AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Airline competition in Australia

Report 9: September 2022

accc.gov.au

Australian Competition and Consumer Commission
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ACCC 06/22_22-36

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Glossary

ABS	Australian Bureau of Statistics
BITRE	Bureau of Infrastructure and Transport Research Economics
CCA	*Competition and Consumer Act 2010* (Cth)
FIFO	Fly-in, fly-out. Refers to people who fly to their workplace (often for a week or 2 at a time), then fly back home
Larger city	Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra or the Gold Coast
LCC	Low-cost carrier
Load factor	The proportion of aircraft seats with passengers
Qantas	Qantas domestic passenger airlines that include Qantas Domestic and QantasLink airlines
Qantas Group	Qantas Domestic, QantasLink and Jetstar Domestic airlines
RANS	Regional Airline Network Support. An Australian Government program introduced in response to COVID-19 to fund a minimum number of flights on key regional routes
Regional	Domestic locations other than Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast
Slot	A permission which enables an airline to schedule a landing or departure at a particular airport during a specific time period
Virgin	Virgin domestic passenger airlines that include Virgin Australia and Virgin Australia Regional Airlines. Virgin operated Tigerair until March 2020
Wet lease	An arrangement whereby a lessor supplies aircraft, crew and maintenance to an airline

Key industry insights and developments

As more passengers flew, operational challenges led to an increase in cancelled and delayed flights

4.7 million passengers travelled in July 2022, the highest since early 2020. The aviation industry struggled to meet this demand due to workforce shortages and ill staff. The airline industry reported its worst on-time performance with half of flights arriving late while 6.4% of flights were cancelled.

Strong demand and reduced capacity led to fuller planes

Flights were fuller than usual, with 82% of seats filled in July 2022, compared with 79% pre-pandemic. Planes were over 90% full on many routes, in particular to northern Australia destinations including Cairns, the Gold Coast and Darwin.

Airfares rose as airlines reduced flight schedules and sought to recover high fuel costs

After discount economy airfares hit an 11-year low in April 2022, they have since increased 56% to August, reaching their highest point since late 2020. High jet fuel costs and decisions to cut capacity are putting upward pressure on airfares.

Airlines reported further losses in 2021–22 annual results

Both Qantas and Rex recently reported financial losses due to the impact of Delta and Omicron variants of COVID-19 and high jet fuel costs. The airlines are confident in the outlook for the industry in 2022–23.

ACCC has preliminary concerns with Qantas buying Alliance Airlines

The ACCC's preliminary view is that Qantas' proposed acquisition of Alliance Airlines may or is likely to substantially lessen competition in a number of airline services. This includes air transport services to corporate customers to and from regional and remote resource locations in Queensland and/or Western Australia.

Overview

4.7 million passengers flew domestically in July 2022, more than any other month since the pandemic first impacted the aviation industry in early 2020. This was 89% of the number of passengers who flew at the same time of year pre-pandemic in 2019, though in June the relative passenger recovery reached as high as 97%.

Travel to Queensland was particularly popular in July as consumers escaped colder parts of the country over winter. More passengers travelled between the Gold Coast and each of Canberra, Melbourne and Adelaide in July 2022 compared with pre-COVID-19 (July 2019).

While a positive sign for the market's recovery, the aviation industry was not well placed for the return of passengers. Reduced workforces, high levels of staff illness and extreme weather events led to significant operational challenges across the aviation supply chain.

In July 2022 the domestic airline industry reported the worst on-time performance on record as well as cancellation rates over 3 times the long-term average. Half of all domestic flights arrived late in July, while the airlines cancelled 6.4% of all scheduled domestic flights. Rex performed significantly better than other airlines in terms of both punctuality and rate of cancellations, which the airline attributed to keeping its staff despite reduced flying in the last 2 years.

Social media was inundated with complaints from consumers about their travel experiences. For some, the complaints related to long queues at security or poor communication from the airlines. For others, there were missed connecting flights, missed events, holidays cut short, lost baggage, and in some cases, nights spent sleeping in airports when flights were cancelled and last-minute accommodation wasn't available.

Airlines have advised that performance has started to improve as the country comes out of winter spikes in COVID-19 and the flu, along with the recruitment of more staff. Airlines have also temporarily reduced their scheduled capacity to better match the industry's capability. The reductions in capacity were in addition to similar announcements made by the airlines earlier in the year in response to high jet fuel prices.

The combination of high demand and reduced capacity meant the industry-wide load factor, or the proportion of seats that are filled, increased to 82% in July 2022. This compared with 79% pre-pandemic. Several routes to northern Australia had more than 90% of seats filled, including routes to Cairns, the Gold Coast and Darwin.

Growing demand for domestic travel, high jet fuel prices and reduced passenger capacity have resulted in higher airfares. The cheapest discount airfares hit their highest point in 20 months in August. They increased by 56% after falling to an 11-year low in April 2022. Business airfares rose by 17% between June and August, also ending an extended period of relatively cheap tickets.

Pre-pandemic capacity should return over the coming months as airlines and airports continue to recruit staff and rebuild their capabilities.

New low-cost carrier Bonza is aiming to launch as soon as late September 2022, subject to regulatory approvals. Bonza's entry will increase connectivity and choice for consumers in Queensland, New South Wales and Victoria. Bonza acquired its first Boeing 737 MAX 8 aircraft, based at Bonza's Sunshine Coast Airport hub.

Qantas, Virgin and Rex increased their market shares slightly over the 3 months to July 2022, winning passengers from Jetstar. Jetstar carried 23% of all domestic passengers, down from 28% in April 2022. Qantas carried 39% of passengers in July, compared to 33% for Virgin and 5% for Rex. Qantas and its subsidiary Jetstar combined carried 62%, slightly less than in April.

The ACCC has raised preliminary competition concerns about Qantas' proposal to acquire the remaining shares in Alliance Airlines after Qantas acquired a 19.9% stake in February 2019. The ACCC's preliminary view is that the proposed acquisition is likely to substantially lessen competition for the supply of air transport services to corporate customers to and from regional and remote resource locations in Queensland and/or Western Australia, and in the supply of regular public transport services on the Brisbane – Moranbah route, by removing Alliance as a close competitor to Qantas. In addition, the ACCC is concerned that the proposed acquisition may substantially lessen competition for the supply of regular public transport services in various regional areas or routes by removing Alliance as a supplier of aircraft wet-leasing services.

1. Introduction

The Australian Competition and Consumer Commission (ACCC) is an independent Commonwealth statutory agency that promotes competition, fair trading and product safety for the benefit of consumers, businesses and the Australian community. The primary responsibilities of the ACCC are to enforce compliance with the competition, consumer protection, fair trading and product safety provisions of the *Competition and Consumer Act 2010* (Cth) (CCA), regulate national infrastructure and undertake market studies.

This is the ACCC's ninth report on its findings from monitoring domestic air passenger transport services.

On 19 June 2020 the former Treasurer issued a direction to the ACCC under subsection 95ZE(1) of the CCA to monitor prices, costs and profits relating to the supply of domestic air passenger transport services.

The direction requires the ACCC to report on its monitoring at least once every quarter. The direction is for a period of 3 years. In announcing the direction, the former Treasurer stated that the ACCC's monitoring will assist in protecting competition in the sector for the benefit of all Australian airline travellers.[1] The former Treasurer also said that the reporting role and focus by the ACCC would provide another avenue for those wishing to raise concerns about anti-competitive conduct in the sector.

The ACCC's monitoring and reporting on the domestic airline industry is separate, but related, to its enforcement of competition law under Part IV of the CCA. We will prioritise investigations about anti-competitive agreements and practices, and the misuse of market power. We will consider enforcement action where we form the view that conduct is likely to breach the CCA.

The ACCC may find that the level of competition within the industry is diminishing and/or identify anti-competitive behaviour that falls short of thresholds for enforcement action. We will recommend potential policy options to government should there be signs that competition is not effective.

Under the direction, the ACCC can compel information from industry participants. We have established arrangements to collect monthly and quarterly data from the Qantas Group (including Jetstar), Virgin and Rex. These airline groups supply the vast majority of regular domestic air passenger services in Australia. We also seek qualitative information from the airlines from time to time, such as Board papers about company strategy.

The ACCC's first report published in September 2020 contains further information about our approach to the monitoring direction and potential investigations.[2]

While the industry continues to recover and respond to the impacts of COVID-19, things can change very quickly. As a result, there may be recent industry developments at the time of publication that are not captured in this report.

1 The Hon. Josh Frydenberg MP (the Treasurer), *ACCC directed to monitor domestic air passenger services* [media release], 19 June 2020, accessed 21 November 2021.

2 ACCC, *Airline competition in Australia – September 2020 report*, 17 September 2020.

2. Industry developments

2.1 Airlines navigate challenges and opportunities as passengers return

4.7 million domestic air passengers travelled in July 2022, the highest number since the pandemic first impacted the aviation industry in early 2020. The industry was not well placed for this uptick in demand however, as reduced workforces, in addition to temporary staff absences from COVID-19 and other illness, led to significant operational challenges. This is discussed further in chapter 4.

Having previously scaled back capacity forecasts earlier in the year in response to high jet fuel costs, the airlines reduced their scheduled capacities even further over July–September 2022 to manage staff shortages. The Qantas Group recently announced that it expects to fly 95% of pre-pandemic capacity in the second half of 2022, and 106% in the first half of 2023.[3]

High jet fuel costs and further capacity cuts have put upward pressure on airfares. Domestic discount fares reported in August were the highest since December 2020 (see section 3.6). Data from online travel agencies suggest that the cost of international travel has increased even more significantly over the last few months.[4] While international airfares are increasing in part due to the same factors affecting domestic airfares, such as high fuel prices and reduced capacity, there is also less competition than usual. There were 43 airlines offering international passenger services to and from Australia in June 2022, compared to 57 airlines pre-pandemic (June 2019).[5] Many carriers have permanently exited or are not currently operating services to and from Australia due to restrictions in their home country, with China a notable example.

