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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

Application for allocation of capacity – Indonesia route

I am writing in response to the correspondence dated 15 December 2023 from the International Air Services Commission (IASC) regarding an application submitted by Virgin Australia International Airlines Pty Ltd (Virgin Australia) for passenger capacity (2,464 seats per week) on the Indonesia route.

Virgin Australia acknowledges that multiple applications requesting capacity on the Indonesia route have been received by the IASC, and that there is a shortage of available capacity for the IASC to address all the applications.

Virgin Australia is pleased to present the IASC with supplementary information concerning the 'reasonable capability criterion' outlined in section 8 and the 'additional criteria' stated in section 9 of the IASC's Policy Statement.

Benefits to Australian consumers

Virgin Australia has a long-standing history of operating international services to and from Bali since December 2008. Our current flights to Bali have had an average seat occupancy rate of 82 per cent in the year ending September 2023.

By granting Virgin Australia the additional capacity, it will provide more choice and a differentiated product offering for consumers in a market currently dominated by the Qantas Group. This includes up to 11,680 Virgin Australia business class seats per year and up to 43,800 Economy X seats per year, which are not currently offered by the incumbent Australian carrier on the route, in addition to 201,480 additional economy seats from Australia to Indonesia.



By introducing these new services for travellers from Gold Coast and Adelaide to Bali (via Perth), Virgin Australia can provide increased competition and consumer benefits. This would also enable Virgin Australia to offer a 2x daily service to Bali to Perth customers, making it the only Australia-based competitor against Jetstar, which currently operates approximately three daily services.

The traffic rights necessary for the Gold Coast-Perth-Denpasar one stop route would also allow Virgin Australia to become a new competitor on the Gold Coast-Perth route, which Virgin Australia operated periodically in select seasons before COVID-19. Re-entering this route year-round would only be feasible with the support of Indonesia through-traffic. On the other hand, the Qantas Group's proposal would further solidify its dominant position with limited additional customer benefits. Jetstar already holds a 100 per cent capacity share for flights to Bali from Cairns.

Virgin Australia's proposal introduces additional competition, which is likely to stimulate lower fares, especially on the 2x daily Perth-Bali flights where Jetstar is the only Australian carrier and Virgin Australia is currently unable to operate directly due to limited bilateral capacity.

Virgin Australia's proposal will also bring more international services to regional ports with higher frequency, offering more seat capacity compared to the Qantas Group's 10 weekly flights with lower seat capacity. There will be increased options for Perth residents and greater connectivity for Western Australian regional consumers under Virgin Australia's proposal, as well as it serving as Virgin Australia's first international service in Western Australia after the COVID-19 pandemic.

Virgin Australia's proposal also represents greater value to the Australia national interest. Competition would be strengthened under Virgin Australia's proposal whereas the Jetstar application further strengthens the Qantas Group's market power.

Competition on the Indonesia route

Currently, Virgin Australia faces a competitive disadvantage in major capital cities such as Sydney, Melbourne, Brisbane, and Perth and it currently holds less than 20 per cent of the total capacity between Australia and Indonesia.

The Qantas Group holds 80 per cent of the bilateral capacity between Australia and Indonesia designated for Australian carriers and it is actively seeking to solidify its dominance by requesting additional rights and pursuing a codeshare agreement with Garuda.

If the additional bilateral capacity were to be allocated to the Qantas Group, Virgin Australia's share would further decrease to 18 per cent. Even if Virgin Australia's application is successful, its overall bilateral capacity share would only increase from less than 20 per cent to 27 per cent, which remains significantly lower than its largest competitor.



Virgin Australia's proposal aims to enhance overall competitiveness on the Australia-Indonesia route, which would in turn support the competitiveness of its domestic services and Velocity Frequent Flyer program compared to the Qantas Group.

The Jetstar Airways proposed additional service from Cairns to Denpasar via Melbourne, would be significantly longer than a nonstop or connecting service via Brisbane, would not provide any substantive customer benefits. Moreover, Qantas Group already has a dominant position on the Cairns-Denpasar route with 100% capacity share and on the Melbourne-Denpasar route with approximately 72 per cent share of Australian carrier capacity in calendar year 2023.

Regarding Jetstar's proposed Adelaide-Perth-Denpasar route, there are also limited consumer benefits. Jetstar already operates up to 2x daily nonstop flights between Adelaide and Denpasar (69 per cent capacity share of the Australian carrier capacity, calendar year 2023) and approximately 3x daily nonstop flights between Perth and Denpasar (100 per cent capacity share of Australian carrier capacity in calendar year 2023). The proposed additional service does not introduce any new unique customer benefits and would only further solidify Jetstar's dominance on both the Adelaide-Denpasar and Perth-Denpasar routes. The Qantas Group's intentions are ambiguous as it mentions Jetstar-specific options but also seeks full flexibility for deploying any other options within the Qantas Group.

Additionally, allocating rights to Virgin Australia would support local consumers and employment to a significantly greater extent than the Qantas Group. Virgin Australia staffs its flights exclusively with crews based in Australia, whereas we understand that Jetstar relies heavily on cabin crews based in Thailand, Indonesia, Singapore, and New Zealand for its international flights, and Qantas relies extensively on crews based in Singapore, New Zealand, the United Kingdom, and Finland.

Other growth on the Indonesia route

In March 2023, Virgin Australia commenced flights between the Gold Coast and Denpasar. These flights operate four times a week outside of holiday periods and daily during holiday periods. This service offers a direct, convenient, and cost-effective option for travellers heading to Bali, providing a total of over 2,200 seats per week during peak times and over 90,000 seats annually.

In addition, Virgin Australia reintroduced its Adelaide-Denpasar services in December 2022. This has resulted in a significant increase of 2,464 weekly seats to Bali, with daily flights available, adding over 70,000 extra seats to Bali each year.

Benefits for the tourism and trade industry

Virgin Australia's proposal will help meet the significant demand from Perth, Gold Coast and Adelaide based consumers who wish to travel to Bali. Meeting this demand is critical and only Virgin Australia's proposal provides a level choice with an increase in scheduled flights.



Virgin Australia's proposal also has the potential to stimulate more premium leisure travel between Australia and Indonesia with its business class product and extensive Velocity membership base, which exceeds 11.5 million members.

Conclusion

Virgin Australia contends that allocating the capacity on the Indonesia route in its entirety, as requested, would be in the best interest of the public given the enhanced benefits to competition. Additionally, Virgin Australia is willing to provide any additional information if needed and thanks the Commission for considering these matters.

Yours sincerely

A handwritten signature in black ink, appearing to read "Todd Reynolds", written in a cursive style.

Todd Reynolds
General Manager Government Relations and Industry Affairs