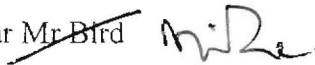


6 September 2009

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

Dear Mr Bird

A handwritten signature in black ink, appearing to read 'm. Bird', written over the typed name 'Dear Mr Bird'.

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

V Australia applied to the International Air Services Commission on 12 August 2009 for an allocation of 1267 seats each way each week (ewew) on the Fiji route to enable it to commence daily services in December 2009 using B777-300ER aircraft. In order to meet the capacity requirements of V Australia, Pacific Blue Airlines (Aust) Pty Ltd (PBA) also wrote to the Commission on 12 August seeking a variation to Determination [2008] IASC 129 to enable it to transfer 1260 seats to V Australia. Both PBA and V Australia are wholly owned subsidiaries of Virgin Blue Holdings Limited.

The Register of Available Capacity shows 1760 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 a determination from the Commission which would permit it to operate 1491 seats ewew on the route commencing in April 2010. Qantas has indicated it will seek an allocation of capacity which would comprise shelf capacity and a portion of the capacity which V Australia has applied for. If successful the Qantas proposal would leave Shelf Capacity of 269 seats available for future allocation by the Commission.

We believe the public interest would best be served by the Commission authorising V Australia'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 Paragraph 5 of the Minister's Policy Statement.

Background

The Australia – Fiji market is served currently by PBA and by Air Pacific. Qantas has had a significant direct involvement in this market for many years through both own aircraft operations and code share services operated in conjunction with Air Pacific. Initially both Qantas and Air Pacific operated on the route and shared capacity under the terms of a Confidential Capacity Purchase/Sale Agreement. Qantas was awarded 2,200 seats ewew by the Commission through IASC/DEC 9829 and IASC/DET/9906. Since March 2000 Qantas has chosen to operate exclusively as a code share marketing carrier on services operated by Air Pacific. The relationship between Qantas and Air Pacific goes well beyond that normally associated with operating/marketing carrier code share arrangements. Qantas is a substantial part owner of Air Pacific (46.32%)

Following changes made in 2000 to the air services arrangements between Australia and Fiji which provided that an allocation of capacity was no longer required to enable Qantas to code share on services operated by Air Pacific it handed back capacity previously allocated to it by the Commission.

The Virgin Blue Group commenced services in August 2004 between Australia and Fiji with flights operated by PBA. Since then the Group has invested significantly in the market and currently operates sixteen weekly services with B737-800 aircraft (2,880 seats ewew) from Sydney, Brisbane and Melbourne to Nadi with additional twice weekly services operated from Adelaide utilising unrestricted regional capacity. The services proposed by V Australia are an important part of our continuing investment in this market and underline our on-going commitment to the development of air services between Australia and Fiji.

Competition Benefits

The significant presence of the Qantas Group in the Australia – Fiji market is an established fact. Qantas was present in this market well before the entry of the Virgin Blue Group in 2004. That Qantas has chosen to serve exclusively as a marketing airline on services operated by Air Pacific, an airline in which it holds substantial equity, has solely been a matter of its own commercial and strategic judgement.

There has been no impediment to Qantas operating own aircraft services on this route before or after the entry of PBA. Its decision not to enter the market in direct aircraft competition with its equity partner does not diminish its competitive presence in the market. Consequently, the requirement of the Commission that Australian carriers be able to compete effectively with one another and with carriers of foreign countries was met with PBA's entry to the market in August 2004. That policy objective has been substantially re-enforced by PBA's continued commitment to capacity growth and market development following its entry.

The introduction of V Australia will able the Virgin Blue Group to maintain the competitive pressure which has led to substantially reduced leisure sector tariffs on the route and to introduce real competition in the premium market and significantly increase air freight capability and competition. The lower unit cost of the B777-300ER will enable V Australia to operate a virtual low cost cabin in the aircraft that will not only match fares already introduced by PBA but also provide the opportunity for tariffs even lower than those currently available in the market.

The Timetable Summary of the Department of Infrastructure, Transport, Regional Development and Local Government indicates that Qantas has a Free Sale code share agreement with Air Pacific enabling it significant flexibility and scope in the management of its code share capacity on the route. This is particularly important given the dominance of Australian residents in this market (87% of all traffic) and the strength of the Qantas brand in its home market.

