

# Application for authorisation for proposed conduct

## Required Information

### Parties to the proposed conduct

#### 1 Provide details of the applicants for authorisation, including:

##### 1.1 name, address (registered office), telephone number and ACN

Virgin Australia Airlines Pty Ltd (ACN 090 670 965), Virgin Australia International Airlines Pty Ltd (ACN 125 580 823), Virgin Australia Regional Airlines Pty Ltd (ACN 008 997 662), Virgin Australia Airlines (SE Asia) Pty Ltd (ACN 097 892 389) and Virgin Australia Cargo Pty Ltd (ACN 600 667 838) (together **Virgin Australia**)

Registered office: 56 Edmondstone Road, Bowen Hills, Qld, 4006

Telephone: 1300 552 270

and

Virgin Atlantic Airways Limited (01600117) and Virgin Atlantic International Limited (09539561) (together, **Virgin Atlantic**)

Registered office: The VHQ, Fleming Way, Crawley, West Sussex, United Kingdom, RH10 9DF

Telephone: +44 (0)344 8110 000

This Application is to be read and determined together with the submission supporting the Application (the **Submission**), which is lodged with this form.

##### 1.2 contact person's name, position, telephone number and email address

Louise Klamka  
Special Counsel  
Gilbert + Tobin  
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0458121100  
[lklamka@gtlaw.com.au](mailto:lklamka@gtlaw.com.au)

##### 1.3 a description of business activities

Commercial airline services (see section 1 and Attachments B and C of the attached Submission for further details).

##### 1.4 email address for service of documents in Australia.

Louise Klamka  
[lklamka@gtlaw.com.au](mailto:lklamka@gtlaw.com.au)

- 2 If applicable, provide details of the other persons and/or classes of persons who also propose to engage, or become engaged, in the proposed conduct and on whose behalf authorisation is sought.**

Not applicable

## **The proposed conduct**

- 3 Provide details of the proposed conduct, including:**

- 3.1 a description of the proposed conduct and any documents that detail the terms of the proposed conduct**

Authorisation is sought for the Applicants to enter into a long term cooperation agreement in relation to services between Australia and the UK and Ireland, via Hong Kong and Los Angeles and any future midpoints (Proposed Cooperation).

Subject to the grant of authorisation, the Applicants propose to give effect to the Heads of Agreement and to negotiate and enter into a formal cooperation agreement.

A copy of the executed Heads of Agreement is set out in Confidential Attachment A to the Submission.

See sections 2.2 and 2.3 of the Submission for further details of the Proposed Cooperation and the Heads of Agreement.

- 3.2 the relevant provisions of the *Competition and Consumer Act 2010* (Cth) (the Act) which might apply to the proposed conduct**

The provisions on cartel conduct (Division 1 of Part IV) and section 45 of the Act may apply to the proposed conduct.

- 3.3 the rationale for the proposed conduct**

See section 2.4 of the attached Submission.

- 3.4 the term of authorisation sought and reasons for seeking this period. By default, the ACCC will assume you are seeking authorisation for five years. If a different period is being sought, please specify and explain why.**

Authorisation of the Proposed Cooperation is sought for a period of five years.

- 4 Provide documents submitted to the applicant's board or prepared by or for the applicant's senior management for purposes of assessing or making a decision in relation to the proposed conduct and any minutes or record of the decision made.<sup>1</sup>**

Please see the following documents which are provided as Confidential Attachments F and G to the Submission.

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<sup>1</sup> Applicants are encouraged to consult with the ACCC prior to lodgement to discuss the scope and range of documents needed in the context of the proposed conduct for which authorisation is sought.

- Virgin Australia's business case for the Virgin Atlantic Alliance Cooperation dated January 2019
- Virgin Atlantic's update on commercial cooperation presentation, dated 1 November 2018

**5 Provide the names of persons, or classes of persons, who may be directly impacted by the proposed conduct (e.g. targets of a proposed collective bargaining arrangement; suppliers or acquirers of the relevant products or services) and detail how or why they might be impacted.**

Not applicable. The Proposed Cooperation relates to the supply of services to the market generally.

## **Market information and concentration**

**6 Describe the products and/or services, and the geographic areas, supplied by the applicants. Identify all products and services in which two or more parties to the proposed conduct overlap (compete with each other) or have a vertical relationship (e.g. supplier-customer).**

The Applicants currently operate a bilateral codeshare between Australia and the UK/Ireland via Hong Kong and Los Angeles and each markets services between Australia and the UK/Ireland. The Applicants operate the following services:

- Virgin Australia operates international airline services between Australia and Hong Kong and between Australia and Los Angeles;
- Virgin Atlantic operates international airline services between the UK and Hong Kong and between the UK and Los Angeles; and
- Virgin Australia operates services within domestic Australia.

See sections 3 and 4 of the Submission for details of the markets within which the Applicants operate.

**7 Describe the relevant industry or industries. Where relevant, describe the sales process, the supply chains of any products or services involved, and the manufacturing process.**

The Applicants operate in the aviation industry.

See section 3 of the Submission for details on the relevant industry background and dynamics.

**8 In respect of the overlapping products and/or services identified, provide estimated market shares for each of the parties where readily available.**

Information on the Applicants' market shares in relation to relevant operated services, and in relation to the marketing of services between Australia and the UK/Ireland are provided in section 3 and Attachment D of the Submission.

**9 In assessing an application for authorisation, the ACCC takes into account competition faced by the parties to the proposed conduct. Describe the factors that would limit or prevent any ability for the parties involved to raise prices, reduce quality or choice, reduce innovation, or coordinate rather than compete vigorously. For example, describe:**

9.1 existing competitors

See sections 3.5 and 5.2 of the Submission.

9.2 likely entry by new competitors

See section 5.2 of the Submission.

9.3 any countervailing power of customers and/or suppliers

See section 5.2 of the Submission.

9.4 any other relevant factors.

See section 5 of the Submission.

### **Public benefit**

**10 Describe the benefits to the public that are likely to result from the proposed conduct. Provide information, data, documents or other evidence relevant to the ACCC's assessment of the public benefits.**

See section 6 of the Submission.

### **Public detriment (including likely competitive effects)**

**11 Describe any detriments to the public likely to result from the proposed conduct, including those likely to result from any lessening of competition. Provide information, data, documents, or other evidence relevant to the ACCC's assessment of the detriments.**

See sections 5 and 6 of the Submission.

### **Contact details of relevant market participants**

**12 Identify and/or provide names and, where possible, contact details (phone number and email address) for likely interested parties such as actual or potential competitors, key customers and suppliers, trade or industry associations and regulators.**

Interested parties will include participants in the travel, tourism and aviation industries.

### **Additional information**

**13 Provide any other information or documents you consider relevant to the ACCC's assessment of the application.**

See the Submission.

## Declaration by Applicant(s)

Authorised persons of the applicant(s) must complete the following declaration. Where there are multiple applicants, a separate declaration should be completed by each applicant.

The undersigned declare that, to the best of their knowledge and belief, the information given in response to questions in this form is true, correct and complete, that complete copies of documents required by this form have been supplied, that all estimates are identified as such and are their best estimates of the underlying facts, and that all the opinions expressed are sincere.

The undersigned undertake(s) to advise the ACCC immediately of any material change in circumstances relating to the application.

The undersigned are aware that giving false or misleading information is a serious offence and are aware of the provisions of sections 137.1 and 149.1 of the *Criminal Code* (Cth).



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Signature of authorised person

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Louise Klamka  
Special Counsel  
Gilbert + Tobin  
Authorised solicitor for Virgin Australia

This      day of

*Note: If the Applicant is a corporation, state the position occupied in the corporation by the person signing. If signed by a solicitor on behalf of the Applicant, this fact must be stated.*

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Signature of authorised person

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Louise Klamka  
Special Counsel  
Gilbert + Tobin  
Authorised solicitor for Virgin Atlantic

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# **Proposed cooperation between Virgin Australia and Virgin Atlantic**

**3 June 2019**

**Public register version – restriction of publication claimed in relation to part**

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## Executive summary

### Authorisation sought

Virgin Australia and Virgin Atlantic (**the Applicants**) propose to enter into a long-term cooperation agreement to create more competitive connecting international services between Australia and the UK/Ireland with a compelling Virgin-to-Virgin brand proposition. The Applicants will better utilise each carrier's home market strength, implement improved pricing and inventory management strategies and optimise their airport operations in Hong Kong and Los Angeles. The Applicants project that these service enhancements, together with loyalty and other product initiatives, will attract further passengers and better support existing and future services from Australia and the UK for Virgin Australia and Virgin Atlantic respectively. This is crucial to the sustainable operation of Virgin Australia's services between Australia and Hong Kong.

The Applicants propose to cooperate in relation to inventory management, sales and marketing, scheduling, network and capacity decisions, pricing, product, operations and procurement in relation to services between Australia and the UK/Ireland via mutual mid-points in Hong Kong and Los Angeles, and any future mutual connection points (**Proposed Cooperation**). The Applicants will also extend their existing codeshare and frequent flyer agreements as part of the Proposed Cooperation, improving access to, and pricing of, codeshare inventory and providing passengers with a strengthened loyalty proposition. The Applicants will jointly consider opportunities for new routes, frequencies and capacity up-gauges as part of the Proposed Cooperation.

Authorisation is sought on the basis that:

- the Proposed Cooperation will not result in any detriment and cannot result in a substantial lessening of competition in any market, and
- the Proposed Cooperation will result in significant public benefits which outweigh any potential detriment.

The Proposed Cooperation is fundamentally pro-competitive. By driving passenger feed, it will assist Virgin Australia to more sustainably operate its Australia-Hong Kong services in competition with Qantas and Cathay Pacific. More broadly, authorised cooperation and alliances of this kind are crucial to Virgin Australia's ability to offer an international network and establish itself as a second full service airline for Australian passengers, promoting choice and competition.

### The Proposed Cooperation will not result in a substantial lessening of competition

Virgin Australia and Virgin Atlantic operate entirely complementary networks. They do not operate on any overlapping routes and, for both operational and commercial reasons, will not operate services in competition with each other in the future. As such, Virgin Australia and Virgin Atlantic are not close competitors and the Proposed Cooperation cannot have the effect of substantially lessening competition in any market.

In particular:

- Neither Applicant operates services from Australia to the UK/Ireland: Virgin Australia operates services between Australia and mid-points in Hong Kong and Los Angeles, while Virgin Atlantic operates services

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between the UK/Ireland and mid-points in Hong Kong and Los Angeles. Neither can alone offer the whole journey on their own aircraft. Their services are complementary and the Proposed Cooperation will draw on the home market strengths of each carrier to improve the overall offer of each airline.

- The Applicants both *market* services between Australia and the UK/Ireland through a mixture of their own operated services and codeshare on other carriers. They each have a very small share of a highly competitive and fragmented market for services between Australia and UK/Europe, with a combined market share of less than 3%. In contrast, Qantas and Emirates have a combined market share of 40% with a long term authorised alliance in place. The Proposed Coordination could not have a detrimental effect on competition in relation to this market.
- The Proposed Cooperation is anticipated to improve the market position of the Applicants and increase the sustainability of their operated services between their home markets and mutual mid-points by attracting additional passenger feed to their services. This additional passenger feed is anticipated as a result of more efficient marketing and pricing, better connections, and service and product improvements which will be valued by passengers. The increased choice for passengers is inherently pro-competitive.

### Significant public benefits

While the Proposed Cooperation will not result in any detriment, it is anticipated to deliver significant public benefits in the form of:

- More competitive pricing on Australia-UK/Ireland services through increasing and simplifying access to codeshare inventory, the use of a delegated home-pricing model, and enhanced special prorates, enabling each party to more efficiently respond to market prices and maximise ticket sales across the whole connecting service;
- Product enhancements in both the airport and on-board, with an improved seamless Virgin-to-Virgin product which will be valued by passengers, including by aligning baggage allowance, seat allocation, meal requests, check-in and boarding processes and lounge access;
- Improved schedules, the opportunity for reduced connection times and an increased likelihood of new services, frequencies and additional capacity through aircraft up-gauges as a result of cooperation on network decisions and projected increased passenger feed;
- Valuable improvements to reciprocal frequent flyer arrangements, lounge access and status recognition for passengers flying on Virgin Australia and Virgin Atlantic services;
- Resulting tourism benefits as incoming tourists have increased flight options with connections beyond the Australia gateways on Virgin Australia's domestic network and because of increased incoming passenger numbers;
- Efficiencies and cost savings for each Applicant resulting from coordination of airport operations, joint procurement, improved pricing and revenue management processes; and
- An increase in competition in the markets for the provision of air

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services between Australia and UK/Europe and, in particular, between Australia and Hong Kong.

### Interim authorisation requested

The Applicants also seek interim authorisation to immediately commence implementing the Proposed Cooperation.

The Proposed Cooperation arrangement is important to increase passenger feed to Virgin Australia's recently launched services between Australia and Hong Kong. Virgin Australia is the only competitor to dominant carriers Qantas and Cathay Pacific on these routes and lacks their network connections, home carrier strength and incumbency. While Qantas and Cathay Pacific enjoy load factors of over 80% and a combined market share of over 90%, Virgin Australia's load factors hover around 66% and it has less than 10% market share. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. The Proposed Cooperation is anticipated to result in increased passenger numbers on these services and will improve their performance. From a competition and passenger perspective, and in the interests of Virgin Australia's network offer, it is in the public interest to take steps to improve the sustainability of these routes. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

As the Proposed Cooperation results in no anti-competitive detriment and is anticipated to deliver material public benefits, there can be no risk in interim authorisation. Conversely, Virgin Australia will suffer potential detriment if it is delayed in its ability to increase passenger traffic, load factors and profitability on these routes.

### Term of final authorisation

The Applicants are committed to a long-term cooperation arrangement. They seek authorisation for a minimum period of five years.

## 1 The Applicants

### 1.1 Virgin Australia

The Virgin Australia Group currently operates a fleet of 133 aircraft on an average 500 flights per day, to 42 domestic destinations and 15 international destinations. In total, Virgin Australia offers a virtual network of approximately 470 destinations internationally, through its own brands Virgin Australia, Virgin Australia Regional Airlines (**VARA**), and through its codeshare partners. The Virgin Australia Group also operates Tigerair Australia and charter services.

Virgin Australia employs approximately 9,500 people and currently has strategic international alliances with four key international airline partners: Singapore Airlines, Etihad Airways, Delta Air Lines and HNA Aviation Group, as well as codeshare arrangements with a number of partners including Virgin Atlantic.

Over the past decade, Virgin Australia has transformed its business from a low-cost carrier operating on point-to-point routes into a contemporary airline group offering services in all key segments of the Australian aviation market (including business, leisure, charter, cargo and loyalty). Virgin Australia has also established a reputation for excellence in customer service – including lounge and frequent flyer benefits – and operational performance.

Further details on Virgin Australia are set out in **Attachment B**.

### 1.2 Virgin Atlantic

Virgin Atlantic was established in 1984 by Sir Richard Branson, and now employs almost 10,000 people worldwide.

