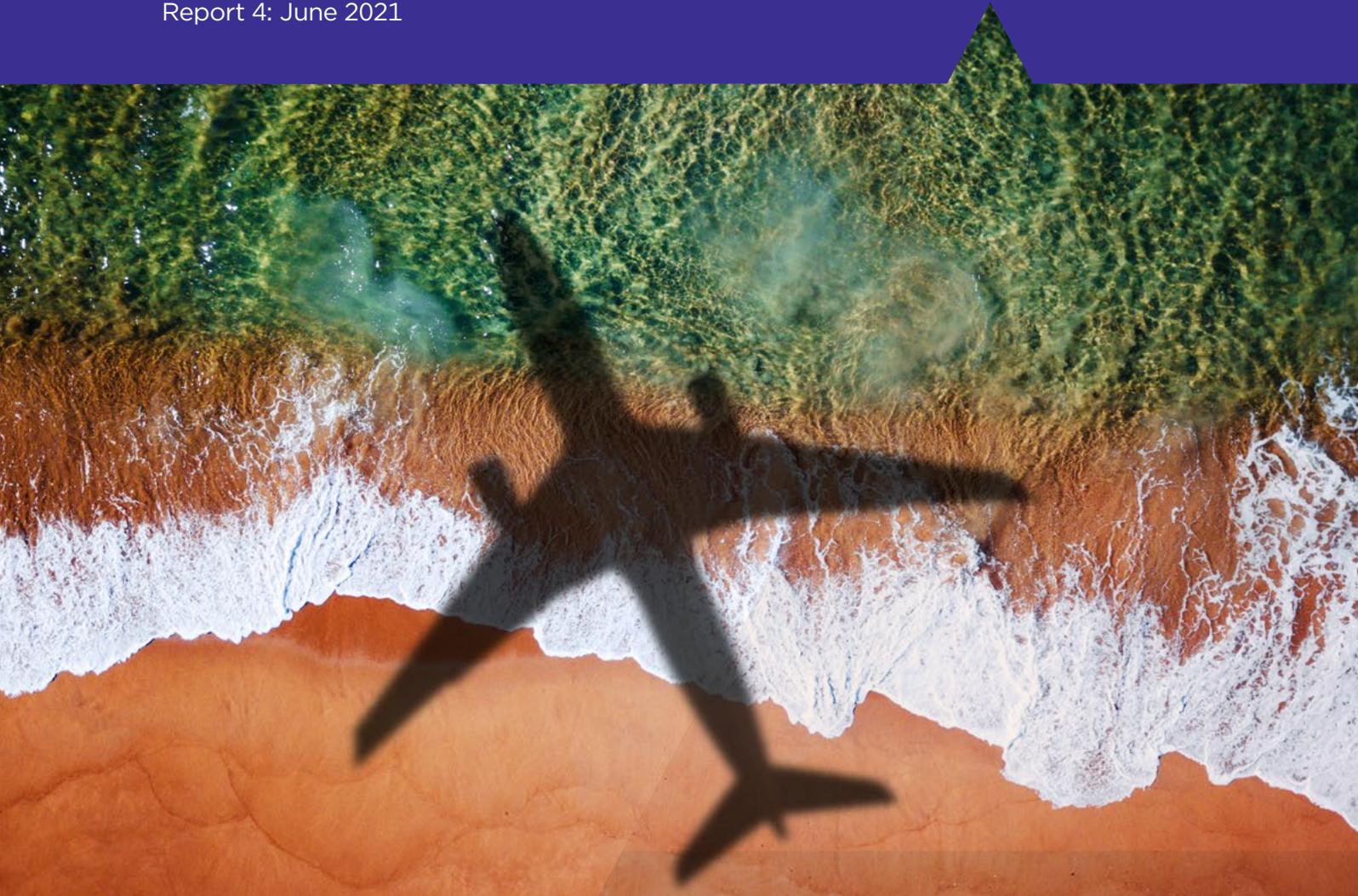




Airline competition in Australia

Report 4: June 2021



acc.gov.au

Australian Competition and Consumer Commission
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Contents

| | |
|---|-----------|
| Glossary | 1 |
| Key industry insights | 2 |
| Overview | 3 |
| 1. Introduction | 4 |
| 2. Industry developments | 5 |
| 2.1 Leisure demand drives recovery in domestic flying | 5 |
| 2.2 The government's TANS program gave a further boost to certain leisure routes | 6 |
| 2.3 Vigorous competition on Sydney–Melbourne leads to the lowest airfares in a decade | 6 |
| 2.4 The ACCC is considering the impact of increases in capacity and price discounting on certain routes | 8 |
| 2.5 Rex brings additional competition to intercity routes including Gold Coast, Adelaide and Canberra | 8 |
| 3. Key industry metrics and analysis | 10 |
| 3.1 Passenger numbers in March 2021 were the highest recorded since the beginning of the pandemic | 10 |
| 3.2 Interstate routes continue to recover but passenger numbers remain at only half of pre-COVID-19 levels | 11 |
| 3.3 More passengers are benefitting from competition between 3 airline groups following Rex's entry into larger city routes | 12 |
| 3.4 Airfares have generally remained low during the March/April holiday period | 15 |
| 3.5 Industry RASK remains below pre-COVID-19 levels due to lower load factors | 16 |
| 4. Exploration of customer segments | 18 |
| 4.1 Airlines design service offerings to target particular segments | 18 |
| 4.2 Some types of customers are more willing to pay a higher price for a higher quality service or more inclusions | 18 |
| 4.3 Defining the airlines' core segments | 19 |
| 4.4 Some customers will benefit more from competition than others | 21 |

Glossary

| | |
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| The Act | <i>Competition and Consumer Act 2010 (Cth)</i> |
| ASK | Available seat kilometres |
| BITRE | Bureau of Infrastructure and Transport Research Economics |
| DANS | Domestic Aviation Network Support. An Australian Government program introduced in response to COVID-19 in order to fund a minimum number of flights on key domestic routes |
| Full service carrier | An airline that typically offers passengers in-flight entertainment, checked baggage, meals, beverages and comforts such as blankets and pillows, in the ticket price |
| Golden Triangle | Air routes connecting Sydney, Melbourne and Brisbane |
| Qantas Group | Qantas Airways Limited that relevantly includes Qantas, QantasLink and Jetstar airlines. |
| Larger city | Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast |
| Load factor | The degree to which seats (i.e. capacity) are filled by passengers |
| RANS | Regional Airline Network Support. An Australian Government program introduced in response to COVID-19 in order to fund a minimum number of flights on key regional routes |
| RASK | Revenue per available seat kilometre, which measures operating revenue on a unit basis |
| 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 |
| TANS | Tourism Aviation Network Support. An Australian Government program to reduce the costs for tourists flying to key tourism regions particularly affected by COVID-19 |
| VARA | Virgin Australia Regional Airlines. A regional airline operated by Virgin Australia |
| Virgin | Virgin Australia that relevantly includes Virgin and VARA airlines. It previously operated Tigerair until March 2020. |

Key industry insights



Leisure demand continues to drive recovery

More people are flying, with the airlines reporting a strong recovery on leisure routes. Factors driving leisure demand are pent up demand for holidays, attractive airfares due in large part to competition and the government's Tourism Aviation Network Support (TANS) program.



Rex's expansion increases competition on larger city routes

After entering the Melbourne–Sydney route in early March, Rex has further expanded its intercity services to include Adelaide, the Gold Coast and Canberra. Consumers have benefited from the increase in competition through Rex's promotional airfares, and sales run by Virgin, Jetstar and Qantas. In March 2021, 18% of passengers flew on routes on which they could choose between all 3 airline groups, up from 1.5% pre-pandemic.¹



Concerns raised about capacity dumping by Qantas, Jetstar and Virgin

Rex has publicly raised concerns that its rivals have been increasing capacity ahead of passenger demand in an attempt to target Rex. The ACCC is assessing the impact on competition of increasing capacity and discounting on certain routes. The ACCC will consider taking enforcement action if an airline's capacity or pricing practices have the purpose, effect or likely effect of substantially lessening competition.



Qantas Group has retained most of its post-pandemic share of the market

Qantas, Jetstar and QantasLinks' combined share of total domestic passengers fell slightly to 69% in March 2021, but remains higher than pre-pandemic levels. This higher market share has been due to factors such as Virgin withdrawing from a number of regional routes and closing down its low cost carrier Tigerair.



Customers with an eye on both price and quality, benefit the most from competition

Each airline is slightly different from its rivals in terms of where it flies and the types of customers it targets with its service offerings. Consumers flying on routes contested by all 3 airline groups, especially those consumers who care about both quality and price, are likely to benefit most from competition and choice.

¹ Throughout this report, pre-pandemic refers to the equivalent month in 2019 unless stated otherwise.

Overview

The domestic airline industry has continued to recover from the pandemic with a growing number of Australians flying for holidays and to visit family and friends. Passenger numbers were at 55% of pre-COVID-19 levels in March 2021, up from 41% in December 2020.

