



VIRGIN AUSTRALIA INTERNATIONAL AIRLINES PTY LTD
VIRGIN AUSTRALIA AIRLINES (SE ASIA) PTY LTD
PO Box 1034
Spring Hill QLD
Australia 4004
T +61 7 3295 3000

www.virginaustralia.com

24 September 2019

Ms Marlene Tucker
Executive Director
International Air Services Commission
PO Box 630
CANBERRA ACT 2601

Dear Ms Tucker

Application for allocation of capacity – Japan route

Virgin Australia International Airlines Pty Ltd (Virgin Australia) wishes to apply for an allocation of capacity on the Japan route, following settlement of revised air services arrangements between Australia and Japan. This capacity will enable Virgin Australia to commence services between Australia and Tokyo (Haneda Airport), using A330-200 aircraft.

Allocation sought on the Japan route

Virgin Australia is seeking an allocation of one frequency per day for passenger services during daytime hours to/from Haneda Airport, on the basis that:

- the capacity will be utilised by Virgin Australia;
- the capacity will be utilised for joint services with All Nippon Airways (ANA);
- the allocation is granted for a period of five years from the date of the determination; and
- the allocation will be fully utilised by 29 March 2020.

Supporting information

In accordance with the International Air Services Commission's (the Commission) notification of 3 September 2019 regarding applications for capacity on the Japan route, please find **attached** the public version of our comprehensive submission in support of the allocation we are seeking. This information outlines how our proposed operation will promote the object of the *International Air Services Commission Act 1992* (Cth) and addresses the relevant criteria in the Minister's Policy Statement of 2018. A second version of our submission containing confidential information will be provided separately to the Commission.

We will shortly provide the Commission with a copy of the confidential code share agreement between Virgin Australia and ANA.

Should you require any further information, please do not hesitate to contact me on (02) 8093 7114.

Yours sincerely

Lee-Anne Tomkins
General Manager
Government and International Relations

PUBLIC VERSION

VIRGIN AUSTRALIA

APPLICATION FOR ALLOCATION OF CAPACITY – JAPAN ROUTE

1 **Executive summary**

- 1.1 Recent amendments to the Australia-Japan air services arrangements have provided additional access to Tokyo Haneda Airport (Haneda) for carriers of both countries. This has given Virgin Australia International Airlines Pty Ltd (Virgin Australia) the opportunity to bring a new source of competition to the Japan route by commencing daily operations between Brisbane and Haneda, with the potential to deliver significant and sustained benefits for travellers and Australian exporters, boosting tourism and trade flows between the two countries. The Japan market represents an excellent strategic fit for Virgin Australia, as a destination with a strong growth outlook for both inbound and outbound travel, and which appeals to our leisure and corporate customers alike.
- 1.2 The greatest public benefits are likely to be realised by splitting the available capacity between Virgin Australia and the Qantas Group. Such an outcome would facilitate increased competition, choice and more capacity than if both daily frequencies were allocated to the Qantas Group as it has requested. This would create intense competition between ourselves, the Qantas Group and the other carriers serving the route, thereby promoting the object of the *International Air Services Commission Act 1992* (Cth) (IASC Act).
- 1.3 As an experienced international operator serving 15 destinations in 11 countries, Virgin Australia is confident of securing all necessary regulatory approvals required to support our planned operation to Haneda. Preparations for our entry to the route have been underway for many months. If Virgin Australia is awarded the allocation of capacity we are seeking, **flights will commence on 29 March 2020.**
- 1.4 Virgin Australia has strong incentives to ensure our new services are launched on 29 March 2020. Given we have already announced our intention to serve Haneda, we would sustain significant reputational damage if we did not commence flights on time. In addition, we are investing substantial funds in establishing the new route which would be foregone if the capacity was not utilised.
- 1.5 Our new partnership with All Nippon Airways (ANA), which includes plans for reciprocal code share services on sectors between and within Australia and Japan, underscores our level of commitment to entering the route. Sales and distribution channels for the new services will also be established ahead of our new services. Commencing operations to Haneda is a top priority for our business and the project is being delivered in accordance with strict timeframes under the stewardship of a robust governance structure.

