



Competition
Commission
SINGAPORE

Section 44 of the Competition Act (Cap. 50B)

Notice of Decision issued by Competition Commission of Singapore (CCS)

Application for Decision by Singapore Airlines Limited and Virgin Australia Airlines Pty Ltd.

17 April 2012

Case number: CCS 400/005/11

EXECUTIVE SUMMARY

1. On 22 June 2011, CCS received an application made under section 44(1)(b) of the Competition Act (Cap 50B) ("the Act") as to whether a Proposed Alliance between Singapore Airlines Limited ("SIA") and Virgin Australia Airlines Pty Ltd ("Virgin Australia"); (collectively referred to as "the Parties") will infringe the prohibition under section 34 of the Act.
2. CCS' assessment, based on the submissions and information provided by the Parties and from relevant third parties, is that the Proposed Alliance will strengthen competition on the Singapore-Australia origin and destination city-pair routes. It will bring about pro-competitive benefits to Singapore by creating additional routes, thereby widening passengers' choices.
3. Therefore, CCS concludes that the Parties' Proposed Alliance will not result in a prevention, restriction or distortion of competition within Singapore, and thus does not infringe the section 34 prohibition.
4. The decision was conveyed to the Parties on 19 October 2011. This sets out the Grounds of Decision.

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INTRODUCTION

1. This Decision sets out CCS' assessment and decision, pursuant to an application ("the Application") made under section 44(1)(b) of the Competition Act (Cap 50B) ("the Act"), on whether the Proposed Alliance between Singapore Airlines Limited ("SIA") and Virgin Australia Airlines Pty Ltd ("Virgin Australia"); (collectively referred to as "the Parties") will infringe the prohibition under section 34 of the Act.
2. CCS' assessment and decision is based on the submissions and information provided by the Parties and from relevant third parties.

THE FACTS AND PARTIES' SUBMISSIONS

The Application for Notification of Decision

3. The Application concerns a proposed alliance between SIA and Virgin Australia involving air passenger services, which will be given effect through the execution of an Alliance Framework Agreement, and various associated agreements, including codeshare agreements, reciprocal frequent flyer and lounge agreements, a special prorate agreement and a reciprocal staff duty travel agreement ("the Proposed Alliance"). The Proposed Alliance is intended to be implemented in December 2011.
4. On 6 June 2011, Virgin Australia and SIA entered into an Alliance Framework Agreement in relation to the Proposed Alliance. On 22 June 2011, the Parties notified the Proposed Alliance to CCS under section 44(1)(b) of the Act. The purpose of the Application was for a decision by CCS on whether the Proposed Alliance would infringe section 34 of the Act. The Alliance Framework Agreement will not come into force until the requisite approvals from CCS and the Australian Competition and Consumer Commission ("ACCC") have been obtained.
5. The Parties claim that the Proposed Alliance falls outside the purview of the section 34 prohibition as the Proposed Alliance would not have the object or effect of appreciably preventing, restricting or distorting competition within Singapore and will also benefit from the net economic benefit ("NEB") exclusion.

Approvals and anti-trust immunity from authorities in other jurisdictions

6. On 13 October 2011, the ACCC issued a draft determination to the application for authorisation lodged by SIA and Virgin Australia. According to their draft determination, the ACCC has proposed to grant authorisation for the Proposed Alliance on the ground that it is likely to bring about a net public benefit.¹ CCS notes that the Parties have not notified the Proposed Alliance to any other competition authorities.

¹ See draft determination at

<http://www.accc.gov.au/content/trimFile.phtml?trimFileTitle=D11+2323751.pdf&trimFileFromVersionId=1012506&trimFileName=D11+2323751.pdf>

Singapore's aviation landscape²

7. Singapore is a liberal aviation port. Airlines have full flexibility to respond to market conditions and opportunities. Passengers and shippers have wide travel and flight options at competitive rates. Singapore is also a popular transfer hub for international travellers and shippers. Foreign airlines operating in and out of Singapore can use it as a hub for services to the region and beyond.
8. To date, Singapore has established Air Services Agreements with more than 100 countries and territories, including about 40 Open Skies Agreements. Open Skies Agreements allow carriers to operate any number of flights between and beyond both signatory states, enabling them to tap traffic from third countries to improve the commercial viability of scheduled flights.

The Parties to the Application

Singapore Airlines Limited

9. The principal activities of SIA consist (through itself or its subsidiaries) of passenger and cargo air transportation, engineering services, training of pilots, air charters and tour wholesaling and related activities.
10. SIA is the flag carrier of Singapore, operating air passenger services across an extensive international network of 62 scheduled destinations in 35 countries, with a fleet of over 100 aircraft. SIA is a full service airline with a strong reputation for customer service.
11. Under the scope of the Proposed Alliance, SIA currently operates direct flights between Singapore and Brisbane, Sydney, Melbourne, Adelaide and Perth. It does not operate domestic flights within Australia.

Virgin Australia

12. Virgin Australia commenced operations in Australia as Virgin Blue in August 2000 and is listed on the Australian Stock Exchange. Virgin Australia operates domestic air passenger services within Australia, while its affiliates within the Virgin Australia Group operate services to international destinations - "Pacific Blue" operates short haul international operations, and "V Australia" operates full service long haul international operations. The Virgin Australia Group also operates services to Pacific Islands through Pacific Blue and Polynesian Blue, which is a joint venture with the Samoan Government. Virgin Australia currently operates approximately 2,700 flights a week to 31 Australian destinations from its primary hub in Brisbane.
13. The Virgin Australia Group does not currently operate any flight between Australia and Singapore.

