



Regional Express (Rex) application to the
Australian Competition and Consumer
Commission for authorisation and interim
authorisation to co-ordinate schedules with
other airlines

24 MARCH 2020

Regional Express (Rex) application to the Australian Competition and Consumer Commission (ACCC) for authorisation and interim authorisation to co-ordinate schedules with other airlines to reduce capacity on 9 regional routes during the COVID-19 crisis

24 MARCH 2020

1. Summary of Application

Regional Express (Rex) seeks authorisation to co-ordinate schedules with QantasLink and Virgin Australia (if necessary) to reduce capacity on the nine regional routes specified in this application during the unprecedented COVID-19 crisis. These routes are within New South Wales (4 routes), South Australia (3 routes), Queensland (1 route) and Victoria (1 route).

It may be the case that the independent actions already being taken by airlines to reduce capacity mean that co-ordination is not necessary on some of these routes. However, this is a fast-moving and unpredictable state of crisis. Authorisation is, therefore, being sought, with the support of the Australian Government, as the co-ordinated reduction of capacity by airlines may give rise to contraventions of sections 45, 45AF, 45AG, 45AJ and 45AK of the *Competition and Consumer Act 2010* (Cth) (the Act).

In light of the scale of this crisis on domestic aviation unprecedented circumstances, the impact on regional communities and the need for lead time in planning rosters, Rex seeks urgent interim authorisation with effect from 24 March 2020 until final authorisation has been granted.

Confidential financial information has been provided in section 4.2. This information has been redacted in the public version of this application. Rex requests that this confidential financial information be excluded from the public register.

Rex notes a waiver of the lodgment fee for this application has been granted by the ACCC on the 23rd March 20.

2. Parties to the proposed conduct

2.1. The details of the applicant are as follows:

Company Details:

Regional Express Pty Ltd.

81-83 Baxter Road, Mascot NSW 2020

ACN: 101 325 642

Contact Details:

Attn: Company Secretaries

Email: [REDACTED]

Phone: [REDACTED]

2.2. The details of the other airlines which may also engage, or become engaged, in the proposed conduct for which Rex seeks authorisation are as follows:

Company Details:

Qantas Airways Limited

10 Bourke Road, Mascot, NSW 2020

ACN: 009 661 901

Virgin Australia Holdings Limited

56 Edmondstone Road, Bowen Hills, QLD 4006

ACN: 090 670 965

3. The proposed conduct for which authorisation is sought

3.1. Details of the proposed conduct

Rex seeks authorisation to co-ordinate schedules with QantasLink and Virgin Australia as necessary to reduce capacity on the 9 regional routes specified below, so that carriers on these

routes can reduce capacity in a way that seeks to achieve sustainable load factors without compromising the quality of service (schedule offerings) to passengers on these routes.

The 10 regional routes and current operators on these routes are:

New South Wales

Sydney – Wagga Wagga (Rex and QantasLink)

Sydney – Dubbo (Rex and QantasLink)

Sydney – Albury (Rex, QantasLink and Virgin Australia)

Sydney – Armidale (Rex and QantasLink, Rex has announced suspending services from 6 April 2020)

Victoria

Melbourne – Mildura (Rex, QantasLink and Virgin Australia)

South Australia

Adelaide – Port Lincoln (Rex and QantasLink)

Adelaide – Whyalla (Rex and QantasLink)

Adelaide – Kangaroo Island (Rex and QantasLink, Rex has announced an exit in July 2020)

Queensland

Cairns – Townsville (Rex and QantasLink)

Townsville – Mount Isa (Rex and QantasLink). Rex flies this route as part of a milk run but technically we are also in competition with QantasLink.

To illustrate, where this co-ordination might occur:

Example (i) Whyalla

Rex has announced a reduced capacity of 58,000 seats from 94,000 seats a year. Qantas has announced a reduction to 35,700 seats bringing total capacity between both airlines to 93,000 seats. Whyalla had 65,000 annual passengers historically and Rex expects this to drop at least 50% in the next 12 months to 32,500 passengers. If there is no co-operation, then these unilateral

actions will result in a clearly unsustainable load factor of 30%, something no carrier can afford at this time.