PUBLIC VERSION

- 1.6 Any suggestion that Virgin Australia will not be in a position to commence flights on 29 March 2020 is unfounded. Virgin Australia fully appreciates the need for the new capacity to Haneda to be utilised from the beginning of the Northern Summer 2020 scheduling season, given the scarcity of these slots and the immense strategic value that they represent for Australia and its international airlines. Furthermore, Virgin Australia is acutely aware that there is no guarantee that any additional capacity to Haneda will become available in the future. This is one of the key reasons why Virgin Australia has a very strong desire to secure a partial allocation of the capacity currently available, allowing us to gain access to this valuable destination, provide a source of competition on the Japan route over the longer term and deliver an enhanced network proposition for our guests. We undertake to provide regular updates on our progress towards readiness for launch to senior officers within the Department of Infrastructure, Transport, Cities and Regional Development (the Department) over the next six months.
- 1.7 Allocation of the capacity requested by Virgin Australia to facilitate our plans to commence flights to Haneda will undoubtedly deliver **the greatest benefit to the public** relative to the competing application from the Qantas Group and will promote the object of the IASC Act, by:
- bringing competition and a new daily frequency to the route between Brisbane and Tokyo, which is currently a monopoly route served by Qantas Airways;
 - adding 200,750 seats onto the Japan route, injecting up to 110,960 more seats with one additional daily frequency than the Qantas Group would with its proposal for utilisation of two daily frequencies, highlighting that Virgin Australia would use the capacity requested more efficiently and drive growth in the overall market;
 - enabling a fourth airline group to enter the Japan route, rather than maintain the status quo of three airline groups;
 - placing downward pressure on airfares and airfreight rates on the Japan route and increasing the availability of airfares in lower-priced booking classes;
 - providing the best opportunity to maximise the dispersal of Japanese visitors between the eastern and western seaboard, given our partnership with ANA as the only airline offering flights between Perth and Tokyo; and
 - allowing Virgin Australia to offer new and enhanced product and service options on the route, including in-flight connectivity (internet access) and a more generous checked bag allowance than Qantas Airways.
- 1.8 Awarding Virgin Australia one of the two daily frequencies to Haneda will allow the Australian Government to demonstrate its commitment to fostering increased competition and innovation on the Japan route, consistent with the Coalition's Policy

PUBLIC VERSION

for Aviation. This would support the further expansion of tourism in both Australia and Japan, given our proposal will deliver significantly more capacity on the route compared to the proposal outlined by the Qantas Group. Virgin Australia expects this will be viewed favourably by the Japanese Government, given the potential for our new services to deliver a greater contribution to the achievement of its target of 40 million visitor arrivals to the country by 2020.¹ This can be expected to further strengthen the longstanding bilateral relationship between Australia and Japan.

2 International Air Services Commission legislative framework

2.1 Under section 7 of the IASC Act, the International Air Services Commission (the Commission) may make a determination allocating available capacity. In circumstances where more than one application has been lodged, the Commission must make the allocation that the Commission is satisfied, having regard to the applications made, would be of greatest benefit to the public (subsection 7(2) (b)). In assessing the benefit to the public of an allocation of capacity, the Commission must apply the criteria set out for that purpose in the policy statements made by the Minister under section 11.

2.2 Both Virgin Australia and the Qantas Group have applied for an allocation of the capacity currently available to Haneda under the Australia-Japan air services arrangements. In accordance with the notice of administrative arrangements published by the Commission on 3 September 2019, this submission provides details of Virgin Australia's plans to commence services to Japan using such capacity and addresses each of the relevant criteria for assessing benefit to the public as contained in the International Air Services Commission's Policy Statement 2018 (IASC Policy Statement), as well as outlining how our proposal will promote the object of the IASC Act.

3 Key characteristics of the Japan route

3.1 Japan is Australia's fifth largest inbound market and seventh largest outbound market.² Over the past five financial years, the Japan route has recorded a compound annual growth rate for passengers and seat capacity of 11.2% and 8.6% respectively.³ With passenger growth outpacing capacity growth, load factors on the route reached a record high of 84.3% in FY19.⁴

3.2 Almost 1.5 million passengers travelled on the route in FY19⁵ and Virgin Australia expects traffic between the two countries will continue to grow in the future. Over the past five years, demand from Australian residents increased by approximately 70%,

¹ https://www.japantimes.co.jp/news/2018/08/31/national/politics-diplomacy/abe-vows-efforts-reach-40-million-tourism-goal-2020/#.XYQfHyj_yUk

² Australian Bureau of Statistics, Overseas Arrivals and Departures

³ Bureau of Infrastructure, Transport and Regional Economics, International operated flights and seats, 12 months to June 2019

⁴ Ibid

⁵ Ibid

PUBLIC VERSION

while demand from visitors increased by around 40%.⁶ From an inbound tourism perspective, visitors from Japan are forecast to grow by 3% per annum to 651,000 over the next 10 years.⁷

- 3.3 The Japan route is evenly split between point of sale Australia and Japan, with resident returns and visitor arrivals each comprising around 50%.⁸ Leisure is the dominant purpose of travel on the route, with 75% of Australian resident returns and 68% of Japanese visitor arrivals travelling for holidays.⁹ Business-related travel comprises around 10% of the market and 7% of Japanese visitor arrivals travel for education purposes.¹⁰
- 3.4 The Japan route is currently served by the Qantas Group, Japan Airlines and ANA.¹¹ The Qantas Group is the strongest player, with a passenger share and seat share of 76% and 75% respectively for the non-stop market.¹² Virgin Australia currently has a small presence on the route through code share services offered on flights operated by Singapore Airlines to five points in Japan. Qantas Airways offers code share services on flights to Japan operated by Cathay Dragon, Cathay Pacific, Japan Airlines, Jetstar Airways and Jetstar Asia, as well as on domestic routes in Japan operated by Jetstar Japan.¹³ Fiji Airways, Finnair and Latam offer code share services on selected flights operated by Qantas Airways to Japan.¹⁴ Japan Airlines and Finnair also offer code share services on flights operated by Jetstar Airways.¹⁵
- 3.5 Approximately 70% of traffic between Australia and Japan travels non-stop, with the balance via third countries.¹⁶ One-stop services between the countries are operated by a number of carriers, including Cathay Pacific (via Hong Kong), Singapore Airlines (via Singapore), Korean Air (via Republic of Korea (South Korea)) and China Airlines (via Taiwan).
- 3.6 Qantas Airways is the only airline serving the Brisbane-Tokyo (Narita) route. Its services were operated with a load factor of 83.3% in FY19 (excluding international-to-international transfer passengers), increasing from 77.4% in FY17.¹⁷