Since its first full year of service on the route PBA has increased its capacity by 27%. By contrast the Air Pacific/Qantas partnership, despite Qantas' inherent advantages in the Australian market has virtually maintained the same capacity levels during this

period. Notwithstanding, there remains a substantial gap between the total capacity operated by Air Pacific/Qantas with 62% of the capacity in contrast to PBA's 38%. In the event that the V Australia application is successful, the Air Pacific partnership would still dominate the market with 54% of all capacity. An allocation of the capacity sought by Qantas would see the Air Pacific/Qantas share of the market increase beyond its current 64%, the overwhelming majority of which would still be operated by Air Pacific aircraft.

PBA has demonstrably lowered tariffs in this market, stimulated significant increases in demand and increased consumer choice and welfare benefit by operating in direct and transparent competition with the incumbent partnership. V Australia will ensure a completely new dimension to competition and product innovation particularly with the introduction of genuine competition in the premium market. Based on information provided by the Fiji International Visitor survey and the Ministry of Tourism Fiji Islands we estimate that since the commencement of services by PBA the economy of Fiji has benefited by some FJD421 million with around 40,000 new jobs having been created. These figures are based on average tourism expenditure and do not include significant economic activity associated with new tourism infrastructure projects undertaken to accommodate growth in tourism arrivals to Fiji.

Other Benefits

Tourism benefits

Fiji has a relatively small population and generally low levels of disposable income which limits the potential for the development of a sustainable inbound tourism market to Australia. That said the number of Fijian visitors to Australia has increased by 14% since our entry to the market. The V Australia product offer will encourage the significant numbers of foreign visitors to Fiji to extend their Fiji visit on to Australia. V Australia is more likely to stimulate additional tourism demand to Australia than other product currently on offer or in prospect in the Fiji market. The B777-300ER also has operational capabilities and product offer which will open up new tourism markets and V Australia intends to operate beyond Fiji to international destinations available under Australia's various air services agreements.

Consumer benefits

Consumers have benefited significantly from improved frequency and schedule choice following the entry of the Virgin Blue Group to the Australia – Fiji market. The introduction of V Australia will further expand choices available to consumers including increased capacity and expanded product offers, particularly in respect of premium products.

Data set out graphically in Attachment 1 indicates that as a direct consequence of the introduction of the Virgin Blue Group brand and genuine and open price competition the total Australia – Fiji market has grown 36% from the twelve months to August 2004 (the period immediately before PBA's entry to the market) to the twelve months to June 2009. Since its entry PBA has been responsible for all of the growth in the market with the combined Air Pacific/Qantas numbers actually declining slightly over the same period.

By comparison, the legacy carriers Air Pacific and Air New Zealand have not significantly grown passenger numbers between New Zealand and Fiji over the same period. Australian resident departures to Fiji have grown by 36% while New Zealand resident traffic has grown only by 6% in the same period. Qantas also operates in this market as a code share partner of Air Pacific.

In the city pairs where PBA operates in direct competition with Air Pacific/Qantas, Brisbane – Nadi has grown at 116% since PBA's entry with all of the growth accounted for by PBA. PBA has grown the Sydney – Nadi market by almost 50,000 passengers since it commenced services in June 2005 with only slight growth attributed to Air Pacific/Qantas. Demand in the Sydney – Nadi sector has grown by 41% since PBA's entry. The direct Melbourne – Nadi market without the continual direct presence of PBA has broadly stagnated over the corresponding period with the exception of a period between 2004 and 2006 when PBA clearly stimulated the market before withdrawing services. PBA recommenced services on the route in June 2009 and we anticipate it will also respond positively to the introduction of genuine competition to the sector.

The Virgin Blue Group offers connections for domestic transfer passengers and for passengers traveling beyond Australia, particularly to New Zealand and the United States on the Group's international network which shortly will expand to include services to Thailand and South Africa. 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

The important trade benefit V Australia will bring to the Australia – Fiji market is the introduction of an Australian operated wide-bodied B777-300ER aircraft with extensive palletised and containerised freight capability. Currently only Air Pacific and its commercial partner provide air freight capability in the Australia – Fiji market. The opportunity to introduce genuine competition in the freight market through the operation of B737 aircraft or A321-231 aircraft is limited. Daily services operated by V Australia with connections to the Virgin Blue Group's network of domestic and international services will provide Australian exporters and importers with a genuine competitive choice and the ability to transship product to wider markets on a reliable, regular and contested basis.

