Australian Competition & Consumer Commission

Airline competition in Australia

Report 7: March 2022

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Australian Competition and Consumer Commission
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Contents

Glossary

BITRE	Bureau of Infrastructure and Transport Research Economics
CCA	*Competition and Consumer Act 2010* (Cth)
Golden triangle	Routes connecting Sydney, Melbourne and Brisbane
Larger city	Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra or the Gold Coast
Load factor	The degree to which aircraft seats are filled by passengers
Qantas	Qantas domestic passenger airlines, that includes 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 includes Virgin Australia and Virgin Australia Regional Airlines. Virgin operated Tigerair until March 2020
Wet lease	A leasing arrangement whereby one airline supplies aircraft, crew and maintenance to another airline

Key industry insights and developments

Omicron wave hinders airline industry recovery

Large numbers of cases of the COVID-19 Omicron variant hindered the industry's recovery in recent months, despite more open borders. The Omicron wave weakened consumer confidence to travel and sent airline staff into isolation, leading to cancelled flights and reduced schedules. 2.5 million passengers travelled in January 2022, 50% of pre-COVID-19 levels.

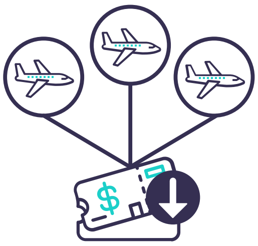
New airline Bonza announces initial route network

New low-cost leisure airline Bonza has revealed the 16 destinations across Queensland, Victoria and New South Wales it will connect via 25 direct routes when it launches services in mid-2022.

Bonza will seek to stimulate demand with low fares and new destination choice, with 80% of routes currently unserved. All routes but one are without another low-cost carrier alternative.

Virgin reclaims market share from the Qantas Group

Virgin has recovered market share lost to the Qantas Group when it discontinued low-cost carrier Tigerair and exited several regional routes. Virgin carried 34% of passengers in January 2022, up from 22% in November 2020 when it emerged from voluntary administration.



Consumers benefit where routes have 3 airline groups

With Rex's expansion and Virgin's re-entry on some routes, there are now 9 routes in Australia serviced by all of the Qantas Group, Virgin and Rex. Consumers on routes with 3 airline groups benefit from more choice and reduced airfares.

Airlines reduce costs, but jet fuel prices are on the rise

Airlines have implemented programs to reduce their costs since the onset of the pandemic, with measures such as reducing their workforce, re-negotiating supplier contracts and redesigning service offerings. Jet fuel prices have generally been low over this period, but recently increased to an 8-year high. Jet fuel and labour account for about half of an airline's total costs.

Overview

The Australian domestic airline industry has suffered yet another setback in its recovery as the country experienced a wave of COVID-19 cases associated with the Omicron variant.

With most domestic borders opening in late 2021, airlines stood up staff and increased seating capacity to accommodate the expected return to pre-pandemic levels over the summer holiday period. Scheduled capacity almost reached that mark, hitting 95% of pre-COVID-19 levels in the week of Christmas. However, airlines were cancelling hundreds of flights within days as the Omicron wave forced passengers and airline staff into isolation.

Passenger numbers were recovering sharply at the end of last year. In December passenger numbers reached 47% of pre-COVID-19 levels, up from an October low of 17%. However, the recovery stalled in January with passenger numbers only increasing marginally to 2.5 million passengers, or 50% of pre-COVID-19 levels.

To stimulate demand, the airlines did not raise the price of discount airfares in the December holiday period as they typically would. Airfares fell on Brisbane to Melbourne and Sydney routes in December, with Virgin and Jetstar reducing prices in response to Rex's entry on to the routes.

The industry has entered a new phase of its recovery. Previously lengthy border closures and other significant movement restrictions stopped demand returning to pre-COVID-19 levels. However, as at early March, all Australian borders are open. It is now individuals' confidence to travel that is driving the industry's recovery. Airlines now have the challenge of anticipating individuals' appetite to travel, with the potential for further variants and waves of cases.

In a significant development for the Australian airline industry, new low-cost airline Bonza recently announced its initial network of 25 routes to 16 destinations across Queensland, New South Wales and Victoria. Its main base at the Sunshine Coast is scheduled to have direct flights to 8 eastern seaboard destinations with only one route currently contested. The network will also connect Melbourne and regional communities at Albury and Mildura with popular Queensland holiday destinations. With a handful of exceptions, Bonza is predominantly launching routes not currently served by any airline. Bonza's entry onto contested routes will provide more consumer choice and is expected to reduce prices.

The ACCC continues to monitor how the other airlines respond to this planned entry and will investigate any behaviour that may substantially lessen competition.

The Australian domestic airline industry has predominantly been a duopoly since deregulation 30 years ago. However, with Rex's expansion and Virgin's return to some routes, there are now 9 routes serviced by all of the Qantas Group, Virgin and Rex. This has delivered significant benefits for consumers through greater choice and lower airfares.

Virgin had the highest market share of all the airlines in January 2022 with 34% of passengers, slightly ahead of both Qantas and Qantas-owned Jetstar with 31% each. Virgin has steadily been recovering market share since it emerged from voluntary administration in November 2020 with a 22% share.

Australian airlines have implemented cost cutting programs to navigate the pandemic and emerge with more efficient operations. These measures include reducing labour costs, re-negotiating more favourable aircraft terms of lease, and redesigning product offerings. Low jet fuel prices over this period have helped to reduce costs, although prices are now at an 8-year high due in part to the conflict in Ukraine.

Airport charges can be a notable cost item for airlines. While airfares often reflect a consumer's willingness to pay or airline competition more than the underlying costs of providing the service, airport charges appear to represent about 10–12% of a passenger's ticket price on average. Excessive airport charges can harm consumers on some routes through higher airfares, or through reduced competition or connectivity where high airport charges make the route unprofitable. For example, in announcing its initial route network, Bonza said that it was unable to include Sydney in part because of the commercial terms on offer. The issue of airport charges will be explored further in the ACCC's next Airport Monitoring Report, due to be released in April.

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 seventh 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 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 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 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 our 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 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 Capacity close to recovery in December before Omicron rattled consumer confidence

As most state and territory borders opened by December 2021, the airlines ramped up capacity in anticipation of the peak holiday season of travel. Scheduled weekly capacity almost recovered to pre-COVID-19 levels at 95% in the week of Christmas.[3] This was also the highest weekly scheduled capacity since the pandemic first impacted Australia 2 years ago.

However, exponential growth in cases of Omicron in late December and January led to airlines having to cancel hundreds of flights as both passengers and airline staff were forced into isolation as close contacts or positive cases.

The Qantas Group reported that the Omicron wave set back its recovery by 6 months.[4] Before Omicron, the Group had forecast a return to pre-pandemic flying in January. The Group now expects to reach 68% pre-pandemic capacity in the first quarter of 2022.[5] Virgin announced a 25% reduction in scheduled capacity over January and February, as well as temporarily suspending 10 routes, most in and out of Northern Queensland.[6]

Virgin also postponed the launch of its services on the Sydney – Canberra route. Virgin had planned to re-enter the route from the end of January 2022 when business traffic was expected to recover. Under a wet lease agreement with regional operator Link Airways, Virgin plans to add 50 weekly return services using the smaller airline's 34-seater Saab 340 turboprops.[7]

The recovery in capacity numbers was further delayed by the Western Australia Government's decision to postpone the reopening of its state border by a month to 3 March. Interstate flights in and out of Western Australia made up around 10% of the Qantas Group's and Virgin's overall capacity pre-COVID-19.

Some pressure on crew and pilot shortages was relieved in mid-January when the Australian Government relaxed isolation requirements for workers in critical industries, including workers in air transport services.

With exponential growth of COVID-19 cases in the community from late December and January, many consumers chose to cancel or postpone their travel plans despite mostly open borders. Tourism Research Australia reported that in late January 2022, consumers' intention to travel domestically reduced 10 percentage points compared with December 2021, with concerns about contracting COVID-19 increasingly a key driver for the decline.[8]

The airlines now face a different challenge in navigating the pandemic. Previously, prolonged movement restrictions and border closures hampered the industry's recovery. However, as at early March, all states and territories have removed travel restrictions for vaccinated Australians. It is uncertain how consumers will respond to future spikes in case numbers or new variants, and the airlines must now anticipate and respond to consumer demand in a changing COVID-19 environment.

3 Week of 20 December 2021; Tigerair data included in pre-COVID-19 figure; CAPA, scheduled capacity figures, accessed 15 February 2022.

4 Hatch, P, The Age, ''Frustrating': Qantas says Omicron pushed back travel recovery by six months', 24 February 2022, accessed 24 February 2022.

5 Qantas, *Qantas Group posts half year loss but strengthens balance sheet* [media release], 24 February 2022, accessed 24 February 2022.

6 Baird, L, Australian Financial Review, 'Virgin flights cut and revenues closed as omicron rips staff', 10 January 2022, accessed 24 February 2022.

7 Virgin, *Virgin Australia to restart Sydney-Canberra services under new exclusive agreement* [media release], 2 December 2021, accessed 1 March 2022.

8 Tourism Research Australia, *Travel Sentiment Tracking Australia, Fieldwork 19 – 25 January 2022*, accessed 15 February 2022.

However, there are signs demand is starting to return. Virgin reported that seat redemptions through its Velocity loyalty program was 40% higher in the first week of February 2022 compared with the December 2021 and January 2022 average.[9] Qantas reported that leisure demand for the Easter holiday period is picking up. Qantas expects to return to 86–90% of pre-COVID-19 capacity between April–June 2022, with Jetstar set to surpass this at 100–117%.[10] Rex reported an increase in bookings in February following Omicron's peak.