⁶ Australian Bureau of Statistics, Overseas Arrivals and Departures

⁷ <https://www.tra.gov.au/International/International-Tourism-Forecasts/international-tourism-forecasts>

⁸ FY19 Overseas arrivals and departures, Department of Home Affairs

⁹ Ibid

¹⁰ Ibid; 'business-related' purposes includes Business, Convention, Employment and Exhibition reasons for travel

¹¹ Department of Infrastructure, Transport, Cities and Regional Development, Northern Summer 2019 Timetable Summary

¹² Bureau of Infrastructure, Transport and Regional Economics, International operated flights and seats, 12 months ending June 2019

¹³ Department of Infrastructure, Transport, Cities and Regional Development, Northern Summer 2019 Timetable Summary

¹⁴ Ibid

¹⁵ Ibid

¹⁶ Department of Home Affairs, Overseas arrivals and departure data

¹⁷ Bureau of Infrastructure, Transport and Regional Economics, International airline activity, 12 months ending June 2019

PUBLIC VERSION

- 3.7 Freight carried on the Brisbane-Tokyo route increased by 25% between 2017 and 2018.¹⁸

4 Overview of Virgin Australia's proposed operation

- 4.1 Virgin Australia plans to operate a daily service between Brisbane and Haneda, using our Airbus 330-200 aircraft configured with 20 seats in business class and 255 seats in economy class (including eight Economy X seats). This will boost capacity on the Japan route by 200,750 seats per year.
- 4.2 Flights will commence on 29 March 2020, using slots allocated as part of the IATA Northern Summer 2020 Slot Conference.
- 4.3 As part of this application, we have requested permission for ANA to code share on these new services under a strategic partnership with Virgin Australia, providing a critical source of passenger feed onto the new flights.
- 4.4 Virgin Australia will have the capability to uplift 10 tonnes of freight in the belly space of our aircraft on each of our flights [*CONFIDENTIAL MATERIAL REDACTED*].

5 Reasonable capability criterion

- 5.1 Section 8 of the IASC Policy Statement provides that the reasonable capability criterion means the extent to which all Australian carriers that are, or would be, permitted to use the capacity allocated under a determination are 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.
- 5.2 The Virgin Australia Group has been operating international flights since 2004, when Pacific Blue commenced services between Brisbane and Christchurch. We have expertise and extensive experience in securing economic and operational licences, permits and approvals from aeronautical authorities across the world, to support both own aircraft operations as well as code share services. We also have the commercial capability to ensure such capacity is effectively used.
- 5.3 The Commission has continuously found Virgin Australia to be reasonably capable of obtaining the necessary regulatory approvals required to support our international flights and using the capacity allocated to us for such services.
- 5.4 Preparations for Virgin Australia's entry to the Japan route, in anticipation of a successful application to the Commission for an allocation of capacity to Haneda, have been underway for many months. The project to deliver the new flights is being

¹⁸ Bureau of Infrastructure, Transport and Regional Economics, International airline activity 2018

PUBLIC VERSION

managed in accordance with a robust governance program, with both the Chief Operations Officer and the Chief Commercial Officer represented on the Steering Committee. Information regarding the governance program is **attached** to the confidential version of this submission.

- 5.5 All deliverables under the project are being managed to ensure strict compliance with timelines detailed under the program plan to support the launch of flights on 29 March 2020. A copy of our program plan is **attached** to the confidential version of this submission.
- 5.6 From an Australian economic regulatory perspective, Virgin Australia has already been designated as an Australian international airline under the Australia-Japan air services arrangements and holds an International Airline Licence issued by the Department. We will submit our schedule for our proposed flights to Haneda to the Department as part of the Northern Summer 2020 schedule filing, by no later than 21 February 2020.
- 5.7 *[CONFIDENTIAL MATERIAL REDACTED]*
- 5.8 Virgin Australia's AOC already permits us to conduct operations to Japan and our flight crew already meet the qualification requirements to operate there.
- 5.9 Virgin Australia completed an Operational Feasibility Assessment for the new service in May 2019 and will commence the Airport Induction Program in early October 2019, both of which are mandatory CASA requirements. Although the usual timeframe for completing an Airport Induction Program is four months, Virgin Australia is allowing six months for this requirement. We will also leverage the expertise of our partners Delta Air Lines (Delta) and ANA, as operators currently serving Haneda, in conducting this activity.
- 5.10 Work in relation to securing suppliers in the areas of ground handling, catering, crew accommodation, airport infrastructure and information technology at Haneda has already commenced. Virgin Australia will explore opportunities to engage ANA to provide such services and/or leverage the existing contracts we have in place with suppliers who currently have a presence at Haneda, such as Swissport and Delta.
- 5.11 Virgin Australia has obtained detailed advice from our appointed agent in Japan regarding the regulatory requirements that a new entrant to the route must meet. We have received confirmation that there is ample time for us to address all requirements to support the commencement of services on 29 March 2020. In this regard, it is important to note that Virgin Australia already holds a Permission Certificate/business licence, which was issued to us by the Japanese Minister of Land, Infrastructure, Transport and Tourism in February 2013. This is the principal approval required to support the commercial activities of an airline in Japan. Copies of this approval and an English language version, a detailed schedule outlining all regulatory requirements that Virgin Australia must meet in Japan, together with English language excerpts from Japan's *Civil Aeronautics Act 1952* are **attached** to the confidential version of this submission.

