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Lyn Camilleri  
General Manager  
Competition Exemptions, Mergers, Exemptions and Digital  
Australian Competition and Consumer Commission

Copies to: Gavin Jones and Darrell Channing

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

Dear Ms Camilleri

**Application for reauthorisation of Charter Alliance between Virgin Australia Regional Airlines Pty Ltd (VARA) and Alliance Airlines Pty Limited (Alliance Airlines)**

Virgin Australia and Alliance Airlines (the **Applicants**) have filed with the Australian Competition and Consumer Commission (**ACCC**) a joint submission in support of the application for reauthorisation of the Charter Alliance (**joint submission**).

This letter encloses a submission that provides further information that Virgin Australia wishes to provide to the ACCC about:

- the relevant markets, including market share data;
- public benefits generated by the Charter Alliance; and
- data points that the ACCC indicated in its 2016 Determination it would like to review upon reauthorisation (contained in the **Confidential Annexure** to this letter).

Information highlighted **blue** and the data provided in the Confidential Annexure is confidential to Virgin Australia and provided on the basis set out in paragraph 5.7 of the *Guidelines for Authorisation of Conduct (non-merger)*. Virgin Australia requests that it is excluded from the public register as disclosure of this information would unreasonably and adversely affect Virgin Australia in respect of its lawful business, commercial and financial affairs.

Virgin Australia would be happy to discuss further the information in this supplementary submission.

Yours sincerely  
**Gilbert + Tobin**

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## Virgin Australia Supplementary Submission

### 1 How FIFO services are supplied

The Applicants supply air transport services, including both dedicated charter services and Regular Passenger Transport (**RPT**) services to a range of corporate customers. The largest customers in the corporate travel market in Australia are resource companies which require air transport services for their fly-in fly-out (**FIFO**) employees.

A FIFO service involves the movement of workforces from their homes to remotely located worksites and back. A FIFO service can take the form of either a dedicated charter service, a purchase of seats on an RPT service, or a combination of both charter and RPT services. FIFO customers typically obtain RPT services through making a block purchase of seats on a RPT service, or by entering into a corporate air travel services agreement with the RPT provider (**Corporate Agreement**).<sup>1</sup> Many regional routes are designated as RPT routes under state regulations that limit the number of charter services that may be provided on a weekly basis, despite the fact that passengers flying those services are almost exclusively FIFO passengers.<sup>2</sup>

The relevant market context is accordingly a market in which charter and RPT operators compete to meet the specific requirements of corporate charter customers, particularly for FIFO services, as distinct from the general public (business and leisure passengers) and private charter services.

#### 1.1 Charter services

The below information is provided in addition to the information contained in the Applicants' joint submission at section 2.4. Charter services (often called closed charter services) involve the exclusive contracted transportation of passengers by air, generally supplied at a fixed rate (per trip) to a customer based on their ongoing regular requirements or for a specified itinerary or group of itineraries. FIFO customers (primarily resource companies) are the main customer segment of charter services in Australia due to the remote nature of Australia's mine sites.

Given the logistical integration of labour movements for mine operations, schedules and capacity for charter services are largely dictated by the customer. Some charter services are also operated in remote areas not serviced by RPT routes or where there is insufficient existing RPT capacity or infrequent RPT services.

While charter services provide effective solutions for FIFO customers, they are not generally available or competitively relevant to the supply of air travel services to the general public.

#### 1.2 RPT services

RPT services are used for FIFO purposes where there is a regional airport with RPT capability near mining operations that can be reached by road or from which FIFO employees can take a connecting charter flight to their worksite.

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<sup>1</sup> Under a Corporate Agreement, Virgin Australia agrees to provide discounted fares on RPT services and other benefits to corporate customers.

<sup>2</sup> In Western Australia, there can be no more than one closed charter service in a week to a specific destination, necessitating airlines flying RPT services to mine sites, such as Port Hedland, when they are used almost exclusively by FIFO customers.