² CAAS website at <http://bit.ly/ezKkgi> (last accessed on 15 March 2011)

14. In addition to the Parties to the Application, the following entities are all parties to the Alliance Framework Agreement:

SilkAir (Singapore) Private Limited

15. SilkAir, a wholly owned subsidiary of SIA, is a premium short-to-medium haul regional airline based in Singapore. It operates over 400 flights a week to 34 destinations within the region of South-East Asia, and India, China and Nepal.

Virgin Australia International Airlines Pty Ltd

16. Virgin Australia International Airlines Pty Ltd (currently branded V Australia) is Virgin Australia Group's long haul international airline. It was launched as a full service carrier in 2009, offering services on the trans-Pacific and more recently, to the Middle East.

Pacific Blue Airlines (NZ) Limited

17. Pacific Blue Airlines (NZ) Limited ("PBNZ") is the New Zealand-based subsidiary of the Virgin Australia Group and operates services on trans-Tasman routes between Australia and New Zealand. Under the Virgin Australia-Air New Zealand alliance, PBNZ will operate approximately 30% of the projected capacity on the trans-Tasman sectors (Air New Zealand will operate approximately 70%). PBNZ has its primary hub in Christchurch and operates a secondary hub in Auckland.

Pacific Blue Airlines (Aust) Pty Ltd

18. Pacific Blue Airlines (Aust) Pty Ltd ("PBA") operates services between Australia and New Zealand, Fiji, Indonesia, Thailand, Vanuatu, Papua New Guinea, the Cook Islands, the Solomon Islands and Tonga as a designated Australian international carrier. PBA operates aircraft wet leased from PBNZ and Virgin Australia.

Velocity Rewards Pty Ltd

19. Velocity Rewards, Virgin Australia's loyalty program, was launched in November 2005. Velocity allows members to earn and redeem Velocity Points on Virgin Australia Group flights and on a range of products and services with Virgin Australia's Program Partners, as well as global lounge access with Virgin Australia reciprocal partners. Virgin Australia currently has frequent flyer agreements with Air New Zealand, Delta Air Lines, Skywest, Virgin Atlantic, Virgin America, Etihad, Airlines PNG, Hawaiian Airlines and Malaysia Airlines. Velocity Rewards is wholly owned by Virgin Blue Holdings Limited. Velocity Rewards is the trustee of the Loyalty Trust, which is a controlled entity of Virgin Blue Holdings Limited.

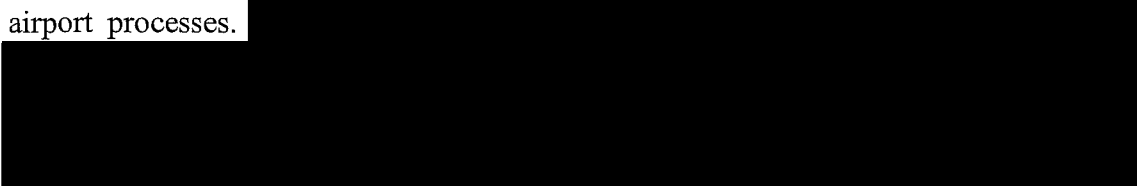
Existing cooperation between the Parties

20. At present, there are no codeshare arrangements in place between SIA and Virgin Australia. The Parties have submitted that, from 1 August 2011, they have entered into a limited interlining arrangement with no codeshare dimension. This arrangement extends only to the handling of passengers between the airlines, allowing check-through of baggage and a single ticket for the whole journey.

The Proposed Alliance

21. On 6 June 2011, Virgin Australia and SIA entered into an Alliance Framework Agreement in relation to the Proposed Alliance. The Alliance Framework Agreement will come into effect upon the achievement of the following:
- i. the execution of reciprocal codeshare agreements between SIA, SilkAir, Virgin Australia Airlines and Pacific Blue Airlines, and between SIA, SilkAir and Virgin Australia International (“Codeshare Agreements”);
 - ii. the execution of a Special Prorate Agreement between SIA, SilkAir, Virgin Australia Airlines, Virgin Australia International Airlines and Pacific Blue Airlines (“Special Prorate Agreement”);
 - iii. the execution of a Frequent Flyer and Lounge Agreement (“FFP and Lounge Agreement”); and
 - iv. the receipt of the necessary approvals from CCS and the ACCC.
22. In addition, on 1 August 2011, SIA has commenced an interline agreement with Virgin Australia and V Australia. With this interlining agreement, members of the Parties’ respective frequent flyer programs, KrisFlyer Gold and Velocity Gold will also have reciprocal access to the Parties’ lounges.
23. The Proposed Alliance fills significant gaps in each of SIA’s and Virgin Australia’s networks, providing SIA with an Australian partner and giving Virgin Australia access to the Asian market through Singapore.
24. The combination of the Parties’ two networks with favourable prorates will allow both airlines to offer passengers new services on their codes. This would include better connections at competitive fares and, through reciprocal lounge and frequent flyer programs, more opportunity to earn and burn frequent flyer points, attain status recognition and benefit from the reciprocal use of lounges.
25. The Parties will also work together to align their in-flight products and airport services to create a seamless travel experience for their passengers.