Virgin Atlantic operates a fleet of 46 aircraft, servicing 26 long-haul destinations across North America, the Caribbean, Africa and the Asia Pacific. From 2004 to 2014, Virgin Atlantic operated its own one stop services between London and Sydney via Hong Kong, ultimately withdrawing the services due to high operating costs and poor route performance.

Virgin Atlantic is 49% owned by Delta Airlines and the airlines operate in a joint venture alliance. Virgin Atlantic currently has codeshare relationships with Virgin Australia, Air China, Air New Zealand, Flybe, Aeromexico, Air France, KLM and Singapore Airlines.

Further details on Virgin Atlantic are set out in **Attachment C**.

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## 2 The Proposed Cooperation

### 2.1 Proposed Cooperation

Virgin Australia and Virgin Atlantic (together, the **Applicants**) propose to enter into a long-term cooperation agreement in relation to services between Australia and the UK and Ireland, via Hong Kong and Los Angeles, and any other future mutual connecting points that may be operated by the Applicants (**Proposed Cooperation**).

The Proposed Cooperation will allow each of the Applicants to better support their services to and from Hong Kong and Los Angeles by increasing passenger traffic on these routes. Critically, the Proposed Cooperation **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

The ability to jointly price and schedule services and to better align products through authorisation, will enable the Applicants to offer services that will be valued by passengers and are expected to attract additional passengers. Through their complementary and culturally consistent brands, both Applicants will be able to offer an exclusive “Virgin to Virgin” product on the competitive Australia-London route, with aligned products, improved frequent flyer reciprocity and status recognition, and co-located facilities at Hong Kong airport and, in time, Los Angeles. The Proposed Cooperation will enable each of the Applicants to draw on the other’s home carrier strengths and resources to more efficiently market services. By promoting passenger feed and improving efficiencies, the Proposed Cooperation will increase the likelihood that the Applicants would introduce new services via mutual mid-points, especially in Asia, add new frequencies, and increase capacity by up-gauging aircraft on existing services.

Each airline is committed to a deep and lasting partnership which will focus on advancing key commercial and operational priorities to improve overall revenue performance for each airline, while providing valuable customer benefits.

Virgin Australia and Virgin Atlantic are not, and are not likely to be, competitors on any route. The Proposed Cooperation does not result in a substantial lessening of competition in any market. Rather, it increases competition by providing passengers with further choice and improved service on routes between Australia and the UK/Ireland and by supporting Virgin Australia’s services to Hong Kong in competition with Qantas and Cathay Pacific. Further, the Proposed Cooperation will result in very significant public benefits which would outweigh any potential detriment associated with the arrangements.

## 2.2 Agreements

On 24 May 2019, Virgin Australia and Virgin Atlantic entered into a non-binding Heads of Agreement in relation to the Proposed Cooperation. Subject to the grant of authorisation, the Applicants propose to give effect to the Heads of Agreement by agreeing a formal cooperation agreement, addressing the following areas of cooperation:

- joint pricing and inventory management on services between Australia and the United Kingdom and Ireland;
- joint scheduling on services that include each airline operating one sector each between Australia and the United Kingdom/Ireland;
- joint network planning including in relation to capacity and aircraft changes, frequencies and potential new services through mutual connecting points to drive traffic between UK-Australia;
- joint marketing, distribution, sales representation and cooperation, including joint bidding for corporate and industry contracts and small to medium-enterprise (**SME**) customers;
- joint discussions and agreement between the Applicants’ brand and product teams to enhance the ‘Virgin to Virgin’ customer experience, including scope for product innovation, and an enhanced Premium Customer Handling Agreement;
- enhanced frequent flyer and lounge cooperation;
- alignment of compatible customer service policies, for example in relation to disrupt management;
- joint procurement opportunities;

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- enhanced cooperation in relation to cargo operations;
- joint operational synergies at airports in Hong Kong, Los Angeles and any further connecting points that may be contemplated in the future; and
- metal neutral policies for routes operated by the Applicants, including the exploration of revenue sharing opportunities to achieve this, (together, the **Proposed Cooperation**).

The Heads of Agreement is subject to authorisation by the ACCC.

In addition, if the Proposed Cooperation is authorised, the Applicants intend to extend their existing codeshare agreements to enable:

- Virgin Atlantic codeshare (VS\*) between Australia and New Zealand on Virgin Australia controlled flights;
- Virgin Australia codeshare (VA\*) between London Heathrow (LHR) and other cities in the United Kingdom and Ireland on Virgin Atlantic controlled flights;
- in the future, Virgin Australia codeshare (VA\*) on Virgin Atlantic flights from other connecting points in the US and UK/Ireland, on itineraries that include a Virgin Australia flight from Australia; and
- more favourable prorates on codeshare inventory.

A copy of the executed Heads of Agreement is set out in **Confidential Attachment A**.

### 2.3 Scope of the Proposed Cooperation

Following authorisation, the Applicants intend to cooperate to implement the following improvements to their services, attract more passengers, and realise operational efficiencies:

- **Joint management of inventory:** The Applicants propose to coordinate their inventory strategies to ensure that both airlines maximise the sale of tickets and increase load factors on both carriers' services, benefiting customers as more inventory is made available at competitive prices.<sup>1</sup>
- **Pricing, sales and marketing:** The Applicants will utilise a home carrier delegation pricing model to enable sales and price co-ordination that is better matched to local market conditions and, together with favourable special prorates (discussed below), will be likely to result in more competitive pricing on connecting services offered by the Applicants under codeshare arrangements. Under this model, the Applicants will align public and private pricing on services between Australia and the UK/Ireland, with Virgin Atlantic assuming responsibility for marketing of services originating in the UK/Ireland, and Virgin Australia assuming responsibility for services originating in Australia. Authorisation will allow for the alignment of discounts, policies and incentives to ensure that the Applicants can more competitively price services and respond to competitor activity.
- **Potential revenue sharing:** Once the Proposed Cooperation has been implemented, the Applicants will consider implementing revenue sharing mechanisms which will have the effect of further aligning the airlines' incentives in

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<sup>1</sup> See section 6.4 for details on how inventory will be jointly managed.

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relation to pricing and the joint management of inventory to maximise sales across both airlines, regardless of the marketing carrier.

- **Joint provision of corporate contracts:** The Applicants propose to negotiate jointly for single corporate, travel management company (TMC) and agency groups contracts.
- **Network planning and joint scheduling:** The Applicants intend to share information on network planning and scheduling to optimise efficiency and improve the attractiveness of their services. Where the availability of airport slots and network considerations allow, the Applicants will cooperate to optimise schedules to reduce connection times and improve the passenger experience.
- **Potential for new international services and increased capacity:** By increasing passenger traffic on the Applicants' services, the Proposed Cooperation is more likely than the counterfactual to support the introduction of new international services by the Applicants via mutual midpoints and to support the addition of new frequencies or increased capacity through aircraft up-gauge. The Applicants intend to jointly consider the viability of new services under the Proposed Cooperation. In the immediate future, the Applicants expect that passenger uplift resulting from the Proposed Cooperation will make viable up-gauges to Virgin Atlantic's services between London and Hong Kong, while increased passenger feed will improve the performance of Virgin Australia's services between Australia and Hong Kong.
- **Enhanced customer experience and brand alignment:** through their complementary brands, the Applicants will be able to offer a "Virgin-to-Virgin" product on routes between Australia and the UK/Europe and work to enhance passengers' on board experience. Following authorisation, the Applicants propose to align customer-facing policies to give passengers a seamless experience in relation to baggage, priority boarding, and on-board inclusions such as seat selection and meal requests. The Applicants plan to work together to, where possible, co-locate their lounges in Hong Kong and Los Angeles to provide a more seamless customer experience.
- **Reciprocal frequent flyer and lounge benefits:** The Applicants already have a commercial arrangement in place in relation to reciprocal frequent flyer benefits. The Proposed Cooperation will provide the Applicants with the incentive to further enhance their cooperation, providing more opportunities for passengers to earn and redeem loyalty points and better reciprocity in relation to status points accrual. The Proposed Cooperation will enable the Applicants to justify investment in automated recognition of high value guests on-board and in the airport and allow the Applicants to provide online redemption of rewards points, increasing the value of each Applicants' loyalty programs and improving customer experiences.
- **Cooperation on airport operations and joint procurement:** The Applicants will investigate opportunities for joint procurement and cooperation on airport operations to avoid duplication of overheads and achieve operational synergies in Hong Kong and Los Angeles, reducing costs and increasing efficiencies.
- **Special prorates and extensions to existing codeshare:** While the Applicants have an existing arm's length codeshare arrangement in place, the Proposed Cooperation will give them the incentive to enter into an enhanced reciprocal special prorate agreement, allowing them to make available to each other codeshare inventory at lower prices.

### 2.4 Joint commercial rationale

It is in the clear commercial interest of both Virgin Australia and Virgin Atlantic to work together in an authorised cooperation arrangement to boost passenger traffic on their



international services between each of their home markets, Australia and the UK/Ireland, via existing mutual mid-points in Hong Kong and Los Angeles and any future mid-points. The two airlines are culturally aligned, and both operate under the Virgin brand, yet have entirely complementary networks. Cooperation will enable them to offer an enhanced and consistent Virgin-to-Virgin product on international services that will be valued by passengers. The Applicants would be able to work to optimise the scheduling of their services, more efficiently manage and price inventory, investigate new routes and frequencies, offer an enhanced loyalty and lounge proposition and improve their airport experience. The resulting increased value proposition of their product is anticipated to attract additional passengers to their services, while the ability to cooperate on pricing and marketing will drive further traffic to the services.

The Proposed Cooperation will allow the Applicants to capitalise on their home carrier strengths in their respective markets to promote the non-home carrier. By allowing the Applicants to cooperate on public fares and on contracts with travel agents and corporate customers, the Proposed Cooperation will facilitate more competitive pricing and increase passenger numbers on connecting codeshare services. Further opportunities for synergies in procurement and airport opportunities will also contribute to efficiencies and improve the passenger experience.

**(a) Virgin Australia's commercial rationale**

Virgin Australia requires the Proposed Cooperation to increase passenger feed on its recently launched services between Australia and Hong Kong. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. Virgin Australia considers that the Proposed Cooperation arrangements will also increase passenger feed on its services between Australia and Los Angeles and improve the attractiveness of its virtual international network.

Virgin Australia introduced services between Melbourne and Hong Kong in July 2017 and between Sydney and Hong Kong in July 2018, in competition with Qantas and Cathay Pacific. As part of its authorised alliance with HNA, Virgin Australia has a codeshare arrangement with Hong Kong Airlines. However, in October 2018, Hong Kong Airlines exited its poor performing services between Australia and Hong Kong, and subsequently exited its services between New Zealand and Hong Kong in May 2019.<sup>2</sup> While Hong Kong Airline's services were experiencing load factors of around 60%, Virgin Australia's are faring only a little better at around 66% on average. This compares to the dominant carriers, Qantas and Cathay Pacific, which have load factors of over 80% and a combined market share of over 90%. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

As the only other operator of services between Australia and Hong Kong, the success of Virgin Australia's services is important for competition within that market and a broader market for international air travel to and from Australia. This has been acknowledged by the International Air Services Commission (**IASC**) in its draft decision not to allow Cathay Pacific to codeshare on Qantas-operated services between Sydney, Brisbane and Melbourne, and Hong Kong.<sup>3</sup>

More generally, the strength and reach of Virgin Australia's international network is critical to its ability to gain access to the higher yield corporate and premium leisure travel

<sup>2</sup> Australian Business Traveller, *Hong Kong Airlines axes Gold Coast, Cairns flights* (3 June 2018), available at <https://www.ausbt.com.au/hong-kong-airlines-axes-gold-coast-cairns-flights>.

<sup>3</sup> Qantas Airways' application to the International Air Services Commission (IASC) for variation of Determination [2015] IASC 115 on the Hong Kong route; see Draft Decision [2019] IASC 204d, available at [https://www.iasc.gov.au/applications/files/Draft\\_Decision\\_2019IASC204d\\_Hong\\_Kong\\_20190524.pdf](https://www.iasc.gov.au/applications/files/Draft_Decision_2019IASC204d_Hong_Kong_20190524.pdf).

business, in competition with Qantas. Improvements to Virgin Australia's international network through the Proposed Cooperation will increase its overall service proposition. The Proposed Cooperation will also feed more passengers onto the Virgin Australia domestic network, helping to enhance its competitive offer to the corporate and government sectors, without the requirement to invest significantly in a UK point of sale. The Proposed Cooperation will therefore support Virgin Australia's strategy of achieving a comprehensive international network through a combination of operated and codeshare services, as part of its full-service offer to Australian travellers.

A copy of Virgin Australia's business case for the Proposed Cooperation is provided at **Confidential Attachment F**.

**(b) Virgin Atlantic's commercial rationale**

The Proposed Cooperation will assist Virgin Atlantic to improve its market presence in Australia/New Zealand and, by providing passenger feed from and connections into Australia, better support its international services.

Virgin Atlantic previously operated one stop direct services between London and Sydney via Hong Kong. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**, it anticipates materially increasing this passenger feed under the Proposed Cooperation, while also enhancing the product and services it can offer to passengers.

The Proposed Cooperation will address limitations in the existing arm's length commercial codeshare and loyalty arrangements between the Applicants, by providing the ability to jointly manage prices, inventory, and marketing strategies.

Virgin Atlantic has a single sales representative based in Australia/New Zealand and only conducts minimal sales activities in the region. The Proposed Cooperation will enable it to draw on Virgin Australia's local sales presence to better market its services. This, together with opportunities for more efficient inventory management and pricing, is anticipated to attract more connecting passengers to Virgin Atlantic's services.

Currently, Virgin Atlantic's services between London and Hong Kong and Los Angeles are experiencing strong load factors of approximately 85% and 83% respectively. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. Virgin Atlantic anticipates that the Proposed Cooperation will result in incremental increases in its market share of services between Australia and Europe.

A copy of Virgin Atlantic's Board update on commercial-cooperation, dated 1 November 2018, is provided at **Confidential Attachment G**.

**2.5 Current commercial arrangements between Virgin Australia and Virgin Atlantic**

Virgin Australia and Virgin Atlantic are not related bodies corporate. While they both operate under the Virgin brand, and have a common shareholder in the Virgin Group, they are not otherwise affiliates.

The Applicants do have existing arm's length commercial arrangements which they propose to extend as part of the Proposed Cooperation arrangements in order to achieve commercial and customer benefits over and above those realised through their existing arrangements.

**(a) Codeshare arrangements**

The current bilateral codeshare between the Applicants, launched in March 2018, was driven by Virgin Australia's commencement of services from Melbourne to Hong Kong

and was extended when Virgin Australia launched services between Sydney and Hong Kong in July 2018. Currently, passengers can purchase a ticket on either Applicant's code between Australia and London, with the ability to utilise a stop-over in Los Angeles when booking with either airline and a stop-over in Hong Kong when booking with Virgin Atlantic. Since October 2018, Virgin Atlantic has placed its code on an additional 14 domestic Australian city pairs operated by Virgin Australia. Virgin Australia and Virgin Atlantic flew 13,000 codeshare passengers in 2018, and expect to fly 18,000 in 2019, representing 24 passengers daily each way. Each airline has grown its share of sales of Australia-UK services, with the Applicants now accounting for just around 3% share of marketed services between Australia and the UK.<sup>4</sup>

**(b) Reciprocal lounge access**

The Applicants currently have in place an arm's length reciprocal lounge access arrangement in Hong Kong, London and Australia which allows high value guests to access lounges when travelling on eligible tickets.