Where there is a broad range of RPT services at ports proximate to mining operations, customers may choose RPT services to serve their workforce in a cost effective and flexible manner, shifting the risk of utilising the aircraft from the customer to the operator. FIFO customers will often purchase blocks of seats on these RPT services. In many cases, these RPT services are not viable on a standalone basis without FIFO traffic. While members of the public may use these services, they are primarily scheduled to service the FIFO segment. Government regulation also plays a part with various routes in Western Australia (**WA**) and Queensland (**QLD**) subject to State Government regulations requiring them to be flown as RPT services as there are limits placed on the number of weekly charter services. This includes key FIFO routes such as: Perth to Karratha, Newman, Paraburdoo, Port Hedland, Broome and Kalgoorlie.<sup>3</sup>

### 1.3 Factors relevant to selecting a FIFO solution

Resource companies select the appropriate FIFO solution (a charter service, seats on an RPT service or a mix of the two) based on a number of factors including:

- **mine/work site location** – whether there is an onsite airport or airstrip at the mine/work site or whether the mine/operation is proximate to a regional RPT airport which is accessible by road;
- **airport capacity** – Some regional airports do not have the required infrastructure to accept RPT services (eg airports with low pavement classification numbers (weak pavements), narrow runways or gravel strips);
- **regulatory requirements** – the relevant state-based regulatory environment (which can determine whether airlines can offer charter or RPT services on specific routes);
- **number of FIFO passengers to be transported** – whether there is adequate RPT capacity to meet those requirements or conversely whether there is a sufficient number of passengers to fill a dedicated charter service;
- **security of supply** – charter solutions will ensure adequate seat availability for the customer's FIFO workers at required times, this can also be achieved to a certain extent through taking a block seat arrangement on an RPT service;
- **control over schedule** – charter solutions provide the customer with control and flexibility over the schedule to meet the customer's shift timings and changing FIFO requirements;
- **cost** – the comparative cost of a charter solution or an RPT solution will depend on the number of FIFO passengers required to be transported and a number of the other factors listed above;
- **choice of operators/schedule** – RPT routes which are serviced by multiple carriers offer increased choice for the customer and their passenger as well as alternative solutions in the event of a disruption;

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<sup>3</sup> For further information, see 'Air services in Western Australia', Government of Western Australia Department of Transport (Web Page, 31 May 2022) <<https://www.transport.wa.gov.au/aviation/air-services-in-western-australia.asp>>; 'Long distance air services', Queensland Government Department of Transport and Main Roads (Web Page, 9 December 2021) <<https://www.tmr.qld.gov.au/regionalconnect>>; 'Regional air operators', NSW Government Transport for NSW (Web Page, 2 June 2022) <<https://www.transport.nsw.gov.au/operations/regional-air-operators>>.

- **broader relationships with a particular airline** – some customers prefer a “one stop shop” solution with an airline who can meet their requirements across a range of destinations and travel requirements, including connections on ‘mainline’ RPT services and international travel;
- **value adds** – services that an airline can offer to the customer’s employees, such as frequent flyer points, lounge access, and the capability to connect to other destinations. As the ACCC has previously recognised,<sup>4</sup> lounge access and other value-added services are becoming “standard in the resources sector, and fly-in-fly-out workers now expect these types of benefits.”<sup>5</sup>
- **procurement Strategy**: Large clients diversify supply risk by splitting their contracts between carriers which also informs the split of RPT and charter. **[RESTRICTION OF PUBLICATION CLAIMED]**. The FIFO solution chosen varies from customer to customer and site to site and depends on whether the project is in its construction, production or care and maintenance phase.<sup>6</sup> Resource companies often use a combination of services (on both small and larger aircraft) to meet their needs, sometimes in combination with land transport. For example, mining companies usually use a combination of charter services and block bookings on Virgin Australia RPT services.

Some FIFO customers, particularly larger resource companies, prefer an integrated national offering that includes mainline RPT, national charter services, value-added services as well as international RPT connectivity. Such a package is attractive to major resource companies, which compete to attract skilled personnel, including internationally based personnel, to work at their remote mine sites. In addition to attractive remuneration, they also compete on travel benefits as part of their overall employment package (such as lounge access, frequent flyer points, and seamless connectivity to RPT services). In the absence of the Charter Alliance, Qantas is the only carrier in Australia that can supply an integrated national FIFO offering across a range of aircraft sizes.

#### 1.4 Why FIFO services are important to Virgin Australia

The Charter Alliance has enabled the Applicants to jointly offer such national, integrated solutions to customers. This has enabled the Applicants to compete with Qantas and has provided more choice for FIFO customers. Importantly, the Charter Alliance enables Virgin Australia to strengthen its position as the second carrier in Australia and a viable alternative to Qantas. As many of the FIFO customers are the largest corporate contracting customers in Australia, it is very important that Virgin Australia can compete for their business. Of Virgin Australia’s top 20 corporate contract clients, more than half are resources companies (**[RESTRICTION OF PUBLICATION CLAIMED]**). Virgin Australia considers the ability to win corporate contracts is key to success as a full-service airline as:

- it provides access to higher yielding passengers, enabling Virgin Australia to diversify its customer base and better protect itself from shocks in demand for leisure travel;
- FIFO services contribute valuable passenger feed from and onto mainline RPT services; and

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<sup>4</sup> See, for example, ACCC, *Final determination – Applications for authorisation lodged by Virgin Australia and Singapore Airlines in respect of an airline alliance between the applicants*, 1 December 2011, 23–24.

