



2 October 2019

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

Dear Ms Tucker,

**Re: Virgin Australia's application for allocation of capacity – Japan route**

We refer to the invitation by the International Air Services Commission (**the Commission**) to lodge a further submission following the application by Virgin Australia International Airlines Pty Ltd (**Virgin Australia**) for an allocation of capacity on the Japan route.

Please find enclosed Qantas Airways Limited's (**Qantas**) submission on Virgin Australia's application. As our submission contains some commercially sensitive information, Qantas has provided the Commission with Public and Confidential versions.

We would be pleased to provide further information to the Commission.

Yours sincerely,

**Andrew Parker**  
Group Executive, Government, Industry, International, Sustainability



## SUBMISSION IN RESPONSE TO VIRGIN AUSTRALIA'S APPLICATION FOR AN ALLOCATION OF CAPACITY – JAPAN ROUTE

### Overview

Under section 7 of the *International Air Services Commission Act 1992* (Cth) (**the Act**), the Commission may make a determination allocating available capacity. The Commission has received two applications – by Qantas on 16 September 2019 for two frequencies per day and Virgin Australia on 24 September 2019 for one frequency per day – for allocations of capacity on the Japan route to operate to/from Haneda Airport during daytime hours.

Section 7 of the Act requires that in assessing the benefit to the public, the Commission must apply the criteria set out for that purpose in any policy statements made by the Minister under section 11. Where there is more than one application, the Commission must be satisfied, having regard to the applications made, that the determination would be of the greatest benefit to the public (subsection 7(2)(b)). Since there are two applicants and insufficient capacity, the Commission is to have regard to the reasonable capability criterion and any of the additional criteria that it considers to be relevant under section 13 of the Minister's Policy Statement (**the Policy Statement**).

Allocation of two frequencies per day to Qantas, as requested, will deliver the greatest benefit to the public and is the only **no risk** option to launch and utilise scarce and strategically valuable slots to/from Haneda Airport. Qantas' plans to expand services to/from Haneda Airport will deliver operational certainty and more capacity compared to the proposal outlined by Virgin Australia, promoting the object the Act.

For the reasons outlined below, Qantas is of the view that Virgin Australia has not demonstrated that its application will meet the reasonable capability criterion considering the unique circumstances relevant to the availability of additional access of Haneda Airport for Australian carriers. Further, when assessing Virgin Australia's application against the additional criteria, many of the claimed benefits of its proposal would be available immediately and without limitation to be taken up and offered to consumers if Virgin Australia commenced services between Brisbane and Tokyo, serving Narita Airport.

### Response to Virgin Australia's application addressing section 8 of the Policy Statement

The Commission must satisfy itself that Virgin Australia meets the 'reasonable capability criterion' in section 8 of the Policy Statement. We urge the Commission to rigorously examine the extent to which Virgin Australia is reasonably capable of: (a) obtaining any licences, permits or other approvals required to operate on and service the route to which the determination relates; and (b) using the capacity allocated under the determination.

It is incumbent on the Commission to consider both the implementation and ongoing use of the capacity, in accordance with the rationale underpinning the reasonable capability criterion as outlined in the Explanatory Statement to the Policy Statement:

*"The Commission is also to consider the extent to which the carrier(s) is reasonably capable of implementing the proposed services and using the allocated capacity." (emphasis added)*

Virgin Australia has provided details in its application regarding its ability to commence flights on 29 March 2020, when the additional access to Haneda Airport becomes available. However, the ability of Virgin Australia to use the capacity on an ongoing and sustainable basis is a critical consideration for the Commission that has not been adequately addressed. This is particularly important for the

Commission given the scarcity and significant strategic value of Haneda Airport access for Australia generally.

**[CONFIDENTIAL INFORMATION REDACTED].**

Virgin Australia's application states that an allocation of capacity to/from Haneda Airport would assist them 'to return our international network to a position of financial sustainability' (paragraph 6.2.3). Since the reporting of Virgin Australia's \$75.6 million loss<sup>1</sup>, initiatives to help strengthen Virgin Australia's financial performance have been announced, including a fleet, capacity and network review. The network review includes 'assessing potential market withdrawals on certain markets deemed uneconomic'<sup>2</sup> and is relevant context for the Commission when considering the use of the capacity in accordance with the reasonable capability criterion.

As recognised recently by the Commission, 'each application must be assessed on its merits, having regard to the nature of that application and the market circumstances relevant to the route in question'<sup>3</sup>. Virgin Australia's application makes multiple references to its services on the Hong Kong route, despite recognising that it is a different market to Japan (paragraph 5.17). These references to Hong Kong are irrelevant to the Commission's assessment for determining access to Haneda Airport and are not transferable to the current application process on the Japan route.

For Qantas, which has proven its specific and ongoing commitment to the Japan route during both periods of growth and declining demand, there is no risk that additional services to/from Haneda Airport will be launched and maintained. **[CONFIDENTIAL INFORMATION REDACTED].**

#### Response to Virgin Australia's application addressing section 9 of the Policy Statement

The strategic value of access to Haneda Airport is well understood. However, access to Haneda in and of itself is not *determinative* of whether effective competition exists on the Japan route. Virgin Australia's claims that access to Haneda Airport is imperative to support its entry into the market (paragraph 6.2.2) conflict with global practice where no other carrier has commenced services to Japan using Haneda Airport as its inaugural destination. International carriers that currently serve Haneda Airport have had a prior significant and long-standing presence at Tokyo Narita Airport. **[CONFIDENTIAL INFORMATION REDACTED].**

Virgin Australia reminds the Commission that there are no capacity restrictions to any other points in Japan apart from Haneda Airport preventing expansion of Qantas' operations to Japan (paragraph 6.2.7). This equally applies to all Australian carriers and if Virgin Australia was not allocated capacity to/from Haneda Airport by the Commission, there would be no impediment to commencing services and delivering the public benefits outlined in its application. For example, offering a new choice of airline, additional frequency between the two cities, and product differentiation (paragraph 6.2.18) may be instead taken up immediately and offered to consumers between Brisbane and Tokyo Narita Airport.