Additionally, demand for international flights is increasing since Australia's border opened to all vaccinated travellers on 21 February. Following the government's announcement a few weeks earlier, Qantas reported that bookings for international flights to Australia doubled within 24 hours of the government's announcement. The Qantas Group expects to increase to 44% of pre-COVID-19 international capacity between April–June 2022.[11] While good news for airlines operating internationally, this also increases the pool of passengers travelling on domestic flights. Pre-COVID-19, international visitors contributed to 8% of the overall demand for domestic air services,[12] although some of this demand may be offset by Australians choosing to travel overseas in place of a local holiday. Virgin reported that 39% of its Velocity members are planning an overseas trip in the next 12 months.[13] Although, the conflict in Ukraine adds uncertainty to the trajectory of the recovery of international travel.

2.2 Airlines post further losses as the pandemic enters its third year

The continuing financial impact of COVID-19 is evident from recent results posted by the airlines for the first half of the 2021–22 financial year, especially with the scaling back of government support programs.

The Qantas Group (including all business segments) reported a statutory loss before tax of $622 million for the 6-month period. In explaining the results, the Group pointed to the impact of both the Delta and Omicron waves on demand for travel, as well as stranded labour costs associated with the decision to stand up all Australian-based employees in December. In a sign of the post-Delta recovery, the Group recorded 3 consecutive months of positive net free cash flow between October and December (excluding a sale of land at Mascot), largely due to the recovery in forward bookings.[14]

Rex reported a statutory loss before tax of $53 million for the half year impacted by both the Delta and Omicron variants. In particular, Rex noted its intercity network, which is serviced by its 737 fleet, was suspended for the majority of this period. It reported government grants and subsidies of $28 million, which was half that of the corresponding period in the previous year. Revenue excluding government grants increased by around 35%. Rex said that prospects for the second half financial year are expected to improve over the first half. The airline also said it is planning to expand its 737 fleet at the earliest opportunity.[15]

Both Qantas and Rex were likely impacted in early January when the government tightened funding eligibility under the Regional Airline Network Support (RANS) program. RANS is due to end on 30 June 2022. Airlines may exit some marginal regional routes when the program ends where demand is slower to return to pre-COVID-19 levels.

9 Based on a survey conducted by Virgin; Virgin, *Velocity Frequent Flyer and Singapore Airlines open world of travel* [media release], 7 February 2022, accessed 15 February 2022.

10 Qantas Airways Limited, '1H22 results presentation', 24 February 2022, accessed 24 February 2022.

11 Ibid.

12 Tourism Research Australia, *Moving forward: The role of domestic travel in Australia's tourism recovery*, August 2020, pp 7–8, accessed 16 February 2022.

13 Based on a survey conducted by Virgin; Virgin, *Velocity Frequent Flyer and Singapore Airlines open world of travel* [media release], 7 February 2022, accessed 15 February 2022.

14 Qantas Airways limited and its controlled entities, 'Appendix 4D and consolidated interim financial report for the half-year ended 31 December 2021', 24 February 2022.

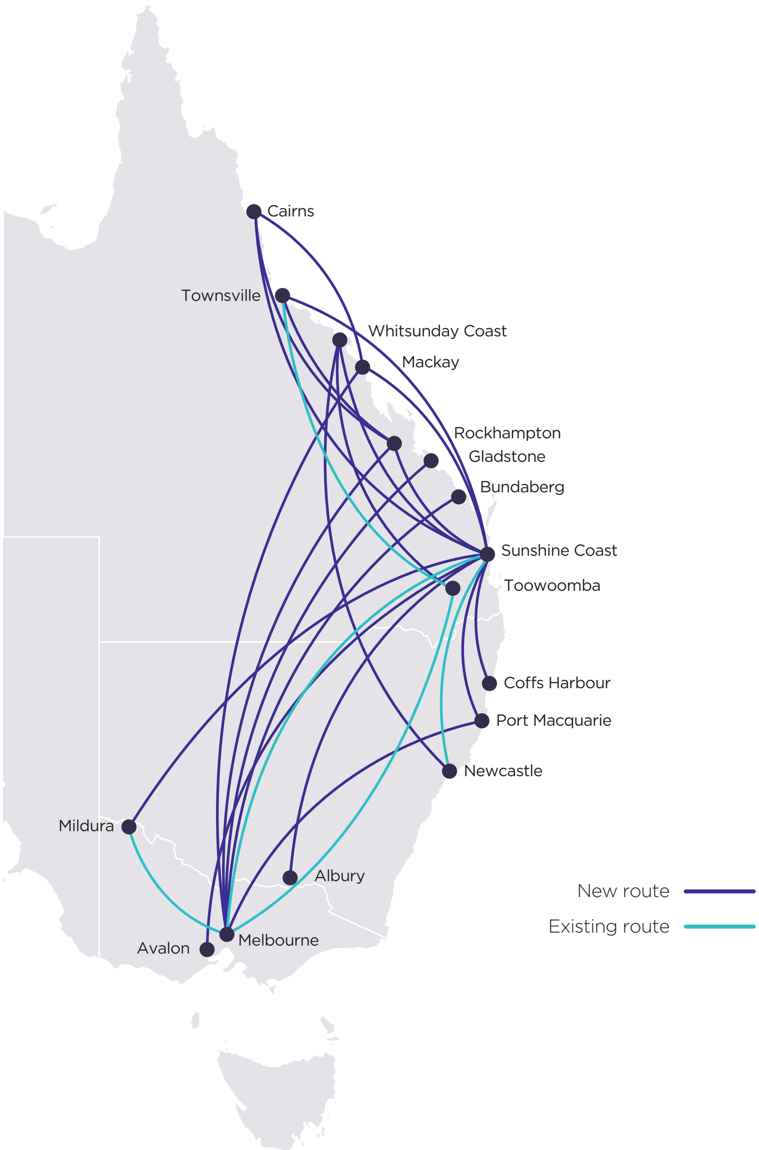
15 Rex, '31 December 2021: Half-year financial report', 25 February 2022; Rex, *Rex announces 1H FY2022 results* [media release], 25 February 2022, accessed 1 March 2022.

Charter and wholesale services operator Alliance Airlines has fared better than others under COVID-19, but it reported a statutory loss before tax of $4.5 million for the first half of 2021–22. The prolonged pandemic has impacted negatively on the planned utilisation and deployment of its Embraer E190 aircraft under significant wet lease arrangements with Qantas. Qantas is not expected to increase its E190 utilisation from 10 to all 18 available aircraft until October 2022.[16]

2.3 New airline Bonza has announced its flight network with predominantly new leisure routes

Expected new entrant Bonza has announced plans to launch 25 routes connecting 16 destinations across Queensland, Victoria and New South Wales later this year (see Figure 1). Bonza's network of direct flights will improve connectivity to regional towns and popular holiday destinations, with 80% of the routes not currently served by any carrier. The addition of 37 new direct weekly flights to 12 destinations will make Bonza's home base the Sunshine Coast Airport Queensland's second most connected airport, up from 10th.[17]

Figure 1: Bonza's initial route network



16 Alliance Aviation Services Limited, Results Presentation 1H FY2022, 9 February 2022, accessed 10 February 2022

17 Noosa Today, 'Bonza flies into Sunshine Coast' 16 February 2022, accessed 21 February 2022.

It will also give travellers an additional option on the following contested routes:

- Melbourne – Sunshine Coast, currently operated by Qantas, Virgin and other low-cost carrier Jetstar
- Melbourne – Mildura, currently operated by Qantas and Rex
- Toowoomba to Townsville and Melbourne, currently operated by Airnorth
- Newcastle – Sunshine Coast, currently operated by FlyPelican.

In keeping with its original plans to operate a low frequency network, Bonza will fly individual routes between 2–5 times per week. It plans to offer low fares and the convenience of better connectivity to stimulate new demand for travel to underserved destinations.

Bonza hopes to start flying around mid-2022 pending regulatory approvals, with tickets to go on sale by April.

Bonza announced Melbourne Airport as its secondary base to operate 2 of its initial fleet of Boeing 737 MAX 8 aircraft. With services departing from both Melbourne and Avalon Airports, Bonza can tap into the large catchment of Greater Melbourne and Geelong based consumers, many of whom already holiday and visit family and friends in Queensland's main coastal destinations. In 2019 an average of 183,000 return seats per month were available for direct flights on existing Melbourne or Avalon to Queensland routes excluding Brisbane. Bonza's initial network will add about 15,000 return seats per month on flights between Melbourne and Avalon and its 6 Queensland destinations.

The ACCC will monitor how the other airlines respond to the new competition. Where an airline enters, or alters capacity or pricing on the routes announced by Bonza, the ACCC may investigate whether this practice is anti-competitive.

Sydney is a notable exclusion from Bonza's initial route network. Despite wanting to bring its services to Australia's largest city, Bonza stated that its business model based on low airfares could not work with the commercial terms being offered by Sydney Airport.[18] The ACCC has voiced concerns about the potential harm to consumers and competition from the lack of regulatory oversight of the large monopoly airports. The significance of airport charges is considered further in Chapter 5.

Another factor for Bonza's decision to exclude Sydney was the challenge in accessing take-off and landing slots at the airport.[19] The ACCC is currently engaging with a government review of the slot allocation processes to help address this barrier to entry for new and expanding airlines (see section 2.4).

2.4 Airlines receive further relief from slot use requirements at Sydney Airport

As the Omicron variant hinders the industry's recovery, airlines have received further relief from obligations to use their allocated slots to take off and land at Sydney Airport.

