise the balance sheet** - Virgin Australia aims to optimise and maintain the balance sheet to further improve the liquidity and gearing position of Virgin Australia. The recent Capital Structure Review focused on this objective.
- **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.
- **Better Business Program** - As part of its Capital Structure Review in 2016 Virgin Australia announced its Better Business Program. The Better Business program is expected to drive efficiency and productivity across all parts of the business. Through this program the Group's fleet simplification program will continue with the planned removal of some ATR aircraft, all Embraer 190 aircraft and Tigerair-branded A320 aircraft over the next three years. As a result of the Better Business Program the Group is targeting net free cash flow savings, increasing to \$300 million per annum (annualised run rate) by the end of the 2019 financial year.

B.2 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.

Figure 18 sets out Virgin Australia’s key operating statistics for the past three financial years.

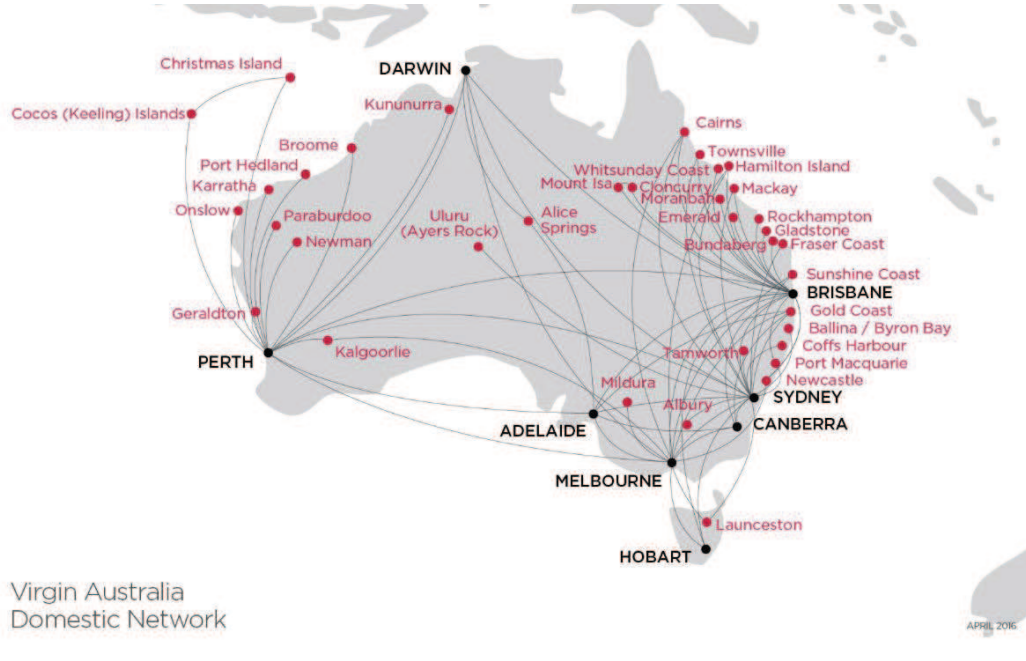
Figure 18 Virgin Australia operating statistics

Detail	FY16	FY15	FY14
Passengers carried (millions)	23.7	22.3	20.0
Available seat kilometres (billions)	47.0	46.0	42.2
Revenue passenger kilometres (billions)	37.3	35.8	33.1
Revenue Load factor (%)	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]	[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

(a) Domestic and international operations

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 optimisation. Virgin Australia has established a track record for effectively entering into new markets, with ten new domestic markets between 30 June 2011 and 30 June 2014, including seven new regional ports. Virgin Australia’s domestic route map is set out below.

Figure 19 Virgin Australia’s domestic route map



Virgin Australia flies to 15 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.

(b) Charter operations

Details on VARA are set out above in **Attachment A**.

B.3 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. It enables Virgin Australia to offer increased choice of flight times for trans-Tasman travel. Virgin Australia has worked closely with Air New Zealand to optimise schedules for flights across the Tasman and offer reciprocal benefits to customers. 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 31 October 2018.
Delta Air Lines	The Delta Air alliance was launched in late 2011, having received ACCC authorisation in June 2010 for a period of five and a half years and indefinite approval from the US Department of Transport and from the New Zealand Ministry of Transport. The Alliance links Virgin Australia’s network with that of Delta, enabling the two airlines to offer more frequencies on the trans-Pacific with connections behind and beyond in Australasia and North America. In August 2015, the ACCC reauthorised the Alliance for a further 5 years until 7 September 2015.
Etihad	The Etihad Airways alliance was launched in October 2010, and received ACCC authorisation for five years in February 2011. The alliance was recently re-authorised

Airways	by the ACCC in December 2015 for an additional 5 years (until 30 December 2020). The alliance has made available a wide network of 38 international codeshare destinations throughout Europe, the Middle East, Pakistan, and Asia, connecting onto 46 destinations in Australasia.
Singapore Airlines	The Singapore Airlines alliance was launched in January 2012, having received ACCC authorisation for five years in December 2011. Virgin Australia and Singapore Airlines have recently sought re-authorisation of this international alliance for an additional 10 years. The Alliance links Virgin Australia's network with that of Singapore Airlines, making available a wide network of 75 international codeshare destinations throughout Asia, Europe and South Africa, connecting onto 49 destinations in Australasia.
HNA Aviation	On 31 May 2016, Virgin Australia announced a strategic alliance with HNA Aviation Group Ltd, a division of the HNA Group that will accelerate Virgin Australia to the rapidly growing Chinese travel market. The strategic alliance remains subject to finalisation of documentation and regulatory approvals.

Other complementary international codeshare relationships including the Virgin Group

Virgin Australia's five strategic alliances (outlined above) are complemented by key partnerships with other airlines that provide for additional international leisure and business destinations, including codeshare relationships with Hawaiian Airlines, South African Airways and Virgin America.

B.4 Fleet overview

At 30 June 2016, Virgin Australia and its subsidiaries operated a fleet of 149 aircraft, including Tigerair Australia.

Figure 20 sets out the current composition of Virgin Australia's aircraft fleet.

Figure 20 Virgin Australia fleet as at 30 June 2016

Aircraft	Number in fleet
B737-800 & 700 ¹¹⁵ (Virgin Australia and Tigerair)	81
E190	13
ATR-72	14
A330-200	6
B777-300ER	5
F100	14
A320 (Charter and Tigerair)	16
Total Group Fleet	149

¹¹⁵ Includes one B737 800 aircraft utilised for charter operations.

B.5 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. Since its re-launch, Velocity membership has increased significantly and currently has approximately 6.3 million members. Velocity has been linked with the frequent flyer programs of its strategic Alliance partners, giving members the opportunity to earn and redeem points on all strategic alliance partner and Virgin Group flights around the world and reciprocal status benefit recognition. Points can be also earned and redeemed with a range of non-airline partners. Virgin Australia's airline partners are critical to Virgin Australia's success and offering a competitive international network. Approximately one quarter of all Velocity Point redemptions (air and non-air) are on Virgin Australia's international partners. Velocity has the widest retail offering of any loyalty program in Australia and was recognised in three categories at the 2016 Freddie Awards: Program of the Year, Best Customer Service and Best Redemption Ability.

On 22 October 2014, Virgin Australia sold a 35% minority interest in Velocity to Affinity Equity Partners for gross proceeds of AUD \$336million (**The Velocity Transaction**). The Velocity Transaction valued the Velocity business at an enterprise value of AUD \$960 million. One of the key reasons for forming the joint venture was to assist Virgin Australia in achieving one of its key strategic goals in the Virgin Vision 2017 strategy, by driving accelerated growth in the Velocity business.

B.6 Tigerair Australia

On 8 July 2013, Virgin Australia acquired a 60% interest (and in 2014, the remaining 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.

Attachment C – Alliance Airlines

C.1 Overview

Alliance Aviation Services Limited (**Alliance Airlines**) is incorporated in Australia and is listed on the Australian Stock Exchange.

Alliance Airlines was established in 2002. It commenced operations in Brisbane using its two leased Fokker 100s to service its first air charter FIFO contract with Pasminco (now MMG) in April 2002. In 2003, Alliance Airlines purchased six former US Airways Fokker 100 aircraft and subsequently secured three new charter FIFO contracts with BHP Cannington, South32 GEMCO and OZ Minerals.

Over time, Alliance Airlines has grown its business, acquiring more fleet, expanding its geographic footprint and customer base. It has also expanded the scope of its operations to also supply aircraft and spare parts to other providers.¹¹⁶

Alliance Airlines' head office is in Brisbane, with operations across Australia in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth and Auckland and New Zealand.

In the year ended 30 June 2016, Alliance Airlines had a revenue of \$183 million (see **Figure 21**). Revenue has declined for the fourth successive financial year.