Content of the Proposed Alliance

26. The Proposed Alliance comprises a number of joint activities. However, the Parties have submitted that all aspects of the Proposed Alliance are interdependent upon one another and it is only with an integrated Proposed Alliance that the Parties will be able to achieve their commercial objectives and realise the anticipated benefits.
27. Under the Proposed Alliance, subject to regulatory approval, SIA and Virgin Australia will:
- i. cooperate fully on all aspects of their Singapore-Australia services and any international and domestic connecting routes;
 - ii. cooperate in relation to the marketing of services to corporate and government accounts;
 - iii. cooperate in relation to frequent flyer programs and lounge access to improve the Proposed Alliance's overall service offering;
 - iv. codeshare on a freesale basis on selected routes within each other's networks and offer special prorates on all coded flights; and
 - v. enter into reciprocal interline arrangements.
28. The Parties will also work together to achieve other synergies contemplated in the Alliance Framework Agreement including further product alignment and coordinated airport processes. 
29. The Parties expect that the Proposed Alliance will:
- i. attract additional passengers to their services, thus increasing revenue;³
 - ii. enable existing services to become more profitable and allow new services (which would otherwise not be viable) to become commercially sustainable, as a result of passenger stimulation and additional traffic feed for services through the Proposed Alliance;
 - iii. give Singapore passengers more competitive fares and choice, especially in the corporate and government accounts sector;
 - iv. stimulate international tourism to Singapore (from an increase in international passengers that use Singapore as a transit point to Australia as well as Australian passengers that visit Singapore or use Singapore as a transit point)

³ Refer to paragraphs 39 to 46 below.

as the result of better connections to Australia and new routes and joint international marketing efforts by the Parties;

- v. reinforce Singapore's status as a vibrant air hub with improved connectivity to Australia.

30. Each of the elements of the Proposed Alliance is discussed in more detail below.

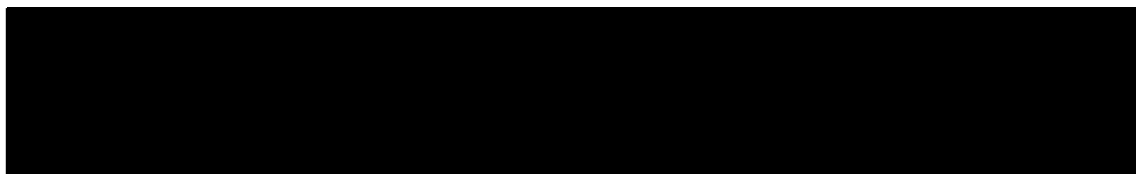
Interline & reciprocal lounge and frequent flyer benefits

- 31. From 1 August 2011, KrisFlyer Gold and Velocity Gold members have been allowed reciprocal access to the Parties' lounges. From that same date, passengers who purchased an SIA flight with an onward connection on a Virgin Australia flight (for example, Singapore-Sydney on SIA, then Sydney-Adelaide on Virgin Australia) have been able to take advantage of an interline arrangement to have check-through of baggage and a single ticket for the whole journey.⁴
- 32. Under the Proposed Alliance, the Parties will implement a broad reciprocal frequent flyer and lounge access agreement which will include:
 - i. reciprocal earn and burn of Velocity and KrisFlyer points across the SIA's and Virgin Australia Group's networks;
 - ii. reciprocal status recognition; and
 - iii. reciprocal lounge access for all eligible passengers.
- 33. Reciprocal frequent flyer and lounge benefits will apply across the entirety of the networks of each airline.

Reciprocal codeshare on existing networks

- 34. Under the Proposed Alliance, the Parties will implement reciprocal freesale codeshare within each other's networks at favourable prorates.
- 35. Under the Codeshare Agreements, Virgin Australia will be able to place its code (DJ⁵ and VA⁶) on all regularly scheduled passenger services operated by SIA and SilkAir (except for SilkAir Scheduled Charter Services) on routes to/from Australia and New Zealand to Singapore and beyond.

36.



⁴ While Polynesian Blue is not part of the Alliance Framework Agreement, SIA will also have access to interline and special prorate levels to be able to sell to Samoa.

⁵ "DJ" refers to Virgin Australia Airlines Pty Ltd.

⁶ "VA" refers to Virgin Australia International Airlines Pty Ltd.

37. In turn, SIA (SQ) and SilkAir (MI) will be able to place their code on Virgin Australia's services within Australia, the Pacific Islands and on the trans-Tasman routes.

Other areas of cooperation

38. Subject to regulatory approval, the Parties also intend to implement cooperative procedures in relation to, amongst other things, scheduling, marketing and distribution. This joint coordination will allow the Parties to optimise and grow the overall scope of their product offering, such that:

- i. favourable prorates will enable the Parties to offer more competitive fares and avoid double profit mark-ups on connecting services;
- ii. it will improve travel coverage and connections for passengers and traffic feed for the Parties, leading to a more comprehensive joint network with a better spread of routes and frequencies; and
- iii. it will enable the Parties to enhance and create new corporate offerings through the bundling of international and domestic fares and associated value-adds (such as lounge access and corporate rewards).

39. In addition, the Parties have submitted that the Proposed Alliance would include the implementation of revenue-sharing arrangements and metal neutral policies along selected origin-destination ("OD") routes between Singapore and Australia. [REDACTED]

[REDACTED] the Parties have identified that revenue-sharing arrangements and metal neutral policies would include and be limited to the following OD routes:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

40. [REDACTED]

⁷ Paragraph 4 of Parties' submissions to CCS dated 2 March 2012.

[REDACTED] The Parties have stated that the overarching goal of the revenue-sharing arrangements would be to achieve metal neutrality, whereby there would be an alignment of the Parties' commercial incentives. This would lead to a more seamless integration of the Parties' services and inventory offerings, resulting in increased consumer choice, more direct routings and potentially lower fares⁸.