<sup>5</sup> ACCC, *Final Determination: Application for authorisation lodged by Virgin Australia and Skywest Airlines in respect of a Corporate Alliance between the applicants*, 10 May 2012, 22.

<sup>6</sup> Fifofacts.com, *What?*, (19 August 2016) <<http://fifofacts.com/what.html>>.

- corporate travellers tend to establish brand loyalty and become repeat customers, earning loyalty points when they travel for work and redeeming them when they travel with their friends and family for leisure.

## 2 Relevant markets

Virgin Australia agrees with the ACCC's assessment in its Final Determination dated 18 May 2017 that the relevant area of competition is the "provision of FIFO services (inclusive of charter and RPT services) to corporate customers within Australia, and particularly within Western Australia being the one state or territory where there is significant horizontal overlap between FIFO services provided by the Applicants".<sup>7</sup>

Virgin Australia largely agrees with the ACCC's assessment of market dynamics in its Determination, namely that:

- corporate customers generally have unique requirements when procuring FIFO services and will often contract for FIFO services on a route-by-route basis, with the origin, destination and scheduling of services being determined in accordance with the operational requirements of the customer;<sup>8</sup>
- These services often include an RPT component as well as charter services; and
- FIFO service operators are generally regional in scope with services generally offered directly to and from specific worksites from dedicated operating bases ('out and back services'). Given the nature of FIFO services, operational efficiencies and maximising aircraft utilisation are best achieved through operating regionally.<sup>9</sup>

## 3 Market shares

Qantas has significantly the largest market share for FIFO services and neither Virgin Australia nor Alliance Airlines can individually replicate its size or fleet mix.

Depending on the needs of the customer, FIFO services may be provided using a combination of small or large aircraft. Most commonly they are serviced using mid-sized aircraft with around 100 seat capacity (such as F100s). However, having a mix of fleet types enables an airline to service the largest range of mine sites and customer types, efficiently utilising aircraft that is best suited to the conditions at a particular airport and the number of passengers in any movement. When considering market shares, it is useful to consider two measures of capacity:

1. Fleet Capability: what capability does each airline have to serve FIFO demand utilising their total fleet; and
2. Fleet allocation: the fleet that is currently allocated by each airline to FIFO services.

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<sup>7</sup> ACCC, *Determination of Applications for authorisation lodged by Alliance Aviation Services Limited, Virgin Australia Airlines Pty Ltd and Virgin Australia Regional Airlines Pty Ltd in respect of a proposed Charter Alliance Agreement* (Determination, 17 May 2018) (**Final Determination**).

<sup>8</sup> Final Determination [92].

<sup>9</sup> Ibid [93].

### 3.1 National capacity share

Nationally, Virgin Australia accounts for approximately 19% of total aircraft seats (for aircraft with  $\geq 30$  seats), while Alliance Airlines accounts for 7% of total aircraft seats, for a combined share of 26% of total aircraft seats. Qantas Group accounts for approximately 65% of seats on the Australian Civil Aircraft Register.<sup>10</sup> Each airline's share of total aircraft seats, as well as share of seats in each size category is set out in Table 1 below.

Virgin Australia and Alliance Airlines have complementary fleet types, with Virgin Australia predominantly operating aircraft with seat configurations of 168-176 seats and Alliance Airlines operating configurations of 80-100 seats. This can be seen in the table below, which shows that Alliance Airlines has 34% of seats in the 70-140 seat range and Virgin Australia has 8% of seats in that range, for a total share of 42%. Conversely, Virgin Australia operates 34% of seats in the 168-230 seat range (traditionally B737-800/A320/A321 size), while Alliance Airlines does not operate any aircraft of this size.

In contrast, Qantas Group has a significant share of seats across all aircraft types.

**Table 1: Share of seat capacity by aircraft type and airline<sup>11</sup>**

Classification	# in Fleet	Total Seats	Qantas Group Seat Share	Alliance Seat Share	VA Seat Share	VA+Alliance Seat Share	Others
30-50 Seats	126	4,770	19%	5%	0%	5%	76%
70-140 Seats	177	15,970	40%	34%	8%	42%	17%
168-230 Seats	237	42,006	63%	0%	34%	34%	2%
>220 Seats	62	19,809	100%	0%	0%	0%	0%
<b>Grand Total</b>	<b>602</b>	<b>82,555</b>	<b>65%</b>	<b>7%</b>	<b>19%</b>	<b>26%</b>	<b>9%</b>

### 3.2 Fleet Allocation

Only a certain portion of airline seats are allocated to FIFO markets by airlines. However, it is important to note that airlines choose where to deploy aircraft and, as moveable assets, they can readily be redeployed in response to opportunities. Currently, Qantas is only using 65% of its fleet capacity<sup>12</sup> and has the ability to quickly scale up the fleet that it allocates to FIFO services.

