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22 November 2023

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 Airways' application for variations to Determination – Indonesia route

We refer to Virgin Australia's previous correspondence dated 6 October 2023 and Qantas Airways' (Qantas) additional submission, dated 31 October 2023, in relation to proposed code share arrangements with PT Garuda Indonesia (Persero) Tbk (Garuda Indonesia).

Virgin Australia wishes to provide the International Air Services Commission with the enclosed comments.

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

Yours sincerely

Todd Reynolds
General Manager Government Relations and Industry Services

PUBLIC VERSION

VIRGIN AUSTRALIA

RESPONSE TO QANTAS APPLICATION AND ADDITIONAL SUBMISSION TO PERMIT THE USE OF CAPACITY FOR THE PROVISION OF CODE SHARE SERVICES WITH GARUDA INDONESIA

Virgin Australia objects to Qantas' application and highlights the key points that strengthen and support the arguments made in its submission of 6 October 2023.

Proposed Code Share Arrangements

Under the proposed code share arrangements, Qantas and Garuda Indonesia would continue to hold 100 per cent of capacity between Jakarta-Sydney and Jakarta-Melbourne, the largest cities in both countries by population.

The proposal would also result in the Qantas Group (Qantas and Jetstar with Garuda Indonesia as a partner) further extending its dominance on the Denpasar-Australia route, the largest market between the two countries.

While Qantas has stated it does not intend to place its code on Garuda Indonesia initially, this could occur at a later date. If this was to eventuate, Qantas would further entrench its dominant market position when Jetstar's share of capacity on the Australia-Indonesia route and respective Jakarta and Denpasar routes is considered.

Compliance with the International Air Services Commission Act 1992

Qantas has asserted that the proposed code share would not impact the ability of Australian carriers to enter or grow on the Indonesia route from these gateways given "*there is no available capacity for Australian carriers to enter or expand to/from Australia's major gateways (Sydney, Brisbane, Melbourne, Perth) and Indonesia*".

Virgin Australia agrees that the lack of available capacity under the bilateral agreement with Indonesia creates significant barriers to expansion of this market and should be addressed. Virgin Australia would like access to additional capacity between Australia and Indonesia to enable it to expand the services it offers to customers and better compete with Qantas. However, Qantas' statement deflects from the relevant issue which is that the approval of the proposed codeshare would act to further entrench Qantas Group's position in the market, particularly on the Jakarta market. With all of the existing capacity being operated by the two carriers at either end, approval to codeshare is likely to raise barriers to entry by making it more difficult for a rival Australian carrier – like Virgin Australia – to successfully enter the Jakarta market if Australia-Indonesia capacity was made available in the future.

Minister's Policy Statement: paragraph 9 criteria

a) *Competition Criteria*

Qantas has asserted in its additional submission that *"Qantas and Garuda Indonesia operated 16 per cent of total capacity on the Australia-Indonesia route (12 per cent and four per cent respectively)*" and that the *"combined average seat utilisation of Qantas and Garuda Indonesia is 84 per cent, which is comparable to Virgin Australia at 83 per cent".*

This is misleading as it excludes the Jetstar's operated capacity on flights between Australia and Indonesia. As Jetstar is a wholly owned subsidiary of Qantas, and Qantas places its code on its services, it must be considered.

Based on the data provided by Qantas in its submission, the combined Qantas, Garuda Indonesia and Jetstar operated capacity on the Australia-Indonesia route was:

- 66 per cent in the 12 months to April 2023 (12 per cent, 4 per cent and 50 per cent respectively).
- 58 per cent in the 12 months to April 2024 (11 per cent, 8 per cent and 39 per cent respectively). When Citilink schedules are added (which do not appear in Diio as Qantas noted in additional submission) this rises to approximately 60 per cent.

The position of Qantas in the Australia-Indonesia market should not be viewed in isolation from its subsidiary Jetstar, as Qantas and Jetstar have the ability to coordinate schedule and pricing across the same routes that Garuda International and Qantas propose to codeshare on.

In addition, the potential merger between Garuda Indonesia and Citilink[1] has the potential to further increase Garuda Indonesia's dominance in the Indonesian market and lead to an even greater share for four carriers (Citilink, Garuda Indonesia, Jetstar and Qantas).

- *Ability for Virgin Australia to grow its market share*

  Qantas has asserted that Virgin Australia has capacity to grow its market share to Indonesia (outside of Sydney, Melbourne, Brisbane and/or Perth routes) and referenced new Adelaide-Denpasar and Gold Coast-Denpasar services that Virgin Australian have launched as evidence of this.

