AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Airline competition in Australia

Report 8: June 2022

accc.gov.au

Australian Competition and Consumer Commission
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

ACCC 06/22_22-36

www.accc.gov.au

Contents

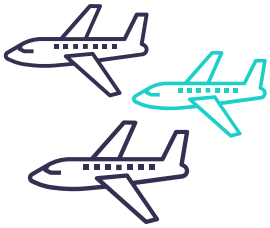
Glossary

ABS	Australian Bureau of Statistics
BITRE	Bureau of Infrastructure and Transport Research Economics
CCA	*Competition and Consumer Act 2010* (Cth)
FIFO	Fly-in, fly-out. Refers to people who fly to their workplace (often for a week or 2 at a time), then fly back home
Golden Triangle	Routes connecting Sydney, Melbourne and Brisbane
Larger city	Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra or the Gold Coast
LCC	Low-cost carrier
Load factor	The degree to which aircraft seats are filled with 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
RBA	Reserve Bank of Australia
Regional	Domestic locations other than Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast
Slot	A permission which enables an airline to schedule a landing or departure at a particular airport during a specific time period
Virgin	Virgin domestic passenger airlines that include Virgin Australia and Virgin Australia Regional Airlines. Virgin operated Tigerair until March 2020
Wet lease	An arrangement whereby a lessor supplies aircraft, crew and maintenance to an airline

Key industry insights and developments

Peak Easter holiday period propels domestic airline industry towards full recovery

Passenger numbers are approaching pre-pandemic levels on the back of strong leisure demand during Easter. It was the first holiday period in 2 years in which consumer confidence was not impacted by snap border closures or a significant new COVID-19 variant. Over 4.5 million passengers flew in April 2022, 89% of pre-COVID-19 passengers.



Increasing numbers of passengers have a choice of 3 competing airline groups

Almost 2 million passengers, 43% of overall domestic passengers, flew on routes serviced by 3 competing airline groups in April 2022. This is the result of Rex challenging the Qantas Group (including Jetstar) and Virgin since 2021 on major intercity routes and the continued recovery in passenger volumes.

Discount airfares hit a low in late-April, but rising fuel costs are leading to higher airfares

Discount economy airfares briefly hit an 11-year low for flights in late-April following higher prices over the Easter period. Since then, jet fuel costs have reached record highs, and airlines are increasing their airfares in response.

ACCC to test impact of Qantas' proposal to become full owner of Alliance Airlines

Qantas Group has announced its intention to take full ownership of Alliance Airlines, which specialises in charter and fly-in, fly-out (FIFO) services. The ACCC is assessing whether the proposed acquisition has the effect or likely effect of substantially lessening competition.

Qantas had the highest market share in April 2022

After briefly conceding the position of market share leader to Virgin in January 2022, Qantas carried 37% of domestic passengers in April 2022 (up from 31% in January 2022). Qantas and its subsidiary Jetstar combined carried 65%. Virgin fell to 31% while Rex remained at 4%.

Overview

The Australian domestic airline industry is approaching a full recovery. In April 2022 Qantas, Jetstar, Virgin and Rex all recorded their highest number of passengers since the start of the pandemic. Over 4.5 million passengers travelled in April 2022, representing 89% of passengers who flew pre-COVID-19.

Easter was a particularly busy period. For the first time in over 2 years, Australians were free to travel during a holiday period without movement restrictions or a significant new COVID-19 variant of concern. The recovery was strongest on Gold Coast routes, where April passenger numbers on Canberra – Gold Coast reached 193% of pre-COVID-19 figures. Flights between the Gold Coast and Melbourne, Adelaide and Sydney also surpassed pre-pandemic traffic.

Airlines operated fuller planes in April 2022. Average load factors improved to 75% in April, their highest level since the pandemic began, though still below pre-COVID-19 levels of around 80%. Western Australian and Queensland routes showed the most improvement.

While the industry was grateful for the long-awaited return of passengers, workforce shortages and staff absences due to COVID-19 isolation requirements led to significant operational challenges for the entire industry. As a result, frustration ensued at airports as passengers had to face long queues and delays.

Discount airfares briefly hit an 11-year low in late-April, following higher prices over Easter. Since then, the highest jet fuel prices on record have put pressure on airline operating costs. Airlines have started to increase airfares in response.

While demand peaked at Easter, looking ahead the airlines are anticipating a sustained domestic recovery. Virgin expects to return to pre-COVID-19 capacity by June 2022. The Qantas Group had expected to fly around 107% of pre-COVID-19 capacity in July and August, but this was recently revised to 103% in response to high fuel prices. Demand for leisure travel was the primary driver of the recovery, although Qantas reported in early May 2022 that small business travel capacity had returned to pre-pandemic levels, with larger corporate travel at 85%.

New low-cost carrier Bonza is set to launch services in the second half of 2022. Initially hoping to operate by mid-year, Bonza reported in May that it will delay its launch until at least September citing delays with aircraft arriving in Australia. Bonza will initially fly 27 routes to 17 destinations, the majority of which are not currently flown by any other airline. The ACCC will monitor how the other airlines respond to the new competition including by requiring the airlines to disclose their strategies to the ACCC.

Following Rex's expansion onto major intercity routes last year, the number of passengers flying on routes with 3 competing airline groups has continued to rise. In April 2022 almost 2 million passengers, or 43% of all domestic passengers, travelled on routes with the Qantas Group (including Jetstar), Virgin and Rex all competing for customers. Rex has since withdrawn from the Canberra – Sydney route.

The airline industry as a whole flew more routes in April 2022 at 166 than pre-pandemic at 161 (in April 2019). This increase is primarily driven by Qantas, but Jetstar and Rex also flew more routes in April 2022 than they did pre-COVID-19. Rex has since announced some regional route closures.

The reopening of the Western Australia domestic border helped Qantas reclaim the position of passenger market share leader from Virgin. Qantas carried 37% of total domestic passengers in April, up from 31% in January. Qantas and its subsidiary Jetstar combined flew 65% of passengers. Virgin's market share fell to 31%, although it retained the highest share of passengers flying on routes between larger cities. Rex's share remained steady with 4% of domestic passengers.

The ACCC is currently reviewing a proposal by Qantas to acquire the remaining shares in Alliance Airlines after buying 19.9% in 2019. Both Qantas and Alliance Airlines operate charter services, including fly-in-fly-out (FIFO) services for mining customers. The ACCC is considering whether the proposed acquisition has the effect or likely effect of substantially lessening competition.

In March 2022 the ACCC finished its investigation into whether Qantas' entry and expansion on certain routes was a misuse of market power in breach of competition law. We started our investigation when Rex complained in late 2020 and early 2021 about Qantas entering regional routes that were historically operated by Rex. Rex also complained that Qantas added capacity on intercity routes on which Rex had recently begun offering services.

In closing the investigation, we noted that COVID-19 movement restrictions and border closures impacted the competitive dynamics in the market. COVID-19 related measures have now been relaxed. This will make it easier for the ACCC to evaluate whether any future capacity increases or pricing practices by airlines in response to new competition raise concerns under competition law.

To draw insights about Australia's domestic airline industry, it is useful to look at developments in other countries. We compared Australia with Canada, as the countries have similar geographic and economic profiles. While many Australian routes carry more passengers than those in Canada, more independent low-cost carriers have entered the Canadian market, which typically has more competing airline groups on its busiest routes. With more airlines competing in the market, Canadian domestic passengers grew at 3 times the rate of Australia's between 2015 and 2019, before the impact of the COVID-19 pandemic hit airlines globally.

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 eighth report on its findings from monitoring domestic air passenger transport services.

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

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

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

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

Under the direction, the ACCC can compel information from industry participants. We have established arrangements to collect monthly and quarterly data from the Qantas Group (including Jetstar), Virgin and Rex. These airline groups supply the vast majority of regular domestic air passenger services in Australia. We also seek qualitative information from 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 Airline industry close to recovery as passenger numbers approach pre-pandemic levels

With all Australian borders finally open and no significant new COVID-19 variants impacting consumer confidence, the domestic airline industry is approaching a full recovery. Over 4.5 million passengers travelled in April 2022, representing 89% of pre-COVID-19 levels.

The Easter holiday was a busy period of travel. Qantas and Jetstar reported flying 110% of pre-pandemic capacity. Qantas also reported that small business travel surpassed 100% in early May 2022, while corporate travel reached 85%.

Gold Coast airport was the first to report a full return to pre-COVID-19 passenger numbers and flights over Easter. Sunshine Coast airport surpassed its pre-pandemic levels in April 2022, reporting a 24% increase in passenger numbers on its previous record set in October 2019.

However, the return of high passenger numbers at Easter led to airport queues and delays. The aviation industry reported significant operational challenges resulting from workforce shortages and staff absences due to COVID-19 isolation requirements. While airlines kept cancellations to a minimum, on time performance for flight departures in April 2022 was the lowest on record at 62.2%, well below the long-term average 83.5%.[3]

While capacity peaked at Easter, the airlines are anticipating a sustained domestic recovery. Virgin reported back in April that it expects to recover to 100% by June 2022, noting high demand for resources and contract flying.[4] The Qantas Group had expected to fly around 107% of pre-COVID-19 capacity in July and August, but this was recently revised to 103% in response to high fuel prices.[5]

New low-cost carrier Bonza is set to enter the domestic market in the second half of 2022. Bonza had hoped to operate by mid-year but reported in May that its launch would be delayed until at least September following delays with aircraft arriving in Australia. Recently adding 2 routes out of Tamworth to its initial proposed network, Bonza will fly 27 routes to 17 destinations. Bonza will initially fly 5 Boeing 737 MAX 8 aircraft but expects to increase to 8 aircraft in the first year of operations.

The ACCC will monitor how the other airlines respond to the new competition from Bonza, including by requiring the airlines to disclose their strategies to the ACCC. 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 and breaches competition law.

While the industry is approaching a full recovery, passengers have been slower to return to some routes and the airlines continue to review their networks accordingly. Rex has announced some route exits, predominantly on its regional network. Rex stopped servicing Sydney – Canberra in late May after Virgin recently returning to the route that is also operated by Qantas. Rex exited Albury – Melbourne in late May, and announced it would stop operating services to Bathurst, Grafton, Lismore, Ballina and Kangaroo Island from late June, coinciding with the end of the government's Regional Airline Network Support (RANS) program. Rex said Qantas' alleged predatory entry onto regional routes serviced by Rex meant Rex was no longer able to cross-subsidise these marginal routes.[6] See section 2.6 for discussion on the ACCC's investigation into alleged anti-competitive conduct by Qantas.