However, neither carrier on this route can cut capacity further without co-operation. Rex has already reduced its offering to the bare minimum of two services a day which is the necessary level of service a regional community needs for a day return trip to the capital city for medical and business needs. Qantas has cut its capacity to one flight a day (which of itself would not meet the minimum service level needs of a regional community).

Example (ii) Wagga Wagga

Rex has announced a reduced capacity of 46,000 seats from 109,000 seats a year. Qantas has announced a reduction to 87,700 seats bringing total capacity to 133,000 seats. Wagga Wagga had 180,000 annual passengers historically and Rex expects this to drop at least 50% in the next 12 months to 90,000 passengers. If there is no co-operation, then these unilateral actions will result in a load factor of 67% which might have been considered commercially viable under a 'business as usual' scenario but still means a lot of empty seats being wasted (43,000) which exacerbates the impact of this 'anything but business as usual' crisis.

If the carriers on these nine regional routes were able to co-ordinate schedules, then it would be possible to envisage an arrangement whereby each carrier takes one service a day and they agree to share the total revenue¹. Alternatively, it would be possible to have an arrangement whereby a carrier suspends certain routes, saving costs on the routes they exit and leaving the remaining carrier with sustainable load factors². In the case of Whyalla, such an arrangement would allow one carrier to meet minimum service levels with a load factor of 60% and in the case of Wagga Wagga it brings the load factor to a profitable 85%.

¹ Note that any agreement on revenue sharing would not involve any negotiation as to each carrier's pricing as the proposal is for co-operation on the basis of fares as at 1 February 2020 – see section 5.2.

² Again, note that the proposal is for each carrier's pricing to remain at 1 February 2020 levels.

3.2. The potential for contraventions

The relevant provisions of the Act which might apply to the proposed conduct are section 45 and sections 45AF, 45AG, 45AJ and 45AK.

3.3. The term of authorisation sought

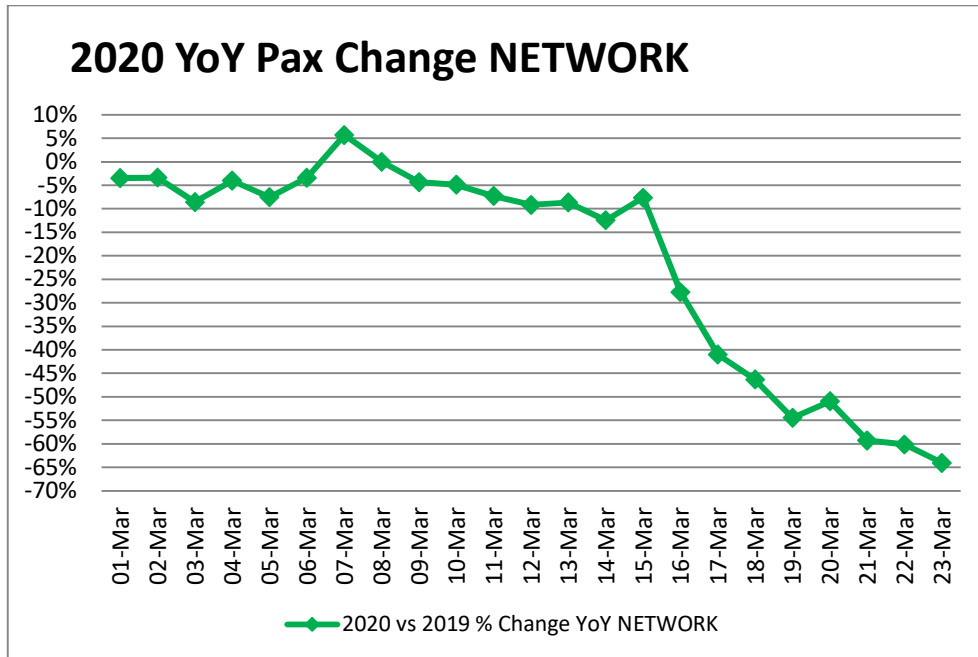
Most experts believe that the current crisis will last for a minimum of nine months before the situation improves sufficiently. Rex therefore requests authorisation until 30 June 2021.