The airlines have reported continued growth since March 2021 and had forecast a return to pre-pandemic levels of flying early in the second half of 2021. However, the recent Victorian outbreak and subsequent border closures are likely to delay this timeframe. These recent outbreaks demonstrate that operating in the current environment remains a major challenge for the airlines.

Much of the recovery over the last few months was due to growing consumer confidence to travel interstate. Prior to the recent Victorian outbreaks, the industry had experienced relatively fewer and less significant disruptions. While COVID-19 cases did arise, the airlines reported that passengers were quicker to return to the skies after outbreaks had been managed, resulting in smaller losses for the airlines.

Economy airfare prices have continued to decrease since mid-2020 when the industry was managing significant COVID-19 disruptions. Typically a peak airfare period due to Easter holidays, April 2021 had the lowest airfares for any April period since 2015. One reason for this has been the Australian Government's TANS program, which subsidised 800,000 half-price tickets for travel to 15 tourist destinations between April and September 2021.

Another reason for the low airfares has been competition between airlines as they try to fill more of their seats. Rex's entry on to a number of major domestic routes has driven a lot of this competition, with the former regional-focused airline expected to operate 6 intercity routes by late-June connecting Sydney, Melbourne, the Gold Coast, Adelaide and Canberra. The impact of Rex's entry can be seen on its first intercity route with economy airfares between Sydney and Melbourne at their lowest levels in a decade. However, consumers may benefit the most from increased competition on the Sydney–Canberra route, where Qantas has been the only operator since Virgin withdrew its service in March 2020.

The growing competition on the larger routes meant that 18% of Australian domestic passengers in March 2021 flew on routes with a choice of 3 airline groups. This is already significantly higher than the 1.5% figure prior to the pandemic, and does not yet capture Rex's more recently launched services.

The Qantas Group has maintained a relatively high share of the domestic passenger market during COVID-19 disruptions, although this fell from 74% in December 2020 to 69% in March 2021. The high market share is due to a number of factors including Jetstar picking up much of the price sensitive customer segment as a result of Tigerair's withdrawal, as well as Jetstar benefitting from the strong demand for leisure routes. Jetstar is in the process of deploying a number of larger aircraft typically used for international travel on busy domestic tourist routes linking Sydney and Melbourne with the Gold Coast and Cairns.

The Qantas Group has also benefitted from Virgin reducing its network reach following its return from voluntary administration, in particular withdrawing from regional routes for which it is not considered economical to fly Virgin's streamlined fleet of a single type of aircraft – Boeing 737s. The ACCC will be interested to see whether competition on certain regional routes returns following the alliance between Virgin and Alliance Airlines, authorised in early 2021. Alliance Airlines operates smaller aircraft, suitable for thinner routes that have relatively fewer passengers, such as regional routes.

The government is reviewing demand management at Sydney Airport, which includes consideration of the effectiveness of the management scheme for take-off and landing slots. We understand an independent report is currently with the government for consideration. The ability for new entrants to access slots at this key airport is important for competition and we look forward to engaging with government and stakeholders on the report in due course.

Rex has raised concerns that Qantas, Jetstar and Virgin have added excess capacity on the Sydney–Melbourne route in an attempt to target Rex. Adding capacity to a route to meet increased demand, and/or offering discounted airfares on routes, is consistent with effective competition and is generally good for consumers. Airlines adding capacity may also stimulate consumer demand. However, the ACCC will consider taking enforcement action if an airline’s capacity or pricing practices have the purpose, effect or likely effect of substantially lessening competition under the *Competition and Consumer Act 2010* (the Act). The ACCC will also consider recommending policy action by the government if we find competition is not effective.

1. Introduction

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

On 19 June 2020, the Treasurer issued a direction to the ACCC under subsection 95ZE(1) of the Act 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 Treasurer stated that the ACCC's monitoring will assist in protecting competition in the sector for the benefit of all Australian airline travellers.² The 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 Act. We will prioritise investigations about alleged anti-competitive conduct in the domestic passenger airline industry³, and will consider enforcement action where we form the view that conduct is likely to breach the Act.

In carrying out its functions, it may be that the ACCC finds that the level of competition within the industry is diminishing and/or identifies anti-competitive behaviour, but short of thresholds for enforcement action. We will recommend potential policy options to government should there be signs that competition is not effective.

The monitoring direction provides the ACCC with the ability to compel information from relevant companies within the industry. We have established arrangements for collecting monthly and quarterly data from the Qantas Group, Virgin and Rex. These 3 airline groups supply the vast majority of regular domestic air passenger services in Australia. We also seek qualitative information from airlines from time to time, such as Board papers relating to company strategy.

Further information about our approach to fulfilling our obligations under the monitoring direction and potential investigations can be found in the first public report published in September 2020.⁴

In the ACCC's reports, we provide key industry metrics and analysis based on airline data from the previous quarter. While the industry continues to recover and respond to the impacts of COVID-19, things can change very quickly. To address this, the report includes commentary on the most up to date developments at the time of publication (June 2021), in addition to analysis of airline data based on the state of the industry 3 months prior (January–March 2021).

2 The Hon. Josh Frydenberg MP (the Treasurer), [ACCC directed to monitor domestic air passenger services](#) [media release], 19 June 2020.

3 Competition issues in the context of the COVID-19 pandemic, including in the domestic air travel market, is an enforcement priority for the ACCC in 2021.

4 ACCC, [Airline competition in Australia – September 2020 report](#), 17 September 2020.

2. Industry developments

2.1 Leisure demand drives recovery in domestic flying

The domestic aviation industry has continued to recover with the airlines reporting improvements in passenger numbers, driven primarily by leisure demand. In response to this demand, Virgin and Qantas have announced a number of new leisure routes⁵ and Rex has launched new intercity routes (discussed further in section 2.5). Leisure flying has been so popular, reports suggest that there have been shortages of accommodation and car hire at several popular tourist destinations.

Much of the recovery over the last few months was due to growing consumer confidence to travel interstate. Prior to the recent Victorian outbreak and subsequent border closures, the industry had experienced relatively fewer and less significant disruptions. While COVID-19 cases did arise, the airlines reported that passengers were quicker to return to the skies after outbreaks had been managed, resulting in smaller losses for the airlines. However, the recent outbreak demonstrates that operating in the current environment remains a major challenge for the airlines.

While leisure demand has been strong, business travel has been slower to recover. In April, Qantas forecast it was expecting a 15% decrease in the corporate market permanently as a result of video-conferencing replacing the need for some business travel.⁶ However Qantas announced in May that corporate travel had returned to 75% of pre-COVID-19 levels, suggesting a more optimistic outlook for this market.⁷

Prior to the Victorian lockdown, the airlines had forecast a return to pre-COVID-19 levels of flying in the second half of 2021. The Qantas Group announced in early May that it was on track to reach 95% of its pre-pandemic domestic capacity for the June 2021 quarter.⁸ Capacity was expected to average 107% for Qantas and 120% for Jetstar in 2021–22. Virgin announced in April that overall capacity was forecast to reach 80% of pre-COVID-19 levels by mid-June 2021, aided by the reintroduction of 10 additional Boeing 737 aircraft.⁹

Rex announced in May that regional capacity had recovered to 60% of pre-COVID-19 levels, with some states such as Queensland and Western Australia faring better than others.¹⁰ We anticipate that the Victorian lockdown will delay these timelines but the full impact of this is not yet known.

The growing demand for domestic travel and the lack of international flights has led to the Qantas Group redeploying some of its international aircraft to domestic routes. Jetstar is reactivating up to 5 Boeing 787-8s for domestic use as well as borrowing 6 Airbus A320s from Jetstar Japan. The Boeing jet aircraft will initially be flown on popular leisure routes linking Sydney and Melbourne with holiday destinations of the Gold Coast and Cairns. Qantas noted it will also deploy more wide body aircrafts (i.e. A330-200s and 787-9s) on flights from the east coast capital cities to Perth and Darwin. These twin aisle jets have a significantly larger capacity in comparison to single aisle domestic aircraft such as the Airbus A320 and Boeing 737.

5 Virgin Australia, [Virgin Australia Group to create new jobs as part of domestic growth plans to connect with more flights](#) [media release], 20 May 2021, accessed 21 May 2021; Qantas, [New routes, more flights as jets to call Adelaide home](#) [media release], 7 May 2021, accessed 21 May 2021.

6 A Joyce, CAPA Live, '[Qantas airways group CEO Alan Joyce on business models and the future of the carriers](#)' [video], CAPA, 14 April 2021, accessed 10 May 2021.

7 Qantas Group, [Qantas Group market update - Balance sheet repair underway](#) [media release], 20 May 2021, accessed 20 May 2021.

8 *ibid.*

9 Virgin Australia, [Virgin Australia group outlines growth plans to support tourism recovery](#) [media release], 15 April 2021, accessed 10 May 2021.