3 BITRE, Australian Government, 'Airline on time performance statistics – monthly, April 2022', accessed 23 May 2022

4 Virgin, *Fleet growth positions Virgin Australia for higher capacity, lower emissions* [media release], 29 April 2022, accessed 10 May 2022.

5 Qantas, *Qantas Group – Industry update* [media release], 26 May 2022, accessed 26 May 2022.

6 Rex, *Rex adjusts regional network* [ASX release], 30 May 2022, accessed 30 May 2022; Rex, *Rex to exit Sydney – Canberra route* [media release], 24 May 2022, accessed 30 May 2022; Rex, *Rex to cease flights between Albury and Melbourne*, [media release], 19 May 2022, accessed 30 May 2022.

Some key international markets such as China remain closed, curbing a faster recovery in international traffic. Monthly international passenger volumes increased by 60% between February and March 2022, the first full month following the reopening of Australia's international border. However, March 2022 volumes remain 79% below pre-pandemic levels (March 2019).[7] Qantas and Jetstar reported they expect to fly 70% of their pre-COVID-19 international capacity in the September 2022 quarter.[8]

Virgin announced new partnerships with United Airlines and Qatar Airlines, increasing Virgin's reach overseas. Rex also announced a new partnership with Delta Airlines.

2.2 Airlines look to refresh their domestic fleets

Several Australian domestic airlines recently announced new aircraft orders. The new aircraft are more fuel efficient and will help reduce carbon emissions.

In May 2022 Qantas announced what it called the largest aircraft order in Australian aviation.[9] Qantas said that it would start the renewal of its narrow body jets with orders for 20 Airbus A321XLRs and 20 Airbus A220-300s as its Boeing 737s and 717s are gradually retired. Qantas said the new aircraft will provide domestic customers with higher levels of cabin comfort and more choice of flights at different times of day.

Qantas' first new aircraft will arrive in late 2023, with the order including purchase right options for another 94 aircraft for delivery through to at least 2034.[10] This order is in addition to an existing Jetstar order for 109 aircraft from the A320 and A220 families.

In April 2022 Virgin unveiled the first phase of its fleet growth program which will see 4 new Boeing 737 MAX 8 aircraft introduced to its network.[11] The new aircraft will start entering service from February 2023. Virgin will also gradually replace its 10 Fokker F100 aircraft with Boeing 737-700s to service the Western Australian resources sector and contract flying.

Since its re-launch in November 2020, Virgin has announced that it will grow its Boeing 737 fleet from 58 to 88 aircraft.[12] As part of a future phase of its fleet program, Virgin has an additional 25 Boeing 737 MAX 10 aircraft on order. Virgin said that the fleet program was to support its goal of a 33% domestic market share, strengthen its resources sector and contract flying, and reduce its carbon emissions.

Rex announced in May 2022 that it had signed a letter of intent with a lessor for another Boeing 737-800 aircraft, which would bring its total fleet of jets to 7.[13] Rex uses the 737 jets on its intercity network connecting places such as Sydney, Melbourne and Brisbane. It had said in December 2021 that it would aim to expand its Boeing 737 fleet from 6 to 14.[14]

New airline Bonza has said that it is aiming to increase its fleet of 737 MAX 8 aircraft to 8 in its first year.[15]

---

7 BITRE, Australian Government, 'International Airline Activity—Monthly Publications – March 2022', accessed 27 May 2022.

8 Qantas, *Qantas Group trading update: Third quarter FY22* [media release], 2 May 2022, accessed 10 May 2022.

9 Qantas Group, *Qantas Group announces major aircraft order to shape its future*, [media release], 2 May 2022, accessed 10 May 2022.

10 Ibid

11 Virgin, *Fleet growth positions Virgin Australia for higher capacity, lower emissions*, [media release], 29 April 2022, accessed 10 May 2022.

12 Ibid

13 Rex, *Rex signs LOI for additional Boeing 737-800NG*, [media release], 9 May 2022, accessed 10 May 2022.

14 Dowling, H, and Thorn, A, Australian Aviation, *Capacity wars return as Rex aims to grow 737 fleet from 6 to 14*, 8 December 2021, accessed 10 May 2022.

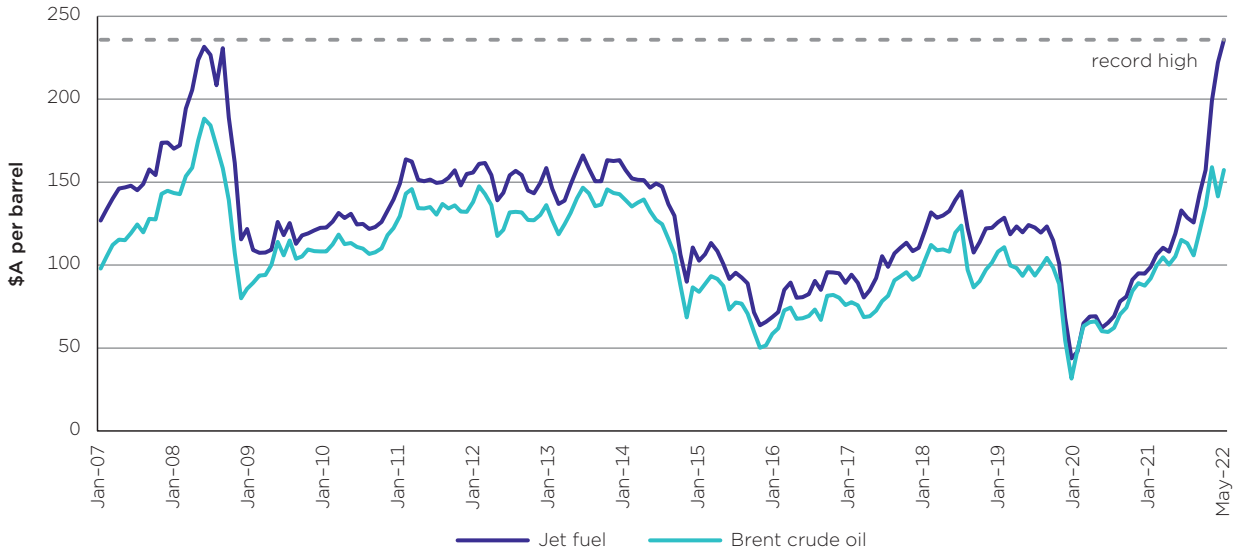
15 Dowling, H, Australian Aviation, 'Bonza to hugely expand its 737 fleet to match Rex', 7 December 2021, accessed 10 May 2022.

2.3 Historically high jet fuel prices are placing pressure on airlines to increase their airfares

Airlines around the world are dealing with a significant increase in their operating costs as a result of historically high jet fuel prices. Jet fuel is a substantial cost item for airlines. Prior to the pandemic, it accounted for a little under a quarter of Qantas' and Virgin's total costs and about 14% of Rex's total costs.[16]

Brent crude oil and jet fuel prices have risen in recent months due to tight supply conditions and conflict in Ukraine. The monthly price of jet fuel reached its highest point on record in May 2022.[17] Figure 1 shows that the margins between jet fuel and Brent crude oil prices have widened from $10 per barrel through most of 2021 to over $80 in April. The growing margin has been attributed to higher demand as air travel recovers at the same time that refiners in North America and Europe are instead focusing on meeting demand for diesel.[18]

Figure 1: Real jet fuel and Brent crude oil prices – January 2007 to May 2022



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

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

The airlines have acknowledged that increases in jet fuel prices are impacting their operations. Virgin's CEO Jayne Hrdlicka said in April that airfares will go up as airlines contend with higher fuel costs and customer demand bounces back.[19] In March 2022 Rex announced that it would increase fares by $10 across its domestic and regional networks in response to rising fuel costs.[20]

The Qantas Group previously reported that its hedging position protected it from the recent oil price increase, with 90% of its fuel needs hedged for the second half of FY22 at levels below current prices.[21] Qantas later said that it will respond to the high fuel prices by reducing capacity over July and August 2022 and increasing fares.[22]

16 ACCC, Airline competition in Australia – March 2022 report, 7 March 2022, pp 20–21.

17 Since US EIA records began in July 1975, calculated in real Australian dollar terms.

18 Blas, Javier, Bloomberg, 'Jet fuel sees crazy prices after two unloved years', 13 April 2022, accessed 11 May 2022.

19 Yun, Jessica, Sydney Morning Herald, *Ticket prices to lift, delays gone by July: Virgin CEO*, 20 April 2022, accessed 11 May 2022.

20 Rex, *Rex fare increase in response to spiralling fuel cost* [media release], 23 March 2022, accessed 11 May 2022.

21 Qantas, *Qantas Group trading update: third quarter FY22* [media release], 2 May 2022, accessed 11 May 2022.

22 Qantas, *Qantas Group – Industry update* [media release], 26 May 2022, accessed 26 May 2022.

The ACCC will continue to monitor airline pricing behaviour.

In section 3.7 we discuss the changes in airfares we have observed to May 2022, including fare increases due to airlines passing on higher fuel costs.

2.4 Qantas seeks ACCC clearance to take full ownership of Alliance Airlines

The ACCC is currently reviewing a proposal from Qantas to acquire the remaining shares in Alliance Airlines after acquiring 19.9% in 2019.

Alliance Airlines is an aviation services company specialising in the provision of charter services to corporate customers. It also leases aircraft to other airlines and supplies other associated aviation services including the sale and leasing of spare parts and replacement engines, plus inhouse maintenance and engineering services. As part of its charter services, Alliance Airlines incidentally supplies a limited number of seats to the public on 5 of its charter routes. Alliance Airlines also operates one regular public transport route: Brisbane – Moranbah.

Qantas stated that the proposed acquisition will allow it to better compete in the supply of charter services, stating that Alliance Airlines' Fokker aircraft are ideal for serving resource customers in Western Australia and Queensland. Qantas said that Alliance Airlines' large inventory of spare parts would significantly extend the life of the Fokker fleet.[23]

Qantas already had a wet lease agreement with Alliance Airlines for 18 Embraer E190 aircraft, with 11 currently in operation. Qantas has predominantly utilised the E190s to operate new services and expand capacity on regional routes, including in and out of Darwin.

Both Qantas and Alliance Airlines operate charter services, including FIFO services for mining customers.