For the current slot season which runs until 26 March 2022, the Minister for Infrastructure had initially determined that domestic airlines would need to use their allocated slots 50% of the time in order to retain historic precedence into the next season.[20] However, from 30 January 2022, a subsequent direction provided domestic airlines with a full waiver for the rest of the slot season. International airlines already had a full waiver for the complete season.

The next slot season runs from 27 March to 29 October 2022. The Minister has determined that international airlines will again receive a full waiver from the need to use their slots in recognition of the low forecasts of international flying during this period.[21] Domestic airlines will receive a partial

18 Dowling, H, Australian Aviation, 'Exclusive: Bonza won't deal with airports that don't negotiate fees', 16 February 2022, accessed 17 February 2022.

19 Ibid.

20 Joyce, B (Minister for Infrastructure, Transport and Regional Development), *Minister's Directions to the Slot Manager 2022 (No.1)*, 24 January 2022.

21 Ibid, *Minister's Directions to the Slot Manager 2022 (No.2)*, 22 February 2022.

exemption which means they will need to operate flights 70% of the time. Slots allocated for use for flights to and from Western Australia will be counted as 'used', for as long as quarantine requirements upon entry remain in place, and until 4 weeks after these requirements are lifted.

In normal circumstances, airlines are required to use a slot 80% of the time if they wish to retain it for the following season. At Sydney Airport, for which slot allocation is governed by legislation, the Minister has provided certain waivers to the slot usage rules since COVID-19 first began.

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 competition. As discussed above, new airline Bonza said that the lack of access to slots was one of the reasons why Sydney was not included in its initial route network.[22] Rex is also looking for permanent access to peak period slots to support its expansion into intercity jet services.

Waivers from slot usage requirements have enabled international airlines to retain their slots despite minimal or no flying, which will facilitate their return as demand for international travel grows. However, the waivers may also have delayed domestic airlines getting permanent access to slots held by certain international airlines that will ultimately decide not to recommence services in and out of Australia.

The ACCC is engaging with government on reforms to the demand management scheme at Sydney Airport. In particular, we consider that historic precedence to slot allocations should not be used to protect incumbent airlines from competition.

As part of this work, the ACCC is participating in industry working groups organised by the Department of Infrastructure, Transport, Regional Development and Communications, to give more detailed consideration to the recommendations from the review by Peter Harris.[23] After public consultation which commenced in November 2020, Peter Harris provided his report to the government in February 2021.

2.5 WA Supreme Court rules on dispute between Qantas and Perth Airport over aeronautical charges

In February 2022 the Supreme Court of Western Australia announced its decision in a dispute between Qantas and Perth Airport. The dispute was over the aeronautical charges that Qantas was liable to pay to Perth Airport between July and October 2018, while the 2 parties were negotiating a new pricing agreement following expiry of the previous one.

The court ordered Qantas to pay $9.52 million on top of the $21.07 million it had already paid.[24]

The proceedings lasted almost 3.5 years. In making its judgement, the court found that Perth Airport possesses, and has likely exercised, substantial market power.[25]

The ACCC is currently analysing the decision and will comment on it further in the ACCC's next Airport Monitoring Report, due to be released in April.

22 Hatch, P, 'New airline Bonza targets half-price fares on 25 routes', The Age, 15 February 2022, accessed 15 February 2022.

23 Department of Infrastructure, Transport, Regional Development and Communications, 'Review of the Sydney Airport Demand Management Scheme', accessed 2 February 2022

24 Supreme Court of Western Australia, Perth Airport Pty Ltd v Qantas Airways Ltd [No 3] [2022] WASC 51, 18 February 2022 and Perth Airport Pty Ltd v Qantas Airways Ltd [No 3] [2022] WASC 51 (S), 24 February 2022.

25 Ibid, paragraph 601.

3. Key industry metrics and analysis

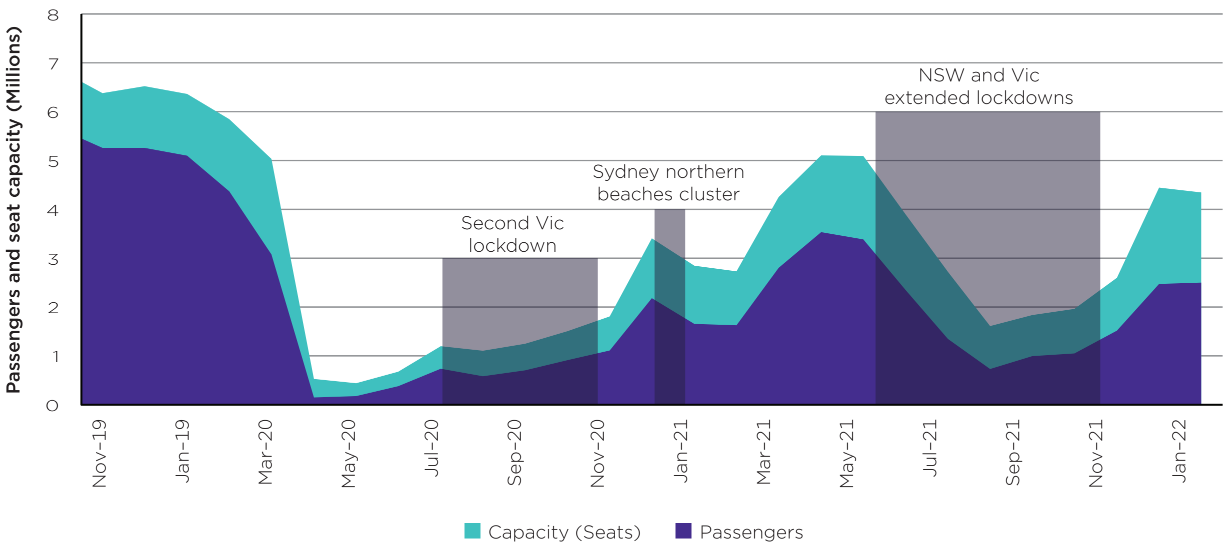
This chapter presents analysis of key industry metrics. Unless specified otherwise, we calculate these metrics from data supplied to the ACCC from the Qantas Group (consisting of Qantas and Jetstar), Virgin[26] and Rex on a monthly and quarterly basis. The chapter contains 2 parts:

- Sections 3.1 to 3.4 covers the state of the airline industry to January 2022 as the response to the Omicron variant resulted in another period of subdued activity.
- Section 3.5 covers the trends in airfares up to February 2022.

3.1 Omicron has stalled the airline industry's recovery

The domestic airline industry has endured a disrupted path to recovery with movement restrictions continually tightening and easing since March 2020. Domestic flights and passenger numbers re-commenced their recovery from November 2021 as state borders to New South Wales and Victoria began to reopen. Figure 2 shows that 2.47 million passengers flew in December 2021, 47% of the December 2019 pre-COVID-19 passenger number. Momentum continued throughout December to the point where the number of passengers flying in the last full week of the year represented 60% of those that travelled in the equivalent week in 2019.

Figure 2: Australian domestic air services – November 2019 to January 2022



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

However, the recovery stalled in January 2022 with each airline except Jetstar reporting lower passenger numbers, as many consumers reconsidered their need to travel during the beginning of the Omicron outbreak. Overall passenger numbers increased only marginally to 2.5 million passengers.

Capacity recovered more rapidly than passenger numbers through November and December 2021, with the airlines anticipating high travel demand after extended lockdowns in the major states. In December 2021 4.4 million seats were available, or 68% of December 2019 capacity. Weekly capacity also increased through December 2021 with 123,000 seats available in the final full week of the year, 86% of seats available in late December 2019. Monthly capacity fell slightly to 4.3 million seats in January 2022 as the airlines responded to weaker than forecast demand.

26 Historical data presented in relation to Virgin includes that which relates to its subsidiary Tigerair, which was discontinued in March 2020.

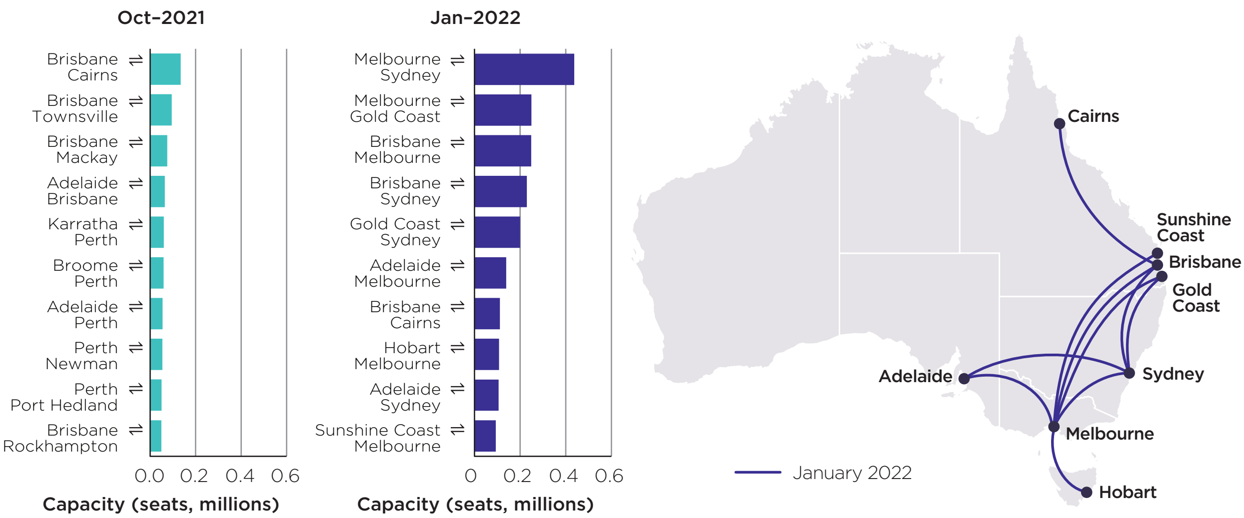
Monthly load factors averaged 57% between December 2021 and January 2022 with demand stalling. Load factors remained below the 2021 high of 69% in April, and well below the 80% load factors the airlines achieved pre-pandemic.