10 Rex, [Rex provides interim guidance](#) [media release], 10 May 2021, accessed 10 May 2021.

While there was some positive news for the airline industry regarding domestic travel, this was not the case for international activity. In May, the government announced that international travel was unlikely to return until mid-2022, other than the Trans-Tasman bubble allowing quarantine-free travel between Australia and New Zealand since 19 April 2021.¹¹ This has both negative and positive implications for the domestic airline industry, including the lack of international visitors, increased demand for local holidays from Australians, and the availability of aircraft.

2.2 The government's TANS program gave a further boost to certain leisure routes

The government announced the TANS program in March 2021. Under the program, 800,000 half-price tickets were made available for purchase from 1 April 2021 on flights to 15 regions including Alice Springs, the Gold Coast, Sunshine Coast, Adelaide, and Darwin.¹² The program was intended to support both increased domestic aviation activity and jobs in the regions as travellers spend money on accommodation, food and activities.

The ACCC understands that almost all the tickets under the scheme have been sold. Consumers were able to access reduced airfares at the time of booking for travel up to and including 30 September 2021. Discounts were applicable for economy airfares only, available for flights to and from the 15 regions. The discounts were based on the airlines' respective economy airfares in February 2021.

Government support under TANS comes in addition to the Regional Airline Network Support (RANS)¹³ and the Domestic Aviation Network Support (DANS)¹⁴ programs. The government extended support under these programs until 30 September 2021. We understand that these programs are becoming less relevant over time as aeronautical activity returns and routes become ineligible for the funding.

2.3 Vigorous competition on Sydney–Melbourne leads to the lowest airfares in a decade

Growing competition on Australia's busiest route between Sydney and Melbourne has provided significant benefits to consumers, with economy airfares falling to their lowest levels in a decade. The competition has primarily been driven by the entry of Rex on to the route in March, as the first step in an expansion by the regional airline into intercity services. This competition is particularly notable due to the size of the route, which accounted for around 8.5 million passengers (14% of the domestic total) in 2019 (prior to COVID-19).

2.3.1 Sydney–Melbourne economy airfares are the lowest in a decade

The impact of Rex entering the route can be seen in figure 1 below, which shows the cheapest available return economy airfares on flights between Sydney, Melbourne and Brisbane. It shows that while the Sydney–Melbourne airfares trended upwards during 2020 to reach a seasonal peak of around \$240, they declined sharply from the time that Rex first began selling its tickets in December. The trend line fell further again once Rex began flying in March 2021. Furthermore, the movement in airfares on this route is in contrast to the Brisbane–Melbourne and Brisbane–Sydney routes, which Rex did not enter. This highlights the new entrant's role in increasing competition and lowering airfares delivering benefits to consumers.

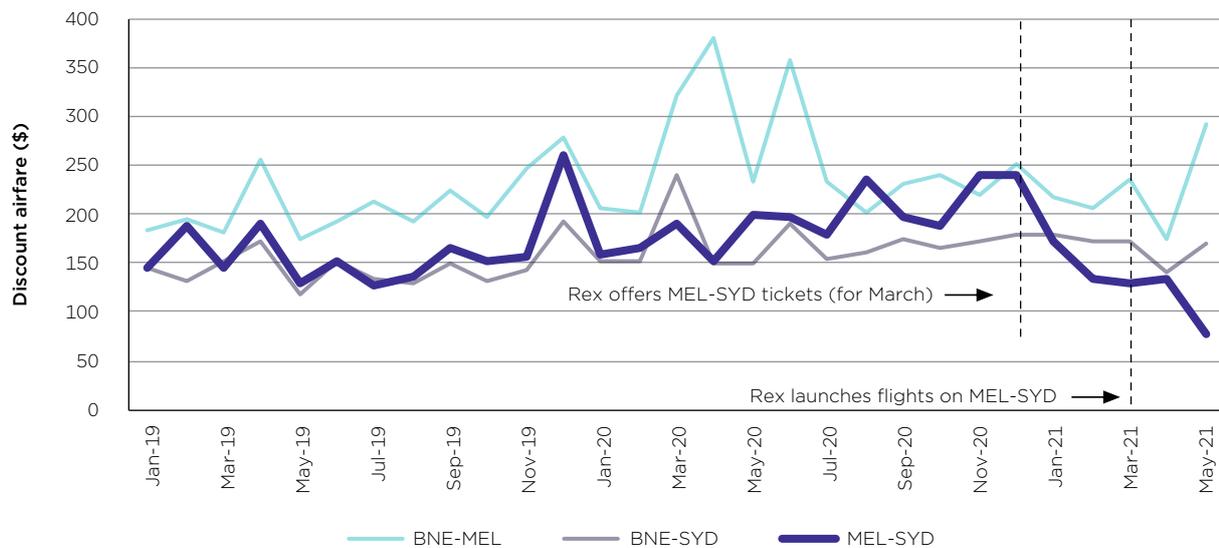
11 The Trans-Tasman bubble has been temporarily paused with some Australian states on occasions following COVID-19 cases.

12 The Hon. Michael McCormack MP (Deputy Prime Minister), *Tourism and aviation's flight path to recovery* [media release], 11 March 2021, accessed 28 April 2021. For a full list of the 15 destinations, see: <https://www.infrastructure.gov.au/aviation/files/fact-sheet-tans-20210315.pdf>, March 2021, accessed 28 April 2021.

13 The RANS program provides support to airlines servicing select routes to connect regional Australia to freight, medical testing, supplies and essential personnel.

14 The DANS program supports airlines to provide services on the 50 domestic routes with the most traffic.

Figure 1: Cheapest economy return airfares between Sydney, Melbourne and Brisbane – January 2019 to April 2021



Source: BITRE

Note: Cheapest economy class return trip airfares surveyed based on the last Thursday of each month.

While stating its intention to be a full service airline, Rex has been very aggressive in its initial pricing for the service. The airline initially launched the service with promotional one-way airfares from \$79 in December 2020. However, in an attempt to attract more customers, Rex launched another sale in early May 2021 with \$39 one-way tickets for travel until 28 August. Both Virgin and Jetstar have responded to this aggressive pricing on some flights, with Virgin matching the airfare and Jetstar offering tickets without baggage for \$30. The corresponding return airfares, for May 2021, are now the lowest (in real terms) recorded on the Sydney–Melbourne route in a decade.

The cheapest available airfare is selected from a sample of airfares for 2 week economy class return flights departing on the last Thursday of each month. As these are the cheapest available economy airfares recorded at the time, actual economy class airfares paid by passengers can vary. This can include factors such as travel dates and times, the time before departure, and use of loyalty programs.

2.3.2 The Sydney–Melbourne route has been relatively slow to recover from COVID-19

While the Sydney–Melbourne route had once again become Australia’s busiest route, it is making a slower recovery from the pandemic than other routes. Our most recent data shows that 323,000 people flew on the route in March 2021, which represented only 43% of pre-COVID-19 levels. The recovery on this route was around 12 percentage points less than the overall domestic industry.

Part of the reason is that both cities were subject to some of the most disruptive COVID-19 outbreaks for the airline sector. Melbourne went through 2 lengthy lockdown periods in 2020, while a potentially strong recovery over the December holiday period was undone by an outbreak on Sydney’s northern beaches that re-closed the border for a month. Melbourne then had a third lockdown (this one only 5 days) in the middle of February 2021.

Another factor is that the overall domestic market recovery has been driven by strong demand for leisure routes such as those to the Gold Coast and Sunshine Coast. In contrast, the Sydney–Melbourne route relies on business travel for which there has been relatively weaker demand.

Despite the relatively slower recovery in demand, the airlines have been bringing back capacity onto the route. Rex's entry has contributed to some of this capacity, but most of it has been from the established airlines of Qantas, Jetstar and Virgin. The result has been somewhat low load factors on this route of around 64% in March 2021, compared with around 85% in March 2019. In particular, Rex has acknowledged that its airfare sale in May was because it was not attracting as many passengers on the route as it had hoped.¹⁵ As outlined below, Rex has publicly raised concerns that capacity being added to this route by Qantas and Virgin may be anti-competitive.

A fourth lockdown for Melbourne in late May and early June will no doubt further delay the route's return to pre-pandemic levels of activity.

2.4 The ACCC is considering the impact of increases in capacity and price discounting on certain routes

As the airline industry recovers from the impacts of COVID-19, the ACCC is watching for behaviour that may be interfering with the ability of airlines to compete on certain routes and/or across their broader networks.

As outlined in the ACCC's March 2021 Airline Competition in Australia report, Rex has raised concerns about Qantas entering regional routes that have historically been operated by Rex. More recently, and since Rex's entry onto the Sydney–Melbourne route, Rex has also raised concerns about Qantas, Jetstar and Virgin adding capacity in circumstances where they have increased flights on the route despite low load factors.¹⁶

The ACCC monitors the effect on competition of the airlines' capacity and pricing practices, and is investigating the concerns raised by Rex. Adding capacity to a route to meet increased demand, and/or offering discounted airfares on routes, is consistent with effective competition and is generally good for consumers. Airlines adding capacity may also stimulate consumer demand. However, the ACCC will consider taking enforcement action if an airline's capacity or pricing practices have the purpose, effect or likely effect of substantially lessening competition.