In light of the pace of this crisis, the impact on regional communities and the need for lead time in planning rosters, Rex seeks urgent interim authorisation with effect from 24 March 2020 until final authorisation has been granted.

4. The rationale for the proposed conduct

4.1. Scale of the financial impact of the COVID-19 crisis

As the ACCC is well aware, airlines all over the world are facing a catastrophic disaster never before seen in the history of aviation. The impact on Australian airlines came relatively late, but when it came it was savage. Two weeks ago Rex hardly noticed any drop in passenger numbers year-on-year or any other abnormal trends. Then 10 days ago, in line with heightened measures taken by the Australian Government and more and more alarming warnings, passenger numbers simply nose-dived, the reduction reaching close to 60% on Friday 20 March 2020 for Rex. Below is a graph showing how quickly the situation has changed since 9 March 2020.



The passenger numbers are almost certain to drop further with the announcements in the last two days of border closures and State-wide shutdowns with advice to avoid all non-essential domestic travel and we expect passenger numbers to drop further to 75-80% below last year.

All the major carriers in Australia have announced draconian measures in response to this crisis. Both Rex and Qantas have published the reduction of schedules (see attached) while Virgin Australia has announced a 50% reduction of capacity with details to be announced in the coming days. This had been a good week before the situation sharply deteriorated further.

4.2 Financial impact on Rex

5. The balance of public benefit versus public detriment



5.1. Public benefit

Even at the best of times, regional aviation presents a number of unique commercial challenges due to thin passenger numbers, the directional flow of traffic and the nature of regional

communities needing day return services both to and from the nearest capital city, as well as the monopolistic behaviour of many regional airports and access issues at capital city airports.

The current crisis for aviation due to the COVID-19 pandemic is unprecedented. In this national emergency, the interests of the Australian community lies in safeguarding the long term viability of domestic airlines and this is even more so in relation to regional Australia, where reliable, sustainable and affordable air services are critical to the socio-economic wellbeing of regional communities. In the last 18 years of its existence, Rex has seen 20 regional carriers collapsing without a single new one in existence today.

There is a clear and long-term public benefit in allowing carriers on these regional routes during this crisis to reduce capacity in a way that seeks to achieve sustainable load factors without compromising the quality of service to passengers.

It is to be noted that Rex has issued a media release on Monday, 23 March 2020, which announced the cessation of all RPT services (except in Queensland) from 6 April 2020 unless adequate Federal and State funding is provided by Friday 27 March 2020 (see attached). This not only gives an idea of how dire the situation is but how urgently the interim authorisation is needed. This application to ACCC is lodged in case the Federal and State Governments are able to commit to an assistance package prior to the deadline.

The approval by the ACCC will also be likely to favourably impact the considerations of the various governments in granting assistance to Rex. On the other hand, if Rex fails, then the regional sector will be pretty much dominated only by one main player.

5.2. Public detriment

There is minimal public detriment in what has been proposed in this application for the following reasons:

1. It does not involve carriers sharing confidential commercial information, so it is not creating any increased risk of competitors colluding or substituting co-operative

behaviour for competitive rivalry once the need for temporary co-ordination is over. Practically all the information needed to co-ordinate capacity is already known to both parties via the public domain – for example, passenger numbers, the pre COVID-19 crisis schedules of each carrier, the intended reduced schedule of carriers in response to the COVID-19 crisis etc.

2. Once the need for co-ordination is over, it will be very easy for carriers to revert to whatever schedules they wish to offer independently of each other, as all existing infrastructure is still preserved.
3. Rex proposes that it be a condition of authorisation that any co-operation between carriers is based on the fare schedule that was in place prior to the start of the airline crisis in Australia. Rex proposes that 1 February 2020 would be a suitable date for that condition. This would provide reassurance to the public that co-operation could not result in a monopoly operator hiking up fares on the relevant route.
4. The proposed co-operation is on an “as needs” basis. It may not necessarily be required on all the 10 routes given that airlines are already independently reducing capacity and withdrawing from routes and it may not necessarily involve participation by all 3 carriers. For example, Virgin Australia might not be involved if it has already independently made (but not yet announced) a decision to withdraw from the 2 routes on which it currently operates.

