



19 August 2010

Mr Michael Bird
Executive Director
International Air Services Commission
GPO Box 630
Canberra ACT 2601

Dear Mr Bird

Application for Capacity Allocation – Indonesia Route

I refer to your letter of 9 August 2010 inviting the Qantas Group (the Group) to address the Paragraph 5 criteria in support of our application for an allocation of 3,898 seats per week and an allocation of 729 seats and four frequencies per week beyond Indonesia capacity for Jetstar to introduce additional services on the Indonesia route.

The Group's submission is attached.

We would be pleased to provide any further information the Commission may require in support of this application.

Yours sincerely

DAVID EPSTEIN
Group Executive
Government and Corporate Affairs

APPLICATION FOR CAPACITY FOR AUSTRALIA-INDONESIA SERVICES

SUPPLEMENTARY SUBMISSION

Australia-Indonesia passenger market

The Australia-Indonesia market has suffered a series of shocks in recent years, including the 2002 Bali and 2003 Jakarta bombings, SARS and the 2005 Bali bombings. However, the market has recorded strong growth for the past three years and this is expected to continue in the short to medium term.

Indonesia is Australia's 11th largest route in terms of total origin/destination (O/D) traffic flows, with around 1,260,600 passengers travelling between the two countries in the 12 months to June 2010. Passenger growth has been strong in the past three years, with growth in total passengers rising by 16 percent in the past 12 months, 26 percent in 2009 and 32 percent in 2008.

Most passengers between Australia and Indonesia travel direct with point-to-point traffic comprising 88 percent of passengers travelling directly between Australia and Indonesia. Almost 92 percent of Australian residents and 70 percent of visitors travelled directly between the two countries in the past year. Of those visitors that travelled via other countries, over 21 percent did so via Singapore.

The majority of uplift/discharge (U/D) traffic on the route has an O/D of Indonesia, particularly for Australian residents. A small proportion of predominantly visitor traffic originates in, or is destined for, the United Kingdom (UK), suggesting that many UK passengers enjoy a stopover in Indonesia on the journey to or from Australia.

Australian traffic on the route is almost five times the number of inbound visitors, with 1,046,700 resident (83 percent) and 213,800 visitor (17 percent) movements in the 12 months to June 2010.

The Australia-Indonesia route is principally a leisure market, with 75 percent of passengers travelling for holiday purposes and 8 percent visiting friends and relatives (VFR). For Australian traffic, the majority are also travelling to Indonesia for leisure purposes, with holiday comprising 83 percent, VFR 6 percent and business 5 percent over the same period.

The figures are somewhat different for visitor traffic, with the major segments travelling for holiday (37 percent), education (17 percent) and VFR (16 percent).

The majority of O/D passengers travel to/from Western Australia, Victoria and New South Wales, although the figures differ for resident and visitor traffic. Resident traffic on the Indonesia route predominantly travels to/from Western Australia, with 45 percent of passengers, followed by New South Wales (21 percent) and Victoria (16 percent). For visitor traffic the distribution differs with 33 percent travelling to/from New South Wales, with Victoria and Western Australia accounting for 29 percent and 22 percent of passengers respectively.

Passenger shares on the Australia-Indonesia route are primarily divided between Garuda Indonesia, Pacific Blue Airlines (Pacific Blue) and the Qantas Group (the Group), which includes both of Qantas and Jetstar. In the 12 months to June 2010, Garuda Indonesia carried 31 percent of passengers, the Group carried 29 percent

(Jetstar carrying 23 percent and Qantas 6 percent), Pacific Blue carried 17 percent, Indonesia AirAsia 11 percent and Singapore Airlines 8 percent¹.

Jetstar's plans

Jetstar proposes to introduce additional services between Australia and Indonesia, as outlined in the table below. Refer to Attachment 1 for a detailed comparison between Jetstar's existing Indonesia services and its proposed services which would utilise all of the Group's existing traffic rights and the 3,898 seats sought in this application.

Sector	Frequency	Aircraft Type
Melbourne-Denpasar	4 per week	A330-200
Perth-Denpasar	10 per week	A320-200
Perth-Jakarta-Singapore	5 per week	A320-200

Jetstar plans to commence these services from 31 March 2011, with the exception of two weekly Melbourne-Denpasar services, which it plans to introduce from 31 October 2011.

These services will be operated using either one-class Airbus 320-200 aircraft configured with 180 seats or two-class Airbus 330-200 aircraft configured with 310 seats. Based on its current planning, Jetstar may replace some Airbus 330-200 flights with larger Boeing 787-800 flights gradually from June 2012.

The schedule is primarily focused on servicing and growing point-to-point traffic. Jetstar's proposed growth in services would also offer same-day connectivity to over 25 cities, including four in New Zealand. Jetstar's network includes convenient connections to major ports, as well as regional ports, via Qantas services.

It is proposed that Qantas will code share on Jetstar's Indonesia services.

From 31 October 2011, Jetstar plans to reconfigure its A320-200 aircraft, which currently operate nine weekly services between Perth and Indonesia, from 177 to 180 seats.

Perth-Denpasar

Specifically, on the Perth-Denpasar route, Jetstar currently operates a daily service and has been actively reviewing options to grow further, constrained only by the lack of available capacity on the Indonesia route. While Jetstar's growth has been constrained, its Indonesian competition has had the flexibility to grow, which has substantially weakened Jetstar's relative position, and its ability to most effectively deliver its promise of everyday low fares.

Jetstar is seeking to close the frequency gap relative to its largest competitor, Indonesia AirAsia, which launched a daily Perth-Denpasar service in August 2009, and grew capacity rapidly to a double daily service offering in September 2009, and then added a third daily service in June 2010. Jetstar seeks to increase its current

¹ All statistics are ABS data

³ Source: BITRE – Table 3, International Scheduled Air Transport report, May 2010

daily service by an additional 10 weekly services to enable it to compete more effectively and grow the market further by offering more everyday low fares.