2.5 Rex brings additional competition to intercity routes including Gold Coast, Adelaide and Canberra

With its Sydney–Melbourne service underway, Rex then launched new services on other major routes out of the 2 largest cities in Australia. These new routes were:

- Melbourne–Gold Coast: 2 return flights per day from March 29
- Melbourne–Adelaide: 2–3 return flights per day from March 31
- Sydney–Gold Coast: 2 return flights per day from April 1
- Sydney–Canberra: 5–7 return flights per day from April 19.

From June 24, Rex has announced that it will start operating an additional route:

- Melbourne–Canberra: 2 return flights per day.

Rex's expansion into these routes has been facilitated by the airline acquiring its sixth Boeing 737–800NG jet aircraft. It expects to take delivery of 2 more aircraft in July 2021 and hopes to grow its fleet of 737s to 10 by the end of the year. In contrast, the Sydney–Canberra route is being supplied using the smaller Saab 340 turboprop aircraft that the airline commonly uses for regional routes.

15 J Sharp, CAPA Live, '[Regional Express, Deputy Chairman, Hon. John Sharp live in studio to talk new routes and Australia's domestic market](#)' [video], CAPA, 12 May 2021, accessed 26 May 2021.

16 Rex, '[Rex welcomes watchdog scrutiny on capacity dumping](#)' [media release], 10 May 2021, accessed 26 May 2021.

Rex's entry provides benefits to consumers in the form of additional frequency of services, choice of airline and downward pressure on prices. The commencement of Rex's services means that passengers will now get to choose from Qantas, Jetstar, Virgin and Rex for flights on the Melbourne–Gold Coast, Melbourne–Adelaide, and Sydney–Gold Coast routes. Rex has launched its services on these routes with special promotional airfares in the range of \$55–\$69, which have also generally been matched by Virgin and undercut by Jetstar (without baggage).

Rex's largest competitive impact may be on the Sydney–Canberra route, where Qantas has been the only operator on the route since Virgin withdrew the service in March 2020. While capacities continue to evolve during the industry's recovery, Rex is currently providing about 17% of capacity on the route. The benefits for consumers are already evident with Rex's promotional airfare of \$99 lower than the Qantas airfare of \$193.

Rex has reported strong demand for seats on the new routes, with significantly fuller planes than those the airline operates on the Sydney–Melbourne route.¹⁷ It has put on hold plans to include Brisbane into its jet network.

2.6 The review of demand management at Sydney Airport is continuing

As noted in the March 2021 Airport Competition in Australia report, the government is reviewing demand management at Sydney Airport, which includes consideration of the effectiveness of the management scheme for take-off and landing slots. We understand that an independent report is currently with the government for consideration.

The ACCC made a submission to the review advocating for changes to the slot management scheme that will support and enhance competition between airlines. The ACCC looks forward to engaging with government and stakeholders on the report in due course.

¹⁷ J Sharp, CAPA Live, '[Regional Express, Deputy Chairman, Hon. John Sharp live in studio to talk new routes and Australia's domestic market](#)' [video], CAPA, 12 May 2021, accessed 26 May 2021.

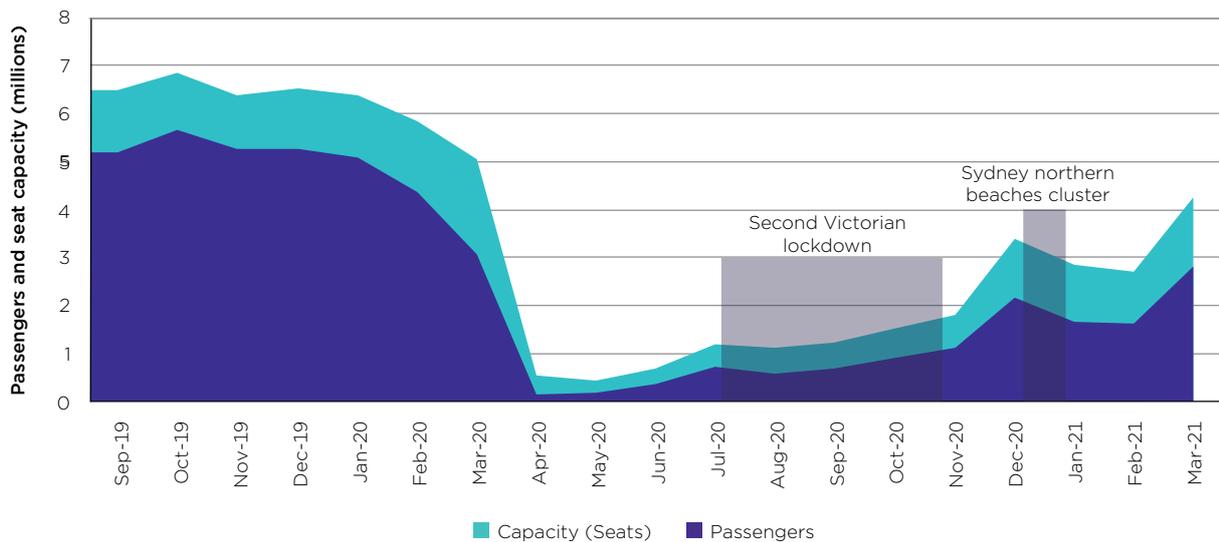
3. Key industry metrics and analysis

This section of the report presents analysis of key industry metrics. Unless specified otherwise, the metrics are calculated using information collected from the Qantas Group, Virgin and Rex on a monthly and quarterly basis. The data presented here includes activity up to the end of March 2021. Much of the analysis contains a comparison with March 2019 in order to illustrate the changes in the industry from a pre-COVID-19 state.

3.1 Passenger numbers in March 2021 were the highest recorded since the beginning of the pandemic

The domestic airline industry has continued to recover with 2.7 million monthly passengers in March 2021, which was the highest monthly figure recorded since the beginning of the pandemic (see figure 2). The recovery did stall during January and February 2021 following COVID-19 outbreaks in Sydney’s northern beaches and Melbourne, although interstate borders remained open through most of March 2021. The ACCC understands from comments by the airlines that the number of people flying has continued to grow significantly since this time, especially in April (see section 2.1).

Figure 2: Australian domestic air services – September 2019 to March 2021



Source: BITRE; Australian domestic airline activity.

The number of people who flew in March 2021 represented 55% of passengers prior to the pandemic (March 2019). This is an improvement from 41% (of December 2019 levels) in December 2020 and 13% (of September 2019 levels) in September 2020.

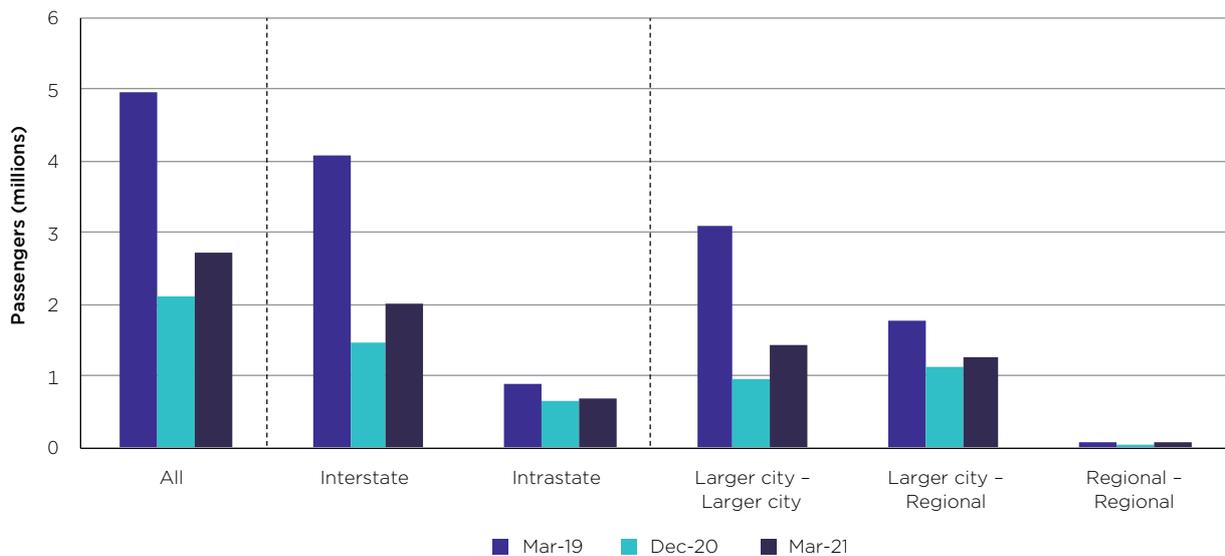
Monthly capacity has grown in roughly equal proportion to passenger numbers, with 4.1 million seats available on flights in March 2021. The domestic industry’s load factor was 66% in March 2021, up slightly from 63% in December 2020. However, it remains below the March 2019 level of 77%.