In short, the authorisation Rex has sought is a temporary measure, proposed with the support of the Australian Government, which seeks to maintain the viability of regional services during the current emergency and is highly unlikely to materially alter the competitive dynamics in regional aviation beyond the duration of the current emergency.

Declaration by Applicant

The undersigned declares that, to the best of their knowledge and belief, the information given in response to questions in this form is true, correct and complete, that complete copies of documents required by this form have been supplied, that all estimates are identified as such and are their best estimates of the underlying facts, and that all the opinions expressed are sincere.

The undersigned undertakes to advise the ACCC immediately of any material change in circumstances relating to the application.

The undersigned is aware that giving false or misleading information is a serious offence and is aware of the provisions of sections 137.1 and 149.1 of the *Criminal Code* (Cth).

.....

Signature of authorised person

.....GM Corporate Services.....

Office held

.....Irwin Tan.....

(Print) Name of authorised person

This 24th day of March 2020

19 MARCH 2020

MEDIA RELEASE

REX ANNOUNCES REDUCTIONS TO NETWORK

As foreshadowed in our earlier media release, Regional Express (Rex) has finalised the first stage of network reductions with effect from Monday 6 April 2020.

Overall, Rex will be reducing capacity by 45% which includes suspending three routes. As announced earlier in the year, Rex will also continue with its plans to exit the Ballina to Sydney route from 29 March 2020 and the Kangaroo Island to Adelaide route from 1 July 2020.

A summary of the reduction is appended to this media release.

Rex's General Manager of Network Strategy & Sales, Warrick Lodge, said, "The operating environment is extremely fluid and we will be monitoring the situation closely. If the situation worsens we may be forced to further reduce capacity in the interests of maintaining essential regional air services."

"This capacity reduction alone will not be enough and we have reached out to local councils (airport owners) to seek a reduction in airport charges to keep operating costs to a bare minimum so that the reduced services can be sustainable. Rex is appreciative of the heartfelt support of many councils, like Parkes Shire Council, who proactively approached Rex in the spirit of partnership to grant a total waiver of airport charges during Rex's hour of need. Rex promises to also stand by these local councils in their moment of adversity when Rex is solidly back on its feet."

Regional Express (Rex) is Australia's largest independent regional airline operating a fleet of 60 Saab 340 aircraft on some 1,500 weekly flights to 60 destinations throughout all states in Australia. In addition to the regional airline **Rex**, the **Rex Group** comprises wholly owned subsidiaries **Pel-Air Aviation** (air freight, aeromedical and charter operator) and the two pilot academies **Australian Airline Pilot Academy** in Wagga Wagga and Ballarat.

Rex Media Contact: Corporate Communications: +61 402 438 361 media@rex.com.au



Appendix A:

Rex Network Capacity Review - Effective 6th April 2020*

Adelaide Network	Weekly Return Services	
	Current	Proposed
Broken Hill	18	11
Ceduna	12	6
Coober Pedy	7	3
Mildura	Ad Hoc Reductions	
Mount Gambier	18	12
Port Augusta	Suspended	
Port Lincoln	52	27
Whyalla	28	12

Melbourne Network	Current	Proposed
Albury	18	12
Burnie	27	7
King Island	7	7
Merimbula	12	8
Mildura	20	17
Mount Gambier	18	12
Wagga Wagga	15	12

Sydney Network	Current	Proposed
Albury	25	12
Armidale	Suspended	
Bathurst	18	12
Broken Hill	18	12
Cooma	6	6
Dubbo	30	18
Grafton	18	11
Griffith	37	24
Lismore	18	11
Merimbula	19	12
Moruya	19	12
Narrandera	19	19
Newcastle	Suspended	
Orange	29	17
Parkes	18	12
Wagga Wagga	31	13