Figure 21 Alliance Airlines' financial performance

	FY11	FY12	FY13	FY14	FY15	FY16
Revenue (\$m)	128	184	223	200	199	183
EBITDAR (\$m)	36	52	66	43	46	44
EBITDAR margin	28%	28%	29%	21%	23%	24%
NPAT (\$m)	14	19	22	11	13	11.2
NPAT margin	11%	10%	10%	5%	7%	6%

Source: Alliance Airlines' company filings

Figure 22 sets out Alliance Airline's key operating statistics for the past three years.

Figure 22 Alliance Airlines' operating statistics

Detail	FY14	FY15	FY16
Flight hours – Contract	22,811	23,395	23,485
Flight hours – Ad hoc and Wet Lease	2,351	890	831
Total Flights	19,294	18,786	18,774
Average staff numbers	512	492	426
FIFO % of Total Revenue	82	88	82

Source: Alliance Airlines' company filings

¹¹⁶ Alliance Airlines, *Our History* (8 July 2016) <<http://www.allianceairlines.com.au/about-us/our-history>>.

C.2 Operations and services

Alliance Airlines offers the following products and services:¹¹⁷

- ad-hoc charter services – ad-hoc charter services are available throughout Australia, New Zealand, the Pacific Islands and South East Asia for any type of group travel journey.
- contracted FIFO services – FIFO services are provided to customers on contracts.
- aircraft sales & leasing – short and long-term leasing and sales of aircraft.

Alliance Airlines is focused on long-term FIFO charter contracts. It is particularly focused on customers in the mining and energy industries. Such contract charter work is usually conducted on behalf of the resource sectors that operate in remote areas, where the supply of a skilled human workforce is limited.

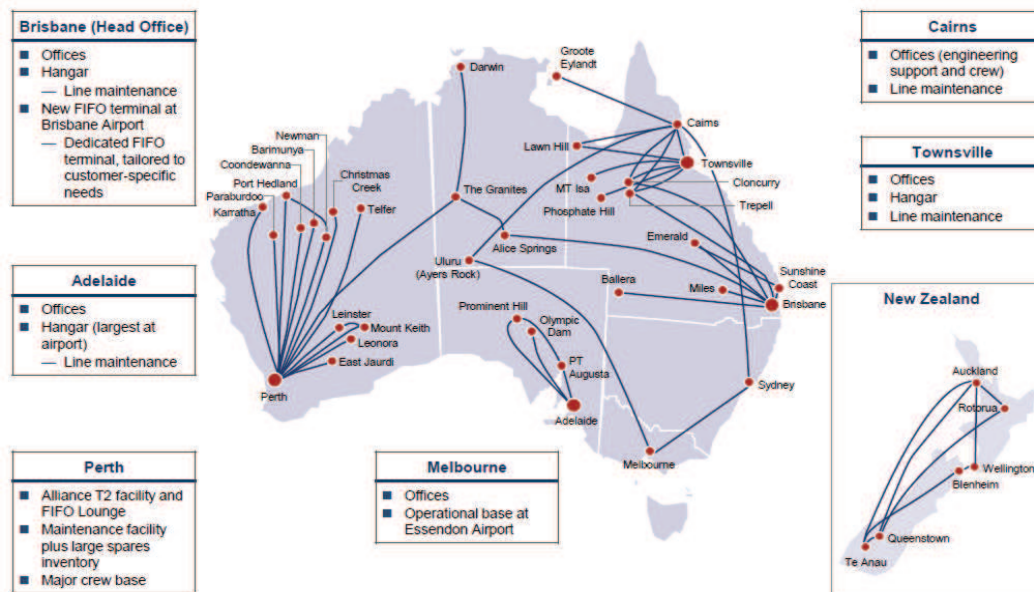
With aircraft based in many ports around Australia, Alliance can transport workers from population centres direct to remote work sites throughout the country, including The Granites, Phosphate Hill, Olympic Dam, Prominent Hill, Leinster, Mount Keith and Cannington.

Alliance’s customers are major mining and energy companies [CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

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

The destinations served by Alliance Airlines, as both RPT and charter services, are shown in Figure 23 below. Figure 23 also shows where Alliance Airlines has bases and the support offered to customers at those bases.

Figure 23 Alliance Airlines – route map



¹¹⁷ Alliance Airlines, *Alliance Airlines Services* (1 July 2016) <<http://www.allianceairlines.com.au/services>>.

Alliance Airlines currently operates 147 FIFO services per week (see [Figure 24](#) below). Of those 147 services, 30 services are RPT services. These services are used for its long-term contracted FIFO customers, and are not generally available to RPT (leisure) passengers.

Figure 24 Alliance Airlines – FIFO services per week

Aircraft type	From	Destination (Customer)	Services	
F100	Perth	Barimunya (BHP)	9	
		Karratha – RPT	7	
		Leonora (St Barbaras)	1	
		Leinster (BHP Nickel West)	6	
		Paraburdoo (Paulsens Gold)	1	
		Sunrise Dam (on behalf of Skippers)	2	
		Telfer (Newcrest Mining)	7	
		The Granites (Newmont Asia Pacific)	1	
		Mount Keith (BHP Nickel West)	2	
		Newman – RPT	1	
		Newman	Port Hedland – RPT	1
	Townsville	Century Mine (BHP)	6	
		Cloncurry (Glencore)	1	
		Cairns (BHP Manganese – South 32)	2	
		Monument Hill (Incitec Pivot)	3	
		Trepell (BHP Cannington)	5	
	Brisbane	The Granites (Newmont Asia Pacific)	1	
		Cloncurry (Glencore)	1	
		Emerald – RPT for Virgin Australia	2	
		Ballera (Santos)	1	
	Cairns	Trepell (BHP Cannington)	2	
		Century Mine (BHP)	4	
		Cloncurry (Glencore)	2	
		Groote (BHP Manganese)	4	
		Trepell (BHP Cannington)	1	
	Adelaide	Townsville (BHP Manganese-South 32)	3	
Prominent Hill (OZ Minerals)		5		
F70	Perth	Barimunya (BHP)	4	
		Christmas Creek (BC Iron)	3	
		Coondewanna (BHP)	2	
		East Jaurdi	2	
		Leonora (St Barbaras)	4	
		Leinster (BHP Nickel West)	3	
		Telfer (Newcrest Mining)	1	
		Mount Keith (BHP Nickel West)	5	
	Townsville	Trepell (BHP Cannington)	1	
	Brisbane	Miles (Thiess)	2	
		Emerald – RPT for Virgin Australia	2	
		Sunshine Coast / Emerald (Glencore / Middlemount)	2	
	Cairns	Century Mine (BHP)	0	
	Darwin	Townsville (BHP Manganese-South 32)	3	
		GOV/ CNS (Alcan)	1	
		MHU	2	
		TGT (Newmont Asia Pacific)	1	
	Adelaide	Moomba (Santos)	7	
	F50	Adelaide	Port Augusta / Prominent Hill (OZ Minerals)	4
			Olympic Dam (BHP) – RPT	21
Prominent Hill (OZ Minerals)			3	
TOTAL			154	

C.3 Fleet overview


The Alliance Airlines fleet comprises three different Fokker aircraft: Fokker 50 turboprop, Fokker 70 LR jet and Fokker 100 jet, all manufactured by the Fokker company (**Figure 25**).

Figure 25 Alliance Airlines fleet

Aircraft	No of aircraft
Fokker 50	5
Fokker 70	8
Fokker 100	15
Total	28

The Fokker aircraft are particularly well suited to flying in remote and hot and tropical regions throughout Australia. **Figure 26** below provides more detail on the three types of aircraft.

Figure 26 Alliance Airlines – fleet description



Fleet	
	<p>Fokker 100 (F100):</p> <ul style="list-style-type: none"> - Largest aircraft in Alliance's fleet.¹¹⁸ - Modern jet aircraft with aerodynamic design - Runs on high performance Rolls-Royce Tay 650 engines. Fuel burn of F100 is low due to the fuel efficient engines and aerodynamic design.¹¹⁹ - Low weight, good low speed capability and low noise and emission levels, ideal for short to medium haul routes.¹²⁰ - Ideal for FIFO work in Australia as it can be acquired relatively cheaply, can operate in harsh climate conditions and has a lower tarmac pressure than similar sized jet aircraft.¹²¹

¹¹⁸ A total of 278 F100 jets were manufactured from 1988 through to 1996.

¹¹⁹ Fokker Technologies, *Fokker 100 - Performance* (2014) 1-3 <http://www.flyfokker.com/sites/default/files/FLYFokker/FlyFokker_PDF_Fokker100_Performance.pdf>.

¹²⁰ Airliners, *Fokker 100* (18 July 2016) <<http://www.airliners.net/aircraft-data/fokker-100/221>>.

¹²¹ Aviation WA, *Skippers Aviation to acquire three Fokker 100 Jet Aircraft* (20 September 2012) <<http://www.aviationwa.org.au/tag/fokker-100/page/2/>>.