Cancellations rose in December 2021 and January 2022 due to Omicron, initially as airline staff were forced to isolate, then in response to weaker demand than forecast. The airlines cancelled 7.6% of all scheduled flights in December 2021, which increased to 11.9% in January 2022. The cancellation rates in December 2021 and January 2022 were higher on the major intercity routes than on other route types, as airlines withdrew capacity intended to service interstate holiday demand. The January 2022 cancellation rates were highest on the Melbourne – Sydney (24%) and Brisbane – Sydney (23%) routes.

3.2 Interstate routes once again had the highest capacity as state borders reopened

Interstate routes re-emerged as the highest-capacity domestic routes in recent months as most state and territory borders reopened. Figure 3 shows that 9 of the top 10 routes by capacity in January 2022 were interstate routes, with routes to leisure destinations including the Gold Coast and the Sunshine Coast performing relatively well compared to other major routes during this summer holiday period.

Figure 3: Busiest routes by monthly capacity – October 2021 and January 2022



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

Relative to pre-COVID-19 levels (January 2019), capacity in January 2022 was 61% higher on Sunshine Coast – Melbourne with 94,000 seats, and 12% higher on Gold Coast – Melbourne with 249,000 seats. Capacity remained below January 2019 levels on each of the other top 10 routes. Of the Golden Triangle routes, capacity remained 32% below January 2019 levels on Brisbane – Melbourne, 47% down on Melbourne – Sydney, and 49% down on Brisbane – Sydney.

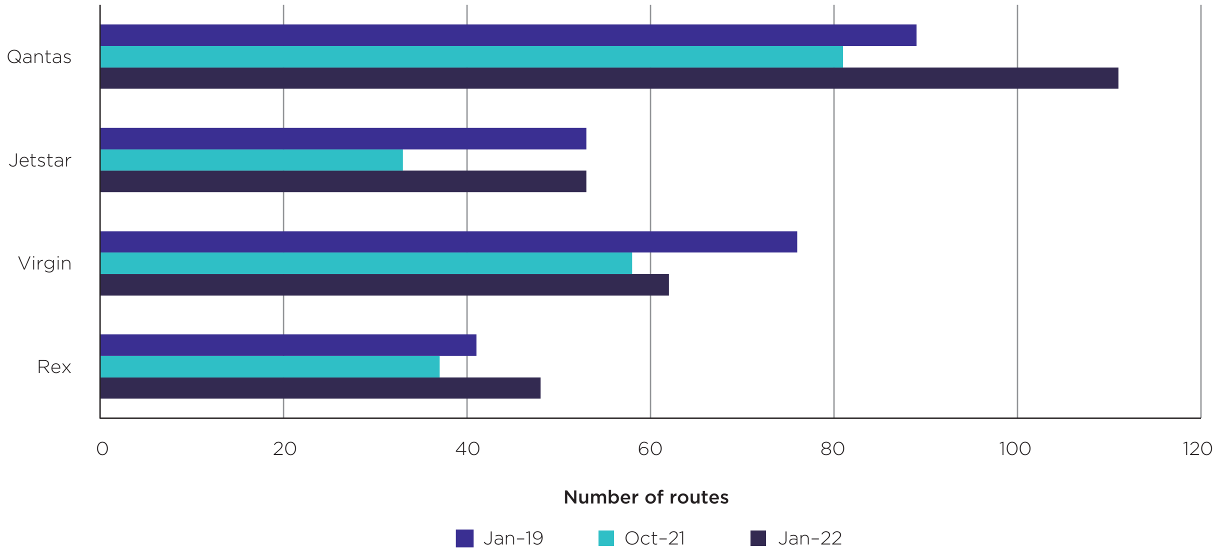
Brisbane – Cairns continued to be the busiest intrastate route in January 2022 with 112,000 seats, although capacity was down 17% relative to October 2021 when it was the busiest domestic route in the country.

3.3 The airlines have resumed services on several routes as borders reopened in late 2021

The airlines quickly resumed services from November 2021 as state borders gradually reopened. In addition, each airline entered 2 or more new routes between October 2021 and January 2022, however new routes to Perth were subsequently withdrawn. The airlines' combined network coverage increased from 137 routes in October 2021 when border closures remained in place, to 153 routes in January 2022, in line with route coverage during the April – June 2021 period.

Figure 4 shows that Qantas increased its network coverage from 81 to 111 routes between October 2021 and January 2022. Many of routes Qantas re-entered were routes it originally entered after July 2020, which were not viable in a period of movement restrictions. It also entered Melbourne – Ballina in November 2021 and Melbourne – Burnie in December 2021.

Figure 4: Number of routes operated by airlines, January 2019, October 2021 and January 2022



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

Note: Select multi-hop routes are treated as a single route. Virgin data for January 2019 includes data for Tigerair.

Jetstar increased its network coverage from 33 to 53 routes between October 2021 and January 2022, resuming services to key holiday destinations such as the Gold Coast and Sunshine Coast. It entered Brisbane – Perth in November 2021, however by January it had withdrawn services on all its Perth routes. Jetstar also entered Sydney – Mackay in December 2021.

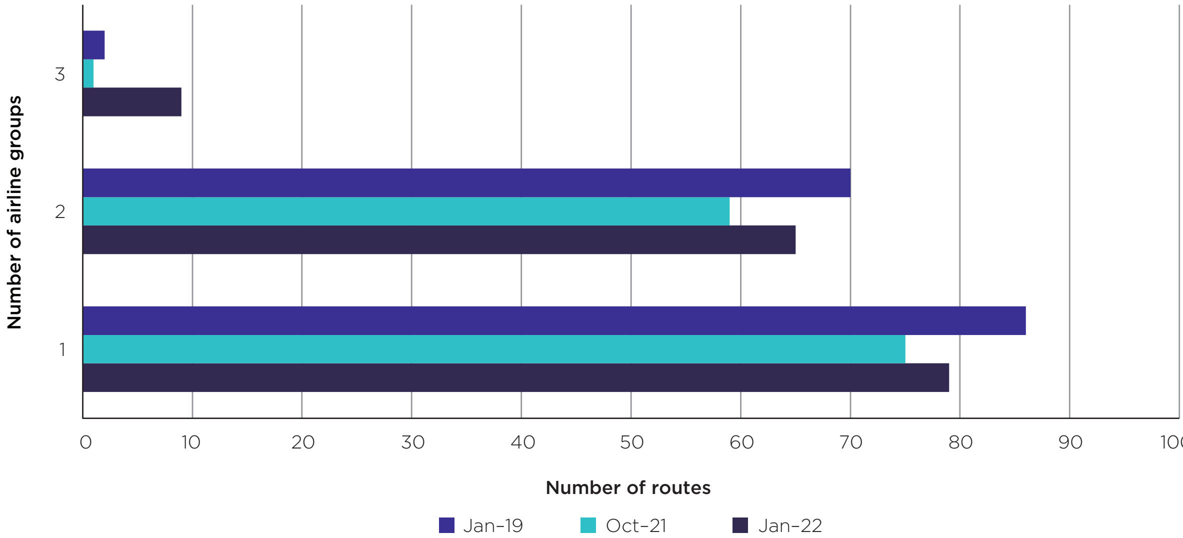
Virgin increased its network coverage from 58 to 62 routes between October 2021 and January 2022. In January 2022 Virgin announced that due to Omicron it would temporarily suspend services on 10 routes, including routes it had only recently entered including Melbourne – Coffs Harbour, Hobart and Launceston to the Gold Coast, and Melbourne and Sydney to Townsville.[27] Virgin also entered Cairns – Gold Coast, Sydney – Coffs Harbour, and Launceston – Perth in November 2021. Like Jetstar, it had withdrawn most interstate Perth services by January 2022.

Rex increased its network coverage from 37 to 48 routes between October 2021 and January 2022. It began recommencing its intercity jet services from November 2021 and entered Melbourne and Sydney to Brisbane in December 2021. From January 2022 it also commenced operations on the Central 1 regulated Queensland route between Brisbane, Roma and Charleville.

27 Dowling, H, Australian Aviation, 'Virgin slashes flight capacity, halts international flights', 10 January 2022, accessed 16 February 2022.

Figure 5 shows the distribution of Australian domestic routes according to whether the route had 1, 2 or 3 competing airline groups. The number of routes serviced by 3 competing airline groups increased from 1 to 9 between October 2021 and January 2022, with Rex recommencing its jet services, entering Sydney and Melbourne to Brisbane, and Virgin re-entering Sydney – Coffs Harbour. In January 2022 1.1 million or 43% of all domestic passengers flew on routes serviced by 3 airline groups.