3.2 Interstate routes continue to recover but passenger numbers remain at only half of pre-COVID-19 levels

Monthly passenger numbers increased on all route types between December 2020 and March 2021, however the recovery was more pronounced on routes between the larger cities. This reflects a reduction in pandemic related restrictions.

Figure 3 shows that travellers flying on routes linking larger cities increased by 50% from December 2020 to 1.4 million passengers in March 2021. For the first time since the pandemic began, more passengers were flying on these routes instead of routes linking a larger city and a regional destination. Monthly passengers flying between larger cities and regional destinations reached 1.2 million, up 12% since December 2020.

Figure 3: Monthly passenger numbers by route category – March 2019, December 2020 and March 2021



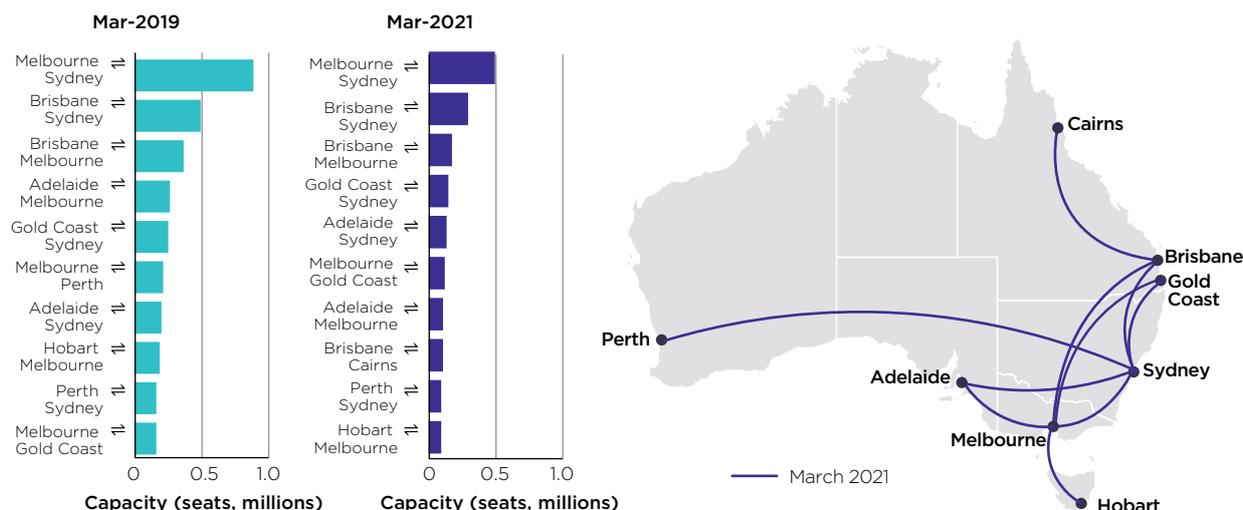
Source: Data collected by ACCC from the Qantas Group, Virgin Australia and Rex.

Note: 'Larger cities' are Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast. Remaining locations are considered to be 'regional'. Figure shows passenger numbers on routes between a larger city to another larger city, from a larger city to a regional location, and from a regional location to another regional location.

A comparison between March 2021 and pre-COVID-19 passenger numbers from 2019 suggests that interstate flights will likely continue to drive the recovery. Although interstate passengers increased by 39% between December 2020 and March 2021, it remains at half the pre-pandemic level at 2 million monthly passengers. In contrast, monthly passenger numbers on intrastate flights grew only 6% between December 2020 and March 2021, but it is only 20% down on the pre-COVID-19 level at 700,000 passengers.

Figure 4 shows the busiest routes by capacity in March 2019 and March 2021. Although capacity remains lower across all routes in March 2021, 9 routes appear in both lists with the 'Golden Triangle' between Sydney, Melbourne and Brisbane forming the top 3 routes.

Figure 4: Busiest routes by monthly capacity – March 2019 and March 2021



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

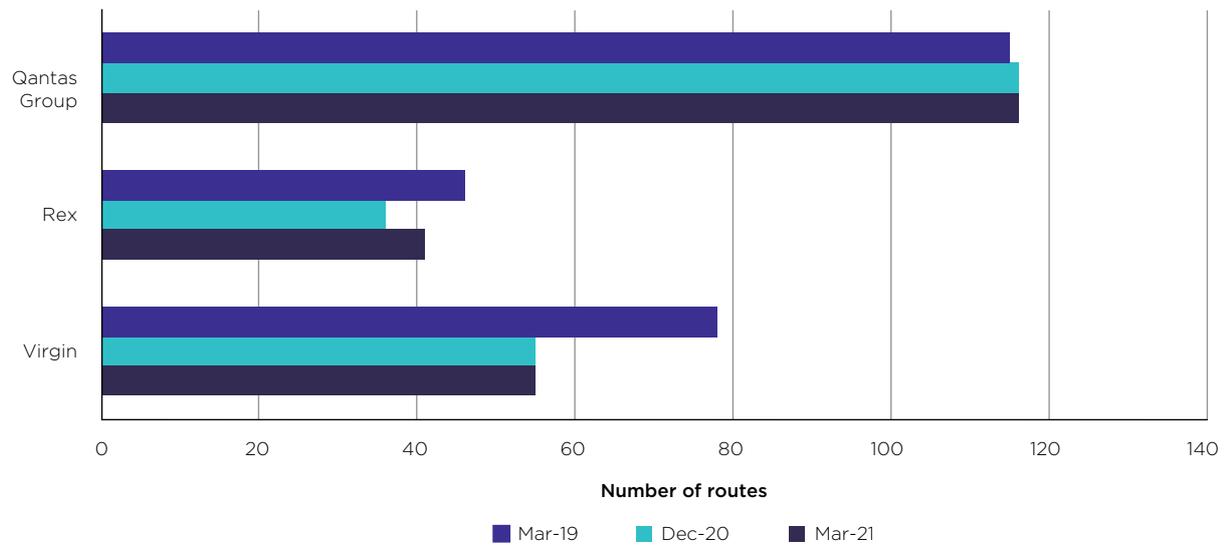
Across those 9 routes, March 2021 capacity was 57% on the pre-COVID-19 March 2019 level on average. The Melbourne–Gold Coast route had recovered the most, to 120,000 monthly passengers in March 2021, or 72% of the March 2019 capacity. In contrast, capacity on the Adelaide–Melbourne route was only 39% of the pre-pandemic level in March 2021.

3.3 More passengers are benefitting from competition between 3 airline groups following Rex’s entry into larger city routes

Competition across the domestic airline network increased between December 2020 and March 2021, as the Qantas Group and Rex entered new routes. However, the combined domestic network reach of the 3 airline groups remained at 146 routes.

Figure 5 shows that the Qantas Group regularly serviced 116 routes in both December 2020 and March 2021. The Qantas Group (comprising Qantas, QantasLink and Jetstar) entered into new routes including Sydney–Griffith and Melbourne–Merimbula in the March 2021 quarter, but was not flying regularly on the Canberra–Cairns and Canberra–Sunshine Coast routes. Rex’s network reach in March 2021 expanded to 41 routes after it entered routes including Melbourne–Sydney and Melbourne–Gold Coast (see section 2.5).

Figure 5: Number of routes operated by airline group, March 2019, December 2020 and March 2021



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

Note: Select multi-hop routes are treated as a single route. Qantas/QantasLink/Jetstar and Virgin/VARA/Tigerair are each treated as individual airline groups.

While the Qantas Group is back to operating a network as broad as its pre-pandemic network and Rex is expanding into larger-city routes, Virgin’s network of 55 routes remains below the pre-COVID-19 level. Its approach under new owner Bain Capital is to consolidate its operations around a fleet of Boeing 737s¹⁸, which are typically too large to be economical for smaller regional routes. Virgin’s network reach over regional routes has fallen from 60 pre-COVID-19 to 38 in March 2021.