Perth-Jakarta

As Jetstar and Qantas are the only Australian carriers to operate services between Australia and Jakarta, an additional capacity allocation would support increased choice for consumers travelling to Jakarta.

Jetstar is currently the only airline serving the Perth-Jakarta market. It has been restricted to offering only two weekly services to date due to limitations in available capacity on the Indonesia route, and now seeks to accommodate natural demand growth, and the further surge in demand from the resources boom, by providing a consistent daily service offering on the route.

In addition to the public benefit that would result from the operation of an increased number of seats that Jetstar wishes to operate on this route, Jetstar would also greatly expand consumer choice from the limited twice weekly service to a new choice of any day of week. This amount of choice and flexibility would appeal to the business market in particular.

Garuda Indonesia ceased operating its four weekly service on this route in May 2009, and later announced that it planned to recommence this service with a daily operation in July 2010. It has since abandoned such plans. If granted sufficient rights as part of this application, Jetstar would fill the void in this market, which is essential for building greater business and tourism links between Western Australia and Indonesia.

Melbourne-Denpasar

Jetstar currently operates three weekly services on the Melbourne-Denpasar route. Currently customers seeking to travel on the days of the week which Jetstar does not offer non-stop services are able to take advantage of convenient connections via Sydney or Darwin, although this results in an increased journey time of over 65 percent.

As the only Australian carrier offering both an economy and a business class product on non-stop East Coast-Indonesia services, the allocation of additional capacity would enable Jetstar to provide more convenient options and lower fares for customers travelling between Melbourne and Denpasar, particularly premium passengers.

5.1(a) Competition Benefits

The extent to which applications will contribute to the development of a competitive environment. The Commission should have regard to:

- *the need for Australian carriers to compete effectively with one another and the carriers of foreign countries;*
- *the number of carriers on a particular route and the existing distribution of capacity between Australian carriers;*
- *prospects for lower tariffs, increased choice and frequency of service and innovative product differentiation;*

- *the extent to which applicants are proposing to provide capacity on aircraft they will operate themselves; and*
- *the provision of commercial agreements between an applicant and another carrier.*

Distribution of capacity

The Australia-Indonesia route is highly competitive, with airlines operating direct services including Garuda Indonesia, Indonesia AirAsia, Pacific Blue, Strategic Airlines, Qantas and Jetstar. Third country carriers serve the market, of which Singapore Airlines is the most significant, serving Denpasar, Jakarta, Medan, Surabaya, Balikpapan and Mataram. Its schedule of over 120 flights per week between Indonesia and Singapore connects with its 92 weekly Singapore-Australia services.

Garuda Indonesia is a full service airline and the largest carrier in Indonesia. Although the number of services it has operated between Australia and Indonesia has varied over the years, as a result of a series of external shocks to the aviation industry, it currently operates 35 flights each week each way. Garuda Indonesia operates between Jakarta and Denpasar and three Australian gateways - Sydney, Melbourne and Perth - using Boeing 737 and Airbus 330 aircraft.

Indonesia AirAsia has grown its operations significantly since commencing services to Australia in Northern Summer 2009, with a daily Denpasar-Perth service. In each of the subsequent scheduling seasons, Indonesia AirAsia has added another daily service, all using Airbus 320 aircraft, and is currently operating a total of 21 Denpasar-Perth services each way each week.

Following the recent Australia-Indonesia air services negotiations, Batavia Air received permission to launch services between Denpasar and Perth, Melbourne and Sydney from August 2010. Sriwijaya Air, Mandala Airlines and Lion Air have also applied to operate between Australia and Indonesia, and Indonesia AirAsia has also publicly indicated interest in serving the Darwin-Denpasar market.

Pacific Blue is one of three Australian carriers with an allocation of capacity on the Indonesia route, holding 4,500 seats or 30 percent of the total entitlement for third-fourth freedom capacity under the bilateral air services arrangements.

Pacific Blue commenced operations to Indonesia in November 2008 and today operates 28 services per week between Denpasar and Adelaide, Brisbane, Perth, Melbourne and Sydney using Boeing 737-800 aircraft.

Strategic Airlines has an allocation of 408 seats or 3 percent of total direct capacity entitlement on the Indonesia route, which was transferred from Ozjet following Strategic Airlines' acquisition of Ozjet in 2009.

Strategic Airlines commenced three weekly Perth-Denpasar services in June 2010 and has recently launched a weekly Brisbane-Port Hedland-Denpasar service.

The Group views it as surprising that Strategic Airlines, which has been a small local player to date, suddenly has the capability to undertake such a large increase in services.

The Group holds an allocation of 5,892 seats on the Indonesia route, which represents 40 percent of the total direct capacity entitlement. Today, the Group operates a total of 29 frequencies per week between Australia and Indonesia. This comprises four weekly Sydney-Jakarta services, operated by Qantas using Airbus 330-300 aircraft, and 25 weekly Jetstar services.

Jetstar commenced services to Indonesia in 2006, operating a total of four flights per week from Sydney and Melbourne to Denpasar. Since then, Jetstar has demonstrated its commitment to the route, increasing its services to Indonesia in 2008 when it took over most of Qantas' Indonesia flights. Jetstar currently operates 25 services per week between Sydney, Melbourne, Perth and Darwin and Indonesia (Denpasar and Jakarta). Three weekly Jetstar services from Denpasar and two from Jakarta operate on to Singapore.

If successful in its application for 26 percent of the total Australian third-fourth capacity entitlement, Jetstar would significantly increase its capacity offering to Indonesia.

