

19 August 2010

Mr Michael Bird  
Executive Director  
International Air Services Commission  
GPO Box 630  
Canberra ACT 2601

Dear Mr Bird



**Application for Allocation of Capacity on the Indonesia Route – Assessing Benefit to the Public**

Pacific Blue Australia (PBA) applied to the International Air Services Commission on 5 August 2010 for an allocation of 2,340 seats each way each week (ewew) on the Indonesia route using 180 seat B737-800 aircraft. PBA has sought the allocation for a period of five years from the date of the Determination of the Commission. PBA will fully utilise the capacity by 31 October 2011.

The Register of Available Capacity shows 4000 seats ewew on the specified routes to or from Sydney, Melbourne, Brisbane and/or Perth with unrestricted capacity available from all other points. Qantas has sought an allocation of 3,898 seats per week and 789 seats and four frequencies weekly beyond Indonesia. Strategic Airlines has applied for an allocation of 1,716 seats per week.

The available capacity exceeds the authorisations sought by the competing carriers and the Commission has advised that it will assess the applications against the public benefit criteria contained in paragraph 5 of the Minister's Policy Statement, as well as against the paragraph 4 criteria.

We believe the public interest would best be served by the Commission authorising PBA's request and we ask the Commission to consider the following additional information provided in support of our application. We request the Commission consider this submission against the criteria set down in Paragraphs 4 and 5 of the Minister's Policy Statement. We have provided in an Attachment to this submission information about how we propose to utilise the capacity. We seek the agreement of the Commission to provide confidential treatment to the information contained in the Attachment.

**Background**

The Australia – Indonesia market has grown strongly over the last five years with average annual growth rate of 12%. In the year ended January 2010 over 1.3 million passengers were carried, an increase of 37.8% over the previous twelve months. Australian resident departures are growing as a proportion of the overall market and now make up over 82% of all passengers carried.

Indonesia is an important air services market and is ranked third in terms of Short Term Resident Departures (STRD) from Australia, accounting for 8.9% of all STRD traffic from Australia. Predictably, holiday travel (83.6%) is the most important reason for visits to Indonesia. Indonesia is ranked thirteenth in terms of Short Term Visitor Arrivals (STVA) to Australia, accounting for 2.0% of the STVA

Virgin Blue Group of Airlines  
PO Box 1054 Spring Hill QLD Australia 4004  
P [+61 7 3290 9000]  
virginblue.com.au

polynesian

pacific

australia

virgin





category. Overall, Indonesia is ranked fifth in terms of all origin/destination traffic carried to/from Australia. The market is expected to maintain its strong growth profile with the Tourism Forecasting Committee in its *Forecast 2009 Issue 2* predicting average annual growth of 7.7% for visitor arrivals from Indonesia for the period 2008 to 2018.

The Virgin Blue Group has made a significant investment in the Indonesian market and operates 28 weekly services between points in Australia and Denpasar. The Group intends to grow its presence in the market and details are set out in the Confidential Attachment to this submission.

### **Competition Benefits**

The requirement of the Commission that Australian carriers be able to compete effectively with one another and with carriers of foreign countries was effectively met with PBA's entry to the Indonesian market in November 2008. That policy objective has been substantially re-enforced by PBA's continued commitment to capacity growth and market development. The new capacity for which we are seeking authorisation and which is based on actual operational plans will enable PBA to maintain competitive pressure in a market which has grown on average by over 43% since our entry.

The Australia – Indonesia market is well served with six carriers operating 122 direct services with almost 25,000 seats weekly in each direction. Capacity will increase substantially as a result of this current round of proposals. The market is intensely competitive and the announced intention of more carriers to enter the market in the near future will add significantly to capacity and competition in an already well served market. In addition to direct services there is also a sizable indirect market served by well credentialed third country carriers.

Since the entry of PBA to the Indonesian market airline tariffs have demonstrably lowered; demand has been significantly stimulated with commensurate increases in consumer choice and welfare benefits derived from direct and transparent competition with incumbent carriers. This outcome is fully consistent with our experience in every international market segment that we have entered. Ensuring that PBA maintains its relative position in this market will assist measurably the prospects of maintaining lower tariffs, increased choice and frequency and product differentiation.