Leisure demand once again led the recovery in passenger numbers over the last few months. Demand for corporate and business travel was also starting to recover prior to the recent peak in COVID-19, flu and other illness over winter. Qantas reported that revenue from business travel reached 90% of pre-pandemic levels over April–June 2022.[6]

Buoyed by the strong demand for flying generally, Rex acquired its seventh Boeing 737 aircraft in August for servicing of its intercity route network which includes Brisbane, Melbourne and Sydney. Rex reported that load factors on its intercity routes have improved, reaching 86% in July. Rex also flagged its intention to secure 2 further jet aircraft later this year and launch a Frequent Flyer program in the coming months.[7] By introducing a frequent flyer program, Rex is seeking to compete more strongly with Qantas and Virgin and build customer loyalty.

After exiting some regional routes following the end of the government's Regional Airline Network Support (RANS) program, in August Rex entered Melbourne – Devonport in competition with Qantas and expanded capacity on 11 regional routes in New South Wales, Victoria and South Australia. Rex stated the move marked a significant turning point where Rex will only operate on densely patronised regional routes where load factors and yield will be much more favourable.[8]

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3 Qantas, *Qantas Group posts third major loss from pandemic, strong recovery underway* [media release], 25 August 2022, accessed 25 August 2022.

4 Bakan, S, The New Daily, 'It's nuts': War and understaffing pushes up airfares – with no end in sight, 27 July 2022, accessed 16 August 2022.

5 BITRE, Australian Government, '*International Airline Activity monthly airline performance – June 2022*', accessed 25 August 2022.

6 Qantas. *Qantas Group posts third major loss from pandemic, strong recovery underway* [media release], 25 August 2022, accessed 25 August 2022.

7 Rex, *Rex's profit guidance following sterling start to new FY* [ASX release], 2 August 2022, accessed 2 August 2022.

8 Rex, *Rex's massive expansion of regional services* [media release], 15 June 2022; Welch, M, Port Lincoln Times, 'Rex Airlines have increased flights from Port Lincoln to Adelaide', 22 August 2022, accessed 22 August 2022.

Virgin also recently announced an expansion in its fleet. In August it said that it would receive an additional 4 Boeing 737 MAX 8 aircraft with delivery in the second half of 2023. The aircraft are in addition to the 4 announced in April 2022 and will take its Boeing 737 fleet to 92, an increase of nearly 60% since relaunching in November 2020.[9]

New low-cost carrier Bonza is aiming to launch in late September or early October 2022, subject to regulatory approvals. Bonza is predominantly launching routes not currently served by any other airline, increasing connectivity for regional communities in Queensland, New South Wales and Victoria. Bonza's entry onto contested routes will provide more choice and add competitive pressure on airfares. Bonza acquired its first Boeing 737 MAX 8 aircraft, based at Bonza's Sunshine Coast Airport hub. Bonza will initially fly 5 aircraft out of its Sunshine Coast and Melbourne airport hubs but hopes to increase to 8 aircraft in its first year of operations.[10]

2.2 Airlines post another year of losses but flag optimistic outlook

Despite posting significant statutory losses in their 2021–22 financial results, the airlines reported strong growth in revenues towards the end of the financial year.[11] Further, they are optimistic financial performance will continue to improve in 2022–23.

Qantas Airways reported a $1.2 billion statutory loss before tax, and a $1.9 billion underlying loss before tax, for the 2021–22 financial year. This result captures performance across the whole business, including international and domestic flying (including Jetstar), freight and the loyalty program. This result is Qantas Airways' third consecutive loss of over $1 billion. This reflects the border closures and uncertainty caused by COVID-19 variants that dominated most of the financial year. However, Qantas noted significant improvements in financial performance over April–June 2022 when travel demand reached its highest and most sustained level since the pandemic began.[12]

Qantas Airways reported a 54% increase in total revenue to $9.1 billion in 2021–22. Qantas Domestic (comprising Qantas and QantasLink) made $3.4 billion in revenue in 2021–22, up 26% from the previous year ($2.7 billion). Revenue from the Jetstar Group, which includes domestic and international performance, increased 26% to $1.4 billion. Qantas Airways also reported an improvement in net debt from a peak of $6.4 billion at the height of the pandemic to $3.9 billion at the end of 2021–22.[13]

Rex reported a $68.3 million statutory loss before tax for the 2021–22 financial year. The loss was larger than that incurred the previous year ($7.2 million) in part due to a significant fall in government funding and high fuel costs. Total revenue increased 25% to $319 million, reflecting improvements in both passenger revenue (up 84% to $230.5 million) and charter revenue (up 52% to $47.1 million).[14]

Rex expects improved financial performance over the current financial year. For July 2022 Rex reported passenger revenue on its regional routes was almost equal to pre-COVID-19 levels, while passenger revenue on its intercity routes was almost double the monthly average 3 months prior. Rex stated that bookings were strong in August, increasing 50% in one week compared with the same period in July. Rex ascribed the improvement in performance to a number of recent agreements with travel agencies, including Flight Centre, that launched from July 2022.[15]

9 Virgin, *Virgin Australia expands Boeing 737 MAX 8 fleet and secures access to full-flight simulator in Perth* [media release], 24 August 2022, accessed 24 August 2022.

10 Chillingworth, B, The Northern Daily Leader, 'Tamworth flights: budget airline Bonza still trying to tick regulatory boxes for a take-off from Tamworth airport', 25 August 2022, accessed 26 August 2022.

11 Virgin is not publicly listed and provides its financial results to ASIC on a different schedule to the other airlines.

12 Qantas, 'Qantas Group FY22 appendix 4E and preliminary final report', 25 August 2022; Qantas. *Qantas Group posts third major loss from pandemic, strong recovery underway* [media release], 25 August 2022, accessed 25 August 2022.

13 ibid.

14 Rex, 'Regional Express Holdings Limited Appendix 4E preliminary final report for the year ended 30 June 2022', 24 August 2022, accessed 25 August 2022.

15 Rex, *Rex's profit guidance following sterling start to new FY* [ASX release], 2 August 2022; Rex, *Rex announced FY22 full year results* [ASX release], 24 August 2022, accessed 24 August 2022.

Rex is also set to purchase 100% of National Jet Express, the regional services arm of Cobham Aviation, subject to approval from the Foreign Investment Review Board (FIRB). National Jet Express operates fly-in, fly-out (FIFO) services in Western Australia and South Australia and freight services in some states. In announcing the acquisition, Rex's Deputy Chair John Sharp said that FIFO provided a more stable revenue base compared with regular passenger services, with the mining industry in particular presenting a great opportunity for growth.[16]

Alliance Airlines reported an underlying profit before tax of $45.3 million in 2021–22 (down $5.7 million) and a statutory loss before tax of $7.1m. While Alliance continued to earn most of its revenue through contract services to mining companies, much of the growth in revenue (up 16% to $367.5 million) was due to a significant expansion in its wet lease operations, in which it leases out aircraft and crew to other airlines. Alliance expects the growth in wet lease revenue to continue in 2022–23 with clients Qantas and Virgin requesting additional capacity as soon as it becomes available.[17]

2.3 ACCC has preliminary competition concerns with Qantas' proposed acquisition of Alliance Airlines

The ACCC has raised preliminary competition concerns with Qantas' proposal to acquire the remaining shares in Alliance Airlines after Qantas previously acquired a 19.9% stake in February 2019.

In a statement of issues paper released in August 2022, the ACCC said that its preliminary view was that the proposed acquisition is likely to substantially lessen competition for the supply of air transport services to corporate customers to and from regional and remote resource locations in Queensland and/or Western Australia.[18] The proposed acquisition would combine 2 of the top 3 providers of these services in those areas.

The proposed acquisition would also remove Alliance as the only competitor to Qantas on the Brisbane – Moranbah regular public transport route.

The ACCC is also considering how the removal of Alliance's aircraft leasing services would impact the ability of current and new entrants to compete against Qantas on regional routes.

Alliance's fleet primarily comprises medium sized jet aircraft with 50 to 100 seats. Alliance specialises in the provision of private charter services to corporate customers as well as some limited regular public transport services. As mentioned above, Alliance also offers aircraft leasing and associated services to other airline customers such as Qantas and Virgin. It has bases in Brisbane, Townsville, Cairns and Perth among others.

The ACCC is assessing whether the acquisition would be in breach of section 50 of the *Competition and Consumer Act 2010*. In general terms, section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.

16 Baird, L, Australian Financial Review, 'Rex eyes growth with $48m purchase of Cobham FIFO unit', 15 July 2022, accessed 20 July 2022.

17 Alliance Airlines, 'Annual report for the year ended 30 June 2022', 10 August 2022 accessed 10 August 2022.

18 ACCC, *Statement of Issues: Qantas Airways Limited – proposed acquisition of Alliance Aviation Services Ltd*, 18 August 2022.

2.4 Most of the rules requiring airlines to use their allocated slots at Sydney Airport have now been reinstated

The Minister for Infrastructure, the Hon Catherine King MP, has reinstated most of the requirements on airlines to use their allocated take-off and landing slots at Sydney Airport in the latest Ministerial direction.[19] This is in response to the recovery in both domestic and international flying over the last few months.

Slot management at Sydney Airport is governed by legislation. In normal circumstances, airlines are required to use each of their slots 80% of the time if they wish to retain them for the following slot season. However, in response to the impacts of COVID-19 on the industry, the previous Minister provided certain waivers from the slot usage requirements by way of Ministerial directions.

