



Airline competition in Australia

Final report

June 2023



Acknowledgment of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

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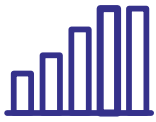
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Glossary

ABS	Australian Bureau of Statistics
BITRE	Bureau of Infrastructure and Transport Research Economics
CASA	Civil Aviation Safety Authority
CCA	<i>Competition and Consumer Act 2010 (Cth)</i>
Larger city	Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra or the Gold Coast
Load factor	The total number of passengers as a proportion of the total number of seats flown across all airlines
Qantas	Qantas domestic passenger airlines that include Qantas Domestic and QantasLink airlines
Qantas Group	Qantas Domestic, QantasLink and Jetstar Domestic airlines
Regional	Domestic locations other than Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra and the Gold Coast
TANS	Tourism and Aviation Network Support Program. An Australian Government program introduced in response to COVID-19 to reduce the costs for consumers to fly to key tourism regions
Virgin Australia	Virgin Australia domestic passenger airlines that include Virgin Australia and Virgin Australia Regional Airlines (VARA). Virgin Australia also operated Tigerair until March 2020
Wet lease	An agreement whereby an airline leases an aircraft and crew

Key industry insights and developments



Passenger and capacity figures yet to recover to pre-pandemic levels

Over a year following the end of state border restrictions, domestic passenger and capacity figures have not managed to reach pre-pandemic levels. 4.6 million passengers flew in April 2023, 92% of April 2019 levels. The industry flew 6 million seats, 93% of April 2019 levels.



Airfares continue to fall

Domestic airfares have fallen significantly in 2023 as pent-up demand for travel eases and the price of jet fuel has decreased. However, average revenue per passenger and discounted economy airfares remain higher than pre-pandemic levels, even after adjusting for inflation.



Service reliability remains relatively poor

The latest cancellation and delay rates have gotten worse again, with industry performance remaining poor compared to long-term averages. The industry cancelled 3.9% of flights in April 2023, with only 71.8% of flights arriving on-time. Jetstar reported notably worse cancellation rates than other airlines.



Domestic airline competition is at a critical juncture

Other than natural monopolies, the domestic airline industry is one of the most concentrated industries in Australia. The expansion of Rex and the entry of Bonza have created the opportunity for a more competitive era, but they would need to grow significantly to become more meaningful competitors to Qantas Group and Virgin Australia.



Legislative and policy reform could promote competition and better protect consumers

The Australian Government could promote competition by implementing reforms to help new and expanding airlines obtain slots at Sydney Airport. The government could also incentivise airlines to improve their customer service by introducing an effective independent dispute resolution ombuds scheme.

Executive summary

More than a year since the end of the final COVID-19 state border restrictions, the domestic airline industry has not yet managed to recover to pre-pandemic levels of passengers and capacity. 4.6 million passengers flew in April 2023, 92% of pre-pandemic levels, and only marginally more than this time last year. The industry flew 6 million seats in April 2023, 93% of pre-pandemic levels, and the same number as last year.

This stagnation can be explained by both demand-side and supply-side factors. Last year, demand was strong following years of COVID-19 related movement restrictions. However, the industry struggled to increase capacity without significantly compromising reliability due to labour market shortages and high levels of staff absences due to illness. More recently, it appears that the pent-up demand for leisure travel that characterised much of 2022 is beginning to ease. Increasing cost of living pressures have also led to consumers becoming more price sensitive.

This easing of demand is evident in the fall in airfares throughout 2023 to date. The price of discount airfares decreased by 14% in real terms between February and May 2023. Average revenue per passenger, which represents average prices across all fare types, has also declined this year. Both of these measures remain above pre-pandemic levels. A reduction in the price of jet fuel by almost half since its peak in June 2022 has also led to declining airfares.

While the industry flew below pre-pandemic levels of seat capacity, the industry load factor, a measure of total passengers as a proportion of total seat capacity, was 77% in April 2023. This is similar to pre-pandemic levels and below the high load factors reported in mid-2022 (83%).

Some of the lag in recovery may also be due to a structural change in which online technology continues to replace some business travel.

After showing signs of improvements earlier in the year, the latest rates of flight cancellations and delays have gotten worse and remain poor compared to long-term industry averages. The industry cancelled 3.9% of flights in April 2023, compared with the industry long-term average of 2.1%. Jetstar continued to perform significantly worse than the rest of the industry. It cancelled 8.1% of flights in April, more than double the rate of the other airlines.

The industry reported that only 71.8% of flights arrived on-time in April, well below the industry long-term average of 81.5%. Jetstar reported only 59.7% of flights arriving on-time. Jetstar has acknowledged it needs to do more to improve punctuality, including investing in new aircraft, recruiting more staff in customer service, engineering and operational roles, and upgrading its systems and processes.

New low-cost airline Bonza is now offering services on all 27 routes within its planned initial network after commencing regular services in February 2023. For many consumers, the primary benefit of Bonza's entry will be its low airfares and direct connections on new regional routes. Bonza is also offering extra choice and competition on 2 routes served by other airlines – Melbourne to Sunshine Coast and Mildura.

The duopoly market structure of the domestic airline industry has made it one of the most highly concentrated industries in Australia, other than natural monopolies. The lack of effective competition over the last decade has resulted in underwhelming outcomes for consumers in terms of airfares, reliability of services and customer service.

The expansion of Rex and the entry of Bonza in recent years have created the opportunity for the industry to enter a more competitive period. However, both would need to expand significantly if they are to become more meaningful competitors to the Qantas Group and Virgin Australia.

The Australian Government is currently considering various aviation policies as part of its Aviation White Paper process and the review of the demand management scheme at Sydney Airport. The best way to promote competition for the benefit of consumers would be to implement reforms already identified by the review which would help new and expanding airlines to better access take-off and landing slots at Sydney Airport. Separately, consumers would be better able to resolve disputes with airlines, and airlines would be incentivised to provide improved customer service, if there was an effective independent dispute resolution ombuds scheme.

Under direction from the Australian Government, the ACCC has been monitoring and reporting on the domestic airline industry for the last 3 years. This is our 12th and final report under the direction, which expires at the end of June 2023.

Our monitoring role has significantly expanded the ACCC's knowledge of the airline industry, and we have developed a deep understanding of airline practices that may contravene the *Competition and Consumer Act 2010* (Cth). While the Australian Government's direction is expiring, the ACCC will continue to watch the airlines' conduct and where necessary use our broad enforcement powers to take action to achieve compliance with competition law and the Australian Consumer Law.

1. Introduction

1.1 The Government directed the ACCC to monitor domestic airline services

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.