<sup>10</sup> Aircraft owners/operators are required by Civil Aviation Safety Regulations to register their aircraft on the Australian Civil Aircraft Register. For further information see: 'Part 47 of CASR Registration of aircraft and related matters', Australian Government Civil Aviation Safety Authority (Web Page, 1 June 2022) <<https://www.casa.gov.au/search-centre/rules/part-47-casr-registration-aircraft-and-related-matters>>; and 'Data files for registered aircraft' Australian Government Civil Aviation Safety Authority (Web Page, 1 June 2022) <<https://www.casa.gov.au/aircraft/aircraft-registration/data-files-registered-aircraft>>.

<sup>11</sup> CASA Aircraft Register, Virgin Australia Analysis, Industry Data Sources.

<sup>12</sup> '1H22 Results Presentation', Qantas Airways Limited (24 February 2022) 15

<[https://investor.qantas.com/FormBuilder/\\_Resource/\\_module/doLLG5ufYkCyEPjF1tpgyw/file/2022HY/1H22-Presentation.pdf](https://investor.qantas.com/FormBuilder/_Resource/_module/doLLG5ufYkCyEPjF1tpgyw/file/2022HY/1H22-Presentation.pdf)>.

Tables 2 to 4 below show Virgin Australia’s estimates of FIFO capacity shares based on weighted aircraft capacity:<sup>13</sup> (1) nationally; (2) in WA; and (3) on the East Coast/Central Australia.

This data shows that:

- Qantas is the largest supplier of FIFO capacity nationally with a 36% share of currently allocated fleet capacity, compared to Alliance Airlines’ 21% share and Virgin Australia and VARA’s 17% share of national FIFO capacity;
- Qantas has a very large share of capacity in WA, the most important region for FIFO services in Australia, which contributes 75% of national demand for FIFO services. Qantas has a 42% share of FIFO capacity in WA, almost double that of Virgin Australia and VARA with a 22% share, followed by Alliance Airlines with a 15% share of FIFO capacity in WA;
- Qantas’s 17% share of FIFO capacity on the East Coast and Central Australia reflects the nature of FIFO demand in this region (i.e. low passenger numbers which mean customer demand is primarily for aircraft with 100 seats or less, with a weighting towards closed charter services). Alliance Airlines has a 41% share and Virgin Australia has a 2% share in this region. Virgin Australia does not have any 100 seat aircraft based on the East Coast and is reliant on its commercial wet-lease arrangements with Alliance Airlines to provide its charter and RPT services in this region;
- There are a large number of small competitors operating in the market that have a small share nationally but a larger share on a localised basis; and
- Virgin Australia and Alliance Airlines operate largely complementary FIFO networks, with Virgin Australia concentrated in WA and Alliance Airlines on the East Coast.

**Table 2: National share of FIFO capacity**

Provider	Share of capacity (as at April 2022)
Qantas	36%
Alliance Airlines	21%
VARA + Virgin Australia	17%
Cobham	10%
Skippers	6%
Air North	4%
Hevlift	3%
Pel-Air	1%

<sup>13</sup> The methodology adopted to estimate market shares involves the following steps: (1) take a snapshot of the scheduled flown routes in a week utilising various sources including FlightRadar24, Diiomi, CASA Aircraft Register, airline fleet announcements and industry knowledge. FlightRadar24 is a digital aviation company and operates a flight tracking and data platform, Diiomi is an airline schedule data provider; (2) Assign aircraft capacity based on aircraft types used on the route flown. (3) Weight the route based on FIFO traffic (i.e. charter is 100% FIFO, RPT is a smaller percentage based on Virgin Australia’s best estimates of capacity) (4) Result is a weighted FIFO capacity by carrier.