Commercial Rationale of the Proposed Alliance

41. The Proposed Alliance allows each party to combine its strengths in order to fill significant gaps in their respective existing networks. This will provide SIA with a partner in Australia and provide Virgin Australia with network coverage in Asia.
42. The creation of an integrated international and domestic network through the Proposed Alliance will increase passenger numbers on the services of each of the Parties. SIA will be able to offer travel from locations throughout its global network to domestic destinations within Australia on its code, while Virgin Australia will benefit from increased passenger feed on its domestic services.

SIA's Commercial Rationale

43. Since the collapse of Ansett in 2001, SIA has had limited ability to offer connections within domestic Australia. Currently, SIA has a limited interline arrangement with Qantas Airways Limited ("Qantas") within Australia which does not provide access to coded flights or the ability to access attractive inventory. SIA does not expect that the arrangement with Qantas will become more favourable as Qantas is a key competitor for international travel to and from Australia. In addition, Qantas is a member of rival international airline alliance oneworld, while SIA is a member of Star Alliance. With access to Virgin Australia's Australian domestic and Pacific networks through favourable codeshare arrangements which will only be made available as part of an integrated alliance, SIA will be able to:
 - i. offer SIA branded services to international passengers that want to travel to destinations in Australia which are beyond SIA's main Australian gateways. This will include, for example, the service from Frankfurt, Germany, all the way through to popular tourist destinations such as Cairns, Broome or Uluru (Ayers Rock);
 - ii. enhance its offer to corporate customers (including those in Singapore) in competition with one of its closest competitors in the region, Qantas. While SIA's international network is compelling, in order to be attractive for corporate accounts (especially for companies that have frequent travellers to domestic Australia), it is essential to offer domestic Australian services and

⁸ Paragraphs 5 and 6 of Parties' letter to CCS dated 1 March 2012.

also services between Australia and the United States (which it is unable to provide due to bilateral restrictions). Under the Proposed Alliance, SIA will be able to submit joint bids for such corporate accounts; and

- iii. provide opportunities for SIA's passengers to earn and burn frequent flyer points within Australia. This will increase the value of the KrisFlyer product for travellers, as they are now able to earn points on both the long-haul international leg as well as domestic leg of their journey into Australia.

Virgin Australia's Commercial Rationale

44. The Proposed Alliance is a key part of Virgin Australia's "Game Change" strategy as it will enable it to:

- i. compete more effectively with Qantas for corporate and government contracts;
- ii. offer a broader international network without large capital investment; and
- iii. attract additional passengers to its services, including higher yield passengers, through feed from SIA's network and as a result of its improved product.

45. As part of this "Game Change" strategy, Virgin Australia aims to attract a higher share of business and corporate customers in closer competition with Qantas. In addition to offering a deep and broad domestic network, in order to attract more corporate passengers, Virgin Australia needs to:

- i. offer an international network (including through its alliances) that is comparable with that offered by Qantas;
- ii. provide an attractive frequent flyer product on a wide range of services, in particular so that they can earn flights when travelling long haul and redeem for holidays on Virgin Australia's short haul network. Without an extensive long haul network, its frequent flyer program, Velocity, would have limited attractiveness;
- iii. provide high quality in-flight services, such as food, entertainment, level of service and comfort; and
- iv. provide high quality services at the airport, including efficient check-in and lounge access.

46. The Proposed Alliance will extend this "Game Change" strategy by enhancing the Velocity programme, giving Virgin Australia's passengers the opportunity to access SIA's KrisFlyer lounges, and status recognition across SIA's entire international network. It will also give Virgin Australia access to increasingly important Asian destinations.

47. In this connection, Singapore, as a key destination for Australian corporate and business travellers, is a crucial hub for international flights. Secondly, China and India are among the fastest growing destinations for travel from Australia, while destinations like Japan and Hong Kong have been long established as key destinations for business and leisure travel from Australia. The ability of Virgin Australia to offer coded flights to and within these countries will be very valuable for Australian passengers.
48. The additional passenger feed onto Virgin Australia's domestic network will also likely make additional frequencies and new routes viable.

Joint Effort to Compete Effectively for Corporate and Government Accounts

49. The Proposed Alliance provides an important opportunity for the Parties to increase their ability to jointly compete with Qantas, particularly for corporate and government accounts.
50. Under the Proposed Alliance, the Parties would be able to offer corporate and government clients (including those in Singapore) that require frequent travels to domestic Australia both international and domestic Australia services with value-added products such as access to both Virgin Australia and SIA's lounges, reciprocal earn and burn of frequent flyer points and status recognition.
51. The ability to offer this package is crucial to their capacity to compete effectively in this market. As previously stated, Qantas is the only airline that can offer both a domestic Australian network and an extensive international network, including through its joint services agreement with British Airways on services to Europe, and through the oneworld alliance. When bidding for corporate accounts, it bundles these two services, offering a discount on international fares if the client also books its domestic fares with Qantas. The effect of Qantas' bundling strategy is that airlines that lack either a comprehensive domestic Australia or international network are effectively excluded from successfully competing for many corporate accounts.
52. In summary, the Parties have submitted that the Proposed Alliance will allow them to:
 - i. offer an enhanced network that combines SIA's international network with Virgin Australia's domestic Australia network;
 - ii. offer potential new services and frequencies, which would otherwise not be viable, to become commercially sustainable;
 - iii. enhance their ability to offer Singapore passengers more competitive fares and choice, and their ability to compete with the Qantas-Jetstar Group, particularly for corporate and government accounts;
 - iv. leverage brand presence and home sales teams in order to achieve marketing synergies; and

- v. attract more passengers to their existing services by accessing more feed markets and stimulating demand through improved and more competitive services and products.
53. The above will, in turn, increase the revenue of each airline and create efficiencies, including through higher load factors and the elimination of double marginalisation.

