



**Application for authorisation of the Charter Alliance between Virgin Australia and Alliance  
Airlines**

**Response to ACCC information request dated 15 September 2022**

**30 September 2022**

The information below comprises Virgin Australia Airlines' (**Virgin Australia**) and Virgin Australia Regional Airlines' (**VARA**) (together, **VA's**) response to the ACCC's information request dated 15 September 2022.

1. Please identify all charter opportunities that have arisen since 9 June 2017, which fall within the scope of the Charter Alliance Agreement (CAA), which were jointly bid for by the Applicants (successful or otherwise) where the customer specifically requested (in order for a bid for the full scope of work under the contract to be compliant) any of the following:
  - a. an integrated charter and RPT service (which may include connectivity to RPT flights, jointly scheduled services etc.)
  - b. access to the Velocity Frequent Flyer program,
  - c. availability of additional aircraft capacity (to be provided by either Virgin Australia or Alliance Airlines) in the event of additional flights or disruption.

Under the Charter Alliance (**CAA**), the Applicants can offer customers a more compelling, competitively priced product than could be provided on a standalone basis. It achieves this through increased operational efficiencies, fleet flexibility, network connectivity and access to value-added benefits (which can be important components of the employee benefits package provided to FIFO workers, as well as a driver of choice for resource companies).

Without the CAA, VARA does not have charter operations outside Western Australia (**WA**) and Virgin Australia only has access to limited aircraft with medium capacity of 70-100 seats. For certain routes and customers, aircraft of this capacity is more efficient, cost effective and is often specified as a preference.

In contrast, Qantas has the largest fleet of aircraft in Australia and is able to offer aircraft with capacities ranging between 36 and 180 passengers suitable for air transport services to and from regional and remote resource locations on a nation-wide basis. Qantas is also able to offer customers the ability to earn and burn frequent flyer points across both charter and RPT services on a large scale across its domestic and international network and schedule flights to ensure convenient connectivity between charter and RPT operations.

Following authorisation of the CAA, the number of service providers able to provide the option of a national, integrated travel offer including charter and RPT services with the ability to accrue frequent flyer points (**FFP**) on charter services as well as RPT services increased from one to two. This has increased choice for corporate customers and enabled competition against Qantas (which is uniquely positioned to offer these benefits to consumers in the absence of the CAA). The CAA's ability to offer both charter and RPT services allows the customer the option of connectivity advantages between charter and RPT operations and the ability to leverage its total air travel spend to generate benefits for its employees (including the ability to earn points while travelling for work on charter services, and

when travelling for work or leisure on RPT services, which can be redeemed for products and services through the Velocity Frequent Flyer program) or to use the option of these benefits as leverage to negotiate better outcomes if separate charter and RPT providers are chosen.

Access to each airline's complementary fleet under the CAA gives each Applicant access to a diverse range of aircraft, fleet scalability and unlocks operational flexibility. This allows more competitive offers to be put to customers because the Applicants can:

- meet fleet requirements which may not be able to be met on a standalone basis;
- optimise aircraft size to customer demand and frequency requirements; and
- minimise customer risk in terms of having available capacity when needed without having to undergo the significant investments and risks required to achieve the same outcome on a standalone basis.

The availability of the enhanced product and service offering achievable under the CAA increases the competitive pressure in the tender and supply of these services. The potential for a joint bid under the CAA (whether or not one was made) and the presence of an alternative to Qantas that is able to compete on a more like-for-like basis in terms of overall service features has a significant pro-competitive effect, particularly in a bidding market like that for FIFO services through which customers rely on competitive tension to generate optimal commercial outcomes. Whether or not particular service features are specifically required by a customer in order to form a compliant bid, competition is significantly enhanced by the ability for more than one provider to provide those features as part of its bid. The fact that the parties could individually submit a bid to supply part of a customers' overall service requirements, and may sometimes be successful in doing so, does not remove this significant pro-competitive benefit. It is a fact that together the parties can supply a broader range of services that meets the total needs of more customers than they can individually. It is a fact that, absent the CAA, Qantas is the only airline that can currently do so. This means that with the CAA, customers have the choice of two full-service alternatives, compared to one option without the CAA.

This is particularly the case where the competitiveness of these features as part of an offering:

- benefit from the scale of a broad and deep network (e.g., the increased value of integrated charter and RPT services where they provide better, more convenient connections over the range of services of value to FIFO workers and Frequent Flyer Points which can be earned and burned over a large range of services by those FIFO workers for leisure purposes); or
- require significant, ongoing investment on a large scale and the ability to recover the large, fixed cost base over time (e.g., having fleet diversity and scale to match aircraft type and capacity with demand and frequency).

The nature of these investments means that, although the corporate customers procuring these services are predominantly large, well-resourced resource companies, they are limited in their ability to truly replace the competitive tension provided under the CAA through switching in circumstances where there is not sufficient capacity of other operators to cover the required services or through sponsorship where their demand alone could not justify the expense. It also reduces the likelihood of other operators alone taking the risk of investing to achieve like-for-like offerings. As noted in the submission of Mineral Resources Limited (**Mineral Resources**) to the original CAA authorisation application "...the proposed Charter Alliance will allow Alliance Aviation and Virgin to compete on a stronger footing with QANTAS to the advantage of our workers".