Skytrans	1%
Fly Corporate	<1%
<b>Total</b>	<b>100%</b>

**Table 3: Share of FIFO capacity in WA**

Provider	Share of capacity (as at May 2022)
Qantas	42%
VARA + Virgin Australia	22%
Alliance Airlines	15%
Cobham	10%
Skippers	8%
Air North	2%
Hevilift	1%
<b>Total</b>	<b>100%</b>

**Table 4: Share of FIFO capacity on the East Coast/Central Australia**

Provider	Share of capacity (as at May 2022)
Alliance Airlines	41%
Qantas	17%
Cobham	10%
Hevilift	10%
Airnorth	9%
VARA + Virgin Australia	2%
Pel-Air	6%
Skytrans	4%
Fly Corporate	<1%
<b>Total</b>	<b>100%</b>



#### 4 Public benefits resulting from the Charter Alliance

In addition to the discussion of public benefits resulting from the Charter Alliance at sections 8.1-8.2 of the joint submission, Virgin Australia wishes to provide the following further information and examples regarding the key operational efficiencies that have been realised under the Charter Alliance and passed on to the Applicants' customers:

- **Enabling the Applicants to offer an integrated national FIFO service:** Virgin Australia considers that the Charter Alliance has allowed VARA and Alliance Airlines to provide a national, integrated RPT and charter solution to customers by combining their complementary operational footprints.

Many major resource companies carry out competitive tender processes for both charter and RPT services with a number of different providers to ensure certainty, minimise risk in the event of disruptions and maintain competitive tension. Many resource companies value the ability to offer their staff perks like frequent flyer benefits and lounge access when they travel for work.

Re-authorisation will enable the Applicants to continue to submit joint tenders which provide a more compelling joint proposition than standalone proposals made by either Applicant on its own, including because of the ability to provide complementary charter/RPT proposals. For example, under the Charter Alliance **[RESTRICTION OF PUBLICATION CLAIMED]**.

Many resource companies also require a national charter solution. For example, **[RESTRICTION OF PUBLICATION CLAIMED]**.

The extension of the Charter Alliance will enable VARA to continue to provide a national charter solution to corporate customers through access to Alliance Airlines' national charter network, given it does not have its own charter operations outside of WA. It will also enable Alliance Airlines to offer an integrated RPT/charter offering by utilising Virgin Australia's RPT operations, in addition to value-added services such as Virgin Australia's frequent flyer program and connectivity to Virgin Australia's network.

In Virgin Australia's view, the extension of the Charter Alliance will allow the Applicants to more effectively compete with Qantas, the only airline capable of providing a national integrated charter/RPT solution with value-added services

- **Avoiding costs of expanding fleet:** If VARA and Alliance Airlines were required to invest in their own separate fleets rather than combining their fleets, they would be less able to compete with Qantas on price. This is because Qantas's fleet is at 'critical mass' at all aircraft sizes, meaning it is able to service all customers using its current fleet, and it has relatively low per unit costs, meaning it is able to keep prices down.
- **Competitive pricing by the Charter Alliance:** **[RESTRICTION OF PUBLICATION CLAIMED]**.

#### 5 No material competitive detriment resulting from the Charter Alliance

Further to sections 9.1-9.3 of the Applicants' joint submission, Virgin Australia has provided additional information below in support of why the Charter Alliance has not resulted in any competitive detriment and has increased competition for FIFO services in a market where Qantas has maintained its position

as the largest FIFO service provider nationwide with a 36% market share, and other operators have either expanded or entered the market.

### 5.1 Promoting competition for FIFO services on the East Coast and Central Australia

The ACCC previously considered the Charter Alliance would help boost competition on the East Coast and in Central Australia where Qantas was the only operator with an integrated charter and RPT offering.

Under the Charter Alliance, the Applicants have been able to provide a more extensive product and service offering on the East Coast and Central Australia. This has allowed the Applicants to compete with Qantas, the number one FIFO operator in Australia, for contested contracts in this region. East Coast FIFO demand is differentiated from WA due to smaller volumes of passengers travelling on charters and key FIFO airports such as Emerald or Moranbah being unable to facilitate B737 or A320 sized RPT operations. This results in FIFO demand being predominantly for aircraft of 100 seat capacity or less. In addition, the FIFO market has changed substantially over the past decade with lower levels of demand for markets such as Roma and Moranbah, following the transition from construction to production phases of key projects.

Since the Charter Alliance commenced, Virgin Australia has made substantial fleet changes including exiting its ATR72 fleet and expanding wet lease operations with Alliance Airlines. On 29 April 2022 Virgin Australia announced that VARA's F100 aircraft will be retired from service and replaced by Boeing 737-700s from first quarter 2023. As a result, Virgin Australia only has B737s (128-176 seats) based on the East Coast. However, Alliance Airlines has a complementary fleet on the East Coast made up of F70-F100 aircraft (80-100 seats). Therefore, under the Charter Alliance, the parties can offer aircraft with 80-176 seats on the East Coast and more strongly compete with the Qantas Group, which can offer aircraft at various capacities from 36-180 seats and beyond. As it does not itself have suitable aircraft, Virgin Australia relies on wet lease services supplied by Alliance Airlines to enable it to operate its regional RPT services and charter services in this region. Specifically, Virgin Australia currently relies on wet lease services supplied by Alliance Airlines on the following routes: Brisbane-Alice Springs, Brisbane-Emerald, Brisbane-Gladstone, Brisbane-Mt Isa, Brisbane-Newcastle and Brisbane-Rockhampton. **[RESTRICTION OF PUBLICATION CLAIMED]**.

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. For example, **[RESTRICTION OF PUBLICATION CLAIMED]**.

As set out in Figure 1 below, on the East Coast and in Central Australia, Virgin Australia estimates that the Applicants' combined market share has increased slightly from 39% in 2015 (using North QLD data as a proxy)<sup>14</sup> to 43% today. The services making up the 2% share attributed to Virgin Australia are operated on Alliance Airlines aircraft due to Alliance Airlines operating wet lease services for VA on the key FIFO markets of Emerald and Mt Isa.

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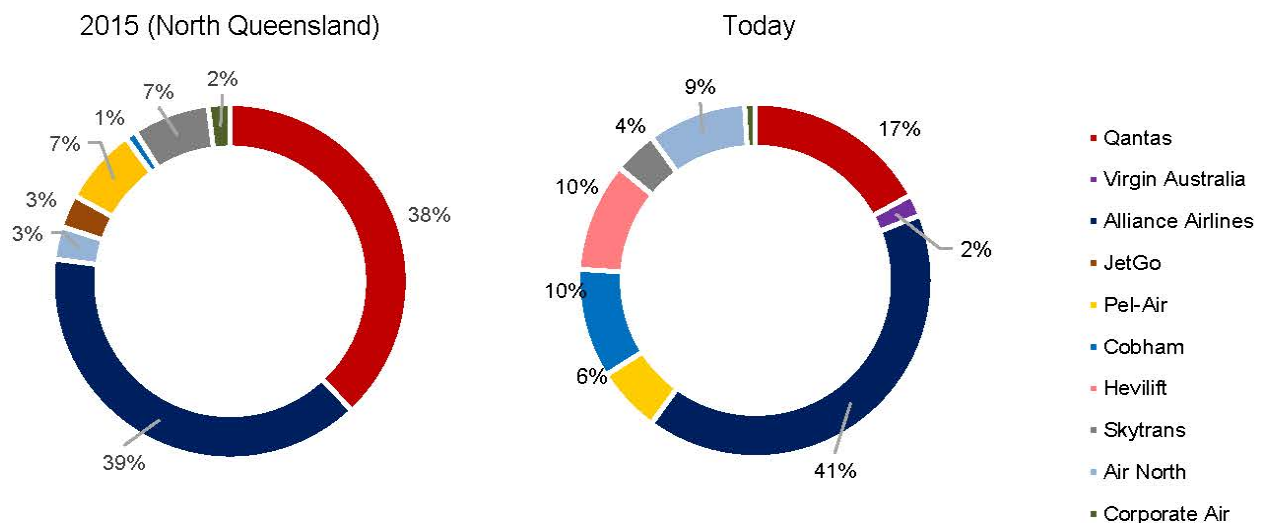
<sup>14</sup> The Applicants do not have the appropriate data in 2015 for Central Australia and Queensland. Accordingly, Virgin Australia is using data from North Queensland as an approximate proxy for the capacity in Central Australia and the East Coast in 2015. Virgin Australia considers this is appropriate given most FIFO operations in Central Australia and the East Coast are based in North Queensland.

While VARA estimates that Qantas' market share has decreased from 36% in 2015 (using North QLD data as a proxy), to 17% today, this is a function of the impact of changes in mining demand such that Qantas has moved its fleet assets out of this area.

Compared to the 2015 reference point, there has been a substantial shift in QLD FIFO demand as resources projects have moved from worker-intensive construction phases to extraction phases. For example, in 2015, Roma Airport had 138,000 passenger movements. From CY16-19 this reduced to circa 75-86,000 as construction completed on key resources projects. Similarly, in 2015 Gladstone Airport recorded 406,000 passenger movements, which reduced to 248,000 passenger movements by CY19. In 2015, Qantas was the monopoly operator on Brisbane-Roma (under QLD Government Regulated Routes) and held approximately 65% seat share on the Gladstone route. The reduction in Qantas' share is largely driven by the change in FIFO markets, in particular the reduction in FIFO demand at key Qantas ports, instead of pure 'share shift' to other operators.<sup>15</sup> Qantas can quickly and easily deploy its aircraft to this region in response to any changes in competitive circumstances.