Queensland Network	Current	Proposed
Cairns Bamaga	8	6
Other	Under Review	

WA Network	Current	Proposed
ALL	Under Review	

*subject to change

23 MARCH 2020

MEDIA RELEASE

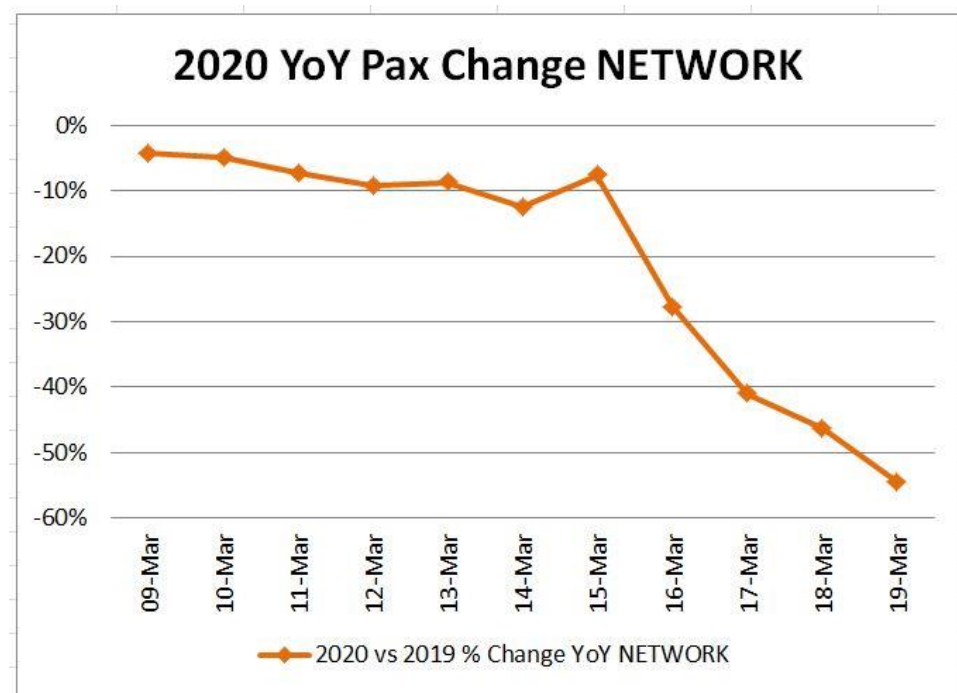
REX TO CEASE ALL PASSENGER AIR SERVICES WITH THE EXCEPTION OF QUEENSLAND

Following an emergency Board meeting on Sunday 22 March 2020, Regional Express (Rex) has announced that it will shut down its expansive Regular Public Transport (RPT) air services in all States, except in Queensland where the services are underwritten by the Queensland Government. Operations will cease with effect from 6 April 2020 unless the Federal and State Governments are willing to underwrite the losses.

In addition to RPT services in Queensland, other activities of the Rex Group not to be affected include Ambulance Victoria fixed-wing air ambulance services, charter contracts with mining companies, freight services and pilot training at its pilot academies in Victoria and New South Wales.

Rex's Deputy Chairman, the Hon John Sharp AM said, "Rex is supportive of the strong measures taken by the Federal and State Governments such as the shutting of State borders and imposing a lockdown within the States as well as discouraging all non-essential travel. These measures will definitely reduce the number of infections from COVID-19, prevent the health care system from being overwhelmed and save many lives."

"However, tragically for the airline industry, this means that we can expect the year-on-year reduction of passenger numbers to nosedive to around 80% from the 60% we are experiencing today. There is a tipping point in the airline business beyond which it will no longer be sustainable to operate reduced services."



“We believe that with only 20% of our passenger numbers left we have reached that point and the Rex Group has decided that the quasi suspension of all services at this stage presents the best option to preserve its cash.”

“The Federal Government has acted swiftly by promising a rescue package to the airlines of \$715 Million. However, the direct benefit to Rex from this package is only \$1 Million a month which is grossly insufficient to cover the \$10 Million a month we expect to lose running the heavily reduced schedule we announced last week.”

“The US Government has put in place a rescue package of USD\$50 Billion for a total airline revenue in the USA of USD\$240 Billion – about 20% of one year’s worth of revenue. Australia’s total airline revenue is AUD\$23 Billion indicating that an equivalent effort in Australia would require a rescue package in the order of AUD\$4.6 Billion instead of the AUD\$715 Million proposed.”