**(c) Reciprocal frequent flyer arrangements and loyalty recognition**

The Applicants have in place a reciprocal frequent flyer earn and redemption agreement pursuant to which customers can earn points and status credits and redeem flights on both airlines' full domestic and international networks. However, currently members are required to make partner redemption bookings by calling the contact centre as the Applicants do not have live access to redemption inventory. While the Applicants recognise the loyalty status of each other's members, all recognition of high value guests is manual and requires passengers to show their loyalty card.

**2.6 Relationship to Virgin Australia's pre-existing authorised alliances**

As the ACCC is aware, Virgin Australia has several pre-existing authorised alliances in relation to international air travel.<sup>5</sup> The Proposed Cooperation is complementary to these existing arrangements and enables Virgin Australia to support its services to Hong Kong which it operates on its own metal. In particular:

- while Virgin Australia offers services between Australia and the UK via Abu Dhabi and Singapore with Etihad and Singapore Airlines respectively, it has no influence over pricing of these services, with its partner assuming responsibility for pricing decisions;
- neither the Singapore nor Etihad alliances include Virgin Australia's services between Australia and Los Angeles and Australia and Hong Kong;
- while the Delta Alliance applies to services between Australia and the US, Virgin Australia and Delta do not codeshare in relation to services beyond the US to Europe;
- since Virgin Australia's alliance with HNA and its subsidiary Hong Kong Airlines has been in place, Hong Kong Airlines has ceased flying to Australia. Due to restrictions in bilateral agreements, Virgin Australia's arrangements with Hong

<sup>4</sup> See market share data in section 3.3(b)

<sup>5</sup> **Hong Kong Airlines Authorisation** for routes between Australia and Hong Kong/mainland China (authorisation granted until 31 August 2022); **Singapore Airlines Authorisation** for routes between Australia and the UK/Europe via Singapore (conduct re-authorised until 23 September 2021); **Etihad Authorisation** for routes between Australia and the UK/Europe via the United Arab Emirates (conduct re-authorised until 7 December 2020); **Delta Airlines Authorisation** for routes between Australia and the United States (conduct re-authorised until 7 September 2020).

## Restriction of publication claimed in relation to part

Kong Airlines beyond Hong Kong are restricted to interline destinations in mainland China; and

- for commercial reasons, Virgin Australia and Virgin Atlantic propose to restrict their Cooperation to services between Australia and the UK/Ireland via mutual midpoints and do not propose to cooperate in relation to services to beyond European destinations.

### 2.7 Authorisation sought

The Applicants seek authorisation to make, and to give effect to, the Proposed Cooperation as set out in the Heads of Agreement, including by making and giving effect to a formal cooperation agreement and any other agreements as contemplated in the Heads of Agreement.

The Applicants submit that the ACCC should authorise the Proposed Cooperation for a period of five years. The Applicants intend that the Proposed Cooperation will operate for a minimum period of five years with opportunities for each party to renew their agreement, making five years an appropriate minimum authorisation period.

Authorisation is sought on the basis that:

- the Proposed Cooperation will not be likely to result in a substantial lessening of competition in any market; and
- the Proposed Cooperation will result in significant public benefits which outweigh any potential detriment.

### 2.8 Interim authorisation is necessary and risk free

The Applicants seek interim authorisation to immediately make and give effect to the Proposed Cooperation, pending the outcome of the ACCC's final determination. Interim authorisation is necessary to improve the performance and sustainability of Virgin Australia's services between Australia and Hong Kong.

The Australia-Hong Kong market is dominated by Qantas and Cathay Pacific which together have a combined traffic share of over 90% on the route (see Table 4 below). Virgin Australia launched services between Australia and Hong Kong in 2017 and is currently the only other competitor on the route. The IASC has recently issued a draft decision not to approve a proposed codeshare arrangement between Qantas and Cathay Pacific in relation to services connecting beyond and behind each airline's flights between Australia and Hong Kong,<sup>6</sup> finding that the arrangement would be "likely to entrench and expand the market position of Qantas and Cathay Pacific, to the detriment of Virgin Australia's competitive position".<sup>7</sup> Hong Kong Airlines has already pulled off its poor performing services between Australia and Hong Kong and **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. In these circumstances, the immediate implementation of the Proposed Cooperation is necessary **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

Virgin Australia's entry into the market created choice for passengers and has placed significant downward pressures on fares. As discussed in section 6.1 below, and as the

<sup>6</sup> See: <https://www.iasc.gov.au/applications/index.aspx#HK2>.

<sup>7</sup> See, Draft Decision [2019] IASC 204d at [6.2], available at [https://www.iasc.gov.au/applications/files/Draft\\_Decision\\_2019IASC204d\\_Hong\\_Kong\\_20190524.pdf](https://www.iasc.gov.au/applications/files/Draft_Decision_2019IASC204d_Hong_Kong_20190524.pdf).

## Restriction of publication claimed in relation to part

IASC has acknowledged in its draft decision,<sup>8</sup> Virgin Australia's entry into this market was met by discounting by Qantas and Cathay Pacific. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

**[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. Further, under the current bilateral Air Services agreements between Australia and Hong Kong, Cathay Pacific is utilising all seats available to Hong Kong-based carriers to the four major Australian capital cities. Even if Hong Kong Airlines were to re-enter the market, it could only offer services to other "secondary" cities in Australia, compromising its competitiveness.

**[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. Further, Virgin Australia and passengers seeking an alternative to Qantas and Cathay Pacific, will suffer detriment from any delay in Virgin Australia's ability to drive increased passenger traffic to its Hong Kong routes. Both Virgin Australia and the travelling public would therefore suffer harm from a delay in authorisation of the Proposed Cooperation.

In circumstances where the Proposed Cooperation cannot result in any discernible detriment, let alone a substantial lessening of competition in any market, and is likely to promote competition in the market for services between Australia and Hong Kong, there is no risk to a grant of interim authorisation. Any improvement in the sustainable performance of Virgin Australia's services must have a positive impact on competition and customer choice.

Interim authorisation of the Proposed Cooperation therefore promotes the object of the *Competition and Consumer Act 2010* (Cth) by enhancing consumer welfare through the promotion of competition in key international air service markets that, in turn, support competition between Virgin Australia and Qantas in the domestic market.

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### 3 Industry information: Air travel between Australia and the UK and Ireland

The Proposed Coordination will lower prices and improve services for passengers travelling between Australia and the UK and Ireland through two strategic mid-points: Hong Kong and Los Angeles.

Visitors from the UK and Ireland remain considerable contributors to the Australian travel and tourism industry, while remaining a key destination for Australian travellers.<sup>9</sup> The large number of passengers utilising these services mean that any improvements in service quality will result in benefits enjoyed by many consumers.

Services between Australia and the UK/Ireland are characterised by strong competition between many competitors offering services via various mid-points, including both end-point carriers and mid-point carriers.

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<sup>8</sup> See, Draft Decision [2019] IASC 204d at [5.26], [https://www.iasc.gov.au/applications/files/Draft\\_Decision\\_2019IASC204d\\_Hong\\_Kong\\_20190524.pdf](https://www.iasc.gov.au/applications/files/Draft_Decision_2019IASC204d_Hong_Kong_20190524.pdf).

<sup>9</sup> Australian Bureau of Statistics, *Overseas Arrivals and Departures, Australia, Dec 2018*, available at <https://www.abs.gov.au/ausstats/abs@.nsf/products/961B6B53B87C130ACA2574030010BD05>; Australian Trade Commission, *Tourism success: Inbound tourist number exceeded 8.5 million in 2016-17 and expenditure reached A\$40*, available at <https://www.austrade.gov.au/News/Economic-analysis/tourism-success-inbound-tourist-number-exceeded-8-5-million-in-2016-17-and-expenditure-reached-a-40-billion>.

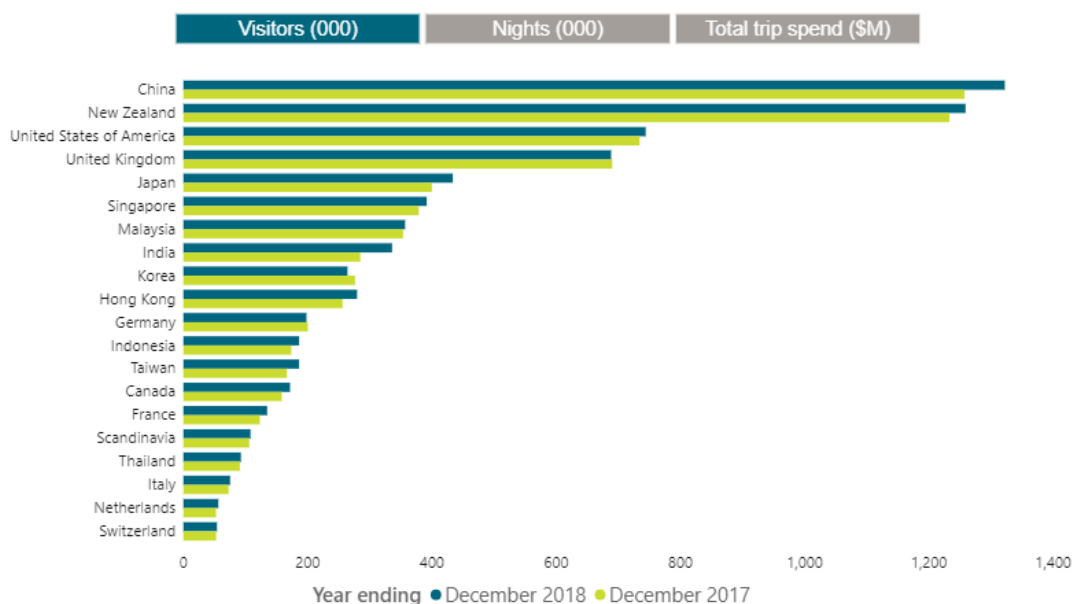
### 3.1 Inbound visitors from the UK and Ireland are crucial to Australian tourism

International tourism contributes \$55.3 billion to Australia's GDP and is a growing contributor to the Australian economy, with international visitor arrivals expected to rise from 8.5 million in 2017 to 9.7 million visitors in 2018/19.<sup>10</sup> The UK remains one of the strongest contributors to the Australian inbound tourism industry.

In 2018, the UK was Australia's fourth largest inbound market for visitor arrivals (see Figure 1), with Australia welcoming 699,280 visitors (comprising 33% new tourists and 67% return visitors) who spent \$3.1 billion during their stays.<sup>11</sup>

While the number of arrivals to Australia from the UK remains steady year on year, their total spend in Australia increased 1.2% from 2017 to 2018.<sup>12</sup> Over the next eight years, the UK is anticipated to remain one of Australia's top ten inbound markets,<sup>13</sup> and by 2020 it is expected that UK visitors to Australia will spend between \$5.5 and \$6.7 billion dollars during their stays.<sup>14</sup>

**Figure 1 Arrivals growth by market (2017 and 2018)**



Source: Tourism Research Australia

<sup>10</sup> Tourism Research Australia, *International Visitor Survey Results 2018*, available at <https://www.tra.gov.au/International/international-tourism-results>.

<sup>11</sup> Tourism Research Australia, *International Visitor Survey Results 2018*, available at <https://www.tra.gov.au/International/international-tourism-results>.

<sup>12</sup> Tourism Research Australia, *International Visitor Survey Results 2018*, available at <http://www.tourism.australia.com/en/markets-and-stats/market-profiles.html>.

<sup>13</sup> Australian Trade Commission, *Tourism success: Inbound tourist number exceeded 8.5 million in 2016-17 and expenditure reached A\$40*, available at <https://www.austrade.gov.au/News/Economic-analysis/tourism-success-inbound-tourist-number-exceeded-8-5-million-in-2016-17-and-expenditure-reached-a-40-billion>.

<sup>14</sup> Tourism Research Australia, *International Visitor Survey Results 2018*, available at <http://www.tourism.australia.com/en/markets-and-stats/market-profiles.html>

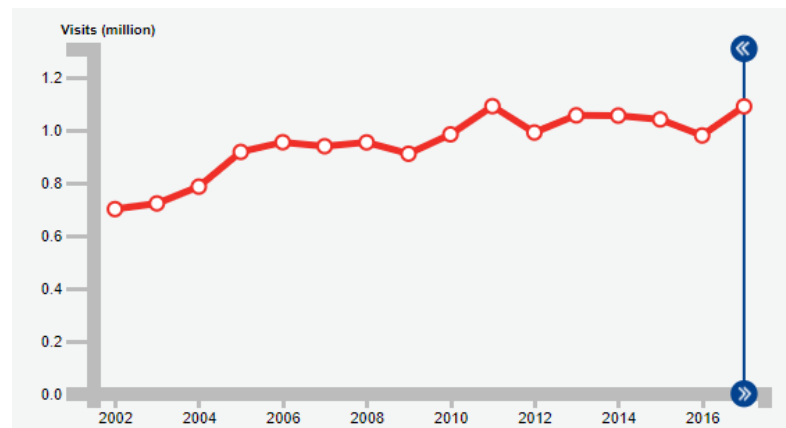
### 3.2 The UK and Ireland are popular destinations for Australian travellers

The UK remains one of the top five destinations for travellers leaving Australia.<sup>15</sup>

Australian travellers visit the United Kingdom more than any other destination in Western Europe.<sup>16</sup> In 2017, 1.09 million travellers visited the UK from Australia. The steady growth in tourism (see Figure 2 below) is driven by the fact that more than two-thirds of Australian visitors to Britain are making a repeat trip, and almost 75% of Australian holiday-makers report that they are 'extremely likely' to recommend Britain as a holiday destination.<sup>17</sup>

Between 2010 and 2017, Australian visitors to Ireland grew by more than 50% with 200,000 travellers making the journey.

**Figure 2 Growth of inbound visits to Britain from Australia (2002-2017)**



Source: Visit Britain

#### (a) The importance of international connections via mid-points

The viability of international air travel services between Australia and the UK and Ireland hinges on each airline's ability to offer competitive behind and beyond network connections through a range of mid-points, including Hong Kong and Los Angeles.