**(a) Charter and RPT service (potentially including connectivity to RPT flights, jointly scheduled services etc)**

Examples of charter opportunities for which the CAA entered a joint bid where the customer requested both charter and RPT services include:

- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED].**

**[RESTRICTION OF PUBLICATION CLAIMED].**

**(b) Access to Velocity Frequent Flyer program**

**[RESTRICTION OF PUBLICATION CLAIMED].**

Examples of opportunities the CAA bid for where the customer specifically requested frequent flyer benefits include: **[RESTRICTION OF PUBLICATION CLAIMED].**

We also understand that in relation to the **[RESTRICTION OF PUBLICATION CLAIMED]** opportunity the CAA strengthened the value proposition for **[RESTRICTION OF PUBLICATION CLAIMED]** through the provision of Velocity Frequent Flyer points and other value-adds, including lounge access for eligible members and access to VA and its global partner network.

As noted in the submission of Mineral Resources to the original CAA authorisation application:

*“Our business is defined by efficiency; our families depend on our efficiency too, when it comes to the family side of FIFO logistics. Getting our workers safely to site and home is a significant matter to us. Ensuring this done on time, safely, efficiently, economically and in comfort is an employment differentiator for MRL”*

...

*“The proposal allows the offering of value adds for our employees and their families like lounge access and onward travel on Virgin’s network.”*

...

*“MRL considers that the proposed Charter Alliance will allow Alliance Aviation and Virgin to compete on a stronger footing with QANTAS to the advantage of our workers. MRL expects that Alliance and Virgin will together be able to offer more to customers and to MRL.”*

It is important to note that even if these services are not specifically *required* in a request for tender, the ability to provide them delivers choice and enhanced service for customers and is of real value to their employees who are regular passengers on the services.

**(c) Availability of additional aircraft capacity (by either VA or Alliance) in event of additional flights or disruption**

Under the CAA, VA and Alliance frequently collaborate in offering a mix of fleet types to customers, which can be used for additional capacity when required. For example, in terms of scheduled services:

- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED].**

VARA has also used Alliance aircraft on various occasions on an ad-hoc basis to ensure schedule integrity for customers during times of limited aircraft availability. In total, across both scheduled and ad-hoc services, between 9 June 2017 and 16 September 2022, VARA has utilised Alliance aircraft to operate a total of 1124 sectors. An example of this ad-hoc support is Alliance operating services for **[RESTRICTION OF PUBLICATION CLAIMED]** on behalf of VARA on a wet-lease basis.

Whether this is specifically requested by the customer or not, having the partnership enables access to a greater fleet capacity and range capability under the CAA. It is likely to strengthen the Applicants' bidding position as against Qantas, allowing increased efficiency, flexibility, and the ability to minimise the risk of disruption or inability to service additional requirements as and when required. In the absence of the CAA, it is only Qantas that has access to such a large and varied fleet, reducing the competitive constraint on Qantas to ensure a best price service offering is provided.

Other examples of opportunities where the CAA has enabled the Applicants to offer the customer additional aircraft capacity include:

- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED].**
- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED].**

VARA has also utilised Alliance aircraft on an ad-hoc basis to support clients' additional requirements as they arise throughout the life of a contract, where it would have otherwise been unable to do so on its existing fleet capacity. For example, VARA cross-hired Alliance F100 aircraft to operate **[RESTRICTION OF PUBLICATION CLAIMED].**

**2. Please identify any charter opportunities for which Virgin Australia believes it would not have been able to submit a compliant response without the CAA in the period from 9 June 2017 to the date of this request for information.**

The CAA allows the provision of a more compelling customer offer and the promotion of competition in the supply of these services. It has enabled the Applicants to submit conforming bids in cases where they could not be provided on a standalone basis. Even in circumstances where a compliant or conforming bid could be provided on a standalone basis, it has allowed for increased competitive

pressure in the provision of those services by combining the complementary operations of the Applicants and allowing operational efficiencies, flexibility and capability, and the ability to provide competitive value-added benefits. The ability to provide these enhanced services more efficiently under the CAA enables a more attractive compliant or conforming bid than would otherwise be possible.