LEGISLATIVE FRAMEWORK

Section 34 Prohibition

54. Section 34 of the Act prohibits agreements between undertakings, decisions by associations of undertakings or concerted practices which have as their object or effect the prevention, restriction or distortion of competition within Singapore.
55. An agreement will fall within the scope of the section 34 prohibition if it has as its object or effect the appreciable prevention, restriction or distortion of competition unless it is excluded from the section 34 prohibition. Thus, an assessment on whether an agreement infringes the section 34 prohibition requires an analysis of whether an agreement between undertakings has an anticompetitive object or actual or potential restrictive effects on competition.

COMPETITION ASSESSMENT

The relevant markets

Parties' submission

56. The Parties consider that the relevant market for the purposes of this Application is the market for the supply of international air passenger transport services between Singapore and Australia on a point-to-point basis. Given that there is no overlap in direct services provided by the Parties, the Parties do not consider the need to define the relevant market more narrowly, for example, based on whether the passengers are travelling for leisure or for business, as it would not affect the competitive assessment.
57. Further, as the Proposed Alliance does not extend to cargo services, it is not necessary to consider the Proposed Alliance in the context of markets for the air transport of cargo.

CCS' assessment

58. CCS notes that, typically, the starting point for market definition relating to the provision of scheduled air passenger transport services is the OD pair, usually a city-pair. Passengers generally want to travel to a specific destination and will not substitute another destination when faced with a small, non-transitory increase in price.

Therefore, each combination of a point of origin and a point of destination can form a separate market.⁹

59. Given that the Application specifically concerns the impact of the Proposed Alliance in Singapore, CCS will restrict its consideration and analysis of the Proposed Alliance to air passenger transport services on Singapore-Australia OD city pair routes which are covered under the scope of the Proposed Alliance.
60. CCS agrees with the Parties that it would be superfluous to define the relevant market more narrowly, given that narrower market definitions would not affect CCS' conclusion on the competitive outcomes in this case.
61. CCS also agrees that it is not necessary to consider markets in relation to the air transport of cargo, as cargo flights fall outside the scope of the Proposed Alliance.

Third party comments

62. A summary of the Application and an invitation for comments was placed on CCS' public register on 24 June 2011. The comments received by CCS indicated that key stakeholders are generally of the view that the Proposed Alliance will either be pro-competitive or competitively neutral.
63. CCS received a submission from the Australian Northern Territory Government Aviation Working Group. Insofar as is relevant to CCS' assessment, the Australian Northern Territory Government Aviation Working Group submitted that the Proposed Alliance will enhance "airline competition and consumer choice in regional Australia" and contribute to "aviation developments that are important to the Northern Territory."
64. CCS also wrote to third parties such as travel associations, key competitors of the Parties, regulators of the industry, as well as other relevant parties such as the Ministry of Transport, the Singapore Tourism Board and the Civil Aviation Authority of Singapore ("CAAS"), inviting them to comment on the Application.
65. One major customer, Vital.org which organises a large proportion of the Singapore government's travel arrangements, submitted that the Proposed Alliance will increase connectivity options for their corporate customers to fly on Australian domestic and trans-Tasman routes on Virgin Australia. They also submitted that the Proposed Alliance will bring about economic benefits for Singapore and "bring forth a healthy contribution of competition towards existing carriers flying the same routes." NATAS¹⁰ submitted that the Proposed Alliance is likely to present more options for consumers which were previously limited.

⁹ This is in line with the CCS' past decisions on similar airline cooperation agreements: Refer to CCS Grounds of Decision for cases CCS 400/002/06, CCS 400/003/06, CCS 400/008/10, and CCS 400/001/11.

¹⁰ National Association for Travel Agents Singapore

66. Further to the above, CCS also received comments on the Application from two of the Parties' competitors, Qantas and Jetstar Asia Airways (a subsidiary of Qantas). Their responses are summarised below:
- i. Qantas submitted that the Singapore-Australia routes are very competitive, and that the Proposed Alliance "will not adversely impact on the level of competition faced by all non-government subsidized carriers on these routes." They also submitted that the Australian domestic and trans-Tasman routes face intense competition, and that the Proposed Alliance "will not lessen competition on any domestic or trans-Tasman routes"; and
 - ii. Jetstar Asia was of the view that the Proposed Alliance "is unlikely to be anti-competitive".
67. The CAAS and MOT provided a joint response. They noted that SIA is not allowed under the Singapore-Australia ASA to provide domestic services in Australia, and that the "travel market between Singapore and the main cities in Australia and New Zealand is generally competitive." They submitted that the "Proposed Alliance is not likely to decrease, and may in fact enhance, competition on OD travel between Singapore and Australia."
68. They also noted that "further liberalisation of the air services framework between Singapore and Australia will benefit consumers, especially by facilitating growth in air services beyond both countries."

The Prevention, Restriction or Distortion of Competition within Singapore

Parties' submission

69. The Parties consider that the contemplated cooperation under the Proposed Alliance would not give rise to concerns in relation to the section 34 prohibition. The Parties consider that the Proposed Alliance would not have the object or effect of appreciably preventing, restricting or distorting competition within Singapore.
70. Notwithstanding this view, the Parties have identified those clauses in the Proposed Alliance below which they consider likely to be of primary interest to CCS in the context of this Application.