Under the new direction, which relates to the next Northern Winter slot season running from 30 October 2022 to 25 March 2023, domestic airlines will no longer receive any exemption from the slot usage rules. This means that they will need to use their slots 80% of the time in order to keep them in future, up from the 70% requirement which applies for the current slot season.

The new direction's rules for international airlines differ according to whether the relevant overseas country has significant COVID-19 travel restrictions. Airlines flying to and from a 'closed' country will continue to receive a full waiver from the slot usage requirements. Airlines flying to and from 'open' countries will now need to use their slots at least 70% of the time to retain historical precedence over those slots in future.

The Ministerial direction also contains a protection mechanism to ensure that, in the event that international airlines hand back their allocated slots or lose them under the usage requirements, they will remain available for international services in future seasons. In the interim, if there are surplus slots which were previously used for international slots, those can be allocated for domestic use but a domestic airline will not be able to secure historical precedence over those slots. This mechanism is to preserve the presence of international services at Sydney Airport despite a slower recovery in activity compared to domestic services.

At capacity-constrained Sydney Airport, new and expanding airlines can find it very difficult to obtain slots at peak periods, which in turn acts as a barrier to entry and expansion, limiting competition. Access to slots will remain an issue in future even when Western Sydney Airport is operational because most passengers and airlines are likely to continue to strongly preference Sydney Airport for its proximity to the city.

The ACCC is engaging with the Department of Infrastructure, Transport, Regional Development, Communications and the Arts following its review of the demand management scheme at Sydney Airport.[20] In particular, we consider that historic precedence to slot allocations can have an adverse impact on competition by preventing new and expanding airlines from accessing slots, particularly at peak times.

The ACCC has been participating in industry working groups organised by the Department which are giving more detailed consideration to the recommendations from the review.

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19 King, C (Minister for Infrastructure, Transport, Regional Development and Local Government), *Minister's Directions to the Slot Manager 2022 (No. 3)*, August 2022.

20 Department of Infrastructure, Transport, Regional Development and Communications, 'Review of the Sydney Airport Demand Management Scheme', accessed 5 August 2022.

3. Key industry metrics and analysis

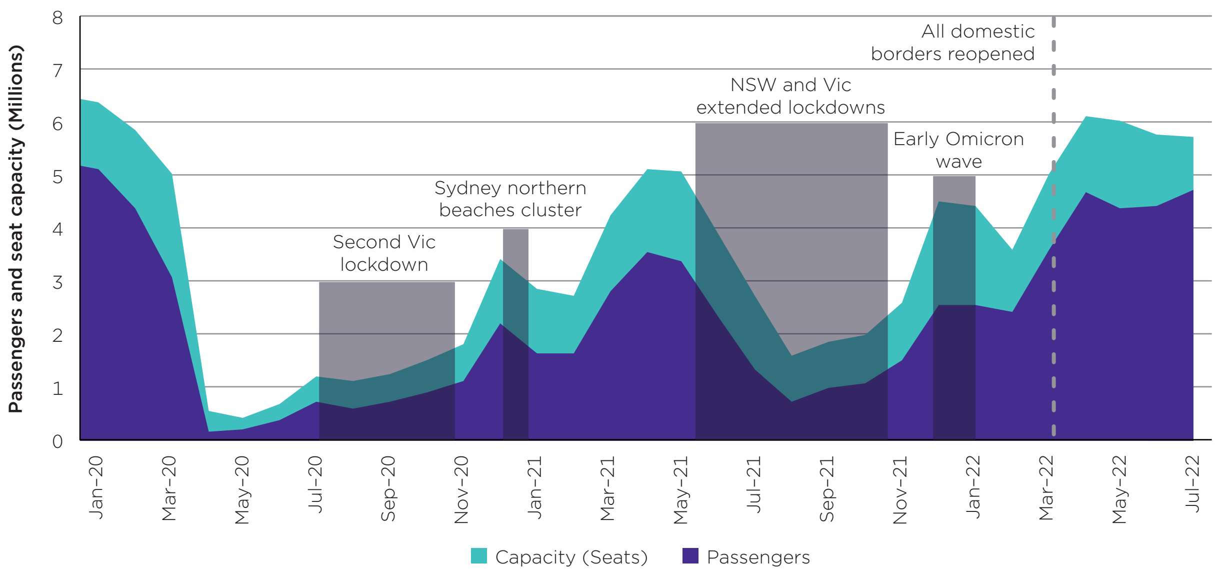
This chapter presents analysis of key industry metrics. Unless specified otherwise, we calculate these metrics from data supplied to the ACCC from the Qantas Group (consisting of Qantas and Jetstar), Virgin and Rex on a monthly and quarterly basis. The chapter contains 2 parts:

- Sections 3.1 to 3.5 cover the state of the airline industry up to July 2022.
- Section 3.6 analyses trends in airfares up to August 2022.

3.1 More domestic passengers flew in July than any other month since the pandemic began

The domestic airline industry carried 4.7 million passengers in July 2022, marking a new high since the pandemic first impacted the industry in early 2020 (see figure 1). July 2022 was the fourth consecutive month with more than 4 million passengers flying, representing notable stability for an industry that has endured regular interruptions in recent years.

Figure 1: Australian domestic air services – January 2020 to July 2022



Source: BITRE, Australian domestic airline activity; data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Despite the high number of passengers, the July 2022 figure only represented 89% of the number of passengers who flew at that time of year in 2019, prior to the pandemic. This was the same as the recovery levels reached in April 2022, but below the recent high in June 2022, which saw passenger numbers reach 97% of pre-COVID-19 levels.

Figure 1 also shows that in contrast to passenger numbers, the capacity offered by the domestic airlines has reduced in each of the last 3 months. The level of capacity peaked in April 2022 at 6.1 million seats before falling to 5.7 million seats in July 2022. While airlines have taken steps to recruit additional staff, the recent increase in flight cancellations and lower on-time performance suggests the industry is not yet capable of handling such high levels of demand (see chapter 4).

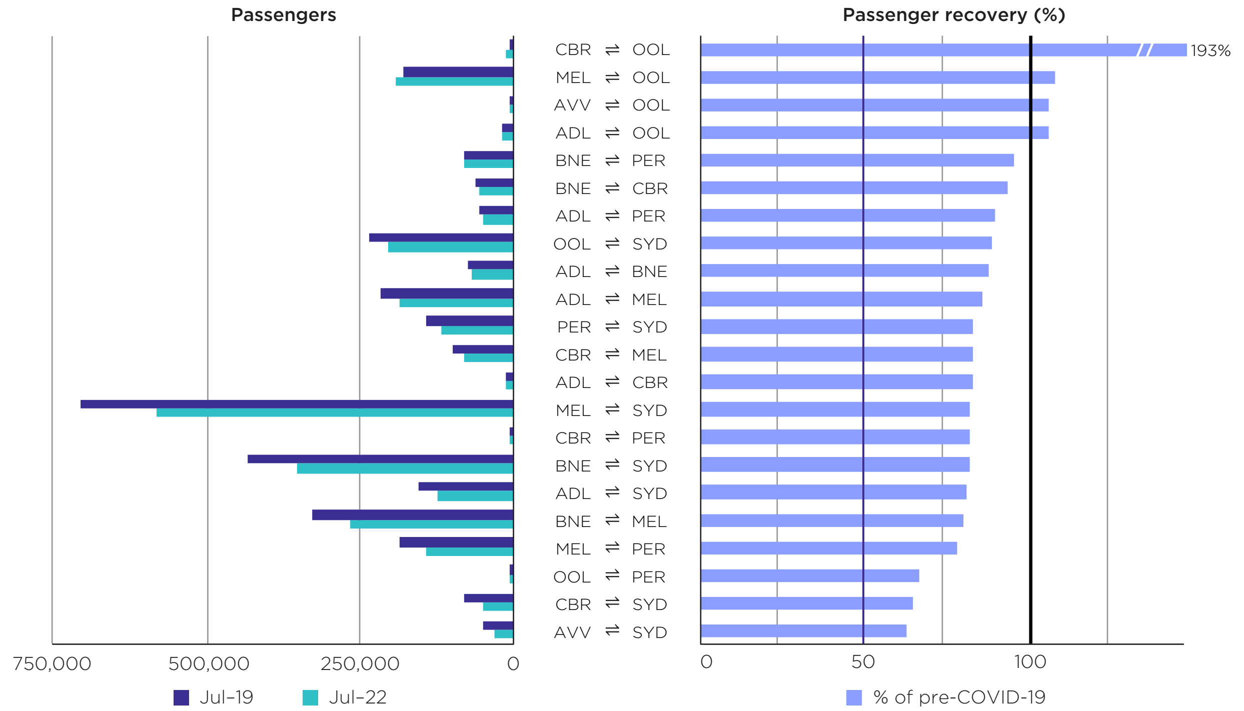
3.2 Flights to and from northern Australia were particularly full

The combination of strong travel demand and falling capacity resulted in the industry-wide load factor (i.e. the proportion of seats filled by passengers) increasing to 82% in July 2022. This is the highest level recorded since the pandemic began and is above that recorded pre-pandemic in July 2019 (79%).

There were 22 routes with a load factor above 90% in July 2022, compared to only 6 in July 2019. All but one of the 22 routes with more than 90% of seats filled were to destinations in the northern regions of Australia, as travellers escaped the southern winter climate. These were mostly interstate routes from larger cities to popular tourist destinations including Cairns, the Gold Coast and Darwin. Many Gold Coast routes carried more passengers than before the pandemic.