Fleet	
	<p>Fokker 70 (F70):</p> <ul style="list-style-type: none"> - Reduced fuselage length as compared to the F100. - Runs on Rolls-Royce Tay 620 engines, which provide high field and climb performance and good overall fuel burn.¹²² - Optimal overall fuel burn for high cycle operations and long range capability for non-stop services from East Coast to West Australian mine sites.¹²³
	<p>Fokker 50 (F50):</p> <ul style="list-style-type: none"> - Versatile regional turboprop aircraft with aerodynamic design. - Powered with cost effective PW125B engines, allowing high maximum landing weights and low fuel burn, enabling long-range capabilities without fuel supply.¹²⁴ - Has low runway bearing strength requirement, allowing operations from a variety of domestic destinations including unpaved runways/airfields.¹²⁵

¹²² Fokker Technologies, *Fokker 70 - Performance* (2014) <http://www.flyfokker.com/sites/default/files/FLYFokker/FlyFokker_PDF_Fokker70_Performance.pdf>.

¹²³ Alliance Airlines, *Fokker 70* (18 July 2016) <<http://www.allianceairlines.com.au/our-fleet/fokker-70>>.

¹²⁴ Fokker Technologies, *Fokker 50 - Performance* (2014) <http://www.flyfokker.com/sites/default/files/FLYFokker/FlyFokker_PDF_Fokker50_Performance.pdf>.

¹²⁵ Alliance Airlines, *Fokker 50* (18 July 2016) <http://www.allianceairlines.com.au/docs/default-source/Fleet/fokker-50_c.pdf?sfvrsn=2>.

Attachment D – Competitors providing FIFO services

There are a number of carriers who offer FIFO services in competition with VARA and Alliance Airlines.

D.1 Qantas Group

Qantas is an Australian domestic and international carrier, and the world's second oldest airline.¹²⁶

The primary aviation business of the Qantas Group operates under two major brands – Qantas and Jetstar¹²⁷ – and since 2011, the Qantas Group has wholly owned the subsidiary Network Aviation.¹²⁸

The Qantas Group reported an underlying profit before tax of \$975 million for the year ending 30 June 2015.¹²⁹

(a) Domestic operations

The Qantas Group's domestic aviation transportation business operates over Qantas Domestic and Jetstar. Qantas Domestic carried 21 million passengers in FY15 on over 4,500 flights per week in Australia.

Through its brands QantasLink and Network Aviation, Qantas Domestic services 56 metropolitan and regional regular passenger transport destinations and 13 fly-in-fly-out charter destinations. In the fiscal year 2015 Qantas Domestic held approximately 63% of domestic market capacity share. Jetstar carried 21.8 million passengers in FY15, of which 59% were travelling in domestic Australia.¹³⁰

Figure 27 lists the destinations currently serviced by the Qantas Group within domestic Australia.

Figure 27 Qantas domestic RPT network

Destinations currently serviced by the Qantas Group ¹³¹	
NSW & ACT	Sydney, Canberra, Albury, Armidale, Ballina, Coffs Harbour, Dubbo, Gladstone, Lord Howe Island, Moree, Newcastle, Port Macquarie, Tamworth, Wagga Wagga
Victoria	Melbourne, Avalon, Mildura

¹²⁶ Qantas Airways Limited, *Qantas Data Book 2015* (11 July 2016) 5,43 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPJF1tpgyw/file/data-book/2015qantasdatabook.pdf> .

¹²⁷ Qantas Airways Limited, *Company Information* (11 July 2016) <<http://investor.qantas.com/home/?page=about-the-qantas-group>>.

¹²⁸ Network Aviation, *Our Company* (11 July 2016) <<http://www.networkaviation.com.au/our-company/>>.

¹²⁹ Qantas Airways Limited, *Qantas Annual Report 2015* (11 July 2016), 12 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPJF1tpgyw/file/annual-reports/2015_qantas_annual_report.pdf>.

¹³⁰ Qantas Airways Limited, *Qantas Data Book 2015* (11 July 2016), 17 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPJF1tpgyw/file/data-book/2015qantasdatabook.pdf>.

¹³¹ Qantas Airways Limited, *Timetable* (15 July 2016) <<http://www.qantas.com/travel/airlines/timetable/global/en/>>; Jetstar Airways, *Search Flights* (15 July 2016) <<http://www.jetstar.com/au/en/home>>.

Destinations currently serviced by the Qantas Group ¹³¹	
Queensland	Brisbane, Cairns, Gold Coast, Barcaldine, Biloela, Blackall, Bundaberg, Charleville, Cloncurry, Emerald, Fraser Coast, Gladstone, Hamilton Island, Horn Island, Longreach, Mackay, Moranbah, Mount Isa, Proserpine, Rockhampton, Roma, Sunshine Coast, Toowoomba, Townsville, Weipa, Whitsunday Coast
Northern Territory	Darwin, Alice Springs, Gove, Uluru
Western Australia	Perth, Broome, Exmouth, Geraldton, Kalgoorlie, Karratha, Kununurra, Paraburdoo, Port Hedland, Newman
South Australia	Adelaide, Olympic Dam, Port Lincoln, Whyalla
Tasmania	Hobart, Launceston, Devonport

(b) Fleet

As at 30 June 2015, the Qantas Group operated a total passenger fleet of 294 aircraft. This includes aircraft for Qantas Domestic (including QantasLink and Network Aviation), Qantas International, and Jetstar (including Jetstar Asia but excluding Jetstar Pacific, Jetstar Japan and Jetstar Hong Kong). Qantas Freight operated four dedicated B737-300 freighter aircraft and dry-leased one dedicated B767-300ER freighter aircraft.¹³²

As at 30 June 2015, the Qantas fleet consisted of the following aircraft:¹³³

¹³² Qantas Airways Limited, *Qantas Data Book 2015* (11 July 2016) 43
<http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPjF1tpgyw/file/data-book/2015qantasdatabook.pdf>.

¹³³ Qantas Airways Limited, *Qantas Data Book 2015* (11 July 2016) 43
<http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPjF1tpgyw/file/data-book/2015qantasdatabook.pdf>.

Figure 28 Qantas Group fleet

Aircraft	Total
Qantas Mainline + International (126)	
A380-800	12
B747-400	5
B747-400ER	6
A330-200	18
A330-300	10
B737-800	67 + 8 in NZ operated by JetConnect (NZ AOC)
QantasLink (83)	
B717-200 (operated by Cobham crew)	18
Bombardier Q200	3
Bombardier Q300	11 + 5 in NZ on behalf of JQ (AUS AOC)
Bombardier Q400	31
F100 (Network Aviation)	15
Jetstar (70)	
A320-200	53
A321-200	6
Boeing 787-8	8
Total Qantas Group Passenger Fleet	279

(c) Qantas Brands

Qantas operates services under a number of airline brands.

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

The Jetstar Group was launched as Jetstar in 2005. It is a group of carriers providing lower cost flights across Australia, New Zealand and the Asia Pacific region. The group consists of Jetstar Airways (wholly owned by the Qantas Group), Jetstar Asia Airways (based in Singapore), Jetstar Pacific Airways (based in Vietnam) and Jetstar Japan. Since Jetstar's launch in Australia in 2004 it has carried over 200 million passengers.¹³⁴

QantasLink is Australia's largest regional airline. It operates over 2000 flights per week to 56 metropolitan, regional and international destinations in Australia and to Port Moresby in Papua New Guinea.¹³⁵ QantasLink also operates flights in regional Western Australia through its charter service provider, Network Aviation (details below). QantasLink operates 68 aircraft including 18 Boeing 717-200, 3 Bombardier Dash 8-200/Q200, 16 Dash 8-Q300 and 31 Bombardier Dash 8-Q400 turboprop aircraft. These turbo props are the fastest of any airline in regional Australia.

Network Aviation is a Western Australian-based company that has been providing air charter services since 1998. In 2011, Network Aviation became a wholly owned subsidiary of the Qantas Group. In 2015, Network Aviation was rebranded to QantasLink.¹³⁶

QantasLink operates charter flight services and a number of regular airlines services from its terminal at Perth Domestic Airport to regional destinations in Western Australia. Specifically, it offers air services including FIFO charter (specialising in the mining industry), regular airline services, corporate charter and routine or emergency freight.¹³⁷

QantasLink currently operates a fleet of 14 Fokker 100's at Perth Airport operating over 100 weekly flights. See **Figure 29** below for regional destinations QantasLink services out of its base at the Perth Domestic Airport.