Competition on routes unable to be flown by a Boeing 737, such as regional routes, may be less following Virgin’s consolidation. Virgin may be in a position to re-enter some smaller routes, having received authorisation from the ACCC to coordinate operations with Alliance Airlines on 41 regional routes.¹⁹ Alliance Airlines operates smaller aircraft (both turboprop and jet) that are better suited to thinner routes with lower passenger volumes. Alliance has since entered into a wet lease agreement to provide Qantas services on certain routes from mid-2021.²⁰

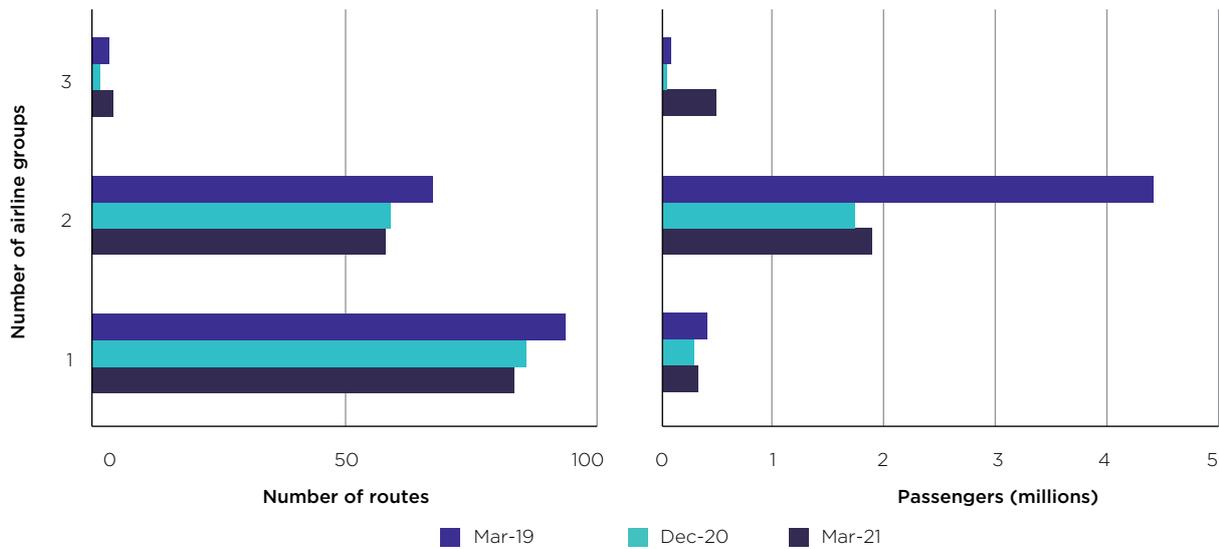
Figure 6 shows the extent to which the 3 airline groups compete across Australia’s domestic network, as well as the number of passengers that benefit from that competition by flying on those routes. The key development in the chart is growth in the number of passengers flying on routes with a choice of 3 airline groups. Rex’s entry into the Sydney–Melbourne, and Melbourne–Gold Coast routes in March 2021 meant that 480,000 (18% of the total) passengers flew on routes with a choice of 3 different airline groups. Even prior to the pandemic in March 2019, only 76,000, (1.5% of the total) passengers flew on routes with a choice of 3 airline groups. This number will increase further once the data reflects Rex’s entry onto other larger city routes in recent months.

18 Virgin Australia, [Virgin Australia Group announces plan to focus on core strengths, re-establishing itself as an iconic Australian airline](#) [media release], 5 August 2020, accessed 13 May 2021.

19 ACCC, [Virgin Australia and Alliance Airlines authorised to cooperate to support regional airline services](#) [media release], 19 November 2020, accessed 3 June 2021.

20 Alliance Airlines, [Wet lease agreement with Qantas Airways Limited \(“Qantas”\)](#); ASX release, 7 May 2021, accessed 26 May 2021.

Figure 6: Routes and passenger numbers serviced by one, two, and three airline groups - March 2019, December 2020 and March 2021



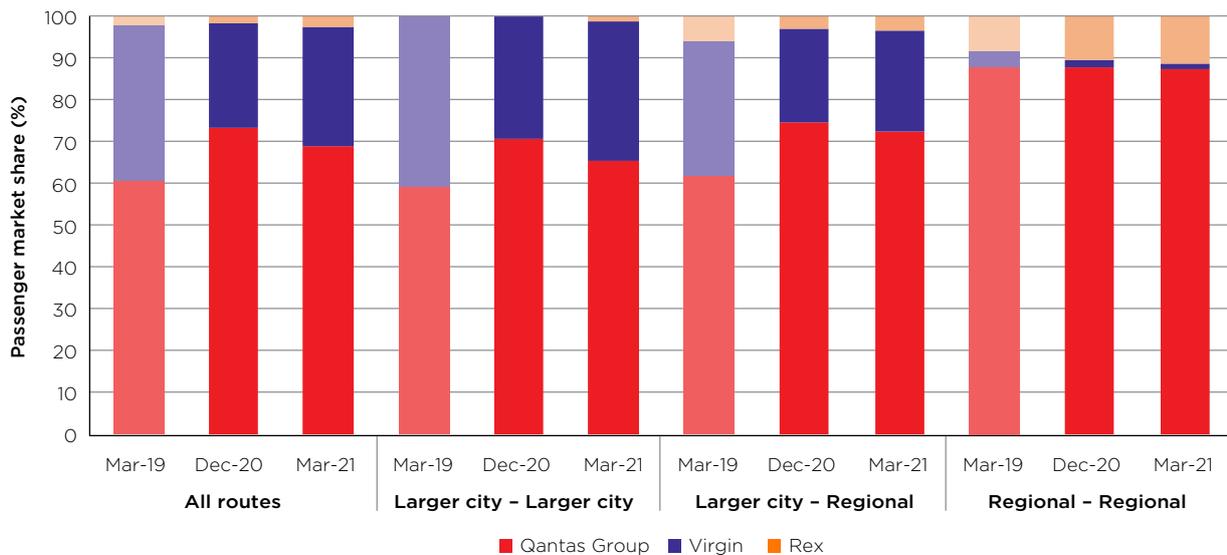
Source: Data collected by ACCC from the Qantas Group, Virgin Australia and Rex.

Note: Select multi-hop routes are treated as a single route. Qantas/QantasLink/Jetstar and Virgin/VARA/Tigerair are each treated as individual airline groups.

The majority of routes (84 of 146) continue to be serviced by only one airline group. However, the proportion of passengers flying these routes has fallen slightly from 14% in December 2021 to 12% in March 2021.

Figure 7 shows that Virgin’s and Rex’s passenger market shares have increased since December 2020, but Qantas’ market share remains higher than pre-COVID-19 levels. The greatest change between December 2020 and March 2021 occurred on the routes between the larger cities. By March 2021, Virgin’s passenger market share had recovered to 33% on the larger-city routes, but remained below its March 2019 share of 41% when it still operated its low cost carrier Tigerair. Rex flew 1% of passengers between the larger cities in March 2021, but this only reflects the preliminary launch of its larger city routes.

Figure 7: Airline group market share by passengers flown - March 2019, December 2020 and March 2021



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

Note: ‘Larger cities’ are Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast. Remaining locations are considered to be ‘regional’.

The Qantas Group's passenger market shares remains equal to, or higher than, pre-COVID-19 levels on each route type, but have come down from December 2020 levels. The Qantas Group flew 69% of all domestic passengers in March 2021, down from 74% in December 2020 but higher than its 61% share in March 2019. The same trend is observed on routes between larger cities, and on routes between larger cities and regional destinations. The Qantas Group's share of passengers on routes between regional destinations has remained largely unchanged at 87%.

The Qantas Groups' high overall market share is due to factors including Jetstar picking up much of the price sensitive customer segment left behind by Tigerair's withdrawal from the industry, as well as Jetstar benefitting from the strong demand for leisure routes.

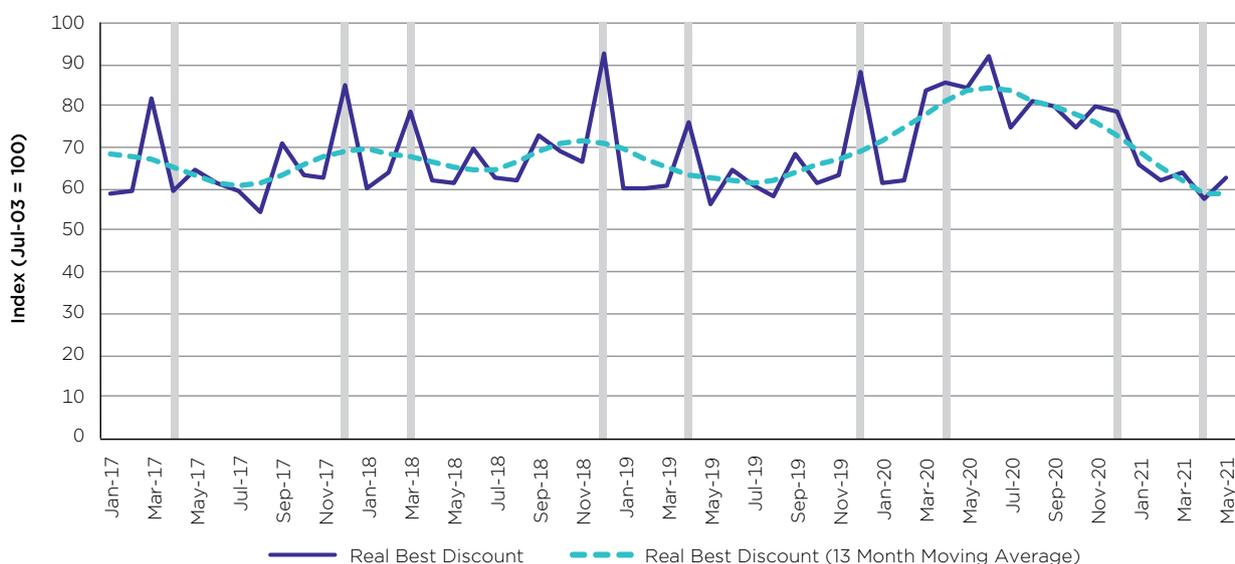
3.4 Airfares have generally remained low during the March/April holiday period

While movements in airfares can differ between routes, competitive pressures and TANS support have generally kept the price of discounted airfares low in March and April 2021, when an increase in airfares is normally observed around the Easter break.