Virgin has a history of commercial arrangements with Alliance Airlines dating back to 2016, including charter partnerships and codeshare arrangements.[24] In 2019 Virgin and Alliance Airlines established a wet lease agreement whereby Alliance provides aircraft, crew and maintenance services to Virgin for its regular passenger transport services. Under this agreement, Virgin has utilised Alliance Airlines' Fokker jet aircraft predominantly on routes in and out of Brisbane.

The ACCC assesses each transaction on its merits. We are assessing the proposed acquisition to determine whether it has the effect or likely effect of substantially lessening competition.

2.5 Recent issues raised by consumers about Qantas

In early 2022 a significant number of consumers raised concerns with the ACCC and elsewhere about their dealings with Qantas. The most common issues related to long call wait times and allegations that Qantas customers using credits pay higher prices for flight bookings, compared to bookings made with other payment methods.

Qantas' terms and conditions with respect to credits issued for bookings made from 1 October 2021 state that where a customer cancels the booking and accepts a credit, the credit cannot be used for multiple bookings, and must be put towards a new fare of equal or higher value than the original fare (Single Use Term).

The practical effect of the Single Use Term is that customers who seek to book using a flight credit issued for flights booked on or after 1 October 2021 are made to use a different flight booking portal and, in some cases, are not shown cheaper fares that may be available when booking using other payment methods on Qantas' website.

---

23 Qantas, *Qantas to acquire Alliance Aviation to better support resources segment* [media release], 5 May 2022, accessed 9 May 2022.

24 Australian Aviation, 'Alliance Aviation Services signs contract extension with Virgin Australia', 19 February 2019, accessed 17 May 2022.

The ACCC is looking into these issues, including whether Qantas' conduct may raise concerns under the Australian Consumer Law. As our investigation is continuing, we are unable to comment further at this time.

Qantas has publicly acknowledged the issues with its call wait times.[25] The Australian Consumer Law generally does not cover broad customer service issues, such as long call wait times. However, in our engagement with Qantas in relation to COVID-19 related cancellation issues, we have raised our concerns about its call wait times and encouraged improvements. We expect Qantas to dedicate the resources required to significantly improve this issue.

2.6 ACCC closes investigation into alleged anti-competitive conduct by Qantas

In March 2022 the ACCC completed its investigation into whether Qantas' entry and expansion on certain routes was a misuse of market power in breach of competition law.

In concluding our investigation, we noted that a range of factors impacted the competitive dynamics in the market at the time, particularly the COVID-19 movement restrictions and border closures.

The investigation commenced after Rex raised concerns in late 2020 and early 2021 about Qantas entering regional routes with low passenger numbers that have historically been operated by Rex, and Qantas adding capacity on intercity routes after Rex began operating on these routes.

COVID-19 related measures have now been relaxed and this will simplify evaluating the impact of any future capacity increases or pricing practices by airlines in response to new competition. The ACCC will continue to pay close attention to any behaviour that may be anti-competitive.

25 Qantas, *Statement on call wait times* [media release], 7 April 2022, accessed 16 May 2022.

3. Key industry metrics and analysis

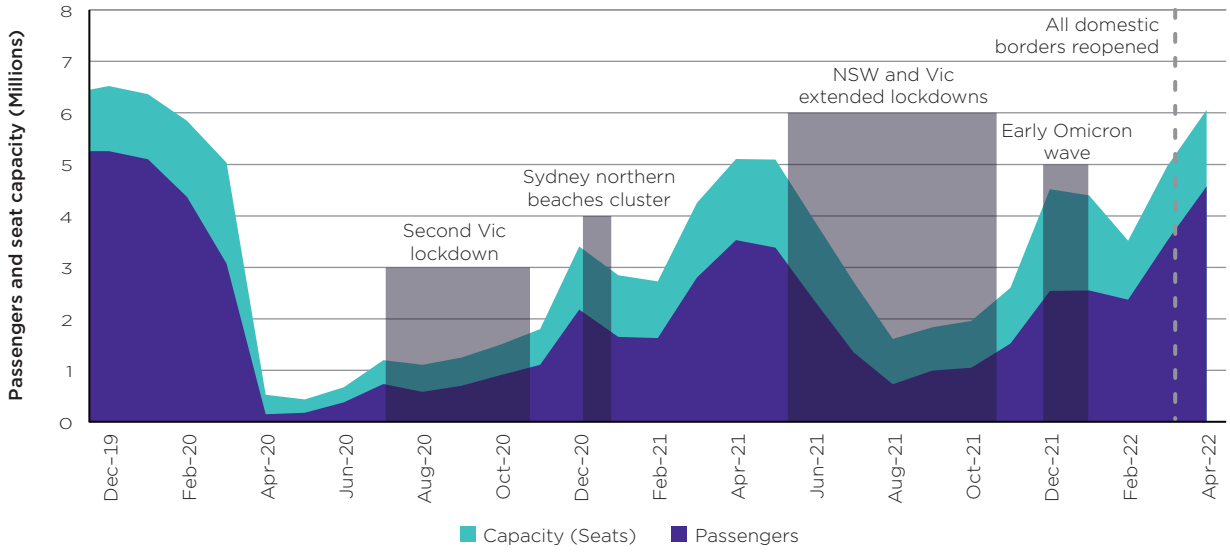
This chapter presents analysis of key industry metrics. Unless specified otherwise, we calculate these metrics from data supplied to the ACCC from the Qantas Group (consisting of Qantas and Jetstar), Virgin and Rex on a monthly and quarterly basis. The chapter contains 2 parts:

- Sections 3.1 to 3.6 cover the state of the airline industry up to April 2022.
- Section 3.7 uses data from the Bureau of Infrastructure and Transport Economics (BITRE) to analyse trends in airfares up to May 2022.

3.1 Domestic industry recovered to nearly 90% of pre-COVID-19 levels in April with strong demand over Easter

After 2 years of navigating the disruptions caused by the pandemic, the domestic airline industry moved closer to pre-pandemic levels with over 4.5 million passengers flying in April 2022 (Figure 2). This was an increase of around 2.2 million passengers from a recent low in February, and it brought the industry to 89% of pre-COVID-19 levels, the highest point since the pandemic began. The airlines increased capacity by 2.5 million seats after February to reach 6.1 million seats in April 2022, around 92% of pre-COVID-19 capacity levels.

Figure 2: Australian domestic air services – December 2019 to April 2022



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

The increase in passenger numbers and capacity during April reflected both pent-up demand and the busy Easter holiday period. The reopening of Western Australia's border in March 2022 also boosted demand and opened travel across all state and territory borders for the first time since the pandemic began. Over the Easter long weekend, 800,000 passengers made use of the 1 million available seats on domestic routes. These figures were similar to the 2019 Easter long weekend.

The April figures were a positive development given the emergence of the Omicron variant of COVID-19 in late 2021. Figure 2 shows that a lot of capacity deployed over December 2021 and January 2022 went unused as expectations of a busy summer period went unfulfilled. The airlines reduced capacities in February in response, although the fall in capacity may also have reflected shortages in staff levels due to illness and isolation requirements.

3.2 Western Australian interstate routes had the highest load factors following the border reopening

The ratio of passengers to seat capacity, also known as the load factor, continued to improve in April 2022, especially for Western Australian routes. Seven Western Australian routes, mostly interstate, reported the highest load factors across the country in April 2022, with more than 90% of seats filled. These routes included Perth services to Cairns, the Gold Coast and the eastern state capitals. These high load factors reflect pent up demand for travel to and from the state following its border reopening in March 2022.

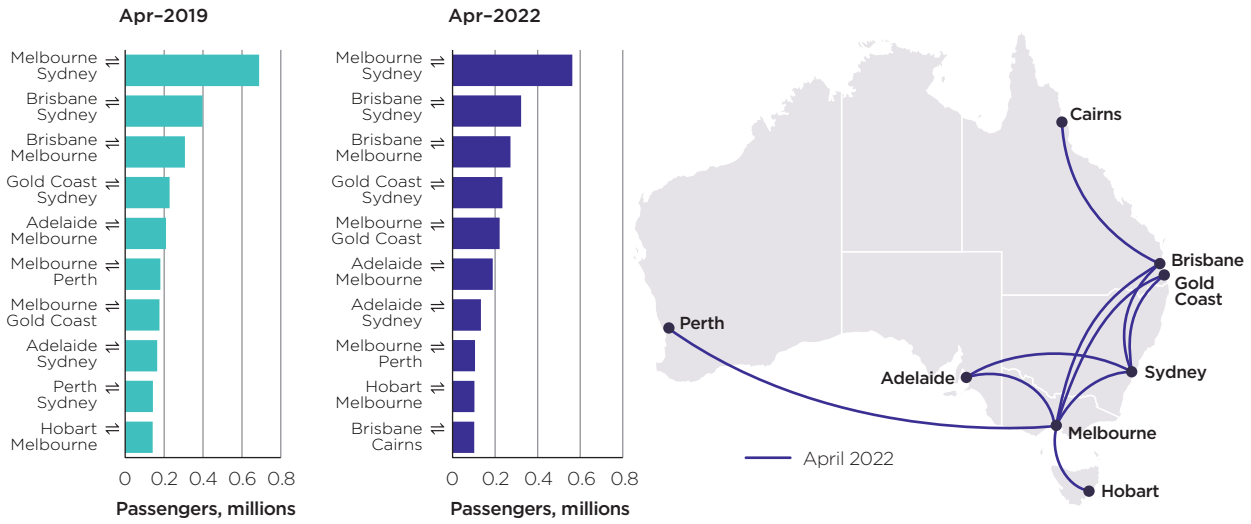
Queensland routes represented more than half of the routes with load factors above 80% in April 2022. Most of these Queensland routes were interstate routes, including those to popular leisure travel destinations Cairns and the Gold Coast.

The average load factor for the industry also increased to 75% in April 2022. This was the highest result since the pandemic began but still below the pre-COVID-19 rates of around 80%. Load factors have fluctuated between 30% to 70% during most of the pandemic but have been trending upwards since August 2021. The load factors in April 2022 were boosted by the airlines' reduced capability for adding seat capacity during a period of strong passenger demand, given Omicron-related staff shortages.

3.3 Golden Triangle once again had the busiest routes while Gold Coast routes grew rapidly

The popular Golden Triangle routes connecting Sydney, Melbourne and Brisbane returned to being the top 3 routes in Australia in April 2022 (see Figure 3). The 3 routes accounted for 25% of total passengers. While Melbourne – Sydney was Australia's busiest route once again, the Brisbane – Melbourne route bounced back the fastest of the 3 routes with 89% of pre-COVID-19 levels (272,000 passengers). Melbourne – Sydney was at 82% of pre-COVID-19 levels with 563,000 passengers, followed by Brisbane – Sydney at 81% with 322,000 passengers.