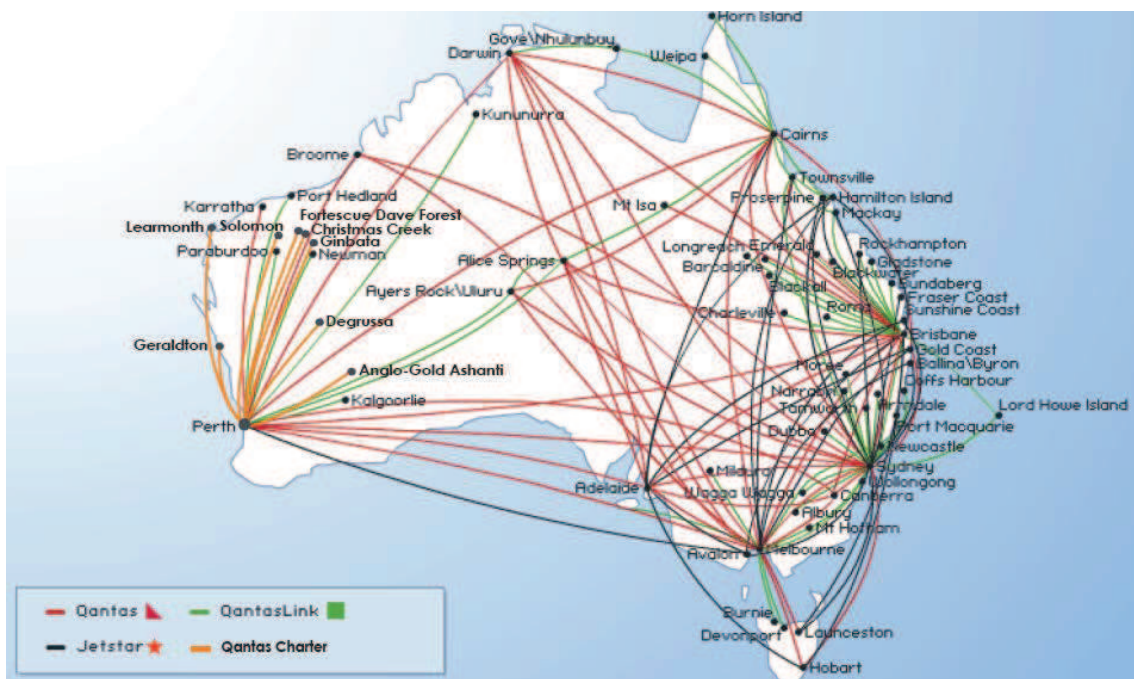
¹³⁴ Jetstar Airways, *Jetstar Group* (11 July 2016) <<http://www.jetstar.com/au/en/about-us/jetstar-group>>.

¹³⁵ Network Aviation, *Our Company* (15 July 2016) <<http://www.networkaviation.com.au/our-company/>>.

¹³⁶ See, Chris Frame, 'Network Aviation becomes QantasLink', *Australian Aviation* (online), 31 July 2015 <<http://australianaviation.com.au/2015/07/network-aviation-becomes-qantaslink/>>.

¹³⁷ Qantas Airways Limited, *Qantas Data Book 2015* (11 July 2016), 43 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPJF1tpgyw/file/data-book/2015qantasdatabook.pdf>.

Figure 29 Qantas domestic aviation network¹³⁸



(d) Related businesses

Besides its airline brands, the Qantas Group’s subsidiary businesses include Qantas Loyalty, which includes Qantas Frequent Flyer and Aquire programs. Qantas Frequent Flyer had a 7% increase in FY2015 to reach 10.8 million members.¹³⁹

The Qantas Group has 27 bilateral codeshare partners, as at 15 October 2015. These partners are AirCalin, Air Niugini, Air Tahiti Nui, Air Vanuatu, Airnorth¹⁴⁰, Alaska Airlines, Alliance Airlines¹⁴¹; American Airlines; Asiana Airlines; Bangkok Airways; British Airways; China Airlines; China Eastern Airlines; China Southern Airlines; Emirates; Fiji Airways; Finnair; Japan Airlines; Jet Airways; Jetstar; Jetstar Asia; Jetstar Japan; LAN Airlines; SriLankan Airlines; Vietnam Airlines; and Westjet.¹⁴²

Qantas is also a founding member of oneworld. The other 14 oneworld member airlines are: airberlin; American Airlines; British Airways; Cathay Pacific; Finnair; Iberia; Japan Airlines; LAN Airlines; Malaysia Airlines; Qatar Airways; Royal Jordanian; S7 Airlines; SriLankan Airlines; and TAM.¹⁴³

¹³⁸ Qantas’ domestic network for resource and FIFO customers. Based on information obtained from Qantas’ website and industry information.

¹³⁹ Qantas Airways Limited, *Qantas Annual Report 2015* (11 July 2016), 19 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5uFYkCyEPJF1tpgyw/file/annual-reports/2015_qantas_annual_report.pdf>.

¹⁴⁰ Qantas codeshares on Airnorth services between Kununurra and Perth, Darwin and Broome and also between Darwin and Dili, Broome, Mount Isa, Townsville, Gove, Port Hedland and Karratha (via Broome) and between Cairns and Gove.

¹⁴¹ Qantas codeshares on Alliance Airlines services between Adelaide and Olympic Dam.

¹⁴² Qantas Airways Limited, *Qantas Annual Report 2015* (11 July 2016), 51 <http://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5uFYkCyEPJF1tpgyw/file/annual-reports/2015_qantas_annual_report.pdf>.

¹⁴³ Qantas Airways Limited, *Oneworld Member Airlines* (15 July 2016) <<http://www.qantas.com/travel/airlines/oneworld/global/en#member-airlines>>.

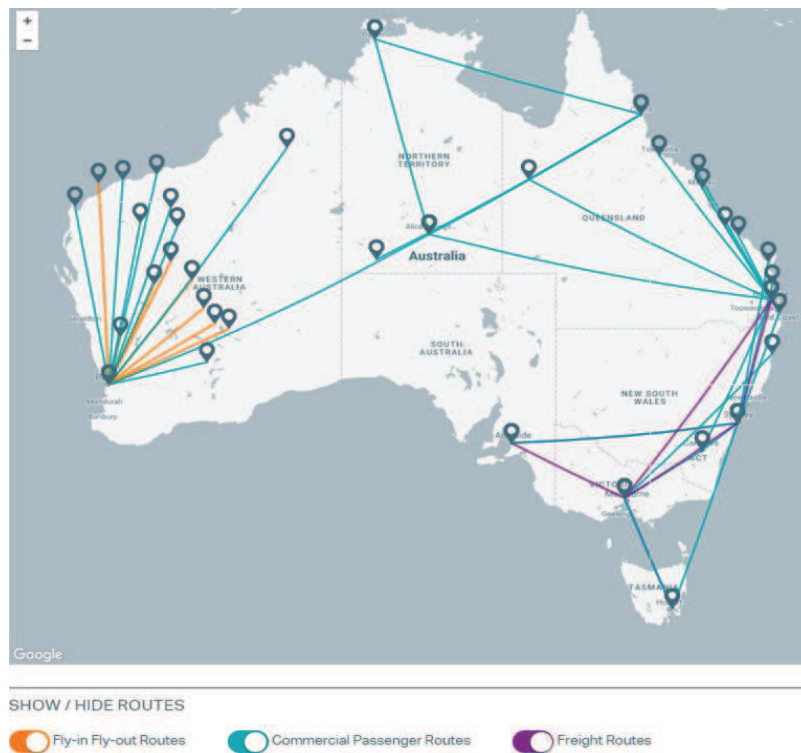
D.2 Cobham

Cobham operates the following air services in WA:

- RPT services from Perth to: Exmouth; Karratha; Port Hedland; Paraburdoo; Newman; Kalgoorlie; Broome and Alice Springs – on behalf of Qantas using 717s;
- Charter services from Perth to: Barrow Island (Cobham FIFO route); Fortescue Dave Forrest (717 charter contracted through Qantas); Plutonic (Cobham FIFO route); Meekatharra (Cobham FIFO route); Jundee (Cobham FIFO route); Christmas Creek (operated by B717 in line with the QF contract); Karara (Cobham FIFO route); Darlot (Cobham FIFO route); Murrin Murrin (Cobham FIFO route); Granny Smith (Cobham FIFO route); and
- Adelaide to: Sydney; and Melbourne – freight routes.¹⁴⁴

Figure 30 below provides a route map of Cobham’s network.

Figure 30 Cobham commercial aviation route network¹⁴⁵



As the ACCC is aware, Cobham has a longstanding and close relationship with Qantas¹⁴⁶ pursuant to which it operates QantasLink’s fleet of 717s as well as Qantas Freight services, providing all crew and engineering support, under a long-term contract.¹⁴⁷ Cobham supports Qantas Freight’s domestic

¹⁴⁴ Cobham, *Commercial Aviation* (11 July 2016) <<http://www.cobhamaviationservices.com/about/business-overview/commercial-aviation/>>.