Examples of charter opportunities for which VA would not have been able to submit a conforming response, or where its response would have been less competitive without the CAA, include:

- **[RESTRICTION OF PUBLICATION CLAIMED]**. VARA and Alliance pooled their resources to offer the customer a range of aircraft with capacity between 80 seats to 168 seats, offering flexibility to increase and decrease aircraft capacity to best suit the customer's project requirements. Without the CAA, VARA would have been unable to provide the smaller aircraft required by the customer as it does not have smaller F70 aircraft in its fleet. Additionally, VA did not have available 100 seat aircraft capacity on the days requested by **[RESTRICTION OF PUBLICATION CLAIMED]**, while Alliance did have available capacity.
- **[RESTRICTION OF PUBLICATION CLAIMED]** Alliance and VARA entered a joint bid under the CAA for charter services on F70 and F100 aircraft. VARA would have been unable to submit a conforming response without the CAA as its charter operations are limited to WA and it does not have smaller F70 aircraft in its fleet.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Under the CAA, VARA and Alliance could combine their capacity and submit a conforming bid for the full scope of work required by the customer, which each entity would not have had sufficient capacity to do otherwise.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Alliance and VARA submitted a joint bid under the CAA for services on F70 and F100 aircraft. VARA would have been unable to submit a conforming response without the CAA as it does not have smaller F70 aircraft in its fleet.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Alliance and VARA entered a joint bid under the CAA for services on F70 and F100 aircraft. VARA would have been unable to submit a conforming response without the CAA as it does not have smaller F70 aircraft in its fleet.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. VARA and Alliance submitted a joint tender, offering the client access to two operators' available fleet capacity and providing significant flexibility, which could not have been provided to the same degree by VARA or Alliance independently.
- **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Alliance and VARA submitted a joint bid under the CAA which included F70, F100, A320 and B737 aircraft. On their own, neither VARA nor Alliance would have been unable to offer the customer the same range of aircraft and the resulting flexibility.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. The customer required both F100 and A320 aircraft, and VARA does not have sufficient F100 capacity to satisfy the full scope of work.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Alliance and VARA submitted a joint bid under the CAA (F70 and F100 aircraft). VARA would have been unable to submit a conforming response without the CAA as it does not have smaller F70 aircraft in its fleet or sufficient F100 capacity to satisfy the full scope of work.

- **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. The customer requested a mix of both 100-seat and 168+-seat capacity aircraft and the CAA was able to provide a conforming solution by utilising both parties' combined fleet types. **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**.

3. With reference to each of the charter opportunities successfully won pursuant to the CAA, please explain (with reference to any known competitors for those contracts) the significance of the CAA in successfully obtaining and/or servicing that contract.

### 3.1 **[RESTRICTION OF PUBLICATION CLAIMED]**

**[RESTRICTION OF PUBLICATION CLAIMED]**.

The CAA was crucial in VA and Alliance successfully obtaining the contract, as it allowed the parties to jointly provide an integrated RPT and charter solution with value-added services such as VA's frequent flyer program and connectivity to VA's network by combining their complementary operational footprints. This allowed VA and Alliance to offer a solution which each party would otherwise have been unable to provide on its own. The CAA allowed the parties to successfully compete with Qantas, which is the only airline capable of providing a national integrated charter/RPT solution with value-added services on its own.

In addition, using the CAA allowed VA and Alliance to pool their aircraft to offer **[RESTRICTION OF PUBLICATION CLAIMED]** a range of aircraft with capacity ranging from 80 to 180 seats (including F70, F100, A320 and B737s), **[RESTRICTION OF PUBLICATION CLAIMED]** offering the customer the flexibility to increase and decrease aircraft capacity to best suit its project requirements. **[RESTRICTION OF PUBLICATION CLAIMED]**.

**[RESTRICTION OF PUBLICATION CLAIMED]** was also able to provide the client with charter flights during peak FIFO flying times **[RESTRICTION OF PUBLICATION CLAIMED]**. Without the CAA, this would have been difficult **[RESTRICTION OF PUBLICATION CLAIMED]**.

Further, the CAA enabled the supply of a compelling capability and product offering. For example, the client had access to the Velocity Frequent Flyer program on both RPT and charter services, and to Virgin Australia Group's global partner airline arrangements. The client also had access to seamless connections between charter services delivered by Alliance and RPT services delivered by VA given the parties are located at terminal 1 of Perth Airport and charter flights are located at terminal 2.

**[RESTRICTION OF PUBLICATION CLAIMED]**. The CAA **[RESTRICTION OF PUBLICATION CLAIMED]** allowed the parties to utilise their combined fleet capacity to provide a competitive alternative to Qantas. Alliance would not have been able to submit a compliant independent bid for this RFP as the customer required both F100 and A320 aircraft, and Alliance does not have A320 aircraft.

### 3.2 [RESTRICTION OF PUBLICATION CLAIMED]

[RESTRICTION OF PUBLICATION CLAIMED].

Submitting a joint bid pursuant to the CAA allowed VARA and Alliance to combine their capacity and submit a conforming bid for the full scope of work required by the customer, which each entity would not have had sufficient capacity to do otherwise. [RESTRICTION OF PUBLICATION CLAIMED].

The availability of a large fleet with the ability to scale up also provides customers of the CAA significant flexibility which is important to customers in times of additional capacity needs (e.g., for recovery services, additional scheduled services as mine sites flex up and down their capacity, or for ad hoc flying).

### 3.3 [RESTRICTION OF PUBLICATION CLAIMED]

[RESTRICTION OF PUBLICATION CLAIMED].