Clauses 5.3 and 5.4

71. The scope of the Proposed Alliance is set out within clause 5.3 of the Alliance Framework Agreement, where the Parties agree to work together to implement, *inter alia*, joint scheduling on services that include a sector between Singapore and Australia; joint marketing, distribution, sales representation and cooperation; joint/compatible service policies; and product innovation.

72. Clause 5.4 of the Alliance Framework Agreement also provides that, to the extent permissible under applicable law, the “Parties intend to implement Metal Neutral policies for any overlapping routes or new routes operated by the parties (now or in the future) and will explore mechanisms such as revenue sharing to achieve this”. The Parties do not intend to share revenue, under the notified Proposed Alliance, at this stage.
73. As the Parties do not directly operate any overlapping services at this point in time, it is not necessary to achieve metal neutrality. However, the Proposed Alliance contemplates the possible future implementation of metal neutral policies in the event that the Parties begin operating any overlapping routes in the future or agree to jointly deploy new services. Further, the Parties will put in place measures to ensure that their incentives are aligned under the Proposed Alliance such that each airline has the incentive to fully cooperate.
74. Despite the above forms of coordination, it is noted that the Parties (and the other parties to the Proposed Alliance) do not directly operate services on the same city-pair OD routes. Accordingly, the Parties consider that the proposed coordination under clauses 5.3 and 5.4 of the Alliance Framework Agreement would not be in breach of the section 34 prohibition.
75. In relation to the Singapore – Australia market, the Parties have submitted that as they are not existing competitors, the anticipated coordination under clauses 5.3 and 5.4 of the Alliance Framework Agreement would correspondingly have no adverse effect on existing competition. That said, the Parties have noted that CCS considers certain types of arrangements to always have an appreciable adverse effect on competition. However, the Parties have submitted that neither of these specified activities could be classified as having an appreciable adverse effect on competition.
76. Materially, at the point of notification, the Parties do not compete in the provision of services on the same city pair O&D routes and as such, their coordination will not have any adverse effect on competition in these markets. The Parties do operate flights that complement each other and as such, these do not act as a substitute for usual competitive pressures or outcomes. For these reasons, the Parties do not consider that the contemplated coordination under clause 5.3 would properly be considered as giving rise to an adverse competitive effect by its very nature.
77. Further to the above, the Parties are of the view that the Proposed Alliance will significantly increase the degree of competition with Qantas on the Singapore – Australia routes. Currently, only Qantas and Jetstar Airways are able to offer the combination of flying from Singapore to a hub in Australia and on to another domestic destination via a single carrier. Upon implementation of the Proposed Alliance, SIA and Virgin Australia will be strongly positioned to competitively provide seamless services to domestic Australia, thus providing a direct competitive constraint on the services provided by Qantas and Jetstar Airways.

78. In relation to the effect of the Proposed Alliance on potential competition on the Singapore - Australia route, [REDACTED]

¹¹ Accordingly, the Parties have taken the position that the anticipated coordination under clause 5.4 of the Alliance Framework Agreement would have no adverse effect on potential competition on the Singapore – Australia route.

Clause 7

79. Under clause 7.1 of the Alliance Framework Agreement, [REDACTED]

80. The [REDACTED] would not reduce choice or competition for services from Singapore to destinations within Australia. [REDACTED]

81. In fact, as a result of the Proposed Alliance, Singapore passengers travelling to Australia will, amongst other benefits, enjoy more competitive fares, more online options and better connections. This is a result of the Proposed Alliance increasing the

¹¹ [REDACTED]

¹² Currently, four full service airlines (SIA, Qantas (together with its 100% wholly owned subsidiary Jetstar Airways Pte Limited), Etihad and Emirates) operate flights between Singapore and different destinations in Australia. Low cost carrier, Tiger Airways also operates flights between Singapore and Perth.

degree of competition with Qantas which is currently the only airline that is able to provide the combination of an international flight and domestic connection for Singapore passengers that travel to domestic Australia.

82.

[REDACTED]

83. Accordingly, the Parties have considered that the Proposed Alliance would not raise barriers of, nor discourage, entry of any airline wishing to access the Parties' networks. Currently, Virgin Australia has interline arrangements with the following carriers for inbound traffic into Australia: Aerolíneas Argentinas, Aircalin, Air Austral, Air Mauritius, Air Tahiti Nui, Airlines PNG, Cathay Pacific/Dragon Air, China Southern, Emirates, Garuda Indonesia, Hawaiian Airlines, Malaysia Airlines, Qatar Airways, Royal Brunei, South African Airways, Thai Airways, Vietnam Airlines and Virgin Atlantic. Virgin Australia does not consider that the Proposed Alliance would have a material impact on any of its existing arrangements and its interest in entering into future interline arrangements with other airlines. This reinforces the point that, even in the future, there will be *no reduction* in the number of choices for Singapore travellers flying to any Australian destination.

84.

[REDACTED]

85. For the same reasons as outlined above, the Parties have not considered that the requirement will give rise to an adverse competitive effect in any relevant market.

86. Rather than having an appreciable adverse effect on competition, the Parties have considered that as a result of the Proposed Alliance, Singapore passengers travelling to Australia will, amongst other benefits, enjoy more competitive fares, more online options and better connections. As mentioned above, the Parties have submitted that this is a result of the Proposed Alliance increasing the degree of competition with Qantas which is currently the only airline that is able to provide the combination of an

international flight and domestic connection for Singapore passengers who travel to domestic Australia.