Figure 5: Number of routes serviced by 1, 2 and 3 airline groups – January 2019, October 2021 and January 2022



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

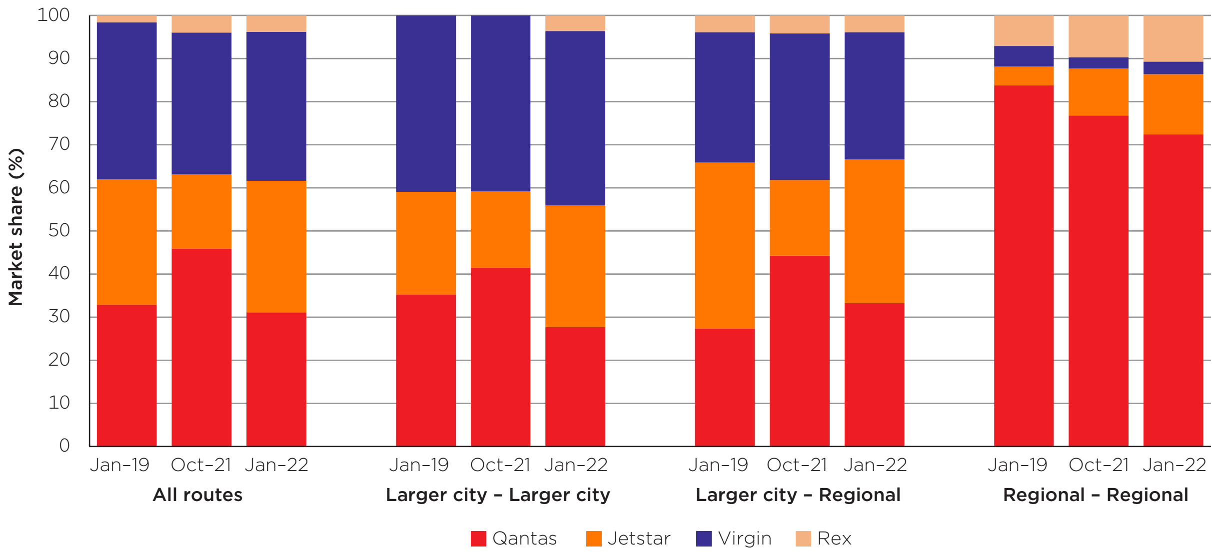
Note: Select multi-hop routes are treated as a single route. Qantas/Jetstar are treated as a single airline group. Virgin data for January 2019 includes data for Tigerair.

The number of routes with 2 competing airline groups increased from 59 in October 2021 to 65 in January 2022 as the airlines recommenced services. Similarly, routes serviced by one airline increased from 75 to 79 over the same period. Overall 153 routes were serviced in January 2022, only 5 less than in January 2019.

3.4 Virgin had the highest passenger market share of any single airline brand in January 2022

Figure 6 shows the share of passengers carried by each of the 4 main airlines in Australia, broken down by the type of route. Virgin had the highest passenger market share of any single airline brand in January 2022 with 34% of passengers, ahead of Qantas and Jetstar with 31% each, and Rex with 4%. Virgin has steadily recovered market share since it came out of administration in November 2020, at which point it held a 22% share of domestic passengers. Virgin's market share in January 2022 was highest on the routes between larger cities (41%).

Figure 6: Airline market share by passengers flown – January 2019, October 2021 and January 2022



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

Note: 'Larger cities' are Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast. Remaining locations are considered 'regional'. Virgin data for January 2019 includes data for Tigerair.

Jetstar's 31% passenger market share in January 2022 is up from 17% in October 2021, driven by reopened borders and strong leisure demand during the summer holiday period. Its share was highest on city-regional routes with 33% of passengers.

The Qantas Group remains the largest airline group with a 62% share of passengers across all routes in January 2022, similar to its January 2019 share. It held a 66% share on city-regional routes in January 2022, however Virgin's recovery on the routes between larger cities has meant the Qantas Group's share fell from 59% in January 2019 to 56%.

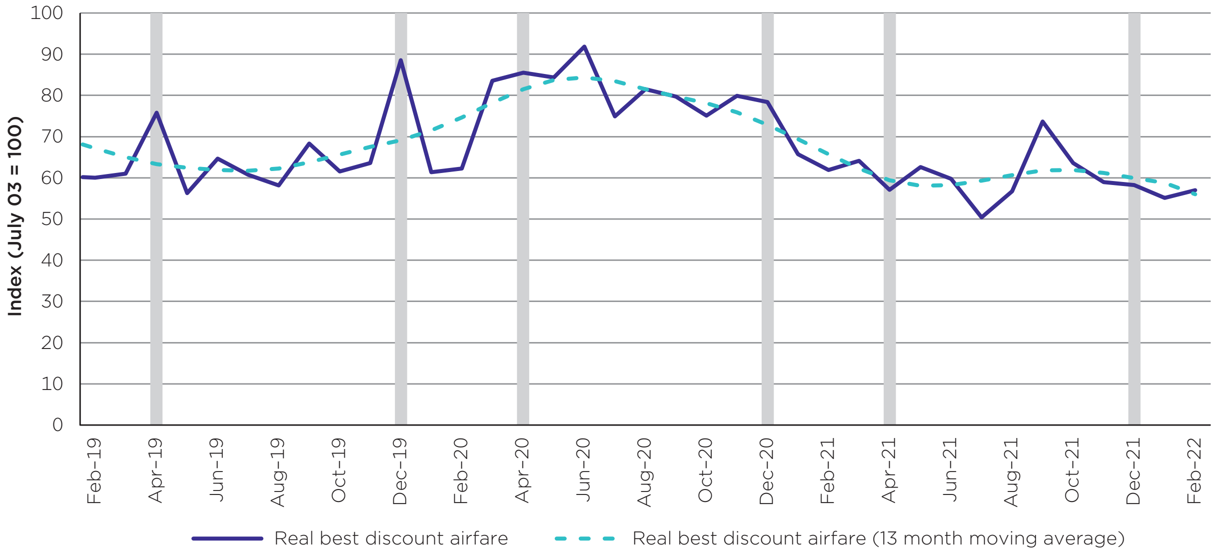
January is typically Rex's quietest month with reduced travel to regional areas for business during the holiday period. It held a 4% share of passengers on routes between larger cities in January 2022 after recommencing its jet services in November 2021 and entering Brisbane – Melbourne and Brisbane – Sydney. Since October 2021 it has maintained its 4% share on city-regional routes and marginally increased its share of regional-regional flights from 10% to 11%.

3.5 The price of the cheapest airfares on the busiest routes were increasing into early 2022

In an effort to stimulate travel demand into the summer break as domestic borders reopened, the airlines did not–as they typically would–raise their lowest prices of discount airfares into December 2021.

Figure 7 shows the change in the price index representing the cheapest discount airfares, weighted across the 70 busiest domestic routes. Discount airfares fluctuated between 55 and 59 on the index from November 2021 to February 2022, below the 2019 average of 65. This comes after falling from a 2021 high of 74 in September when movement restrictions remained in place.

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



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

Note: Grey bars indicate December and Easter holiday periods.

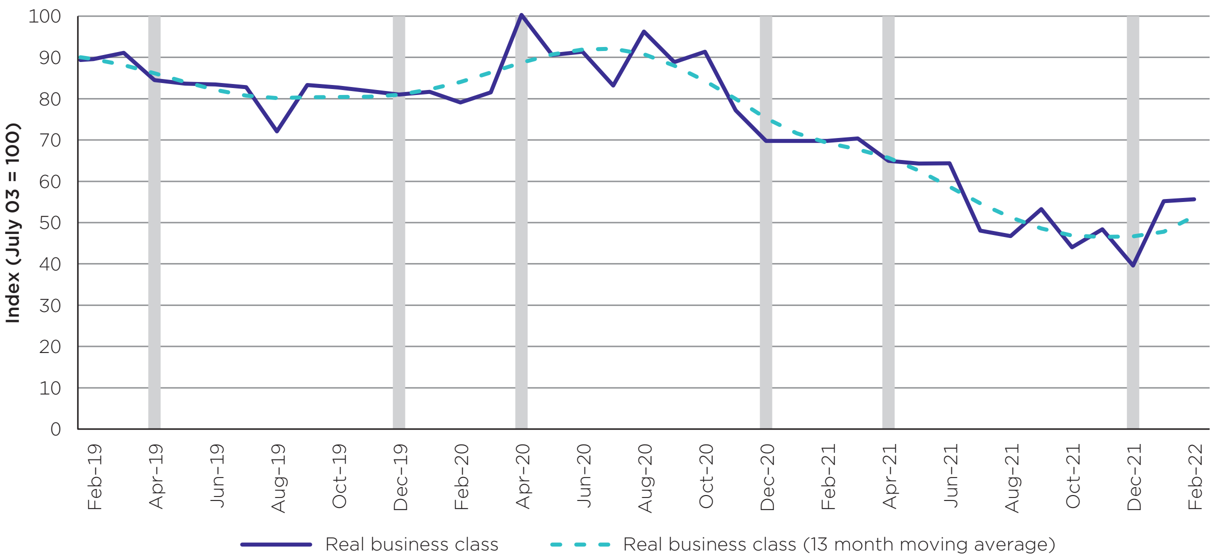
Separately, the ACCC observed that airfares fell on Melbourne – Brisbane and Sydney – Brisbane in December 2021 following Rex's entry onto the 2 routes and Virgin's and Jetstar's price response. In contrast, price increases were most significant on Perth routes with fewer airlines servicing Perth from other major cities due to Western Australia's continued border closure.

In February 2022 the ACCC observed each of the airlines raising the price of their lowest discount airfares by $10–20 across the major interstate routes between Melbourne, Sydney, the Gold Coast and Brisbane.

Figure 8 shows the price index of business class airfares jumped from a new low of 39.6 in December 2021 to 55.2 in January 2022. Despite the recent increase, the price of business class airfares has been trending downwards since late-2020 when Virgin reduced the price of its airfares from pre-COVID levels.[28] Rex's entry onto major domestic routes from March 2021 put further downward pressure on the price of business class seating.