The popularity of travel to northern Australia can also be seen in figure 2 which ranks the routes connecting larger cities by their level of passenger recovery in July 2022 relative to pre-COVID-19. All 4 routes that have exceeded their July 2019 passenger levels were between southern cities and the Gold Coast, while the next 2 most recovered routes were to and from Brisbane.

Figure 2: Passenger numbers on routes connecting larger cities – July 2022 relative to July 2019



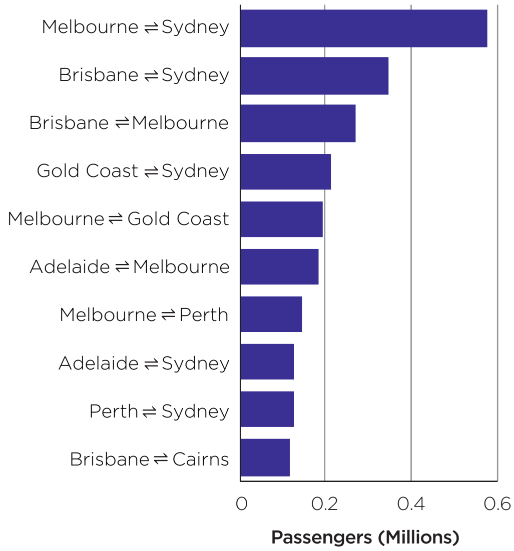
Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

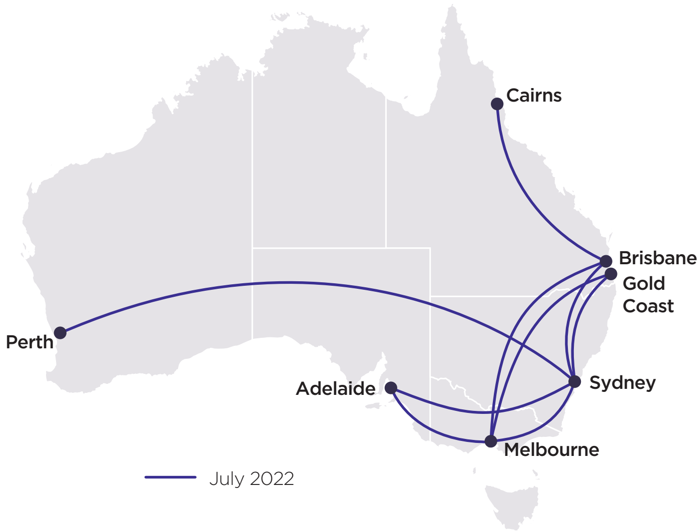
Note: ADL – Adelaide, AVV – Avalon, BNE – Brisbane, CBR – Canberra, MEL – Melbourne, OOL – Gold Coast, PER – Perth, SYD – Sydney; Virgin data for 2019 includes data for Tigerair.

The 3 largest routes in Australia – those connecting Brisbane, Melbourne and Sydney – are lagging in their recovery compared to other routes connecting larger cities. All 3 are in the bottom 40% of these larger city routes in terms of recovery. This may reflect the greater significance of business travel to these routes, with demand for business travel returning more slowly than leisure travel.

Figure 3 shows the number of passengers on the 10 busiest routes in Australia in July 2022. Melbourne – Sydney was the busiest route with 578,000 passengers, representing 12% of all domestic passengers in the country. Both the composition and distribution of the chart now largely resembles that from before the pandemic. In comparison to July 2019, the only difference in composition of the 10 busiest routes is the inclusion of Brisbane – Cairns instead of Hobart – Melbourne.

Figure 3: Busiest routes by monthly passengers – July 2022





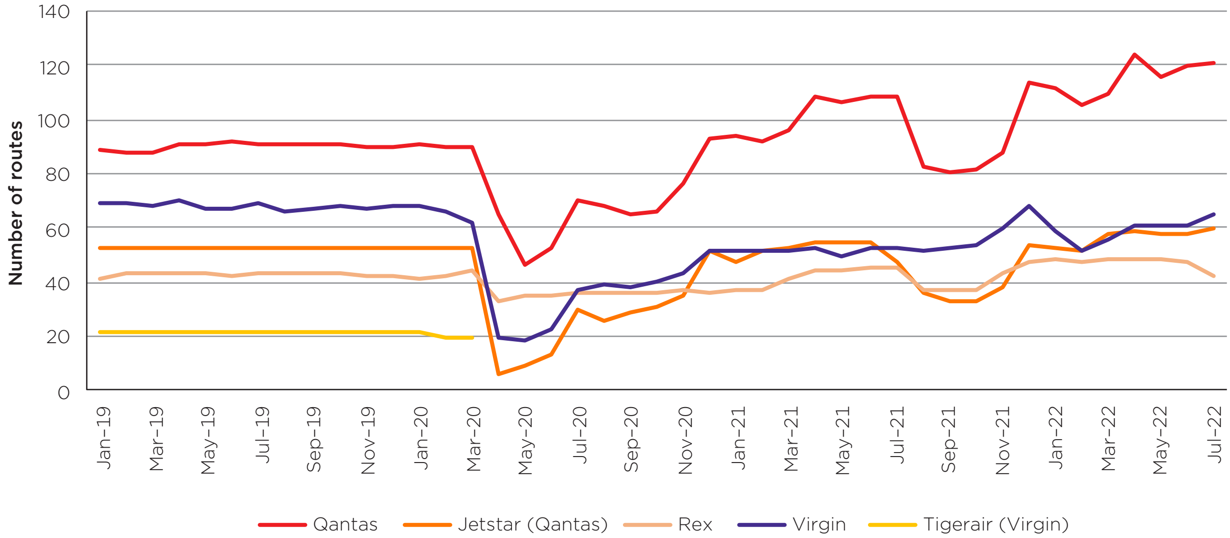
Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

3.3 Australian domestic network has stabilised after a dynamic 2 years

There were 159 domestic routes in operation in Australia in July 2022. The size of the domestic network had been progressively recovering since early-to-mid 2020 when the only routes in operation were those supported by government funding for essential travel. The domestic network stabilised after reaching 160 routes in April 2022, a similar number of routes and level of connectivity for consumers to that which existed prior to the pandemic.[21]

While the overall number of routes was relatively stable, individual airlines continued to modify their networks amid staff shortages and high fuel costs (see figure 4).

Figure 4: Number of domestic routes operated by airlines – January 2019 to July 2022



Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.
Note: Select multi-hop routes are treated as a single route.

21 The April 2022 figure differs from that reported in the ACCC Airline Competition in Australia report (June 2022) due to a revision in the methodology for calculating the total number of routes.

Qantas continued to operate the largest domestic network by far in July 2022 with 121 routes. The Qantas network now greatly exceeds the number of routes it generally operated in 2019, although its routes fell by 3 since April 2022. One of Qantas' recent exits resulted in the cessation of any direct service between Alice Springs and Perth as no other airline services the route. Qantas also exited several leisure routes since April which were largely already serviced by Jetstar. Qantas launched Adelaide – Albury and Brisbane – Cooma in July, both of which are winter seasonal routes for servicing the snow resorts.

Virgin serviced 65 routes in July, which was 4 more than in April. It resumed services linking larger cities to northern destinations including Cairns, Darwin and Townsville using its Boeing 737 aircraft.

Qantas' subsidiary Jetstar increased its network slightly to 60 routes after it entered Canberra – Melbourne route in July.

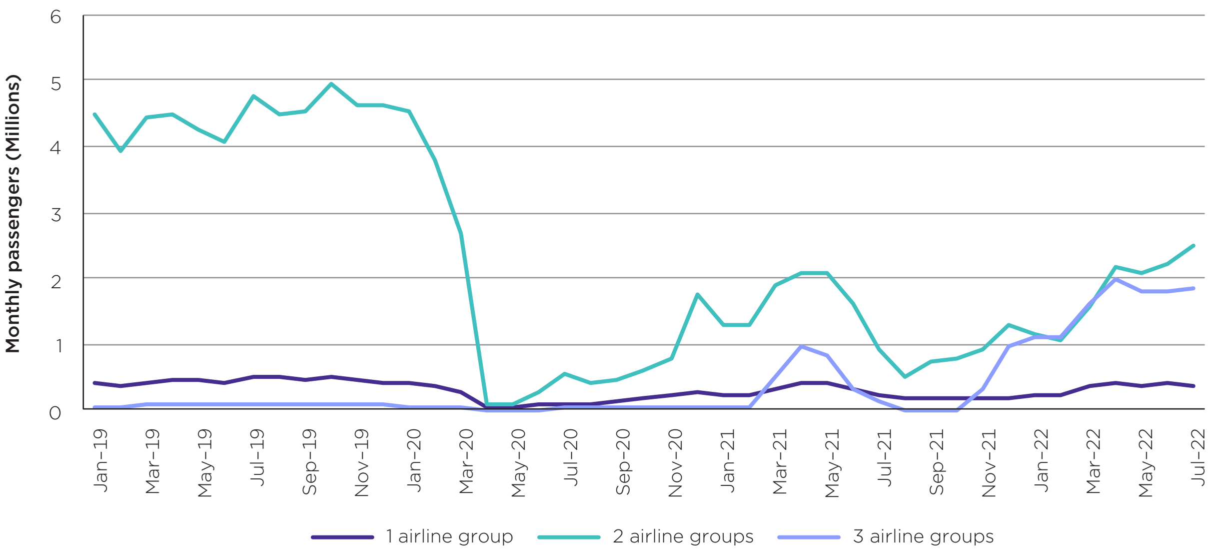
Rex serviced 42 routes in July, 6 less than in April 2022, consistent with Rex's public comments that it will prioritise services on better performing routes. For example, Rex exited 3 of its sole operator routes in June: Cooma – Sydney, Bathurst – Sydney, and the Sydney – Lismore – Grafton multi-hop route. It also exited Canberra – Sydney in late May 2022 following the return of Virgin to the route earlier in the year. Rex has used the additional capacity freed up by these exits to significantly increase the frequency of flights to and from other regional locations.