PUBLIC VERSION

- 5.12 *[CONFIDENTIAL MATERIAL REDACTED]*
- 5.13 The information on page 5 of the Qantas Group submission concerning timeframes for securing various regulatory approvals in Japan is extremely conservative. It does not take account of the fact that Virgin Australia is well advanced in its preparations for commencing services to Haneda and that we already hold a Permission Certificate/business licence.
- 5.14 Virgin Australia has already met with key stakeholders as part of working towards entry to the market. These include the Japanese Civil Aviation Bureau, the Australian Embassy in Tokyo, Tourism Australia, Tourism and Events Queensland and a number of Japanese tourism bodies and large travel agencies. *[CONFIDENTIAL MATERIAL REDACTED]*
- 5.15 Our partnership with ANA will play a strong role in boosting our distribution capability and assisting us to attract passengers from point of sale Japan during the start-up phase of our new flights, given ANA's stellar reputation and strong sales presence in the Japanese market. We will also work closely with Tourism Australia and Tourism and Events Queensland to promote our services in Japan. This will ensure that Virgin Australia will be in a position to effectively use the capacity to Haneda that we have requested.
- 5.16 Only Virgin Australia can provide accurate information to the Commission in relation to our progress towards commencing services to Japan and our ability to effectively use an allocation of capacity to Haneda. Any suggestion that Virgin Australia will not be able to launch flights on 29 March 2020, or lacks the commercial capability to set up our services for success in the future, is mere conjecture.
- 5.17 Virgin Australia has experience in entering new international markets within a relatively short timeframe, most recently with Hong Kong. For our Melbourne-Hong Kong services, the lead time from launching sales to the first service was only 105 days. *[CONFIDENTIAL MATERIAL REDACTED]* It is also worth noting that the slots for our Melbourne-Hong Kong services were secured on 9 February 2017 and our first flight was operated under five months later on 5 July 2017. While Hong Kong and Japan are different markets, our experience in Hong Kong will be leveraged to ensure we commence services to Haneda on 29 March 2020.
- 5.18 Significant funds will be invested by Virgin Australia in establishing flights to Haneda, for both operational readiness and sales, distribution, marketing and promotion. *[CONFIDENTIAL MATERIAL REDACTED]* A substantial amount of the initial set-up costs will have been spent by the time our services commence on 29 March 2020, providing a clear incentive for us to ensure we use the capacity as required.
- 5.19 From a reputational perspective, Virgin Australia is also strongly incentivised to ensure we meet our commitment to the travelling public to start the new flights by 29 March 2020. *[CONFIDENTIAL MATERIAL REDACTED]*

PUBLIC VERSION

5.20 Virgin Australia will obtain all the necessary licences, permits and any other approvals required to service the Brisbane-Haneda market. We fully appreciate the strategic value that the capacity to Haneda represents to Australia. Accordingly, Virgin Australia will ensure that all regulatory, operational and commercial requirements which are fundamental to the commencement of the services are met to ensure we use the capacity by commencing and sustaining services from 29 March 2020.

6 Additional criteria

6.1 Section 9 of the IASC Policy Statement contains a range of additional criteria that the Commission may consider in assessing the benefit to the public of allocations of capacity. These include criteria in relation to competition, tourism and trade. Information as to how Virgin Australia's proposed operation to Japan meets each of the relevant additional criteria has been detailed below.

6.2 Competition criteria

6.2.1 Subsection 9 (a) requires the examination of the desirability of fostering an environment in which Australian carriers can effectively compete with each other and with foreign carriers on the route in question.

6.2.2 For the Commission to foster an environment in which Virgin Australia can **effectively** compete with the Qantas Group and foreign airlines serving the Japan route, it is imperative that we gain access to Haneda to support our entry into the market. The Qantas Group and its oneworld partner Japan Airlines currently enjoy a collective passenger share and seat capacity share of 91% and 90% respectively for non-stop services on the route.¹⁹ This dominance highlights the challenges a new entrant faces in establishing commercially sustainable operations between Australia and Japan. The new capacity to Haneda provides an excellent opportunity for a new entrant to successfully break into the market and establish a strong position for itself, given the advantages that Haneda enjoys over Narita in terms of convenience and proximity to the Tokyo central business district. An allocation of capacity to Virgin Australia will therefore enable us not just to compete with the Qantas Group and Japan Airlines, but to **effectively** compete.

6.2.3 There is no indication that Australian international airlines will be able to secure any further capacity to Haneda in the future. In fact, Australia was only one of nine countries to receive an allocation of the 25 daily slot pairs that the Japanese Government awarded to other countries.²⁰ To maximise the value of the capacity received by Australia, such capacity should be allocated in order to best allow Australian carriers to compete with each other and foreign airlines. Allocation in favour of Virgin Australia would give us the opportunity to expand our international network through access to a

¹⁹ Bureau of Infrastructure, Transport and Regional Economics, International operated flights and seats, 12 months ending June 2019

²⁰ <https://www.flightglobal.com/news/articles/new-haneda-international-slots-allotted-to-nine-coun-460616/>

PUBLIC VERSION

highly desirable destination and large, fast growing market, while assisting us to return our international network to a position of financial sustainability.

