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Northern Territory
Airports

20 November 2020

Andrew Mahony
Analyst | Competition Exemptions | Mergers, Exemptions & Digital
Australian Competition & Consumer Commission
Level 17 | 2 Lonsdale Street
MELBOURNE VICTORIA 3000

Dear Andrew

Re: AA1000533 – Virgin Australia and Alliance Airlines - submission

Northern Territory Airports (Darwin, Alice Springs, Tennant Creek) is supportive[1] of the application by Virgin Australia and Alliance Airlines in their application for authorisation of the proposed coordination of regional flights in response to the COVID-19 pandemic. It is our belief that this will, through targeted coordination of air services in parts of regional Australia, result in greater long-term competition within Australia's aviation industry and will not eventuate without this temporary authorisation.

The main outcomes possible for the broad Australian aviation industry are:

Connectivity and competition maintained to regional Australia

The immediate impact of COVID-19 has been the significant decrease in air travel demand. At Northern Territory Airports, September 2020 passenger throughput was 32% compared to 2019 volumes. Recovery to 2019 levels will require free movement of people within Australia, opening of travel to/from international markets, and improved travel sentiment. We anticipate that this recovery will extend into, and beyond, the timeframes requested by Virgin and Alliance in their application to the ACCC and this is further supported by IATA's forecast of global recovery occurring in 2024.

By allowing temporary authorisation to coordinate on regional routes, this will allow Virgin to continue to connect relevant routes in an environment which may not support operations with their limited large capacity fleet choice. The risk of regional Australia being underserved due to lack of commercially viable air operations is reinforced with Virgin recently announcing their apprehension to operate non-profitable routes. Through flexible use of smaller aircraft types, this is more likely to ensure connectivity and competition remains on the relevant routes.

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[1] *This support is on the expectation that the ACCC will continue to monitor for any undue anti-competitive behaviour on the routes listed in the application.*

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Re-connection of routes which ceased before COVID-19 or as a result of COVID-19

Some of the relevant routes listed in the table on page 18 of the application include routes that are neither operated by Virgin Australia nor Alliance Airlines. From Northern Territory Airports' perspective, it is unlikely these routes would commence, in the timeframe noted in the application. Therefore, our view is greater likelihood of connections, such as ASP-DRW, ASP-AYQ, DRW-CNS, could be connected with non-stop services if the application is approved.

Sustainability of a competitive Australian air market

Virgin's current operations has been visibly impacted by COVID-19. As the carrier emerges from Administration and transitions through new leadership, Virgin will find itself operating in an incredibly challenging environment. The Administration process has resulted in the carrier operating fewer aircraft with limited options within its fleet. A temporary approval for the cooperation between Alliance Airlines, who operate a fleet of lower capacity aircraft, will allow Virgin Australia to remain a competitive carrier in the Australian regional space.

Increased competitive Australian air market

Alliance Airlines currently operate a fleet of 47 Fokker 100 and Fokker 70 aircraft and are expecting delivery of 15 Embraer 190s. Aircraft capacity on this fleet range from 80 – 100 seats.

Currently, the major RPT operators in Australia provide a limited capacity offering.
- Virgin and Jetstar primarily operate 176 – 186 seat capacity B737 and A320s.
- QantasLink operate a range of regional jets (F100, Dash 8, B717) offering seat ranges between 34 – 125 seats.
- Regional Express operate SAAB340 with 34 seat capacity.
- Airnorth operate fleet up 76 seater E170 aircraft.

Key barriers to entry into the RPT market such as essential improvements to distribution such as contractual agreements with Global Distribution Systems (GDS), which could be considered non-viable without cooperation, could be overcome by Alliance Airlines during this time period. This would improve Alliance's capabilities to deliver future RPT services post application period.

Northern Territory Airports reviewed the impact on its potentially relevant routes[2] based on the following considerations:

Product

Of the currently operated affected routes[3] it is possible that the current Virgin operated Boeing 737-800 could be replaced with Alliance Fokker 70, Fokker 100 or E190 aircraft. Although this will result in single class (no business class), the Fokkers offer some of the widest seats and generous legroom.

Although the strategy of Virgin post Bain sale is unclear, a low cost carrier model is possible. If this is the case, the service of unaccompanied minors could be dropped (Jetstar and Tiger have never offered this service). Alliance offers provisions for unaccompanied minors, therefore in regional areas, where demand for boarding schools are higher, this service could be maintained.

Frequency

On affected routes, the more likely scenario between increased or decreased frequency is the former. If a lower seat capacity aircraft is used, this could allow Virgin or Alliance to operate greater frequency to match market demand.

Airfares

If affected routes are operated by the lower seat configurated Alliance Aircraft, it is possible that there will be less available lower priced airfares.

Connectivity

The option for use of lower capacity aircraft could allow Virgin or Alliance to operate in a market which would not profitably warrant the larger B737-800. This would support the continual connectivity of affected routes. ███████████████████████ ████████████████████████████

The application also identifies three routes not connected. The approval is more likely to support the connectivity of these routes: ASP-DRW, ASP-AYQ, DRW-CNS.

Yours sincerely

Allan Woo
Aviation Development Manager
Northern Territory Airports
Choose your signature block

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[2] Relevant routes listed in ACCC application: ASP-BNE, ASP-ADL, ASP-DRW, ASP-AYQ, DRW-CNS
[3] Currently operated by VA or QQ: ASP-ADL, ASP-BNE