On 19 June 2020 the then Treasurer directed 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 for 3 years. The direction also requires the ACCC to report on its monitoring at least once every quarter.

In announcing the direction, the Treasurer said that the ACCC's monitoring will assist in protecting competition in the sector for the benefit of all Australian airline travellers.¹ The Treasurer also said that the reporting role and focus by the ACCC would provide another avenue for those wishing to raise concerns about anti-competitive conduct in the sector.

The monitoring direction expires at the end of June 2023. This is the 12th and last report under the direction.

1.2 The ACCC's broad work under the monitoring direction

The ACCC has carried out a broad range of work within the scope of the monitoring direction.

We collected data on a monthly basis from Rex, Virgin Australia and Qantas Group from the outset of the regime, with Bonza providing data once it commenced operations in 2023. The data included the number of passengers and revenues for each flight, monthly reliability performance and quarterly profit and loss results. The ACCC has appreciated the cooperation of the airlines in agreeing to provide this information on a voluntary basis and meeting with the ACCC quarterly to discuss industry trends and developments.

We collected other information from the airlines using the ACCC's formal information gathering powers enlivened by the monitoring direction. This information was collected on an as-needed basis and included items such as documents prepared for the company's board of directors with respect to operations and competitive strategies. Cost data was also collected from some airlines on routes of particular interest to enable analysis of profit margins.

The ACCC published quarterly reports on its findings as required by the direction. Our 12 reports have covered significant industry developments, such as the considerable financial and operational impacts of the COVID-19 pandemic on the airline industry and the subsequent developments. We have reported on the key drivers impacting competition, airfares, service levels and consumer

¹ The Hon. Josh Frydenberg (the former Treasurer), [ACCC directed to monitor domestic air passenger services](#) [media release], 19 June 2020, accessed 21 November 2021.

choice as the industry navigated and emerged from the pandemic. For example, the emergence of Virgin Australia from voluntary administration, expansion of Rex to intercity routes, Bonza's entry on unserved and underserved routes, high fuel prices, and the operational issues the aviation industry faced when flying returned after travel restrictions were eased.

Our reports have also highlighted opportunities to stimulate competition, such as improving the slot management scheme at Sydney Airport. These remain pertinent issues today, as discussed in Chapter 4.

The insight into the domestic airline industry enabled the ACCC to engage with various government and policy processes. In particular, the ACCC engaged extensively with the review of the demand management scheme at Sydney Airport by the Department of Infrastructure, Transport, Regional Development, Communications and the Arts. The ACCC made an initial submission and then later participated in working groups with key stakeholders to consider issues such as how take-off and landing slots should be allocated between airlines. Separately, the ACCC made a submission to the Australian Government's Aviation White Paper process and participated in the Senate inquiry into the impact of COVID-19 on the aviation sector.

The ACCC's monitoring role has also been complementary to its enforcement of competition law under Part IV of the CCA and consumer rights under the Australian Consumer Law (ACL). The ACCC has undertaken investigations into conduct within the industry over this time, which have arisen from concerns raised by the public, industry participants, and identified by the ACCC through its analysis of monitoring information.

The ACCC investigated whether Qantas' entry and expansion on certain routes in competition with Rex in late 2020 and early 2021 was a misuse of market power in contravention of competition law. In closing the investigation, we noted that a range of factors impacted competitive dynamics at the time, particularly the COVID-19 related movement restrictions and border closures.²

The ACCC is continuing to investigate a number of issues that consumers have raised about Qantas, and whether these issues raise concerns under the ACL.

Our monitoring role has significantly expanded the ACCC's knowledge of the airline industry, and we have developed a deep understanding of airline practices that may contravene the CCA. While the Australian Government's direction is expiring, the ACCC will continue to watch how airlines compete for and treat consumers and, where necessary, take action to ensure compliance with the CCA.

² ACCC, [Airline competition in Australia – June 2022 report](#), 8 June 2022.

2. Industry developments

2.1 Qantas Group expects to report a record profit in 2022–23

In May the Qantas Group reported that it is expecting to report an underlying profit before tax of \$2.425–2.465 billion for the full 2022–23 financial year.³ This result captures performance across the whole business, including international and domestic flying (including Jetstar), freight and the loyalty program. This forecast is close to \$1 billion higher than its prior record result in 2018. The Qantas Group previously reported a record \$1.43 billion profit for the first half of the 2022–23 financial year.

The Qantas Group said that yields⁴ are expected to remain materially above pre-pandemic levels through to the next financial year, particularly for international services. Based on revenue intakes over April–May, yields from domestic travel are 118% of pre-pandemic levels, and 125% for international travel.⁵

While strong demand and high airfares across the industry have been a key reason for the Qantas Group's strong profitable performance, it may also reflect a change in the competitive landscape since early 2020. Following Virgin Australia's restructure in late 2020, the airline repositioned its strategy towards the middle of the market, targeting small medium enterprise (SME) and price-conscious corporate, as well as premium leisure customers. This downward shift may have allowed Qantas to gain a greater share of the more lucrative larger corporate customer segment. The exit of Tigerair in March 2020 may have similarly allowed Jetstar to gain a greater share of the budget leisure customer segment.

The Qantas Group reported that it expects to increase to 108% of pre-pandemic domestic capacity between July–December 2023.⁶ The ACCC can report that Qantas reached 101% of its pre-pandemic domestic capacity in April 2023, compared to 96% for Virgin Australia and 85% for Jetstar.⁷

2.2 Bonza is now offering services on 27 routes

New low-cost airline Bonza is now offering services on all 27 routes within its planned initial network after commencing regular services in February 2023. Currently, Bonza has a fleet of four 737 MAX 8s flying to 17 locations connecting regional hubs to holiday destinations across Queensland, New South Wales and Victoria.

In late March Bonza established its second base at Melbourne's Tullamarine Airport. This expansion added 12 routes to its network, with the new routes from Melbourne including Bundaberg, Mildura, Rockhampton and Tamworth. Bonza has also introduced direct connections on routes such as

3 Qantas, [Qantas Group market update: Strong performance supports fleet investment, shareholder returns](#) [media release], 23 May 2023, accessed 23 May 2023.

4 'Yield' is calculated by dividing revenue by revenue passenger kilometres (RPK). RPK refers to the number of paying passengers carried on flights multiplied by the number of kilometres those seats were flown.

5 Qantas, [Qantas Group market update: Strong performance supports fleet investment, shareholder returns](#) [media release], 23 May 2023, accessed 23 May 2023.

6 *ibid.*

7 Data collected by the ACCC from Qantas, Jetstar and Virgin Australia. Compared with April 2019 capacity figures; Virgin Australia figure excludes Tigerair.