If unsuccessful, it is possible that additional capacity to support Jetstar's proposed growth may not be available in the foreseeable future. Although Australia and Indonesia committed to meet again for further talks within six months at the conclusion of the last set of talks in July 2010, neither country is bound by this commitment, and the timeline could be drawn out for an extended period.

Effective competition

The distribution of passenger shares over the past three years has seen relatively recent operators on the Australia-Indonesia route, such as Pacific Blue and Indonesia AirAsia, gain share at the expense of the Group.

Since commencing operations in 2008, Pacific Blue has grown its share from nine percent for the 12 months to June 2009 to 17 percent for the 12 months to June 2010. Over this time, Pacific Blue has more than doubled the number of services operated to Indonesia from an initial schedule of 11 frequencies per week to the current 28 weekly frequencies.

AirAsia Indonesia has also gained share in a relatively short period, carrying 11 percent of total Australia-Indonesia passengers in its inaugural year on the route. This number is expected to grow as the carrier rapidly increased its single daily Perth-Denpasar service to three daily flights by June 2010, and has announced plans to commence Darwin-Denpasar services.

Over the past three years, Garuda Indonesia's market share has declined by 10 percentage points, to a level of 31 percent.

Of the third country carriers carrying Australia-Indonesia traffic, Singapore Airlines has the largest share, at eight percent for 12 months to June 2010. Although its share has fallen by 11 percentage points over the past three years, most likely due to the increasing competition on the route from Australian and Indonesian carriers, Singapore Airlines has a strong presence as it serves a range of regional Indonesian cities such as Surabaya and Medan, in addition to Denpasar and Jakarta. These services connect to Singapore Airlines' Singapore-Australia services.

The Group has a longstanding and significant presence on the Indonesia route and has invested significantly in the market. Since Jetstar commenced operations, the Group achieved a Compound Annual Growth Rate (CAGR) in passenger numbers of 44 percent for the period between 2006 and 2009³.

The Group traffic growth, primarily driven by the Jetstar expansion, contributed to a total market growth rate of 40 percent over the same period, which was a substantial improvement over the previous three year period from 2002 to 2005, when the total market grew by only one percent⁴. Despite this growth, and Jetstar's demonstration of its commitment to the route, the Group's overall market share has declined as a result of growth from other Australian and Indonesian carriers in 2009 and 2010.

While Jetstar has increased its share by 15 percentage points over the past three years, this has been at the expense of Qantas, where share has fallen by 20 percentage points in the same period. Although this could be expected as a result of the redistribution of Indonesia flights between Qantas and Jetstar from October 2008, the Group's share has declined overall by five percentage points, despite Jetstar adding further capacity on those routes previously operated by Qantas.

Jetstar has introduced further choice for premium passengers with the deployment of A330 aircraft on some sectors, such as Melbourne-Denpasar, with its Star Class product. Only one other incumbent airline offers passengers the option of travelling in a premium cabin on its services.

Since the commencement of its operations to Indonesia in 2006, Jetstar has made a significant impact on total passenger volume growth on the Australia-Indonesia route, and the Group is the major contributor to the passenger growth on each of the city pairs on the route, as evidenced by the table below⁵.

Compound Annual Growth Rate (CAGR) for Passengers 2006-2009

City Pair	The Qantas Group	Other Airlines
Sydney-Denpasar	44%	18%
Melbourne-Denpasar	37%	27%
Perth-Denpasar	77%	48%
Jakarta-Perth	9%	45%

Note: current year ie 2010 excluded for partial year

For the 12 months to May 2010, the Group has also maintained the highest seat factor on Australia-Indonesia services compared to any other carrier on the route⁶.

Airline	Seat Factor
Qantas	77.2%
Jetstar	77.1%
AirAsia Indonesia	74.6%
Pacific Blue	70.8%
Garuda Indonesia	69.1%

⁴ Source: BITRE – Table 3, International Scheduled Air Transport report, May 2010

Note: current year i.e. 2010 excluded for partial year

⁵ Source: BITRE – Table 5 International Scheduled Air Transport report May 2010, Qantas and Jetstar internal passenger volumes.

⁶ Source: BITRE – Table 3, International Scheduled Air Transport report, May 2010

Additionally, the following two tables illustrate that the Group's services currently utilise a higher proportion of allocated seat capacity than Pacific Blue⁷.

City Pair – the Group	Weekly Services	Weekly Seats
Sydney-Jakarta (QF)	4	1,188
Melbourne-Denpasar (JQ)	3	909
Sydney-Denpasar (JQ)	6	1,818
Perth-Denpasar (JQ)	7	1,239
Perth-Jakarta (JQ)	2	354
Total Utilisation	22	5,508
Total Allocation		5,892
Allocation Utilisation %		93.4%

Note: Darwin-Denpasar (JQ) services are excluded as they are unrestricted

Although Pacific Blue announced on 16 August 2010 that its Melbourne-Denpasar services would increase from a five weekly service to a daily service from 18 August 2010, the table below reflects the schedule that it has operated for the majority of the current season.

City Pair - Pacific Blue	Weekly Services	Weekly Seats
Melbourne-Denpasar	5	900
Sydney-Denpasar	3	540
Perth-Denpasar	7	1,260
Brisbane-Denpasar	7	1,260
Total Utilisation	22	3,960
Total Allocation		4,500
Allocation Utilisation %		88.0%

Note: Adelaide-Denpasar services are excluded as they are unrestricted

The Group's long term commitment and demonstrated leadership in successfully growing the level of travel between Australia and Indonesia is clearly evidenced by the fact that the Group's allocated traffic rights are utilised more comprehensively than Pacific Blue on a consistent basis throughout each season, and have been more successful in filling our aircraft with passengers travelling between the two countries than any other carrier operating between Australia and Indonesia.

