



Australian Government

International Air Services Commission

DECISIONS

The Route: Vanuatu
The Applicant: Virgin Australia International Airlines Pty Ltd
(Virgin Australia)
(ABN 63 125 580 823)

Decision: [2020] IASC 201
Variation Of: [2017] IASC 117
Public Register File: IASC/APP/201939

Decision: [2020] IASC 202
Variation Of: [2017] IASC 121
Public Register File: IASC/APP/202001

The Commission varies Determinations [2017] IASC 117 and [2017] IASC 121 to permit the use of the capacity on the Vanuatu route for code sharing between Virgin Australia and Etihad Airways. The permission is valid for the duration of the determinations commencing from the date of issue of these decisions.

1 The applications

1.1 On 05 December 2019, Virgin Australia applied to the International Air Services Commission (the Commission) for a variation of the following determinations:

- [2017] IASC 117 (as varied); and
- [2017] IASC 121 (as varied)

to permit the utilisation of the capacity for code share services with Etihad Airways on the Vanuatu route. Specifically, it is proposed that Etihad Airways will offer code share services on flights operated by Virgin Australia between Australia and Vanuatu.

1.2 In accordance with section 22 of the *International Air Services Commission Act 1992* (the Act), on 05 December 2019, the Commission published Virgin Australia's application on the Commission's website inviting submissions about the application for variation to enable Etihad Airways to code share on Virgin Australia services. No submissions were received.

1.3 All non-confidential material supplied by the applicant is available on the Commission's website (www.iasc.gov.au).

2 Air services arrangements

2.1 Under paragraph 7(2)(aa) of the Act, the Commission must not allocate available capacity contrary to any restrictions on capacity contained in a bilateral arrangement(s). Any variation made to an existing allocation of capacity should also not be contrary to any restrictions on capacity contained in a bilateral arrangement(s).

2.2 The Register of Available Capacity indicates that there are 3,100 seats available for allocation to Australian carriers to operate scheduled passenger services to and from Brisbane, Melbourne (including Avalon), Perth and Sydney and Vanuatu. There is unrestricted capacity for the operation of passenger services to and from all other points in Australia.

2.3 Additionally, under the Australia-Vanuatu air services arrangements a designated airline of Australia may enter into code-share and other cooperative marketing arrangements, whether as the operating or marketing airline, with any airline including airlines of third countries.

3 The Commission's assessment

3.1 Virgin Australia seeks to vary Determinations [2017] IASC 117 and [2017] IASC 121, which allocate 720 seats and 180 seats, respectively, of capacity per week in each direction to Virgin Australia Airlines (SE Asia) Pty Ltd. Both Determinations were varied in 2018 to transfer the capacity allocations to Virgin Australia International Airlines Pty Ltd. Additionally, both Determinations permit the capacity to be used by Virgin Australia and its wholly-owned subsidiary Tiger International Number1 Pty Ltd (Tiger International) and permit the use of the capacity for the provision of code share services by Virgin Australia and Singapore Airlines. Virgin Australia is now seeking to further vary both Determinations to permit Etihad Airways to code share, as marketing carrier, on flights operated by Virgin Australia on the Australia-Vanuatu route.

3.2 Virgin Australia's application seeks to vary the Determinations to include a condition of a kind referred to in paragraph 15(2)(e) of the Act. In view of this, the application is a transfer application as so defined in subsection 4(1) of the Act and has been assessed in accordance with section 25 of the Act.

3.3 Subsection 25(1) provides that the Commission must make a decision varying the determination in a way that gives effect to the variation requested, subject to subsection 25(2). Subsection 25(2) states that the Commission must not make a decision varying the determination in a way that varies, or has the effect of varying an allocation of capacity if the Commission is satisfied that the allocation, as so varied, would not be of benefit to the public.

3.4 Under section 26 of the Act, in assessing the benefit to the public of a variation of an allocation of capacity, the Commission is required to apply the criteria set out in any policy statement issued by the Minister under section 11.

3.5 Under section 11 of the Act, the Minister made the *International Air Services Commission Policy Statement 2018* (the Policy Statement) which came into effect on 28 March 2018. The Policy Statement sets out the criteria which the Commission is required to apply in assessing the benefit to the public of allocations of capacity.