Industry Structure

The proposed operations by V Australia will have a positive impact on the Australian aviation industry. They are an important component of the progressive expansion of V Australia's 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 V Australia network 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.

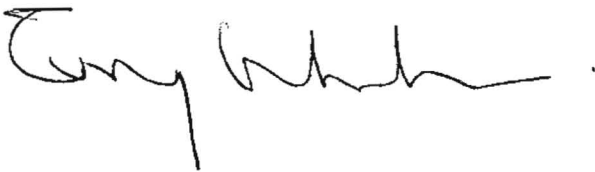
Conclusion

We believe the application from V Australia seeking a determination from the Commission to enable it to operate daily B777-300ER services between Sydney and Nadi meets fully the criteria for assessing the benefit to the travelling public set down in Paragraph 5 of the Minister's Policy Statement.

Since the entry of the Virgin Blue Group to the Australia – Fiji 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 Air Pacific. V Australia's entry to the market will not only sustain the current competitive environment established by the Virgin Blue Group but will introduce long overdue direct competition with Air Pacific and Qantas in the premium travel market and provide frequent, low cost, reliable freight movement for Australian exporters and importers.

We respectfully ask the Commission to take into account the issues raised in this submission and favourably consider our application for an allocation of capacity to V Australia on the Fiji route.