Figure 3: Busiest routes by monthly passengers – April 2019 and April 2022



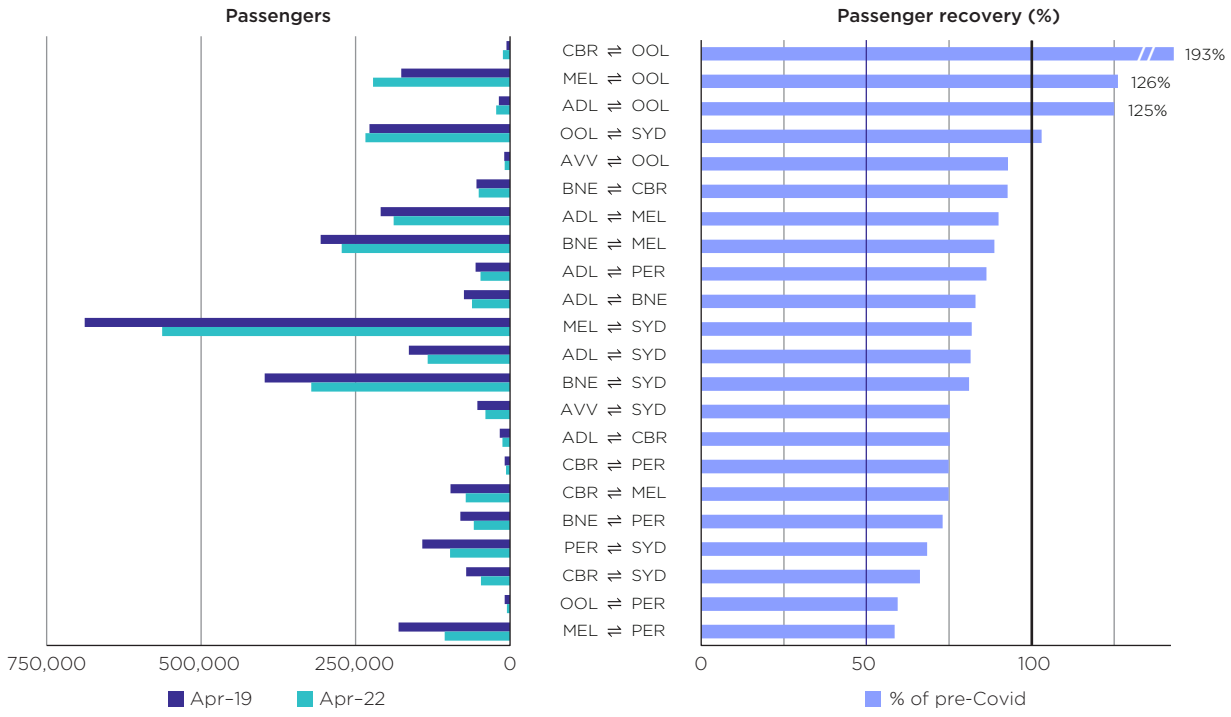
Source: Data collected by the ACCC from Qantas, Jetstar, Virgin and Rex.

Note: Virgin data for 2019 includes data for Tigerair.

The Gold Coast – Sydney and Gold Coast – Melbourne routes were the next busiest, accounting for 10% of total domestic passengers. Of the top-10 routes, these 2 routes were the best performing relative to their pre-COVID-19 levels following the strong leisure demand-led recovery in April. The Gold Coast – Melbourne route was at 126% with 222,000 passengers flying in April 2022. The Gold Coast – Sydney route was at 103% with 234,000 passengers.

Figure 4 ranks the recovery of larger city routes in April 2022 relative to their pre-COVID-19 passenger levels. The top 5 routes in terms of percentage recovery were all to the Gold Coast. In addition to the Gold Coast – Melbourne and Gold Coast – Sydney routes, routes connecting the Gold Coast to Canberra (193%), Adelaide (125%) and Avalon (93%) all saw high activity. Gold Coast airport said it had its busiest days in 2 years.[26]

Figure 4: Passenger numbers on larger city routes – April 2022 relative to April 2019



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

Note: ADL – Adelaide, AVV – Avalon, BNE – Brisbane, CBR – Canberra, MEL – Melbourne, OOL – Gold Coast, PER – Perth, SYD – Sydney; Virgin data for 2019 includes data for Tigerair. ADL – AVV route not flown in April 2022.

While passenger volumes accelerated in April 2022 following the reopening of Western Australia's border in March, the passenger numbers on Perth routes remained relatively low. Four out of the 5 larger city routes with the lowest recoveries were Perth routes. Most of the Perth routes recovered to between 58% and 75% of pre-COVID-19 levels by April 2022. The one exception was the Adelaide – Perth route which was at 86% with 48,000 passengers in April 2022.

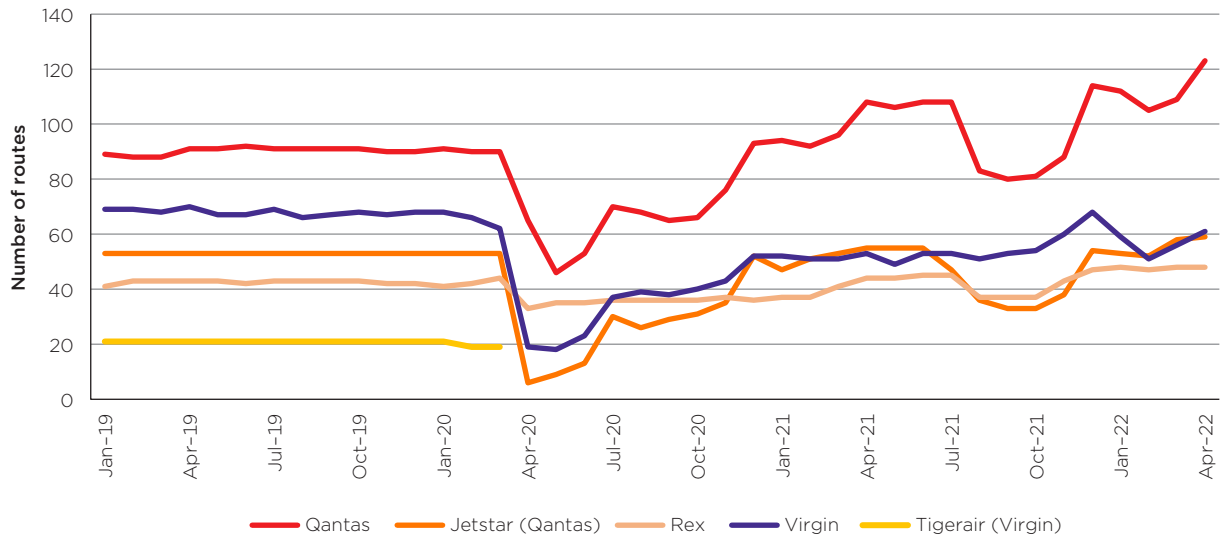
3.4 Qantas led the launch of new domestic routes following the COVID-19 related border disruptions

The recovery in passenger numbers has resulted in airlines offering more domestic routes, whether through the return of services or the launch of new routes. The number of routes increased from a recent low of 146 routes in February 2022 following the Omicron variant to 166 in April 2022. This was the highest number of routes offered in any month over the last 2 years and compares to 161 routes in April 2019.

26 Gold Coast Airport, *Busiest days in two years recorded in countdown to busy Easter* [media release], 6 April 2022, accessed 27 May 2022.

Figure 5 shows that Qantas continued to grow its network coverage by recently resuming and/or adding a further 9 routes since December 2021 to reach a total of 123 routes in April 2022. These routes included Darwin – Townsville, Darwin – Cairns, Brisbane – Wagga Wagga, Newcastle – Adelaide, Sydney – Toowoomba, and Sydney – Broken Hill.

Figure 5: Number of domestic routes operated by airlines – January 2019 to April 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 Group's low-cost carrier Jetstar serviced 59 routes in April – an increase of 7 from February 2022. The recent increase largely reflected the resumption of suspended routes such as the Perth interstate routes in response to the Western Australia border reopening.

Virgin serviced 61 routes in April 2022, which was 10 more routes than in February 2022. Virgin has re-entered some of the routes it had exited in February including Coffs Harbour – Melbourne, Cairns – Gold Coast, and Darwin – Melbourne. Virgin also re-entered the Sydney – Canberra route using turbo-prop aircraft through a wet lease agreement with Link Airways. Virgin previously exited this route in March 2020. The airline exited Coffs Harbour – Sydney in March 2022.

Rex serviced 48 routes in April 2022, which was one more than in February as the airline resumed Melbourne – Merimbula services following runway extension works at Merimbula airport.[27] Rex also resumed its Sydney – Moruya – Merimbula multi-hop service, temporarily flying Sydney – Moruya only during the Merimbula airport closure. As discussed in Section 2.1, Rex has since withdrawn services from some routes, predominantly on its regional network.

Figure 5 also clearly shows the impact that the pandemic has had on airline operations in terms of network fluidity. Between January 2019 and March 2020, there was very little movement in the number of routes offered by each individual airline. That changed when COVID-19 struck, and the industry was reduced to the bare minimum of routes for essential services. Since that time, Virgin's low-cost carrier Tigerair ceased operations and each airline's network grew or contracted every month in response to lockdowns, border openings and closings, and to changes in consumer confidence to fly.

27 Bega Valley Shire Council, *Airport closed for six weeks from 31 January* [media release], 17 January 2022, accessed 20 May 2022.

Over this time, Qantas actively grew its network as it sought to convert demand for international travel into domestic trips.[28] It also noted that all aircraft carry fixed costs, whether they are grounded or not. Qantas serviced around 33 more routes in April 2022 than it did in pre-COVID-19 (around 90 routes). The new routes added during the pandemic include those:

- linking larger cities to regional destinations such as Sydney – Orange and Melbourne – Mt Gambier using the Dash 8 turbo-prop aircraft
- linking population centres such as Adelaide – Newcastle and Adelaide – Townsville, using the Embraer 190 jet aircraft under wet-lease from Alliance Airlines
- to leisure destinations already served by Jetstar, such as Brisbane – Proserpine (the Whitsundays) and Adelaide – Cairns.

Jetstar's network of routes in April was 6 more than in pre-COVID-19 (53 routes). New routes include:

- leisure routes such as Cairns – Newcastle, Melbourne – Hamilton Island, Melbourne – Busselton, Sydney – Mackay and Sydney – Hervey Bay
- larger city routes served by Qantas, including Brisbane – Perth and Brisbane – Canberra.