- 6.2.4 Allocating all the new capacity to the Qantas Group – **especially considering that the Qantas Group already holds an allocation of one daily frequency to Haneda** – would place us at significant competitive disadvantage and remove any possibility of us competing effectively on the route in the future. With no additional capacity to Haneda in prospect, it is therefore critical to the interests of fostering increased competition on the route over the longer term that Virgin Australia is awarded the allocation of capacity we have applied for. Notably, **we have only applied for one of the two daily frequencies**, which would mean that if our application was successful, the Qantas Group would still enjoy two of the three daily frequencies available to Australian carriers to Haneda under the air services arrangements.
- 6.2.5 In addition to the fact that Haneda is in close proximity to the Tokyo metropolitan area, one of the world’s most valuable passenger markets, Haneda is the key domestic hub for our partner ANA. Our ability to access ANA’s extensive network will be a critical factor in our ability to compete effectively on the Japan route. Virgin Australia would not be prepared to commence services to Japan if our only option to serve Tokyo was through operations to Narita, as we would not have the ability to leverage our partnership with ANA (ANA offers 38 domestic code share connections to/from Haneda, compared to only five at Narita).
- 6.2.6 Business travel between Japan and Queensland spans multiple industries and facilitates a multi-billion dollar level of trade. Some of the companies with Japanese headquarters that have established a Brisbane office in recent years include JPower, Japan Coal Development Australia, Tokyo Gas Group, JFE Holdings Inc. and Sumitomo Corporation. Allocation of the capacity requested by Virgin Australia would provide us with new opportunities in the corporate market and allow us to compete more effectively with Qantas for business traffic to Japan.
- 6.2.7 Apart from Haneda, there are no capacity restrictions to Narita or other points in Japan under Australia-Japan air services arrangements. The Qantas Group will therefore not be prevented from expanding its operations to Japan if it is awarded only one of the two daily frequencies to Haneda that it has applied for.
- 6.2.8 The Explanatory Statement to the IASC Policy Statement provides that:
- “The additional criteria are intended to support the Commission’s pre-eminent consideration of fostering, encouraging and supporting an environment conducive to healthy competition between Australian and foreign carriers in the provision of international air services.”²¹*
- It is difficult to understand how an allocation of **all the new capacity** to Haneda to the Qantas Group, in addition to the one slot to Haneda that it currently holds, would be

²¹ Explanatory Statement to International Air Services Commission Policy Statement 2018, page 3

PUBLIC VERSION

capable of fostering an environment in which Virgin Australia or any other Australian international carrier would be able to compete effectively on the route in the future.

- 6.2.9 Subsection 9 (b) requires the examination of the number of carriers operating on the route in question and the existing distribution of capacity among Australian carriers (including through code sharing and other joint international air services).
- 6.2.10 As noted above, three airline groups currently serve the Japan route and there are a number of code share arrangements in effect, including Virgin Australia's code share services on flights operated by Singapore Airlines. Qantas Airways and Jetstar Airways are the only Australian international carriers currently operating direct services to Japan. The Qantas Group already holds one daily frequency to Haneda and currently operates 21 frequencies per week to Tokyo. The Qantas Group and Japan Airlines currently dominate the route, as already outlined above.
- 6.2.11 Although there is some competition on the route from third country carriers, significant public benefits are likely to flow to Australian travellers, tourism and trade if Virgin Australia is allocated the capacity requested to enable us to commence a new direct service between Brisbane and Haneda.
- 6.2.12 Qantas Airways is the only airline operating flights between Brisbane and Tokyo, offering a daily service. Compared to Sydney and Melbourne, with three and two non-stop services to Tokyo respectively, Brisbane is underserved and the introduction of flights by Virgin Australia would bring competition to the market. An allocation of capacity to Virgin Australia would enable us to deliver this competition and all its associated public benefits.
- 6.2.13 Subsection 9 (c) requires the examination of the likely impact on consumers of the proposed allocation, including on the cost of airfares, customer choice, product differentiation, stimulation of innovation by incumbent carriers and frequency of service.
- 6.2.14 Approval of Virgin Australia's application will bring more capacity to the Japan route relative to the proposal by the Qantas Group (see table below). While our proposal using one daily frequency will deliver an **extra 200,750 seats** per year in the market, the proposal from the Qantas Group using both daily frequencies will only see between 89,790 and 123,370 extra seats per year available on the route.²² **Accordingly, Virgin Australia's proposal will inject between 77,380 and 110,960 more seats into the market than the Qantas Group proposal.**

²² Department of Infrastructure, Transport, Cities and Regional Development, Northern Summer 2019 Timetable Summary; seat maps available at www.qantas.com

PUBLIC VERSION

Route	Equipment	QF NS19			QF NS20 proposed		
		Freq.	Config.	Seats	Freq.	Config.	Seats
BNE-NRT	A330-300	7	297	2,079	7	297	2,079
MEL-NRT	A330-300	7	297	2,079			
MEL-HND	A330-300				7	297	2,079
SYD-HND	B747-400	7	364	2,548			
SYD-HND	A330-300				7	297	2,079
SYD-HND	B787-9				7	236	1,652
Australia-Tokyo Seats per week				6,706	7,889		

<i>Difference per week</i>	1,183
<i>Difference per day</i>	169
<i>Additional one-way seats per annum</i>	61,685
<i>Additional bi-directional seats per annum</i>	123,370

Note: if the second SYD-HND service is operated by Qantas Airways with the smallest seat configuration A330-200 (251 seats), this would result in only 89,790 extra bi-directional seats per annum.