3.6 Section 18 of the Policy Statement specifically deals with ‘transfer applications’ such as this one. It provides that, in assessing whether the variation requested would not be of benefit to the public for the purpose of subsection 25(2) of the Act, the Commission is to have regard to the reasonable capability criterion, and may have regard to any of the additional criteria that it considers to be relevant. The Commission is also to have regard to the matters specified in paragraph 18(2)(b) of the Policy Statement to the extent that they are relevant to the variation under consideration.

3.7 ‘Reasonable capability criterion’ is defined in section 8 of the Policy Statement to mean the extent to which Australian carriers are reasonably capable of obtaining the necessary approvals to operate on and service the route and of using the capacity allocated under the determination. The ‘additional criteria’ to which the Commission may have regard are set out in section 9 of the Policy Statement.

3.8 The Commission considered the application of the reasonable capability criterion to the circumstances of this application. The Commission notes that Virgin Australia is an established international carrier, and therefore finds that it is reasonably capable of obtaining the necessary regulatory approvals and of using the capacity allocated under the determination.

3.9 The Commission did not have regard to the additional criteria in section 9 of the Policy Statement. The Commission notes that it received no adverse submissions opposing the variation sought in the Virgin Australia transfer application. This means that the variation sought by Virgin Australia has not been contested, and would not limit the ability of other carriers to apply for or utilise capacity on the route. In these circumstances, there is nothing before the Commission to indicate that its assessment of benefit to the public for the purpose of subsection 25(2) of the Act would be assisted by having regard to the additional criteria.

3.10 The Commission finds that the matters specified in paragraph 18(2)(b) of the Policy Statement are not relevant to the variation under consideration. There is nothing to suggest that the Virgin Australia transfer application involves speculative activity, and Virgin Australia has exercised the allocation in question for a period of more than six months.

3.11 Having considered the criteria set out in section 18 of the Policy Statement, the Commission is satisfied that the allocation, as proposed to be varied permitting Etihad Airways to code share, as marketing carrier, on flights operated by Virgin Australia on the Australia-Vanuatu route, would be of benefit to the public. Therefore, in accordance with section 25 of the Act, the Commission must make a decision varying the determination in a way that gives effect to the variation requested in the transfer application.

3.12 Subsection 15(1) of the Act empowers the Commission to include such terms and conditions in a determination as it thinks fit. Paragraph 15(2)(e) requires the inclusion of a condition stating the extent to which the carrier may use capacity allocated under a determination in joint services with another carrier.

3.13 The Commission has decided to add conditions permitting the use of the capacity for the provision of code share services between Virgin Australia and Etihad Airways on the Vanuatu route. As required by section 23 of the Policy Statement, the Commission has decided to include a condition requiring the airlines to take all reasonable steps to ensure that passengers are informed of the carrier that is actually operating the flight.

3.14 Nothing in this decision should be taken as indicating either approval or disapproval by the Australian Competition and Consumer Commission (ACCC). This decision is made without prejudicing, in any way, possible future consideration of code share operations by the ACCC.

4 Decisions varying Determinations [2017] IASC 117 and [2017] IASC 121 allocating capacity to Virgin Australia on the Vanuatu route ([2020] IASC 201 and [2020] IASC 202)

4.1 In accordance with section 25 of the Act, the Commission varies [2017] IASC 117 (as varied) and Determination [2017] IASC 121 (as varied) which allocate capacity to Virgin Australia International Airlines Pty Ltd on the Vanuatu route, by:

adding the following conditions to the Determinations:

- The capacity may be used by Virgin Australia to provide code share services with Etihad Airways in accordance with the code share agreement between Virgin Australia and Etihad Airways made effective on 26 August 2010 and the air services arrangements between Australia and Vanuatu.
- Virgin Australia must apply to the Commission for approval of any proposed variations to the code share agreement between Virgin Australia and Etihad Airways which would change the relevant commercial aspects of the agreement from a free sale code share arrangement to a block space, or vice versa, or if Virgin Australia proposes to add third country routes on which the airlines will code share where Australian capacity will be used for services on that route.
- To the extent that the capacity is used to provide code share services on the route, the airlines must take all reasonable steps to ensure that passengers are informed, at the time of booking, of the carrier actually operating the flight. Nothing in this determination exempts the airlines from complying with the Australian Consumer Law.

4.2 These decisions come into effect from the date of issue and are valid for the duration of Determination [2017] IASC 117 and Determination [2017] IASC 121.

Dated: 21 January 2020


IAN DOUGLAS
Chairperson


KAREN GOSLING
Commissioner