As recognised by the ACCC, Australia's small population and relative geographical isolation constrains point-to-point travel to international destinations.<sup>18</sup> While seat utilisation is highest (at 93.8%) for non-stop services from Australia to the UK,<sup>19</sup> most carriers cannot offer non-stop services between Australia and the UK and Europe due to the length of routes and their need to refuel, change crew and service aircrafts. While Virgin Atlantic has aircraft technically equipped to undertake a non-stop route from Perth to London Heathrow, demand, yields and payloads are such that it would not be possible to make these services commercially viable. Flights from Australia to the UK and Ireland therefore need to connect through intermediate points, most commonly in Asia and the

<sup>15</sup> Tourism Research Australia, *Outbound National visitor survey – year ending September 2013*, available at [https://www.tra.gov.au/ArticleDocuments/185/Outbound\\_\(YE\\_Sept13\).xlsx.aspx](https://www.tra.gov.au/ArticleDocuments/185/Outbound_(YE_Sept13).xlsx.aspx); Australian Bureau of Statistics, *Overseas Arrivals and Departures*, February 2019, available at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/3401.0Main+Features1Feb%202019?OpenDocument>.

<sup>16</sup> Visit Britain, *Market segments: Australia*, available at <https://www.visitbritain.org/markets/australia>.

<sup>17</sup> Visit Britain, *Market segments: Australia*, available at <https://www.visitbritain.org/markets/australia>.

<sup>18</sup> ACCC, *Determination in respect of an airline alliance between Virgin Australia and Singapore Airlines*, 23 September 2016 at [91].

<sup>19</sup> Bureau of Infrastructure, Transport and Regional Economic (BITRE), *Statistical Report, Aviation: International Airline Activity 2017-18* (26 October 2018), at 9.

Middle East. The main mid-points for flights between Australia and the UK and Europe include Singapore, Bangkok, Hong Kong, Dubai, Abu Dhabi, Kuala Lumpur, Guangzhou, and, to a lesser extent, Los Angeles.<sup>20</sup>

The map at Attachment E illustrates that over one half of all scheduled services out of Australia are between Australia and South East and North East Asia. It is estimated that a material proportion of these services involve onward travel to the UK/Europe.

DDS data from March 2018 to February 2019 indicates that 14% of travellers between Australia and Hong Kong travel onwards to Europe. Hong Kong is a popular destination for Australians as well as an important mid-point destination for competitive air services to beyond destinations in Asia, the UK and Europe. It is also a gateway destination for passengers travelling both into and out of China. With the entry into the Hong Kong market of end-point European carriers, such as Lufthansa, Finnair and KLM, interline connectivity between Australia and Europe through Hong Kong is increasing.

Los Angeles is a popular destination for Australians, with many travelling to beyond destinations within the US. The length of the connecting times at Los Angeles mean that it is preferred as a stopover destination between Australia and Europe, rather than a direct connection.

But mere access to connecting points like Hong Kong and Los Angeles is not sufficient to overcome the commercial and operational impediments to air travel between Australia and the UK/Europe. Without cooperation on these routes, airlines like Virgin Australia and Virgin Atlantic cannot compete with incumbent carriers with global networks servicing the market, such as Qantas. Indeed, Virgin Atlantic's decision to withdraw its loss-making London-Hong Kong-Sydney route in 2014 illustrates the importance of being able to offer international behind and beyond connections to make services attractive and the importance of network connections to ensure traffic feed onto services.

#### **(b) Competition in air travel markets between Australia and the UK and Ireland**

The Australia-UK/Europe market is characterised by strong competition between a large number of competitors based in Australia, the Middle East, Asia and the UK and Europe. There are 53 carriers currently servicing the market with routes through many mid-points.

These routes are serviced by end-point carriers (that operate out of either Australia or Europe) and mid-point carriers (offering services from centrally located hubs, primarily in Asia or the Middle East) including:

- end-point carriers that operate between Australia and the UK/Ireland, namely Qantas, British Airways;
- 29 mid-point carriers that operate their own metal between Australia and the UK/Ireland through aviation hubs in Asia or the Middle East including Emirates, Air China, Cathay Pacific, China Southern Airlines, Malaysia Airlines, Singapore Airlines, Etihad, Qatar Airways, and Thai Airways International; and
- 22 carriers that operate one sector of the route and offer the other sector through codeshare on a partnered carrier.

The Applicants' main competitors on routes between Australia-Hong Kong and Australia-UK/Ireland and their passenger shares for 2016-2018 are set out in Table 1. On

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<sup>20</sup> Bureau of Infrastructure, Transport and Regional Economic (BITRE), *Statistical Report, Aviation: International Airline Activity 2017-18* (26 October 2018), p 14.



Australia-UK and Ireland routes, Qantas and Emirates have the largest passenger shares and hold a combined 40% share of the market through their authorised alliance. In contrast, Virgin Australia and Virgin Atlantic would have a combined passenger share of only 3%.

**Table 1 Share of traffic on services between Australia and the UK/Ireland 2016-2018**

	Airline	2016	2017	2018
<b>Australia-UK and Ireland – top 15 marketing carriers</b>				
1.	Emirates	24%	24%	25%
2.	Qantas Airways	16%	14%	15%
3.	Etihad Airways	14%	14%	13%
4.	Singapore Airlines	10%	11%	11%
5.	Qatar Airways	8%	9%	11%
6.	Cathay Pacific Airways	6%	6%	6%
7.	British Airways	6%	6%	5%
8.	Thai Airways	2%	3%	2%
9.	Malaysia Airlines	3%	2%	2%
10.	Royal Brunei Airlines	2%	2%	2%
11.	Virgin Australia	2%	3%	2%
12.	China Southern Airlines	2%	2%	1%
13.	Philippine Airlines	1%	1%	1%
14.	Virgin Atlantic Airways	1%	<1%	1%
15.	Air China Limited	1%	<1%	<1%
16.	Other	2%	3%	3%
	<b>Total PAX</b>	<b>2,139,889</b>	<b>2,298,729</b>	<b>2,390,175</b>

Source: IATA Direct Data Solutions

In addition to the carriers set out in **Table 1** above, there are a plethora of carriers that fly one-stop services from Australia to the UK and Ireland via key transit points.

Of the carriers currently serving the Australia-UK and Ireland market, over the past 18 months, the following carriers have either entered the market or introduced new services from Australia and/or strategic aviation hubs:

- **Qantas** launched non-stop flights from Perth to London in March 2018 on its Boeing 787-900 aircraft. In 2017, 322,500 passengers (around 15% of the total Australia-UK/Ireland traffic) flew between the UK and Perth with 63% of this market flying to London.<sup>21</sup> A year since launching the service, Qantas has recorded a 30% increase in passenger numbers between Australia and the UK via Perth.<sup>22</sup>

<sup>21</sup> Anna.aero News, *International markets are thriving*, 27 February 2018, citing OAG Traffic Analyser data available at <https://www.anna.aero/2018/02/27/international-airlines-now-carry-25-australian-traffic/>.

<sup>22</sup> Qantas, *One year later: Perth-London exceeds expectations... and speed records*, Media release, 26 March 2019.

- **Emirates** launched its new service between Dubai and Edinburgh in October 2018. On launch, the airline noted that direct flights to Scotland's most visited city by tourists would create "seamless" offerings for travellers in key inbound markets in Asia and Australia.<sup>23</sup> The arrival of the flight to Dubai is timed for connecting Emirates services to Perth, Melbourne and Sydney.
- **Royal Brunei** launched daily nonstop services to London through its Bandar Seri Begawan hub in October 2018. The new service (which no longer requires stopovers in Singapore and/or Dubai) is expected to improve the carrier's position in the Southeast Asia-London and Australia-London markets, and will significantly improve travel times on the Melbourne-London route. With the introduction of this service, Royal Brunei became the seventh airline from Southeast Asia to operate nonstop flights to London (along with Garuda Indonesia, Philippine Airlines, Vietnam Airlines, Malaysia Airlines, Singapore Airlines and Thai Airways).
- **Cathay Pacific** launched non-stop flights to the Republic of Ireland via Hong Kong in June 2018. The service operates four times per week between Dublin and Hong Kong feeding traffic via Asia to connecting flights to Australia.
- **Hainan Airlines** launched a nonstop service between Shenzhen and Dublin in February 2019. The Shenzhen-Dublin route is the airline's second direct route between mainland China and Ireland following the launch of the Beijing-Dublin-Edinburgh route in 2018. The route, with two round trips weekly on Mondays and Fridays is serviced by a Boeing 787-900.
- **Qatar Airways** launched its non-stop Doha-Cardiff service in May 2018, the airline's fifth gateway into the UK. On launch of the service, the First Minister of Wales notes that "*providing a direct route into the world's fastest growing hub airport, Hamad International Airport, will also bring Wales closer to leading global markets such as... Australasia.*"<sup>24</sup>
- **Air China** expanded its Beijing-London Heathrow service from 14 to 17 flights per week from 29 October 2018. The new service will be operated by an Airbus A330 for 3 flights per week with an over-night departure from Beijing.<sup>25</sup>
- **China Southern Airlines** will launch a Zhengzhou Xinzheng International Airport to London Heathrow service in June 2019. It is intended that the service will operate twice a week with a Boeing 787-8 aircraft.<sup>26</sup>

See **Attachment D** for further data on purpose of travel, passenger volume, capacity and load factors on Australia-Hong Kong routes and Australia and between Australia and Europe.

### 3.3 Competition in the market for services between Australia and Hong Kong

Qantas and Cathay Pacific dominate services between Australia and Hong Kong, holding a combined frequency, capacity and passenger share of 89%, 90% and 90% respectively.<sup>27</sup> Qantas and Cathay Pacific have each been serving the Hong Kong route continuously for more than 45 years. In contrast, Virgin Australia entered the Hong Kong

<sup>23</sup> Emirates, *Edinburgh becomes airline's second destination in Scotland after Glasgow*, Media release, 8 May 2019.

<sup>24</sup> Qatar Airways, *Qatar Airways touches down for the first time in Cardiff, the Capital of Wales*, Media release, 1 May 2018.

<sup>25</sup> Jim Liu, 'Air China increases London Heathrow service in W18', Routes Online (4 August 2018), available at: <https://www.routesonline.com/news/38/airlineroute/279917/air-china-increases-london-heathrow-service-in-w18/>.

<sup>26</sup> David Casey, 'China-Western Europe aviation market continues to grow', Routes Online (17 April 2019), available at: <https://www.routesonline.com/news/29/breaking-news/283908/china-western-europe-aviation-market-continues-to-grow/>.

<sup>27</sup> Bureau of Infrastructure, Transport and Regional Economics, *International Airline Activity*, 12 months ending November 2018.

market in July 2017 with flights on the Melbourne-Hong Kong sector, followed by the commencement of flights on the Sydney-Hong Kong sector in July 2018. Virgin Australia became the only other competitor to Qantas and Cathay Pacific on these routes in October 2018, after Hong Kong Airlines exited the Australian market.

Competition on the Hong Kong route from third country carriers is extremely limited, with 90% of passengers travelling on non-stop services operated by Cathay Pacific, Qantas and Virgin Australia. While the one-stop flights operated by Singapore Airlines offer the shortest elapsed journey time of the third country carriers on the route, these itineraries via Singapore extend trips to Hong Kong from both Sydney and Melbourne by around three hours compared to non-stop services and they attract relatively few passengers.

Both Qantas and Cathay Pacific have access to feed onto these services through code share arrangements with other carriers; nine third country carriers offer codeshare services on Cathay Pacific's flights on the route, while six third country carriers code share on flights operated by Qantas. Qantas codeshares on Cathay Pacific's flights on the Perth-Hong Kong and Cairns-Hong Kong sectors, as well as sectors between Hong Kong and each of Chennai, Colombo, Delhi, Ho Chi Minh City and Mumbai. Qantas also code shares on Cathay Dragon's flights to Bangalore, Da Nang, Hanoi, Kolkata and Yangon. In addition, Qantas code shares on sectors operated to/from Hong Kong by Air France, El Al Israel Airways and Jetstar Pacific. Cathay Pacific also offers code share services on selected flights across Qantas' domestic network. Qantas and Cathay Pacific sought to provide further feed to these services by allowing Cathay Pacific to place its code on Qantas' behind and beyond flights between Hong Kong and Australia. This proposal has been provisionally rejected by the IASC in a draft decision, on the basis that such an arrangement would entrench and expand the market position of Cathay Pacific and Qantas, resulting in a softening of competition and increase in prices.<sup>28</sup>

Capacity and passenger volumes for the Hong Kong route and each of the Sydney-Hong Kong and Melbourne-Hong Kong sectors for the 12 months to November 2018 are shown in Table 1 and Table 2 below.

**Table 2 Capacity volumes for Australia-Hong Kong routes**

	Seats	Growth vLY	
Sydney-Hong Kong	1,454,974	135,425	10%
Melbourne-Hong Kong	1,025,285	116,196	13%
<b>Total Australia-Hong Kong</b>	<b>3,514,611</b>	<b>266,609</b>	<b>8%</b>

**Table 3 Passenger volumes for Australia-Hong Kong routes**

	Passengers	Growth vLY	
Sydney-Hong Kong <sup>29</sup>	1,131,844	57,235	5%
Melbourne-Hong Kong	827,336	72,178	10%
<b>Total Australia-Hong Kong<sup>30</sup></b>	<b>2,806,905</b>	<b>131,074</b>	<b>5%</b>

<sup>28</sup> See, Draft Decision [2019] IASC 204d at [5.36] and [6.2, available at [https://www.iasc.gov.au/applications/files/Draft\\_Decision\\_2019IASC204d\\_Hong\\_Kong\\_20190524.pdf](https://www.iasc.gov.au/applications/files/Draft_Decision_2019IASC204d_Hong_Kong_20190524.pdf).

<sup>29</sup> Excludes Qantas Hong Kong passengers connecting to/from another Qantas international service.

<sup>30</sup> Includes Qantas Hong Kong passengers connecting to/from another Qantas international service. For the 12 months ending November 2018, this totalled 29,841 passengers across the Brisbane/Sydney/Melbourne-Hong Kong sectors combined.

Capacity flown for the 12 months ending November 2018 by each of the airlines serving the Sydney-Hong Kong and Melbourne-Hong Kong sectors is shown in Table 4 below.

**Table 4 Capacity flown for Australia-Hong Kong routes**

Airline	Seats	Seat share
Sydney-Hong Kong		
Cathay Pacific	875,560	60%
Qantas	496,639	34%
Virgin Australia	82,775	6%
<b>Total</b>	<b>1,454,974</b>	
Melbourne-Hong Kong		
Cathay Pacific	632,360	62%
Qantas	213,900	21%
Virgin Australia	179,025	17%
<b>Total</b>	<b>1,025,285</b>	

Load factors achieved by Cathay Pacific, Qantas, Virgin Australia and Hong Kong Airlines on the Hong Kong route for the 12 months to November 2018 are shown in Table 5 below.<sup>31</sup>

**Table 5 Load factors on Australia-Hong Kong routes**

	Load factor
Cathay Pacific	82.1%
Qantas	80.5%
Virgin Australia	65.8%
Hong Kong Airlines	60.7%
<b>Average</b>	<b>79.9%</b>

In its draft decision on Qantas' application to allow Cathay Pacific to place its code on services connecting beyond and behind Qantas' flights between Australia and Hong Kong, the IASC contrasted the established market position and comparative strength held by Qantas and Cathay Pacific with the competitive constraints faced by Virgin Australia as a new entrant to the Australia-Hong Kong market with a smaller network footprint.<sup>32</sup>

Over the past five years, the Australia-Hong Kong market has recorded a compound annual growth rate of 6.8%.<sup>33</sup> Higher passenger growth rates of 9-10% occurred in 2014 and 2015, before moderating back to 3-5% in 2017 and 2018.<sup>34</sup>

<sup>31</sup> Bureau of Infrastructure, Transport and Regional Economics, *International Airline Activity*, 12 months ending November 2018.