Yours sincerely



Tony Wheelens
Manager Government Relations
Virgin Blue Group



ATTACHMENT 1

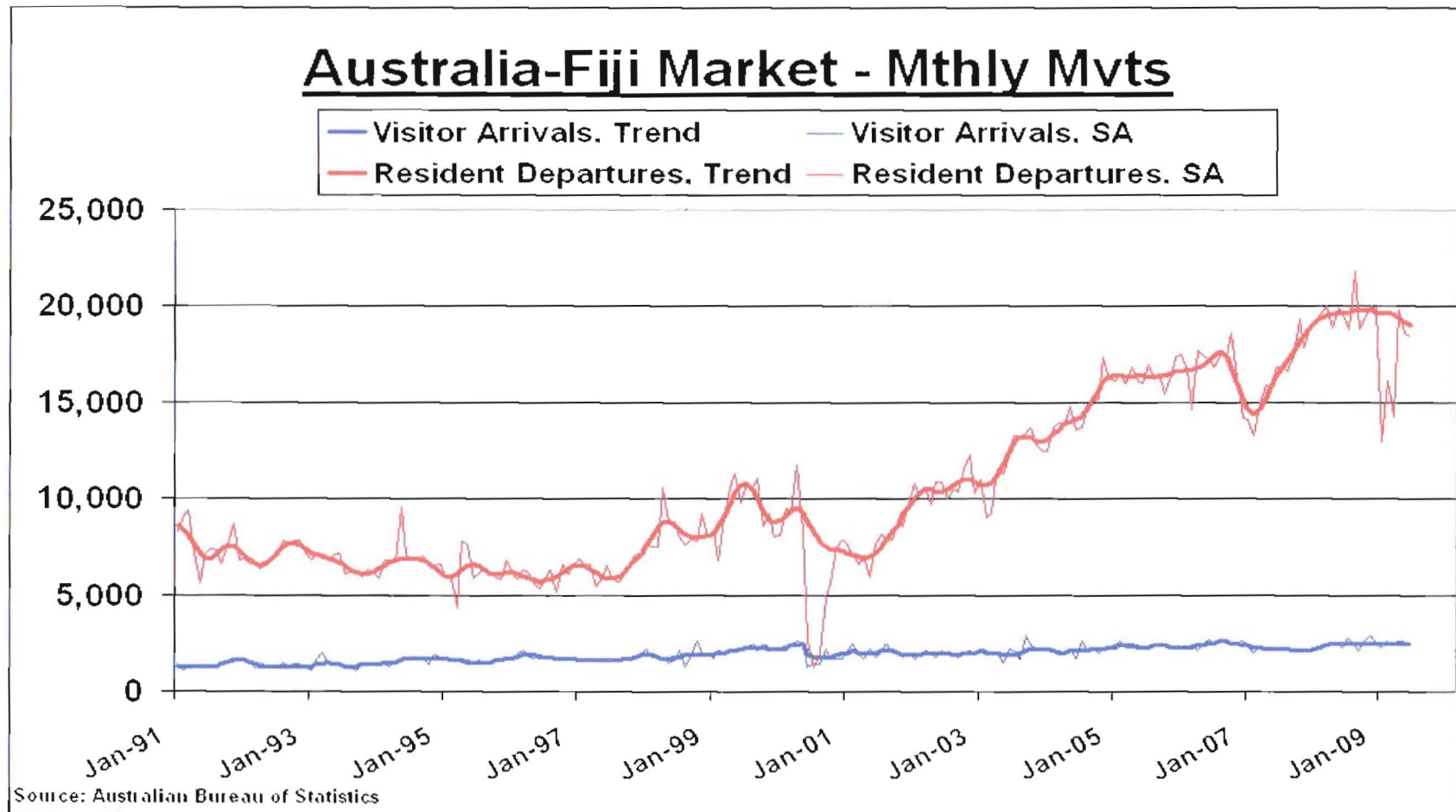
Fiji charts

September 2009

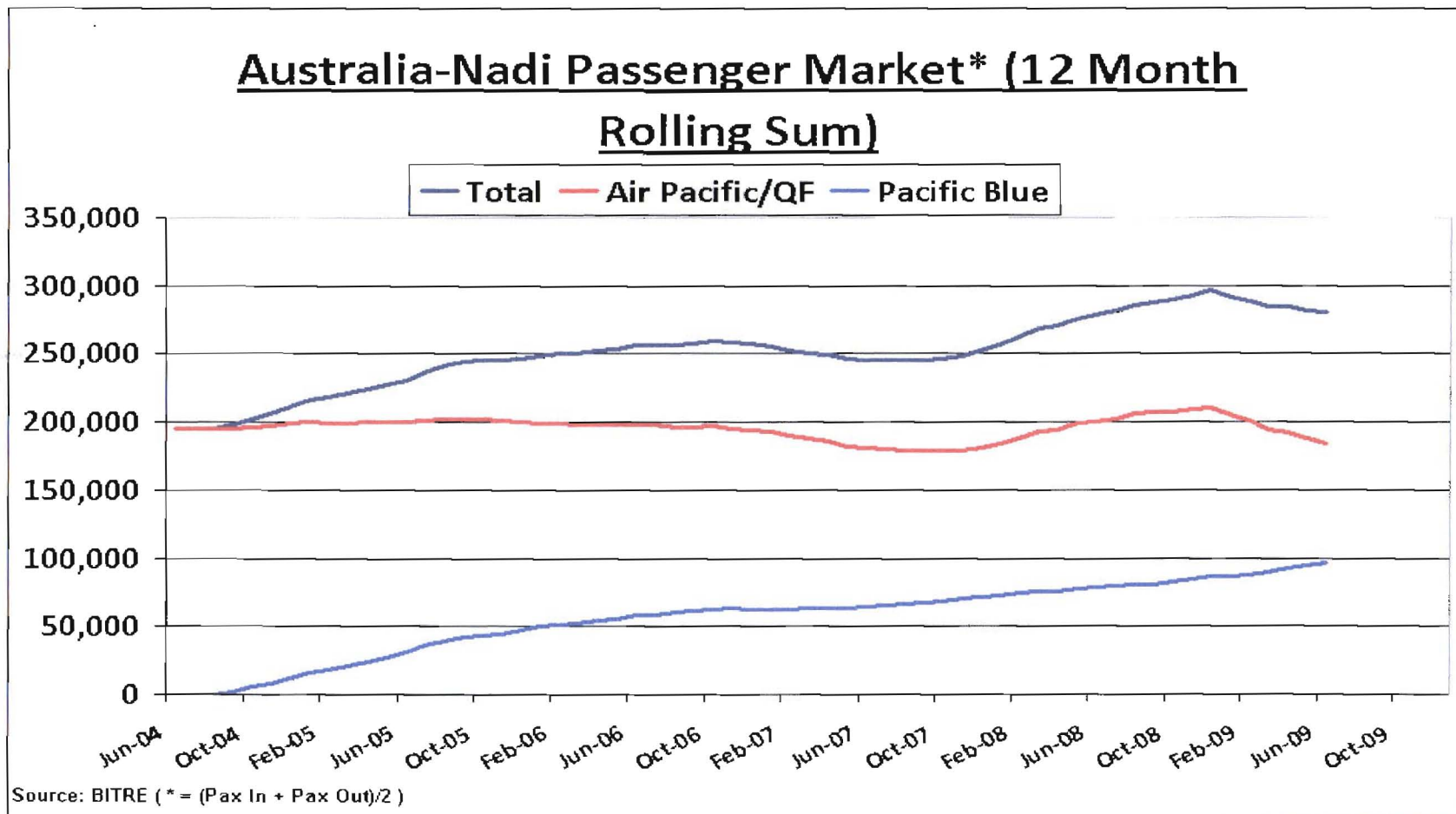


Virgin
airline

Australian resident departures to Fiji have grown 36% from 163,000 in the twelve months to August 2004 to 221,000 in the twelve months to June 2009. Traveller numbers have reduced in recent times as a result of unique