Sunshine Coast to Albury and Coffs Harbour as well as Toowoomba Wellcamp to Townsville, the Whitsundays and the Sunshine Coast.

CEO Tim Jordan reported that within its first few months of operation, Bonza had reached a milestone of 100,000 seat sales on its Fly Bonza app.⁸ Bonza's cheapest available one-way fares typically range from \$49 to \$89 without checked-in luggage. Bonza has also offered promotional fares for \$29.

Bonza's launch is a significant development in the history of Australia's airline industry. Bonza is the first high-capacity passenger airline to enter the domestic market since Tigerair 15 years ago. Bonza is also the first independent low-cost carrier in the market since Virgin Australia acquired Tigerair in 2013. Tigerair has since exited the market.

For many consumers, the primary benefit of the new airline is through the additional connectivity. Consumers living near one of the 17 locations now have more direct flights for holidays and visiting family and friends. Some of these direct flights will replace long car trips, or otherwise encourage consumers to fly when they otherwise would not.

Bonza competes directly with other airlines on the following 2 contested routes:

- Melbourne – Sunshine Coast, currently operated by Qantas, Virgin Australia and Jetstar
- Melbourne – Mildura, currently operated by Qantas and Rex.

To date, Bonza's minimum one-way fares were well below the fares of its competitors. The ACCC has observed that, between January to May 2023, Bonza offered the cheapest one-way fares from \$79 on the Melbourne – Sunshine Coast route, in comparison to low-cost carrier Jetstar offering fares from \$99. The cheapest observed airfares from Virgin Australia and Qantas were from \$109 and \$241 respectively.⁹ Further, since its entry on the Melbourne – Mildura route in early May, Bonza's minimum one-way fares for \$49 have been less than a quarter of its competitors' fares.¹⁰

As well as having an additional choice of airline, travellers on these 2 routes may also benefit from a competitive response from the other airlines such as reduced airfares on specific routes. However, any response may be somewhat limited given that Bonza is currently only offering 2–5 flights per week on each route.

Although not part of its stated strategy, Bonza may expand into more contested routes in the future, including possibly larger inter-city routes. This would pose a more significant competitive threat to the other airlines. It expects to have 8 aircraft by early 2024.¹¹

The response by other airlines to new competition will remain of interest to the ACCC beyond the expiration of the monitoring direction. Where an airline enters or increases capacity or decreases prices on a route serviced by a new competitor, or where an airline enters into exclusive arrangements with service providers, the ACCC may investigate whether this practice is anti-competitive and contravenes competition law.

8 Bonza, [Bonza's second base at Melbourne Tullamarine launches today with first flight to the Sunshine Coast](#) [media release], 30 March 2023, accessed 12 May 2023.

9 Minimum economy one-way fares on Melbourne – Sunshine Coast collected by ACCC (2 weeks ahead of departure date) from the airlines' websites and app for January – May 2023. Fares for Bonza, Jetstar and Virgin Australia excluded checked-in luggage.

10 Minimum economy one-way fares on Melbourne – Mildura collected by ACCC (2 weeks ahead of departure date) from the airlines' websites and app for January – May 2023. The ACCC has observed that in the months prior to Bonza's entry, Qantas and Rex offered fares from \$217 and \$209 respectively. Fares for Qantas and Rex included checked-in luggage.

11 Baird, L, *Australian Financial Review*, ['777's Canadian budget carrier stumbles, and Bonza loses an aircraft'](#), 10 April 2023, accessed 12 May 2023.

2.3 Industry faces pilot shortages and fleet delays

The industry is facing challenges due to shortages in qualified and experienced Australian pilots and engineers, as well as the supply chain issues that have persisted from last year.

Rex suspended Adelaide – Mildura in May 2023, citing challenges with pilot and engineer shortages, as well as a severe disruption in the supply chain of aircraft and engine parts. Rex also announced a reduction of services on 9 other regional routes across New South Wales, Queensland, South Australia and Victoria.¹² These challenges are impacting Rex’s Saab fleet rather than the Boeing 737s it uses to service its intercity network. Rex also announced it was exiting Adelaide – Whyalla, however Rex said this is due to an increase in airport security costs at Whyalla airport.¹³ While Rex reported challenges on its regional network, the airline announced it is adding Adelaide – Sydney to its intercity network from late June, which is made possible with the arrival of 2 additional 2 x 737s. The route is currently operated by Qantas, Jetstar and Virgin Australia.¹⁴

The Australian and International Pilots Association and the Australian Federation of Air Pilots have recently reported that hundreds of experienced pilots are leaving Australia for overseas roles, including under the US Government’s E3 Visa program.¹⁵ These pilot retention challenges are being amplified by a shortfall in new trained pilots.

Qantas recently confirmed its new flight training centre in Sydney to help meet increased demand for pilots and cabin crew as the group introduces next generation aircraft and grows its network. Noting it will need a pipeline of engineers to support growth and attrition, the Qantas Group announced it was establishing an Engineering Academy with capacity to train up to 300 engineers a year, starting in 2025.¹⁶

Qantas and Virgin Australia have also reported global supply chain issues, which are impacting the arrival of new fleet. Qantas previously announced orders and purchase right options of up to 299 narrowbody and 12 widebody aircraft to replace and expand existing fleet over the next 10 plus years. Citing rolling delays of up to 6 months, Qantas announced changes to its plans including wet leasing additional E190 aircraft from Alliance Airlines to boost domestic capacity and purchasing midlife A319/320 aircraft to support growth of the Western Australian resources market.¹⁷ Virgin Australia previously announced it was acquiring 8 x Boeing 737 MAX 8s, all expected to arrive in 2023. However, delays in manufacturing from Boeing are impacting the timing of aircraft delivery.¹⁸

2.4 Industry continues to report poor reliability

After showing signs of improvements earlier in the year, the latest airline cancellation and delay rates have gotten worse and remain poor compared to the long-term industry averages.

Figure 1 shows that the industry cancelled 3.9% of flights in April 2023 (over 1,700 cancelled flights), above the industry long-term average of 2.1%.

12 Rex, [Rex adjusts regional network](#) [media release], 21 April 2023, accessed 18 May 2023.

13 Rex, [Rex exits Whyalla – Adelaide route due to Council imposed security charges](#) [media release], 18 May 2023, accessed 18 May 2023.