<sup>32</sup> See, Draft Decision [2019] IASC 204d at [5.17] and [5.49(a)], available at [https://www.iasc.gov.au/applications/files/Draft\\_Decision\\_2019IASC204d\\_Hong\\_Kong\\_20190524.pdf](https://www.iasc.gov.au/applications/files/Draft_Decision_2019IASC204d_Hong_Kong_20190524.pdf).

<sup>33</sup> Bureau of Infrastructure, Transport and Regional Economics, *International Airline Activity*, 12 months ending November 2018.

During the 12 months ending November 2018, Australian residents accounted for approximately 45% of travellers on the route.<sup>35</sup> For Australian Resident Returns, the main reason for travel were holiday (46%), visiting friends and relatives (31%) and business-related reasons (19%).<sup>36</sup> Visitor Arrivals were predominantly for the purpose of holiday (53%), followed by visiting friends and relatives (28%) and business-related reasons (10%).<sup>37</sup>

### 3.4 Competition in the market for services between Australia and the US

The ACCC has previously given extensive consideration to competition for services between Australia and the US in the context of authorisation applications by Virgin Australia and Delta and by Qantas and American Airlines. As the Proposed Cooperation does not directly impact competition within this market (other than a potential for additional passenger feed onto Virgin Australia's services), the Applicants have not provided additional data in relation to this market.

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## 4 Framework for analysis of the Proposed Cooperation

### 4.1 Relevant markets

The practical starting point for considering market definition in an authorisation context is to examine the services that are provided by the Applicants.

Relevantly, the Cooperation will provide for coordination on services between Australia and the UK/Ireland via mutual midpoints in Hong Kong and Los Angeles and any future mutual mid-points.

Services between Australia and the UK/Ireland fall within a broader market for air travel between Australia and Europe, as previously identified by the ACCC.<sup>38</sup> As outlined in **section 3** the Australia-Europe market is characterised by competition between a large number of carriers, including Qantas Airways, Emirates Etihad Airways, Singapore Airlines, Qatar Airways, Cathay Pacific Airways and British Airways.

The Applicants submit that the following markets are likely to be relevant to the ACCC's assessment of the Alliance:

- primarily, the supply of international air transport services for passengers travelling between Australia and the UK/Europe;
- the supply of international air transport services for passengers travelling between Australia and Hong Kong, given the importance of the Proposed Cooperation to the sustainable operation of Virgin Australia's services within this market;
- the supply of international air transport services for passengers travelling between Australia and Los Angeles; and

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<sup>34</sup> Ibid.

<sup>35</sup> Department of Home Affairs, Overseas Arrivals and Departures data.

<sup>36</sup> Includes reason for travel Business, Convention/Conference, Employment and Exhibition.

<sup>37</sup> Ibid.

<sup>38</sup> ACCC, *Virgin Australia and Etihad Airways Applications for revocation and substitutions of authorisation (A91510 and A91511) Final Determination*, 4 December 2015 at [32-34]; ACCC, *Virgin Australia and Singapore Airlines Applications for revocation and substitution of authorisation (A91539 and 91540) Final Determination*, 23 September 2016 at [34]; and ACCC, *Qantas Airways Limited and Emirates Applications for revocation and substitution of authorisation (AA1000400) Final Determination and Interim Authorisation*, 23 March 2018 at [74].

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- the supply of Australian air transport services for passengers travelling on domestic routes.

Given that there is no direct overlap between the operations of Virgin Australia and Virgin Atlantic, the precise geographic and product dimensions of the market do not alter the competitive assessment of the Proposed Cooperation.

### 4.2 Counterfactual

The relevant counterfactual in the absence of the Proposed Cooperation would be a less competitive outcome with substantially fewer benefits for travelling passengers and for the Australian economy.

Absent the Proposed Cooperation, Virgin Australia would be more limited in its ability to offer an international network that competes with that of Qantas and significant public benefits would not be realised.

### [CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED].

As discussed in section 5.1, with or without the Proposed Cooperation:

- Virgin Atlantic does not intend to re-commence offering services between Hong Kong and Australia; and
- Virgin Australia would not commence operating services to the UK, via any mid-point, in its own right.

Absent the Proposed Cooperation each of Virgin Australia and Virgin Atlantic would continue to offer their current services with their existing limitations for competing against Qantas and other airlines for international travel to and from Australia and for corporate and government accounts. If the Applicants are unable to implement the Proposed Cooperation, they will continue with their current more limited forms of cooperation, including their codeshare arrangements. However, absent the Proposed Cooperation, the Applicants would not have the incentive to offer more favourable pro-rates or to invest in policy alignment and deepen their cooperation in relation to frequent flyer, status and lounge benefits. Absent the Proposed Cooperation, they would not have the ability to jointly and more efficiently manage inventory, marketing and pricing or to jointly bid for and win valuable corporate accounts, which is crucial to operating a successful full service commercial airline.

### 4.3 The test for authorisation

Following amendments to the CCA which came into effect on 6 November 2017, the ACCC is empowered to grant a single authorisation for conduct which may attract a number of provisions of the CCA.<sup>39</sup> For conduct that may involve a contravention of the per se provisions of the CCA (as is the case for the Proposed Cooperation), the ACCC may grant authorisation if it is satisfied that the conduct would result, or be likely to result, in a benefit to the public that would outweigh any likely public detriment resulting from the conduct (net public benefits test). For conduct that may contravene other provisions of the CCA, the ACCC may also grant authorisation if it is satisfied that the conduct would not be likely to result in a substantial lessening of competition in the relevant markets.

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<sup>39</sup> *Competition and Consumer Act 2010* (Cth), s 88(5); Explanatory Memorandum, Competition and Consumer Amendment (Competition Policy Review) Bill 2017, p 60 [9.25].

“Public benefit” is not defined in the CCA but it is well established that the meaning of public benefit is broad and includes economic efficiency benefits, as well as “anything of value to the community in general”, applying a total welfare standard.<sup>40</sup> Benefits which flow through to the broader community and are sustained over time should be given most weight in this assessment.<sup>41</sup> The Applicants submit there can, and will be, no detriment arising from the Proposed Cooperation. On the other hand, the Proposed Cooperation will result in numerous and substantial public benefits, which will be enjoyed by a large number of Australian consumers and will have a positive impact on the travel industry and broader economy. The ACCC should therefore authorise the Proposed Cooperation on the basis that it satisfies the net public benefits test.

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## 5 The Proposed Cooperation will not result in any anti-competitive detriment

The Proposed Cooperation will not result in any anti-competitive detriment and cannot result in a substantial lessening of competition in the relevant markets. Instead, the Proposed Cooperation is pro-competitive as it strengthens the ability of the Applicants, especially Virgin Australia, to sustainably compete in these markets, providing important competition as against rival Qantas and resulting in more choice for passengers. In addition, the Proposed Cooperation’s enhanced service offering is likely to trigger a competitive response from other airlines including Qantas and its partners, particularly Emirates and Cathay Pacific.

### 5.1 No relevant competitive overlap between the Applicants’ services

The Proposed Cooperation will not lessen competition in the market for air passenger services between Australia and the UK/Ireland because the Applicants are not close competitors. The Applicants’ networks are entirely complementary and there is no relevant overlap between their services. In particular:

- Virgin Australia does not operate, and is highly unlikely to introduce, routes to the UK and Europe due to the geographical constraints, cost and network and feeder traffic limitations of point-to-point services from Australia, as set out in **section 3.2**.
- Virgin Atlantic operated one-stop services between London and Sydney from 2004 to 2014 but withdrew from the route as network inefficiencies and high costs made these services unviable (as described in **section 3.2** above). Virgin Atlantic now operates a standalone London-Hong Kong service and does not intend to re-enter routes to Australia.
- **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**
- As set out in **section 3.2**, the Applicants both market services between Australia and Europe. This is the only area of competition between the Applicants who have a combined market share of just 3% of marketed services between Australia and Europe. Given their small market shares, cooperation in relation to the marketing of a proportion of these services cannot have a material effect on competition within this market.

Virgin Australia and Virgin Atlantic are not close competitors in any market, there is no overlap between the services operated by the Applicants and minimal overlap on services marketed by Virgin Australia and Virgin Atlantic. Any overlap, or potential for overlap, will

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<sup>40</sup> *Qantas Airways Limited* (2005), AcompT 9

<sup>41</sup> ACCC Guidelines for Authorisation of Conduct (non-merger) March 2019, p48 [8.9].

not raise any material competition issues: the Applicants would not have the ability or incentive to exercise any market power on Australia/UK-Ireland routes given the strong competition from other carriers, including Qantas and Emirates.

## 5.2 The relevant markets are highly competitive and characterised by other, larger carriers

As set out section 3.2, there are a large number of strong competitors which service routes between Australia and the UK and Ireland via a number of connecting points:

- On Australia-Europe routes, there are currently 53 carriers based in Australia, the Middle East, Asia and the UK and Europe servicing the market through various midpoints;
- On Australia-Europe routes, Qantas and Emirates, operating under an authorised alliance, have a combined market share of 40% and provide services for almost 1 million passengers in 2018; and
- Virgin Australia and Virgin Atlantic hold a combined market share of just 3%.

The ACCC has acknowledged that the Australia-UK/Europe leisure market is subject to “significant levels of competition” due to the expansion and entry of mid-point carriers.<sup>42</sup> Most recently, in the 2018 re-authorisation of the Emirates/Qantas alliance, the ACCC noted the intense competition on routes between Australia and UK/Europe and consistent growth in demand for and supply of airline services on these routes.<sup>43</sup>

Vigorous competition on routes between Australia and the UK is evident from:

- **Growth in passenger numbers:** as set out in **section 3**, the UK remains a strong contributor to the Australian tourism industry and the numbers of Australian visitors to the UK and Ireland continues to grow. Accordingly, passenger numbers in the Australia-UK/Ireland market have experienced consistent growth. Between 2016 and 2018, passenger numbers have grown by more than 10% and that number is expected to grow at a steady rate.
- **New entry and expansion:** as set out in **section 3.3(b)**, a number of carriers (including the dominant carriers, Emirates and Qantas) have introduced or announced new routes in the Australia-UK/Ireland market over the past 12 months. In addition to the fast-growing number of mid-point carriers offering services to the UK/Ireland with connections to Australia, Qantas has launched a successful nonstop service between Perth and the UK recording a 30% increase in passenger numbers between Australia and the UK via Perth.<sup>44</sup> Qantas is also exploring opportunities to commence non-stop flights accommodating over 300 passengers across four classes from Sydney and Melbourne to London by 2022, an initiative known as ‘Project Sunrise’.<sup>45</sup> As part of the project, Qantas is seeking feedback from frequent flyers on potential innovations that would make the 22 hour journey

<sup>42</sup> ACCC *Determination of Applications A91195 and A91196 for revocation and substitution of authorisation*, 31 March 2010 at 49.

<sup>43</sup> ACCC, *Determination and Interim Authorisations in respect of an airline alliance between Qantas Airways and Emirates*, 23 March 2018 at [125]-[126].

<sup>44</sup> Qantas, *One year later: Perth-London exceeds expectations... and speed records*, Media release, 26 March 2019.

<sup>45</sup> David Flynn, ‘Alan Joyce aims to ‘redefine’ business, first class on 20 hour flights’ *Australian Business Traveller* (21 February 2019), available at: <https://www.ausbt.com.au/qantas-says-project-sunrise-will-redefine-business-class-first-class>.



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more attractive to passengers including stretch and exercise zones, sleeping bunks and in-flight cafés and bars.<sup>46</sup>

- **Decreasing average fares:** As demonstrated in Figure 3 below, the average fares for Australia-UK/Ireland routes have decreased over the past three financial years.

**Figure 3 Average Economy Class Fares from Australia to United Kingdom (USD) from 2015 to 2019 (Source: DDS)**



Therefore, the Applicants will continue to face strong competition within the Australia-UK/Ireland market.

### 5.3 The Proposed Cooperation increases competition in domestic and international travel markets

The Alliance has a pro-competitive effect in domestic and international travel markets.

As the ACCC has noted, airline alliances are likely to result in the most benefits where there are network complementarities, the incentives of the alliance partners are aligned, and a procompetitive response is promoted.<sup>47</sup> All of these factors strongly apply to the Proposed Cooperation. By enabling the Applicants to offer an efficient and streamlined 'Virgin-to-Virgin' experience between Australia and the UK/Ireland, the Proposed Cooperation will bolster the Applicants' ability to compete with Qantas and promote a competitive response in this market.

The Proposed Cooperation will also enhance competition in international aviation to and from Australia by attracting additional passengers to Virgin Australia's services to Hong Kong, making their continuation more sustainable. As noted above, Virgin Australia is the only competitor to dominant carriers Qantas and Cathay Pacific on the Australia-Hong Kong route. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

<sup>46</sup> Kylie McLaughlin, 'Qantas Project Sunrise: Passengers reveal what they want on ultra-long-haul flights' *Traveller* (28 January 2019), available at: <http://www.traveller.com.au/qantas-project-sunrise-passengers-reveal-what-they-want-on-ultralonghaul-flights-h1ai1q>.

<sup>47</sup> ACCC, *Final Determination and Interim authorisation in relation to Qantas and Emirates*, 23 March 2018, at [88]; ACCC, *Draft Determination in relation to Virgin Australia and Delta Airlines*, 4 June 2015.

The Proposed Cooperation will enhance the competitiveness of Virgin Australia's virtual international network beyond its operated services to Hong Kong and Los Angeles.

The ability to coordinate fares will also allow the Applicants to offer a more competitive basic "round the world" fare product, which is popular in both the Australian and UK markets, on all-Virgin services. This will allow Virgin Australia to more closely compete with Qantas and offer a full-service alternative to Australia's dominant carrier.

Through the extension of codeshare destinations and enhancements to loyalty offers as part of the Proposed Cooperation, Virgin Australia's service and loyalty program will be enhanced, with more opportunities for customers to earn and redeem points on domestic and international flights with a VA code. Improvements to the value of Virgin Australia's loyalty and lounge offerings will be likely to promote a competitive response from Qantas. Further, Virgin Australia's ability to offer a strong international network and enhanced loyalty proposition will allow it to better compete for corporate accounts and high value guests, further challenging Qantas' dominance in these segments.