market circumstances. Fiji resident travel to Australia has increased 14.4% over the comparable period

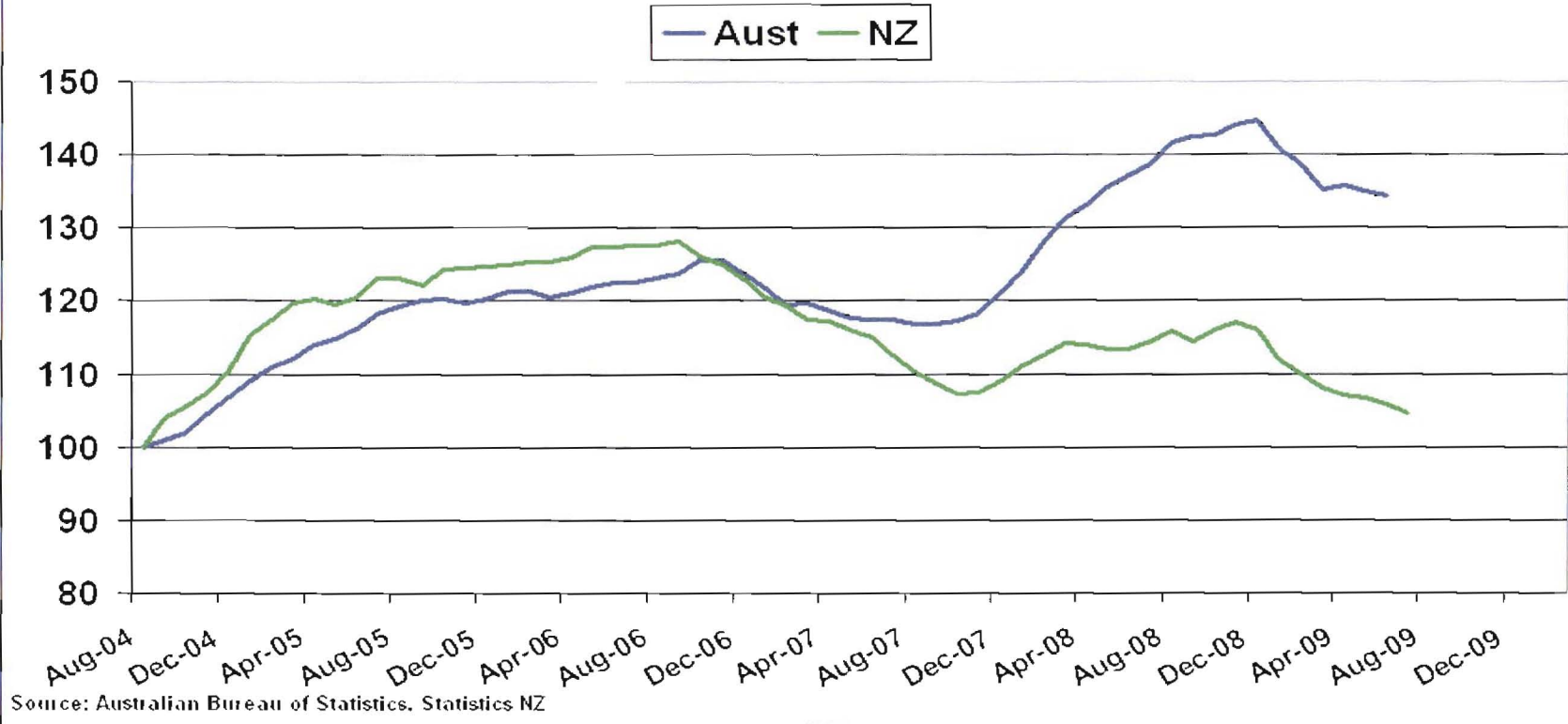


Pacific Blue commenced operations in September 2004. Since that time Pacific Blue has been responsible for all the growth in the market and associated tourism and infrastructure development benefits for the Fijian economy. FJ/QF numbers have actually declined slightly over the corresponding period