14 Rex, [Rex to fly Adelaide-Sydney](#) [media release], 29 May 2023, accessed 30 May 2023.

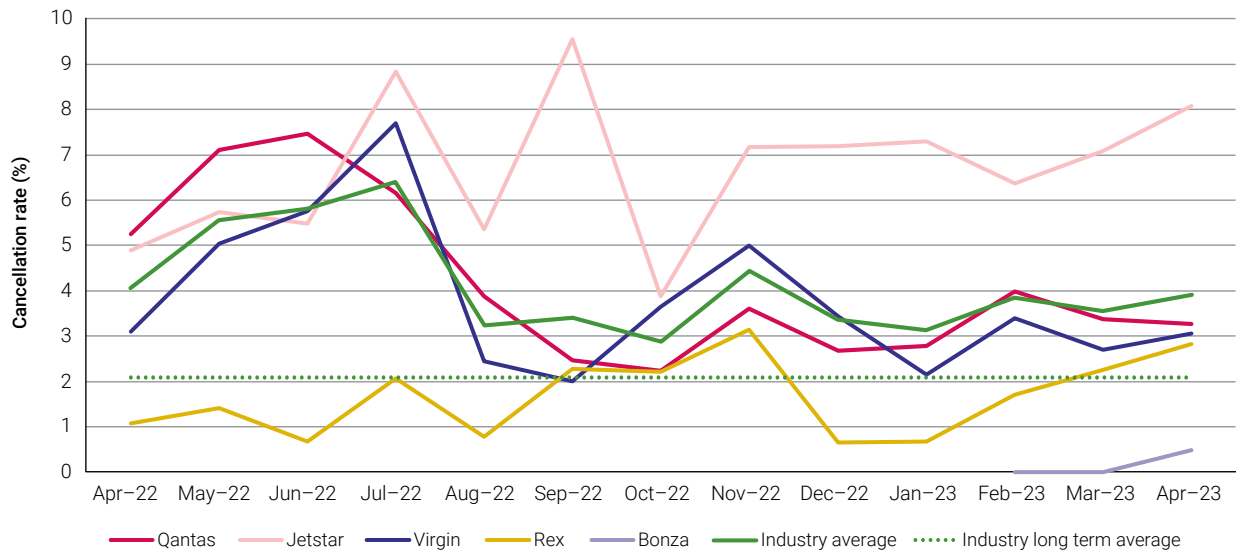
15 [Australian & International Pilots Association \(AIPA\)](#) submission to Australian Government’s Aviation White Paper terms of reference, 17 March 2023; [Australian Federation of Air Pilots \(AFAP\)](#) submission to the Australian Government’s Aviation White Paper terms of reference, March 2023, accessed 9 May 2023.

16 Qantas, [Qantas Group announces major jobs, training and growth plans](#) [media release], 3 March 2023, accessed 19 May 2023.

17 Qantas, [Qantas gears up for more training as new Sydney flight training centre breaks ground](#) [media release], 19 May 2023, Qantas, [Qantas Group updates fleet plan to boost capacity](#) [media release], 23 February 2023, accessed 9 May 2023.

18 Ironside, R, *NT News*, [‘Virgin Australia’s nervous wait for new Boeing 737 Max 8s’](#), 1 May 2023, accessed 9 May 2023.

Figure 1 Airline cancellation rates – April 2022 to April 2023



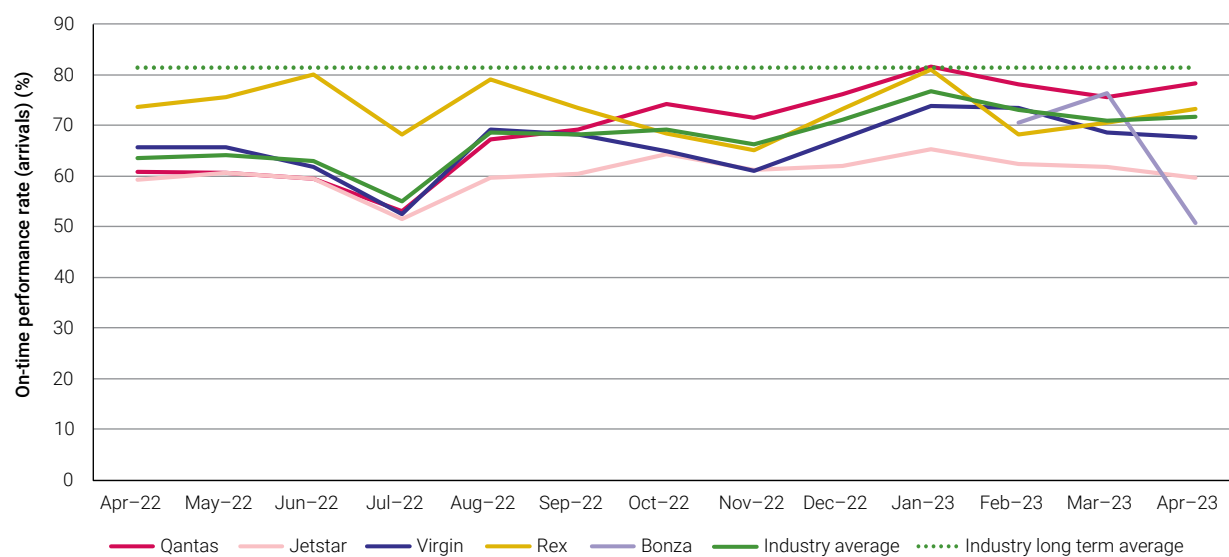
Note: A flight is regarded as a cancellation if it is cancelled or rescheduled less than 7 days prior to its scheduled departure time. The industry total and long-term average is weighted across all airlines and all airports; and presented at the April 2023 level for all months.

Source: BITRE, On-time performance time series – April 2023; data collected by the ACCC from Bonza. Qantas figures include QantasLink and Virgin Australia figures include VARA.

Jetstar continued to perform significantly worse than the rest of the industry, cancelling 8.1% of flights in April, more than double the cancellation rate of the other airlines. Bonza cancelled 0.5%, followed by Rex 2.8%, Virgin Australia 3.1% and Qantas 3.3%.

Figure 2 shows that the industry reported an average of 71.8% of flights arriving on-time in April. This represents more than 12,000 flights arrived more than 15 minutes late. This is below the industry long term average of 81.5%. Despite a substantial improvement in January, on-time arrival rates have declined to April.

Figure 2 Airline on-time performance rates (arrivals)– April 2022 to April 2023



Note: A flight arrival is considered on-time if it arrives within 15 minutes of the scheduled arrival time shown on the airline’s schedule. The industry total and long-term average is weighted across all airlines and all airports; and presented at the April 2023 level for all months.

Source: BITRE, On-time performance time series – April 2023; data collected by the ACCC from Bonza. Qantas figures include QantasLink and Virgin Australia figures include VARA.