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## **6 The Proposed Cooperation will deliver significant public benefits**

The Proposed Cooperation will result in significant public benefits and no detriment, namely:

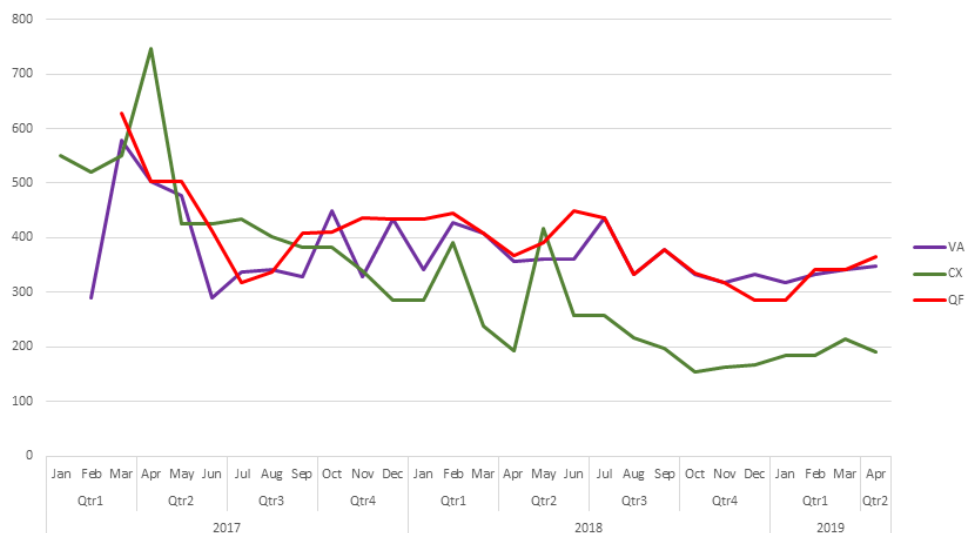
- improved sustainability of Virgin Australia's services between Australia and Hong Kong by promoting passenger feed, reducing costs, and improved sales and marketing opportunities;
- enhanced products and services which will be valued by customers and are expected to stimulate demand, including enhanced Virgin-to-Virgin airport and on-board experiences, enhanced reciprocal frequent flyer benefits, status recognition, and reciprocal lounge access, and, where possible, improved connection times, schedule coordination and/or co-location of airport check-in, lounges and other operations;
- more competitive pricing of the Applicants' services between Australia and the UK/Ireland because of the ability to jointly manage inventory and pricing through home market delegation models and improvements in special prorate;
- increased opportunities for new services, frequencies and capacity increases, including through the up-gauging of aircraft, as a result of joint network planning and projected increases in passenger feed;
- increased ability for the Applicants to realise cost savings and efficiencies, improving sustainability and profitability;
- promotion of Virgin Australia as a second full service Australian airline offering a comprehensive network of international and domestic services, in competition with Qantas and its partners to the benefit of Australian consumers; and
- meeting the demand for air travel to Australia from the UK and further stimulating tourism to Australia, including beyond its main international gateways.

### 6.1 Improved viability of Virgin Australia operated services between Australia and Hong Kong

The Proposed Cooperation will promote the sustainability of Virgin Australia's services to Hong Kong. Passengers will directly benefit from the continued capacity increases and low fares that were brought by Virgin Australia's entry into this market. It is in the public interest that Virgin Australia remain in the market as a third airline viably competing against dominant carriers Qantas and Cathay Pacific.

Virgin Australia's entry onto the Melbourne-Hong Kong route in July 2017 stimulated intense price competition between Qantas, Cathay Pacific and Virgin Australia. Since Virgin Australia's entry was announced in March 2017, sale fares at discounts of up to 40% off structural fare levels have been available in the market (see **Figure 4** below). This discounting was also observed on the Sydney-Hong Kong sector during this period, as both Cathay Pacific and Qantas offer the same price points on both sectors. As a result, Virgin Australia's entry into the market has driven significant decreases in airfares on both the Sydney-Hong Kong and Melbourne-Hong Kong routes.

**Figure 4: Lowest advertised base fares from Australia to Hong Kong** Source: Sabre.



Note: CX fares are base fares only and do not include fuel charges which were introduced on all flights from November 2018. VA entered the market with a launch sale fare of \$300.

Qantas and Cathay Pacific account for 90% of the Hong Kong-Australia market within which rival airlines such as Hong Kong Airways have been unsuccessful, withdrawing unprofitable services. Virgin Australia is the only other competitor in this market and there is little prospect of further new entry in the short to medium term. There is currently no capacity available under bi-lateral agreements for Hong Kong-based airlines to offer new services on routes between Hong Kong and the major Australian cities, as all available capacity has been used by Cathay Pacific.

**[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED].**

The Proposed Cooperation will result in increased passenger feed onto Virgin Australia's Hong Kong services, increasing load factors, improving their performance and **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED].**

Approximately 14% of passengers transfer on to Europe from Hong Kong. Virgin Australia has conservatively estimated that the Proposed Cooperation will increase the

number of passengers travelling on its services between Sydney/Melbourne and Hong Kong, with onward connections to London from approximately [CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED] passengers per year.<sup>48</sup> This would result in a material increase in revenue on the routes.

This increase in passenger numbers and load factors, enabled by the Proposed Cooperation, is essential to the continued operation of Virgin Australia's services to Hong Kong, which will have a very significant pro-competitive public benefit.

## 6.2 Enhanced ability to compete for corporate contracts

The ability to win corporate contracts is crucial to operating a successful and profitable full-service airline in Australia. Corporate contracts enable airlines to secure repeat, year-round business and attract high value guests. These contracts also assist in insulating against the volatility of demand and seasonality that affect leisure travel. The revenue from these customers enables airlines to underpin their network operations, invest in new routes, more frequencies and the quality of their on-board and value-added products such as lounges and frequent flyer programs, all of which are valued by customers.

The Proposed Cooperation will improve the Applicants' ability to compete for valuable corporate contracts, by being able to jointly review bids or Requests for Proposals from global or multi-national organisations with large corporate travel spend. Authorisation would allow the Applicants to discuss customer spend data, discounts, pricing and enhanced beyond contract customer benefits, to jointly bid for group travel business from Corporate Accounts, Travel Agency Partners and TMCs. This will enhance the Applicants' ability to provide commercially competitive offerings for these groups, including discounts based on collective spend with each airline. The ability to share pricing and market share data from various vendors such as PRISM and DDS will also allow the Applicants to better structure their deals with corporate customers or travel agency partners, providing the end customer with a more competitive offering. The Applicants will also align the SME proposition in each carrier's home market, by including the non-operating carrier in the local SME proposition. In doing so, the Applicants will facilitate the seamless cooperation of SME program reward benefits, allowing them to better compete against other airlines.

As a result, all contract customers will benefit from more choice of providers, improved services, and more competitively priced offers.

## 6.3 Enhanced products and services

In assessments of airline alliances, the ACCC has noted that material public benefits through enhanced products and services typically include:

- the facilitation of new services, additional frequencies and seats and the up-gauging of aircrafts;
- increased and better online connection options;
- greater loyalty program benefits and recognition; and

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<sup>48</sup> It has also modelled an increase in passengers connecting from Virgin Australia's Australia- Los Angeles services to London, to approximately [CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED] passengers per year.

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- improved and aligned lounge access.<sup>49</sup>

The Proposed Cooperation will result in material public benefits in relation to each of these categories of enhanced products and services, which are over and above the benefits available to customers through the existing arm's length commercial arrangements between the Applicants.

### **(a) Seamless customer experience on-board and at HKG and LAX airports**

The Proposed Cooperation will benefit consumers by facilitating the offer by Virgin Australia and Virgin Atlantic of a seamless customer experience on routes between Australia and the UK, with improved experiences in the air and on the ground. Travellers expect to have consistent service on Virgin-branded airlines and are often confused when two Virgin branded airlines operate at an airport and they are unable to utilise the airport services of one airline or access their lounge facilities. Through the Proposed Cooperation, the Applicants intend to address these inconsistencies and provide improved services to the benefit of customers. The Applicants will:

- align their customer facing policies so that baggage entitlements, meal inclusions and requests, seat selection and other service elements are consistent across the airlines; and
- where possible, co-locate check-in, baggage collection and lounge services, increasing convenience.

All these enhancements will improve the customer experience when travelling with Virgin Australia and Virgin Atlantic on services between Australia and the UK/Europe.

### **(b) Improved connections, reducing travel time and improving customer convenience**

By enabling the Applicants to jointly schedule services and cooperate in relation to the co-location of airport facilities, the Proposed Cooperation will facilitate improved connection times at each of Hong Kong and Los Angeles airports, benefiting customers.

Currently customers travelling on each of the Melbourne-Hong Kong and Sydney-Hong Kong routes experience a layover of between 6-7 hours at Hong Kong airport. This results in an elapsed journey time of 28 hours and 30 minutes, from SYD/MEL-LHR, which is less convenient than travel times via other mid-points such as Singapore, and can be especially unappealing for corporate travellers. For services to Europe via Los Angeles, passengers tend to stop-over instead of connecting same day. The Applicants will work together to make the timing as attractive as possible to facilitate holiday stop-overs at Los Angeles.

The co-location of airport facilities will also assist in improving passenger connections, as discussed below.

### **(c) Improved lounge access in HKG and LAX**

In Hong Kong, Virgin Atlantic currently departs from the main terminal in Hong Kong and Virgin Australia operates out of the Midfield Terminal alongside Hong Kong Airlines. Virgin Atlantic currently uses the Plaza Premium (First) lounge in Hong Kong (Gate 1) and Virgin Australia uses the Hong Kong Airlines lounge. This poses a challenge to the

<sup>49</sup> ACCC, *Determination: Application for revocation of A91267 & A91268 and the substitution of authorisations A91539 & A91540 lodged by Virgin Australia and Singapore Airlines in respect of an airline alliance, A91539 & A91540*, 23 September 2016, 12.

overall customer experience as passengers assume one Virgin operation in Hong Kong. Virgin Australia and Virgin Atlantic would take the opportunity as part of the Proposed Cooperation to explore possibilities for collocating operations in the main terminal and utilising the same lounge, providing a seamless “Virgin to Virgin” experience.

Los Angeles airport is currently undergoing significant modernisation and upgrade works initiated by Delta Airlines. As part of the Proposed Coordination, the Applicants will explore co-location of their lounges and other airport facilities as the development progresses.

**(d) Frequent Flyer Benefits**

The Applicants already offer customers significant benefits through the reciprocal earn and redemption of loyalty points on each other’s services and the recognition of status and high value guests. However, with the Proposed Cooperation, the Applicants will invest in valuable improvements to their reciprocal loyalty benefits, which will benefit the millions of customers who are members of Velocity or Flying Club, including in the following ways:

- By extending the existing codeshare arrangements to all onwards connections in Australia and New Zealand and in the UK and Ireland, passengers will have more opportunities to earn points on each other’s code. This will also open up more online connection opportunities for customers.
- Customers will be able to access greater status benefits, tier recognition, and greater ease of reward seat bookings and upgrades through the automation of rewards and tier status recognition through an online system.
- If the Proposed Cooperation is authorised, the Applicants would invest in improving their offering by introducing online points redemption facilities. Virgin Australia and Virgin Atlantic do not currently have real-time access to each other’s redemption inventory, and members are required to make partner redemption bookings by calling the contact centre. Virgin Australia’s internal modelling shows that member awareness of partner redemption options is considerably enhanced if members can view and book reward seats online. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. Based on the current Reward Seat booking profile for Velocity members, Virgin Australia expects the current annual volume of reward redemption bookings could increase from approximately **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**. This would help to enhance the member experience, grow redemption traffic and improve the value of both Applicants’ loyalty programs.
- The Applicants propose to explore the implementation of fully reciprocal automated recognition on the other’s flights between Australia and London. This would include aligned baggage allowance, preferred (priority zone) seat selection and automated disruption management to ensure a seamless customer experience between services.
- Under the Proposed Cooperation, the Applicants would introduce reciprocal tier bonus points earn on each other’s flights to reward high value members. Based on performance of tier member intakes, Virgin Australia estimates that Velocity members would earn additional bonus points on around **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]** Virgin Atlantic segments yearly.
- The Applicants also propose to implement a reciprocal points upgrade proposition on each other’s flights. This would be a unique customer proposition on the Australia to London route, which is not currently offered by any competitors. Although it is difficult to assess the potential take-up of such an offering, of the

**[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]** Velocity members who have travelled with Virgin Atlantic in the past 12 months, Virgin Australia estimates that **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**% would have had sufficient points to upgrade to Business class.

- The Applicants will explore further opportunities to integrate each other's brands into points earn and redemption offers.

**(e) Increased likelihood of more capacity, additional frequencies or new international services between Australia and the UK**

Increased load factors, improved operating profitability, better distribution and network feed, and optimisation of operational schedules and network connections, all of which will be available to the parties if the Proposed Cooperation is authorised, will create opportunities for additional frequencies and capacity for both carriers and a greater potential for the development of routes by new mutual mid-points than absent the Proposed Cooperation.

In the short-term, this is likely to take the form of up-gauges to aircraft on existing Virgin Atlantic services because of increased load factors under the Proposed Cooperation, increasing available capacity. In the longer term, the Applicants will consider opportunities for the introduction of new services with connections onto Australia and the UK. The increased traffic feed and the ability to jointly market and cooperate on pricing and inventory management would make potential new services more viable than without the Proposed Cooperation.

The Applicants will immediately make available more online connecting services through the expansion of their existing codeshare arrangements to all connecting points in Australia and the trans-Tasman and in the UK and Ireland. Over time, they will explore further opportunities for expansion. **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]**.

**6.4 More efficient and competitive pricing**

Authorisation of the Proposed Cooperation will allow Virgin Australia and Virgin Atlantic to make more seats available at lower prices to passengers flying between Australia and the UK/Ireland via Hong Kong and Los Angeles.

Under their current arm's length codeshare, each airline has a disincentive to make available to the other codeshare inventory in lower fare buckets if it considers that there may instead be the opportunity to sell those seats itself as it looks to solely maximise the yield on its own services rather than to fill up its available seats through the supply of codeshare inventory, which brings in only a small amount of revenue. When it makes these calculations, it does so without full information and may miss opportunities to fill otherwise empty seats with connecting passengers. With joint management of inventory, the Applicants will be transparent with each other about demand for their operated services and opportunities for discount connecting fares to stimulate demand. By coordinating inventory strategies, the Applicants will be able to maximise sales of tickets across the whole journey between Australia and the UK/Ireland and offer more competitive pricing. This will enable the Applicants to maximise the traffic feed on their operated services, achieving better load factors, and uplifts in revenue, making it more likely that existing services are profitable and increasing the likelihood of capacity increases to those that are already successful.

Together with the agreement of more favourable pro-rates, this strategy will result in more competitively priced codeshare seats being made available to customers and increased

load factors for the Applicants. More broadly, it will stimulate price competition in these markets, incentivising other carriers to offer more competitive fares.

### **6.5 Greater ability to realise efficiencies and cost savings**

The Applicants will be able to realise efficiencies from the optimisation of operational synergies in Hong Kong in particular, as well as other cost savings through opportunities for joint procurement, sharing of sales and marketing resources, and staff exchange programs. The Proposed Cooperation avoids duplication of effort and achieves cost savings through the ability to utilise home carrier pricing delegation and leverage the home marketing strength of each Applicant.