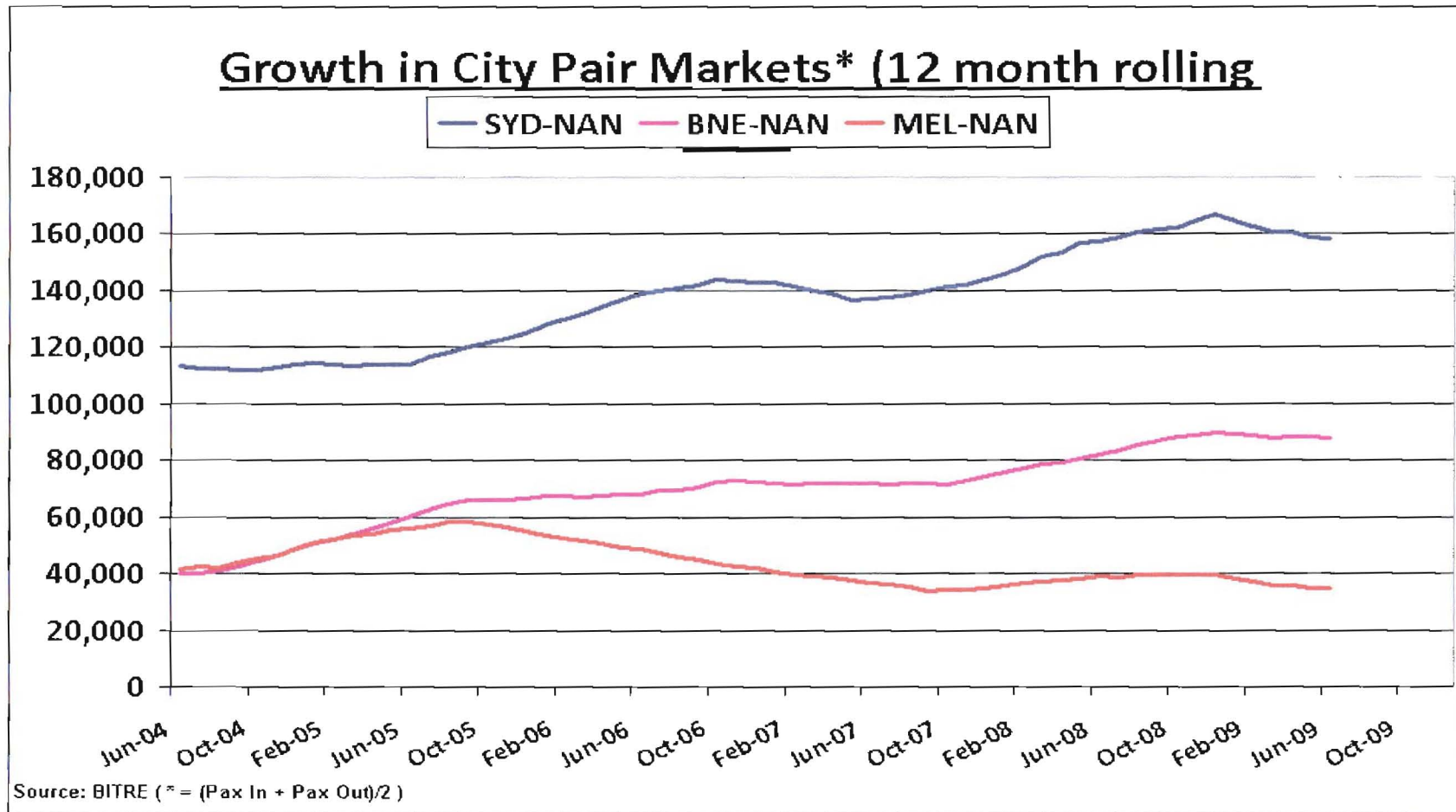


Air Pacific and Air New Zealand, have not significantly grown passenger numbers between NZ and Fiji over the same time period. Australian resident departures are 58,000 pa (36%) higher, while NZ resident departures have grown 1,800 pa (+6%)