3.4 The proportion of passengers flying on routes with a choice of 3 competing airline groups fell slightly

Passengers benefit from extra choice and more attractive pricing on routes with more competing airline groups. With Rex's entry onto some major intercity routes since early 2021, more consumers are travelling on routes with direct competition between the 3 main airline groups (Qantas/Jetstar, Virgin and Rex) than prior to the pandemic.

The proportion of passengers travelling on routes serviced by all 3 airline groups reached as high as 46% in March 2022 but has since decreased to 40% in July 2022 (see figure 5). This was due to Rex and Virgin exiting routes served by 3 airline groups. Conversely, the number of passengers travelling on routes with 2 airline groups increased to 52%.

Figure 5: Number of passengers on routes serviced by 1, 2 and 3 airline groups – January 2019 to July 2022



Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Note: The 3 airline groups are Qantas Group (including Jetstar), Virgin (including Tigerair) and Rex.

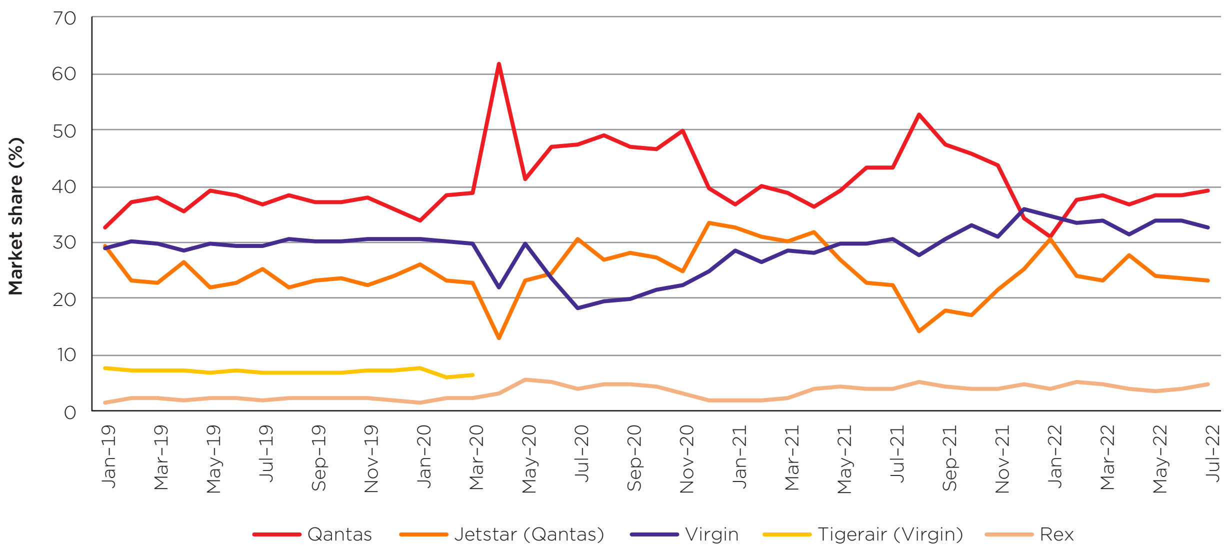
The 3 routes to lose their third competing airline group were Coffs Harbour – Sydney after Virgin exited in March 2022, Canberra – Sydney after Rex exited in May 2022, and Ballina – Sydney following Rex's exit in June 2022. These routes carried the least number of passengers of the routes that had been served by 3 airlines group in March 2022.

Illustrating the importance of competition, following Rex's exit from Canberra – Sydney, Virgin increased its cheapest one-way available economy fare from $119 to around $185. This was closer to Qantas' economy fare of around $220 for a one-way departure in late July 2022. Rex had previously increased its fare by $20 to $119 in December 2021 before exiting in late May 2022.[22]

3.5 Jetstar's passenger market share has fallen since a spike in the Easter holiday period

Passenger market shares have become relatively stable in 2022 after 2 years of fluctuations caused by travel restrictions and changing traffic patterns (figure 6). The most notable change in recent months was a reduction in Jetstar's market share from 28% in April to 23% in July. The budget leisure airline's market share generally increased during school holidays pre-pandemic. While both April and July were months with school holidays, the chart shows that Jetstar did not see a similar boost in passengers in July 2022 as it had historically and in April 2022. This is in part due to Jetstar's relatively larger reduction in capacity compared to the other airlines in July.[23]

Figure 6: Airline passenger market shares across all domestic routes – January 2019 to July 2022



Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Qantas' market share increased slightly from 37% in April to 39% in July 2022, which was its highest share for 2022. However, Jetstar's loss of market share has resulted in the Qantas Group overall losing market share during this period to Virgin and Rex. The Qantas Group share fell from 65% in April 2022 to 62% in July 2022.

Rex's share increased to 5% in July 2022 despite it exiting several routes during the period. The airline experienced an overall growth in passenger numbers, particularly on routes connecting larger cities. Rex also increased services on 11 routes connecting larger cities to regional locations in July 2022. Rex has since noted it will 'only operate on densely patronized regional routes where the load factors and yields will be much more favourable.'[24]

22 Based on observations made 1 week in advance for departures between December 2021 and July 2022.

23 Based on ACCC observations between April and July 2022; CAPA – Centre for Aviation, accessed 25 August 2022.

24 Welch, M, Port Lincoln Times, 'Rex Airlines have increased flights from Port Lincoln to Adelaide', 22 August 2022, accessed 22 August 2022.

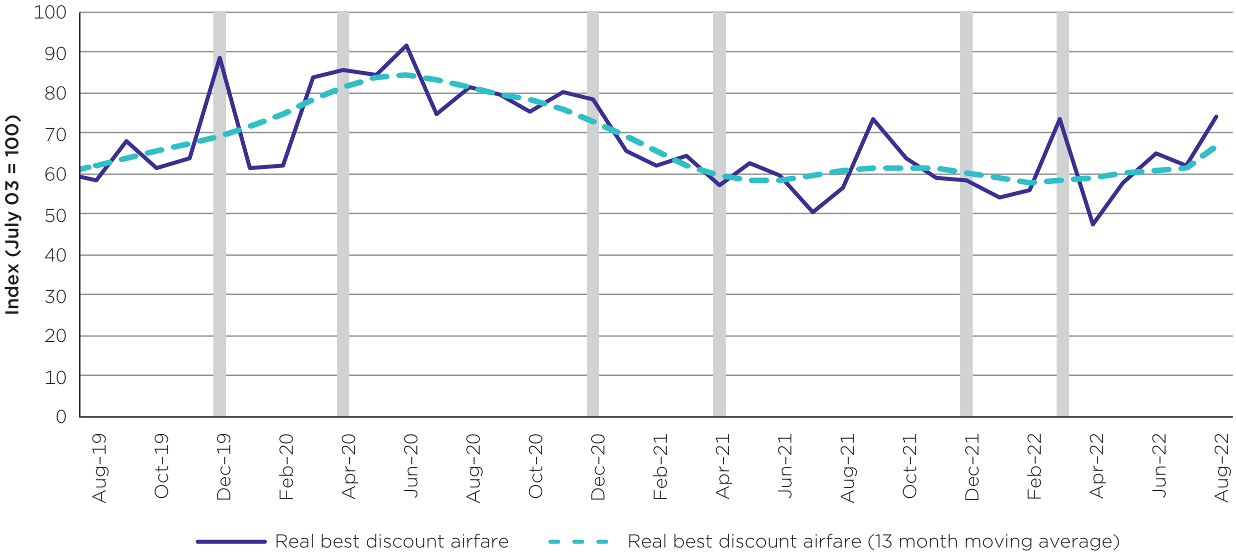
Virgin's market share of 33% in July 2022 was an improvement of 1 percentage point from April. Despite Virgin increasing its market share, it ceased being the brand with the largest market share on routes connecting larger cities. Virgin's share of these larger city routes was as high as 39% in June before decreasing to 37% in July, which was slightly below that of Qantas in July (38%). Rex's share of the larger city routes was 5% in July 2022, its highest since expanding into these routes from early 2021.

3.6 Airfares have increased as airlines reduce capacity and face high jet fuel prices

Domestic airfares have been rising in recent months in response to growing demand for travel, high jet fuel prices and reduced capacity. This upwards trend is anticipated to continue at least until October due to reduced capacity in response to major on-going workforce challenges.

Figure 7 shows the change in the price index representing the cheapest discount airfares, weighted across the 70 busiest domestic routes. The price index compares changes in airfares relative to July 2003 (100 on the price index).

Figure 7: Price index of cheapest discount airfares weighted across 70 busiest domestic routes – August 2019 to August 2022



Source: ACCC analysis of BITRE data on domestic discount airfares (cheapest available fare).

Note: Grey bars indicate December and Easter holiday periods.