Further operational synergies are available in respect of ground handling contracts, implementing a joint management team of one Airport Manager, one contract manager and two Duty Managers, collocating lounges, using joint ticket and back of house offices, and potentially operating out of the same gate and terminal. The Applicants estimate savings of approximately USD\$50,000 per carrier per year from these operational synergies.

While fewer passengers travel between Australia and the UK via Los Angeles, such that the Applicants have not yet quantified the potential operational efficiencies available to them at that connecting point, authorisation of the Proposed Cooperation would also allow them to explore and achieve efficiencies there.

### **6.6 Stimulation of inbound tourism to Australia and to destinations beyond the Australia gateways**

The Proposed Cooperation will enable both Virgin Australia and Virgin Atlantic to leverage the distribution and marketing strength of each carrier, and their brand strengths, to promote the new and improved services that will be implemented by the Applicants. This will result in market stimulation and a likely increase in passenger numbers.

Increased passenger numbers on these services will have a direct benefit for tourism to Australia.

Increases in tourism are clear public benefits. The ACCC has previously acknowledged that “there is a public benefit in increased tourism resulting from increased capacity and lower fares” within aviation markets.<sup>50</sup> Similarly, the Tribunal has previously found that “increased tourism has a benefit for the general community because of the funds that will be injected into the community from increased travel.”<sup>51</sup>

The Proposed Cooperation may also stimulate passenger numbers by giving the Applicants the capacity to offer more competitive fares to customers, including sales fares to stimulate demand. As a result of the Applicants’ current lack of visibility into the other’s unpublished fares, the Special Prorate Agreement underlying the codeshare must include minimum revenue yields that each party owes the other; this is designed to guarantee that the codeshare tickets sold by each party provide a minimum level of revenue to the other and are not sold at a significant loss. This presents a constraint on the Applicants’ pricing, which would be removed if the Proposed Coordination is authorised.

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<sup>50</sup> ACCC, *Determination: Virgin Blue and Delta Airlines Authorisation Application A91151, A91152 and A91153* (10 December 2009) at [4.137].

<sup>51</sup> *Re Qantas Airways Ltd* (2004) ACompT 9 at 743.



The extension of codeshare under the Proposed Cooperation may also stimulate tourism beyond the main Australian gateways, increasing Virgin Atlantic feed onto Virgin Australia's domestic, Tasman and Pacific networks.

### **6.7 An increase in customer choice and an increase in competition**

The Proposed Cooperation will provide a strong Virgin-to-Virgin product alternative to Emirates, Qantas and Etihad in the Australia-UK and Ireland market. It will promote Hong Kong and Los Angeles as stopover destinations to the UK, stimulating increased fare and service competition from rival carriers, and will support Virgin Australia's continued development as Australia's second full service international airline group. This direct head-to-head competition will increase customer choice, and the impact of more competition on the Australia-UK/Ireland routes will lead to substantial public benefits.

The Applicants' commercial rationale for entering the Proposed Cooperation is the ability to offer travellers services and products with features and qualities superior to that which either airline can offer alone so that they can attract more passengers to their services.

The Applicants are entering into the Proposed Cooperation to enable them to provide a joint offering to passengers which is comprehensive in terms of schedule and network, through which competitive fares are bundled together with value-adds such as improved reciprocal frequent flyer and lounge benefits. The Proposed Cooperation will enable the Applicants to provide a corporate offer which more closely matches the services offered by Qantas. The commercial driver of the Proposed Cooperation is therefore fundamentally competitive. The broader and more integrated network and the ability to jointly market and promote a competitive alternative corporate offer to Qantas are the essential features of the Proposed Cooperation which result in more choice for business and leisure travellers and for corporate and government accounts, promoting competition across the relevant markets.

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## **7 Conclusion**

For the reasons set out in this submission, the Applicants submit that the ACCC ought to:

- grant authorisation for the Proposed Cooperation for a period of five years; and
- grant interim authorisation to enable immediate implementation of the Proposed Cooperation, as is necessary.

The Proposed Cooperation will not result in a substantial lessening of competition in any market. Further, the complementary nature of the Applicants' services enhances the public benefits of the Alliance while making any public detriment unlikely. Accordingly, the public benefits of the Alliance significantly outweigh any potential for detriment.

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**Attachment A    Heads of Agreement – Confidential**

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## Attachment B Virgin Australia

### B.1 Overview

Virgin Australia is a diversified, full service domestic and international passenger airline. It operates an extensive domestic and international short haul network. It operates long haul international services to Los Angeles and Hong Kong.

In addition, Virgin Australia offers services internationally through its virtual network which has been established following alliance partnerships with Delta Air Lines, Etihad Airways, Singapore Airlines, HNA Aviation Group and Hong Kong Airlines. Virgin Australia offers a virtual international network of approximately 480 destinations.

Virgin Australia operates a fleet of around 130 aircraft that includes Airbus A330, Airbus A320, Boeing 777, Boeing 737, ATR-72 turboprop and Fokker 100 aircraft and has a suite of inflight entertainment products and services on offer across its domestic and international networks.

Over the past decade, Virgin Australia has transformed its business from a low-cost carrier operating on point-to-point routes into a contemporary airline group offering services in all key segments of the Australian aviation market (including business, leisure, charter, cargo and loyalty). Virgin Australia has also established a reputation for excellence in customer service – including lounge and frequent flyer benefits – and operational performance.

### B.2 Virgin Australia's Operations

Virgin Australia is headquartered in Brisbane and employs approximately 9,500 people.

Table 7 sets out Virgin Australia's key operating statistics for the past three financial years.

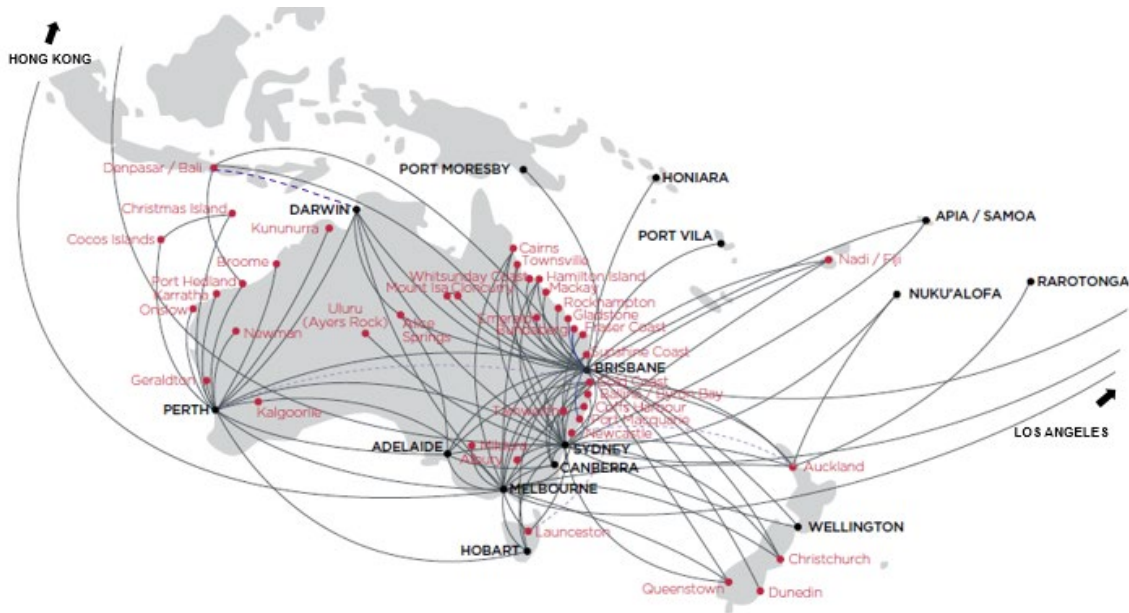
**Table 6 Virgin Australia operating statistics**

Detail	FY18	FY17	FY16
Passengers carried (millions)	24.9	24.3	23.7
Available seat kilometres (billions)	48.6	46.8	47.0

Virgin Australia branded domestic operations service all major Australian cities and main regional ports for both corporate and leisure travel. Virgin Australia currently operates approximately 3,000 domestic scheduled flights and approximately 160 charter flights per week, connecting all major Australian airports.

Virgin Australia's domestic and international route map is set out below.

Figure 5 Virgin Australia - current route map



**B.3 Tigerair Australia**

Since acquiring 100% of Tigerair Australia in 2013, Virgin Australia has secured a presence in the budget leisure market to complement the premium and leisure position of its core business. Since completion of the acquisition, Virgin Australia has committed to work closely with Tigerair Australia to deliver improved financial performance and expedite its transformation program.

**B.4 Other strategic alliances and partnerships**

Airline	Description
Delta Air Lines	The Delta Air Lines 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 2020.
Etihad Airways	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 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 and Pakistan, 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 sought re-authorisation of this international alliance, and on 23 September 2016 the ACCC re-authorised it for a further 5 years (until 15 October 2021). 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.
Charter Alliance	The Charter Alliance is an alliance between VARA, Virgin Australia and Alliance Aviation Services catering primarily to corporate charter customers in relation to the

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	provision of fly-in-fly-out (FIFO) air services. The alliance was recently re-authorised by the ACCC in May 2017 for an additional 5 years (until 9 June 2022). Under the alliance, the Applicants jointly bid for and contract with corporate customers, cooperating on pricing and scheduling for these customers. Customers are mainly comprised of mining and resources companies and some tourism operators but excludes government customers, charter brokers and ad hoc charter customers.
HNA Group	The HNA Aviation Group alliance received ACCC authorisation for five years in August 2017 (until 31 August 2022). The 5-year Alliance with HNA Aviation, Hong Kong Airlines and Hong Kong Express allows Virgin to coordinate international passenger transport services between Australia and mainland China, and Australia and Hong Kong.

### Other complementary international codeshare relationships including the Virgin Group

Virgin Australia's four 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 Virgin Atlantic, Hawaiian Airlines, South African Airways, Air Canada and Air Mauritius.

## **B.5 Fleet overview**

As at 31 December 2018, Virgin Australia and its subsidiaries including Tigerair Australia operated a fleet of 133 aircraft.

Table 8 sets out the current composition of Virgin Australia Group's aircraft fleet.

**Table 7 Virgin Australia fleet as at 31 December 2018**

<b>Aircraft</b>	<b>Number in fleet</b>
B737-800 & 700	85
ATR-72	8
A330-200	6
B777-300ER	5
F100	14
A320	15
<b>Total Group Fleet</b>	<b>133</b>

## **B.6 Velocity Frequent Flyer Program**

Virgin Australia's loyalty program, Velocity Frequent Flyer, is a points-based coalition loyalty program comprised of partnerships with earn opportunities which broadly span the following product sectors:

- airline and travel-related partnerships, including travel services, hotels and car hire;
- consumer retail or 'everyday' partnerships, including supermarkets, fuel, wine and dining; and
- financial service partnerships, including banking, credit cards and home loans.

The program offers global coverage and unique benefits for members, including status benefits for Virgin Australia's most frequent travellers. Velocity membership has increased significantly and currently has approximately 9.7 million members. Velocity has been linked with the frequent flyer

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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.

Velocity members have consistently recognised the value of the availability of redemption opportunities at Velocity. On 25 April 2019, Velocity was recognised in the Freddie awards for best travel loyalty program. In the Middle East & Asia/Oceania category, Virgin Australia and Velocity won across 5 out of 6 airline categories for:

- Program of the Year;
- Best Elite Program;
- Best Promotion;
- Best Customer Service; and
- Best Redemption Ability.

This is the seventh year in a row in which Velocity has won the Best Redemption Ability award. The Freddie Awards considered 223 loyalty programs in 237 countries and, in the 2019 judging process, received 7.1 million votes.

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## Attachment C Virgin Atlantic

Virgin Atlantic was established in 1984 by Sir Richard Branson, and now operates a fleet of 46 aircraft, servicing 27 long-haul destinations from London Heathrow, London Gatwick and Manchester to destinations in North America, the Caribbean, Africa and the Asia Pacific. Virgin Atlantic Airways is headquartered in Crawley in the United Kingdom and employs over 10,020 people worldwide.<sup>52</sup> From 2004 to 2014, Virgin Atlantic operated its own services between London and Sydney ultimately withdrawing the service due to costs and inefficiencies.

In 1999, Singapore Airlines acquired a 49% stake in Virgin Atlantic that was subsequently purchased by Delta Airlines in 2012. With Delta Airlines, Virgin Atlantic offers up to 39 flights per day between the United Kingdom and USA with onward connections to over 230 US and international cities.<sup>53</sup> From 2004 to 2014, Virgin Atlantic operated one-stop services between London and Sydney, via Hong Kong, ultimately withdrawing these services due to high operating costs and poor route performance.

In addition to its joint venture with Delta Airlines, Virgin Atlantic currently has codeshare relationships with Virgin Australia, Air China, Air New Zealand, Singapore Airlines, Flybe and Aeromexico. Virgin Atlantic intends to participate in a four-way joint venture with Delta Airlines, Air France and KLM.

### C.1 Virgin Atlantic Products and Services

Virgin Atlantic offers a five-product service, comprising Upper Class, Premium and a three-tiered offering in Economy.<sup>54</sup>

Virgin Atlantic currently has a three-year plan with an aim of becoming the most loved travel company. The plan is aimed at translating customer preference and partner enabled feed into a material increase in load factors, which will enable profitable growth and economies of scale. The Proposed Cooperation is consistent with this plan, which has three strategic pillars:<sup>55</sup>

- **'Red on the inside'**: Creating an inspirational and innovative people experience that is inclusive and developing strong leaders. The aim is to fuel a culture of innovation, building skills and a competitive mindset in an increasingly digital world.
- **'Red on the outside'**: Driving preference by giving customers every reason to choose Virgin Atlantic over the competition by addressing three key drivers of choice: experience, price and an enhanced loyalty programme.
- **'Best in partnering'**: Implementing an expanded transatlantic joint venture with Delta, Air France and KLM, expanding network and schedule to improve scale and increase customer choice and building on existing relationships to drive load factor growth.

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<sup>52</sup> Virgin Atlantic, *Annual Report 2018*, p 20, available at: <https://fr.zone-secure.net/-/virginatlantic/annualreport2018/>.

<sup>53</sup> Virgin Atlantic, *Annual Report 2018*, p 20, available at: <https://fr.zone-secure.net/-/virginatlantic/annualreport2018/>.

<sup>54</sup> Virgin Atlantic, *Press Kit 2019*, p 10-13, available at: <https://corporate.virginatlantic.com/content/dam/corporate/media-centre/Press%20Kit%20Master%20-%20Jan%202019.pdf>.

<sup>55</sup> Virgin Atlantic, *Annual Report 2018*, p 20, available at: <https://fr.zone-secure.net/-/virginatlantic/annualreport2018/>.

## C.2 Virgin Atlantic's Operations

Table 9 sets out Virgin Atlantic's key operating statistics for the past three financial years.