Figure 8 shows the change in the price index representing the cheapest discount airfares, weighted across the 70 busiest domestic routes. The data shows that the price of discount airfares on high-volume routes has trended down since mid-2020 when the industry was managing significant COVID-19-related disruptions. April 2021 had the lowest discount airfares (in real terms) for any April period for several years on many routes, including the Melbourne–Sydney route as discussed in section 2.3.1. However, the price of discounted airfares on some routes such as northern destinations Broome and Darwin did increase.

TANS support was introduced in April 2021, halving the cost of some economy airfares. The airlines also ran promotions offering discounted tickets for flights as discussed in sections 2.3 and 2.5.

Figure 8: Price index of cheapest discount airfares weighted across 70 busiest domestic routes, December 2016 – May 2021



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

Note: Grey bars indicate December and Easter holiday periods.

Figure 9 shows the price of the cheapest business class airfares has followed a similar trend to discount airfares since mid-2020. The price of business class airfares has been decreasing in real terms since the beginning of 2019 despite COVID-19 disruptions, and since December 2020 has remained at price levels not observed since late 2012 – early 2013. Lower business class airfares reflect competition among the airlines to attract passengers to premium seating in response to changing demand for business travel. TANS support does not apply to business class airfares.

Figure 9: Price index of cheapest business class airfares weighted across 70 busiest domestic routes, December 2016 – May 2021



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

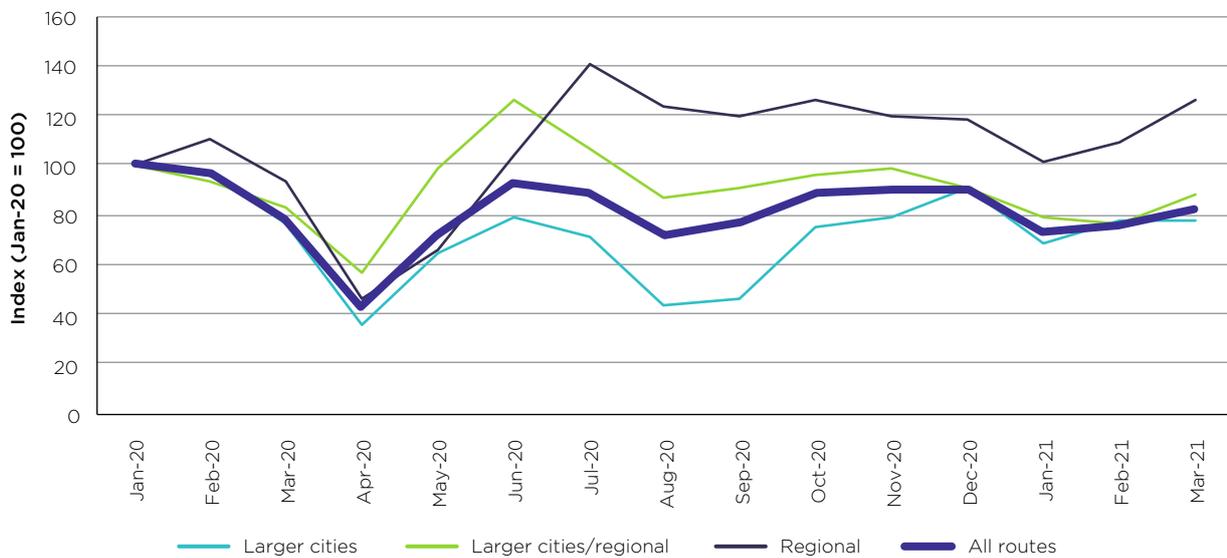
Note: Grey bars indicate December and Easter holiday periods.

3.5 Industry RASK remains below pre-COVID-19 levels due to lower load factors

Revenue per available seat kilometre (RASK) measures operating revenue on a per unit basis, determined by dividing operating revenue by available seat kilometres (ASK). The airline industry commonly uses this metric as a like-for-like unit revenue comparison between airlines and routes. Changes in this measure can reflect movements in airfares and/or the degree to which seats are occupied on flights.

Figure 10 shows that the average RASK across all domestic routes remains below pre-COVID-19 levels. The measure fell to as low as 43% of January 2020 levels by April 2020, and has fluctuated between 71% and 93% since. The relatively low RASK figures represent both low airfares and low load factors. RASK recovered quickly on regional routes as a greater share of regional flights were on intrastate routes using smaller aircraft, in which higher fares are required to cover higher costs per passenger.

Figure 10: Weighted average Australian airline industry RASK by route type, January 2020 to March 2021



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

4. Exploration of customer segments

4.1 Airlines design service offerings to target particular segments

Airlines have a sophisticated understanding of customers' preferences and requirements, and design and bundle their service offerings to appeal to particular customers. Rather than trying to appeal to all customers, airlines typically prioritise their efforts and target particular groups of customers. This approach is called 'customer segmentation'.

Airlines differentiate their service across a spectrum of offerings including airfare, network reach, service frequency, ticket flexibility, on-board service, cabins, airport lounges and loyalty benefits. In response to a dynamic industry, airlines regularly review and refine their service offerings to optimise the way they target their core customers segments and ultimately maximise revenue.

4.2 Some types of customers are more willing to pay a higher price for a higher quality service or more inclusions

At a high level, customers can be segmented by their willingness to pay, with price sensitive customers at one end of the spectrum willing to accept a basic 'no frills' service as long as the airfare is priced accordingly. At the other end of the spectrum, customers are willing to pay a premium airfare for a suite of extras and comforts. Customer preferences can differ according to whether they are travelling for leisure²¹ or business purposes.

For leisure passengers, price is often the most important factor in planning a trip and choosing an airline. Compared with business travellers, date and destination is often flexible, with many of these customers able and willing to defer a trip until the price is right. Second to price, leisure passengers often prioritise baggage allowance, time and route of service, and inflight entertainment. Business travellers generally prioritise ticket flexibility, frequency of services and access to airport lounges. In addition, business travellers often book tickets closer to the date of travel, meaning they are more likely to pay higher airfares. As a result, business travellers tend to be less price sensitive than leisure travellers.

Airlines commonly further segment passengers travelling for business into SME (small to medium enterprise employer²²) and corporate (large employer) travellers. Customers in the corporate segment tend to be less price sensitive, and fly more frequently than the SME segment, making this a valuable segment for airlines.²³

21 Defined as travel for holidays and to visit friends and relatives.

22 Defined by the Australian Bureau of Statistics as less than 200 workers.

23 CL Wu & THH So, 'On the flight choice behaviour of business-purpose passengers in the Australian domestic air market', *Journal of Air Transport Management*, 2018, 72(9), p. 64.

Both business and leisure travellers are key customer segments for the domestic airline industry. Pre-COVID-19, passengers travelling for business spent approximately \$5.7 billion on airfares, compared with approximately \$6.1 billion spent by leisure travellers. It is estimated that in 2020, business travellers spent 71% less on airfares compared with a 63% decrease by leisure travellers.²⁴ While COVID-19 impacted both leisure and business segments, leisure expenditure began to recover towards the end of 2020, also driven by a demand for family reunification. Business travel has been slower to recover, with virtual meetings replacing a number of these trips. It's expected that for a proportion of business travellers, this trend will continue long term with Qantas forecasting a permanent 15% decrease in the corporate market.²⁵

While business travellers are generally less price sensitive than leisure passengers, there are a proportion of customers in this segment that are mindful of the price of an airfare. Like premium business customers, price sensitive business customers often seek a high frequency of daily services, and may be willing to pay for extras on top of an economy ticket airfare, such as ticket flexibility. Similarly, some travelling for leisure seek extras and comforts, such as additional baggage, in-flight entertainment and a hot meal and drinks on-board. Customers in this premium leisure segment may choose to fly business class or similarly pay for an economy ticket with extras.

4.3 Defining the airlines' core segments

To understand which customer segments each airline is targeting, it is useful to compare the products and airfares offered by each airline. See table 1 for a summary of the airlines' service offerings on larger city routes.