87. For the above reasons, the Parties are of the view that the restrictions imposed in clause 7 of the Alliance Framework Agreement will not give rise to any adverse competitive effect on either existing or potential competition on routes between Singapore and Australia. To the contrary, the Parties have considered that the Proposed Alliance will bring about greater competition with Qantas on the Singapore - Australia routes, leading to a pro-competitive outcome that will benefit passengers in Singapore.

CCS' assessment

The Proposed Alliance increases competition by creating new routes

88. CCS notes that the Parties do not currently operate on routes that overlap on any O&D market, nor do they have in place code-sharing or interlining agreements. SIA operates flights between Singapore and a few gateway destinations in Australia only, while the Virgin Australia Group operates domestic flights within Australia, plus international flights to a handful of destinations which do not include Singapore. Thus, the Proposed Alliance will not have the effect of reducing the number of competitors on any O&D market, as the Parties' operations do not overlap in any O&D market.

89. In addition, CCS considers that, in the absence of the Proposed Alliance, [REDACTED]
[REDACTED] In this respect, CCS notes CAAS' submission that SIA is not allowed to operate domestic flights in Australia under the Singapore-Australia ASA.¹³ [REDACTED]
[REDACTED]

14

90. CCS observes that, absent the Proposed Alliance, there are only Qantas and Jetstar that are able to offer seamless travel from Singapore to domestic destinations in Australia. Therefore, CCS is of the view that the Proposed Alliance will offer passengers another choice over such routes. This is likely to bring about pro-competitive effects.
91. CCS further notes that the Proposed Alliance will improve connectivity from Australia via Singapore to various 'behind-and-beyond' destinations in Asia. Currently, Qantas is able to offer behind-and-beyond connectivity via Singapore to various European destinations, through its alliance with British Airways. The Proposed Alliance widens the choices for Australian and Asian passengers to transit via Singapore, thus enhancing Singapore's competitiveness as an aviation hub.

¹³ See CAAS's response at paragraph 67.

¹⁴ See the Parties' submissions at paragraph 78.

92. In light of the above and specifically in this limited context, the Proposed Alliance is pro-competitive, as it creates a product which neither of the Parties could have offered independently. As there are no overlaps between the routes operated by the Parties, CCS is of the view that the Proposed Alliance will not result in a prevention, restriction, or distortion of competition within Singapore.

A plain-vanilla code-share alliance is unlikely to take place

93. CCS notes that the Proposed Alliance is not the typical, plain-vanilla type of code-share agreement between airlines around the world. CCS nonetheless notes that the Parties did not have any code-sharing relationship prior to the Proposed Alliance, and there is no evidence to suggest that the Parties are likely to enter into the plain-vanilla type of code-share agreement in the absence of the Proposed Alliance. Quite the opposite, CCS appreciates that the Parties have, in providing full and complete disclosure, stated their intention to strengthen their alliance further in the future, by contractually contemplating full metal-neutrality through revenue-sharing.

Revenue-sharing and metal neutrality

94. As set out at paragraph 39 above, the Parties have submitted that the Proposed Alliance would include the implementation of revenue-sharing arrangements and metal neutral policies along selected OD routes between Singapore and Australia. These seven OD routes are:

[REDACTED]

95. In assessing the potential competition concerns that may arise as a consequence of revenue-sharing arrangements along these seven OD routes, CCS has relied on the [REDACTED]¹⁵

96. The Parties do not currently overlap on any of the seven identified Singapore-Australia OD routes. In fact, the Parties are not operating on two of the seven OD markets

¹⁵ Refer to Appendix 1. [REDACTED]

[REDACTED] On the remaining five OD routes, CCS notes that there is currently no competition between the Parties as their services do not overlap on these routes. As such, it is likely that there will be no reduction in competition along these OD markets post-Alliance agreement.

97. Further, there is at least 1 other strong competitor (Qantas, Emirates, British Airways, Jetstar Airways) along each of the seven OD markets. This presence will act as a competitive constraint to the Parties. Revenue-sharing between the Parties along these routes could serve to intensify competition between the SIA-Virgin Australia Alliance and existing competitors along these seven OD routes.
98. Considering the above, CCS is of the view that revenue-sharing arrangements between the Parties along these seven identified OD routes is unlikely to raise any significant competition concerns.

Potential Benefits arising out of the Proposed Alliance

99. In addition to the above, CCS has also identified a number of potential benefits that are likely to be generated as consequence of the Proposed Alliance.

More choice of flights and better connections

100. Through codeshare and interline arrangements, the Parties claim that the Proposed Alliance will provide passengers with the ability to purchase online journeys across the entire international and Australian domestic networks offered by the Parties. This will immediately increase the choice of coded journey options for passengers in Singapore or passengers using Singapore as a transit point. These passengers will also have access to better connections through joint scheduling and a broader schedule on either SIA or the Virgin Australia codes. This translates into seamless connections between the points currently served by SIA and Virgin Australia in domestic Australia, the Pacific and trans-Tasman.
101. In addition, the Parties claim that in some cases, the Proposed Alliance will create online journeys which were previously unavailable on any single airline code. In other cases, the Proposed Alliance will lead to better connection times, more direct routings and ease of booking to various destinations. Where the Proposed Alliance enables the Parties to offer new services to destinations on their code (and with accompanying frequent flyer benefits) that match those already offered by competing airlines, it provides passengers with additional choices of online itinerary.
102. CCS notes that the opportunities for online connection are a significant benefit that is valued by consumers.¹⁶ Both business and leisure customers value online services for the following reasons: increased convenience; the increased likelihood of making the

¹⁶ ACCC, *Determination : Applications for authorisation lodged by Virgin Blue Airlines and Air New Zealand*, 16 December 2010, [5.82]; [5.87]

connecting flight in the event of a delay on a journey sector; the increased ability to purchase flexible fares; reduced likelihood of luggage being lost; the ability to fly on one's preferred air service brand and to accrue points and status recognition; and more competitive prices in relation to codeshare services.