Jetstar has struggled with its on-time performance over the last year, with only 59.7% of its flights arriving on-time in April 2023. To improve reliability, Jetstar announced in May that it was recruiting more airport staff, cabin crew and engineering team members, as well as making changes to its check-in, bag drop and boarding times.¹⁹

New airline Bonza reported a decline in its on-time performance in April as it launched an additional 8 routes on its network. Bonza reported 50.7% of its flights arrived late in April. Qantas was the best on-time performer reporting 78.4%, followed by Rex 73.2% and Virgin Australia 67.6%.

Performance on routes to and from Sydney continues to be especially poor. In April 2023 the industry cancelled 9.2% of flights between Sydney and Melbourne, 8.8% of flights between Sydney and Canberra, and 5.7% of flights between Sydney and Brisbane. A third of all flights were delayed on routes connecting Brisbane, Melbourne and Sydney.

Several factors can impact service reliability, including the capability of the airlines, airports, air traffic control as well as external factors such as the weather.

The airlines have reported that air traffic control staff absences have impacted reliability, particularly at Sydney Airport.²⁰ As the busiest and most connected hub, delays at Sydney Airport have flow on effects on other routes.

Data published by Airservices Australia shows it was responsible for around a third of total ground delay hours at Sydney Airport in February. This improved to 6% in March and 4% in April. Airservices Australia data shows it was responsible for 65% of total ground delay hours at Brisbane Airport in April.²¹

19 Jetstar, [Jetstar boosts reliability and punctuality with seventh Airbus A321neo LR and check-in time changes](#), [media release], 16 May 2023, accessed 18 May 2023.

20 Qantas, [Industry update – Flying Kangaroo most on-time airline again as airline gears up for Easter](#) [media release], 22 March 2023; [Virgin Australia submission](#) to the Australian Government’s Aviation White Paper terms of reference, 17 March 2023, accessed 10 May 2023.

21 Butler Caroye, ‘Australian domestic air travel pain index’, April 2023, accessed 10 May 2023; Airservices Australia, [Air Traffic Management \(ATM\) performance report – April 2023](#), accessed 16 May 2023.

In May the Sydney Airport CEO reported that security processing times at the airport are faster than they were before the pandemic, partially because the airport is more efficient.²²

2.5 International market continues to recover but airfares remain high

International air travel continues to recover but is lagging behind the recovery of domestic market and airfares remain high. In May 2023 international arrivals and departures recovered to 81% and 79%, respectively, compared to the same month pre-pandemic.²³

Sydney Airport reported that international passenger traffic recovered to 80.6% of pre-pandemic levels in April 2023. Traffic to and from China has also rebounded strongly since the country reopened its borders from January 2023. When comparing the passenger volumes of the same month pre-pandemic, the number of Chinese travellers flying through Sydney Airport reached 53.8% of pre-pandemic levels in April 2023.²⁴

Australian airlines are continuing to increase their international capacity. Virgin Australia is expanding its short-haul international network, now operating to Bali, Queenstown, Samoa, Fiji and Vanuatu. The airline is scheduled to start flying Cairns – Tokyo in late June. With these additional services, Virgin Australia will increase its international capacity by 50% from FY23 to FY24.²⁵ Virgin Australia will soon acquire 8 x 176-seater MAX 8 jets. As well as having more capacity, the MAX8 jets can fly a longer range, which will allow Virgin Australia to expand its network reach.

The Qantas Group announced it flew 84% of its pre-pandemic international capacity in mid-May. Qantas launched new route Melbourne – Jakarta in April, the fourth route out of Melbourne that Qantas has added to its international network since borders reopened. Qantas is due to launch Brisbane – Wellington, Brisbane – Solomon Islands and Sydney – Auckland – New York later this month. Jetstar entered Brisbane – Auckland in March and is due to launch Sydney – Cook Islands in late June. The Qantas Group expects to reach 100% of its pre-pandemic international capacity by March 2024. This is aided by Qantas adding an estimated one million seats on its international network from October 2023 onwards.²⁶

While domestic airfares having reduced slightly from their peak in late 2022 (see section 3.6), international airfares remain high. It was reported in late May that the average return economy international airfare from Australia was \$1,827 compared with \$1,213 in 2019, an increase of 51%.²⁷ While the industry has increased international capacity over the past few months, capacity remains below pre-pandemic levels due in part to delays in aircraft and spare parts shortages. Qantas has also reported that demand for international travel remains strong, leading to a mismatch between demand and supply.²⁸ This imbalance is putting upward pressure on international airfares.

22 Wiggins, J, *Australian Financial Review*, '[Sky-high airfares 'will come down', says Sydney Airport boss](#)', 12 May 2023, accessed 16 May 2023.

23 Based on the total number of international border crossings in March 2023 compared with March 2019, ABS, Australian Government, '[Overseas Arrivals and Departures, Australia](#)', March 2023, accessed 19 May 2023.

24 Sydney Airport, '[Sydney Airport Traffic Performance April 2023](#)', accessed 19 May 2023.

25 Virgin Australia, '[Like a virgin, Virgin Australia takes off with Gold Coast-Bali flights "for the very first time", drops fares from \\$419 return*](#)' [media release], 29 March 2023; Ironside, R, *NT News*, '[Virgin Australia's nervous wait for new Boeing 737 MAX 8s](#)', 1 May 2023, accessed 8 May 2023.

26 Qantas, '[Qantas flights take off from Melbourne to Jakarta](#)' [media release], 16 April 2023; Qantas, '[Qantas: Boosts international network: Restoring capacity, adding more aircraft, launching new routes](#)' [media release], 19 May 2023; Jetstar, '[Jetstar's new Auckland to Brisbane service takes off](#)' [media release], 27 March 2023; Jetstar, '[Jetstar to take off from Sydney to the Cook Islands non-stop](#)' [media release], 1 December 2022, accessed 12 May 2023.

27 Barret, J, *The Guardian*, '[Why Australians are paying 50% more for air fares than pre-pandemic even as jet fuel costs drop](#)', 31 May 2023, accessed 31 May 2023.

28 Qantas, '[Qantas Group market update: Strong performance supports fleet investment, shareholder returns](#)' [media release], 23 May 2023, accessed 23 May 2023.

2.6 ACCC opposes Qantas' acquisition of Alliance

On 5 May 2022 Qantas announced that it had reached an agreement to acquire the remaining shares in Alliance Airlines, after acquiring a 19.9% holding in 2019. Alliance. Qantas and Alliance are key suppliers of air transport services to mining and resource companies who need to transport 'fly-in fly-out' workers to remote and regional locations in Western Australia and Queensland.