- 6.2.15 With growing demand and an average seat factor of 84.3% in FY19, additional capacity and competition on the Japan route will deliver benefits for consumers. While the Qantas Group proposes to use the two daily frequencies to Haneda to operate new services from Sydney and Melbourne, the Melbourne-Haneda route is a direct substitution of its current Melbourne-Narita service.
- 6.2.16 The extra capacity that Virgin Australia would inject into the market is likely to place downward pressure on airfares on the route, particularly on the Brisbane-Tokyo vv sector. Our services also have the potential to increase the availability of airfares in the lower-priced booking classes relative to the Qantas Group's proposal, given that we will bring more capacity to the route and that Qantas Airways' average load factor on the Brisbane-Tokyo vv sector was 83.3% in FY19. This will obviously be positive for consumers.
- 6.2.17 Virgin Australia's entry to the Hong Kong route in July 2017 drove a sharp decrease in average airfares and is evidence of the benefits that flow to consumers when we bring increased competition to a destination. We will be naturally incentivised to offer competitive fares on our new services to Haneda, as part of attracting passengers to travel with us as an alternative to the Qantas Group and stimulating travel between the two countries.
- 6.2.18 Our entry to the Japan route will provide consumers with a new choice of airline, access to a new route and double the frequency of service available between Brisbane and Tokyo. It will give our loyal customer base the option to travel to a new international destination with Virgin Australia and provide Australian outbound travellers with code share access to 38 domestic destinations in Japan with our partner ANA, as well as associated loyalty benefits, including priority check-in and baggage, and reciprocal lounge access. For Japanese visitors, our new flights will connect to a range of points

PUBLIC VERSION

across our domestic network, including regional destinations such as Alice Springs, Cairns, Darwin, Hobart, Mackay, Newcastle, Proserpine, Rockhampton and Townsville, in addition to major cities such as Sydney and Melbourne. Connections to our international flights to Indonesia, Fiji, New Zealand, Papua New Guinea, the Solomon Islands and Vanuatu will also be available.

- 6.2.19 With Queensland attracting the largest number of inbound Japanese visitor arrivals²³, Brisbane is the ideal port for the introduction of flights to Haneda and dispersal of visitors to both regional and South East Queensland.
- 6.2.20 In relation to the product and service differentiation that we would bring to the Japan route, our guests will have access to our award-winning business class cabin²⁴ (which includes a 203cm fully flat bed in a private suite), our Economy X product (which provides additional leg room, priority check-in and boarding and noise cancelling headphones) and a two-piece baggage allowance for all guests. For economy class, guests will be entitled to carry up to 46kg (compared to 30kg available on Qantas Airways), while guests travelling in business class will be able to carry up to 64kg (compared to 40kg available on Qantas Airways).
- 6.2.21 Virgin Australia is currently the only Australian airline offering in-flight connectivity on international routes. This service will be available on selected flights between Brisbane and Haneda.
- 6.2.22 Guests will also have the opportunity to enjoy our award-winning in-flight customer service²⁵, which remains a consistent and strong point of difference for Virgin Australia relative to the Qantas Group. Our flights will be crewed with a Japanese ambassador, who will provide an outstanding customer experience for our Japanese guests and share local knowledge with Australian residents visiting Japan.
- 6.2.23 Our guests travelling in business class and our guests travelling in economy class who are gold and platinum members of Velocity Frequent Flyer will have the opportunity to experience our brand new, state-of-the-art “My Lounge”, at the Brisbane International Terminal.²⁶
- 6.2.24 Virgin Australia’s new services to Haneda will stimulate greater innovation by the incumbent carriers by changing the competitive dynamic on the route, given that we will offer several unique product and service options to our guests. Consumers stand to benefit from this increased innovation.

²³ https://www.business.vic.gov.au/_data/assets/pdf_file/0010/1823617/Japan-Tourism-Summary-year-ending-December-2018.pdf

²⁴ <https://www.airlineratings.com/news/virgin-australia-a-big-winner-in-excellence-awards/>

²⁵ <https://www.airlineratings.com/news/virgin-australia-wins-coveted-cabin-crew-award/>

²⁶ <https://www.executivetraveller.com/virgin-australia-opens-new-brisbane-international-my-lounge>

PUBLIC VERSION

6.2.25 An allocation of capacity in favour of Virgin Australia would align with the rationale underpinning the additional criteria as outlined in the Explanatory Statement to the IASC Policy Statement:

“The additional criteria reflect the particular benefits that the Australian community can expect from a competitive approach to allocating capacity among carriers. The advantages of competition flow both from the fresh service options brought by new entrants and the pressure that real or potential competition brings on incumbent carriers.²⁷”

6.2.26 Subsection 9 (e) requires the examination of the benefits presented by allocating the capacity to a given applicant over other competing applicants, having regard to any commercial arrangements that may be in place with other carriers.