Rex serviced 5 more routes in April 2022 than pre-COVID-19 (43 routes). This largely reflects the airline's expansion onto the larger city routes using Boeing 737 jet aircraft commencing in March 2021.

Virgin's 61 routes in April 2022 remains below its pre-COVID-19 high of 69 routes. The carrier significantly reduced its network coverage after entering into administration, and exited many regional routes as it streamlined its reduced fleet to a single aircraft type (Boeing 737). This has confined Virgin to connecting cities with larger airports. Virgin did eventually add back some routes it previously exited, as well as introduce new leisure routes to briefly reach pre-COVID-19 levels in December 2021. However, the recent decrease in its route count was due to the carrier not immediately returning to newly added routes such as Adelaide – Cairns and Hobart – Gold Coast following the Omicron disruption.

3.5 More passengers benefitting from direct competition between 3 airline groups

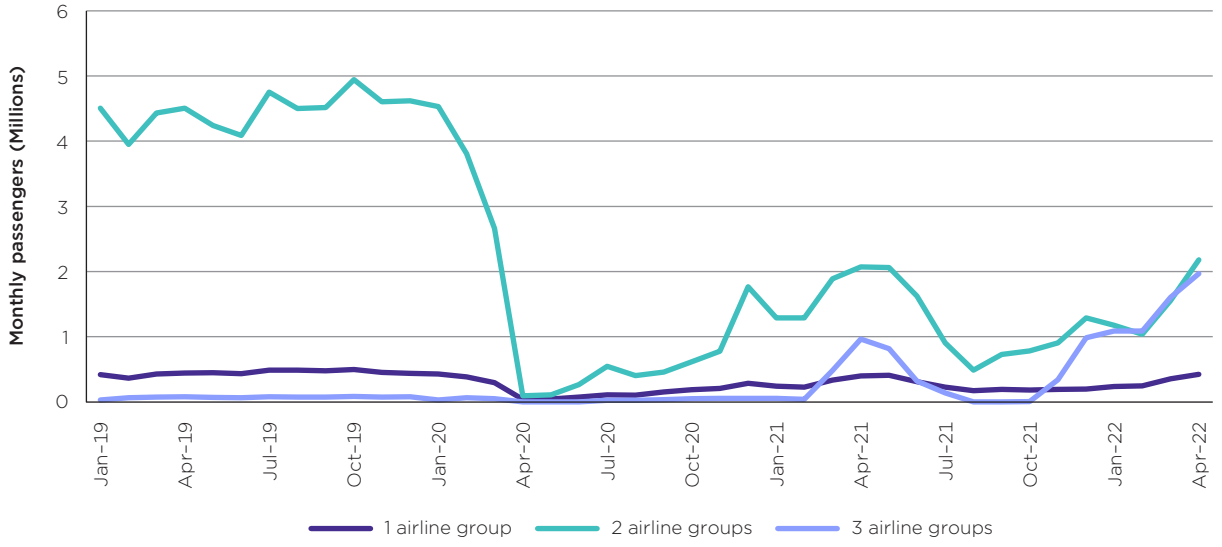
Following Rex's expansion into major intercity routes in 2021, growing numbers of Australians are benefitting from direct competition between all 3 of the main airline groups: Qantas Group (with Jetstar), Virgin and Rex. Rex's entry onto these routes has led to consumers paying significantly lower airfares than previously, regardless of their choice of airline.[29]

Figure 6 shows these routes accounted for as much as 46% of total passengers in February and March 2022. The underlying passenger numbers on these routes increased to 1.96 million in April 2022, although the proportion of passengers decreased slightly to 43%.

28 Qantas, *Qantas creates more travel options for customers across regional Australia* [media release], 18 December 2022, accessed 26 May 2022.

29 ACCC, *Airline competition in Australia – March 2022 report*, 8 March 2022.

Figure 6: Number of passengers on routes serviced by 1, 2 and 3 airline groups – January 2019 to April 2022



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

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

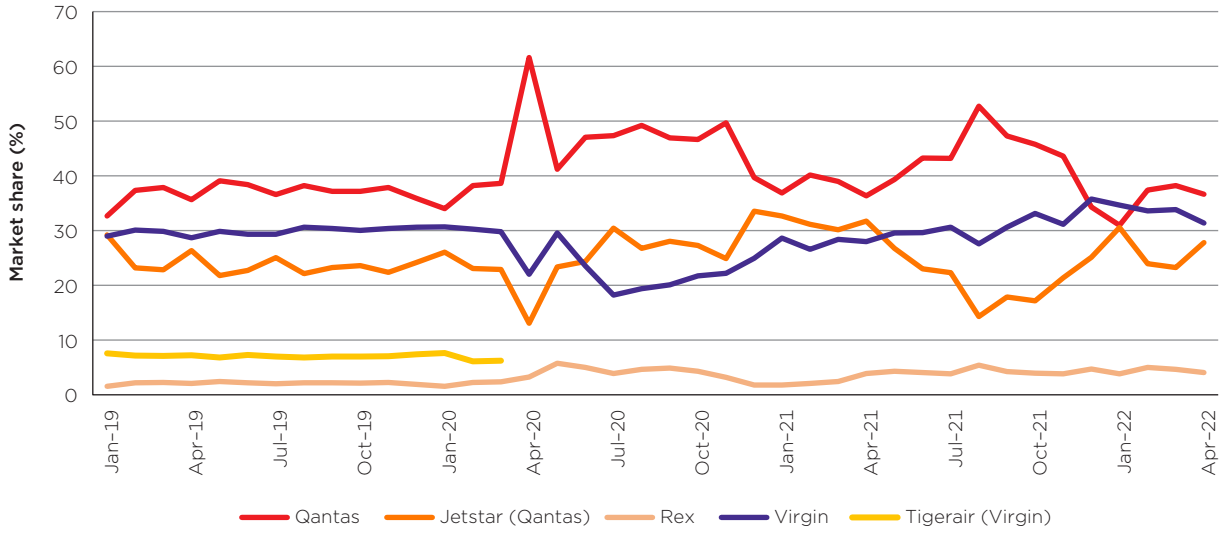
Rex's expansion into intercity jet services began with the Melbourne – Sydney route in March 2021 and then grew to 9 routes after it added Brisbane – Melbourne and Brisbane – Sydney in December 2021. Prior to this, the vast majority of domestic passengers (90%) had a choice of just 2 airline groups, with less than 2% flying on routes with 3 competing groups. The proportion of people flying on routes with 2 airline groups has now decreased to below 50%.

Although routes served by only a single airline group account for over half of all domestic routes, the number of passengers on these routes is relatively low – around 9% of the total in April 2022. The proportion of passengers on these routes in 2019 was also around 9% but it increased temporarily during the pandemic.

3.6 Qantas reclaims the highest market share from Virgin

Airline market shares have fluctuated since the pandemic began (Figure 7). Market shares have shifted quickly as movement restrictions have come and gone, impacting each airline differently accordingly to the nature of their operations and network footprint. The impact of COVID-19 measures can be seen most clearly from March 2020 with national lockdowns, and from July 2021 with lockdowns in New South Wales and Victoria. Qantas' and Rex's market shares have risen during market contractions as each airlines' regional network has not been as acutely affected by border closures.

Figure 7: Airline passenger market shares across all domestic routes – January 2019 to April 2022



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

The Qantas Group held a 65% share of the domestic passenger market in April 2022, divided between Qantas and Jetstar at 37% and 28% respectively. Qantas serviced the most passengers of any single airline brand since February 2022, while Jetstar's share rose in response to holiday demand, a trend observable in holiday periods pre-COVID-19. The Qantas Group has reported a growing market share since Western Australia's borders reopened, and reported it expects its market share to increase to 70% with its 2 airline brands.[30]

Virgin emerged from administration in November 2020 with a 22% passenger market share and has steadily regrown that share since. In December 2021 and January 2022 Virgin's 35% share was the largest market share of any single airline brand. By April 2022 its share had since fallen to 31%, but remains close to its stated objective of 33%.[31] Virgin has held the largest market share on routes between larger cities since December 2021, with a 36% share in April 2022.

In recent months, Rex's market share has remained stable at 4-5% in a recovering market. Rex held a 2% domestic passenger market share pre-COVID-19, when it was a traditional regional operator. Rex grew its share after it launched its jet-based services on major intercity routes in March 2021. Rex is traditionally a regional operator. Rex's 5% share of city-regional routes in 2022 is consistent with its 2019 share, while its 10% share of regional-regional routes is slightly higher than the 8% share it averaged through 2019.

3.7 Airfares may have bottomed out as fuel costs rise

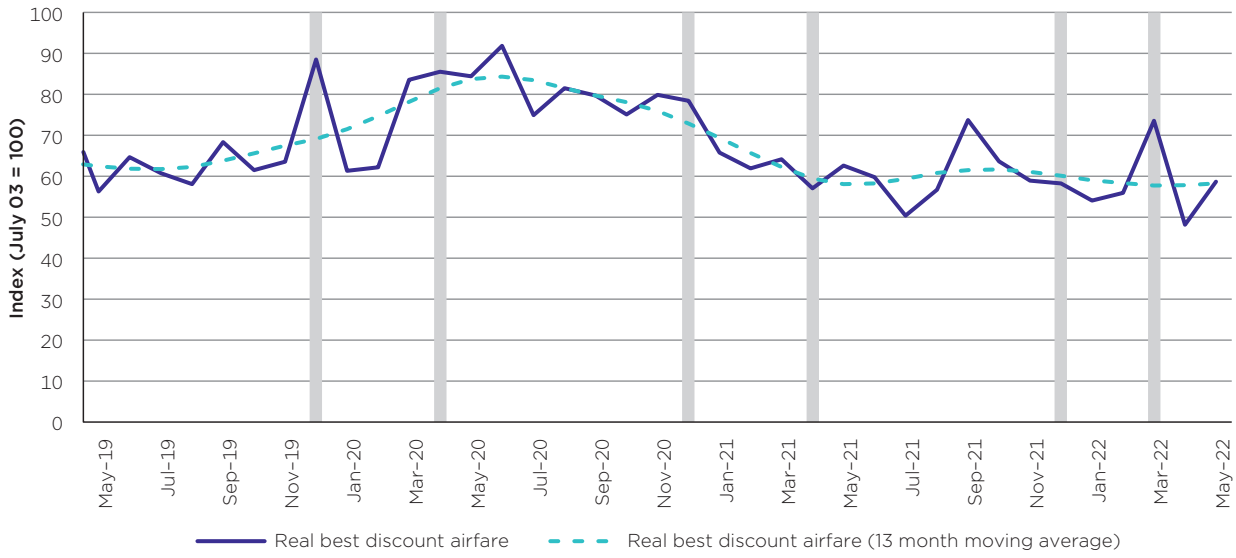
While recent airfares have been historically low for both economy and business travellers, higher jet fuel prices and the return of demand may see fares increase.