Fares

Jetstar is committed to offering sustainable low and competitively priced fares on the Australia-Indonesia route.

The following table outlines Jetstar's lowest fare of the day versus its competitors⁸.

City Pair	Comparison to Garuda Indonesia	Comparison to Pacific Blue	Comparison to Indonesia AirAsia
Melbourne-Denpasar	61.0% lower	9.0% lower	
Perth-Jakarta	61.0 % lower		
Perth-Denpasar	38.4 % lower	-18.2% (higher)	-34.3 % (higher)
Sydney-Denpasar	65.5 % lower	13.5% lower	

⁷ Source: APG schedule extract for July 2010

⁸ Source: Jetstar, Garuda Indonesia, Pacific Blue, Indonesia AirAsia websites as at 4 August 2010

The table is based on a comparative assessment of Jetstar's air fares (ie a percentage differential) between Garuda Indonesia, Pacific Blue and Indonesia AirAsia on a forward looking 180 day period from 4 August 2010 on all Australia-Indonesia city pairs.

This table illustrates Jetstar's commitment to offering the lowest and most competitively priced airfares on the Australia-Indonesia route.

Jetstar's air fares over the next 180 day cycle are significantly lower (ie anywhere between 38 to 76 per cent lower) and more competitively priced than Garuda Indonesia for the city pairs shown. Jetstar's fares are also nine percent lower than that of Pacific Blue on the Melbourne-Denpasar route and over thirteen percent lower than Pacific Blue on the Sydney-Denpasar route.

Jetstar's low air fares have significantly influenced the high growth rate of travel between the two countries due to increased affordability and choice and its pricing strategy has concurrently contributed to creating a competitive environment between all airline operators to provide affordable air travel between Australia and Indonesia.

The fares offered by Jetstar on the Perth-Denpasar route are relatively higher than that of Pacific Blue and Indonesia AirAsia for the forward looking 180 day period. The basis for this differential is largely due to the lack of available capacity rights for Australian carriers, and the Group in particular, to enable Jetstar to increase capacity growth on the Perth-Denpasar route, and thereby stimulate further passenger volume growth through lower fares.

Noting the evidence of lower airfares provided in this application, Perth-Denpasar is the only Jetstar route between Australia and Indonesia that is not consistently priced below the competition. Further traffic rights would enable Jetstar to offer a greater number of low fares to the rapidly growing market.

Jetstar's low fares are further supported by the *Jetstar Price Beat Guarantee*, which underlines the airline's commitment to offering passengers the lowest possible internet fares. If travellers find a fare which is cheaper than Jetstar's lowest comparable internet fare on a comparable flight, Jetstar will beat any competitor by 10 percent.

In order to pass on the lowest possible fare to passengers, Jetstar maintains a very simple pricing structure, offering its distribution partners a series of terms and conditions to meet their business needs, such as extended holds for wholesalers. These arrangements are focused on ensuring customers can access Jetstar's fares across all channels.

Increased choice and frequency of service

Jetstar's plans to introduce additional services between Australia and Indonesia would offer consumers increased choice and frequency of service.

Jetstar is currently the only Australian carrier to offer Perth-Jakarta services and additional capacity, which would allow an increase in services from twice weekly to a daily.

Attachments 1 and 2 illustrate the vastly expanded schedule offerings the Jetstar proposed services would bring to market as well as connectivity to other Jetstar and Qantas services.

Product differentiation

Jetstar offers a suite of products that assist the customer and we believe they are significantly different from that of the other applicants. Jetstar's business model is focused on providing sustainable low fares by maintaining a low cost base, and its product offering, which is based on choice, underpins this.

Product offering

Jetstar offers a one-class value-based product on its Airbus 320 aircraft, which operate between Australia (Perth and Darwin) and Indonesia (Denpasar and Jakarta). As part of Jetstar's product on this aircraft, consumers have a number of options to purchase, such as *Extra Leg Room* seats, meals, snacks and beverages, entertainment (video-on-demand and audio entertainment) and comfort packs (including a blanket, pillow and amenity kit).

Jetstar operates Airbus 330 aircraft from Sydney and Melbourne to Denpasar. This aircraft offers a two-class product. In addition to the ability to customise the travel experience through the purchase options, consumers are able to travel in Jetstar's international business class cabin – StarClass. Jetstar's business class product includes lounge access (where available), separate cabin, food and beverages, a more generous baggage allowance and the ability to earn Qantas Frequent Flyer points at a Business Class rate.

New website (and foreign language websites)

Jetstar has recently launched a new look jetstar.com website that provides the customer with a much clearer and simpler interface. The new site allows easier navigation to our booking facility and travel offerings. Improvements in the booking process allow customers to view the cheapest prices available either side of their selected dates.

Jetstar has also launched a range of foreign language websites for all of its customers seeking to book Jetstar's services or find travel-related and booking information, both internationally and domestically. Foreign language websites in Bahasa Indonesian, Korean, Thai, Japanese, Vietnamese, Malaysian and Traditional Chinese are available, and Jetstar also has a website dedicated to the New Zealand market.

Strategic and Pacific Blue only offer English language websites.

Web check-in and check-in kiosks

Jetstar passengers can now check in utilising web check-in across our entire network. Over five percent of Jetstar's passengers are already utilising jetstar.com to check in unassisted, and almost 25 percent of passengers are already using kiosk check-in technology based at the airport. Presently Jetstar has self check-in kiosks at almost all airports we operate to including 10 kiosks in Melbourne (Tullamarine), 14 in Sydney, eight in Brisbane and 12 planned for installation at the Gold Coast by early 2011.