6.2.27 As noted above, Virgin Australia has established a partnership with ANA, which will deliver a range of new options and benefits for passengers travelling between Australia and Japan, as well as to points beyond. This partnership is an essential element of our strategy to establish a strong position in the Japan market in the future and a key point of difference relative to the proposal by the Qantas Group. ANA is Japan’s largest airline and has achieved a 5-Star rating from Skytrax every year since 2013.²⁸ Through this partnership, Virgin Australia and ANA will be able to compete more effectively with the combined strength of oneworld members Qantas Group and Japan Airlines, which collectively held a passenger share and seat capacity share of 91% and 90% respectively for non-stop services on the route during FY19.²⁹

6.2.28 ANA will offer code share services on a selection of Virgin Australia’s domestic routes by March 2020, which will provide connections to/from ANA’s Perth-Narita and Sydney-Haneda flights. ANA is the only airline to offer a direct flight to Japan from Western Australia and our partnership, together with our new services between Brisbane and Haneda, has the potential to drive greater dispersal of Japanese tourists across Australia compared to the Qantas Group and Japan Airlines.

6.2.29 Bilateral code share services on routes between Australia and Japan, code share on domestic flights operated by ANA to/from Haneda and Narita, and a reciprocal loyalty benefits program will be launched in March 2020, ahead of the commencement of our proposed flights. We will also implement a bilateral premium customer handling agreement, to provide those of our high-value guests that are not travelling in business class with access to priority check-in, baggage, boarding and lounges.
[CONFIDENTIAL MATERIAL REDACTED]

6.2.30 It is also worth noting that our alliance partner Delta will have a strong presence at Haneda after it shifts its Tokyo hub from Narita to Haneda in 2020³⁰, which may reveal further commercial opportunities Virgin Australia in the future. This has the potential to deliver further options and benefits for travellers.

²⁷ Explanatory Statement to International Air Services Commission Policy Statement 2018, page 3

²⁸ <https://www.ana.co.jp/group/en/pr/201904/20190401.html>

²⁹ Bureau of Infrastructure, Transport and Regional Economics, International operated flights and seats

³⁰ <https://news.delta.com/delta-become-largest-us-carrier-serving-tokyo-haneda-2020>

PUBLIC VERSION

6.3 Tourism and trade criteria

6.3.1 Subsection 9 (h) requires the examination of the level of promotion, market development and investment proposed by each of the applicants.

6.3.2 To ensure our proposed services are a commercial success, Virgin Australia will engage in a range of promotional, market development and sales activities. These activities will be undertaken before launch and after our inaugural service, covering both Australian and Japan points of sale.

6.3.3 *[CONFIDENTIAL MATERIAL REDACTED]*

6.3.4 Our new services will be promoted in our Virgin Australia Magazine, which has a reach of 400,000 people. Social media channels will be utilised for promotion in both points of sale, which is expected to reach an audience of 1.5 million people in Australia alone. We will also have the opportunity to promote the new flights to our Velocity Frequent Flyer program, which has more than nine million members.

6.3.5 Our public relations activities for the launch of our Sydney-Hong Kong flights generated an enormous amount of media coverage and reached 15 million people in Australia and 4 million people in Hong Kong. We will be targeting similar levels of coverage for our proposed Haneda services.

6.3.6 In Japan, Virgin Australia will seek to leverage the substantial awareness of the Virgin brand that already exists in the market through Sir Richard Branson's business ventures, including Virgin Atlantic.³¹ Initiatives such the launch of Virgin Orbit in Japan, in partnership with ANA,³² will likely boost our brand awareness.

6.3.7 *[CONFIDENTIAL MATERIAL REDACTED]*

6.3.8 *[CONFIDENTIAL MATERIAL REDACTED]*

6.3.9 With support from the Queensland Government's Attracting Aviation Investment Fund, Virgin Australia will undertake cooperative marketing activities targeting Japanese visitors in partnership with Tourism and Events Queensland *[CONFIDENTIAL MATERIAL REDACTED]* and Brisbane Airport *[CONFIDENTIAL MATERIAL REDACTED]*. The length of these agreements and support from both the Queensland Government and Brisbane Airport indicates the importance and value placed on Virgin Australia's services and the role this will play in growing inbound tourism from Japan into Queensland. Virgin Australia estimates that our new flights to Japan will deliver an economic benefit to the State of more than \$250 million over three years.