Figure 8 shows the change in the price index representing the cheapest discount airfares, weighted across the 70 busiest domestic routes. The price index compares changes in airfares relative to July 2003 (100 on the price index). Discount airfares fluctuated between 54 and 59 on the index from November 2021 to February 2022. After rising to 73.6 in March 2022 ahead of the busy Easter break, the index then fell to an 11-year low of 48.2 in April 2022. Discount airfares in late-April into May are typically low with travel demand falling after the Easter break.

30 Qantas, *Qantas Group trading update: third quarter FY22* [media release], 2 May 2022, accessed 11 May 2022.

31 Virgin, *Virgin Australia finalises new agreements nine Boeing 737-800 NG aircraft* [media release], 27 August 2021, accessed 20 May 2022.

Figure 8: Price index of cheapest discount airfares weighted across 70 busiest domestic routes – May 2019 to May 2022



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

Note: Grey bars indicate December and Easter holiday periods.

Compared to the July 2021 low of 50.4, the cheapest available discount airfares were higher on Melbourne – Sydney, but comparable to or lower than July 2021 levels on other city routes including Adelaide – Melbourne, Brisbane – Melbourne, and Brisbane – Sydney.

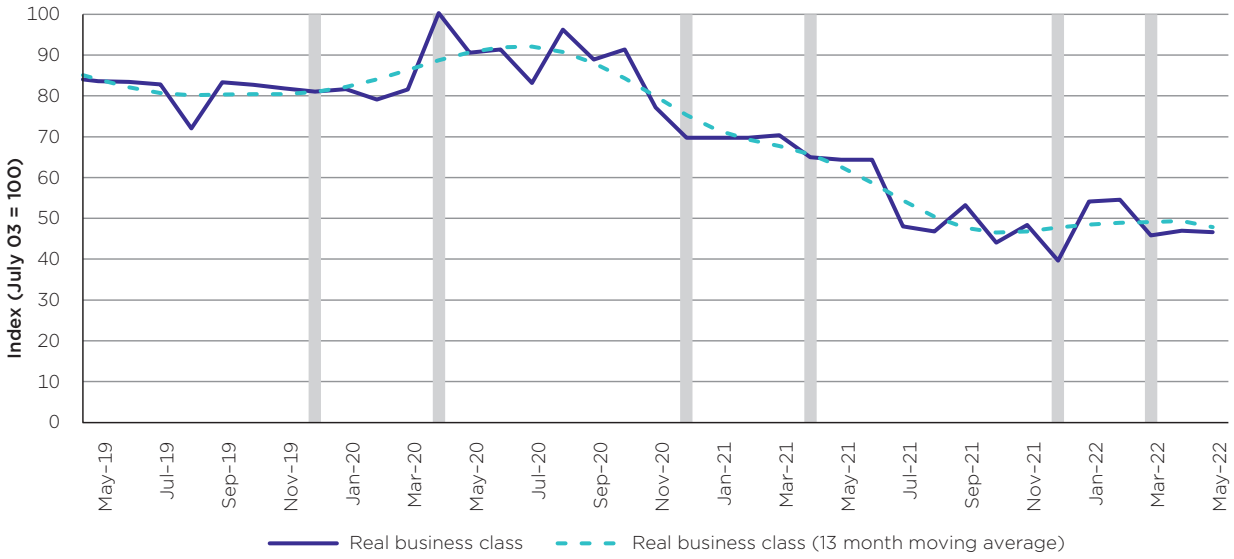
Although the cheapest available discount airfares were at a low for flights in late-April, the ACCC has observed that Rex's airfares for post-Easter flights were $10 higher than its airfares for pre-Easter flights across many of its routes. As discussed in Section 2.3, this is consistent with Rex's public statements about increasing airfares in response to rising fuel costs. Virgin and Qantas followed Rex in increasing their airfares by $10 in April 2022 on several routes, including routes where both airlines compete with Rex. However, it is unclear if these fare increases reflect the 2 airlines passing-through cost increases at that time. Jetstar's airfares generally remained at or below pre-Easter levels for flights in late-April.

Due to the forward-looking nature of the price index, the March figure includes return flights during the Easter break. Easter 2022 was the first holiday period since the beginning of COVID-19 where the lowest price of discount airfares rose materially relative to the previous month. Airfares did not rise materially in previous holiday periods since the beginning of the pandemic with the airlines encouraging travel during periods of depressed activity.

Figure 9 shows the price index of business class airfares in 2022 has fallen about 40% from 2019 levels. The May 2022 figure of 46.6 was down from 54.5 in February 2022, but remains above the low of 39.6 recorded in December 2021. The price of business class airfares has been trending downwards since late-2020 when Virgin began reducing the price of its airfares from pre-COVID-19 levels.[32] Rex's entry onto larger domestic routes from March 2021 put further downward pressure on the price of business class seats. The index fell in March 2022 after Virgin resumed regular services on interstate Perth routes, which gave passengers on those routes more choice of business class seats.

32 Virgin, *Virgin Australia has cut the price of one-way Business Class fares, seats from $299 on selected routes* [media release], 1 April 2022, accessed 13 May 2022.

Figure 9: Price index of cheapest business class airfares weighted across 70 busiest domestic routes – May 2019 to May 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.

The ACCC has observed that Qantas and Virgin raised the prices of their business class tickets by $10 in March 2022 for flights in April on several routes monitored, including Adelaide – Sydney and Melbourne – Hobart. However, the cheapest available business class airfare did not change on most routes where Rex and Virgin compete, remaining at historical lows of $299 on routes between Sydney, Melbourne, Brisbane, and the Gold Coast. The one exception was Melbourne – Canberra where both Rex and Virgin raised their lowest-priced business class airfare by $10 to $259 in March 2022 for flights in April.

4. Lessons from Canada: Insights into domestic airline competition

We can study the characteristics of an industry in countries similar to Australia to gain insights about how that industry may develop in Australia. Finding countries with a domestic airline industry comparable to Australia's is challenging. Few countries have a geographic footprint, population, and level of economic development similar to Australia's.

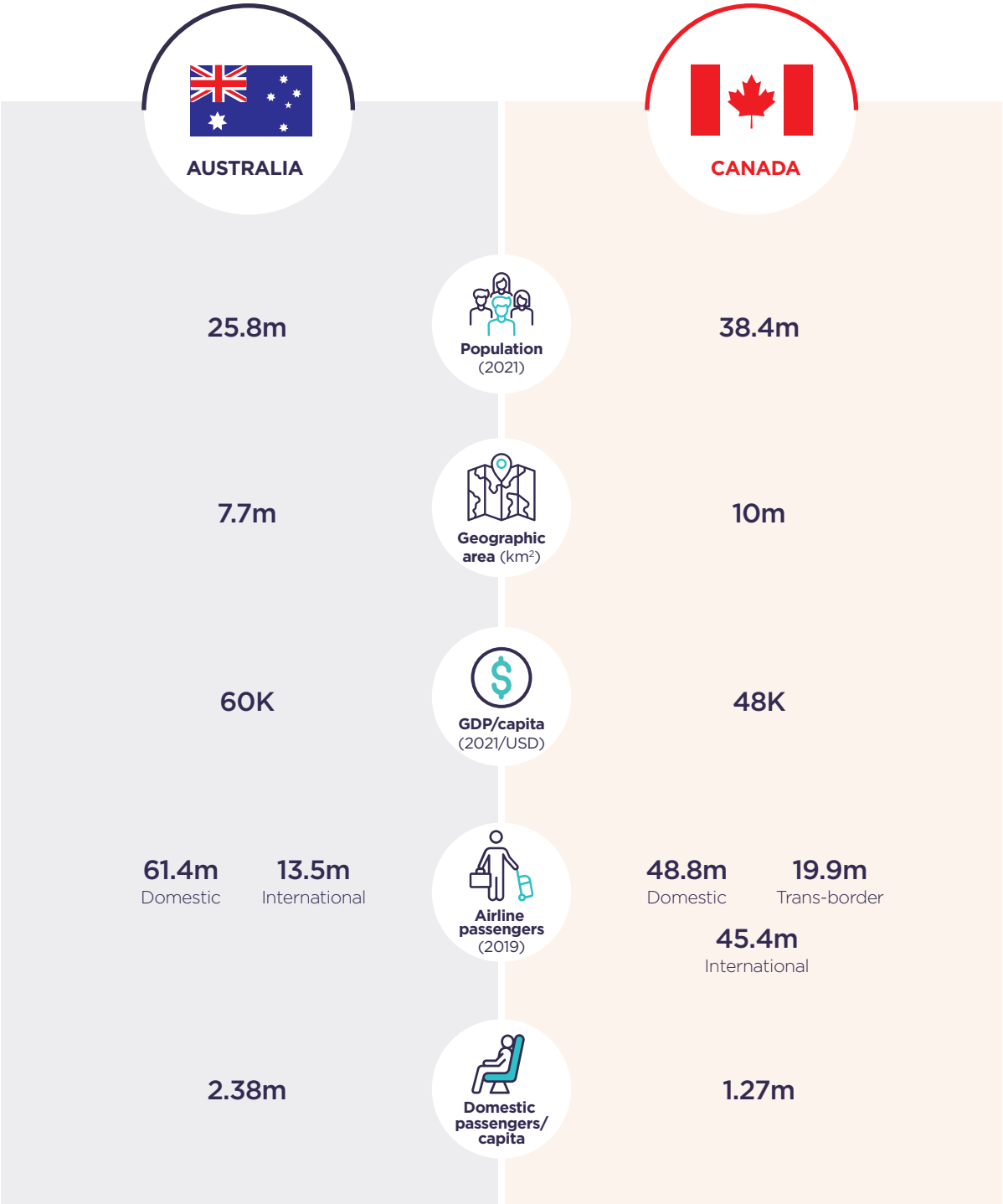
One country that reasonably fits this description is Canada. This chapter looks at market structure, geographic size and population, barriers to entry, and trends in the domestic airline market in Canada compared with Australia. While Australia has larger domestic passenger volumes, new and expanding airline entry in Canada over the last few years means there is more competition on Canada's busiest routes. Further, barriers to entry are similar in both countries, however more restrictive foreign ownership limitations in Canada create an additional barrier for new airlines to access sufficient capital to enter and compete sustainably.