28 Virgin, *Virgin Australia at your service with new menus and even more affordable flights* [media release], 25 March 2021, accessed 24 February 2022.

Figure 8: Price index of cheapest business class airfares weighted across 70 busiest domestic routes, February 2019 to February 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.

Business class airfares did not increase between December 2021 and January 2022 on most routes the ACCC monitors, however Virgin's withdrawal from some routes restricted business class seating to Qantas only. This included many Perth routes affected by Western Australia's continued border closure. We anticipate the lowest-priced business class fares available will drop when normal flying activity returns to the Perth routes.

4. Consumers benefit from a third airline group entering routes

The Australian domestic airline industry has generally been a duopoly since it was deregulated in the 1990s. For many recent years, the Qantas Group (under the Qantas and Jetstar brands) competed only against the jointly owned Virgin and Tigerair brands.

Rex's expansion into intercity jet services a year ago resulted in 3 different airline groups competing on high traffic routes. Traditional regional operator Rex began its expansion with Melbourne – Sydney in March 2021, which was shortly followed by Melbourne – Gold Coast, Sydney – Gold Coast, Melbourne – Adelaide, and Melbourne – Canberra. In December 2021 Rex entered Brisbane – Melbourne and Brisbane – Sydney routes.

Our analysis provides insights into how consumers benefit from the additional competition.

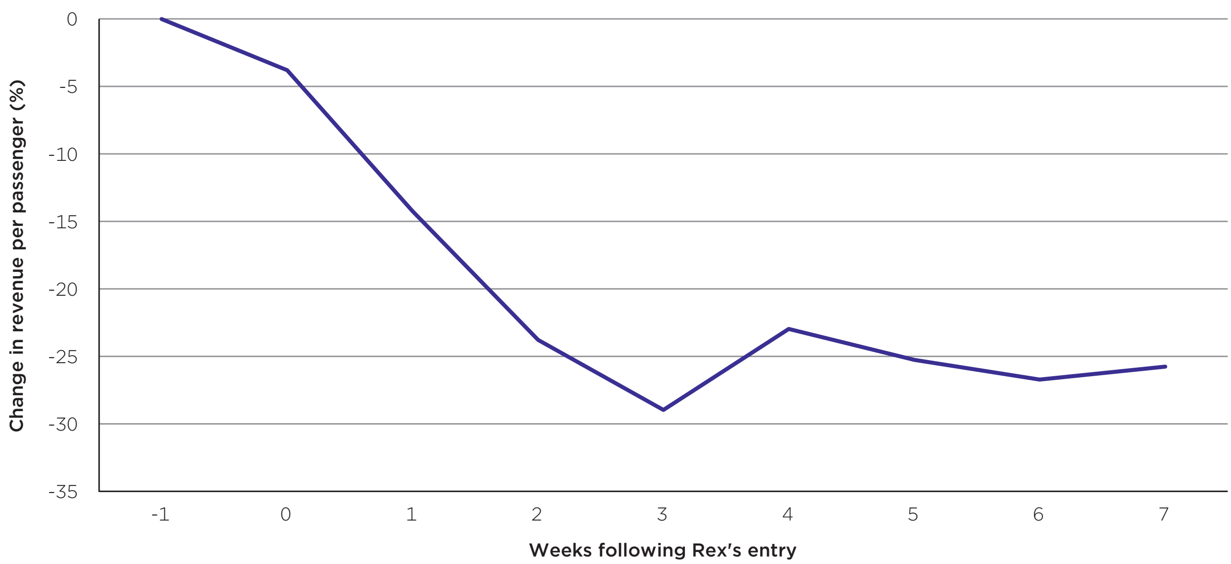
Benefits accrue to consumers who prefer the service provided by the new competitor, because of its price, schedule, frequency, rewards program, customer service, inflight offering or other reason(s). In the case of Rex, these benefits have been somewhat limited to date because it has yet to attract a high proportion of passengers flying on these routes.

Separately, passengers who travel with the 2 incumbent airlines generally benefit from the extra competition through reduced airfares. ACCC analysis suggests that this benefit from Rex's entry has been notable.

When Rex launched services on the said routes with promotional airfares, both Virgin and Jetstar reduced their lowest-priced airfares. With a broadly similar product offering to Rex that caters to 'value-conscious' travellers, Virgin generally matched Rex's promotional airfares. Virgin had flights for $49 on Melbourne – Sydney, but a little higher ($55–69) on the other routes. Jetstar typically undercut these prices for its cheapest tickets, with just $30 for Melbourne – Sydney without baggage. This is consistent with Jetstar's strategy to compete primarily on price and target budget leisure travellers.

In addition to the incumbent airlines reducing the price of their lowest-priced airfares, prices fell across a range of airfares including business-class. Figure 9 shows how the average combined revenue per passenger for Jetstar, Qantas, Virgin and Rex decreased in the weeks following Rex's entry onto Melbourne – Sydney, Melbourne – Gold Coast, Sydney – Gold Coast, and Melbourne – Adelaide.

Figure 9: Change in airlines' average revenue per passenger in weeks following Rex's entry: average of Melbourne to Adelaide, Gold Coast and Sydney, and Sydney – Gold Coast



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

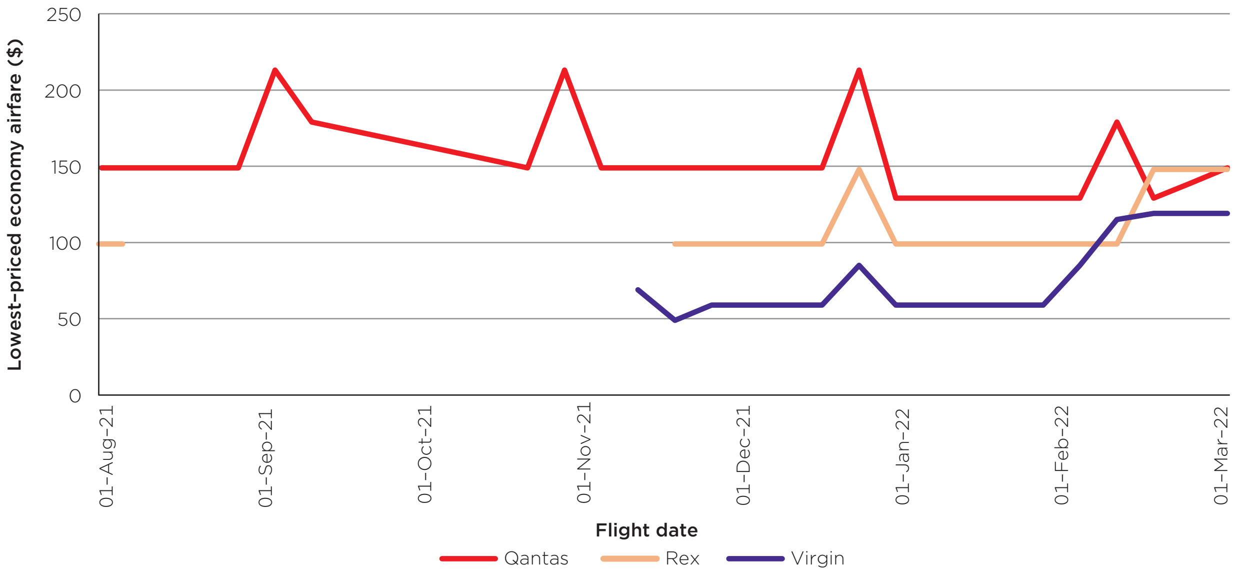
Note: Revenues include both ticket sales and ancillary service revenues.

Figure 9 shows that within 2 weeks of Rex's entry, the airlines on average were earning 24% less revenue per passenger than they were in the week prior to Rex's entry (week -1).[29] This revenue decrease occurred despite Jetstar earning higher revenues on the Gold Coast routes in response to Easter travel demand. Over the next 5 weeks, revenues per passenger then remained 26% lower than pre-entry levels on average across the 4 routes.

The trend shown in Figure 9 likely reflects broader developments in the airline industry than just the entry by Rex. However, it may be insightful that average revenues per passenger for Jetstar, Qantas and Virgin increased marginally over a comparable period (early April – May 2021) on Sydney, Melbourne and Adelaide to Brisbane, and Sydney – Adelaide, routes that Rex did not enter.

Consumers have also benefitted from competition between 3 airline groups following Virgin's recent re-entry onto Sydney – Coffs Harbour after movement restrictions eased in New South Wales. Figure 10 shows that Virgin began services in November 2021 with lower-priced airfares than either Qantas or Rex.

Figure 10: Airlines' lowest-priced economy airfares on Sydney – Coffs Harbour, approximately 2 weeks ahead of the flight date



Source: Prices observed from the airlines' websites between July 2021 and February 2022

Note: Movement restrictions were in place between August and November 2021. Qantas serviced the Sydney – Coffs Harbour route with RANS support.

Virgin offered a $45 sale economy airfare,[30] which remained at $59 outside of the Christmas period, until February 2022. Although Qantas did reduce the price of its lowest-priced airfare from $149 to $129, this only happened for flights from January 2022, 2 months after Virgin's entry. Rex did not change its lowest-priced $99 airfare in response to Virgin's entry, but like Virgin raised its airfares into February 2022. Although the response of the other airlines to Virgin's entry on Sydney – Coffs Harbour was not significant, consumers benefit because the new entrant offered airfares at a lower price than was previously available. However, in this instance lower prices offered by the new entrant may not be sustained. By late-February 2022, Virgin was not offering flights on its website for Sydney – Coffs Harbour after 27 March 2022.