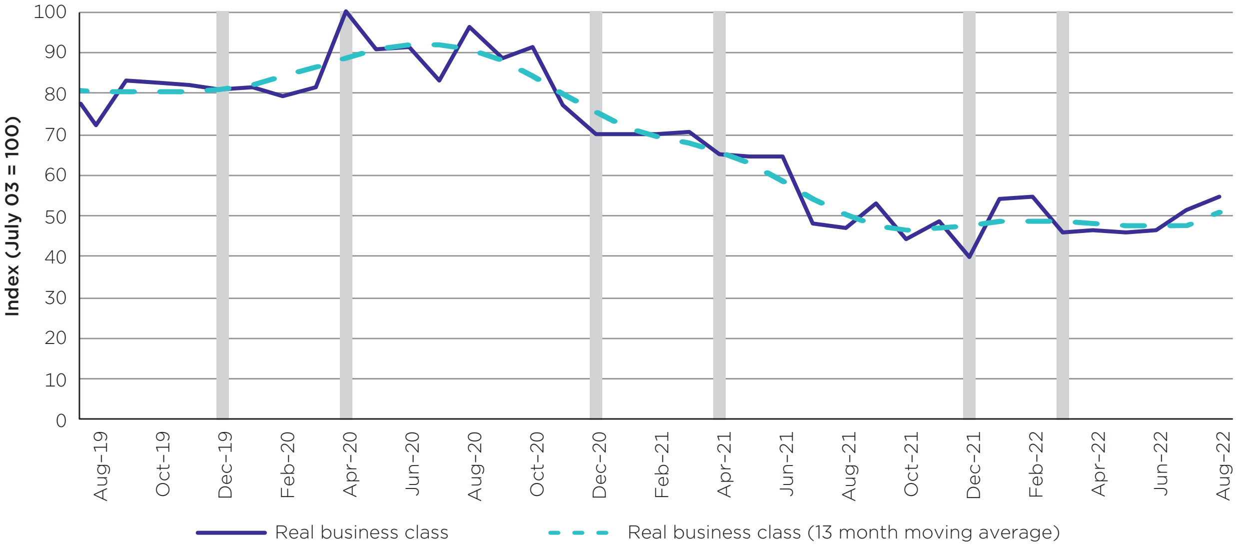
The price index fell to an 11-year low of 47.5 in late April 2022 as demand temporarily eased after the Easter break. Since then, the combination of high jet fuel prices, increased demand and falling capacity has resulted in the index increasing to 73.8 in August 2022, representing a rise of 56% over 4 months.

The ACCC has observed that certain routes have seen larger increases than others. From April 2022, the cheapest economy fares for both Qantas and Virgin have doubled on Adelaide to Alice Springs. Significant increases were also observed for Adelaide to and from the Gold Coast and Darwin. Routes to the Gold Coast from Cairns, Newcastle and Melbourne also saw an increase.[25]

Business airfares have also started to increase after remaining very low for the last 12 months. Figure 8 shows that the price index for the cheapest business class airfares has been below 50 for most of 2022, with business travel recovering more slowly than leisure. However, the index increased by 17% in 2 months recording 54.5 in August.

25 Based on observations made 2 weeks in advance about departures between April and July 2022.

Figure 8: Price index of cheapest business class airfares weighted across 70 busiest domestic routes – August 2019 to August 2022

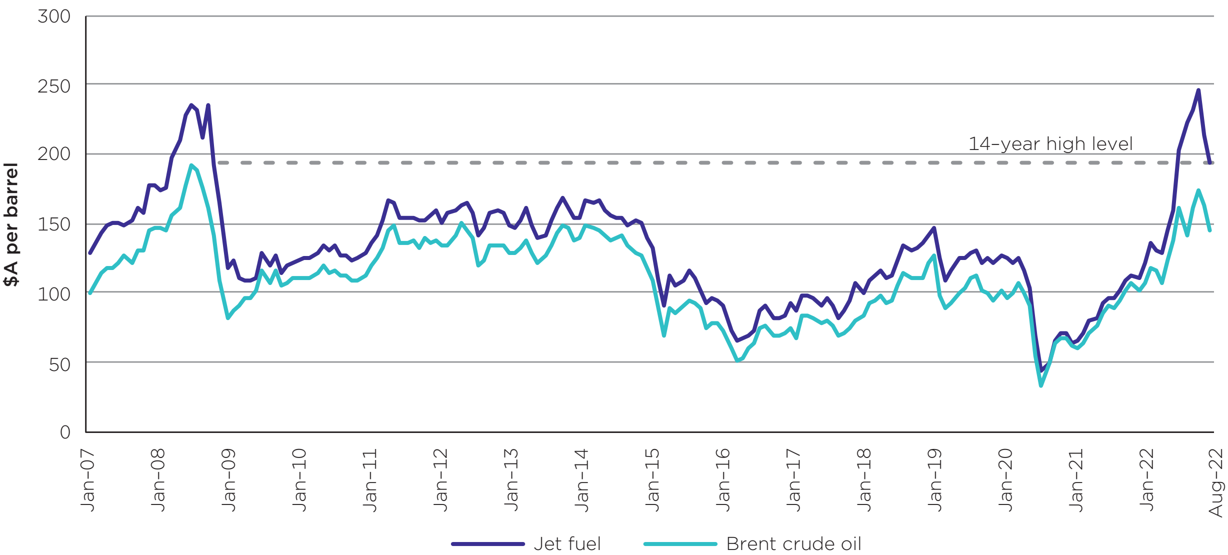


Source: ACCC analysis of BITRE data on domestic business class discount airfares (cheapest available fare).

Note: Grey bars indicate December and Easter holiday periods.

Airfares continue to be impacted by the price of jet fuel as a significant operating expense for airlines. The price of jet fuel has been very high throughout 2022 due to growing worldwide demand as travel recovers and the war in Ukraine pushes up the price of crude oil. Figure 9 shows that the price of jet fuel remains very high but has retreated from its peak in June. The refining margin between jet fuel and Brent crude oil prices have decreased from $80 per barrel in April to $49 in August.

Figure 9: Real jet fuel and Brent crude oil prices – January 2007 to August 2022



Source: ACCC calculations using ABS, RBA and US EIA data.

Note: US Gulf Coast Jet Fuel prices converted into current Australian dollar terms. The price an airline pays for jet fuel will also vary depending on the ports to which its aircraft operate and the respective region-specific jet fuel benchmarks. The latest month of data is to 22 August 2022.

4. Flight cancellations, delays and missing baggage

While the demand for domestic travel has increased in recent months, the aviation industry has not been well placed for it. Consumers have taken to social media in large numbers to express frustrations at cancelled flights, delays and missing baggage, particularly over the mid-year school holiday period. These frustrations are supported by industry data which shows that airlines performed at some of the lowest service levels since records began.

This chapter explores:

- the impact of this disruption to travellers
- cancellations and on-time performance recorded by the airlines
- reasons for the problems
- when the situation may return to normal
- rights of consumers when things go wrong.

4.1 Consumers frustrated as cancellations and delays disrupt plans

For many consumers, long awaited travel fell short of expectations due to cancellations, delays and lost baggage.

Passengers took to social media to share their experiences and frustrations. Passengers reported missing flights after arriving at the airport and finding queues at security screening that filled the terminal hall and continued outside the building. A high proportion of flights were delayed, causing extended waits at the airport and leading to many passengers missing connecting flights, including international flights to destinations not serviced by another flight for days.

For some passengers, this news only came through once they were at the airport. In a few cases, flights were cancelled after passengers had already been seated on the plane and were awaiting take-off.

When passengers were rebooked on a new flight after a cancellation, there was often a delay of hours or days before the replacement flight was scheduled to depart. This was due to the increased demand and reduced capacity on flights which meant there were fewer seats available on flights to accommodate these additional passengers.

As a result, many passengers missed social or work events, missed connecting flights, or had their holiday shortened. Some reported having to pay for expensive last-minute accommodation or alternative flights. Hundreds of passengers were forced to stay in airports overnight where there was no last-minute accommodation available.[26]

Many people reported being unsatisfied with the level of service provided by the airlines when something went wrong. Some passengers expressed frustration at the lack of information, such as updates about when a delayed flight might finally depart, or what they should do for last minute accommodation following a late-night cancelled flight. Other passengers reported very long wait times for airline call centres.

While public criticism extended to Jetstar and Virgin, as well as certain airports, the criticism was most predominantly directed towards Qantas. Comments suggested that many people held higher expectations for performance from Qantas because of its typically higher airfares, brand reputation, and the way that the airline promotes itself as representing Australia overseas.

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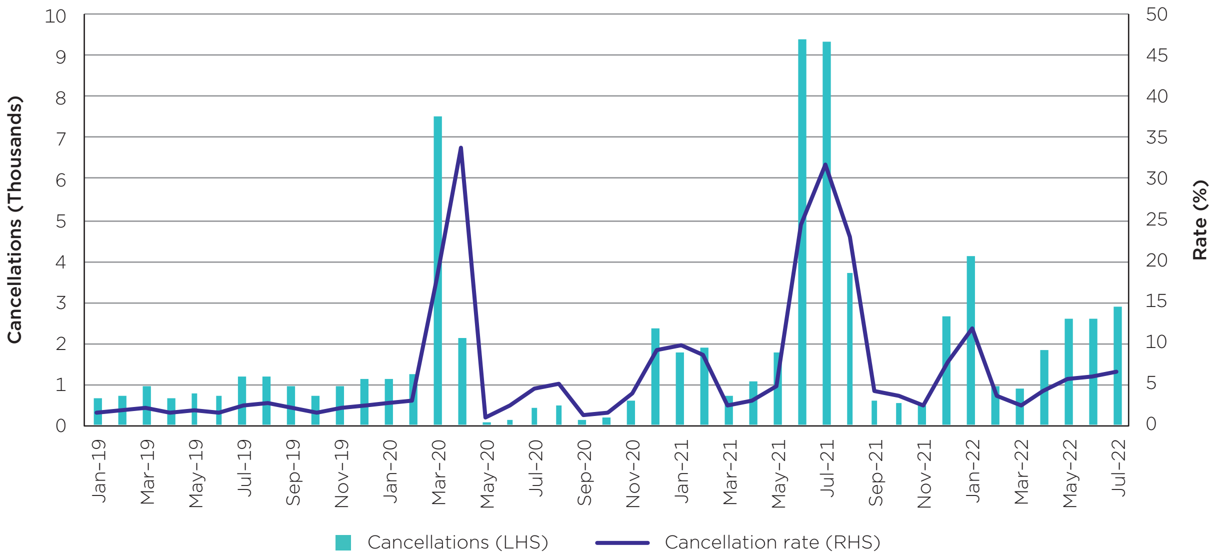
26 ABC, 'Stranded and paying $1700 a night: Perth family scrambles to find accommodation in Darwin after Qantas cancels flight', 19 July 2022, accessed 20 July 2022; Ironside, R, The Daily Telegraph, 'The Qantas battle: What's happened to our national airline?', 15 July 2022, accessed 15 July 2022.

