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Mr Darrell Channing
Director, Competition Exemptions
Australian Competition and Consumer Commission
GPO BOX 3131
Canberra ACT 2601

Confidential - Restriction of publication claimed in part

Dear Mr Channing, Ms Orr and Ms Wu

Proposed application for Authorisation by Virgin Australia – Virgin Australia response to ACCC question dated 7 June 2022

We refer to Virgin Australia's application for Authorisation of the Proposed Conduct (**Authorisation**), supporting submission received by the ACCC on 14 April 2022 (**Submission**), and the further request for information raised by the ACCC with Virgin Australia via email on 7 June 2022 (**ACCC Further RFI**).

Virgin Australia's response to the ACCC Further RFI is below.

Confidentiality

Virgin Australia claims confidentiality over the portions of this response highlighted in blue on the basis that disclosure of this response would have the effect of revealing information that is commercially confidential to Virgin Australia which would prejudice Virgin Australia in carrying out its lawful business.

Yours faithfully
Gilbert + Tobin



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Response to ACCC Further RFI

ACCC Further RFI

We note Virgin's Australia's 9 May submission that, "*The Proposed Conduct does not provide significant revenue to Virgin Australia, it simply prevents international codeshare from being loss-making or unsustainable for Virgin Australia. As such, it will not delay Virgin Australia's incentives to restore its international services*".

To progress our assessment of Virgin Australia's incentives to recommence international operations with and without the Proposed Conduct, please provide information about the net revenue that Virgin Australia expects to earn under the Proposed Conduct compared to what it would expect to earn from operating a service on the same routes, drawing on examples of potential future routes to be flown and potential Partner Carriers.

1 Background to Virgin Australia's experience operating international long-haul flight services

Virgin Australia has historically operated a very limited network of long-haul flight services. This limited network was extended through a network of codeshare partnerships which, as has been previously submitted to the ACCC, were marketed under a combination of arm's length codeshare arrangements and through authorised joint ventures with joint pricing of codeshare services.

Long-haul international flight services previously historically operated by Virgin Australia

- **Los Angeles, 2009 – 2020:** Virgin Australia (then Virgin Blue) commenced operating long-haul services to Los Angeles from Sydney, Brisbane and Melbourne from 2009 under its V Australia brand. The Melbourne to Los Angeles route was cancelled in 2014 but was reinstated in 2017. With the support of its authorised joint venture with Delta which enabled the parties to offer higher frequencies on the trans-Pacific and a network of behind and beyond connections, **[Confidential: restriction of publication claimed]**. Virgin Australia continued to operate these routes until the outbreak of the COVID-19 pandemic in 2020, at which point they were suspended and have not resumed.
- **Abu Dhabi, 2011 – 2017:** Virgin Blue commenced flights from Sydney to Abu Dhabi in 2011.¹ These flights were limited to three flights per week and operated in conjunction with services operated by Etihad as part of the alliance agreement authorised by the ACCC.² The Sydney to Abu Dhabi service remained until 2017 **[Confidential: restriction of publication claimed]**.
- **Johannesburg, 2010 – 2011:** V Australia commenced operating non-stop flights from Melbourne to Johannesburg in March 2010, however V Australia withdrew these flights in February 2011, **[Confidential: restriction of publication claimed]**
- **Phuket, 2009 – 2011:** V Australia commenced operating flights to Phuket from Brisbane and Melbourne in 2009 **[Confidential: restriction of publication claimed]** V Australia ceased to offer flights from Brisbane and Melbourne to Phuket in 2011. VA also operated services between Perth and Phuket using narrowbody aircraft between 2011 and 2016.

¹ Media release, 'Virgin Blue launches first V Australia flight to Abu Dhabi' (24 February 2011) ([link](#)).

² Final Determination, A91247 & A91248, 3 February 2011 ([link](#)).

- **Hong Kong 2017 – 2020:** Virgin Australia commenced services between Melbourne and Hong Kong in July 2017, expanding to Sydney in July 2018.³ **[Confidential: restriction of publication claimed]** The services ceased to operate prior to the outbreak of the COVID-19 pandemic.

2 Context underlying the Proposed Conduct

Following significant impacts to its business as a result of the COVID-19 pandemic Virgin Australia was placed into administration in April 2020. As Virgin Australia rebuilds its virtual and operated international networks from scratch, with the benefit of the Proposed Conduct, Virgin Australia is committed to ensuring that its services are not loss making. Virgin Australia's focus is on entering into financially sustainable arrangements that will improve its customer offering now and in the future.

Virgin Australia is investigating the recommencement of international long-haul services. The Proposed Conduct is considered by Virgin Australia as an alternative to arm's length codeshare arrangements using a traditional pricing model. It is not an alternative to services operated by Virgin Australia.

3 Net revenue: own operated service vs codeshare service

Any decision taken by Virgin Australia, or any other carrier, to commence operating services on a route instead of or as a replacement for a codeshare arrangement (regardless of the form of the codeshare arrangement) will consider both the significant costs associated with the operations, which bring with it material risk, and an assessment of the likely passenger and revenue impact of those services. The cost of operating services is much higher than marketing codeshare services, but the potential revenue upside if services are successful is much higher.

A true 'like-for-like' comparison of the net revenue available on a codeshare service compared with an operated service is not really possible. However, Virgin Australia has endeavoured to provide the ACCC with an illustrative example based on its own-operated services between **[Confidential: restriction of publication claimed]** and its proposed codeshare services **[Confidential: restriction of publication claimed]** on the same route.

³ Media release, 'Virgin Australia launches first flight from Sydney to Hong Kong, expands Greater China presence' (2 July 2018) ([link](#)).

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4 Margin for own operated services

If Virgin Australia were to commence its own operated services, it would expect to earn a margin of [Confidential: restriction of publication claimed]. This figure would allow Virgin Australia to recover its significant investment in fit-for-purpose aircraft suitable to operate the service. In the case of the Proposed Conduct, Virgin Australia does not incur operating costs and, while it invests in marketing the services, the operating carrier overwhelmingly bears the risks associated of operating the services.

⁴ [Confidential: restriction of publication claimed]

⁵ Boeing 777.

⁶ Boeing 787.

⁷ Revenue per flight, not accounting for allocated overhead costs.

⁸ Revenue per flight, not accounting for allocated overhead costs.