After a thorough investigation of the proposed acquisition, on 20 April 2023 the ACCC announced that it opposed the proposed acquisition as it is likely to substantially lessen competition in markets for the supply of charter air transport services to resource industry customers in Western Australia and Queensland.²⁹

The ACCC considered that Alliance is an important competitor to Qantas, and the proposed acquisition would combine 2 of the largest suppliers of charter services in Western Australia and Queensland.

The ACCC considered that Qantas will face limited competition if allowed to acquire Alliance because most other airlines lack the right aircraft, fleet size, or capabilities needed to compete effectively. The ACCC found that it is unlikely that a new or existing airline could expand quickly to a scale that would address the loss of competition resulting from the proposed acquisition. Airlines wanting to enter or expand at scale, face a combination of barriers, including incumbency advantages, the need to establish a reputation for providing a reliable service, access to and training of air crew and engineers, access to suitable aircraft and infrastructure, and the significant regulatory requirements to fly.

29 ACCC, [ACCC opposes Qantas' acquisition of Alliance](#) [media release], 20 April 2023.

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 on a monthly and quarterly basis from:

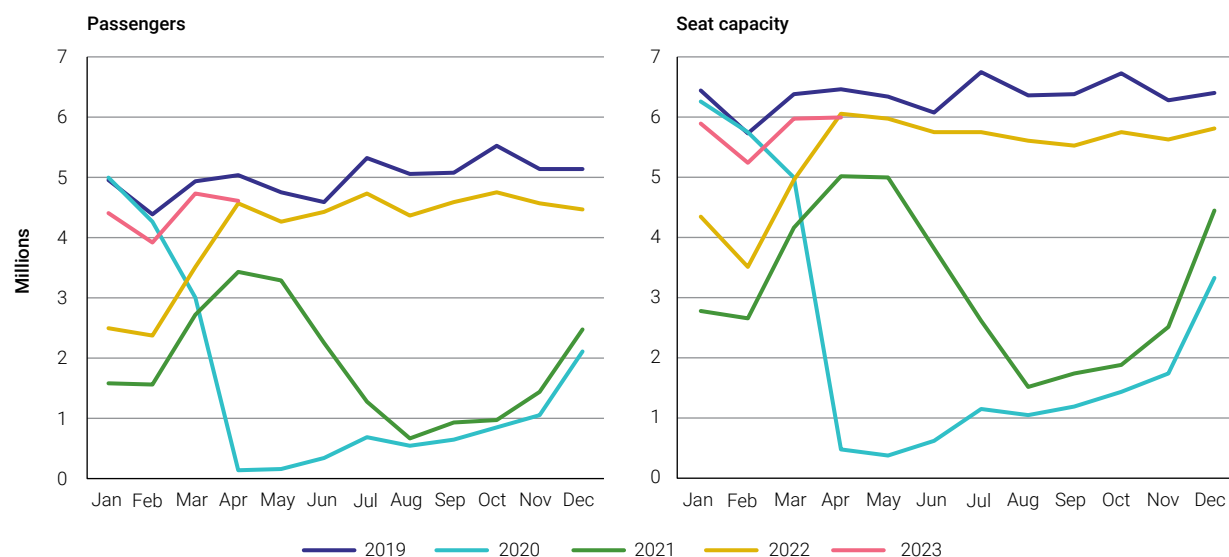
- the Qantas Group (comprising Qantas and Jetstar)
- Virgin Australia (including Tigerair until March 2020)
- Rex
- Bonza (from February 2023).

This chapter draws from data collected by the ACCC up to April 2023. Section 3.6 includes analysis of airfare trends using BITRE data up to May 2023.

3.1 Passengers and capacity remain below pre-pandemic levels

The domestic airline sector carried 4.6 million passengers in April 2023, which was an increase of 200,000 passengers from January. Figure 3 shows that while seasonal demand typically increases in April, this year there was a decrease of 100,000 passengers in April compared to March.

Figure 3 Australian domestic air services – January 2019 to April 2023



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

While it has been over a year since the last of the state border restrictions were lifted in Australia, the number of monthly passengers in April 2023 was the same as in April last year. The chart also shows the industry is yet to reach pre-pandemic passenger levels.

The airlines flew 6.0 million seats in April, which was 100,000 more than in January and the industry’s highest capacity since May 2022. However, the typical monthly increase in capacity between March and April did not eventuate this year. As a result, capacity also remains below pre-pandemic levels for the sector.

Figure 4 shows the passengers and capacity figures as a proportion of their respective 2019 monthly levels. It shows the recovery to date peaked in June 2022 with passengers at 97% and capacity at 95% of their 2019 levels. The industry found that it was not able to sustain that level of flying with reduced workforces and other operational challenges following the pandemic, resulting in very high rates of cancellations, delays and lost bags. After quickly scaling back scheduled flying, the recovery has since occurred at a more gradual rate, with capacity generally leading the recovery in passengers.

Figure 4 Passengers and seat capacity as a proportion of 2019 levels – January 2022 to April 2023



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

The industry has still yet to fully recover, with passenger and seat capacity recovery figures at 92% and 93% of pre-COVID-19 levels respectively in April 2023. This may partly reflect changes in the sector following the pandemic such as the movement of staff and labour into other less severely impacted industries and a potentially sustained reduction in corporate travel demand.

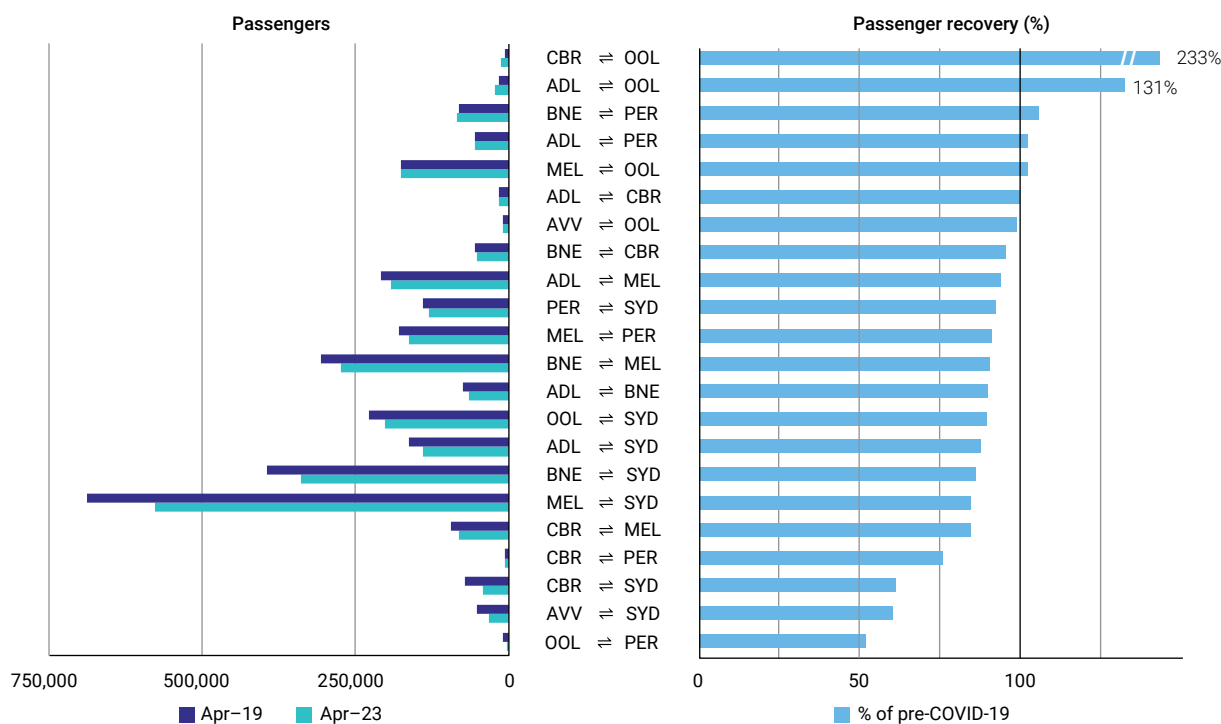
3.2 Higher load factors in April compared to January

