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Ms Jasmina Ackar
Director
International Air Services Commission
PO Box 630
CANBERRA ACT 2601

Via email: Jasmina.Ackar@infrastructure.gov.au

Dear Ms Ackar

Qantas application for variations to Determination – Indonesia route

I refer to the application by Qantas Airways Limited (Qantas) for a variation of Determination [2013] IASC 135, Determination [2017] IASC 130, Determination [2018] IASC 120, Determination [2019] IASC 106, Determination [2019] IASC 116, Determination [2020] IASC 101, Determination [2021] IASC 107, Determination [2021] IASC 118, Determination [2022] IASC 110, Determination [2023] IASC 102, Determination [2023] IASC 107, and Determination [2023] IASC 127 to permit Garuda Indonesia to offer code share services on Qantas Airways operated flights on the Indonesia route from 29 October 2023, or as soon as all necessary approvals have been received.

This submission does not constitute an objection to the Qantas application, but makes a number of observations in relation to it.

Virgin Australia, along with Batik Air (previously Malindo Air) and Indonesia Air Asia, offer some competition to Qantas/Jetstar and Garuda. The changes proposed in this Application could lead to an unwarranted increase in both Qantas and Garuda's market dominance on these routes which would be of detriment to the travelling public.

Currently, Qantas/Jetstar and Garuda hold a significant dominance in the Australia-Indonesia route. Together, they have a combined frequency share of 49.1% and a combined seat capacity share of 57.1%. Qantas and Garuda have 100% capacity share on Melbourne-Jakarta and Sydney-Jakarta. During the 12 months leading up to April 2023, Qantas/Jetstar and Garuda achieved impressive passenger load factors of over 87%. Notably, they managed to transport 75% of all passengers traveling between Australia and Indonesia during that period. In contrast, Virgin Australia, Batik Air and Indonesia Air Asia served as alternative options for passengers on this route. They carried the remaining percentage of passengers, with Virgin Australia recording a passenger load factor of 83%, Batik Air at 57% and Indonesia Air Asia at 81%.

The application submitted by Qantas falls under the category of a transfer application, as defined in section 4 of the International Air Services Commission (IASC) Act 1992 (Cth) (the Act). When it



comes to transfer applications, subsection 25(2) of the Act states that the Commission cannot approve a decision that would modify the determination in a way that alters or affects the allocation of capacity, if it determines that the revised allocation would not benefit the public.

To assess whether a variation in the allocation of capacity would offer any benefits to the public, section 26 of the Act specifies that the Commission must apply the criteria outlined in policy statements issued by the Minister for that specific purpose. These criteria serve as guidelines for determining the extent of public benefit that would result from any changes made to the allocation of capacity.

The criteria for assessing whether a transfer application would benefit the public, as outlined in Paragraph 18 of the International Air Services Commission Policy Statement 2018 (the Policy Statement), are significant. Additionally, Paragraph 9 of the same Policy Statement grants the Commission the authority to consider any additional criteria that it deems relevant to a transfer application. These criteria may encompass factors such as competition, tourism, trade, relevant information from Australian Government agencies, or any other considerations deemed relevant by the Commission.

In a scenario where the Indonesia route is heavily dominated by Qantas/Jetstar and Garuda, Virgin Australia expects that the Commission will recognise the importance of assessing additional criteria during their comprehensive review of a transfer application. This thorough evaluation becomes essential in determining whether the proposed variation as a whole would ultimately bring benefits to the traveling public.

Qantas having the ability to code share Garuda would also result in the two carriers gaining a greater market power individually and collectively on the Indonesia route. This development would inevitably reduce competitive forces within the market, act as a potential disincentive for Qantas and Garuda to grow, while also discentivising competitors (including Virgin Australia) to expand their operations. This could potentially lead to higher airfares and limited choices for customers. Such consequences could have direct implications for Australian trade.

Bilateral allocations are also currently exhausted on the Australia end and Virgin Australia has no way of growing its market share. By commencing a relationship with Garuda, Qantas increases its already dominant exposure to the Indonesian market which further entrenching barriers to further Virgin Australia growth.

The Commission should openly evaluate these matters in accordance with the objectives of the Act, which aims to enhance the welfare of Australians by encouraging economic efficiency through competition in the provision of international air services.

If Qantas provides further information in support of its application, Virgin Australia would appreciate the opportunity to lodge a submission with the Commission in response.



Please contact me on 0404 027 360 should you wish to discuss this further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Todd Reynolds".

Todd Reynolds
General Manager Government Relations and Industry Services