Jetstar is planning to upgrade to a greater number of kiosks if required at all of the airports.

Sum of sector pricing

Jetstar introduced sum of sector pricing in 2007, which enables Jetstar passengers to book travel through jetstar.com in the one booking to a destination that is not serviced by a point-to-point flight. It enables the airline to offer a wider range of city pairs to the travelling public. For example, Christchurch passengers can now make a booking to Bali, even though they will in fact travel on two separate flights (ie Christchurch–Sydney and Sydney-Bali, or Christchurch–Melbourne and Melbourne-Bali). These flights will be dynamically priced, meaning that the website will automatically select the best available price for each of the two sectors, combining the best available total fare between the origin and destination. The website will also have the ability to convert currencies on international routes.

Commercial agreements

Although Qantas will continue to operate its own services between Sydney and Jakarta, it also proposes to code share on Jetstar's services to both Jakarta and Denpasar.

5.1(b) Tourism Benefits

The extent to which applications will promote tourism to and within Australia. The Commission should have regard to:

- *the level of promotion, market development and investment proposed by each of the applicants; and*
- *route service possibilities to and from points beyond the Australian gateway(s) or beyond the foreign gateway(s).*

Although the number of foreign visitors travelling to Australia from Indonesia is relatively low, at 17 percent of total O/D passengers, Jetstar's planned additional services on a number of Australia-Indonesia sectors will encourage more visitors to Australia.

Jetstar believes that Australian tourism will benefit from our expanding interline network as the region becomes more accessible, and thus more attractive to the northern hemisphere. For instance, European travellers are able to create a seamless itinerary to Australia which includes a cost effective stopover in Indonesia, which increases the value of the overall trip. Expanding our services and adding more connections will drive higher economies of scale and heighten this appeal.

Promotion, market development and investment

Jetstar will promote the additional Indonesia services on an ongoing basis via network-wide and tactical route-specific campaigns.

Through consistent destination promotion, Jetstar has been able to show a sustained improvement in resident and visitor passenger numbers. Securing additional capacity for Jetstar will inevitably lead to further growth in the level of tourism between the two countries.

Jetstar offers holiday packages to visitors travelling to Australia to suit families and couples travelling on any budget. Travellers can purchase both pre-set packages or can customise their holiday by selecting a combination of flights, hotels and other activities. As part of its packaging product, Jetstar offers exclusive access to package pricing on Jetstar flights and includes a baggage allowance of 20 kilograms per passenger.

For the outbound market, Jetstar continues to be the most active Australian marketing supporter of Indonesian destinations, committing over \$1.5 million annually in marketing support value.

Route service possibilities

Jetstar offers passengers an extensive network within Australia and beyond the Australian gateways. Jetstar gives inbound passengers a large range of possible itinerary options through onward services on its domestic network of 19 points in Australia, and through its code share with Qantas to over 30 destinations.

Jetstar's existing agreements with Qantas, Air France, KLM, Qatar, Emirates and others have seen continued interest in passengers flying via Denpasar and Jakarta when entering or leaving Australia. A core appeal of Jetstar to current and potential airline partners is our expansive Indonesian network. Our interline offering is, therefore, heavily focused on enabling passengers to compile more flexible itinerary options to cater for their individual needs.

Over the short to medium term, Jetstar is in active negotiations to expand its interline partners, which will further enhance both the appeal of Australia as a destination and the options for Australians travelling abroad. Additional Indonesian services will support this business initiative that will benefit Australia's tourism industry and Australian consumers.

5.1(c) Consumer Benefits

The extent to which applications will maximise benefits to Australian consumers. The Commission should have regard to:

- *the degree of choice (including, for example, choice of airport(s), seat availability, range of product);*
- *efficiencies achieved as reflected in lower tariffs and improved standards of service;*
- *the stimulation of innovation on the part of incumbent carriers; and*
- *route service possibilities to and from points beyond the Australian gateway(s) or beyond the foreign gateway(s).*

Jetstar's differentiated product, efficiency of operations, innovation and extensive route network provides many benefits to Australian consumers.

Degree of choice

In addition to serving point-to-point markets, the Group also offers connecting services to other major and regional ports in Australia and beyond (refer Attachment 1).

Jetstar's Indonesia services connect to:

- 38 destinations beyond Melbourne, Sydney, Perth and Darwin; 25 of which are offered in both directions;
- four destinations in New Zealand, all of which are offered in both directions; and
- over 19 Qantas destinations, including more than 13 in both directions.

Holiday packages

Jetstar Holidays is a multi-product, multi-channel business providing land content to Jetstar customers. The product range includes packaged holidays, hotels, car hire, activities and other travel services. The product is sold mainly through online channels and through Jetstar's offline call centre.

Jetstar.com has a number of sales channels specific to Jetstar Holidays, including the Holiday Packages, Hotels, Car Hire and Activities tabs accessible via the homepage. Land content can also be added to a flight booking.

Jetstar Holidays has been selling land content in Indonesia since Jetstar commenced flying there in 2006. To date over \$1.5 million of hotel product alone has been sold, and over 12,000 room nights filled. Jetstar Holidays sells land content in various locations around Indonesia including Jakarta, Surabaya, Bintan, Bali, Kuta, Legian, Seminyak, Nusa Dua/Benoa, Jimbaran Bay, Uluwatu and Ubud.

Jetstar represents around 125 preferred hotels in Indonesia.

Jetstar Holidays predominantly serves the 'families and young couples' market, who are generally value conscious and focused on leisure destinations. Jetstar Holidays regularly markets specials, promotions and offers to existing and new customers throughout Australasia.

There are significant opportunities for growth in Jetstar Holidays' sales to Indonesia which will only be enhanced by additional flight capacity.