The CAA strengthened the value proposition [RESTRICTION OF PUBLICATION CLAIMED] through the provision of Velocity Frequent Flyer points and other value-adds. [RESTRICTION OF PUBLICATION CLAIMED] aircraft could be used on charter services to assist with additional capacity when required in the event of additional flights or a disruption. [RESTRICTION OF PUBLICATION CLAIMED] the CAA delivered extra value to [RESTRICTION OF PUBLICATION CLAIMED] in the form of value-added services. For the employees able to earn Velocity frequent flyer points on Alliance Airlines charter services and utilise Virgin Australia lounges, these are real tangible benefits that enhance their travel experience and enable [RESTRICTION OF PUBLICATION CLAIMED] to better support their employees.

### 3.4 [RESTRICTION OF PUBLICATION CLAIMED]

[RESTRICTION OF PUBLICATION CLAIMED].

VARA and Alliance submitted a joint tender, offering the client access to two operators' available fleet capacity and providing significant flexibility for the client. As noted above, this flexibility is particularly important in times of additional capacity needs (e.g., for recovery services, additional scheduled services, or ad-hoc flying) and could not be provided to the same degree by VARA or Alliance independently.

### 3.5 [RESTRICTION OF PUBLICATION CLAIMED]

[RESTRICTION OF PUBLICATION CLAIMED].

4. In relation to the public benefits under CAA as claimed in the Application, please explain (and provide quantification where available) how the CAA has allowed, in the period from 9 June 2017 to the date of this request for information:
- a. VARA and Alliance Airlines to align their airport and ground handling procedures at Perth Airport for Charter Alliance customers (and identify all instances where this has occurred)
  - b. VARA and Alliance Airlines to have greater access to complementary fleets compared with a counterfactual where VARA and Alliance Airlines can utilise lease arrangements for the provision of complementary fleet capacity
  - c. VARA and Alliance Airlines to avoid the costs of expanding their fleets (and identify all instances where this has occurred in relation to a specific charter opportunity)
  - d. VARA to avoid the costs of replacing its F100 engines, and whether and to what extent any likely future public benefits claimed to be deriving from this claimed benefit is likely to change as Virgin Australia's Fokker fleet ages and is replaced by alternative aircraft
  - e. VARA to achieve ACMI cost savings (over and above what could otherwise be achieved without the CAA in the counterfactual) from its competitive tender process for the maintenance of its F100 aircrafts (where Austrian Airlines Technik Bratislava were successful)
  - f. VARA to improve its negotiating position at Perth Airport through higher passenger movement numbers, and how this compares to a counterfactual without the CAA, where VARA and Alliance would have also negotiated independently with Perth Airport
  - g. Virgin Australia and Alliance Airlines to provide better scheduling and less flight delays (and identify any examples of responding to last minute flight disruptions that would not have been achievable without the CAA),
  - h. Alliance Airlines to provide value-added services such as the Velocity Frequent Flyer program or access to Virgin RPT agreements (and identify any specific feedback from customers regarding the value of these services).

**(a) How the CAA has allowed VARA and Alliance to align their airport and ground handling procedures at Perth Airport for CAA customers**

VARA and Alliance have aligned their processes and procedures under the CAA to enable safe and efficient aircraft cross-hire between both parties. Both parties have also carried out necessary training on operating on each other's aircraft. As part of this training, relevant VARA and sub-contractor staff members undertake aircraft handling familiarisation and safety training in accordance with Alliance's operating manuals and likewise, relevant Alliance and sub-contractor staff members would undergo ramp handling training in accordance with VARA's operating manuals, with the development of detailed procedural training guides.



Gaining operational access to each other's aircraft assets and operating them in a safe and compliant manner through alignment of processes and procedures enables either party to respond quickly and flexibly to charter customers' requirements and access each other's available fleet capacity to meet charter customers' changing schedule requirements that may not be adequately supported by either party on its own. The CAA gives the Applicants the ability to better meet these needs of customers whether they are being served under a joint or individual contract.

In addition to aligning processes and procedures under the CAA to enable safe and efficient aircraft cross-hire between both parties, being co-located at the same Perth Airport terminal facilitates seamless aircraft access and passenger transfers, especially during times of schedule disruptions. As an example, both VARA and Alliance provide charter services to [RESTRICTION OF PUBLICATION CLAIMED]. Where a VARA Perth-[RESTRICTION OF PUBLICATION CLAIMED] flight is delayed, VARA is able to transfer passengers to Alliance's services bound for the same port quickly and efficiently within the same terminal building, and vice versa. This passenger recovery option under the Charter Alliance between both operators significantly reduces the risk and impact of delays on the charter customer and permits the workforce to get to site earlier than would otherwise be possible. CAA. The parties also regularly share tooling for maintenance purposes which would not occur without the CAA.

**(b) How the CAA has allowed VARA and Alliance to have greater access to complementary fleets (compared to lease arrangements)**

As explained in the parties' joint submission to the ACCC of 27 May 2022, the CAA allows the parties to access each other's complementary fleets by:

- giving VARA access to Alliance's 80-seat and 100-seat F70 and F100 aircraft (particularly as VARA gradually retires and replaces its F100 aircraft with 138-seat B737-700 aircraft); and
- giving Alliance access to VA and VARA's fleet of higher capacity aircraft including 168 to 180 seat A320s and B737s.

Having access to each other's available fleet types and established set of operations permits either party to respond quickly and flexibly to charter customers' requirements, by scaling up and down numbers of aircraft and aircraft type in response to changes, to most efficiently service customer needs. As described above, the complementary fleet types also permit both parties to jointly submit conforming responses to charter customers that require aircraft types ranging from 70 to 180 seats (e.g., [RESTRICTION OF PUBLICATION CLAIMED] requested F70, F100 and A320 aircraft – 80 seats, 100 seats and 168+ seats and [RESTRICTION OF PUBLICATION CLAIMED] requested F100 and A320 aircraft).

In a counterfactual where VARA and Alliance can utilise lease arrangements to obtain complementary fleet capacity, VARA and Alliance would both need to independently lease different fleet types (as well as additional aircraft of the same fleet type), which would be highly cost-prohibitive due to these fleets being sub-scale. This also adds complexity and cost to business operations (hence VA's decision to streamline its fleet). The drivers of complexity include, but are not limited to, recruiting, and training a specific set of flight crew, cabin crew and engineers who are which type-rated for that specific aircraft type and procuring a specific set of aircraft spares, tooling, and infrastructure for its maintenance requirements. In addition, there is also a long lead time requirement (minimum of four to six months) prior to obtaining regulatory approval to add a new aircraft type to an Airline Operator Certificate, and completion of additional crew resourcing, training, and aircraft entry-into-service maintenance requirements, which would not permit either operator to quickly deploy assets in response to charter customers' requirements or changes in requirements, which are often only known at short notice.

Assuming that wet lease capacity is available (for example Virgin Australia wet-leasing aircraft from Alliance absent the CAA), this ameliorates some but not all of these inefficiencies. It does not provide a complete solution, that would enable VARA and Alliance to collaborate to respond to customers' needs across a range of services. In contrast, with the CAA, flexibility is provided through the ability to pool aircraft capacity to best suit customer needs, and to openly discuss and agree the most efficient allocation of aircraft across the fleet of both parties under the CAA. Further, the decision to wet-lease an aircraft and crew must be fully supported by a business case that utilises the total capacity of that aircraft – it does not allow for incremental and ad-hoc additions of capacity. Rather, it is an arm's length transaction that leaves no room for pooling of resources or collaboration to ensure optimal utilisation, efficiency, and the delivery of an enhanced customer proposition. This contrasts with Qantas which has access to a fully integrated offer and a large and varied fleet without the need to enter such commercial arrangements.

### **(c) How the CAA has allowed VARA and Alliance to avoid the costs of expanding their fleets**

Over the last 5 years, VARA has steadily increased its A320 fleet size from 2 to 7 in response to resource industry demand for higher-gauge aircraft. This capacity growth has enabled the CAA to put forward conforming bids to customers requesting higher-gauge aircraft. Without the CAA, Alliance would need to introduce a new fleet type into its operations to satisfy the charter requirements of all its target customers (e.g., **[RESTRICTION OF PUBLICATION CLAIMED]**). Therefore, the CAA has enabled Alliance to avoid significant increases in capital and operating costs. VARA's A320 fleet growth strategy also complemented Alliance's F100 fleet growth strategy and enabled both parties to jointly develop flexible and conforming charter solutions to customers as outlined above.

Similarly, access to Alliance's F100 fleet has allowed VARA to avoid the need to invest in an ageing fleet platform, while permitting it to address any short-term/immediate capacity gaps in servicing its contracted clients, provide conforming bids where F100 aircraft are required by customers, and more efficient bids where that aircraft type was better suited to the customer's needs while developing its longer-term more streamlined fleet strategy.

In addition, while both VARA and Alliance operate out of Perth, Alliance has a wider geographical operating base network that includes QLD, South Australia and the NT. This allows VARA, via the CAA, to participate in provision of a national charter solution to customers while avoiding the prohibitive costs of expanding its operating bases to other States and not having sufficient operating scale for a cost-effective operation. For example, **[RESTRICTION OF PUBLICATION CLAIMED]** which VARA could not service alone.

Through both parties gaining access to each other's fleet capacity, each party can improve its aircraft utilisation via the cross-hire arrangements, which drives down unit operating costs. This enables both parties to maintain a competitive cost base and submit market-compelling pricing proposals to charter customers.

Examples of charter opportunities where the CAA has allowed VARA and Alliance to rely on each other's complementary fleet types and additional fleet capacity to avoid the costs of expanding their fleets include:

- **[RESTRICTION OF PUBLICATION CLAIMED]**. In this tender, VA and Alliance pooled their resources to offer the customer a range of aircraft with capacity ranging between 80 seats to 168 seats. VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet, and Alliance was able to avoid the costs of expanding and bringing larger A320 and B737 aircraft into its fleet.

- **[RESTRICTION OF PUBLICATION CLAIMED]**. The CAA allowed VARA and Alliance to avoid the costs of expanding their fleets, which they would have had to do to individually submit conforming bids for the full scope of work required by the customer. **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. By relying on Alliance aircraft in the tender response, VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet. Combined, both operators had sufficient F100 capacity within the region to service the customer's schedule requirements. Individually, they would not have had sufficient F100 aircraft capable of being deployed for this contract.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. By relying on Alliance aircraft in the tender response, VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet and introducing additional F100 aircraft to its operating fleet to fulfill the scope of work.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. By relying on the CAA, VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet and Alliance was able to avoid the costs of bringing larger A320 and B737 aircraft into its fleet. **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Under the CAA, Alliance was able to avoid the costs of bringing larger A320 aircraft into its fleet. VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet and introducing additional F100 aircraft to its operating fleet to fulfill the scope of work.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. VARA was able to avoid the costs of bringing smaller F70 aircraft into its fleet and introducing additional F100 aircraft to its operating fleet to fulfill the scope of work.
- **[RESTRICTION OF PUBLICATION CLAIMED]**.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Without the CAA, Alliance would have needed to incur the costs of bringing A320 and B737 aircraft into its fleet in order to enter a bid. VARA may also have had to introduce additional F100 aircraft to its operating fleet to fulfill peak operating days' requirements for the customer.
- **[RESTRICTION OF PUBLICATION CLAIMED]**. Under the CAA, Alliance was able to avoid the costs of bringing larger A320 aircraft into its fleet and VARA was able to rely on Alliance providing the F100 solution, **[RESTRICTION OF PUBLICATION CLAIMED]**.

**(d) How the CAA has allowed VARA to avoid the costs of replacing its F100 engines, and any change to this benefit as VARA's F100 fleet is replaced**

As explained in the parties' joint submission to the ACCC of 27 May 2022, the CAA has allowed VARA to avoid the costs of replacing its F100 engines by enabling it to take advantage of Alliance's spare aircraft parts, inventory, and F100 fleet capacity. For example, VARA leased engines from Alliance to ameliorate a shortfall of engines when an issue with F100 engine blades emerged in 2018/19. VARA has also utilised Alliance's F100 aircraft to maintain schedule integrity for some customers, which has avoided the need for VARA to replace engines on its own F100 aircraft and enabled to retire aging F100 aircraft. **[RESTRICTION OF PUBLICATION CLAIMED]**.

**(e) How the CAA has allowed VARA to achieve ACMI cost savings**

As described in the parties' joint submission of 27 May 2022, the CAA has allowed VARA to achieve ACMI cost savings, including by entering into an arrangement for the maintenance of its F100 aircraft with Alliance's supplier of heavy maintenance services, [REstriction of Publication Claimed]. Under this arrangement, VARA commenced sending its F100 aircraft to [REstriction of Publication Claimed]. This introduced pricing tension with VARA's heavy maintenance services provider, [REstriction of Publication Claimed], which subsequently reduced its rates for VARA. This resulted in [REstriction of Publication Claimed] in total cost savings for VARA over a 2-year period (comprising a [REstriction of Publication Claimed] on each biennial check of VARA's 14 Fokker aircraft in 2017/18). VARA would have been unable to introduce this pricing tension with its supplier without entering into the arrangement with AAT, which was only possible through its relationship with Alliance.

**(f) How the CAA allowed VARA to improve its negotiating position at Perth Airport**

[REstriction of Publication Claimed].

[REstriction of Publication Claimed].

[REstriction of Publication Claimed].

**(g) How the CAA allowed VARA to provide better scheduling and fewer flight delays**

The parties' joint submission of 27 May 2022 described how the CAA has allowed VARA and Alliance to jointly schedule services for corporate customers by having access to a larger combined fleet and a larger pool of pilots and cabin crew, which has enabled the CAA to provide better scheduling (including during peak FIFO flying times) and to reduce delays. The joint submission cited [REstriction of Publication Claimed] as an example of a CAA customer which has benefited from flights during peak FIFO flying times [REstriction of Publication Claimed] as an example of a customer which benefitted from fewer flight delays under the CAA compared to its incumbent supplier. The CAA has also allowed better scheduling for [REstriction of Publication Claimed].

Other examples of where the CAA has been able to offer additional aircraft capacity and therefore better scheduling than either party could have offered individually include: [REstriction of Publication Claimed].

As mentioned above, VARA has also used Alliance aircraft on various occasions on an ad-hoc basis to ensure schedule integrity for customers during times of limited aircraft availability. In total, between June 2017 and 16 Sep 2022, VARA has utilised Alliance aircraft to operate a total of 1124 sectors, inclusive of ad-hoc services.

VARA has also requested Alliance capacity during times of fleet availability limitations due to unscheduled aircraft maintenance events. During the period of 2018 to 2019 when the issue of Fokker 100 Rolls-Royce engine blades failing before the end of their expected design lives emerged and impacted VARA's fleet availability, VARA was able to seek Alliance's support to operate over 800 sectors for VARA over these two years. As mentioned above, VARA also leased engines from Alliance during this period to ameliorate the shortfall of engines for VARA's fleet.

#### (h) How the CAA allowed Alliance to provide value-added services

As described in the parties' joint submission of 27 May 2022, the CAA has allowed Alliance passengers to benefit from access to the Velocity Frequent Flyer program, including the accrual of FFP, the ability for eligible members to gain access to Virgin Australia lounges when connecting onto RPT services operated by Virgin Australia, and customers to benefit under corporate contracts from access to VA's RPT agreements and global partner airline arrangements.

Absent the CAA, passengers travelling on Alliance-operated charter services would be unable to earn and redeem FFP as Alliance does not, and would not, operate its own frequent flyer program. For many resources customers, the ability to offer their employees the chance to earn points while travelling for work, which they can redeem when travelling for leisure, is an important employee recruitment and retention benefit. For the individual passengers, this materially enhances their travel experience. As these employees travel frequently on RPT services, they are likely to acquire tiered status benefits which will then entitle them to Virgin Australia lounge access when they connect onto RPT services as part of their work travel, or when they travel for leisure, in addition to other benefits under the Velocity Frequent Flyer program.

As part of the CAA, 8074 unique Velocity members have earned a total of 126 million Velocity points while travelling on Alliance-operated charter services since June 2017. This translates to around 227,000 individual passenger segments on Alliance-operated charter services that have earned Velocity Frequent Flyer points – a very significant benefit.

The ability to offer frequent flyer benefits is very attractive to many potential customers and assists in the CAA's competitiveness in responding to tenders. Importantly, it also allows greater competitive constraint to be placed on Qantas by providing customers who want this benefit with a choice of operators.

For example, VARA charter customers **[RESTRICTION OF PUBLICATION CLAIMED]** each enable their workforce to earn Velocity Frequent Flyer points for their work travel. Their advice to VA is that, as employers, they see this employment offering as an important workforce attraction and retention tool. Alliance charter customers who also participate in VA's Velocity Frequent Flyer Program are **[RESTRICTION OF PUBLICATION CLAIMED]**.

Under the CAA, Alliance's charter customers such as **[RESTRICTION OF PUBLICATION CLAIMED]** have RPT agreements with VA, and their passengers have used the VA national RPT network. It is estimated that more than 500,000 passengers from these organisations utilised VA's RPT network in 2019 prior to the Covid pandemic.

As an illustrative example, under the CAA:

A senior engineer residing in Brisbane with a role at a mine near Barimunya can book all their air travel requirements to (and from) the mine through one point of contact. For example, the employee could fly Brisbane-Perth on Virgin Australia's RPT services, then Perth-Barimunya on an Alliance-operated charter flight. Based on this itinerary, where the customer has opted to join the Velocity Frequent Flyer program, the employee is likely to earn sufficient Velocity status credits on the VA RPT services to upgrade to a Velocity Gold Membership after 8.33 return trips within a membership year if booking Choice fares and 5.56 return trips within membership year if booking Flex fares, after which she will have access to the Virgin Australia lounges at Brisbane and Perth airports. The employee will also earn on the Brisbane-Perth leg 1,825 Velocity Frequent Flyer points per direction if booking a Choice fare or 3,275 Velocity Frequent Flyer points per direction under a Flex fare and **[RESTRICTION OF PUBLICATION CLAIMED]** Velocity Frequent Flyer points per direction on the Perth-Barimunya leg.

After only 4 return trips BNE-PER-BYP (assuming VA Choice fare) they will have accrued [REstriction of Publication Claimed] Velocity Frequent Flyer points, which equates to [REstriction of Publication Claimed] one-way Reward Seats between BNE and SYD (taxes not included) and after only 4 return trips BNE-PER-BYP (assuming VA Flex fare), they will have accrued [REstriction of Publication Claimed] Velocity Frequent Flyer points which equates to [REstriction of Publication Claimed] one-way Reward Seats between BNE and SYD (taxes not included).

The employee will also be able to take advantage of the convenient colocation of the RPT and charter operations of the parties in transferring between services at Perth airport.

We understand that for customers like [REstriction of Publication Claimed], around 7-10% of their workforce needs to travel from the East Coast to Perth before commencing work. For those that travel on a Virgin Australia flight, these workers will benefit from access to Velocity Frequent Flyer points and Lounges (where eligible), including when connecting onto an Alliance charter service. Employees of these customers are highly likely to be eligible for Virgin Australia Lounge access as they will be frequent travellers on VA RPT services, and as such will likely have a high enough tier status in the Velocity program to be able to access this benefit. The number of workers of our customers who utilise these services is also expected to increase as the WA workforce recedes and resource companies draw more from workforces around Australia to fill the gap.

5. In Virgin Australia's supplementary submission to the ACCC relating to the Application, dated 3 June 2022, Virgin Australia submits that: "While the Applicants have not yet successfully won any contracts from Qantas under the Charter Alliance, they have developed compelling and competitive offers, which have forced Qantas to respond, including to maintain its position as incumbent supplier in some cases." Please provide the specific examples where this has arisen.

In its 3 June 2022 submission to the ACCC, VA cited the example of the CAA's bid to provide charter and RPT services to [REstriction of Publication Claimed] in support of this submission. The CAA entered a bid in competition with Qantas, [REstriction of Publication Claimed]. The CAA strengthened the value proposition for Alliance through the provision of Velocity Frequent Flyer points and other value-adds. The CAA was the only other entity apart from Qantas that could offer a competitive integrated charter/RPT solution. While VA is not aware of the details of Qantas' bid, it expects that the fact that its customer had an alternative potential supplier with more like-for-like services incentivised it to improve the terms of its offer.

A recent example of the CAA proposing a compelling and competitive offer for a Qantas customer is [REstriction of Publication Claimed]. The customer required a mix of F100 and A320 aircraft, with most services to be on A320 aircraft (VARA's aircraft type). [REstriction of Publication Claimed]. Without the CAA, Qantas would be the only operator able to provide such an offering.

The CAA also entered a joint bid in competition with Qantas for the [REstriction of Publication Claimed]. [REstriction of Publication Claimed] required aircraft ranging from 80 and 100 seats (F70/F100) to 168+ seats (A320). [REstriction of Publication Claimed], the CAA [REstriction of Publication Claimed] allowed VARA and Alliance to use their combined fleet capacity to offer the customer an alternative to Qantas [REstriction of Publication Claimed]. A fleet mix and capacity offering that neither VARA nor Alliance could provide on a standalone basis. Only the CAA, with its combined fleet capacity, was able to provide a competitive alternative to Qantas given these requirements. [REstriction of Publication Claimed]

**CLAIMED].** Virgin Australia considers that Qantas is likely to have offered **[RESTRICTION OF PUBLICATION CLAIMED]** a significantly more attractive offer for these services than would be the case without the CAA being in place **[RESTRICTION OF PUBLICATION CLAIMED]** – this is a quintessentially competitive outcome.

In general, the joint capability of the CAA has allowed the parties to offer a more 'like-for-like' comprehensive, integrated RPT/charter solution with value-added services in competition with Qantas' comprehensive, integrated offering. On its own, neither VA/VARA nor Alliance would be able to provide customers with fleet capacity options and flexibility ranging from sub-100 to 100-176passengers combined with connections to an RPT network, access to a Frequent Flyer program and eligible membership-based national lounge network. The Charter Alliance provides customers better service quality, the ability to provide greater employee benefits and to minimises the risk and impact of disruption and delay. In addition, as mentioned above, the complementary cross-utilisation of each other's aircraft assets enables optimisation of aircraft utilisation and other resources, which facilitates control of unit costs, thereby permitting both parties to offer more competitive price proposals to charter customers than would be possible without the CAA.

As also described above, the CAA responded to **[RESTRICTION OF PUBLICATION CLAIMED]**. In absence of the CAA, Qantas would be the only operator who would have geographical operating presence **[RESTRICTION OF PUBLICATION CLAIMED]** and would therefore be the only operator who could submit a response for the complete scope of work.

**6. Please identify any anticipated tender or other supply opportunity for which Virgin Australia believes it would not be able to submit a compliant response without the CAA.**

Without the CAA, VA expects that it would not be able to submit a conforming response to the following anticipated FIFO service tenders or other supply opportunities. Even for those opportunities where Virgin Australia expects that it could submit a conforming response, without the benefits of the CAA, the response would be a less competitive proposal in respect of price and service offering. Consequently, there would be less competitive pressure and lower incentive on other providers to enhance their offerings, leaving the customer worse off.

**Closed charter opportunities in WA**

- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED]**
- **[RESTRICTION OF PUBLICATION CLAIMED].**

VA currently does not have any 100-seat or less fleet types on the East Coast of Australia. It is reliant on the CAA to be able to service FIFO customers on the East Coast of Australia who require these capacity types and to compete with other providers where having access to these fleet types allows a more compelling price service offering. VA anticipates that it will also be reliant on wet-lease arrangements or access to Alliance capacity and fleet under the CAA to submit conforming bids for any future RFPs from emerging or second tier resources clients. These clients are unlikely to be able to sufficiently fill a 737-700 aircraft and smaller aircraft would be required to reduce utilisation costs and allow competitive and sustainable services. This would also be the case for any opportunities requiring services to ports that cannot currently be serviced by VA's 737 fleet type (e.g., Moranbah, Argyle, Emerald, Paraburdoo, Gruyere, Onslow, Ravensthorpe, Woodie-Woodie, Barimunya, West Angelas, Coondewanna and Gladstone).