4.2 High cancellations and on-time performance worst on record as passengers return

Figure 10 shows that over 2,800 flights were cancelled in July 2022. This was 6.4% of scheduled flights, more than 3 times the long-term average of 2.1%.[27]

Figure 10: Monthly flight cancellation numbers and rate – January 2019 to July 2022



Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Note: 2019 figures exclude Tigerair.

Cancellation rates were significantly higher following Australia's first lock down (peaking at 33.7% in April 2020) and throughout 2021 as snap state and territory lockdowns and border closures led to several last-minute flight cancellations. However, overall, the number of cancellations peaked in June 2021 at 9,400.

Scheduled flights are only now returning to pre-pandemic levels. The number of scheduled flights reached 96% of pre-pandemic levels in July 2022. Further, due to the increase in passengers, cancellations over the last few months have affected more consumers. 4.7 million passengers travelled in July 2022 compared with 133,000 in April 2020 and 2.3 million in June 2021 during these previous peaks.

Rex has consistently been the best performer and cancelled only 2.1% of its flights in July 2022. In comparison, Jetstar cancelled 8.8%, Virgin 7.7% and Qantas 6.2%. Rex has attributed its superior performance to its decision to hold onto staff during the pandemic.[28] This benefit has also extended to ground handling services which Rex largely supplies itself. Being a smaller airline, Rex also benefited from managing significantly fewer scheduled services compared with the other airlines, as well as having a relatively simpler network structure.

There were several reports of higher cancellation rates during peak travel days and at larger airports. During the first week of the New South Wales, Western Australian and Australian Capital Territory school holidays (4–10 July), Virgin cancelled 14.7% of flights and Qantas cancelled 6.7%.[29] On the last day of these school holidays, Virgin cancelled up to one in 5 flights out of Sydney.[30]

27 A flight is defined as 'cancelled' if it has been removed from service within 7 days of its scheduled departure.

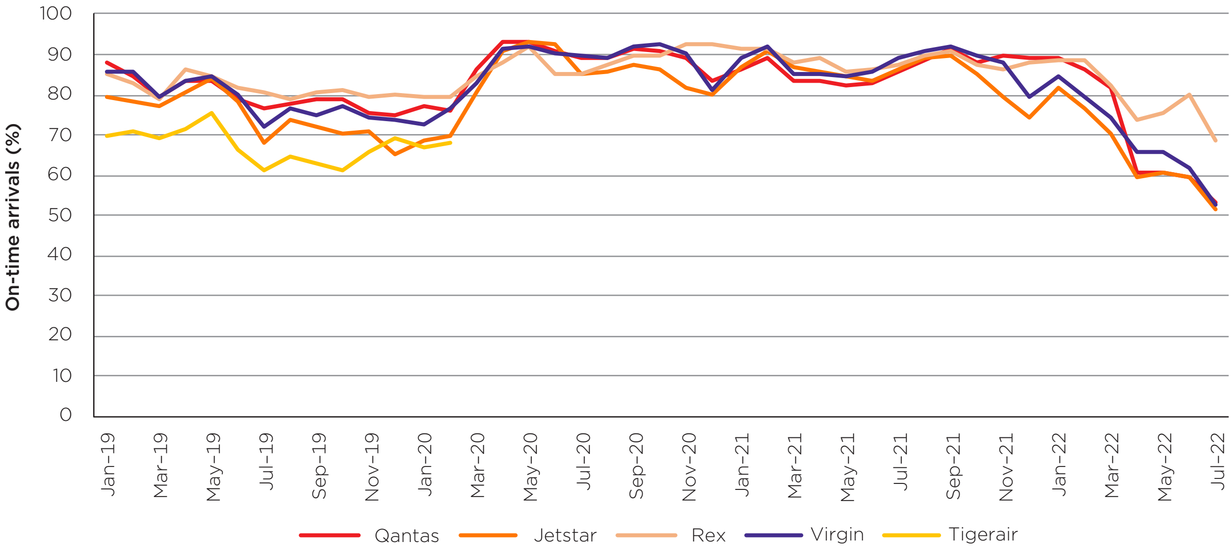
28 Baird, L, Australian Financial Review, 'Rex capitalises on delays and cancellations at Qantas, Virgin', 2 August 2022, accessed 31 August 2022.

29 Zimmerman, J, The West Australian, 'Holiday travel: Huge cancellations put Qantas, Virgin Australia on track for worst ever monthly performances', 13 July 2022, accessed 5 August 2022.

30 Ironside, R, The Australian, 'Virgin delays 'something truly wonderful' for second time', 20 July 2022, accessed 5 August 2022.

On-time performance was the worst on record in July 2022. Figure 11 shows that industry on-time arrival rates have been declining since March 2022. Just 55% of flights arrived on-time in July 2022, significantly worse than the long-term average of 81.9%.[31]

Figure 11: Monthly on-time arrival rates by airline – January 2019 to July 2022



Source: BITRE, Domestic on time performance; Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Again, Rex performed better than the rest of the industry. In July, 68.3% of Rex's flights arrived on-time, though this was Rex's lowest result on record. Only 51.5% of Jetstar's flights arrived on-time in July, compared with Virgin's 52.5% and Qantas' 53.0%.

Table 1 shows the cancellation and on-time arrival rates on the top 10 busiest domestic routes in July 2022. Reflecting the higher number of scheduled services, Melbourne – Sydney saw the highest rate of cancellations at 13.9% (587 cancelled flights).

Table 1: Cancellation and on-time arrival rates on top 10 busiest routes – July 2022 and July 2019

	July 2022		July 2019	
Route	**Cancellation rate (%)**	**On-time arrivals (%)**	**Cancellation rate (%)**	**On-time arrivals (%)**
MEL ⇌ SYD	13.9	48.7	9.4	64.6
BNE ⇌ SYD	10.7	49.3	2.1	74.6
BNE ⇌ MEL	7.5	49.2	1.9	64.5
OOL ⇌ SYD	7.8	51.8	2.8	71.1
MEL ⇌ OOL	9.5	54.1	1.8	61.3
ADL ⇌ MEL	5.7	57.2	1.9	67.4
MEL ⇌ PER	3.9	46.1	0.9	65.1
ADL ⇌ SYD	8.6	42.6	1.7	73.7
PER ⇌ SYD	4.5	40.0	0.8	71.5
BNE ⇌ CNS	2.2	49.4	2.2	83.9

Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Note: ADL – Adelaide, BNE – Brisbane, CNS – Cairns, MEL – Melbourne, OOL – Gold Coast, PER – Perth, SYD – Sydney; figures are aggregated at the route level (two-way); 2019 figures exclude Tigerair.

31 A flight arrival is defined as 'on-time' if it arrives before 15 minutes after the scheduled arrival time shown in the airline's schedule. Neither diverted nor cancelled flights count as 'on-time'.

Comparing 665 airports globally for airline on-time performance at their airports, aviation analytics firm OAG found Melbourne and Sydney Airports were ranked some of the worst in the world, at 631st and 597th respectively.[32]

Cancellation performance declined the most on Brisbane – Sydney, with the cancellation rate increasing by 8.6 percentage points compared with pre-pandemic levels.

Individual airline cancellation rates were worse again on particular routes. Virgin cancelled 18% (18 flights) on Ballina – Sydney, Qantas 17.4% (24 flights) on Launceston – Melbourne, Jetstar 15% (6 flights) on Gold Coast – Perth, and Rex 11.3% (18 flights) on Parkes – Sydney.

There was a record number of 19,026 arrival delays in July 2022, a 63% decline in on-time arrival performance since pre-COVID-19 (July 2019).

Of the top 10 busiest routes, on-time arrival performance declined the most on Brisbane – Cairns, with the number of on-time arrivals decreasing by 34.5 percentage points, followed by Perth – Sydney (31.5) and Adelaide – Sydney (31.2).

Individual airlines reported poorer performance on specific routes. Jetstar performed worst on Cairns – Perth with 31 of 32 flights arriving late, Virgin on Alice Springs – Brisbane (15 of 16 flights), Qantas on Alice Springs – Sydney (54 of 62 flights) and Rex again on Parkes – Sydney (96 out of 160 flights).

4.3 Many travellers reported delayed or missing bags

Over the last few months there have been extensive reports of airlines misplacing baggage. Some passengers reported that their luggage did not arrive at their destination on time, while others reported that their bags could not ultimately be located by the airline.

Airlines do not typically report their performance in delivering bags to their intended destination. In its 2021–22 annual results, Qantas reported that it was averaging between 10 and 12 'disrupted bags' per 1,000 between April 2022 and July 2022.[33] This compares to an average of 5 disrupted bags per 1,000 in 2019–20.

Airport technology firm SITA reports on the rates of mishandled baggage from a global perspective. It reported that the rate of mishandled bags was 4.35 per 1,000 passengers in 2021.[34] This was better than the 5.60 reported for 2019.

SITA reported that the rate of mishandled bags has been steadily reducing for many years. This rate was 18.88 per 1,000 passengers in 2007.[35] SITA also reported that a bag is almost 5 times more likely to be mishandled on an international flight than a domestic flight. This is because the most common reason for a mishandled bag is flight transfer.