### **Other Benefits**

#### Tourism benefits

While the Australia – Indonesia market is dominated by short term resident departures (86%) nevertheless Indonesian visitors to Australia are forecast to double over the next decade and currently constitute two percent of all visitor arrivals to Australia. In the year ended January 2010 over 180,000 Indonesian visitors came to Australia on direct air services.

The prospect that inbound tourism from Indonesia will continue to expand is supported by reports from the Department of Foreign Affairs and Trade that the Indonesian economy has withstood the

Virgin Blue Group of Airlines

P.O. Box 1034 Spring Hill QLD Australia 4004

P [481 7 259 3000]

virginblue.com.au

polynesian

pacific

australia

virgin

Virgin



global financial crisis better than many analysts expected. Within the region, only China and India have outperformed Indonesia. The International Monetary Fund has forecast growth in Indonesia of 4.8 per cent in 2010 and expects Indonesia to return to trend growth of around 6 per cent within two years.

The Virgin Blue Group as an established national network carrier with a highly recognisable brand and award winning product is very well placed to stimulate increased tourism from Indonesia, including encouraging the significant number of foreign visitors to Indonesia to also visit Australia.

#### Consumer benefits

PBA has increased consumer benefits in this market by lowering tariffs; increasing choice, and ensuring transparent competition. It is important that PBA maintains its relative position in this market in order to maintain these consumer benefits.

The Virgin Blue Group offers connections for domestic transfer passengers and for passengers traveling beyond Australia, on the Group's international network. In assessing consumer benefits the demonstrable contribution made by the Virgin Blue Group to the development and introduction of competitive pricing, fare restructuring and product development together with its ongoing commitment to capacity growth in this market are important factors for the Commission to consider.

#### Trade benefits

While increasing, air freight exports and imports are not particularly significant in the Australia – Indonesia market. Exports in the year to June 2009 were valued at only \$185m while imports were valued at \$650m of which Gold non-monetary constituted \$512m. Nevertheless, increased capacity does provide the opportunity for increased airfreight activity.

#### Industry Structure

The proposed operations by PBA will have a positive impact on the Australian aviation industry. They are an important component of the progressive expansion of our operational network which will bring increased operational efficiency, profitability and more efficient use of aircraft and crews. The generation of additional profits and operational efficiency within the Virgin Blue Group will have a beneficial effect on the Australian industry. The proposed expansion is fully consistent with a range of decisions taken by successive Australian Governments to facilitate the role played by the Virgin Blue Group in the long term development of the Australian aviation industry.

#### Conclusion

We believe the application from PBA seeking a determination from the Commission to enable it to operate additional capacity between points in Australia and Indonesia meets fully the criteria for assessing the benefit to the travelling public set down in Paragraph 5 of the Minister's Policy Statement. PBA also meets fully the requirements of Paragraph 4 of the Policy Statement.

Since the entry of the PBA Australia – Indonesia market there has been a significant and positive change in the competitive environment for the provision of international air services and genuine and transparent competition between Australian carriers and with foreign carriers serving the market.

Virgin Blue Group of Airlines

P.O. Box 1034 Spring Hill QLD Australia 4004

P [+61 7 3290 3000]

[virginblue.com.au](http://virginblue.com.au)

polynesian

pacific

australia

virgin

Virgin  
Blue

Increasing capacity for PBA will maintain the competitive environment established by the Virgin Blue Group and ensure direct and transparent competition in this increasingly important market.

We would be grateful if the Commission could take into account the issues raised in this submission and favourably consider our application for an allocation of additional capacity to PBA on the Indonesia route.

Yours sincerely



Tony Wheelens  
General Manager Government Affairs  
Virgin Blue Group

Virgin Blue Group of Airlines

PO Box 1054 Spring Hill QLD Australia 4004

P [+61] 7 3239 3000

[virginblue.com.au](http://virginblue.com.au)

polynesian

pacific

australia

virgin

Virgin  
Blue Group