29 Rex's revenues per passenger are calculated relative to the week of its route entries (week 0).

30 Virgin, *Virgin Australia re-introduces Coffs Harbour services with fares from $45* [media release], 8 October 2021, accessed 28 January 2022.

Once Virgin recommences services on Sydney – Canberra,[31] there will likely be 9 routes in Australia with competition between all of the Qantas Group, Virgin and Rex. These routes collectively carried 27 million passengers per annum prior to the pandemic. This figure may increase in future with the launch of Bonza, which intends to become the third airline group providing services between Melbourne and the Sunshine Coast from mid-2022.

As Virgin's re-entry onto Sydney – Coffs Harbour may show, this degree of competition and its associated benefits for consumers is also somewhat fragile. Existing airlines can face difficulties entering new routes, and history has shown that it can be very difficult for a new airline to not just enter the domestic market, but also profitably establish itself over the longer term. The prolonged impact of COVID-19 and the potential for further variants increases this challenge further.

The ACCC recognises that one of the potential challenges to new airlines establishing themselves is predatory behaviour by incumbent airlines. The ACCC will investigate potentially anti-competitive conduct by incumbents.

It is also important for the Australian Government to ensure that its policy settings for the industry help promote competition. This is particularly relevant with the current review of demand management at Sydney Airport (see section 2.4), with access to landing and take-off slots at the airport a key barrier to entry and expansion for airlines.

31 Virgin, *Virgin Australia to restart Sydney-Canberra services under new exclusive agreement* [media release], 2 December 2021, accessed 17 February 2022. As at 17 February 2022, tickets are available on Virgin's website for direct Sydney – Canberra flights from 21 March 2022.

5. Airline costs in focus for navigating the pandemic

Competition can drive companies to identify more efficient ways to operate. The success that a company has in constraining or reducing its costs can directly impact whether it can offer consumers better value goods and services, and ultimately whether it remains financially viable.

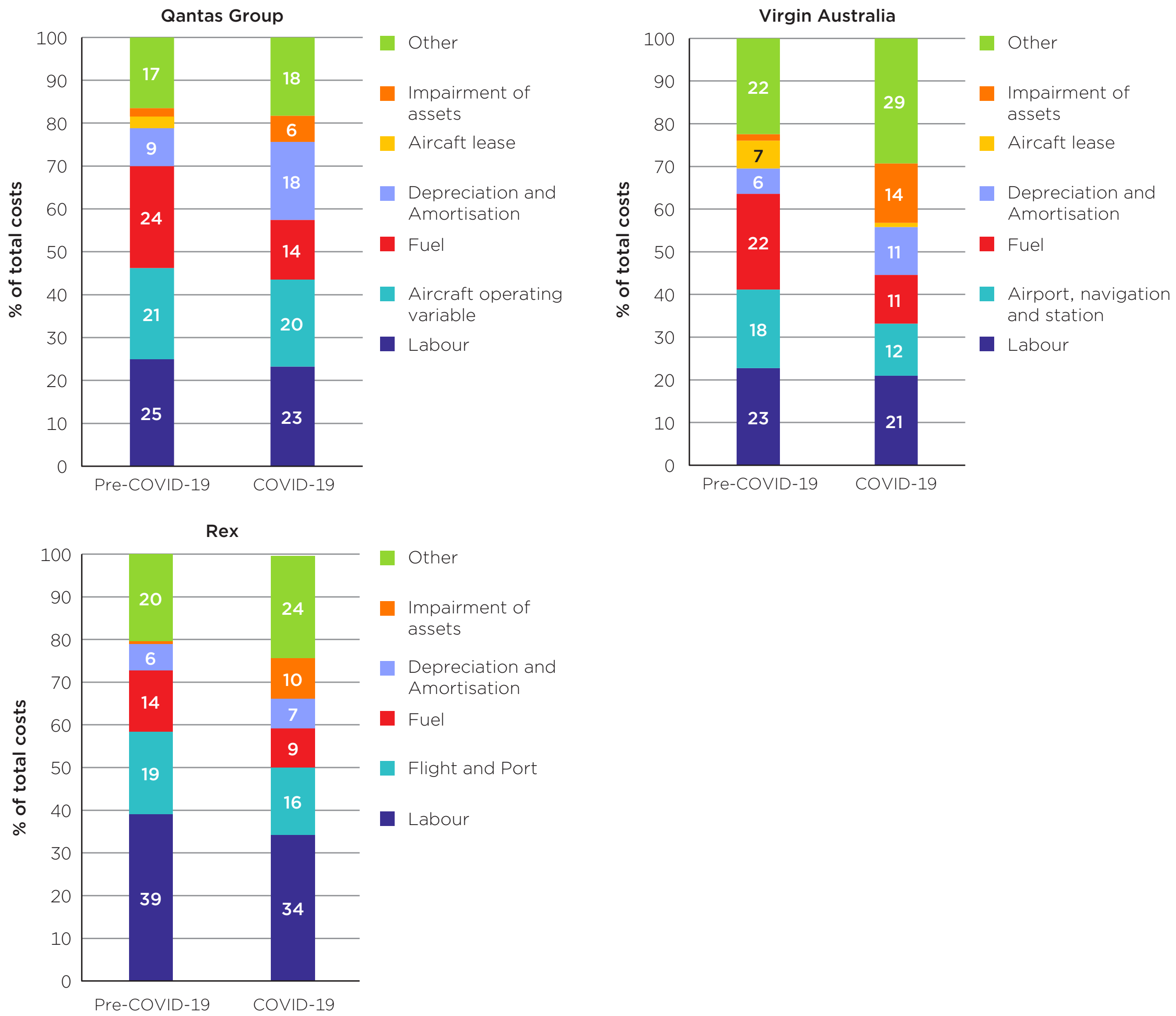
This chapter explores the key costs associated with operating an airline and how cost structures can vary by airline group, as well as the cost cutting measures implemented by the airlines. It also considers the impact that excessive airport charges can have on ticket prices, competition and air connectivity. In this chapter, references to the Qantas Group and Virgin include their entire consolidated business including their international operations.

5.1 Fuel and labour are typically an airline's largest expense items

The 2 most significant cost items for an airline are typically jet fuel and labour. This can be seen in Figure 11 which shows the breakdown of costs for the Qantas Group, Virgin and Rex over the last decade. The cost items are derived from each airline group's statutory annual reports, which can differ slightly in categorising some costs. Each airline group's cost structure reflects different networks, fleet profiles and business models.

Given the huge impact of the pandemic on airlines' costs, Figure 11 separately presents the pre-COVID-19 and COVID-19 years. Total costs more than halved between 2018–19 and 2020–21 due to the significant reduction in flying. With reduced activity, variable costs such as jet fuel and airport and navigation became relatively less significant. Fixed costs such as depreciation and amortisation became relatively more significant, while each group also reported an impairment amount as some assets were revalued downwards to reflect the new COVID-19 environment.

Figure 11: Costs as a proportion of total costs by airline group, 2011–12 to 2020–21



Source: ACCC calculations based on the airlines' annual reports.

Note: Pre-COVID-19 period is 2011–12 to 2018–19, and COVID-19 period is 2019–20 and 2020–21; Annual report data is at the consolidated group level; Virgin's $4.4 billion creditor's relief return has been excluded from 2020–21; Qantas' aircraft operating variable includes airport and navigation charges, maintenance, and other inflight expenses.

In the pre-COVID-19 years, labour costs represented the most significant cost item for each airline group overall. This expense item includes salaries for pilots, flight attendants, those employed in management and corporate affairs, plus potentially aircraft support personnel (e.g. maintenance, ground support) depending on whether these services are outsourced.

Labour costs represented just under 40% of total expenditure for the then-regional specialist Rex, which was higher than the Qantas Group and Virgin at around a quarter each. This is likely due to Rex's smaller fleet of Saab 340 turboprops (around 34 seats) typically flown on regional routes requiring a higher crew-to-passenger ratio compared with larger jets (175+ seats).

Jet fuel is also a substantial cost item for airlines. In the pre-COVID-19 years, jet fuel accounted for a little under a quarter of the Qantas Group's and Virgin's total costs, while for Rex it was around 10 percentage points below that. This is likely due to Rex's network, and in particular its primary fleet of Saab 340 turboprops, which burn significantly less fuel than jet aircraft.

The airlines' fuel costs can fluctuate significantly over time due to volatility in the jet fuel price. This volatility can be seen in the decade covered by Figure 12. The price follows movements in the Brent crude oil price, which is impacted by global factors such as geopolitical risks, economic shocks, and OPEC-related production cuts.

Jet fuel prices were at their peak levels around the start of the decade. During this time fuel costs were the most significant expense for both the Qantas Group and Virgin, representing around 27% of total costs from 2011–12 to 2013–14. Jet fuel prices have increased in recent months to reach an 8-year high which will add further pressure to airlines' costs amid the pandemic. This was largely due to movements in crude oil prices, which increased due to tight supply conditions and geopolitical tensions in the Middle East and Ukraine.[32] The conflict in Ukraine may lead to further increases in the price of jet fuel.

Figure 12: Real monthly jet fuel prices – January 2012 to February 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.

Airlines will generally shield themselves from the volatility in fuel prices by hedging, which is done by purchasing or selling derivatives such as options contracts on aviation fuels or crude oil based on an expected future price. However, the pandemic has made this strategy somewhat ineffective. The uncertainty around flying activity has reduced the ability of airlines to accurately forecast fuel consumption volumes.[33]

Flight and airport-related costs were the third most significant expense item for the airlines. The costs, which are reported somewhat differently across the airline groups, cover a range of expenses including airport charges (e.g. landing fees, terminal use), route navigation, inflight catering and ground handling. For the pre-COVID-19 period, these costs represented between 18% and 21% of total costs for each of the airline groups.