¹⁴⁵ Cobham, *Passenger Transport* (11 July 2016) <<http://www.cobhamaviationservices.com/what-we-do/passenger-transport>>.

operation with over 2,500 flights per annum with uplift capability of over 25,000 tonnes of urgent overnight freight.¹⁴⁸

In July 2016, QantasLink extended their contract with Cobham for a further 10 years for Cobham’s supply of pilots and cabin crew for QantasLink’s fleet of 20 717 aircraft, as well as line maintenance engineering services in some locations, at a value of A\$1.2 billion.¹⁴⁹ When the contract was renewed, Peter Nottage, the CEO and President of Cobham Aviation Services noted:

Qantas is a very important and long term customer for Cobham and this is a significant contract extension, providing a valuable contribution and scale to our overall commercial passenger flying operations in Australia through 2026. We have supported QantasLink since 1991 and the award of this extension demonstrates the ongoing value that Cobham provides for Qantas. This award is a great credit to our very professional and dedicated team of staff and I am delighted that they will have the opportunity to continue to support QantasLink for a further 10 years.¹⁵⁰

Figure 31 below shows that the services provided to Qantas comprise about 80% of Cobham’s services in terms of annual capacity and flight hours.

Figure 31 Cobham’s services

Business segment	Number of aircraft	Aircraft (%)	Annual flight hours	Annual flight capacity	Annual flight hours (%)	Annual flight capacity (%)
Qantas Freight	4	11.1%	3491	2659	5.9%	6.2%
QantasLink	20	55.6%	44668	31592	74.9%	73.5%
Qantas Total	24	66.7%	48159	34252	80.7%	79.7%
FIFO Total	12	33.3%	11502	8702	19.3%	20.3%
Cobham Total	36	100%	59661	42954	100%	100%

Source: QF and Cobham schedules and Alliance Airlines estimates.

Cobham is also able to provide Qantas Frequent Flyer points to its charter customers.

Qantas will bid for and contract with customers to supply an integrated package of FIFO services that require a combination of aircraft types including F100 or Dash 8 aircraft as well B717 aircraft operated by Cobham. This enables both Qantas and Cobham to benefit from increased aircraft utilisation and operational flexibility.

¹⁴⁶ This relationship commenced in 1991 and has continued over the past 25 years.

¹⁴⁷ Mitchell Bingemann, 'Cobham Aviation Services wins \$1.2bn QantasLink contract, The Australian' (online), 6 July 2016, <<http://www.theaustralian.com.au/business/companies/cobham-aviation-services-wins-12bn-qantaslink-contract/news-story/103d697551de5d1d0f2f709254b37ca2>>.

¹⁴⁸ Cobham, *Air Freight* (11 July 2016) <<http://www.cobhamaviationservices.com/what-we-do/air-freight>>.

¹⁴⁹ Australian Aviation, 'Cobham gets 10-year, A\$1.2 billion contract extension for QantasLink 717 flying' 4 July 2016 <<http://australianaviation.com.au/2016/07/cobham-gets-10-year-contract-extension-for-qantaslink-717-flying/>>.

¹⁵⁰ See, Cobham, 'A\$1.2 bn QantasLink Contract Extension awarded', *London Stock Exchange Release*, 4 July 2016, <<http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/COB/12878089.html>>.

D.3 Skippers Aviation

Skippers currently operates over 100 regular flights per week in support of 15 major mining companies.¹⁵¹ The flights are operated on a closed charter arrangement that is generally not available to the travelling public.¹⁵²

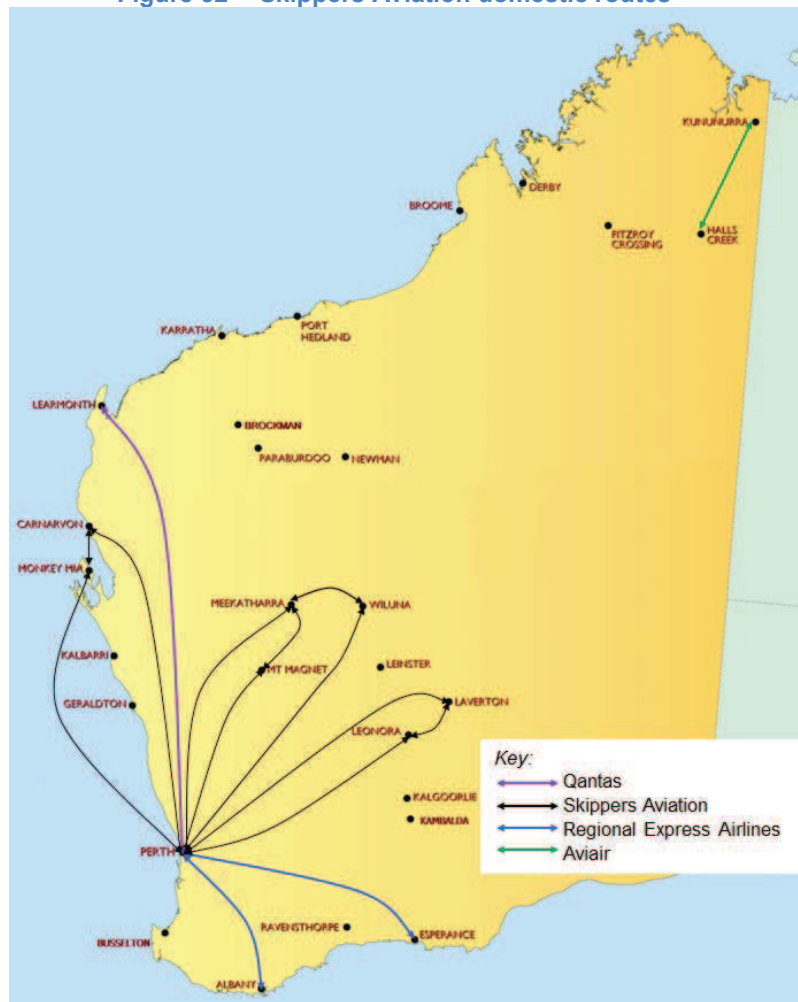
Skippers offers the following regular domestic flights in Western Australia: Broome; Carnarvon; Derby; Fitzroy Crossing; Geraldton; Halls Creek; Laverton; Leinster; Leonora; Meekatharra; Monkey Mia; Mt Magnet; Perth; and Wiluna.¹⁵³

Skippers is increasingly focusing on its RPT services and is looking to add further routes.

Skippers Aviation's route map is shown in

Figure 32 below.

Figure 32 Skippers Aviation domestic routes¹⁵⁴



¹⁵¹ Skippers, 'Skippers Charters', <<http://www.skippers.com.au/Charter.asp>>.

¹⁵² Skippers, *Skippers' Charters* (11 July 2016) <<http://www.skippers.com.au/Charter.asp>>.

¹⁵³ Skippers Aviation, *Perth* (11 July 2016) <<http://www.skippers.com.au/ProfileTerminalPerth.asp>>.

D.4 Pel-Air (Regional Express)

Rex/Pel-Air has fleet bases in Townsville, Mackay, Brisbane, Adelaide, Sydney and Melbourne.¹⁵⁵

Rex has recently entered into Western Australia with regional services, including Perth-Albany and Perth-Esperance. The route map for Pel-Air/Rex is shown in **Figure 33** below.

Figure 33 Regional Express Network¹⁵⁶



¹⁵⁴ Regulated RPT Air Routes in Western Australia from 28 February 2016.

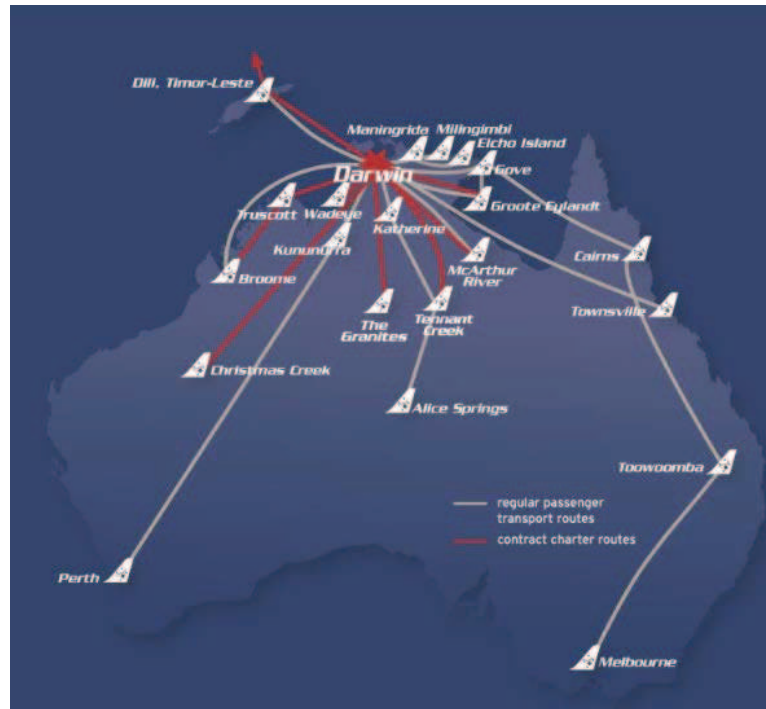
¹⁵⁵ Pel-Air, *FIFO* (11 July 2016) <<http://www.pelair.com.au/FIFO/FIFO.aspx>>.