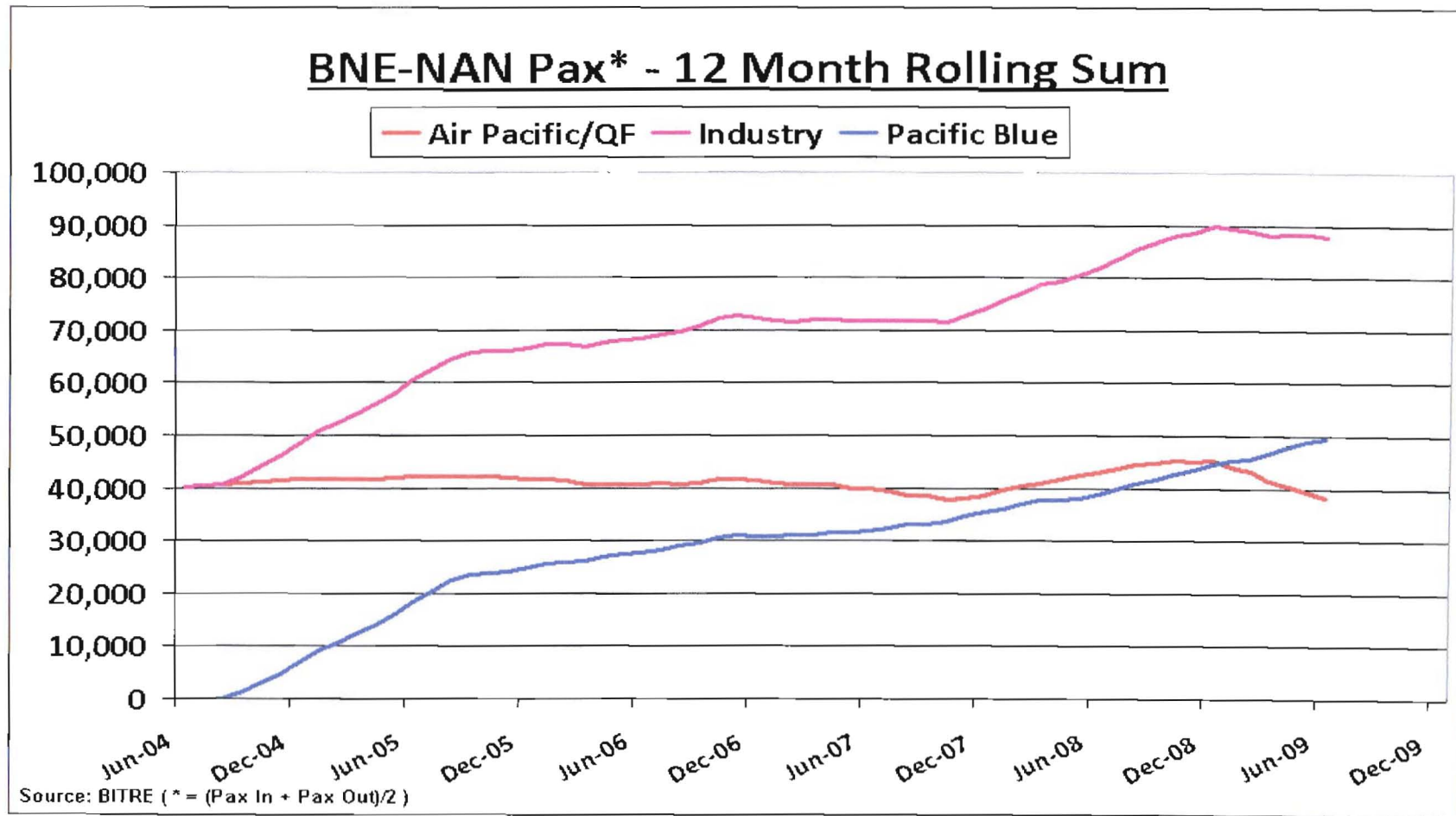
Australian and NZ Resident Departures to Fiji - 12 Month Rolling Sum, 12 Mths to Aug. 2004 = 100