4.4 The aviation industry has struggled to meet demand

The increase in cancellations, delays and missing bags shows that the aviation industry has struggled to meet the level of demand.

The reasons for this are varied and affect all aspects of the industry, including airlines, ground handlers, airport security and air traffic controllers. The industry normally runs in a synchronised manner, getting people and their bags where they want to go effectively. However, problems in one part of that service chain can quickly worsen pressures felt in other parts. Disruptions that arise in relation to one flight can have a cascading impact throughout the network. A cancellation or delay can lead to an aircraft or crew members not being available at their scheduled destination for their next flight, generating multiple disruptions throughout the network.

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32 Ironside, R, The Australian, 'Strike action looming at already chaotic airports', 25 July 2022, accessed 11 August 2022.

33 Qantas, 'FY22 Results Presentation', 25 August 2022, accessed 25 August 2022

34 SITA, 2022 Baggage IT Insights, June 2022, accessed 30 June 2022.

35 ibid.

Other issues have not helped, such as weather events across a number of airports, a malfunctioning security scanner in Sydney, a power outage at Perth, and an IT system outage for Qantas.

Aviation companies have less staff

A key reason for the problems is that airlines, airports and other companies in the aviation industry are operating with smaller workforces than in the past. With severely reduced levels of flying for over 2 years, many of these companies shed staff and encouraged early retirements to reduce operating expenses and stay afloat financially.

Aviation companies have been actively looking to increase their workforces in recent months. Sydney Airport hosted a recruitment day in June with more than 5,000 vacancies across 800 organisations. In July Qantas said that more than 1,000 operational crew members had been recruited since Easter, hundreds of additional call centre staff had been employed, and its ground handling suppliers had increased staff levels by 15% since the school holidays.[36]

However, recruitment has not been easy. Many sectors across the economy have struggled to fill vacancies with a low national unemployment rate. Some potential staff have also chosen work in other fields which may be able to offer working from home and which are less vulnerable to shut down from a possible new COVID-19 variant. Many positions within the industry naturally take time to be filled due to the need for security checks or training. The operational challenges within the industry have also not helped staff retention. Even in late July, Sydney Airport said that security staff numbers were still 20–30% less than needed.[37]

The Transport Workers Union has linked the operational challenges faced by Qantas to the airline's decision to outsource some ground handling operations.[38] In early 2021 Qantas outsourced ground handling at the 10 Australian airports where it was still doing this role, including Adelaide, Brisbane and Melbourne. Qantas refuted the union's claims, saying that the changes had been implemented before Easter 2021 and the airline didn't have the performance issues then that it had at Easter 2022.[39]

Not all aviation companies significantly reduced their workforce during the pandemic. As mentioned, Rex has attributed its superior performance over recent months to its decision to keep its staff, although some were temporarily stood down.

Many staff have been unavailable due to sickness, often at short notice

The aviation industry workforce has been affected by the inflated rates of sickness across the Australian community. Throughout the year, Australia has reported some of the highest per capita rates of COVID-19 cases worldwide. At the same time, reported cases of the seasonal flu have been above average, with May 2022 being the highest on record.

Airlines have reported staff absences due to sickness have been double their normal rates. Qantas said in July that staff sickness was the main reason for the airline's increase in delays and cancellations.[40] Airlines have sought to increase the number of staff on standby rosters, but these rosters have quickly been exhausted. At times, airlines have asked head office staff to help out at airports for tasks such as handing out water, managing queues and helping in the bag room.

36 Qantas, *Qantas and Jetstar gear up for the end of NSW, ACT and WA school holidays* [media release], 15 July 2022, accessed 15 July 2022.

37 Rolfe J, Geelong Advertiser, 'Sydney Airport: Qantas and Virgin Australia flights delays and cancellations as Swissport splashes cash', 29 July 2022, accessed 29 July 2022.

38 Transport Workers Union (TWU), *Survey: 47% of illegally axed Qantas workers are still without a permanent job* [media release], 21 June 2022, accessed 22 July 2022.

39 Qantas, *Qantas op-ed: Explaining what's happening with air travel right now* [media release], 17 July 2022, accessed 17 July 2022.

40 Peterson, O, 6PR news talk, 'Airport chaos: Qantas braces for another huge weekend of travel', 15 July 2022, accessed 9 August 2022.

Demand for flying has returned to pre-COVID-19 levels

Meanwhile, passengers have sought to fly again after 2 years of travel restrictions. Domestic passenger numbers have been near their 2019 levels over the last few months. Passenger numbers were even higher during school holidays. Pressure on the aviation industry has been highest at the peak travel times at either end of a weekend, particularly Fridays.

The level of disruption within the industry suggests that at least some airlines have made capacity decisions based on this high demand, rather than the capability of themselves or their aviation partners to meet that demand. This occurred even though problems were beginning to arise earlier in the year.

Problems experienced by Australian passengers have occurred worldwide

Airlines and airports around the world have also been reporting spikes in delays, cancellations and mishandled baggage as they also seek to expand their workforces to meet growing demand.

In the Netherlands, almost one in 10 flights (9.7%) were cancelled in a week in February 2022. Weekly cancellation rates have been as high as 8.3% in the United States and 5.6% in the United Kingdom.[41]

Some airports have imposed caps on the number of flights to reduce the load on under-resourced workforces, particularly ground handlers. In July 2022 Heathrow Airport in the United Kingdom chose to limit its maximum number of daily passengers over summer to 100,000.[42]

British Airways has cancelled or removed nearly 30,000 short-haul flights out of its April to October schedule this year.[43] Icelandair was sending baggage handlers as additional crew members on all flights to Schiphol Airport to help with staffing problems.[44]

4.5 Challenges to remain for some time

While the worst of the problems are likely behind us, travellers should still be prepared for some disruption until after the Christmas holiday period.

Airlines have advised the ACCC that they are already seeing improved performance. A key aspect of this improved performance has been falling rates of sickness as the country comes out of winter spikes for both COVID-19 and the flu. The airlines have also reduced their schedules to better match the capability of the industry.

However, it is going to take the industry well into 2023 before workforce levels are where they need to be across the aviation supply chain. Recruitment will likely remain a challenge with vacancies in other parts of the economy, and it will take time for new recruits to be trained to meet regulated standards. Furthermore, another challenge may be emerging with respect to industrial action, with tensions emerging throughout many parts of the industry in relation to pay and conditions.

In this environment, reliability and good customer service may become growing points of competition between the airlines. An airline that schedules a realistic number of flights based on their level of staffing, has a well-resourced call centre, and transparent and fair compensation policies on their website, has the opportunity to win new customers. In this regard, Rex's Deputy Chair John Sharp has said that Rex experienced an influx of passengers recently as a result of outperforming its rivals on on-time performance and cancellations.[45]

41 Grant, J, 'Cancellations settling across Europe as airline capacity cuts kick in', OAG blog, 11 July 2022, accessed 29 July 2022.

42 Heathrow, 'Heathrow imposes capacity cap to secure better, more reliable summer journeys' [media release], 12 July 2022, accessed 29 July 2022.

43 Austin, K, BBC, 'British Airways to cancel 10,300 more flights', 6 July 2022, accessed 29 July 2022.

44 Mehta, D, 'Crazy: Icelandair's Amsterdam flights now carry their own baggage handlers', 12 July 2022, accessed 29 July 2022.

45 Baird, L, Australian Financial Review, 'Rex capitalised on delays and cancellations at Qantas, Virgin', 2 August 2022, accessed 12 August 2022.

4.6 Consumers have rights when a flight gets delayed or cancelled

When consumers purchase a flight, an airline is responsible for getting them to their destination. If the flight is delayed or cancelled, consumers may have rights under the consumer guarantees of the Australian Consumer Law, depending on the circumstances.

Under the consumer guarantees, airlines are required to supply services (such as flights) within a reasonable time. If an airline delays or cancels a flight due to reasons within their control (i.e. due to staff resourcing issues or a flight not being full), then the consumer guarantees apply. In this situation, consumers will be entitled to a refund or replacement flight from the airline.

The consumer guarantees are unlikely to apply if the airline delays or cancels due to circumstances outside their control (i.e. due to weather events or government restrictions on travel). In this situation, consumers' entitlement to a refund or credit will generally be determined by the terms and conditions of their booking. If a consumer has booked their flight through a travel agent or similar intermediary, the terms and conditions of both the agent and airline will apply.

Consumers will not be entitled to a refund or credit under the consumer guarantees if they miss their flight due to no fault of the airline.

Most Australian airlines have a compensation policy on their website that explains the assistance an airline will provide if a consumer's flight is delayed or cancelled. This includes rebooking a consumer on an alternative flight or issuing a refund. This may also include compensation for some additional costs, such as providing a voucher for, or reimbursing (up to a certain limit) the costs of, a meal and/or accommodation.

The ACCC expects airlines to be honest and proactive in advising consumers as soon as possible about delays or cancellations, the reasons why a flight is delayed or cancelled, and what remedies and other compensation consumers are entitled to.

The ACCC is aware that consumers have been experiencing a number of issues with Qantas, including in using Qantas flight credits. Consumers have raised issues around the use of Qantas flight credits resulting in consumers paying higher prices for flight bookings, compared to bookings made with other payment methods.

In recent months, Qantas has added further information to its website to note that lower fares may be available using payment methods other than credits. Further, before using their credit to make a booking, Qantas now requires consumers to tick a box to acknowledge they understand that their credit can only be used to book fares that are equal to or higher than the value of their credit.

The ACCC continues to investigate whether Qantas' conduct may raise concerns under the Australian Consumer Law. As our investigation is ongoing, we are unable to comment further at this time.

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AUSTRALIAN COMPETITION
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