Smaller operators who have not been materially impacted by closed state and international borders have been able to grow their footprints and take advantage of the delay in VARA and Qantas returning to pre COVID-19 capacity levels. They have been less impacted by COVID-19 lockdowns and related border closures as they solely provide charter services (demand for which increased during the COVID-19 pandemic) as opposed to both charter and RPT services, and their operations are predominantly intra-state.

**Figure 1: Share of FIFO capacity on the East Coast / Central Australia in 2015 vs today<sup>16</sup>**



<sup>15</sup> REX now operates the Brisbane-Roma route as a QLD Government Regulated Route.

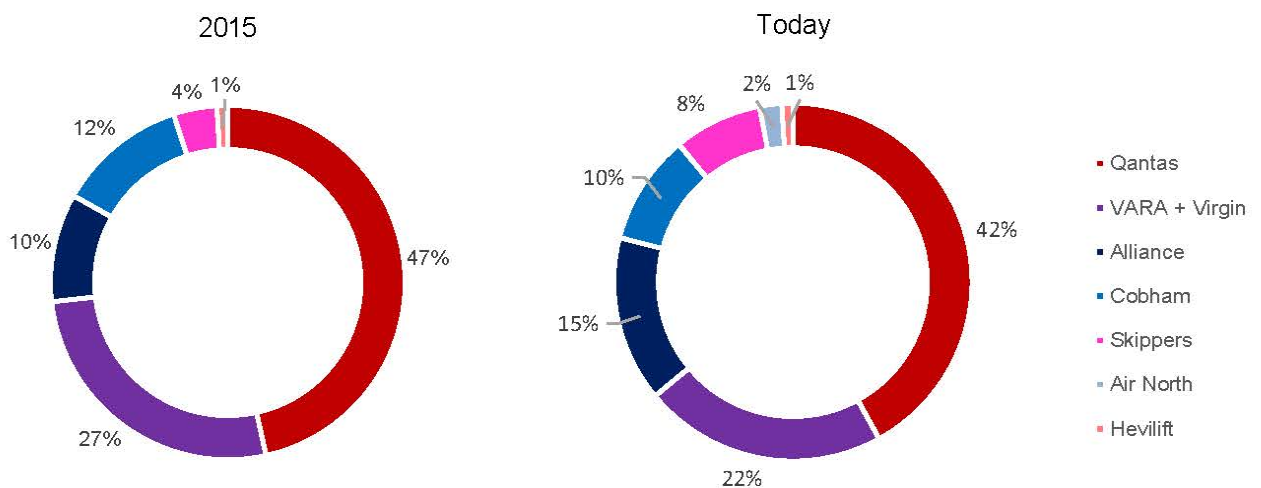
<sup>16</sup> Although described as "North Queensland" in the 2015 application, we consider that these figures are a good proxy for East Coast/Central Australia services. The reduction in Qantas' share reflects the fact that they have allocated fleet capacity away from Queensland post-COVID-19.

Virgin Australia considers that the proposed extension of the Charter Alliance would enable the Applicants to continually compete with competitors such as Qantas, Cobham, and other FIFO operators. In the absence of the Charter Alliance’s national offering, Qantas would be the only major FIFO operator supplying integrated charter solutions, due to its diverse fleet and national footprint.

**6 The Charter Alliance has promoted competition in WA and has not resulted in any unilateral effects in WA or anywhere in Australia**

In WA, Virgin Australia and Alliance Airlines’ combined market share has remained constant since 2015 at 37%, demonstrating that the Charter Alliance has not eroded any competition in the region, but has allowed Virgin Australia and Alliance Airlines to retain their combined FIFO capacity in a highly contested market and prevent Qantas, the number one operator, from further consolidating its market leading position. Virgin Australia’s view is that the Charter Alliance has enabled the Applicants to compete against Qantas in WA more effectively than either could have alone. Qantas remains larger than a combined Virgin Australia and Alliance Airlines.

**Figure 2: VARA estimates of FIFO capacity in WA in 2015 vs today**



**6.1 Risk of unilateral effects mitigated by vigorous and effective competitors such as Qantas**

Qantas is the number one provider of FIFO services in Australia. Nationally, Virgin Australia estimates that Qantas has a 36% share of the charter market, compared to Virgin Australia, VARA and Alliance Airlines’ combined national market share of 38%.

Qantas remains in a market leading and unique position to provide a full suite of corporate-related services which include charter, RPT, frequent flyer and lounge benefits nationally. Virgin Australia estimates Qantas currently has 42% of FIFO capacity in WA and 17% of FIFO capacity in Central Australia and the East Coast. Key examples of Qantas’ aggressive strategy and strong market position are set out below.