4.1 Domestic passenger volumes have grown faster in Canada in recent years

Despite the countries having similar economic and geographic profiles, less airline passengers travelled domestically in Canada than Australia pre-pandemic. Canada's passenger volumes, however, grew faster than Australia's in the years before the pandemic impacted airlines globally.

Figure 10 shows some of the relevant similarities between Australia and Canada. Like Australia, Canada has a relatively small population occupying a large geographical area. Canada has an open economy, with similar levels of GDP per capita.

Figure 10: Demographics – Australia and Canada[33]



Source: ABS; CEIC Global Economic Data; BITRE; Statistics Canada.

Note: International passenger figure is passengers flown by domestic carriers only.

33 Passenger numbers derived from: BITRE, Australian Government, 'Domestic aviation activity year ending December 2019' spreadsheet, accessed 20 May 2022; BITRE, Australian Government, 'International airline activity table 1, Airline by country of port data–passengers, freight and mail–2009 to current' spreadsheet, accessed 20 May 2022; Statistics Canada, Government of Canada, 'Table 23-10-0220-01 Civil aviation operating statistics, by sector, Canadian air carriers, Levels I to III, annual (x 1,000)', accessed 20 May 2022.

Despite Australia having only two-thirds of Canada's population, more passengers flew domestically in Australia at 61.4 million compared with Canada at 48.8 million, pre-COVID-19.

However, with Canada sharing a land border with the United States, all of its larger airlines also operate services to neighbouring cities in the United States. When factoring in this trans-border traffic, Canadian airlines carried 68.7 million passengers.

Canadian airlines carried 3 times more passengers internationally at 45.4 million compared with 13.5 million by Australian airlines. The majority of this international traffic was carried by Canada's dominant airline, Air Canada.

The size of the domestic airline industry in each country has been growing at quite different rates. Between 2015 and 2019, both Australia and Canada recorded similar levels of population growth at 7% and 6% respectively.[34] Australia's domestic passenger numbers over this time grew in line with population growth at 7%.[35] In contrast, Canada's domestic passenger numbers grew at 3 times the rate of Australia (21%) over the same period.[36]

Bonza CEO Tim Jordan has offered one reason for the relative slow growth rate in Australia's airline market. Jordan argues that despite Australia being the 8th largest domestic aviation market in the world, its tourism growth has been held back due to a lack of low-cost carriers (LCCs) in the market.[37]

Jordan said that of the largest 15 domestic aviation markets in the world, Australia was the only one without an independent LCC and that every other market had at least 2 LCCs.[38] He said that the number of routes served by LCCs in Australia has remained at 58, the same as 2010.

Bonza intends to begin services later in 2022, joining the Qantas Group's Jetstar as the only LCCs in Australia. In contrast, Canada has a number of independent LCCs and ultra low-cost carriers (ULCC) operating in the domestic airline market.

4.2 The Australian domestic airline industry is more concentrated than Canada, with fewer competing airline groups on busy routes

In both the Australian and Canadian industries, 2 airline groups dominate the market. This dominance appears to be more notable in Australia.

Figure 11 shows the breakdown of the market shares of airlines in both Canada and Australia, as measured by scheduled domestic seat capacity.[39] There are a number of similarities between the 2 countries. At the top of both charts is each country's full-service flag carrier with a dominant market share, Air Canada and Qantas.

34 ABS, Australian Government 'Population and components of change – national' spreadsheet, accessed 20 May 2022; Government of Canada, 'Population estimates quarterly', accessed 20 May 2022.

35 BITRE, Australian Government, 'Domestic aviation activity year ending December 2019' spreadsheet, accessed 30 March 2022.

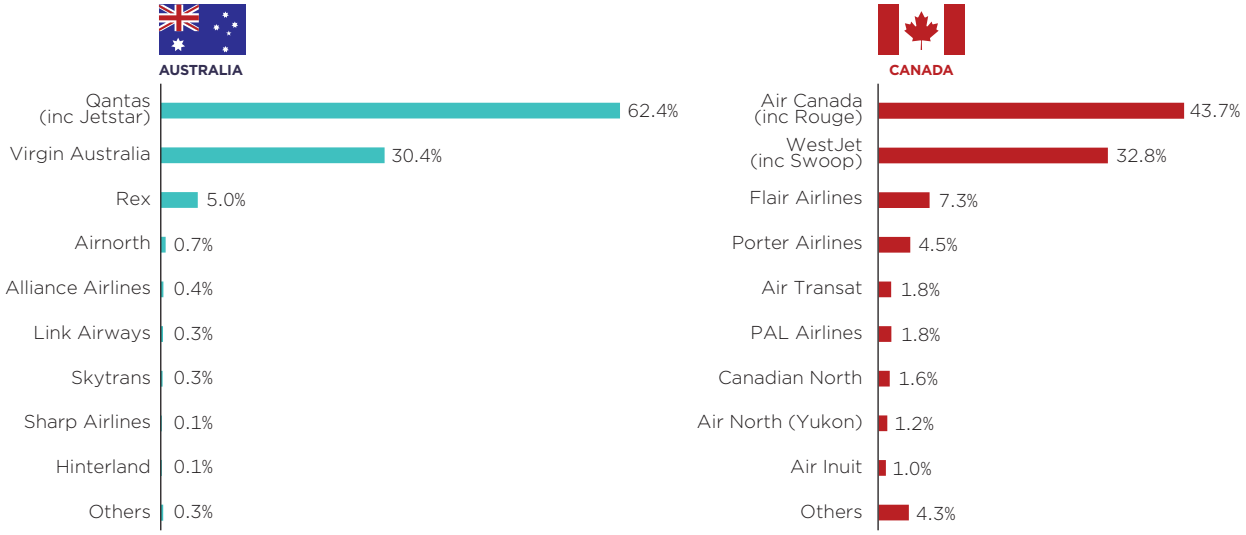
36 Statistics Canada, Government of Canada, 'Table 23-10-0220-01 Civil aviation operating statistics, by sector, Canadian air carriers, Levels I to III, annual (x 1,000)', accessed 20 May 2022.

37 Bishop T, 'Will they get bums on seats?', travelBulletin, 4 May 2022, accessed 5 May 2022.

38 Ibid.

39 Market share figures in this chapter are based on scheduled domestic seat capacity week of 27 June 2022, ACCC calculations based on data from CAPA – Centre for Aviation, accessed 16 May 2022; market share figures quoted for Australian airlines in this chapter may vary from references in the rest of the report due to a different definition of market share.

Figure 11: Market share by domestic seat capacity in Canada and Australia



Source: ACCC calculations based on data from CAPA – Centre for Aviation, accessed 16 May 2022.

Note: Scheduled two-way domestic seat capacity for all Canadian and Australian operators, week commencing 27 June 2022. Note the Canadian market is seasonal and market shares may vary across the year.

Unlike many other flag carriers around the world, both Air Canada and Qantas have been successful in establishing a low-cost subsidiary to specifically target leisure travellers. Air Canada Rouge was launched in 2013 and is focused on servicing leisure destinations in the Americas.

In Australia, Qantas established Jetstar in 2003 and it has since become one of the most successful LCCs in the world. Jetstar accounts for about one fifth of the Australian domestic market capacity. Combined, Qantas and Jetstar hold a dominant share of over 60%. Comparatively, Air Canada (including Air Canada Rouge) hold 43.7%.

Both Air Canada and Qantas have large international networks, and compared with other Canadian and Australian airlines, carried the majority of international traffic pre-pandemic.

The primary challengers to the largest airline groups are WestJet in Canada and Virgin in Australia. Both airlines entered the industry as LCCs but later rebranded as full-service carriers. Both airlines have also later sought to complement their full-service product with a lower cost offering. WestJet and its ULCC Swoop combined have 32.8% market share. Virgin's leisure-focussed offering Tigerair ceased operations shortly after the pandemic began in early 2020.

One difference between the 2 countries is the relative contribution of smaller airlines. Figure 11 shows that there is a long tail of smaller Canadian airlines that offer at least 1% of total domestic capacity. In contrast, only 4 airlines (and 3 airline groups) offer more than 1% of capacity in Australia.

Since the airline market was deregulated in Canada in 1986, several airlines, particularly LCCs, have attempted to enter and compete against the dominant Air Canada. The majority of LCCs however, have subsequently exited the market or were acquired by other airlines, with the exception of WestJet and a couple of smaller airlines.[40]

Over the last few years, Canada has seen an influx of new and expanding airlines. With financial backing from 777 Partners, the same investment firm supporting new Australian airline Bonza, Flair Airlines has grown its network and market share since launching in 2017. Flair Airlines currently operates a fleet of 14 aircraft but has announced plans to expand to 50 over the coming years. Flair Airlines predominantly flies domestic and trans-border flights, servicing a handful of leisure destinations in the Caribbean and Mexico. With 7.3% market share, Flair Airlines operates on 9 of Canada's top 10 domestic routes.