“Regional air services provide an invaluable and priceless contribution to the socio-economic well-being of local communities throughout regional and remote Australia. State and Local Governments should be leading the charge in extreme times like these to assist regional carriers rather than leaving it to the Federal Government. So far the State Governments have not tabled any concrete proposals although their latest decisions of closing the borders and lockdowns will simply further decimate what remains of regional air travellers. Local councils are also a true disappointment with only two councils having proposed any meaningful assistance for Rex.”

“If an assistance package of sufficient magnitude and viability can be negotiated by the end of the week, Rex may be able to reconsider its plans to suspend services. Failure to achieve any traction in this regard will see regional communities lose their air services for many months ahead and even after this is all over, we are afraid that some of the more marginal communities will no longer have an air service.”

Passengers with bookings after the 6th April 2020 must wait until after 27th March 2020 before writing in via Rex’s website to put their bookings on credit for a future flight. No refunds will be offered as is the standard practice of all airlines during this crisis.

Regional Express (Rex) is Australia’s largest independent regional airline operating a fleet of 60 Saab 340 aircraft on some 1,500 weekly flights to 60 destinations throughout all states in Australia. In addition to the regional airline **Rex**, the **Rex Group** comprises wholly owned subsidiaries **Pel-Air Aviation** (air freight, aeromedical and charter operator) and the two pilot academies **Australian Airline Pilot Academy** in Wagga Wagga and Ballarat.

Rex Media Contact: Corporate Communications: +61 402 438 361 media@rex.com.au



Media Releases

QANTAS GROUP NETWORK CHANGES

Sydney

Published on 19th March 2020

QANTAS

Revised Qantas mainline network

Region/Port	Destination
	Sydney-Melbourne (88 return services per week, down from 250)
East Coast capitals	Sydney-Brisbane (50 return services per week, down from 142)
	Melbourne-Brisbane (36 return services per week, down from 95)
	Sydney-Perth (25 return services per week, down from 47)
East-west	Melbourne-Perth (22 return services per week, down from 46)
	Brisbane-Perth (14 return services per week, down from 35)
Canberra	Sydney-Canberra (38 return services per week, down from 115)
	Melbourne-Canberra (38 return services per week, down from 67)
	Brisbane-Canberra (15 return services per week, down from 35)

Adelaide-Canberra (7 return services per week, down from 12)

Sydney-Darwin (7 return services per week, down from 11)

Brisbane-Darwin (3 return services per week, down from 7)

Adelaide-Alice Springs (7 return services per week, nil change)

Northern
Territory

Sydney-Alice Springs (7 return services per week, nil change)

Darwin-Alice Springs (7 return services per week, down from 14)

Darwin-Perth (3 return services per week, down from 7)

Sydney-Adelaide (21 return services per week, down from 54)

Melbourne-Adelaide (27 return services per week, down from 69)

Adelaide

Brisbane-Adelaide (13 return services per week, down from 25)

Perth-Adelaide (14 return services per week, down from 28)

Sydney-Gold Coast (14 return services per week, down from 28)

Sydney-Cairns (7 return services per week, down from 14)

Queensland

Brisbane-Cairns (14 return services per week, down from 38)

Brisbane-Townsville (14 return services per week, down from 36)

Revised Qantas regional network

Region/Port	Destination
Sydney	Albury, Armidale, Coffs Harbour, Dubbo, Port Macquarie, Tamworth, Wagga Wagga (around 12 return services per week)
	Lord Howe Island (7 return services per week)
	Moree (6 return services per week)
	Bundaberg (12 return services per week)
	Emerald*
	Gladstone*
	Hamilton Island, Hervey Bay (7 return services per week)
	Longreach via Barcaldine or Blackall (7 return services per week)
Brisbane	Mackay (21 return services per week)
	Moranbah (23 return services per week)
	Roma (19 return services per week)
	Charleville (4 return services per week)
	Rockhampton*
	Mt Isa *
	Newcastle (12 return services per week)
Cairns	Townsville*
	Horn Island (7 return services per week)
	Weipa (13 return services per week)