- **National market share.** As at January 2022, the Qantas Group (including Jetstar) has a market share of 62% of RPT passengers while Virgin Australia, the next largest competitor, accounts for 34% of RPT passengers.<sup>17</sup>
- **Fleet expansion.** In addition to the information at section 3 of the joint submission, Qantas Group has also expanded its fleet since 2017 by:
  - Obtaining 94 purchase right options over a 10 year plus delivery window for a fleet of Airbus Aircraft.<sup>18</sup> Purchase right options provide Qantas with the right to purchase aircraft at a fixed price and within delivery slots. This provides Qantas with both certainty with flexibility to match aircraft deliveries to future demand.
  - Jetstar, Qantas's low cost carrier, has an existing arrangement with Airbus for the delivery of over 100 A320 aircraft (~150 passenger seats each) over the next decade.<sup>19</sup>
- **History of winning key tenders.** Qantas has successfully won tenders against VARA and/or the Charter Alliance since 2017. For example:
  - **[RESTRICTION OF PUBLICATION CLAIMED]**
  - **[RESTRICTION OF PUBLICATION CLAIMED]**
  - **[RESTRICTION OF PUBLICATION CLAIMED]**
- **Strengthening relationship with key resource companies.** Qantas has aggressively strengthened its corporate RPT foothold with major corporate customers. Virgin Australia estimates that Qantas currently holds an estimated **[RESTRICTION OF PUBLICATION CLAIMED]**, two of the largest resource companies in Australia. Furthermore, in 2017, Virgin Australia estimates that Qantas successfully bid for around **[RESTRICTION OF PUBLICATION CLAIMED]** of FIFO tenders in WA, including tenders where the Charter Alliance, VARA and/or Alliance Airlines were competing against Qantas.
- **Significant bargaining power.** Qantas has the key advantage over its competitors of being able to leverage its bargaining power against key stakeholders in the aviation sector. For example, **[RESTRICTION OF PUBLICATION CLAIMED]**.

## 7 Data requested by the ACCC

In 2017, the ACCC requested information about the trip rate net of fuel costs, the cost of value-adds charged to customers and the gross profit margins on charter contracts generated by the Applicants if the Applicants were to seek re-authorisation of the Charter Alliance in the future, to enable it to monitor the impact of the Charter Alliance.<sup>20</sup>

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<sup>17</sup> ACCC, *Airline Competition in Australia* (Report, March 2022) 13.

<sup>18</sup> Qantas selects Airbus as preferred aircraft for domestic fleet renewal' *Qantas* (Web Page, 16 December 2021)

<<https://www.qantasnewsroom.com.au/media-releases/qantas-selects-airbus-as-preferred-aircraft-for-domestic-fleet-renewal/>>.

<sup>19</sup> Ibid.

Virgin Australia holds data on the trip rate net of fuel costs and the cost of value-adds for two of the Applicants' joint contracts (Gold Fields Gruyere and Agnew). It has provided that key metric data in the **Confidential Annexure** to this letter, and has summarised the key trends in that information below.<sup>21</sup>

### 7.1 Trip rate net of fuel<sup>22</sup>

**[RESTRICTION OF PUBLICATION CLAIMED]**

**[RESTRICTION OF PUBLICATION CLAIMED]**

The Applicants do not have information regarding the trip rate net of fuel for Mineral Resources and Newmont Mining.

### 7.2 Cost of value-adds charged to customers<sup>23</sup>

**[RESTRICTION OF PUBLICATION CLAIMED].**

The Applicants do not have information regarding the cost of value adds charged to Mineral Resources and Newmont Mining.

### 7.3 Profit margins

The Applicants are unable to provide the gross profit margins on charter contracts generated by the Applicants, as they do not currently monitor the profit margins on individual contracts won by the Charter Alliance.

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<sup>21</sup> Final Determination [191].

<sup>22</sup> Trip rates refer to the fixed total price (\$) to charter a plane from an origin to destination port. Charter flights are generally priced per trip, as opposed to per passenger like RPT services. The trip rate is adjusted in line with changes in fuel costs, the exchange rate and CPI. In addition to the per trip charge, fixed passenger fees and charges may be applied separately.

<sup>23</sup> Airlines such as VARA charge corporate customers a fee for participating in their loyalty programmes (i.e. in return for earning status points). VARA's fee for participation in its Velocity program is charged per mile flown by the relevant aircraft.

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**Confidential Annexure – Virgin Australia confidential data in response to ACCC data request**

*(enclosed separately)*