The increase in passenger numbers between January and April was more than the increase in seating capacity. As a result, the load factor, which measures the proportion of seats that were filled, increased slightly from 75% in January to 77% in April 2023. The load factor in April 2023 was 1 percentage point below that in April 2019.

There were 5 routes with a load factor of 90% or higher in April 2023, up from 2 in the same month prior to the pandemic (April 2019). The 5 routes included popular Queensland holiday destinations such as the Gold Coast and the Whitsundays. This result was also slightly lower compared to April 2022, when there were 7 such routes. All were routes in and out of Western Australia at the time, following the state opening its border in March 2022.

Figure 5 ranks the routes connecting larger cities by the degree to which they have recovered to their pre-COVID-19 levels of passengers. There were 5 routes which reached 100% of pre-COVID-19 passenger levels. These included 3 routes to/from the Gold Coast and 2 routes to/from Perth.

Figure 5 Passengers on routes connecting larger cities – April 2019 compared to April 2023



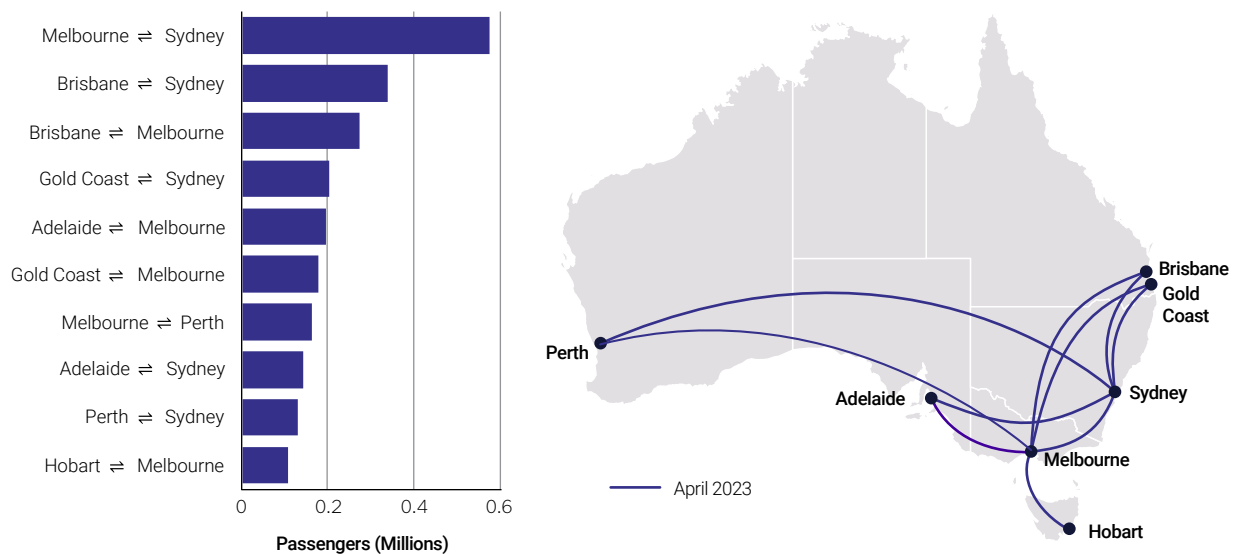
Source: Data collected by the ACCC from Qantas, Jetstar, Virgin Australia, Rex and Bonza.

The 3 largest routes in Australia – those connecting Brisbane, Melbourne and Sydney – are continuing to lag in their passenger volume recovery compared to other routes connecting larger cities. Melbourne – Sydney continues to be the worst performing of the 3 with passengers in April 2023 equivalent to 84% of pre-COVID-19 levels.

While this was an improvement in recovery compared to January 2023, it was still 7 percentage points below the national average for April 2023. It continues to reflect the greater historical significance of business travel on these routes, with demand for business travel returning more slowly than leisure travel. It might also represent a structural change in demand for business travel.

Figure 6 shows the 10 busiest routes in Australia in April 2023 by passenger volume. Melbourne – Sydney continues to be the busiest route with 577,000 passengers in April 2023 representing 13% of all domestic passengers in Australia. The top 10 routes continue to be the same as in 2019.