	Mount Isa via Cloncurry (9 return services per week)
Townsville	Townsville-Mackay-Rockhampton (7 return services per week)
	Port Lincoln, Whyalla (7 return services per week)
Adelaide	Kangaroo Island (3 return services per week)
	Devonport, Launceston (7 return services per week)
Melbourne	Geraldton (9 return services per week)
Perth	All other intra-WA regional routes unaffected

*new schedule still to be finalised

Suspended regional Qantas routes

Region/Port	Destination
	Uluru (Ayers Rock)
Adelaide	Darwin (Direct)
	Uluru (Ayers Rock)
	Brisbane
Alice Springs	Melbourne
	Perth
Uluru (Ayers Rock)	Cairns
Brisbane	Alice Springs
	Lord Howe

	Tamworth
	Hamilton Island
Cairns	Melbourne
	Adelaide (direct)
	Uluru (Ayers Rock)
Darwin	Broome
	Melbourne
	Alice Springs
	Broome
	Darwin
Melbourne	Gold Coast
	Hamilton Island
	Hobart
	Alice Springs
Perth	Canberra
Sydney	Ballina (Launch delayed)
	Bendigo
	Broome
	Hamilton Island
	Mildura (Launch delayed)
	Orange (Launch delayed)
	Sunshine Coast
	Toowoomba (Wellcamp)

Hobart

Sydney

Hobart

Melbourne

JETSTAR**Jetstar domestic and Jetstar domestic in New Zealand**

Region/Port	Destination
	Sydney-Melbourne (28 return services per week, down from 93)
East Coast capitals	Sydney -Brisbane (14 return services per week, down from 43)
	Brisbane-Melbourne (14 return services per week, down from 34)
	Cairns-Sydney (7 return services per week, down from 21)
	Sunshine Coast-Sydney (7 return services per week, down from 25)
Queensland Coast	Sunshine Coast-Melbourne (7 return services per week, down from 18)
	Brisbane-Townsville (7 return services per week, down from 14)
	Cairns-Melbourne (14 return services per week, down from 26)
	Proserpine-Brisbane (7 return services per week, no change)
Gold Coast	Gold Coast-Sydney (21 return services per week, down from 70)

	Gold Coast-Melbourne (14 return services per week, down from 45)
	Ballina-Sydney (7 return services per week, down from 18)
NSW Coast	Newcastle-Brisbane (7 return services per week, down from 16)
	Newcastle-Melbourne (7 return services per week, down from 25)
	Hobart-Melbourne (14 return services per week, down from 36)
	Launceston-Melbourne (14 return services per week, down from 26)
Tasmania	Hobart-Sydney (7 return services per week, down from 17)
	Launceston-Sydney (7 return services per week, down from 9)
	Adelaide-Melbourne (14 return services per week, down from 24)
South Australia	Adelaide-Sydney (14 return services per week, down from 26)
Western Australia	Perth-Melbourne (7 return services per week, down from 11)
Northern Territory	Uluru (Ayers Rock) to Sydney (6 return services per week, down from 7)
	Avalon-Sydney (14 return services per week, down from 38)
Other (inc Jetstar New Zealand)	Auckland-Christchurch (14 return services per week, down from 42)
	Auckland-Wellington (14 return services per week, down from 42)

Suspended routes

Queensland coast	All flights to Hamilton Island and Mackay
	Brisbane-Cairns
	Gold Coast-Adelaide
Gold Coast	Gold Coast-Avalon
	Gold Coast-Cairns
	Gold Coast-Newcastle
NSW Coast	Gold Coast-Perth
	Ballina-Melbourne
	Hobart-Adelaide
Tasmania	Hobart-Brisbane
	Hobart-Sydney
	Launceston-Brisbane
	Launceston-Melbourne
	Launceston-Sydney
South Australia	Adelaide-Avalon
	Adelaide-Brisbane
	Adelaide-Cairns
	Adelaide-Sunshine Coast
Western Australia	Perth-Adelaide
	Perth-Gold Coast
	Perth-Cairns

Perth-Sydney

Busselton-Melbourne (Launched delayed)

Northern
Territory

All Darwin services

Auckland-Dunedin

Other (including
Jetstar New
Zealand)

Auckland-Queenstown

Wellington-Queenstown

Wellington-Christchurch

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