

9 November 2020

Mr Andrew Mahony
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra
ACT 2601

Dear Mr Mahony,

**Subject: Virgin Australia and Alliance Airlines application for authorisation
AA1000533 – interested party consultation**

We would like to provide our view and objection to the proposed Virgin Australia and Alliance Airlines application and to correct an error. Our specific area of interest is the operation of international air services between Australia and the Solomon Islands.

Our experience with Alliance Airlines is that it is a well-run, ethical airline which has always been happy to assist carriers in the South Pacific.

This submission is made with reference to the interim authorisation requested in order that Virgin Australia and Alliance Airlines can plan. We will provide another full submission prior to 20 November detailing our concerns in respect of the longer-term authorisation.

We note that the Virgin Australia / Alliance Airlines application para.3.4 refers to providing essential airline services to **regional communities in Australia** (our emphasis) and minimise cost and risk exposure in the face of the COVID-19 pandemic and its severe effect on the Australian Aviation Industry. We do not believe that Honiara in Solomon Islands forms part of the regional community referred to, as this is an international destination.

Competition in a large market is essential for the consumer and supplier. The South Pacific is a tiny market which has always been somewhat fragile. As we all know the COVID-19 travel restrictions have had a significant and devastating financial impact on the entire travel industry and it will take many years for the industry to recover. As small as the market is, air travel in the South Pacific is essential to the relevant economies and citizens as the distances between major centres are large.

Solomon Airlines is a small airline headquartered in Honiara in Solomon Islands. The airline has a base in Brisbane and directly employs 16 Australian staff on a full-time basis and 6 ex Tiger Air cabin crew (who had lost their jobs when Virgin closed Tiger Airlines) on a part time basis. The past 8 months have been exceedingly trying because even though we are not eligible for Job Keeper support, we have managed to keep all our Australian staff employed albeit at a lower salary.

Other indirect employees who have benefitted from our continuing operation include those at the catering Company (Dnata) and those carrying out the

maintenance on the A320 i.e., HESTON MRO and MEMKO as well as Menzies who handle the check in and Pakfresh who handle the freight forwarding. However hard it has been, we have continued to pay our bills as we know that all our suppliers are also struggling to make ends meet.

[REDACTED]

[REDACTED] Virgin Australia now wants to carry on operating their former routes in an even more fragile environment without the financial overhang that its competitors in the South Pacific must manage. We do not think this is fair competition.

For more than 10 years prior to 18 March 2020, Virgin Australia or Pacific Blue operated a B737-800 aircraft with approximately 176 seats twice a week to Honiara. Over the past few years, they have flown the route with around 30 passengers and some cargo on board. Given Virgin Australia's financial difficulties and subsequent administration one can only wonder why they continued to operate with such low loads. It only served to destabilise the market. When COVID-19 struck, Virgin Australia simply ceased flying the route.

As is pointed out on page 15 of the submission, Virgin Australia and Alliance Airlines have both been recipients of substantial Australian Government Aid. Whilst there has been some Government support, the South Pacific carriers have generally not been quite as fortunate. Our Brisbane based staff have paid their income tax throughout this event and it could be argued they are contributing to subsidising a potential competitor.

On page 39 of the submission, it is stated that there are no airlines operating between Brisbane and Honiara as well as Brisbane and Port Moresby. This is incorrect as Solomon Airlines has continued to operate flights as and when they are approved by the Australian and Solomon Islands Government agencies and would operate more flights if allowed to do so. Air Niugini has also continued to operate as and when allowed to do so. Solomon Airlines currently operates a return service at least once a week between Brisbane and Honiara thus providing a lifeline between Australia and the Solomon Islands ensuring that essential personnel, medical supplies, and other cargo are moved on a regular basis. These flights have been critical to the smooth functioning of the embassies and high commissions in Honiara.

Like most routes in the South Pacific, there were only ever enough passengers to make one airline marginally profitable in the pre-COVID-19 era on the Brisbane – Honiara – Brisbane route. Despite these odds, we managed to keep operating. From a pricing perspective, most South Pacific airlines are forced to keep their prices as low as possible to make the holiday package deals attractive. This situation comes about because most of the South Pacific countries and Bali are fighting for the same tourists. Another factor that

contributes to keeping prices down is the Codeshare that we operate with Qantas where Qantas is obviously free to set whatever prices they want to.

Solomon Islands pop. 680,000 is not a wealthy country and many charities depend heavily on Solomon Airlines for travel for medical purposes, tickets for volunteer medical personnel and for the transport of medical supplies and equipment. Foreign carriers do not generally participate in these charitable actions.

From a legal perspective, most countries allow the marketing airline to use a substitute airline for a limited period, if and as required, for example pending fleet deliveries or to cover operational contingencies. In this instance it appears that Virgin Australia will market the route and have Alliance Airlines permanently do the flying on their behalf.

Solomon Airlines employs 230 staff in Honiara in addition to those employed in Brisbane. In a country with a high unemployment rate this employment has far reaching effects in the community.

Although competition is generally welcomed as it keeps all parties honest and trying to provide best value for money, COVID-19 means that we are all faced with a large amount of uncertainty over the next 18 months. The Virgin Australia / Alliance submission refers to the need for an urgent decision so that they can plan. We also need to plan and unfortunately, no airline is able to forecast when the travel restrictions will be lifted and what passenger growth can be expected. Let us not make things more difficult by encouraging the wrong kind of competition.

It is unlikely that allowing Virgin Australia to team up with Alliance Airlines to operate on a marginal route will be in the public interest as it is doubtful if any of the carriers will be able to break even on the route due to the limited passengers now and for at least another two years. This situation will eventually result in one of the airlines failing or pulling out leaving a weakened survivor to hike prices. To complicate matters in 2019 Pionair also applied to fly twice weekly services from Brisbane to Honiara and Brisbane to Nauru.

In summary, we do not believe that the proposed Virgin / Alliance cooperation will be of any real benefit to the public on the Brisbane – Honiara – Brisbane route until the market returns to some sort of normality.

Yours sincerely,



Brett Gebers
CEO