

19 November 2020

Andrew Mahoney
Australian Competition & Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

Dear Andrew

Submission Re: Virgin Australia / Alliance Airlines

We thank you for this opportunity to make a submission in response to an application from Virgin Australia and Alliance Airlines, to the Commission, for authorisation to cooperate in the provision of services on various regional routes in Australia.

Bundaberg Regional Council (BRC) is a local government authority in the Wide Bay area of Queensland, some 360km north of Brisbane, representing a population approaching 100,000. BRC is owner and operator of the Bundaberg Airport, which had more than 150,000 scheduled passenger movements during 2019, all travelling on a single route (Bundaberg – Brisbane).

Our Interest in the Application

In July 2017 Alliance Airlines commenced operating a scheduled passenger service between Bundaberg and Brisbane in cooperation with Virgin Australia. This followed Virgin Australia's decision to cease ATR-72 turbo prop operations in Queensland and to cease operating the sector with its own equipment.

The nature of the cooperation is that Alliance Airlines has provided aircraft and crew on the sector, while Virgin Australia provided reservations, ticket sales, branding, flight numbers and interconnecting flights to the Virgin Australia network at Brisbane.

As noted by the applicants in their submission to the Commission, the Brisbane-Bundaberg service is currently under suspension.

The Proposed Cooperation

In its application, Alliance Airlines and Virgin Australia seek permission to share information about costs, capacity, demand, pricing, utilisation, and willingness to operate on certain routes. They further seek permission to agree capacity, schedules and which airline will operate which route with which equipment. The agreements may be given legal force and provide for pricing and revenue sharing.

BRC has considered the cooperation proposed with respect to how it may affect competition on, and the price / availability of, scheduled air services to and from Bundaberg Airport.

Competition. Qantas dominates all segments of the local market for scheduled air travel at Bundaberg Airport, with its network of destinations and with frequency of services. Neither Alliance Airlines nor Virgin Australia alone can compete effectively on either of these dimensions. Indeed, the experience of the last three years suggests that they did not threaten Qantas dominance even in cooperation.

We are aware, based on verbal anecdotal advice from both Qantas and Alliance, that over 50% of passengers travelling from Bundaberg to Brisbane connect onward to other domestic or to international destinations. Consequently, a strong domestic network and link to international networks is required to compete for all passengers, rather than for just point-to-point travellers.

To compete fully for Brisbane/Bundaberg point-to-point travellers, morning and evening services are needed. This makes it possible for business day trips to either city from the other.

By way of example, consider medical specialists and their patients. A specialist can operate a clinic for patients in Bundaberg at the cost of only one day away from Brisbane. In the same way, Bundaberg patients can consult specialists in Brisbane without the need to pay for overnight accommodation.

Qantas has operated 50 and 74 seat Dash-8 aircraft on the sector and is therefore able to match seat supply to various levels of demand and to operate a high service frequency.

Virgin Australia's B737 aircraft carry 176 seats. Virgin Australia therefore requires something like twice as many passengers as Qantas to operate profitably. This, and the current market potential of the route, means Virgin Australia is unlikely to be able to offer competitive frequency of service.

Alliance Airlines F70 aircraft carry 80 seats which means they can operate at closer to Qantas scale than Virgin Australia. However, because the F70 is a jet aircraft, it is relatively fuel inefficient on the Bundaberg – Brisbane sector compared to a turbo prop. It would thus need consistently high load factors to operate profitably on the route. If it can access only the point-to-point traveller market, Alliance Airlines is also unlikely to be able to offer competitive frequency of service.

In conclusion, if the Commission authorises Virgin Australia and Alliance Airlines to cooperate on the Bundaberg-Brisbane sector, they will be able to serve both point-to-point and connecting passengers to and from Bundaberg. Even in cooperation, though, they remain at a competitive disadvantage due to lower efficiency of their current fleet.

Price / Availability. During the last quarter of 2019 Qantas and Alliance Airlines / Virgin Australia operated the Bundaberg – Brisbane sector in competition with each other. Discounted fares and special offers were regularly available to travellers, with fares sometimes as low as \$99 (each way). This represented an approximately \$40 discount to a standard advanced booking fare.

With the Alliance Airlines / Virgin Australia service under suspension, the advance booking fare is now close to \$170 (each way). It is, of course, not possible to say if this increase is due to a lack of airline competition on the route or whether the higher fare is Qantas strategy during COVID-19 recovery.

During the last quarter of 2019, there were as many as six daily services between Bundaberg and Brisbane operated by the two airlines. This included a well patronised early morning departure to, and a mid-evening arrival, from Brisbane. The aircraft and crew overnights in Bundaberg, incurring crew accommodation costs.

Present indications are that Qantas intends to deploy only 74 seat Dash-8 aircraft on the sector in the foreseeable future and to operate a maximum three flights daily. Once again, it is not possible to say if this is just during the next four months of COVID-19 recovery.

In conclusion, if the Commission authorises Virgin Australia and Alliance Airlines to cooperate on the Bundaberg-Brisbane route, this will promote lower fares and increased frequency of services.

General Assessment

In our opinion, unless Virgin Australia and Alliance Airlines are authorised to cooperate on the Bundaberg – Brisbane sector, neither carrier will expect to be able to compete effectively with Qantas and therefore the service will remain in suspension.

For the foreseeable future this would leave Qantas as the sole scheduled passenger operator at Bundaberg. As sole operator, Qantas will have little incentive to discount prices or to reintroduce services that cost more to operate, such as its overnight service.

Our general assessment is, therefore, that cooperation between Virgin Australia and Alliance Airlines is in the best interest of the Bundaberg community because it will encourage competition and increased frequency of service, providing greater accessibility for our local community.

Yours faithfully



Gavin Steele
General Manager, Community & Environment