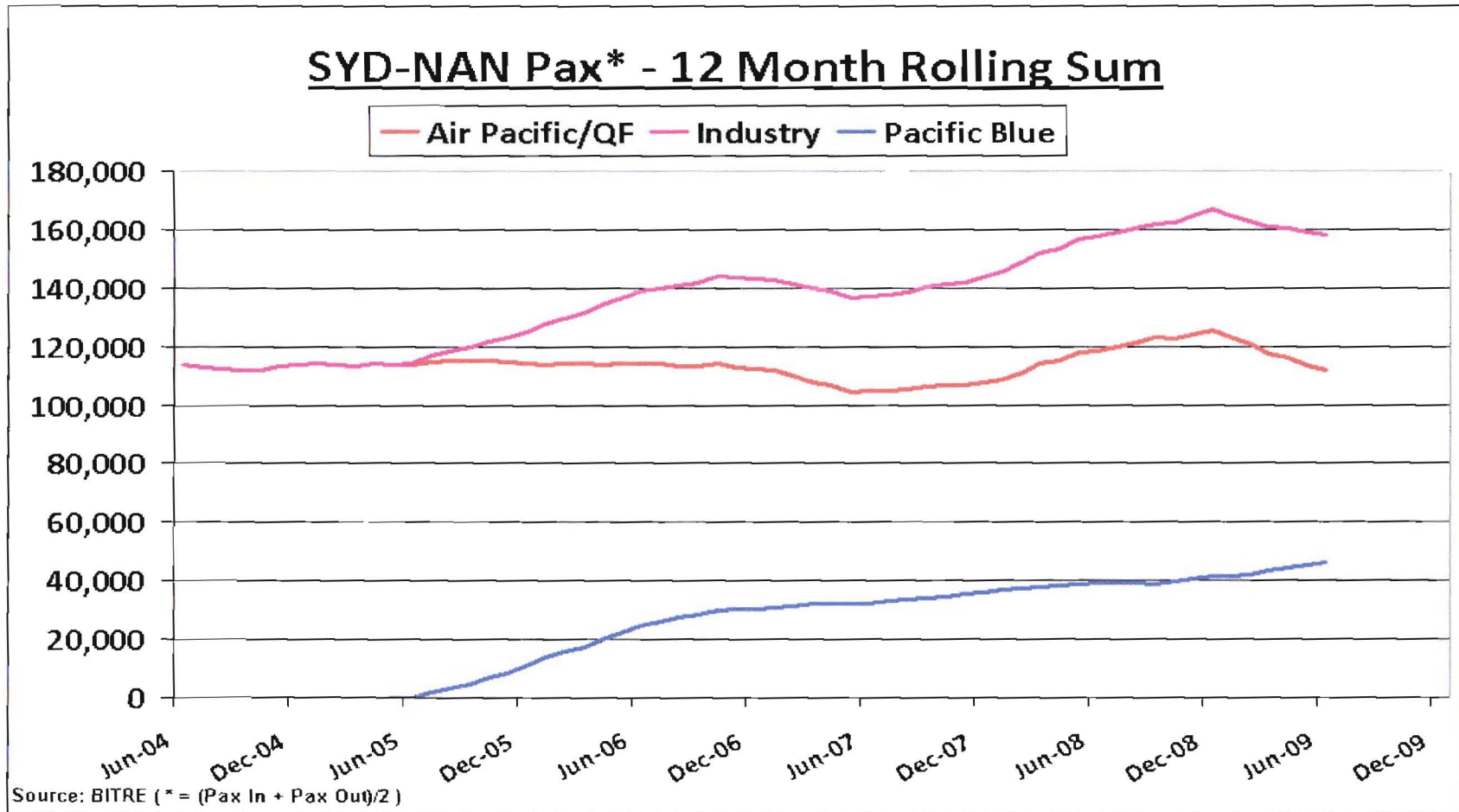
SYD-NAN (+41%) and BNE-NAN (+116%) have grown strongly, while MEL-NAN traffic has declined (-17%). Impressively, the BNE-NAN market is now over half the size of the SYD-NAN market



The BNE-NAN market has grown 116% with all of that growth accounted for by Virgin Blue/Pacific Blue. In the 12 months to June 2009 PBA flew more passengers to/from NAN from BNE (49,500 per annum return) than Air Pacific/QF (38,400).



Pacific Blue has grown the SYD-NAN market by nearly 50,000 passengers since it commenced services in June 2005. QF/Air Pacific had also grown the market slightly before the latest downturn in traffic related to market circumstances



The MEL-NAN market has broadly stagnated over the corresponding period except during 2004-2006 when Pacific Blue's presence stimulated market growth. Pacific Blue recommenced on the route in June 2009

