



Australian Government

International Air Services Commission

DECISION

Decision: [2018] IASC 205
Variation of: [2016] IASC 107
The Route: Hong Kong
The Applicant: Virgin Australia International Airlines Pty Ltd
(Virgin Australia)
(ABN 63 125 580 823)
Public Register File: IASC/APP/201803

The Commission varies Determination [2016] IASC 107, as amended, to permit the use of the capacity on the Hong Kong route for code sharing between Virgin Australia and Virgin Atlantic. The permission is valid for the duration of the determination commencing from the date of issue of this decision.

1 The application

1.1 On 22 December 2017, the International Air Services Commission (the Commission) received an application from Virgin Australia International Airlines Pty Ltd (Virgin Australia) seeking to vary Determination [2016] IASC 107 (the Determination), as amended, to enable Virgin Atlantic to code share on flights operated by Virgin Australia on the Hong Kong route.

1.2 The Determination allocates to Virgin Australia seven frequencies per week in each direction on the Hong Kong route and has been varied to permit the capacity to be used for code share services with Hong Kong Airlines.

1.3 On 22 December 2017, the Commission published a notice, in accordance with section 22 of the International Air Services Commission Act 1992 (the Act), inviting submissions about the application for variation to enable Virgin Atlantic to code share on flights operated by Virgin Australia. No submissions were received. All non-confidential material supplied by the applicant is available on the Commission's website, www.iasc.gov.au.

2 Relevant provisions of the air services arrangements

2.1 Paragraph 7(2)(aa) of the Act requires the Commission not to allocate available capacity contrary to any restrictions on capacity contained in a bilateral arrangement(s). This also means that any variations made to an existing allocation of capacity must not be contrary to any restrictions on capacity contained in a bilateral arrangement(s).

2.2 Under the Australia-Hong Kong air services arrangements, a designated airline of Australia may enter into code-share arrangements whether as the operating or marketing airline with designated airline(s) of Australia, an airline(s) of Hong Kong, and an airline(s) of a third country or countries.

3 Commission's assessment

3.1 Virgin Australia's application seeks to vary the Determination 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.

3.2 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.

3.3 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.

3.4 Pursuant to section 11 of the Act, then Minister for Transport and Regional Services, the Hon. John Anderson MP issued Policy Statement No. 5 (hereinafter referred to as the Policy Statement) dated 19 May 2004. The Policy Statement sets out the range of criteria which the Commission is required to apply in assessing the benefit to the public of allocations of capacity.

3.5 Paragraph 6.3 of the Policy Statement provides that, subject to paragraph 6.4, where a carrier requests a variation of a determination to allow it flexibility in operating its capacity, including to use the Australian capacity in a code share arrangement with a foreign carrier, and no submission is received about the application, only the criteria in paragraph 4 of the Policy Statement are applicable.

3.6 Under paragraph 4 of the Policy Statement, the use of entitlements by Australian carriers under a bilateral arrangement is of benefit to the public unless such carriers are not reasonably capable of obtaining the necessary approvals to operate on the route and of implementing their proposals. The Commission notes that Virgin Australia is an established international carrier which is capable of obtaining the necessary regulatory approvals and of implementing their proposed services.

3.7 Paragraph 6.4 provides, in part, that the Commission may apply the criteria in paragraph 5 in the circumstances set out in paragraph 3.6 of the Policy Statement. Under paragraph 3.6, where capacity that can be used for code share operations is available under the relevant air services arrangements, including where foreign airlines have rights to code share on services operated by Australian carriers, the Commission would generally be expected to authorise applications for use of capacity to code share. However, if the Commission has serious concerns that a code share application (or other joint service proposal) may not be of benefit to the public, it may subject the application to more detailed assessment using the additional criteria set out in paragraph 5 (whether the application is contested or not). Before doing so, the Commission will consult with the Australian

Competition and Consumer Commission (the ACCC).

3.8 The Commission notes there are a number of major carriers offering either own-operated or code share services between various points in Australia and Hong Kong, thus providing a number of travel options to consumers. Cathay Pacific operates up to 72 weekly services while Qantas operates up to 28 weekly services. Apart from operating its own seven weekly services, Virgin Australia also code shares with Hong Kong Airlines on the route up to seven weekly services.¹

3.9 In the Commission's view, allowing Virgin Atlantic to code share on Virgin Australia-operated services between Australia and Hong Kong will add to the number of carriers that market services on the route and is unlikely to have a detrimental impact on competition.

3.10 In light of the above, the Commission does not have concerns that the proposed code share services may not be of benefit to the public. For this reason, it did not specifically consult the ACCC and did not apply the additional criteria set out in paragraph 5 of the Policy Statement.

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

3.12 The Commission has decided to add conditions permitting the use of the capacity for the provision of code share services between Virgin Australia and Virgin Atlantic on the Hong Kong route in accordance with the Australia-Hong Kong air services arrangements. As provided for in the Policy Statement, the Commission has also 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.

3.13 Nothing in this decision should be taken as indicating either approval or disapproval by the ACCC. This decision is made without prejudicing, in any way, possible future consideration of code share operations by the ACCC.

4 Decision varying Determination [2016] IASC 107 allocating capacity to Virgin Australia on the Hong Kong route ([2018] IASC 205)

4.1 In accordance with section 25 of the Act, the Commission varies Determination [2016] IASC 107 which allocates to Virgin Australia seven frequencies per week on the Hong Kong route, by:

adding the following conditions to the Determination:

- The capacity may be used by Virgin Australia to provide code share services with Virgin Atlantic in accordance with the code share agreement between Virgin Australia and Virgin Atlantic made on 18 December 2017 and the air services arrangements between Australia and Hong Kong.
- Virgin Australia must apply to the Commission for approval of any proposed variations to the code share agreement between Virgin Australia and Virgin Atlantic which would

¹ 2017 Northern Summer International Airlines Timetable Summary

change the relevant commercial aspects of the agreement from a free sale code share arrangement to a block space, or vice versa, or if the airlines propose to add third country routes on which the airlines will code share where Australian capacity entitlements 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 This decision comes into effect from the date of issue and is valid for the duration of Determination [2016] IASC 107.

Dated: 18 January 2018



IAN DOUGLAS
Chairperson



IAN HARRIS
Commissioner



KAREN GOSLING
Commissioner