Virgin Australia's statement that its application will bring more capacity to the Japan route is factually inaccurate (paragraph 6.2.14). From 29 March 2020, Qantas will maintain Boeing 747-400 aircraft operations between Sydney and Haneda Airport. If granted two additional daily frequencies, Qantas plans to operate an Airbus 330-300 wherever possible, subject to operational and other commercial requirements.

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<sup>1</sup> Virgin Australia Holding Limited Financial Year 2019 presentation, 28 August 2019  
<https://www.virginaustralia.com/cs/groups/internetcontent/@wc/documents/webcontent/~edisp/fy19-full-year-results.pdf>

<sup>2</sup> Ibid

<sup>3</sup> [https://www.iasc.gov.au/determinations\\_decisions/2019/2019iasc204.aspx](https://www.iasc.gov.au/determinations_decisions/2019/2019iasc204.aspx)

The Qantas Airbus 330-300 aircraft have 297 seats, including 40 per cent more business class seats than Virgin Australia to better target the corporate traveller that favours Haneda Airport. This provides an extra 44 seats per day, over 16,000 seats per year, or 8 per cent additional capacity to Tokyo compared to any incremental Virgin Australia service (refer below tables).

| City         | QF – NS19 per week |                  |          | QF – NS20 per week |                  |                  |          |                |
|--------------|--------------------|------------------|----------|--------------------|------------------|------------------|----------|----------------|
|              | Seats per flight   | Flights per week | Aircraft | Seats per week     | Seats per flight | Flights per week | Aircraft | Seats per week |
| BNE-NRT      | 297                | 7                | A333     | 2,079              | 297              | 7                | A333     | 2,079          |
| MEL-TYO      | 297                | 7                | A333     | 2,079              | 297              | 7                | A333     | 2,079          |
| SYD-HND #1   | 364                | 7                | B744     | 2,548              | 364              | 7                | B744     | 2,548          |
| SYD-HND #2   |                    |                  |          |                    | 297              | 7                | A333     | 2,079          |
| <b>Total</b> |                    |                  |          | <b>6,706</b>       |                  |                  |          | <b>8,785</b>   |

| City              | QF Increase per week each way |                  |          |                | VA Increase per week each way |                  |          |                |
|-------------------|-------------------------------|------------------|----------|----------------|-------------------------------|------------------|----------|----------------|
|                   | Seats per flight              | Flights per week | Aircraft | Seats per week | Seats per flight              | Flights per week | Aircraft | Seats per week |
| BNE-HND           |                               |                  |          |                | 275                           | 7                | A332     | 1,925          |
| SYD-HND #2        | 297                           | 7                | A333     | 2,079          |                               |                  |          |                |
| <b>Total</b>      |                               |                  |          | <b>2,079</b>   |                               |                  |          | <b>1,925</b>   |
| <b>Difference</b> |                               |                  |          | <b>+154</b>    |                               |                  |          | <b>-154</b>    |

| City              | QF Increase per week round-trip |                  |          |                | VA Increase per week round-trip |                  |          |                |
|-------------------|---------------------------------|------------------|----------|----------------|---------------------------------|------------------|----------|----------------|
|                   | Seats per flight                | Flights per year | Aircraft | Seats per week | Seats per flight                | Flights per year | Aircraft | Seats per week |
| BNE-HND           |                                 |                  |          |                | 275                             | 365              | A332     | 200,750        |
| SYD-HND #2        | 297                             | 365              | A333     | 216,810        |                                 |                  |          |                |
| <b>Total</b>      |                                 |                  |          | <b>216810</b>  |                                 |                  |          | <b>200750</b>  |
| <b>Difference</b> |                                 |                  |          | <b>+16060</b>  |                                 |                  |          | <b>-16060</b>  |
|                   |                                 |                  |          | <b>+8%</b>     |                                 |                  |          | <b>-7.4%</b>   |

Any claims by Virgin Australia of using capacity more efficiently than Qantas are unfounded. Qantas offers not only the greater capacity option from 29 March 2020 but is best placed over the longer term to ensure that operations are sustainable given the flexibility of aircraft type and configuration within its fleet.

Virgin Australia's proposal to place its code on All Nippon Airways (**ANA**) operated Australia-Japan services and domestic flights to/from Haneda and Narita Airports, as well as ANA's proposal to codeshare on Virgin Australia's domestic routes, may all be implemented immediately. None of these proposed codeshare services are dependent on approval of the Commission.

From a joint services perspective, approval of the Commission would be required for ANA to codeshare on services operated by Virgin Australia on the Japan route. Virgin Australia's application does not provide sufficient information to allow interested stakeholders to properly comment on this proposal and we request further information be provided on the form of the codeshare (e.g. free sale).

Virgin Australia claims that competition is required to place downward pressure on air freight rates due to recent growth in demand on the Brisbane-Tokyo sector (paragraph 6.3.22). We disagree with Virgin Australia's claim. Qantas operates this city pair with widebody Airbus 330-300 aircraft that have a capability to uplift 12 tonnes of freight per flight. The market and rates are already competitive, with a multitude of operators and infrastructure options at both Narita and Haneda Airports offering reliable, low cost air freight movements.