³¹ Virgin Atlantic previously served the London-Tokyo route

³² <https://www.reuters.com/article/us-space-exploration-ana/richard-branson-takes-satellite-launch-business-to-japan-with-airline-ana-idUSKCN1T70VR>

PUBLIC VERSION

- 6.3.10 Virgin Australia is one of eight airlines that has a strategic marketing agreement with Tourism Australia.³³ *[CONFIDENTIAL MATERIAL REDACTED]*
- 6.3.11 Virgin Australia appreciates that the Japanese travel industry is one of the most vertically integrated in the world, with the major operators in the market controlling all levels of the distribution system.³⁴ *[CONFIDENTIAL MATERIAL REDACTED]*
- 6.3.12 *[CONFIDENTIAL MATERIAL REDACTED]*
- 6.3.13 *[CONFIDENTIAL MATERIAL REDACTED]*
- 6.3.14 Subsection 9 (i) requires examination of the route service possibilities to and from points beyond Australian or foreign gateways.
- 6.3.15 Virgin Australia has a proud history of stimulating traffic when commencing services in new markets, resulting in increased inbound visitation to Australia and providing increased choice and competition on such routes.
- 6.3.16 As outlined under paragraph 6.2.18, our proposed Brisbane-Haneda services will connect to flights across our domestic network, including several regional destinations. This will provide scope for increased domestic dispersal of visitors from Japan, with benefits for Australian tourism.
- 6.3.17 In another key point of difference relative to the Qantas Group's proposal, Virgin Australia's proposed services will connect with destinations in our short-haul international network, including points in the South West Pacific. Japan has significant interests in this region and its government has signalled its intention to expand infrastructure investment in the Pacific Islands in the future.³⁵
- 6.3.18 Our partnership with ANA will enable us to provide passengers travelling on our flights with access to over 1,300 return flights per week from Haneda to 38 points in Japan.³⁶
- 6.3.19 Subsection 9 (j) requires examination of the availability of frequent, low cost, reliable air freight movements for Australian importers and exporters.
- 6.3.20 Japan is Queensland's second-largest trading partner.³⁷ In the 12 months ending June 2019, Queensland's merchandise exports to Japan were valued at \$12.2 billion, which is 21% of Australia's merchandise exports.³⁸ Tariff reductions under the Japan-Australia Economic Partnership Agreement (JAPEA) have delivered new opportunities for Australia importers and exporters, including those based in Queensland.

³³ <http://www.tourism.australia.com/en/about/our-partnerships.html>

³⁴ Marketing matters Japan, October 2013, https://www.tra.gov.au/tra/2016/documents/amf/Marketing_Matters_-_Japan_OCT2013_FINAL_V2.pdf

³⁵ <https://www.afr.com/world/japan-pushes-infrastructure-program-into-pacific-to-counter-chinas-influence-20181023-h16zh7>

³⁶ Includes subsidiaries and affiliates

³⁷ <https://www.tiq.qld.gov.au/export/market-overviews/japan-market-overview/>

³⁸ Australian Bureau of Statistics, International Trade in Goods and Services

PUBLIC VERSION

- 6.3.21 Currently, the only non-stop option for transporting airfreight between Brisbane and Tokyo is the Qantas Airways daily service to Narita. Exporters in Sydney and Melbourne have access to multiple daily frequencies to Tokyo from these cities.
- 6.3.22 With demand for freight on the Brisbane-Tokyo vv sector increasing significantly in recent years, competition is required to place downward pressure on airfreight rates. Virgin Australia's entry to the market has the potential to deliver this outcome and provide Australian importers and exporters with more competitive airfreight options.
- 6.3.23 As noted above, we will have the capability to uplift 10 tonnes of freight on each of our new flights. *[CONFIDENTIAL MATERIAL REDACTED]*
- 6.3.24 While the Qantas Group submission provides at page 16 that, "*Additional frequencies between Australia and Japan will provide customers with a greater choice and opportunity to expand the uplift of freight*", it is important to note that its proposal only entails a single new frequency to Japan, given its plan to substitute its current Melbourne-Narita service for a Melbourne-Haneda service.

7 Promotion of the object of the IASC Act

- 7.1 The object of the IASC Act is to enhance the welfare of Australians by promoting economic efficiency through competition in the provision of international air services, resulting in:
- (a) increased responsiveness by airlines to the needs of consumers, including an increased range of choices and benefits; and
 - (b) growth in Australian tourism and trade; and
 - (c) the maintenance of Australian carriers capable of competing effectively with airlines of foreign countries.³⁹
- 7.2 Allocating all of Australia's new capacity to Haneda, as the most commercially attractive port in Japan, to the incumbent operator with a passenger market share of 76% and denying access to Virgin Australia as a new entrant, would be entirely inconsistent with the object of the IASC Act. It would prevent Virgin Australia from providing passengers on the Japan route with increased travel options and benefits, would not maximise the potential growth opportunities that the new capacity to Haneda represents for Australian tourism and trade, and would stop Virgin Australia from launching services on a new route which will be critical in allowing us to increase our competitiveness against the Qantas Group and foreign airlines. It would also be an extremely inequitable outcome if the Qantas Group held three daily frequencies to Haneda and Virgin Australia held none.

³⁹ *International Air Services Commission Act 1992* (Cth), section 3.

PUBLIC VERSION

- 7.3 In sharp contrast, awarding Virgin Australia with the capacity it has requested would promote the object of the IASC Act. Allocation in our favour would allow us to boost Australian tourism and trade. The competition that we would bring to the market has the potential to deliver benefits to Australian consumers and exporters alike, by facilitating opportunities to capitalise on the tariff reductions under the JAEPA.
- 7.4 Virgin Australia's proposal would also facilitate the most economically efficient use of the new capacity to Haneda, given our plans for one daily service would see an additional frequency and more capacity injected onto the Japan route than the Qantas Group's plan for the utilisation of two daily frequencies.