**Table 8 Virgin Atlantic operating statistics<sup>56</sup>**

Detail	FY18	FY17	FY16
Passengers carried (millions)	5.4	5.3	5.4
Available seat kilometres (billions)	47.414	46.15	47.17
Revenue Load factor (%)	78.6	78.3	78.7

## C.3 Other strategic alliances and partnerships

Alliance/ Partnership	Description
Delta Air Lines	Since its commencement in 2014, Virgin Atlantic's joint venture with Delta Airlines has connected 91,500 passengers a month to over 200 destinations, offered 26 non-stop destinations, 39 transatlantic flights a day including 9 flights a day between London and New York. <sup>57</sup> The joint venture has allowed Virgin Atlantic to offer 13% more seats from the United Kingdom to the US.
Delta Airlines, Air France and KLM <sup>58</sup>	In 2017, Virgin Atlantic and Delta Air Lines announced their intention to expand their strategic partnership to include Air France and KLM. The long-term joint venture would offer convenient flight schedules with competitive fares and reciprocal frequent flyer benefits, including the ability to earn and redeem miles across all carriers. The joint venture will offer customers more than 300 daily nonstop transatlantic flights. As part of the joint venture, Air France and KLM will acquire a 31% stake in Virgin Atlantic currently held by the Virgin Group and the Virgin Group will retain a 20% stake and Chairmanship. Delta Airlines will become the largest shareholder, retaining its 49% stake.
Connect Airways Consortium	Connect Airways is a British consortium formed in December 2018 to acquire the British regional airline Flybe. The consortium was founded by Virgin Atlantic, Stobart Aviation, Cyrus Capital Partners (through DLP Holdings). In FY18, the consortium serviced approximately 10.6 million passengers, covering 170 destinations, becoming the largest regional carrier in Europe.

In addition, Virgin Atlantic has codeshare agreements in place with the following airlines:

Airline	From/to UK destinations	To/from codeshare destination
Aeromexico <sup>59</sup>	Mexico City	<b>North America</b> - Atlanta, New York JFK, Las Vegas, Los Angeles, and Orlando Mexico City, Guadalajara, Monterrey, Querétaro, Silao <b>Mexico</b> - Cancun, Chihuahua, Havana, Puerto Vallarta, San Jose del Cabo, San Luis Potosi,

<sup>56</sup> Virgin Atlantic, *Annual Report 2018*, p 34-36, available at: <https://fr.zone-secure.net/-/virginatlantic/annualreport2018/>.

<sup>57</sup> Virgin Atlantic, *Press Kit 2019*, p 14, available at: <https://corporate.virginatlantic.com/content/dam/corporate/media-centre/Press%20Kit%20Master%20-%20Jan%202019.pdf>.

<sup>58</sup> Virgin Atlantic, *Press Kit 2019*, p 14, available at: <https://corporate.virginatlantic.com/content/dam/corporate/media-centre/Press%20Kit%20Master%20-%20Jan%202019.pdf>.

<sup>59</sup> Virgin Atlantic, *Aeromexico*,



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		Tampico, Tuxtla Gutierrez, Veracruz, and Villahermosa
Air France <sup>60</sup>	Aberdeen, Birmingham, Edinburgh, London, Manchester, Newcastle	<b>Paris</b> - Atlanta, Boston, Chicago, Dallas, Detroit, Houston, New York, Los Angeles, Miami, Minneapolis, Montreal, Seattle, San Francisco, Toronto, Vancouver, Washington
Air China <sup>61</sup>	London Heathrow, Shanghai, Beijing	<b>Beijing</b> - Chongqing, Chengdu, Wenzhou
Air New Zealand <sup>62</sup>	San Francisco, Shanghai, Los Angeles, Rarotonga, Auckland	<b>Auckland</b> – Dunedin, Sydney, Melbourne, Rarotonga, Christchurch, Queenstown, Wellington
Flybe <sup>63</sup>	Manchester, London Heathrow, Glasgow	<b>Manchester</b> – Aberdeen, Exeter, Milan, Amsterdam, Glasgow, Nantes, Belfast City, Hannover, Newquay, Paris, Jersey, Southampton, Düsseldorf, Knock, Toulouse, Edinburgh, Lyon <b>London Heathrow</b> – Aberdeen, Edinburgh, Newquay <b>Glasgow</b> – Belfast City, Birmingham, Cardiff, East Midlands, Manchester, Southampton
KLM Royal Dutch Airlines <sup>64</sup>	Aberdeen, Belfast, Birmingham, Bristol, Cardiff, Durham Tees Valley, Edinburgh, Glasgow, Humberside, Inverness, London City, London Heathrow, Manchester, Newcastle, Norwich, Southampton	<b>Amsterdam</b> - Atlanta, Boston, Calgary, Chicago, Edmonton, Houston, Las Vegas, Los Angeles, Miami, Montreal, Minneapolis, New York, San Francisco, Salt Lake City, Toronto, Vancouver, Washington
Singapore Airlines <sup>65</sup>	London Heathrow, Manchester, Singapore	
Virgin Australia <sup>66</sup>	Hong Kong, Los Angeles	<b>Hong Kong</b> – Melbourne, Sydney <b>Los Angeles</b> – Brisbane, Melbourne, Sydney And onward to domestic destinations: Cairns, Gold Coast, Canberra, Hobart and Adelaide.

### C.4 Fleet overview

As at 30 June 2018, the Virgin Atlantic group operated a fleet of 46 aircraft. Virgin Atlantic plans to introduce 12 new A350-1000s between 2019 and 2021 and 17 new 787-9s.

Table 10 sets out the current composition of Virgin Atlantic's aircraft fleet.

<sup>60</sup> Virgin Atlantic, *Air France*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/air-france.html>.

<sup>61</sup> Virgin Atlantic, *Air China*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/air-china.html>.

<sup>62</sup> Virgin Atlantic, *Air New Zealand*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/air-new-zealand.html>.

<sup>63</sup> Virgin Atlantic, *Flybe*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/flybe.html>.

<sup>64</sup> Virgin Atlantic, *KLM*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/klm.html>.

<sup>65</sup> Virgin Atlantic, *Singapore Airlines*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/singapore-airlines.html>.

<sup>66</sup> Virgin Atlantic, *Virgin Australia*, available at: <https://www.virginatlantic.com/gb/en/destinations/partner-airlines/virgin-australia.html>.

**Table 9 Virgin Atlantic fleet as at 30 June 2018<sup>67</sup>**

Aircraft	Number in fleet
B787-9	17
A350-1000	4
A330-300	10
B747-400	8
A340-600	3
A330-200	4
<b>Total Group Fleet</b>	<b>46</b>

### C.5 Flying Club loyalty program

Flying Club is Virgin Atlantic’s loyalty programme which enables passengers to earn ‘miles’ on every Virgin Atlantic flight and spend these points on rewards such as upgrades, flights, discounts and more. Members can earn points by spending at Virgin Atlantic’s various earn partners which include airlines, hotels, shopping, car hire, financial, Virgin Group and other partners. The programme currently has approximately **[CONFIDENTIAL – RESTRICTION OF PUBLICATION CLAIMED]** members.

In 2018, Virgin Atlantic and Virgin Group announced their intention to build a new programme with replace the existing loyalty programme, Virgin Red. The new programme will be implemented by setting up the Virgin Group Loyalty Company, owned by the Virgin Group and Delta Airlines.<sup>68</sup>

<sup>67</sup> Virgin Atlantic, *Annual Report 2018*, p 33, available at: <https://fr.zone-secure.net/-/virginatlantic/annualreport2018/>.

<sup>68</sup> Virgin Atlantic, *Virgin Group and Virgin Atlantic to launch new Virgin loyalty programme*, available at: <https://www.virgin.com/news/virgin-group-and-virgin-atlantic-launch-new-virgin-loyalty-programme>.

## Attachment D Key metrics: air travel between Australia and the UK and Ireland

Figure 6 Purpose of travel between Australia and the UK and Ireland (1 July 2017 to 1 January 2019) (Source: Department of Home Affairs)

	Visiting friends/ relatives	Holiday	Exhibition	Employment	Convention/ Conference	Business	Education	Other	Total
Resident return	40%	45%	<1%	2%	2%	6%	1%	3%	100%
Visitor arrival	49%	33%	<1%	7%	2%	6%	1%	2%	100%

Figure 7 Purpose of travel between Australia and the United States (1 July 2017 to 1 January 2019)

	Visiting friends/ relatives	Holiday	Exhibition	Employment	Convention/ Conference	Business	Education	Other	Total
Resident return	18%	63%	<1%	1%	5%	9%	1%	3%	100%
Visitor arrival	28%	45%	<1%	2%	5%	14%	3%	3%	100%

Figure 8 Purpose of travel between Australia and Hong Kong (1 July 2017 to 1 January 2019)

	Visiting friends/ relatives	Holiday	Exhibition	Employment	Convention/ Conference	Business	Education	Other	Total
Resident return	32%	45%	<1%	2%	4%	13%	1%	3%	100%
Visitor arrival	28%	52%	<1%	1%	2%	7%	7%	1%	100%

Figure 9 UK and Ireland – top 15 marketing carriers – via all mid-points (Source: DDS)

Marketing airline	2018 passenger numbers	Share
Emirates	590,111	24.7%
Qantas Airways Ltd.	359,415	15.0%
Etihad Airways	320,604	13.4%
Singapore Airlines	250,984	10.5%
Qatar Airways	260,579	10.9%
Cathay Pacific Airways	155,017	6.5%
British Airways	121,988	5.1%
Thai Airways International	58,111	2.4%
Malaysia Airlines	38,044	1.6%
Royal Brunei Airlines	48,209	2.0%
Virgin Australia International	41,316	1.7%
China Southern Airlines	29,393	1.2%
Philippine Airlines	13,384	0.6%
Virgin Atlantic Airways	13,219	0.6%
Air China Limited	11,380	0.5%
Other carriers	78,509	3%
<b>Total</b>	<b>2,390,263</b>	<b>100%</b>

Figure 10 Airlines marketing single stop services between Australia and the United Kingdom via Hong Kong only (Source: DDS)

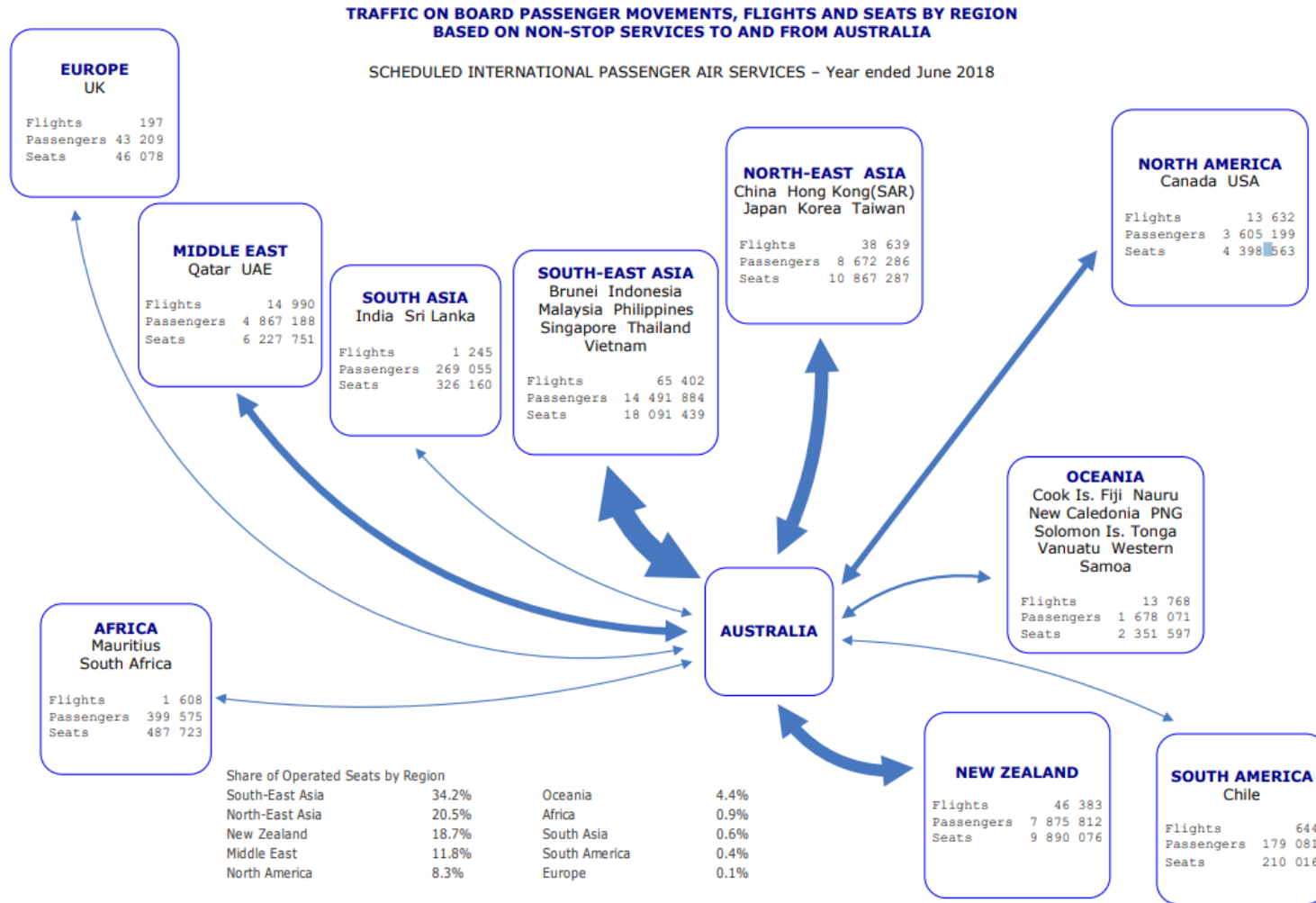
Marketing airline	2018 passenger numbers	Share
Cathay Pacific	144,244	82%
British Airways	14,895	9%
Virgin Atlantic	9,563	5%
Finnair	2,206	1%
Lufthansa	1,420	1%
SWISS	1,085	1%
Virgin Australia	969	1%
Air France	193	<1%
KLM Royal Dutch Airlines	137	<1%
Austrian Airlines	118	<1%
Turkish Airlines	28	<1%
Emirates	27	<1%
SAS	16	<1%
Jet Airways	9	<1%
Qantas	8	<1%
<b>Total</b>	<b>174,932</b>	<b>100%</b>

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Figure 11 Airlines marketing single stop services between Australia and the United Kingdom via LAX only (Source: DDS)

Marketing airline	2018 passenger numbers	Share
Virgin Atlantic	1823	30%
Virgin Australia	1713	28%
United Airlines	1202	20%
Qantas	648	11%
American Airlines	454	8%
Delta Air Lines	110	2%
Lufthansa	89	1%
<b>Total</b>	<b>6039</b>	<b>100%</b>

## Attachment E Scheduled international air travel to/from Australia



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**Attachment F Virgin Australia Business Case – Confidential**

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**Attachment G Virgin Atlantic update on commercial co-operation  
– Confidential**

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