40 Chong, J, Library of Parliament, Ottawa, Canada, 'Airfares and Ultra-Low-Cost Carriers in Canada', 28 June 2018, p 6.

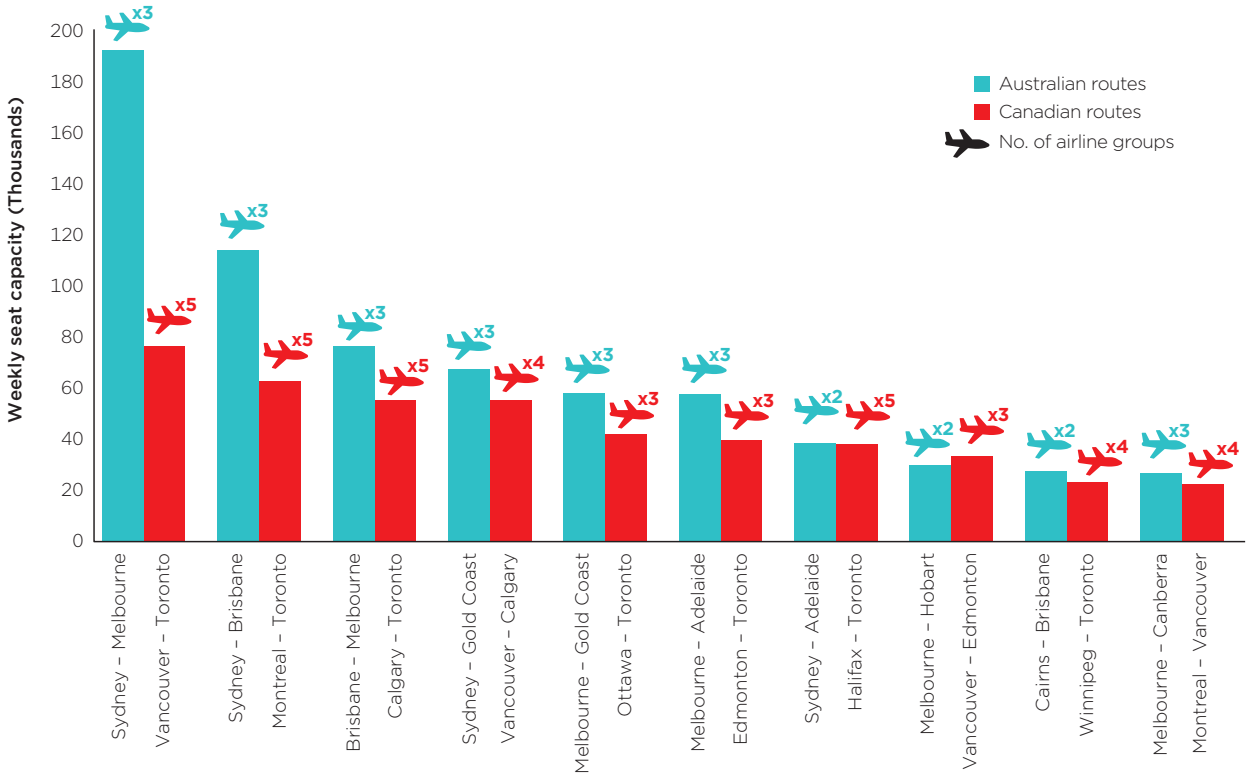
Flair Airlines' success to date may give an indication of what we can expect from Bonza in Australia. The airlines share the same parent company and both promote themselves as leisure-focussed ULCCs, however Australia's Bonza's business model differs from Flair Airlines in that Bonza is predominantly targeting unserved and underserved routes. Bonza's access to 777 Partners' fleet of Boeing 737 MAX aircraft indicates that Bonza will be in a strong position to grow if demand warrants it.

In both countries, COVID-19 devastated the aviation industry but also presented unique opportunities for new and expanding airlines. In Australia, the availability of surplus pilots and aircraft following Virgin's entry into administration and airlines operating at reduced capacity helped Rex expand into intercity jet routes. Similarly in Canada, new ULCC Lynx Air entered the market in April 2022, and now operates on 5 of Canada's busiest routes with plans to expand over the coming months. New ULCC Jetlines is also set to enter the market later this year.

In contrast to the ULCCs above, Porter Airlines and Air Transat have unique business models. Porter Airlines flies domestic and trans-border routes, predominantly targeting higher yielding business passengers. With a market share of 4.5%, Porter Airlines operates on some of Canada's busiest routes, though operating out of many secondary airports. Porter Airliners has traditionally operated a fleet of smaller regional turboprops but is expanding with the acquisition of 30 Embraer E195 jet aircraft. Air Transat is predominantly a charter airline that flies to international leisure destinations. Holding 1.8% market share, Air Transat also provides seasonal regular public transport services on several domestic routes, including 4 of the top 10 busiest domestic routes.

As a result of these new and expanding airlines, there is now more competition on Canada's busiest domestic routes. Figure 12 shows the number of competing airline groups on the 10 busiest routes by seat capacity in each of Australia and Canada. The Canadian routes have 3–5 airline groups operating regular passenger services, compared with 2–3 in Australia. Most notable is that despite Sydney – Melbourne and Sydney – Brisbane being 2 of the busiest routes anywhere in the world, there are still only 3 competing airline groups on these routes. These groups comprise Qantas Group (both Qantas and Jetstar), Virgin and newcomer Rex, which is still establishing itself on the intercity routes since its expansion in 2021.

Figure 12: Number of airline groups on busiest domestic routes – Canada and Australia



Source: ACCC calculations based on data from CAPA – Centre for Aviation, accessed 15 May 2022.
Note: Based on scheduled two-way seat capacity week commencing 27 June 2022.

Canada also has more regional and charter operators compared with Australia. Though this is likely due to Canada having a larger population than Australia, and a larger proportion of its population living in regional and rural parts of the country.[41]

It is too soon to say whether the new and expanding airlines seen in Canada over the last few years will be able to successfully carve out a piece of the market long term. Some commentators have suggested that the new competition may not be sustainable.[42]

At least in the short term however, Canadian passengers will benefit greatly with this new competition providing choice, more connections and lower airfares. In Australia, we have started to see the benefits of new and expanding entry, with Qantas, Jetstar and Virgin reducing airfares in response to Rex entering intercity routes since 2021.[43]

4.3 Barriers to entry similar across both countries

There are some common barriers to entry and expansion in the airline industry in both Australia and Canada.

In its March 2020 assessment of a proposed acquisition by Air Canada of Air Transat[44], the Canadian Competition Bureau said that barriers to entry or expansion in Canada were generally high.[45] It said that these include sunk costs and other barriers to entry common to all operators within the airline industry, as well as considerations specific to the routes at issue. The Competition Bureau also said that new carriers in Canada face a variety of regulatory and licensing requirements, branding and reputational barriers, and the need to secure substantial capital. It added that new carriers must incur significant sunk costs to, for example, establish a base at an airport and achieve the economies of scale required for efficient operations.

The Competition Bureau's assessment also found evidence of certain constraints relating to infrastructure or take-off and landing slots at 3 airports.[46] The constraints at Toronto Pearson Airport related to difficulties airlines can have obtaining access to slots and key airport infrastructure during peak periods. The barriers at Montreal Trudeau Airport and Vancouver International Airport related to access to infrastructure such as interior boarding gates and baggage-handling facilities.

Many of these issues also present challenges for new and expanding airlines in Australia. For example, access to slots at Sydney Airport has received greater interest recently due to the challenges faced by Rex and Bonza, with the Australian Government currently reviewing the legislative framework for managing demand at the airport.[47]

In some respects, the Australian policy landscape could be seen as more favourable to new and expanding airlines than Canada's. In a 2015 submission to a review of the Canadian Transportation Act, the Competition Bureau argued for greater liberalisation of airline services using Australia as a positive example.[48]

41 The World Bank, 'Urban population (% of total population), - Australia, Canada, 2020', accessed 17 May 2022.

42 Curran, A, Simple Flying, 'Competitive pressure: Can Canada's new airlines survive?', 22 December 2021, accessed 16 May 2022.

43 ACCC, *Airline competition in Australia – March 2022 report*, 6 March 2022.

44 The proposed merger was withdrawn in 2021 after European regulators signalled to the companies that the deal wouldn't be approved in its current form.

45 Canadian Competition Bureau, 'Report to the Minister of Transport and the Parties to the Transaction Pursuant to Subsection 53.2(2) of the Canada Transportation Act: Proposed acquisition by Air Canada of Transat A.T. Inc.', 27 March 2020, accessed 5 May 2022.

46 Ibid.

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

48 Canadian Commissioner of Competition, 'Submission to the Canada Transportation Act Review Panel', February 2015.

Like most countries, Canada has restrictions on foreign ownership of its airlines. While these restrictions have been loosened somewhat in recent years, foreign entities can still only own up to 49% of a Canadian operator, with no single foreign entity allowed to own more than 25%. The ownership restrictions effectively limit the pool of capital that airlines can access, reducing opportunities for potential new entrants.

Canada's aviation regulator, the Canadian Transportation Authority is currently investigating Flair Airlines for potential breach of these rules. One issue raised by the Authority relates to the extent of investment by 777 Partners, which is based in the United States. For their part, Flair Airlines has stated that 777 Partners provided the airline a 'lifeline' during the pandemic.[49]

In contrast to Canada, Australia allows domestic airlines to be up to 100% foreign owned, as long as the airline is registered in Australia and subject to the same laws and regulations governing the operation of domestic flights in Australia.[50] This allows new and expanding airlines to access a larger pool of capital to enter and compete in the market.

Most Australian domestic and international airlines are majority or fully foreign owned, including Virgin, Rex and Bonza. The *Qantas Sale Act 1992* limits total foreign ownership of Qantas to 49%.[51]

4.4 Australian consumers may have missed out due to lack of new entry and expansion in recent years

While a single case study will not be as comprehensive as broader research across many similar countries, the comparison with Canada offers some insights into the Australian domestic airline industry.

Perhaps the most notable is that Australian consumers may have missed out on cheaper travel and additional routes because fewer airlines have entered the Australian market. The last significant LCC entry was by Tiger Airways in 2007, which later became a wholly owned subsidiary of Virgin known as Tigerair. In contrast, Canada's strong growth in domestic passengers over the last few years appears to have been driven by the emergence of new and expanding airlines providing both affordable travel and competition.

The relative lack of new LCCs in Australia over the last decade may reflect the success that the Qantas Group had launching Jetstar before many other LCCs could get established. Any prospective LCCs would have known that they would need to compete directly with a profitable, well-established rival with strong financial backing of a large airline group, potentially deterring new entry.

Despite Jetstar's presence and the ultimate demise of Tigerair after many losses, Canada's experience suggests that there may be opportunities in Australia for LCCs like Bonza. Indeed, Bonza is likely to have been mindful of both Jetstar and Tigerair in developing its business strategy. While also targeting price-sensitive travellers, Bonza's business model otherwise differs from Tigerair's. While Tigerair operated on Australia's busiest routes and in direct competition with Jetstar, Bonza is predominantly targeting unserved and underserved routes with the intention of growing new regional leisure markets.

Australia is a large domestic aviation market with some of the busiest routes in the world. Canada's experience suggests that Australia's domestic market may be large enough to support more competition than the traditional duopoly of the Qantas Group and Virgin, such as that offered by Rex and Bonza.

49 Mehta, D, Simple Flying, 'Ownership drama explained: What's going on at Canada's Flair Airlines?', 21 April 2022, accessed 16 May 2022.

50 Acquisition of an Australian domestic airline is subject to the *Foreign Acquisitions and Takeovers Act 1975*.

51 The Act also obligates Qantas to monitor its level of foreign ownership and control, to maintain a register of foreign shareholdings and to order foreign shareholders to sell their holdings if Qantas breaches the foreign ownership restriction.

AUSTRALIAN COMPETITION
& CONSUMER COMMISSION