Table 1: Airline service offerings compared – on larger city routes

| Airline | Qantas | Jetstar | Virgin | Rex |
|---|---|--------------------------|---|---|
| Starting airfare and frequency – sample of routes²⁶ | | | | |
| Melbourne- Adelaide | \$129 (economy) | \$49 | \$59 (economy) | \$59 (economy) |
| | \$665 (business) | | \$299 (business) | \$299 (business) |
| | 13 daily services | 4 daily services | 7-8 daily services | 2-3 daily services |
| Sydney-Gold Coast | \$77 (economy) | \$44 | \$55 (economy) | \$55 (economy) |
| | \$685 (business) | | \$299 (business) | \$299 (business) |
| | 12-13 daily services | 9-10 daily services | 9 daily services | 2 daily services |
| Melbourne- Sydney | \$99 (economy) | \$30 | \$39 (economy) | \$39 (economy) |
| | \$716 (business) | | \$299 (business) | \$299 (business) |
| | 47-52 daily services | 9-16 daily services | 22-26 daily services | 5 daily services |
| On-board service – larger city routes | | | | |
| Cabins | Economy | Economy | Economy | Economy |
| | Business | | Business | Business |
| Meals/drinks | Complimentary meal. | Meal/drink for purchase. | Meal for purchase. | Complimentary snack. |
| - Economy class | Complimentary tea/coffee, beer/wine. | | Complimentary tea/coffee; beer/wine for purchase. | Complimentary tea/coffee; beer/wine for purchase. |
| Meals/drinks - Business class | Complimentary choice of hot meal, plated. | N/A | Complimentary choice of meal, plated. | Complimentary meal, boxed (no choice). |
| | Complimentary tea/coffee, beer/wine. | | Complimentary tea/coffee, beer/wine. | Complimentary tea/coffee, beer/wine. |

24 Based on domestic airfare expenditure spent by overnight visitors in 2019 and 2020; Tourism Research Australia; Australian Government, Austrade, [National Visitor Survey \(NVS\) Data tables – December 2020](#).

25 A Joyce, CAPA Live, '[Qantas airways group CEO Alan Joyce on business models and the future of the carriers](#)' [video], CAPA, 14 April 2021, accessed 10 May 2021.

26 One way airfare based on lowest airfare advertised on the airlines' websites in last 2 weeks of May for flights departing on a sample of weekdays in June and July 2021; non-stop flights only; includes any promotional airfares including TANS discounted airfares; Melbourne refers to Tullamarine airport only.

| | | | | |
|------------------------------|--|--|--|---|
| Inclusions | Complimentary check-in baggage and seat selection. | Pay for check-in baggage and seat selection. | Complimentary check-in baggage and seat selection. | Complimentary check-in baggage; pay for seat selection. |
| - Economy class | Complimentary inflight entertainment and Wi-Fi. ²⁷ | No inflight entertainment or Wi-Fi. | Complimentary inflight entertainment ²⁸ ; Wi-Fi – under review. ²⁹ | No inflight entertainment or Wi-Fi. |
| On the ground service | | | | |
| Lounges³⁰ | 35 lounges across 24 airports: - 5 Chairman's (invitation only) - 5 Business - 24 Qantas Club | Same as Qantas | 12 lounges across 7 airports: - 5 The Club (invitation only) – under review ³¹ - 7 Domestic | 3 lounges across 3 airports ³² |
| Loyalty³³ | Sophisticated programs: - Qantas Frequent Flyer - Business Rewards | Same as Qantas | Sophisticated programs: - Velocity - Accelerate | Basic program: - Rex Business Flyer |

Qantas has stated it defines its core customer segments as premium leisure and business, with the latter incorporating both corporate and SME travellers. Qantas stated in November 2019 that the value of its core segments were:^{34,35}

- 'premium leisure' (\$2.4 billion, 40% of total domestic revenue)
- 'corporate' (\$1.8 billion, 30% of total domestic revenue)
- 'SME' (\$1.8 billion, 30% of total domestic revenue).

At that time, Qantas considered that it held 80% of the total market share of the corporate segment, and 50% of the SME segment.³⁶ In May 2021, Qantas CEO Alan Joyce stated that he considers Qantas has maintained this 80% market share in the corporate segment and is increasing its market share in the SME and premium leisure segments.³⁷

The Qantas Group's low cost carrier Jetstar targets very different segments of the industry to Qantas, In November 2019, Jetstar defined its core segments as 'price sensitive leisure' (\$3.3 billion, 85% of total domestic revenue) and 'price sensitive business' (\$0.6 billion, 15% of total domestic revenue).^{38,39}

Virgin's targeted segments of the industry appear to have evolved in recent times. Prior to entering voluntary administration in 2020, Virgin serviced premium leisure and premium business customers while its low cost carrier subsidiary Tigerair serviced the price sensitive leisure segment. Since

²⁷ Inflight entertainment provided through Qantas entertainment app and in-seat on some domestic flights.

²⁸ Inflight entertainment provided through Virgin entertainment app.

²⁹ Wi-Fi is currently switched off. Virgin has flagged Wi-Fi will return but hasn't announced if it will be complimentary or provided for an additional fee.

³⁰ Some lounges temporarily closed due to COVID-19 disruptions.

³¹ The Club lounges are currently closed and may be discontinued permanently as Virgin reviews its service offerings following administration.

³² Excludes a temporary lounge at Canberra airport.

³³ Qantas and Virgin offer sophisticated loyalty programs, including programs targeting SME customers (Qantas' Business Rewards and Virgin's Accelerate). These sophisticated programs bring together variety of partners and offer multi-tiered memberships. Rex offers a basic loyalty program that rewards repeat eligible business class customers with free flights. For more discussion, see ACCC, [Airline competition in Australia – Report 3: March 2021](#), 17 March 2021.

³⁴ As a proportion of Qantas Domestic total revenue for 2019.

³⁵ Qantas Group, '[Investor Day presentation](#)', 19 November 2019, accessed 5 May 2021, p. 63; Qantas Group, '[Annual report 2019](#)', accessed 5 May 2021, p. 19.

³⁶ *ibid.*

³⁷ A Joyce, CAPA Live, '[Qantas airways group CEO Alan Joyce on business models and the future of the carriers](#)' [video], CAPA, 14 April 2021, accessed 10 May 2021.

³⁸ As a proportion of Jetstar Domestic total revenue.

³⁹ Qantas Group, '[Investor Day presentation](#)', 19 November 2019, accessed 5 May 2021, p. 63; Qantas Group, '[Annual report 2019](#)', accessed 3 May 2021, p. 20.

emerging from administration under new owner Bain Capital, Virgin has withdrawn Tigerair from the industry and new CEO Jayne Hrdlicka has stated that Virgin will decrease its cost base and shift into the mid-market.⁴⁰ This includes servicing the ‘premium leisure’, ‘price conscious corporate’ and ‘SME’ customers.⁴¹

Rex is offering a business product with business cabins on-board, and has plans to upgrade and expand its network of lounges⁴² and develop a multifaceted loyalty program. Based on Rex’s service offering, and its airfares, Rex appears to be targeting the mid-market leisure and business segments on its larger city routes.

4.4 Some customers will benefit more from competition than others

With airlines operating different networks of routes and targeting different segments of the industry, some domestic travellers will benefit more from competition and have a greater choice of airline than others.

The most significant factor is the number of airline groups that compete on the particular route the traveller is wishing to fly. With Rex’s expansion into routes connecting larger cities (see section 2.5), from late-June there will be 3 competing airline groups flying on a number of routes (see table 2).

Table 2: Routes being serviced by all 3 airline groups, late-June 2021

| | | |
|--------------------|------------------------------|----------------------|
| Sydney–Melbourne | Sydney–Gold Coast | Melbourne–Gold Coast |
| Melbourne–Adelaide | Sydney–Ballina ⁴³ | Melbourne–Canberra |

Even on these most contested routes, it may be customers with an eye on both the quality of service offering and price that benefit the most from competition in terms of attractive airfares, service inclusions and schedules. This is because both Virgin and Rex appear to be directly competing for this mid-market segment of the industry (see figure 11), while consumers at the margins may choose Qantas or Jetstar to meet their needs.

Other travellers may find that they benefit considerably less from competition. This is most apparent on the many routes for which there is only a single airline in operation. However, even travellers on other routes may find more limited offerings to meet their preferences. For example, some premium business travellers may consider that only Qantas now meets their needs in terms of premium lounge facilities, with Virgin now apparently focusing on more value-conscious travellers. Meanwhile, customers that are extremely price sensitive may find that the withdrawal of Tigerair has left them with fewer choices that meet their preferences.

40 For example by simplifying its fleet.

41 Virgin Australia, ‘[Virgin Australia announces executive leadership team appointments](#)’ [media release], 18 January 2021, accessed 10 May 2021.

42 Rex currently has 3 lounges at Melbourne, Sydney and Adelaide airports, and a temporary lounge at Canberra airport until July 2021. Rex plans to update its Sydney lounge by the end of 2021.

43 Rex operates 2 return services a week.

Figure 11: Airlines on the price/quality spectrum





AUSTRALIAN COMPETITION
& CONSUMER COMMISSION

