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Your Ref No: AA1000478

Australian Competition and Consumer Commission  
23 Marcus Clarke Street  
Canberra ACT 2601

Via email: [adjudication@accc.gov.au](mailto:adjudication@accc.gov.au)  
For attention: Sophie Ward, Director

30 April 2020

Dear Commissioner,

**Regional Express Pty Ltd's application for authorisation AA1000478 – interested party consultation**

We appreciate your invitation to provide the following submissions to your questions as outlined below.

**1. What impact has the Conduct permitted by the interim authorisation had on you?**

To date the arrangement has been positive in so much that air services are continuing between Adelaide Airport and Kangaroo Island Airport.

Kangaroo Island has four days of passenger services, albeit with only singular service on each of Tuesday, Wednesday, Thursday and Friday. This service is alternating days by each of the two carriers and provides more options for freight and those reduced number of travellers currently seeking this mode of transport.

Rex did announce on the 3rd February 2020 that it was quitting services to Kangaroo Island. QANTAS announced in response to the withdrawal that it would increase air services between Adelaide and Kangaroo Island, to take any void created by Rex ending its Adelaide and Kangaroo Island services.

QANTAS however, is now flying the Adelaide – Kangaroo Island route, as a shared service with Rex.

It is interesting to note that the new interim authorisation request you have supplied Council, from Rex, 'Appendix A: Rex Network Capacity Review – Effective 6th April 2020', does not list Kangaroo Island as a scheduled Rex service moving forward. QANTAS list three return service per week Adelaide - Kangaroo Island.

Council did receive an unsigned Open Letter from Regional Express Holdings Ltd and a proposed Rex 'STAND-BY-ME PARTNERSHIP AGREEMENT' via email on the 13th April 2020.

Council agreed at its Ordinary Meeting of Council on the 14th April 2020 to note receipt of the correspondence and advise Rex that Council would actively consider the proposal.

At a Special Meeting of Council held on the 17 April 2020, Council resolved in the affirmative the following motion:

“That Council is not prepared at this time to enter into a new contract between Regional Express (Rex) Ltd and Kangaroo Island Council, as proposed by Regional Express (Rex) Ltd and authorise the CEO to write to the CEO of Regional Express (Rex) Ltd to communicate this decision of Council”.

## **2. Have you identified any negative effects from the Conduct?**

As Rex had previously announced it was quitting the Kangaroo Island – Adelaide service (3 February 2020), the current authorisation to reduce the capacity on the route and share revenue has enabled Rex to continue with the Kangaroo Island – Adelaide service.

Overall the current arrangement has been positive, enabling the movement of passengers and freight from the Island to the mainland.

## **3. Is the Conduct likely to entrench anticompetitive behaviours that continue past the end of the COVID-19 pandemic?**

It was clear prior to the COVID-19 pandemic that the passenger numbers flying the Adelaide - Kangaroo Island route, was not sufficient for two carriers such as QANTAS and Rex to run a profitable competitive service.

Though the two carriers in competition did drive down the cost of air travel between the Island and mainland, it was also clear that only one carrier would eventually survive; as evident by the pre-COVID action by Rex on the 3 February 2020, when Rex raised a complaint with your Commission, claiming the impact of Qantas's conduct was to force out the smaller airline from Kangaroo Island (and other routes).

Rex was quoted in ABC media as saying "unlike Qantas, Rex is not able to continue servicing a money-losing route indefinitely," referring to the Kangaroo Island – Adelaide route.

Rex also announced on the 3 February 2020 it was discontinuing its Kangaroo Island service, however through the shared revenue model Rex are now continuing the service.

We ask it also be noted that QANTAS have announced their intention to run a service, Melbourne to Kangaroo Island, using QANTASLink flights over the popular summer period. Such services will potentially reduce the passenger numbers travelling between Adelaide and Kangaroo Island as many of these flights would carry domestic passengers arriving at Adelaide from interstate, transiting to Kangaroo Island.

The shared service arrangement would appear to be stalling the inevitable that one or the other (Rex/QANTAS), will become a monopolistic service provider of air services to Kangaroo Island.

Should relaxing of travel restrictions between States in Australia not result in a steep increase in commercial flights across Australia, the door may well open for other

operators other than Rex or QANTAS to operate smaller aircraft between Adelaide and Kangaroo Island.

The proposed Conduct should not dissuade new air service carriers from entering the local market to meet demand, post COVID-19.

#### **4. Is 15 months an appropriate time period for authorisation?**

This is a moot point and will depend on how quickly the local economy and a social norm bounces back post COVID, once State borders are reopened to free travel between the States and Territories.

Air services to Kangaroo Island meet the needs of locals needing to attend appointments in Adelaide (return flights), business related travel and tourism, with previous flight schedules linked to the arrival and departure of international flights into Adelaide.

Both carriers also carry freight to and from the Island.

It would be a fair observation that international air travel will take years to rebuild, however the domestic market could pick up quickly and exceed previous demand.

It would be advantageous for the ACCC to retain capacity to review the authorisation at any time, to ensure that the arrangements support an open market and fair competition, that benefits customers of all airlines servicing the Island.

#### **5. Should any changes be made to the interim authorisation, including the Price Condition?**

Should passenger demand be strong for the Kangaroo Island – Adelaide service post COVID-19, the Commission should retain the capacity to review its authorisation at any time to ensure that the market is fair for normal market forces to determine the future of the air services.

It is Council's administrative view that the authorisation should only be in place for the Kangaroo Island Airport – Adelaide Airport route and not be applied to the QANTAS intention to fly services between Kangaroo Island – Melbourne (or any other airport currently not nominated by Rex).

Yours sincerely,



Greg Georgopoulos  
**Chief Executive Officer**