Jetstar Holidays has made recent system enhancements that make the selling of Indonesian, and particularly Balinese, hotel content easier through all channels. The penetration of hotel room nights sold to flight journeys can grow significantly from its current rate of around three percent.

The operation of additional frequencies by Jetstar will contribute to the growth of Jetstar Holidays' sales in Indonesia by providing the potential for additional points of origin from key markets in Australasia, thereby increasing the size of the potential market. It will also increase the potential for more marketing activity, which not only increases land content sales in Indonesia, but also improves the brand profile of Indonesia as a destination of choice for leisure travellers. Jetstar Holidays is well placed and ready to capitalise on this potential.

Increased capacity will allow Jetstar Holidays to introduce additional hotels into the preferred program, and potentially add more destinations around Indonesia. Increased capacity will also permit a wider focus on Indonesia's other destinations and sales of land content therein.

Improved marketing activity, with a greater focus on Indonesia as a leading leisure destination, will prove to align objectives between Jetstar and Indonesian tourism growth.

Overall, there are a range of activities Jetstar Holidays would be able to embark on with additional frequencies that would make travel and tourism to an already popular destination more accessible to Australian consumers.

Fares

In keeping with its desire to offer customers maximum choice and flexibility, Jetstar introduced the 'JetSaver Light Fare' in 2008. This fare gives passengers a \$10 discount on domestic bookings and a \$20 discount on international bookings when passengers travel with only carry-on baggage.

At the same time, Jetstar increased the maximum weight permitted for carry-on luggage from seven to 10 kilograms for all passengers.

This initiative provides greater choice to Jetstar's domestic and international customers, allowing them to only pay for services which they value and need, stimulate more demand, and drive even greater efficiencies at airports to support the customer service functions around the Jetstar network.

By encouraging passengers to travel with only carry-on luggage, Jetstar has made the web and check-in capabilities a much more compelling proposition since customers can elect to avoid the check-in process. The congestion associated with the check-in lines is also reduced.

If a passenger who has booked a JetSaver Light fare wished to check-in luggage, this can be accommodated with the customer paying a fee.

Jetstar is focused and committed to offer its passengers choice when they travel. Jetstar's entire fare structure is designed to give customers value for money by allowing them to choose and opt into various products. Jetstar's core belief is that this opens air travel to more Australians by making it more affordable.

The cornerstone of this offering is Jetstar's attractive value based fare structure. The main fare categories offered are:

JetSaver Light

- Jetstar's lowest priced fare category
- Unbundled product therefore does not include baggage or seat selection
- Baggage and seat selection can be added at the applicable fee

JetSaver

- Jetstar's everyday all day low fare
- Includes checked baggage and seat selection

JetPlus

- Available only on A330 services (Sydney-Denpasar and Melbourne-Denpasar)
- Includes meals, drinks baggage seat selection and some added flexibility

JetFlex

- Jetstar's fully flexibly fare category
- Includes baggage and seat selection
- Designed for passengers who may require changes. Especially appealing to corporate travellers
- Incorporates the ability to earn Qantas Frequent Flyer points

StarClass

- Available on Jetstar's A330 services
- Jetstar's international business class
- Includes lounge access (where available), separate cabin, all food and beverage and a higher baggage allowance
- Ability to earn Qantas Frequent Flyer points at Business Class rate
- Aimed to be priced at the standard full service economy price

In addition to the above, Jetstar offers various ancillary services that further enable passengers to customise their travel experience. These are detailed in the table below.

	Domestic Australia / New Zealand / Trans Tasman	Short Haul International	Short Haul International via Darwin hub	Long Haul International (economy)
Aircraft Type	A320	A321	A320	A330
	Feed me			
Prepaid Meals	NA	\$19	\$30	\$30
Buy-on-Board Meals	Yes	\$19	\$30	\$30
	Entertain Me			
Prepaid Video On Demand	NA	NA	\$10	\$12
Buy-on-Board Video On Demand	\$10	\$10	\$10 + \$10	\$15
Audio Headsets	\$5	\$5	\$5	\$5
Music Channels	\$3	\$3	\$3	\$3
Drop Down Screens	NA	NA	NA	Yes
	Comfort Me			
Prepaid Comfort Pack	NA	\$7	\$7	\$7
Buy-on-Board Comfort Pack	NA	\$7	\$7	\$7

SMS and Automated Boarding Pass

Jetstar has recently introduced boarding passes via mobile phone text message (SMS) and 24 hour pre-enrolment check-in as part of a major innovation investment to revolutionise air travel for Jetstar customers.

Jetstar passengers who Web-Check for Australian domestic flights are now given the option to have their boarding pass and unique boarding code sent to their mobile phone via a standard text SMS message. The intent is that this functionality will be available to Jetstar's international passengers in time.

Unlike some other airlines who have introduced this technology to WAP (Wireless Application Protocol) or internet enabled handsets, in a global first, any mobile phone is able to accept the Jetstar boarding pass via the common text message.

Jetstar has also introduced 24 hour automatic check-in to enhance the technological breakthrough.

This will allow customers who purchase fares via jetstar.com to request at the time of booking for the airline to automatically check the passenger(s) in 24 hours prior to their Jetstar flight departure with the boarding pass to then be sent via email or SMS text message.

Frequent Flyer scheme

Jetstar's Indonesia flights are a popular choice for redemption by members of the Qantas Frequent Flier (QFF) program. Also, key fares such as Jetstar's JetFlex fare are entitled to earn Qantas Frequent Flier points.

Passengers who are Qantas Club members are able to access the Qantas lounge when flying on any Jetstar service.

Distribution methods

Jetstar expects to sell 60 to 70 percent of seats out of Australia into Indonesia through its direct channels (website and call centres), 10 to 15 percent via airline partners, and the balance of 15 to 30 percent via trade partners.

Jetstar's distribution model includes selling direct to consumers (via its website at jetstar.com and its call centre), through a series of airline partners – both via interline and codeshare agreements – (including Qantas, Air France/KLM, Emirates and Qatar), most retailers in Australia (eg Flight Centre, Stella Group, Jetset Travel World, STA and independent travel agents), Online Travel Agents (eg Webjet), wholesalers/consolidators (eg Creative, Horizon, Infinity, Pinpoint), tour operators, and corporate travel managers (eg HRG, QBT, Corporate Travel Management, Carlson Wagonlit, American Express).

Jetstar has well established relationships with key agents and this, in combination with its direct distribution channels, means it is well positioned to generate traffic in all market segments including leisure (group, individual IT and VFR components), students and business. This means that all Australian consumers have easy access to Jetstar's flights and low fares.

Jetstar is able to leverage its extensive distribution network in its core markets of Australia and New Zealand to efficiently distribute its fares to potential passengers wishing to travel to Indonesia and beyond.

Jetstar's distribution system is flexible, robust and well established. It provides passengers with a comprehensive access to a myriad of booking channels. This in turn enables Jetstar to actively make air travel more accessible to Australians and New Zealanders wishing to travel to Indonesia by catering to the varying typical purchasing behaviours of different categories of passengers.

Jetstar invests heavily to ensure that its distribution methods exceed industry best practice and it is continuously improving all channels to lead innovation in this area.

For example, Jetstar was the first low cost carrier to launch codeshare and interline services, the first Australian carrier to launch an online cash payment option, and the first Australian airline to launch Low Fare Finder calendar search.

All these innovations and distribution methods directly advantage the Australian consumer by offering them more choice, more flexibility and more tools to find and book the lowest fares available in the market.

To this effect, Jetstar has worked extensively to improve its working relationships with travel agents. Travel agents now have ready access to the Jetstar Group network through a number of channels, including the proprietary website, a direct linkage into Jetstar's booking engine via API, and all major global reservation systems (Amadeus, Galileo, Sabre etc) which operate in Australia. Jetstar's intention is to always ensure its partners find doing business with Jetstar simple and mutually beneficial.

Jetstar has also developed in-market relations with agents in Indonesia and across Asia to drive traffic from and via Indonesia to Australia. This ability to drive (from an Australian perspective) both outbound and inbound traffic across the Australia-Indonesia routes ensures we can successfully stimulate demand and maximise the benefits from additional capacity.

Jetstar's interline partners continue to show demonstrable interest in supporting the Jetstar's services into and out of Indonesia. Jetstar's business expectations around its newly signed agreement with KLM/Air France indicate strong uptake with European travellers wanting to stop over in Denpasar enroute to or from Australia.

Jetstar has developed an interline distribution infrastructure that allows it to expand its international commercial proposition through the development of Interline E-Ticketing (IET) Agreements, which enable passenger and baggage connectivity with a range of international carriers. This platform also supports Jetstar's relationships with its codeshare partners.

In summary, Jetstar's vast distribution infrastructure leads industry best practice and reaches across all industry channels. This is proven to work effectively for the various markets travelling to Indonesia.

Advertising and promotions

Jetstar's current plans for promotion and market development activity to promote Indonesia as a tourism destination to Australian travellers in the future are being finalised, but will include the following:

- An advertising campaign (worth over \$1.5 million on an annual basis) to promote increased services to Denpasar in the Melbourne, Sydney and Perth markets;
- Direct response campaigns across all of Jetstar's media channels (including significant volumes of television, print, and radio) throughout the year to increase visitation to Denpasar;
- Prominent press positions such as full page advertising in Escape (News Ltd travel section) to promote flights and holiday packages to Denpasar;
- EDM campaigns to our extensive and responsive JetMail database to promote Denpasar;

- Jetstar currently has a strategic commercial partnership with the Channel Seven Sunrise program, and uses this to promote Denpasar and its holiday packages, amongst others; and
- Jetstar will also be initiating an extensive cooperative marketing and promotional campaigns with the relevant State Tourism bodies.

Jetstar also invests in advertising and promotional activity for the inbound market, particularly out of Jakarta.

Arguably no other carrier in Australia puts as much focus on publicity campaigns and the promotion of fares and destinations as Jetstar. In combination with Jetstar's low fares this means Jetstar is uniquely suited to stimulate demand between Australia and Indonesia and ensure the broadest reach of the Australian public that is possible can be achieved.

5.1(d) Trade Benefits

The extent to which applications will promote international trade. The Commission should have regard to:

- *the availability of frequent, low cost, reliable freight movement for Australian exporters and importers.*

The Australia-Indonesia air freight market supports a sizeable two-way trade in goods, which chiefly consists of fresh produce and clothing, as well as express cargo and international air mail services.

On each of its services to Bali and Jakarta, Jetstar would have the ability to move at least 500 kilograms of freight per flight, which will vary depending upon aircraft type, passenger loadings and season of operation.

As part of the Group, Jetstar can offer its freight customers access to an extensive international and domestic network. In addition, Qantas Freight's partnership with Australia Post - Australian air Express (AaE) – provides freight and mail services in Australia and offers a seamless transfer between international and domestic networks.

5.1(e) Industry Structure

The extent to which applications will impact positively on the Australian aviation industry.

The expansion of Jetstar's operations to Indonesia will have a positive impact on the development of Australia's aviation industry.

Jetstar's planned capacity growth in Indonesia is necessary to meet market requirements and enable Jetstar to remain competitive with foreign airlines on the route.

The significant expansion is a substantial step forward for the airline, and an allocation of capacity to Jetstar will help it to strengthen its operations in a growing market, making it a more robust competitor in Australia's aviation industry and ensure that its aircraft are efficiently utilised.

ATTACHMENT 1

Jetstar Planned Schedule as of Dec'10

Org	Dst	Flt	Eqp	Dept	Arvl	Op days	Tot/Wk	Org	Dst	Flt	Eqp	Dept	Arvl	Op days	Tot/Wk
PER	CGK	114	320	0225	0550	1...5..	2	SIN	CGK	115	320	1925	2005	...4..7	2
CGK	SIN	114	320	0630	0905	1...5..	2	CGK	PER	115	320	2035	0140	...4..7	2
PER	DPS	116	320	1005	1345	1.3.56.	4	SIN	DPS	117	320	1835	2115	1.3.56.	4
DPS	SIN	116	320	1445	1720	1.3.56.	4	DPS	PER	117	320	2245	0220	1.3.56.	4
PER	DPS	116	320	1005	1345	2.4..7	3	DPS	PER	113	320	1440	1815	2.4..7	3
MEL	DPS	35	332	1845	2155	2..56.	2	DPS	MEL	36	332	2300	0735	2..56.	2
SYD	DPS	37	332	1735	2100	Daily	7	DPS	SYD	38	332	2210	0655	Daily	7
DRW	DPS	81	321	1930	2045	Daily	7	DPS	DRW	82	321	2250	0300	Daily	7

Jetstar Planned Schedule by 31Oct11

PER	CGK	114	320	0225	0550	Daily	7	SIN	CGK	115	320	1925	2005	Daily	7
CGK	SIN	114	320	0630	0905	Daily	7	CGK	PER	115	320	2035	0140	Daily	7
PER	DPS	116	320	1005	1345	1.3.56.	4	SIN	DPS	117	320	1835	2115	1.3.56.	4
DPS	SIN	116	320	1445	1720	1.3.56.	4	DPS	PER	117	320	2245	0220	1.3.56.	4
PER	DPS	116	320	1005	1345	2.4..7	3	DPS	PER	113	320	1440	1815	2.4..7	3
PER	DPS	TBD	320	1205	1545	Daily	7	DPS	PER	TBD	320	1640	2015	Daily	7
PER	DPS	TBD	320	1915	2255	2.4..7	3	DPS	PER	TBD	320	2359	0335	2.4..7	3
MEL	DPS	35	332	1845	2155	Daily	7	DPS	MEL	36	332	2300	0735	Daily	7
SYD	DPS	37	332	1735	2100	Daily	7	DPS	SYD	38	332	2210	0655	Daily	7
DRW	DPS	81	321	1930	2045	Daily	7	DPS	DRW	82	321	2250	0300	Daily	7

Draft schedules subject to change based on slots, ground infrastructure, and other scheduling parameters at the time of rights award

ATTACHMENT 2

In addition to serving point-to-point markets, the Qantas Group also offers connecting services to other major and regional ports in Australia and beyond

Connections to Indonesia		Indonesian Flight		Connections from Indonesia	
<ul style="list-style-type: none"> Adelaide Brisbane Christchurch Auckland 	<ul style="list-style-type: none"> Sydney Wellington Gold Coast Hobart 	<ul style="list-style-type: none"> Maroochydore Canberra Launceston Davenport 	<ul style="list-style-type: none"> Devonport Sydney Brisbane Adelaide Launceston 	<ul style="list-style-type: none"> Mildura Canberra Gold Coast Hobart Launceston 	<ul style="list-style-type: none"> Wellington Los Angeles Maroochydore Christchurch
<ul style="list-style-type: none"> Adelaide Melbourne Brisbane Ballina/Byron Tamworth Dubbo Canberra 	<ul style="list-style-type: none"> Hobart Maroochydore Gold Coast Coffs Harbour Auckland Wagga Wagga Armadale Queenstown 	<ul style="list-style-type: none"> Launceston Port Macquarie Albury Launceston Buenos Aires Los Angeles Townsville Gold Coast 	<ul style="list-style-type: none"> Adelaide Melbourne Brisbane Ballina/Byron Tamworth Dubbo Canberra 	<ul style="list-style-type: none"> Port Macquarie Albury Launceston Buenos Aires Los Angeles Townsville Gold Coast 	<ul style="list-style-type: none"> Queenstown Coffs Harbour Maroochydore Armadale Wellington Christchurch Auckland Wagga Wagga
<ul style="list-style-type: none"> Cairns Sydney Brisbane 	<ul style="list-style-type: none"> Cairns Sydney Brisbane 	<ul style="list-style-type: none"> Melbourne Davenport 18/15 - 20/15 	<ul style="list-style-type: none"> Cairns Sydney Brisbane 	<ul style="list-style-type: none"> Melbourne Alice Springs Gove 	<ul style="list-style-type: none"> Melbourne Alice Springs Gove
<ul style="list-style-type: none"> Canberra Adelaide Broome 	<ul style="list-style-type: none"> Brisbane Sydney Melbourne 	<ul style="list-style-type: none"> Port Headland Kalgoorlie Karratha 	<ul style="list-style-type: none"> Cairns Sydney Brisbane Melbourne 	<ul style="list-style-type: none"> Karratha Newman Kalgoorlie Port Headland 	<ul style="list-style-type: none"> Karratha Newman Kalgoorlie Port Headland

- 38 destinations beyond Melbourne, Sydney, Perth and Darwin, 25 of which are offered in both directions
- 4 destinations in New Zealand, all of which are offered in both directions
- 19+ QF destinations connect, including more than 13 in both directions

Bolded ports are offered as Jetstar sum-of-sector, others are bookable as individual sectors or via Qantas