¹⁵⁶ Regional Express, *Network* (16 August 2016) <<http://www.rex.com.au/flightinfo/network.aspx>>.

D.5 Airnorth

The route map for Airnorth is shown in **Figure 34** below.

Figure 34 Airnorth route network¹⁵⁷



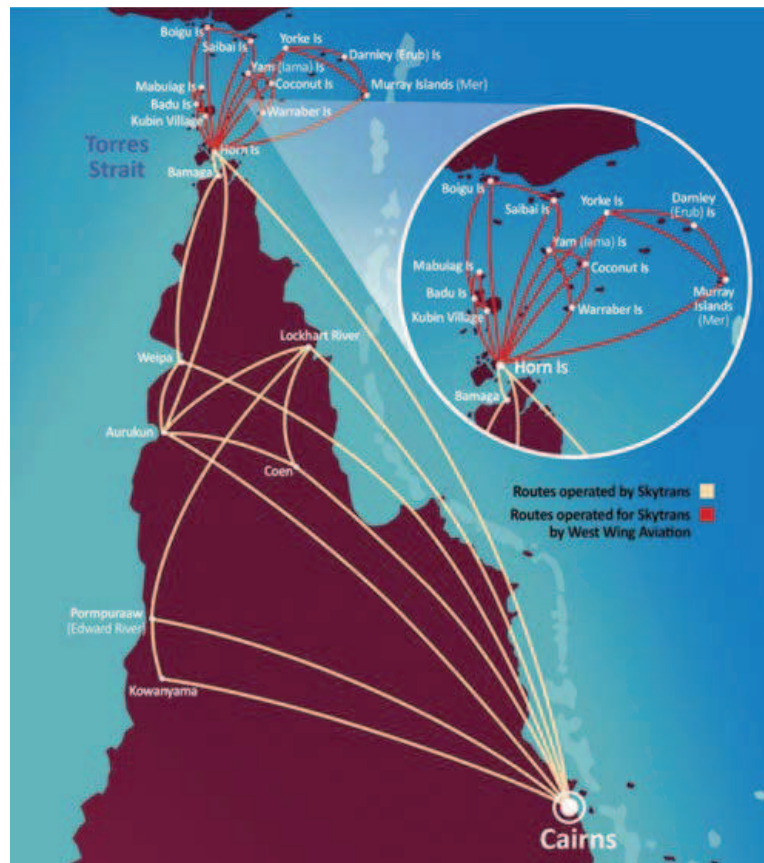
¹⁵⁷ Airnorth, *Destinations* (16 August 2016) <<http://www.airnorth.com.au/plan-your-trip/destinations>>.

D.6 Skytrans

Skytrans operates 56 scheduled regular public transport flights from Monday to Friday each week, which service nine communities in the Cape York and Torres Straits, including: Cairns, Aurukun, Weipa, Northern Peninsula Area (Bamaga), Horn Island, Kowanyama, Pormpuraaw (Edward River), Lockhart River and Coen.¹⁵⁸ Skytrans' RPT flights arrive and depart from Cairns Domestic Terminal.

The route map for Skytrans is shown in Figure 35 below.

Figure 35 Skytrans route network¹⁵⁹



¹⁵⁸ Steve Creedy, 'Cape demand puts Skytrans back in the air', *The Australian* (online) 23 October 2015 <<http://www.theaustralian.com.au/business/aviation/cape-demand-puts-skytrans-back-in-the-air/news-story/bf26a2f0869ed37c0787f24eb9a9a759>>.

¹⁵⁹ Skytrans, *Route Map* (29 July 2016) <<http://www.skytrans.com.au/route-map/>>.

D.7 JetGo

JetGo operates scheduled regular public transport flights from the following destinations in Australia: Townsville, Rockhampton, Gold Coast, Brisbane, Tamworth, Dubbo, Melbourne (Essendon) and Albury.¹⁶⁰ JetGo has announced its plans to start nonstop flights between Canberra and the Gold Coast in 2016.¹⁶¹

The route map for JetGo is shown in **Figure 36** below.

Figure 36 JetGo route network¹⁶²



D.8 Other operators

Other operators include:

- Rossair / Air South operates charter flights to regional airports including Whyalla, Moomba, Alice Springs and Broken Hills. In addition, Rossair services Australian tourism destinations including Coober Pedy, Kingscote, Kangaroo Island, Mt. Gambier, and Port Lincoln.¹⁶³

¹⁶⁰ JetGo Australia, *Schedules* (29 July 2016) <<http://www.jetgo.com/schedule>>.

¹⁶¹ Australian Aviation, 'JetGo to start new Albury-Brisbane service' 28 April 2016 <<http://australianaviation.com.au/2016/04/jetgo-to-start-new-albury-brisbane-service/>>.

¹⁶² JetGo Australia, *Route Maps* (29 July 2016) <<http://www.jetgo.com/routemaps>>.

¹⁶³ Aussie Digest, *Rossair Airlines* (8 August 2016) <<http://www.aussiedigest.com/travel/rossair-airlines.php>>.

- Corporate Air also provides aircraft ground handling services for airline, corporate, freight and itinerant aircraft, handling over 4,500 aircraft annually. Corporate Air operates its CASA approved aircraft heavy maintenance facility at Goulburn, NSW.¹⁶⁴ Corporate Air predominantly services regions on the east coast and Central Australia (including South Australia).¹⁶⁵

¹⁶⁴ Corporate Air, *Our Company* (8 August 2016) <<https://corporate-air.com.au/about-us/our-company/>>.

¹⁶⁵ Corporate Air, *Aircraft charter bases* (8 August 2016) <<https://corporate-air.com.au/aircraft-charter/bases/>>.

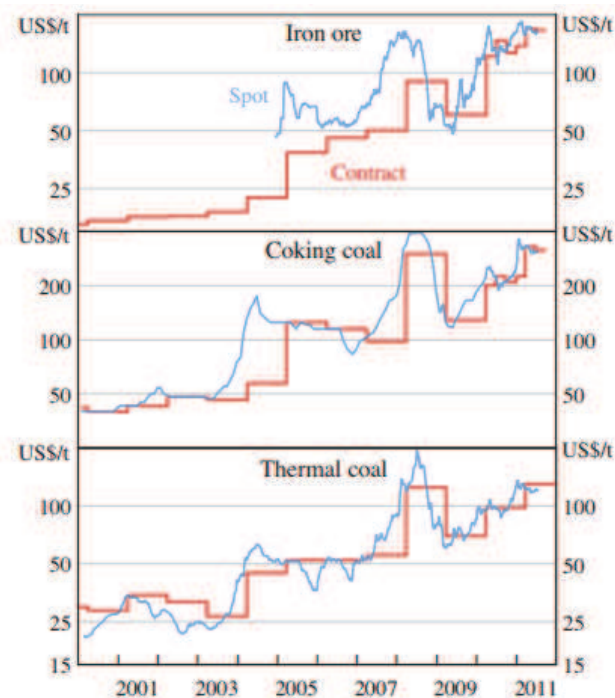
Attachment E – Further information on the mining boom and mining downturn

E.1 Mining boom: 2000 to 2013

As noted in section 4.1, the mining boom transformed the Australian economy leading to significant growth in production and GDP.

From the period 2005 to 2010, commodity prices rose significantly and mining companies enjoyed a long period of high profitability. Between June 2004 and June 2010, the value of Australia's mineral resources was estimated by the ABS to increase from \$240 billion to \$260 billion.¹⁶⁶ This dramatic increase in commodity prices is reflected in **Figure 37** below.

Figure 37 Commodity prices



Source: ABARES; Bloomberg; Citigroup; Energy Publishing; globalCOAL; Macquarie Bank; RBA¹⁶⁷

The mining boom led to significant growth in FIFO workforces and therefore FIFO services.¹⁶⁸ In particular, intrastate passenger traffic in WA grew at nearly 14% a year over the period 2000-01 to 2004-2005.¹⁶⁹

The mining boom transformed Australian regional transport networks, which saw a significant increase in air services from capital cities to regional areas. By far the largest increases were in passenger

¹⁶⁶ ABS 2010a, *Australian system of national accounts, 2009-2010*. Cat no 5204.0.

¹⁶⁷ Reserve Bank of Australia, *Research Discussion Paper 'The Mining Industry: From Bust to Boom'*, RDP 2011-08, 17.

¹⁶⁸ Reserve Bank of Australia, *Research Discussion Paper 'The Mining Industry: From Bust to Boom'*, RDP 2011-08, 17.

¹⁶⁹ WA Department of Transport, *Western Australian State Aviation Strategy (2015)* 27.

movements linking Perth and Brisbane to the majoring mining centres in each state, including the following routes:

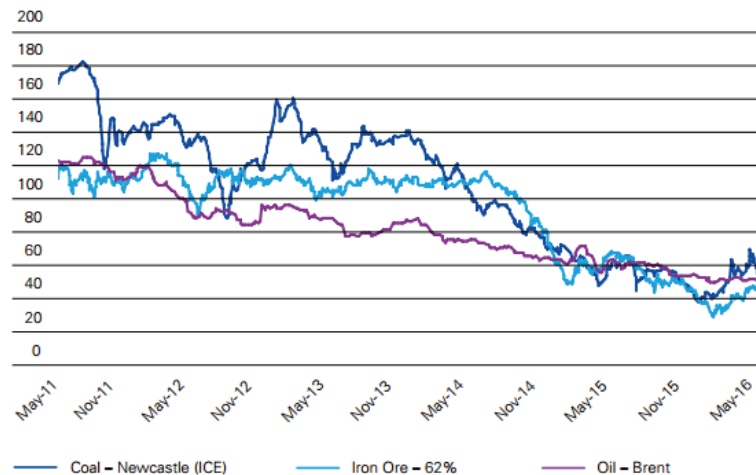
- a 25% increase per year between Perth and Port Hedland since 2005;¹⁷⁰
- a 18% increase per year between Perth and Karratha since 2005;¹⁷¹
- a 10% increase per year between Brisbane and Mackay since 2005;¹⁷²
- a 20% growth in the Perth to Newman route in 2010-11;¹⁷³ and
- a 42% increase in the Paraburdoo to Perth route in 2010-11.¹⁷⁴

More recently, FIFO traffic was reported as the largest contributor to congestion at Perth Airport and Pilbara regional airports in 2015.¹⁷⁵

E.2 Mining downturn: 2013 to 2016 and beyond

Demand for FIFO services peaked in 2013 at the height of Australia’s mining boom. Following this boom, the mining industry has undergone significant change. The falling price of iron ore, gold and oil has slowed down the resources market in the last two years, and operations in 2014, 2015 and 2016 have been challenging for the mining industry (Figure 38).¹⁷⁶

Figure 38 Commodity price analysis



¹⁷⁰ Tourism Research Australia, *The Economic Impact of the Current Mining Boom on the Australian Tourism Industry* (2013) 15.

¹⁷¹ Tourism Research Australia, “*The Economic Impact of the Current Mining Boom on the Australian Tourism Industry*” (2013) 15.

¹⁷² Tourism Research Australia, “*The Economic Impact of the Current Mining Boom on the Australian Tourism Industry*” (2013) 15.

¹⁷³ Warren Truss MP, ‘Regional Airlines’ bumpy ride needs a smooth landing’ (speech delivered at the Regional Aviation Association of Australia Conference, Sunshine Coast, 12 October 2012) <http://raaa.com.au/convention/historic/2012/_pdf/sessions/Warren-Truss.pdf>.

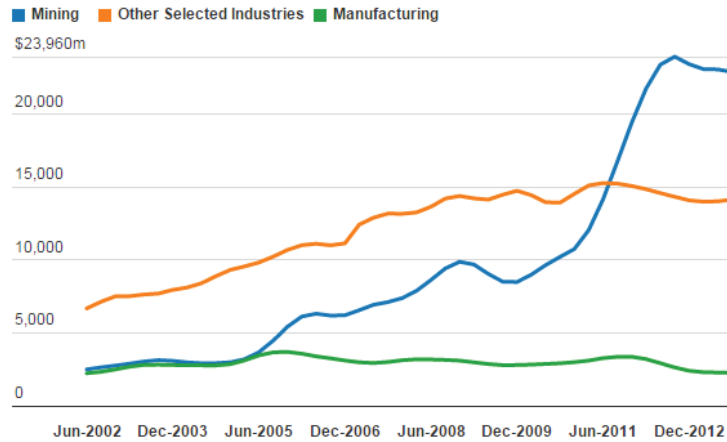
¹⁷⁴ Warren Truss MP, ‘Regional Airlines’ bumpy ride needs a smooth landing’ (speech delivered at the Regional Aviation Association of Australia Conference, Sunshine Coast, 12 October 2012) <http://raaa.com.au/convention/historic/2012/_pdf/sessions/Warren-Truss.pdf>.

¹⁷⁵ WA Department of Transport, *Western Australian State Aviation Strategy* (2015) 7.

¹⁷⁶ KPMG, *Mining and Resources Sector Outlook* (June 2016) 5.

Accordingly, mining operators are focused on reducing costs, improving productivity and deleveraging debt levels. Following a period of increased capital expenditure in the mining industry during the boom (Figure 39), the mining downturn has now led mining companies to significantly decrease their capital expenditure.

Figure 39 Capital expenditure prior to, and during, the mining boom¹⁷⁷



Source: ABS Cat no 5625.0

Capital expenditure in the mining industry, which includes the investment in buildings, structures and equipment, plant and machinery, fell 10.9% in the period from 2013 to 2014.¹⁷⁸ Mining companies have responded to the mining downturn by delaying the development of new mines, reducing operations or delaying work at existing mines, and ceasing operations and/or close mine sites (Figure 11 in section 4 of the Submission above).

The demand for FIFO related air transport is heavily dependent on mining output. The slowdown of the resources sector is a key factor influencing RPT air services across Western Australia and Queensland in particular.¹⁷⁹ FIFO employment is an expensive exercise for the mining sector. To sustain FIFO expenses, mining sectors require a high level of profitability. At its peak in 2012, the Australian mining sector employed 275,000 people. However with falling commodity prices, the mining workforce has decreased by almost one third.¹⁸⁰

¹⁷⁷ Greg Jericho, 'The mining investment boom is over, so where to now?', *The Guardian* (online), 29 August 2014 <<https://www.theguardian.com/business/grogonomics/2014/aug/29/mining-investment-boom-is-over-so-where-to-now>>.

¹⁷⁸ Greg Jericho, 'The mining investment boom is over, so where to now?', *The Guardian* (online), 29 August 2014 <<https://www.theguardian.com/business/grogonomics/2014/aug/29/mining-investment-boom-is-over-so-where-to-now>>.

¹⁷⁹ WA Department of Transport, *Review of Regulated Regular Public Transport Air Routes in Western Australia – Final Report* (2015) <http://www.transport.wa.gov.au/mediaFiles/aviation/AV_P_RevRegRPTAirRoutesWAFinalRpt2015.pdf>.

¹⁸⁰ Jon Yeomans, 'Australia's mining boom turns to dust as commodity prices collapse', *The Telegraph* (online), 6 February 2016 <<http://www.telegraph.co.uk/finance/newsbysector/industry/mining/12142813/Australias-mining-boom-turns-to-dust-as-commodity-prices-collapse.html>>.

With the decline of the mining boom, Perth Airport has reported a 13% decrease in charter aircraft movements, compared with the same month the year before.¹⁸¹ BITRE recorded big declines on mining-dominated routes in Western Australia and Queensland in 2015, namely:

- 20.1% decrease in Perth-Port Hedland;
- 19.6% decrease in Brisbane-Moranbah;
- 14.7% decrease in Brisbane-Emerald;
- 13.6% decrease in Brisbane-Mount Isa; and
- 12.4% decrease in Karratha-Perth.¹⁸²

In addition, BITRE recorded an annual decrease of 10.3% in charter services operating domestically in Australia for the year ending June 2016.¹⁸³

Figure 40 reflects the decreasing trend in demand for charter services across Australia's domestic charter network following the mining boom.

¹⁸¹ Matt O'Sullivan, *Charter airlines withstand subdued mining outlook*, 14 September 2014, *Sydney Morning Herald* (online) <<http://www.smh.com.au/business/aviation/charter-airlines-withstand-subdued-mining-outlook-20140915-10g8ji.html>>.

¹⁸² BITRE, *Domestic aviation activity Statistical Report* (2015).

¹⁸³ BITRE, *Domestic Aviation activity Statistical Report* (June 2016), 27.

Figure 40 Charter passenger and aircraft movements, 2011-2015¹⁸⁴

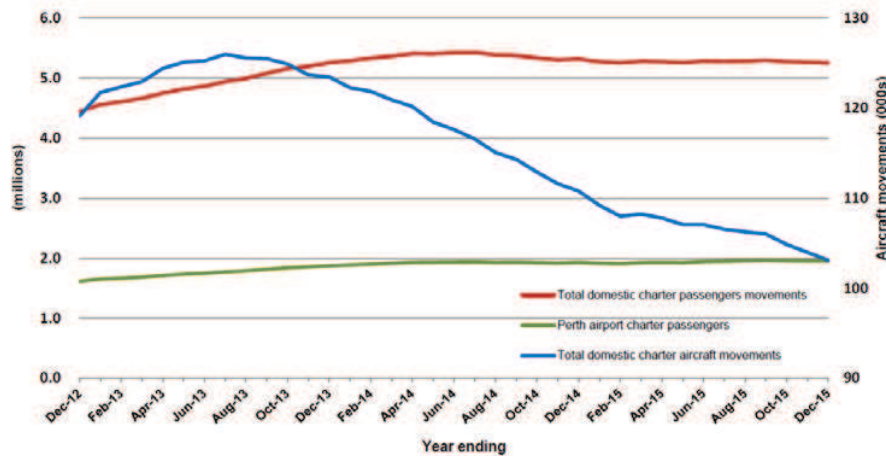


Figure 41 shows the varying measures Australian airlines have taken in response to, or following the impact of, the decrease in demand for FIFO and charter services due to a decline in the mining boom.

Figure 41 Impact of decrease in demand on FIFO operators

Airline	Impact of decrease in demand
VARA	<ul style="list-style-type: none"> Sold F50s
Qantas	<ul style="list-style-type: none"> Cutting capacity growth (boosting domestic capacity by 0.5-1%, instead of about 2% as originally planned, in mid-2016).¹⁸⁵ Shifted aircraft from Western Australian to east coast, amid resources downturn.¹⁸⁶ Reduced flying on routes in Western Australia. In particular, stopped direct flights to Karratha from the east coast, as well as twice-weekly services between Kalgoorlie and Adelaide.¹⁸⁷
Alliance Airlines	<ul style="list-style-type: none"> Sold F100 aircraft to Virgin Australia Regional Airlines.
REX	<ul style="list-style-type: none"> Issued profit downgrade in August 2015.¹⁸⁸
Cobham	<ul style="list-style-type: none"> Lost a major contract in mid-February 2016 to Alliance.

¹⁸⁴ BITRE, *Domestic aviation activity - Annual Report 2015* (December 2015), 30.

¹⁸⁵ Patrick Hatch, 'Qantas cuts back flights in face of falling demand and confidence', *Sydney Morning Herald* (online), 18 April 2016 <<http://www.smh.com.au/business/aviation/qantas-cut-back-flights-in-face-of-falling-demand-and-confidence-20160418-go8pfc.html>>.

¹⁸⁶ Jamie Freed, 'Virgin Australia and Qantas expand regional fleets as rivals struggle', *Financial Review* (online), 2 August 2015, <<http://www.afr.com/business/transport/aviation/virgin-australia-and-qantas-expand-regional-fleets-as-rivals-struggle-20150731-giowxu>>.

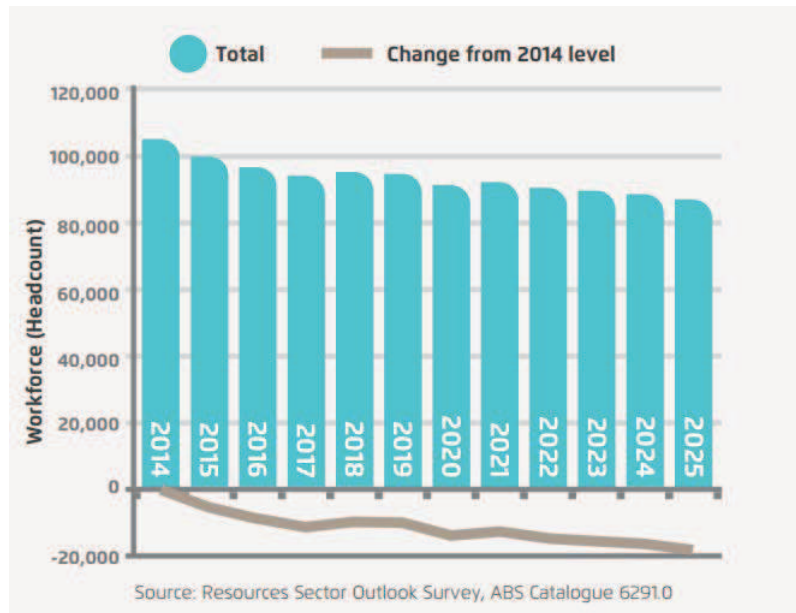
¹⁸⁷ Matt O'Sullivan, 'QantasLink sees demand plateau in parts of Fly-in, fly-out market', *Sydney Morning Herald* (online), 23 November 2014 <<http://www.smh.com.au/business/aviation/qantaslink-sees-demand-plateau-in-parts-of-flyin-flyout-market-20141123-11s4a7.html>>.

¹⁸⁸ Matt O'Sullivan, 'QantasLink sees demand plateau in parts of Fly-in, fly-out market', *Sydney Morning Herald* (online), 23 November 2014 <<http://www.smh.com.au/business/aviation/qantaslink-sees-demand-plateau-in-parts-of-flyin-flyout-market-20141123-11s4a7.html>>.

Airline	Impact of decrease in demand
	<ul style="list-style-type: none"> Reduced number of aircraft in its fleet. Unveiled plans for a \$941 million capital raising to avoid breaching debt covenants.¹⁸⁹
Pearl Aviation	<ul style="list-style-type: none"> Restructuring operations, including downsizing Darwin based charter operations.¹⁹⁰

Figure 42 shows that the FIFO workforce has declined, and will continue to decline, over time following the mining boom and therefore the decreasing trend in demand for charter services will likely continue.

Figure 42 Mineral and energy workforce, 2014-2025(F)¹⁹¹



As shown in Figure 42, it is estimated that the national FIFO workforce totals approximately 90,000 people (including contractors and additional service providers).¹⁹² The resources sector workforce has

¹⁸⁹ Jamie Freed, 'FIFO aviation operator Cobham to raise \$941m amid mining slowdown', *Sydney Morning Herald* (online), 27 April 2016 <<http://www.smh.com.au/business/aviation/fifo-aviation-operator-cobham-to-raise-941m-amid-mining-slowdown-20160426-gofqx3.html>>.

¹⁹⁰ Alyssa Betts, Pearl Aviation sheds staff in Darwin as mining downturn bites, *ABC News* (online), 15 January 2016 <<http://www.abc.net.au/news/2016-01-15/pearl-aviation-sheds-staff-as-resources-downturn-takes-its-toll/7092380>>.

¹⁹¹ CME Deloitte Access Economics, *2015-2025 Western Australian Resources Sector Outlook*, 4, <<http://www.cmewa.com/policy-and-publications/annual-reports-special-publications/preview?path=2015-2025%2BWA%2BResources%2BSector%2BOutlook.pdf>>.

¹⁹² CME Deloitte Access Economics, *2015-2025 Western Australian Resources Sector Outlook*, 4, <<http://www.cmewa.com/policy-and-publications/annual-reports-special-publications/preview?path=2015-2025%2BWA%2BResources%2BSector%2BOutlook.pdf>>.

declined by over 14% over the two year period 2014 to 2016 (105,200 in 2014 to 90,000 in 2016). The workforce is expected to decline further and is predicted to be 87,000 by 2025.¹⁹³

¹⁹³ CME Deloitte Access Economics, *2015-2025 Western Australian Resources Sector Outlook*, 4, <<http://www.cmewa.com/policy-and-publications/annual-reports-special-publications/preview?path=2015-2025%2BWA%2BResources%2BSector%2BOutlook.pdf>>.

Attachment F – FIFO operators – fleet and bases¹⁹⁴

Carrier	Aircraft	WA			QLD			NT	SA	VIC	NSW	ACT	TAS	Bases
		PER	KTA	BWB	BNE	TSV	CNS	DRW	ADL	MEL	SYD	CBR	HBA	
Qantas (QantasLink / Network Aviation) ¹⁹⁵	F100	14												9
	B717-200	6			3		1	2		2	2	1	1	
	BD Q200										3			
	BD Q300				3				2		5			
	BD Q400				12		6			3	9			
Alliance	F100	8			2	3	1		1					6
	F70	2			4				1	1				
	F50								5					
VARA	F100	14												4
	A320	2												
	ATR 72-500				6									
	ATR 72-600									4	4			
Airthorpe	E170							4						1
	E120							5						
Cobham	BAE461	1	1											3
	BAE462	1												
	BAE463	1												
	RJ85	1												

¹⁹⁴ Based on Virgin Australia's estimates.

¹⁹⁵ As at week ending 26 August 2016.

PUBLIC REGISTER VERSION – Restriction of Publication of Part Claimed

Carrier	Aircraft	WA			QLD			NT	SA	VIC	NSW	ACT	TAS	Bases
		PER	KTA	BWB	BNE	TSV	CNS	DRW	ADL	MEL	SYD	CBR	HBA	
	RJ1H		1						1					
	E190	1												
JetGo	E135				2	1								2
Rex	SF340				4	3	3		8	9	20			6
Skippers	DH1	4												1
	DH3	6												
	F100	2												
	EMB120	6												
Skytrans	DH1				2		1						2	

Confidential Attachment G – VARA and Alliance Tenders

[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

Confidential Attachment H – Mining operators – mines and FIFO providers¹⁹⁶

[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

¹⁹⁶ The information in this table is current as at August 2016.

Confidential Attachment I – Executed copy of Charter Alliance agreement

[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]

Confidential Attachment J – Copies of RFP materials

[CONFIDENTIAL– RESTRICTION OF PUBLICATION CLAIMED]