

<b>Matter name:</b>	Virgin Australia & Alliance Airlines – Application for authorisation
<b>Date and Time:</b>	11:00am-11:45am AEDT Monday 28 November 2022
<b>External attendees:</b>	Karen Swemmer (Manager Sourcing Hub & Acting Manager Travel & Expenses, procurement, Rio Tinto), Michelle Carter (Corporate Counsel, Rio Tinto)
<b>ACCC participants</b>	Tanya Hobbs, Andrew Ng

Information provided by Rio Tinto in relation to the application for authorisation is summarised below:

### **Aviation needs**

- In Australia, the Rio Tinto Group has 17 iron ore mines in the Pilbara region of Western Australia requiring mostly charter flights (managed as a package one bauxite mine in Gove in Gove in the Northern Territory and three bauxite mines in Weipa in Far North Queensland (both of which are managed separately to WA sites).
- For the purposes of this statement, all further references to the Rio Tinto Group, means the relevant Australian Rio Tinto corporate group entities procuring charter services or RPT services, or operating mines, as listed above.
- [REDACTED]
- [REDACTED]
- Prior to 2021, Virgin Australia was the primary supplier [REDACTED] of Rio Tinto's charter flight needs in WA [REDACTED]
- A fully utilised charter service is preferable to an RPT service because it is generally cheaper and provides the customer control over flight schedules.

### **Bids by Virgin Australia and Alliance**

- Virgin Australia and Alliance have never submitted a joint bid under the Charter Alliance (CA) in relation to any of Rio Tinto Group contracts or Requests for Tender (RFTs) (past or current).
- The Rio Tinto Group has not had any interactions with the CA. Virgin Australia and Alliance have always bid and contracted with Rio Tinto as separate entities. Neither Virgin Australia nor Alliance have indicated that they would require the other airline to assist them in delivering their respective contracted services with Rio Tinto.
- Virgin Australia performed well in providing services under its charter, RPT and block seat contracts as provided to the Rio Tinto Group (until they recently entered into administration).

### **Recent Rio Tinto procurement process**

- The recent tender process (still being finalised) was Rio Tinto's first tender process in 14 years [REDACTED]

- [REDACTED]
- [REDACTED]
- Rio Tinto contracts with a variety of different providers across charter and RPT to ensure security of supply by spreading the risk of failure by one supplier (which is the primary reason), to share the available work across the smaller providers, and to participate in fixed airfares for the public.
- While contracting with different providers does allow Rio Tinto to achieve some price advantages by creating competition, our primary focus is ensuring security of supply for the Rio Tinto Group's operations. With more suppliers, Rio Tinto is able to manage risks more effectively.

### **Factors that Rio Tinto considers when awarding a contract**

- The main factors Rio Tinto considers when awarding a contract is the airline's ability to meet the schedule, the size of the aircraft offered, the limitations of the relevant airports, and the overall experience for its workers (e.g. lounge access, frequent flyer points, and parking availability).
- Having access to frequent flyer points and airport lounges is important for employee recruitment and is utilised by Rio Tinto to differentiate itself as a potential employer.  
[REDACTED]
- The ability of Virgin Australia and Alliance (under the CA) to provide ad-hoc services for each other may be an advantage for customers who are not contracted. However, Rio Tinto has KPIs in its (separate) contracts with Virgin Australia and Alliance that include availability of aircraft.

### **Competition, barriers, and bargaining power**

- [REDACTED]
- The number of airlines capable of utilising Rio Tinto Group airports depends on a number of variables such as the time of the year, the temperature, the size of the plane, and the capabilities of the landing strip.
- [REDACTED]
- Rio Tinto considers any airline that is capable of providing charter services can compete with the CA.
- Barriers for new entrants are significant because it is not an insignificant cost for airlines to enter the market, and it is not an insignificant risk from Rio Tinto's perspective to contract with a new entrant (i.e. the entrant must be in a position to guarantee supply, which is difficult). In terms of timeline for new entry, it will depend on the business model of the new entrant – for example, if it enters as part of a joint venture with an established provider, that could shorten the timeline.



- The bargaining power Rio Tinto possesses will depend on the airline it is negotiating with. [REDACTED] The ability to generate revenue is also a factor – since Rio Tinto requires many flights, it will attract interest from airlines who want to secure market share.

### **Market conditions**

- Aluminium is currently in a downturn and iron ore is trending downwards in terms of price.
- However, the cyclical nature of the market does not greatly influence on Rio Tinto's contracting needs – even in a downturn in product price, the demand profile for aviation services will usually remain relatively consistent to service Rio Tinto Group's operations in Australia.