32 Verma, S, Reuters, 'Oil hits 7-year peak on political risks, supply crunch', 29 January 2022, accessed 17 February 2022.

33 Karwal, A, EuroFinance, 'Airlines in a quandary over hedging as fuel price rises', 15 June 2021, accessed 22 February 2022.

5.2 Airlines continue to implement strategic cost-cutting plans

Airlines have always needed to find improvements in operational efficiency in order to remain competitive, viable and build their resilience to coping with a range of economic, health, geopolitical and weather shocks. However, with the pandemic substantially reducing revenues and damaging airline financial positions, some airline groups are implementing significant programs which they hope will enable them to emerge from the pandemic with leaner organisations.

A cost savings program is central to the 3-year recovery plan that the Qantas Group announced in June 2020.[34] Through this program, the Qantas Group is seeking to cut costs by $1 billion dollars annually on a permanent basis from FY2023, compared to FY2019. The Qantas Group states that this will reduce unit costs (other than fuel and depreciation) by 10% compared to FY20. Key actions in the plan have been reducing the size of its workforce, standing down employees during periods of minimal flying, retiring the B747 aircraft fleet ahead of schedule, grounding long-haul aircraft, and deferring the deliveries of other aircraft.

In relation to its workforce, the Qantas Group offered some employee groups early redundancies and/or early retirement. The Group cut 6,000 positions (about 20% of its workforce) in mid-2020, a number that increased to 9,400 by June 2021.

Virgin was already embarking on a substantial cost-cutting program at the time that the pandemic struck, but these efforts increased significantly as it entered and then emerged from voluntarily administration in 2020. The airline discontinued its low-cost carrier Tigerair, scaled back its workforce, reduced its network, both reduced and simplified its fleet around Boeing 737s, and re-negotiated some supply arrangements on more favourable terms, including aircraft leases.

During this time, Virgin has also transitioned away from being a full-service carrier to target the middle of the market where customers seek certain inclusions but not at a premium price. This transition has resulted in the closure of some lounges, a remodelling of others, and removing complimentary meals for economy class passengers. Virgin's CEO Jayne Hrdlicka said in November 2020 that the airline had removed an enormous amount of complexity from the business and greatly improved its cost base.[35]

Rather than reducing costs, Rex's focus since the pandemic has been establishing its new jet-based services on Australia's major inter-city routes. However, this expansion was supported by its leasing of Boeing 737 jet aircraft at a discounted rate as a result of the pandemic. Rex also took measures to reduce costs in response to COVID-19 including the suspension of services and staff stand downs.

5.3 Impact of airport charges on airfares, competition and connectivity

One particular cost item for airlines—that relating to airport charges—has received a lot of public attention in recent years. The ACCC has advocated for regulatory oversight of airport charges for many years because the major airports are natural monopolies and therefore do not face constraints on their pricing through competition. However, the Australian Government adopted the view of the Productivity Commission which concluded its 2019 inquiry with the finding that the current settings based on ACCC monitoring remain fit for purpose.[36]

Airport charges account for about 10–12% of the average ticket price, although this amount would be much higher for some airlines, routes and passengers. Excessive airport charges can harm consumers by raising the price of some airfares or through reduced connectivity or competition as a result of airlines being unable to operate a route profitability.

34 Qantas group, *Qantas Group announced post-COVID recover plan and equity raising for a strong future* [media release], 25 June 2020, accessed 22 February 2022.

35 Virgin, *Ready for take-off: Virgin Australia Group soars out of administration, unveils future direction* [media release], 18 November 2020, accessed 22 February 2022.

36 Productivity Commission, *Economic Regulation of Airports: Productivity Commission Inquiry Report*, June 2019.

Airport charges account for about 10–12% of the average ticket price

While it is difficult to know for certain, information from both airlines and airports suggests that airport charges represent about 10–12% of the average airfare.

Section 5.1 found that cost items in airlines' annual reports that include airport charges accounted for about 18–21% of an airline's total costs, although these cost items also include other expenses such as air navigation provided by Airservices Australia. In its submission to the Productivity Commission inquiry, Rex said that airport costs across its regular public transport network accounted for 16.7% of Rex's total operating expenses.[37] Airport charges would account for a smaller proportion than this for an average ticket price due to the need for the airline to apply a profit margin on top of its operating costs and the payment of any taxes such as GST.

The Qantas Group submission to the Productivity Commission inquiry said that airport charges represented about 14% of airline revenues in Australia for Qantas and Virgin.[38] Airline revenues more closely represent the collective amount that customers have paid for tickets, but still inflate the result slightly because it does not account for ticket prices including taxes. The Qantas Group submission said that its comparison showed that airport charges were more significant in Australia than the European Union (9% of revenues) and United States (6% of revenues).[39]

For the same inquiry, the Australian Airports Association (AAA) commissioned a detailed report by InterVISTAS into the proportion of ticket prices that can be attributed to airport charges. The study estimated that airport charges represented about 8% of the average all-in domestic Australian airfare in 2016–17.[40] However, Airlines for Australia and New Zealand (A4ANZ) said the study had been done by 'using a significant number of assumptions (as noted by InterVISTAS), and through cherry-picking data from both domestic and international airfares to suit the particular narrative'.[41]

Some passengers effectively pay more for airport charges due to airline pricing practices

While it is useful to understand the contribution of airport charges to the *average* ticket price, 2 passengers on the same flight may end up effectively contributing far different amounts towards airport charges due to airline pricing practices.

For any particular flight, passengers would have paid possibly very different airfares depending on factors such as:

- seating class, ticket flexibility, ticket inclusions (e.g. meals, seat selection, checked baggage)
- the degree to which the ticket was booked in advance
- whether the ticket was booked during a promotional period
- whether the ticket was booked through the airline's website or an intermediary
- whether the ticket was booked under a corporate contract
- whether the ticket was partially paid for by customer loyalty points, and
- relative demand for tickets up to that particular time and the number of remaining seats available.

37 Rex, *Regional Express (Rex) response to the Productivity Commission draft report on the economic regulation of airports*, March 2019, p 10.

38 Qantas Group, *Qantas Group submission: Productivity Commission inquiry into economic regulation of airports*, September 2018, p 15.

39 Ibid.

40 Australian Airports Association (AAA), *AAA submission to the Productivity Commission—Attachment 3: The impact of airport charges on airfares*, September 2018, p ii.

41 Airlines for Australia and New Zealand (A4ANZ), *Supplementary submission to the Productivity Commission inquiry*, December 2018, p 7.

As a result, the airlines are able to tailor the price of a ticket so that it generally reflects that customer's willingness to pay, rather than the underlying cost to the airline of providing the service. This practice, known as price discrimination, means that some customers will pay more than the underlying cost, and others will pay less. It also means that any increase or decrease in underlying costs such as airport charges may not necessarily be directly reflected in changes in airfares.

Excessive airport charges can harm consumers through higher airfares and reduced connectivity and competition

Excessive airport charges can hinder airlines' ability to introduce or maintain air routes and harm consumers.

Airport charges can be much more burdensome for airlines on certain routes. In its submission to the Productivity Commission inquiry, Qantas provided a real example where airport charges represented 34% of the estimated cost of flying a passenger between 2 unnamed capital cities, which made it the highest contributor to cost on the route.[42]

Airlines' concerns are not just with the major capital city airports. A4ANZ said that the majority of the most expensive airports are in northern Australia, with costs in some airports more than 5 times those of the major airports in southern states.[43] Rex submitted that airport costs exceeded its fuel costs by 130% for its regular passenger transport network in Western Australia. It also said that average airport costs represented 25% of its Western Australia average ticket price and 40% of Rex's Community Fare on the Perth–Albury and Perth–Esperance routes.[44]

Airport charges will also be more significant for low-cost carriers which attempt to keep airfares low by minimising expenses such as those associated with in-flight service and meals. New airline Bonza has said that it expects that airport charges will represent about a quarter of its cost base when it commences operations later in the year.[45] By carrying predominantly budget leisure travellers, low-cost carriers are also less able to use price discrimination to allocate airport charges (through higher airfares) to passengers on the flight who are not price sensitive.

As a result, excessive airport charges have the potential to harm consumers wishing to fly certain routes in Australia. This may occur through higher ticket prices if the costs are passed through. Alternatively, the harm of excessive airport charges may occur through an airline deciding that a route or a particular service is not viable, with consumers missing out on the convenience of connectivity, choice of airline, or the benefits of airline competition. These factors are particularly relevant with new low-cost carrier Bonza soon to commence operations. In announcing its initial route network, Bonza said that it was unable to include Sydney due in part to the commercial terms offered by the airport.[46]

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42 Qantas Group, *Qantas Group submission: Productivity Commission inquiry into economic regulation of airports*, September 2018, p 17.

43 Airlines for Australia and New Zealand (A4ANZ), *Supplementary submission to the Productivity Commission inquiry*, December 2018, p 45.

44 Rex, *Regional Express (Rex) response to the Productivity Commission draft report on the economic regulation of airports*, March 2019, p 10.

45 Flynn, D, Executive Traveller, 'Australia's new low-cost airline Bonza aims for mid-2022 launch', 11 October 2021, accessed 23 December 2021.

46 Hatch, P, 'New airline Bonza targets half-price fares on 25 routes', The Age, 15 February 2022, accessed 15 February 2022.

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