Value-added services

103. As stated above, under the Proposed Alliance, the Parties' point out that their passengers will benefit from reciprocal lounge and loyalty program access, including reciprocal earn and burn of frequent flyer points and reciprocal status recognition across the entirety of the Parties' networks.
104. Such value-added services have been shown to have a significant impact on consumer satisfaction and preferences when choosing which airline to fly with. Passenger surveys consistently show that all travellers value a range of non-price factors, including network breadth and depth, frequency, loyalty programs, ease of booking and value for money. In particular, the ability to earn and burn frequent flyer points and to access lounges are key drivers of choice for corporate and government accounts.

Reinforcing Singapore's position as an air hub

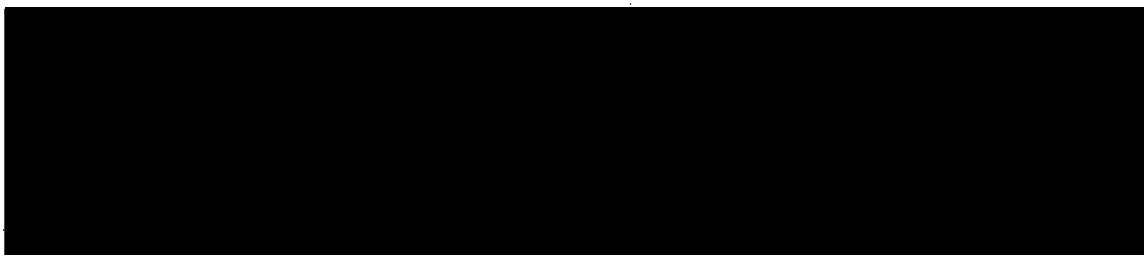
105. The Parties argue that the Proposed Alliance will reinforce Singapore's status as a vibrant air hub with improved connectivity to Australia as well as stimulate international tourism to Singapore.
106. In terms of international tourism, the Parties claim that there is likely to be an increase in the number of Australian tourists who will visit Singapore (specifically or via a stopover) as the result of the additional flight options to/from domestic Australia, more competitive fares, improved connectivity and the joint international marketing efforts by the Parties under the Proposed Alliance.

Other benefits

107. Further to the above, CCS notes that the Proposed Alliance is likely to bring about an increased promotion of competition for corporate and government accounts; expected new frequencies and potential new routes; and increased passenger traffic to and through Singapore.

Other issues

108.



[REDACTED] As such, CCS is satisfied that this arrangement is highly unlikely to lead to any appreciable effect on competition.

Conclusion

109. In conclusion, CCS takes the view that the Proposed Alliance will strengthen competition on the Singapore-Australia OD city-pair routes. It will bring about pro-competitive benefits to Singapore by creating additional routes and thereby widening passengers' choices.

CCS' DECISION ON THE PARTIES' APPLICATION

110. Based on the foregoing, the CCS concludes that the Parties' Proposed Alliance will not result in a prevention, restriction or distortion of competition within Singapore, and thus does not infringe the section 34 prohibition.

111. For completeness, Section 46 of the Act provides that, if CCS has determined an application under section 44 by making a decision that the agreement has not infringed the section 34 prohibition, CCS shall take no further action with respect to the notified agreement unless:

- i. It has reasonable grounds for believing that there has been a material change of circumstance since it gave its decision; or
- ii. It has reasonable grounds for suspecting that the information on which it based its decision was incomplete, false or misleading in a material particular.

112. To this end, factors which the CCS may consider as material changes of circumstance include, but are not limited to, the following:

- i. changes in parties to the Proposed Alliance;
- ii. changes in the operations of the Parties which have a significant impact on the Singapore market;
- iii. a reduction in the number of competing carriers in the respective point-to-point routes for the scheduled passenger air transport market;
- iv. the implementation of the Proposed Alliance on any new overlapping routes by the Parties, save for those OD routes identified at paragraph 94 above;
- v. the implementation of revenue-sharing and metal neutral policies, save for those OD routes identified at paragraph 94 above;
- vi. the implementation of revenue-sharing and metal neutral policies for those OD routes identified at paragraph 94 above based on principles that are materially different from that envisaged at paragraph 40 above; and

vii. the amendment of the Proposed Alliance to a plain-vanilla type code-sharing arrangement between the Parties.

113. The Parties are required to provide to CCS details of any changes as set out in paragraph 112, [REDACTED]



Yena Lim
Chief Executive
Competition Commission of Singapore

Appendix 1

Number of Passengers and Estimated Market Share on the Seven Selected Origin-Destination Markets from Singapore to cities in Australia.

Dom AI							
	Estimated share	Estimated share	Estimated share	Estimated share	Estimated share	Estimated share	Estimated share
3K: Jetstar Asia Airways							
BA: British Airways							
EK: Emirates							
JQ: Jetstar Airways							
MH: Malaysia Airlines							
QF: Qantas Airways							
QZ: Indonesia AirAsia							
SQ: Singapore Airlines							
TR: Tiger Airways							
VA: Virgin Australia							
Grand Total							

Source: