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Ms Marlene Tucker
Executive Director
International Air Services Commission
GPO Box 630
Canberra ACT 2601

Via email: iasc@infrastructure.gov.au

Dear Ms Tucker

Re: Applications for allocation for capacity – Japan route

I refer to the letter from Dr Ian Douglas to Mr Rod Sims on 25 September 2019 inviting the ACCC to make a submission with respect to the competing applications of Qantas and Virgin Australia for capacity to operate to/from Tokyo-Haneda Airport (Haneda). Mr Sims has asked me to respond on his behalf.

The applications for capacity

The ACCC understands that Qantas has applied for allocation of two frequencies per day (return) between Australia and Haneda, while Virgin Australia has applied for allocation of one frequency per day (return).

Requirements under the IASC Act and Policy Statement considerations

The ACCC notes that:

- in circumstances where the IASC receives more than one application for allocation of available capacity, the IASC must make the allocation that the IASC is satisfied would be of the greatest benefit to the public;¹ and
- the International Air Services Commission Policy Statement 2018 (Policy Statement) states that, in assessing the benefit to the public, the IASC is to have regard to any of the additional criteria it considers relevant, including competition criteria.²

¹ Section 7(2)(b), *International Air Services Commission Act 1992* (Cth)

² Section 13(2)(b), *International Air Services Commission Policy Statement 2018*

Qantas and Virgin Australia's applications

Qantas seeks to introduce a daily frequency between Melbourne and Haneda and an additional daily frequency between Sydney and Haneda. Qantas currently has unlimited capacity to points in Japan, other than Haneda, and seven frequencies per week to Haneda, which it operates to/from Sydney.

Virgin Australia intends to operate daily frequencies between Brisbane and Haneda. Virgin Australia does not currently operate services in its own right between Australia and Japan.

Comments relating to the competition criteria

In order to assist the IASC with its assessment of the competing applications, the ACCC makes the following comments relating to the competition criteria set out in section 9 of the Policy Statement.

- (a) *Desirability of fostering an environment in which Australian carriers can effectively compete with each other and with foreign carriers on the route in question*

The ACCC considers that allocating one frequency to each of Virgin Australia and Qantas would facilitate greater competition between Virgin Australia and Qantas, and other foreign carriers, on routes between Australia and Japan (including Brisbane and Tokyo). Virgin Australia does not currently operate flights to Japan in its own right, so Virgin Australia commencing flights on any route to Japan would naturally enable it to be a more effective competitor than at present.

- (b) *Number of carriers operating on the route in question and the existing distribution of capacity among Australian carriers (including code sharing and other joint international air services)*

Flights between Australia and Japan: Virgin Australia's application would enable it to commence operations between Australia and Japan, introducing a fourth airline to the route.

Flights between Brisbane and Tokyo: Qantas currently operates the only direct flight from Brisbane to Tokyo (any airport).

- (c) *Likely impact on consumers of the proposed allocation, including on costs of airfares, customer choice, product differentiation, stimulation of innovation by incumbent carriers, and frequency of service*

In the ACCC's experience, introducing more players into a market generally leads to greater competition and better outcomes for consumers. The ACCC anticipates that Virgin Australia's entry would stimulate competition for flights between Australia and Japan, as Virgin Australia would be incentivised to compete on price and/or services to win customers from other airlines and attract new customers. Virgin Australia's behaviour would likely elicit a competitive response from the other airlines operating between Australia and Japan, to the benefit of consumers through lower prices and improved service.

The ACCC further notes that Virgin Australia is applying for only one of the two available frequencies between Australia and Haneda. We assume it would be open to the IASC to allocate the other additional frequency between Australia and Haneda to Qantas, which already has unlimited capacity to operate flights between Australia and Tokyo's Narita Airport, thereby leaving scope for Qantas to introduce additional flights in response to Virgin Australia's entry on the route.

(d) Desirability of fostering own aircraft operations by Australian carriers over code share or other joint international air services involving the marketing, by an Australian carrier, of seats on flights operated by foreign carriers

Virgin Australia currently uses code shares with foreign carriers to offer routes between Australia and Japan. Granting Virgin Australia's application would enable it to introduce its own aircraft operations between Australia and Japan. Virgin Australia is more likely to compete vigorously for passengers on its own flights than under a code share arrangement with a foreign carrier.

Conclusion – sharing available allocations likely to promote greater competition

The ACCC considers that allocating one frequency between Australia and Haneda to Virgin Australia and one to Qantas would promote competition to a much greater extent than allocating both frequencies to Qantas.

I hope that this submission assists you in your consideration of the applications for capacity from Qantas and Virgin Australia.

If you wish to discuss any aspect of this submission further, please do not hesitate to call Darrell Channing on 02 6243 4925.

Yours sincerely



David Jones
General Manager
Adjudication