  Virgin Australia is currently competitively disadvantaged in the capital cities of Sydney, Melbourne, Brisbane and Perth with the Qantas Group holding 80 per cent of Australia to Indonesia bilateral capacity available for Australian designate carriers. Virgin Australia's lack of access to these major gateways results in a network offering that does not fully satisfy the needs of Virgin Australia's customers, which in turn impacts Virgin Australia's competitiveness both internationally and domestically.

[1] https://simpleflying.com/indonesia-merger-garuda-indonesia-citilink-pelita-air/

Sydney, Melbourne, Brisbane or Perth based consumers do not view alternatives from Gold Coast and Adelaide as realistic alternatives, with the exception of people residing in between Brisbane Airport and Gold Coast Airport.

Due to both commercial and operational challenges, there are minimal opportunities for Virgin Australia to service Indonesia in a profitable way outside of Sydney, Melbourne, Brisbane and Perth. The majority of Virgin Australia's international services are from Brisbane, Sydney and Melbourne and expansion from other regional markets is challenging from a cost perspective particularly when the market demand does not allow for at least daily services.

The smaller population of regional centres in Australia makes it more challenging to sustain international services to Indonesia which is disproportionately more reliant on Australian point of sale for success. In addition, it takes time and investment of resources to build up a smaller regional market, to ensure that it is commercially viable and sustainable.

Virgin Australia's key concern remains, that by commencing a relationship with Garuda, Qantas increases its already dominant exposure to the Indonesian market while entrenching barriers to further Virgin Australia growth into the future.

- *Current market position of Garuda Indonesia*

Qantas have submitted that any suggestion that the proposed code share would limit Garuda Indonesia's motivation to increase services does not adequately consider its current circumstances including its reduced fleet size as it recovers from the pandemic.

Garuda Indonesia has the ability to redeploy capacity from other routes (as all airlines can do) if market conditions justify this, absent the proposed codeshare arrangement.

- *Impact on competitive dynamics*

Qantas states that *"the code share agreement is not exclusionary and does not prohibit Qantas or Garuda Indonesia from entering into commercial partnerships with other carriers".* Commercial partnerships with other carriers where they are not competing on the same route is a vastly different proposition from the proposed codeshare arrangement between direct competitors.

Regardless of potential commercial partnerships with other carriers, Qantas and Garuda are both large, premium carriers and are considered to be National carriers in their respective countries. They are the only airlines that serve two of the routes (SYD-CGK and MEL-CGK), are each with complementary 'Point of Sale' strengths. These factors have the potential to substantially strengthen both airlines' selling proposition and position of dominance on the Indonesia-Australia market.

Qantas asserts that while the travel time is less attractive, established third country carriers like Singapore Airlines provide one stop services that provide alternative timings and options for travellers. While indirect options provide competitive options in many international markets, services between Australia and Indonesia via South East Asian ports are quite circuitous, likely to be more expensive, and take more time making them unattractive as a substitute for direct services.

For example, services from Sydney to Jakarta via Singapore are around 30 per cent longer by distance than direct services which, along with required connecting time, results in a journey time that is at a minimum 50 per cent longer. These services should not be considered as a substitute for consumers.

Overall, the public benefits claimed by Qantas in its application are marginal. Certainly, they do not outweigh the potential negative impact that the proposed code share will have on competition on the route.

b) *Tourism and Trade Criteria*

Qantas claims that consumers would be provided with additional options and choice as a result of the increased number and timing of independently marketed and priced services by Garuda Indonesia.

The proposed codeshare will result in two carriers gaining greater market power individually and collectively on the Indonesia route. This likely means a reduction in competitive forces within the market while also reducing the motivation for both Qantas and Garuda to grow as they have access to additional capacity and selling power through the codeshare arrangement. This could potentially lead to higher airfares and limited choices for customers.

Their potential to entrench the market position of Qantas Group may also increase the barriers to entry and expansion by other airlines, with direct implications for Australian Tourism and Trade.

Final observations

The Qantas Group and Garuda hold 58 per cent of market share on the Australia-Indonesia route for the 12 months to April 2024. This proposal would further strengthen the dominant market position of the Qantas Group and Garuda.

Most travellers on the Jakarta and Denpasar route from the Australian cities of Sydney, Melbourne and Brisbane opt for direct point-to-point itineraries considering geographical proximity of Indonesia to Australia. Consequently, it is reasonable to anticipate that consumers would perceive the advantages of strong competition involving three or more carriers, such as lower airfares and a wider range of service options, as more valuable than the purported benefits of Qantas' proposal.

As outlined in these comments and our previous submission, Virgin Australia submits that any marginal consumer benefits will be outweighed by the corresponding impact on competition, tourism and trade. Given this, Virgin Australia contends that Qantas' application would not be of benefit to the public, nor would it promote the objective of the Act, which aims to enhance the welfare of Australians by encouraging economic efficiency through competition in the provision of international air services.

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