Figure 6 Busiest routes by monthly passengers – April 2023



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

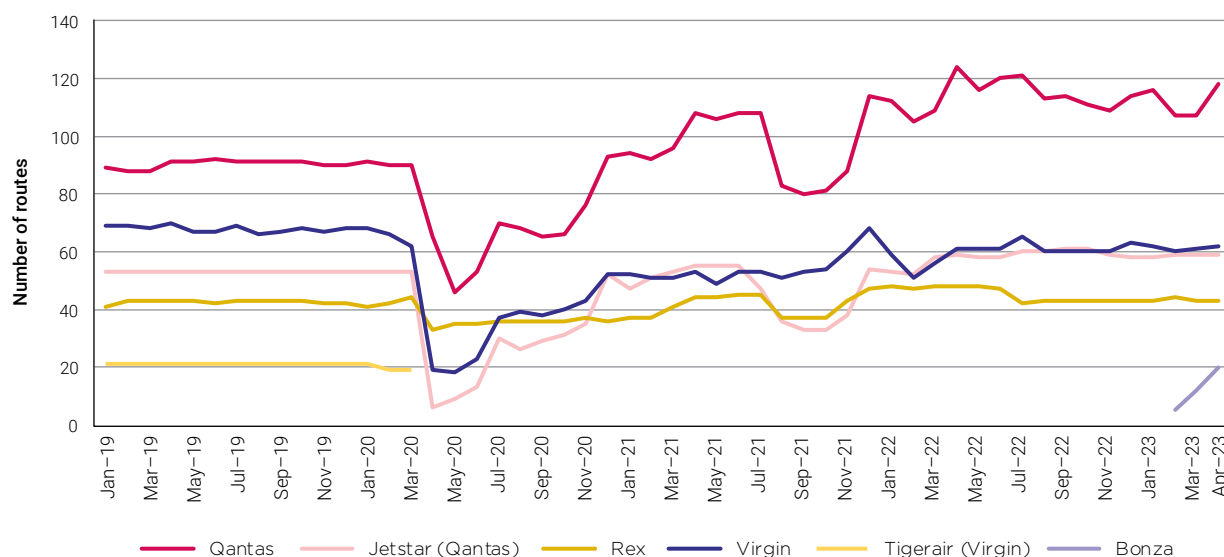
3.3 Bonza’s launch increases the number of Australian domestic routes

The launch of new routes by Bonza has recently broadened the choice of domestic routes for Australia domestic passengers. There were 176 routes in operation in Australia in April 2023, up from 154 in January 2023. This compares to 160 routes prior to the pandemic in April 2019.

The bulk of the increase was attributable to Bonza, which had commenced operations on 20 of its proposed routes by the end of April 2023. Out of the 20 routes, 12 were from Bonza’s Sunshine Coast base including services to Melbourne’s Tullamarine and Avalon airports, followed by 6 Queensland intrastate routes and 2 other routes from its Melbourne base. As discussed in section 2.2, Bonza has since commenced operations on all 27 of its planned routes, with only 2 of these routes already offered by other airlines.

Figure 7 shows Qantas had the largest route network with 118 routes serviced in April 2023, a slight increase from 116 in January. The airline has significantly grown its network since prior to the pandemic by entering more regional routes, reaching a peak in early 2022. The fluctuations in its network between January and April were largely attributable to the operation of seasonal services to meet leisure demand. These included routes to destinations such as Broome, Launceston and the Sunshine Coast.

Figure 7 Number of domestic routes operated by airlines – January 2019 to April 2023



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

In contrast to Qantas, Virgin Australia’s network reach has been relatively stable in recent months. It serviced 62 routes in April 2023, slightly down on the number of routes it operated in 2019 prior to the pandemic. Virgin Australia exited the Darwin – Sydney route in January, which is currently served by Qantas and Jetstar. The airline has instead resumed its services on Hamilton Island – Melbourne, a route it had largely stopped operating on following the pandemic.

Qantas subsidiary Jetstar operated 59 routes in April 2023, which was 1 more than in January. The airline has resumed services on its Gold Coast – Perth route. This is a route that the airline serviced historically, with capacity increasing significantly over the school holiday terms around January, April, July, and October.³⁰

Rex continued to serve 43 routes in April 2023, the same as in January. In recent years Rex has expanded into 7 major intercity routes, while also withdrawing from some regional routes.

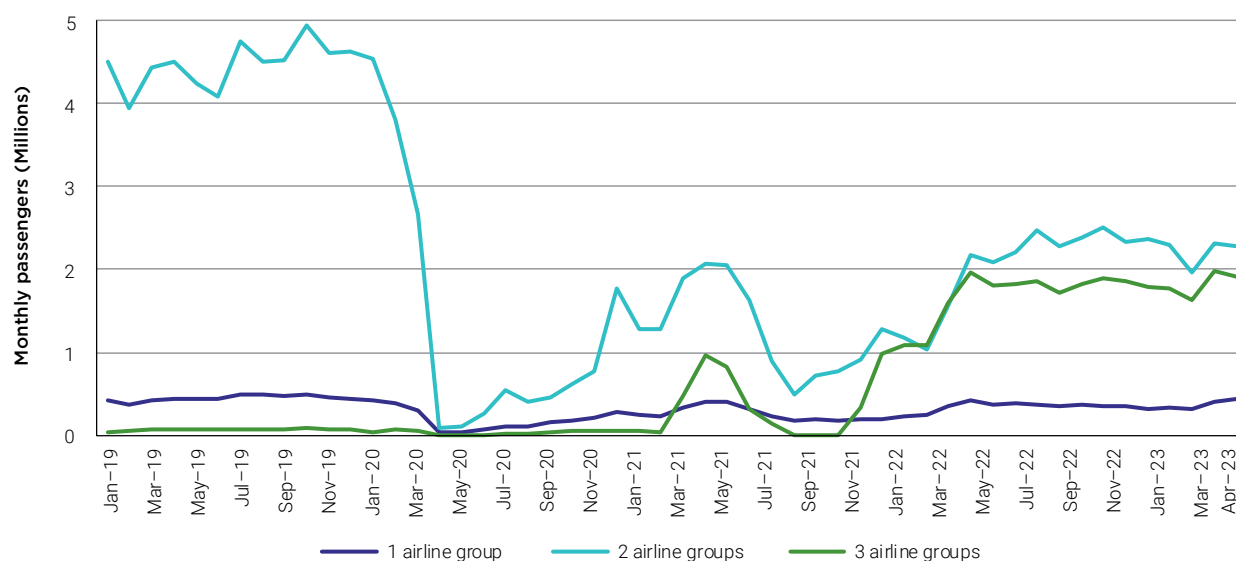
3.4 Half of all domestic passenger trips were on routes with 2 competing airline groups

Consumers are most likely to benefit through better services and more attractive pricing on routes where there are more competing airline groups. The ACCC collects data from 4 different airline groups: Bonza, Qantas Group (comprising Qantas and Jetstar), Rex and Virgin Australia (including Tigerair until March 2020).

Figure 8 shows that 41% of domestic passengers flew on routes with 3 competing airline groups. This is around 1 percentage point higher than in January following Bonza’s entry on the contested Melbourne – Sunshine Coast route. Bonza’s entry on this route increased the number of routes with 3 competing airline groups to 8. There are no routes with 4 competing airline groups.

³⁰ Based on data from CAPA – Centre for Aviation, accessed 25 May 2023.

Figure 8 Number of passengers on routes serviced by 1, 2 and 3 airline groups – January 2019 to April 2023



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

Note: Airline groups comprise Qantas Group (including Jetstar), Virgin Australia (including Tigerair), Rex and Bonza. There were no routes on which all 4 airline groups offered services.

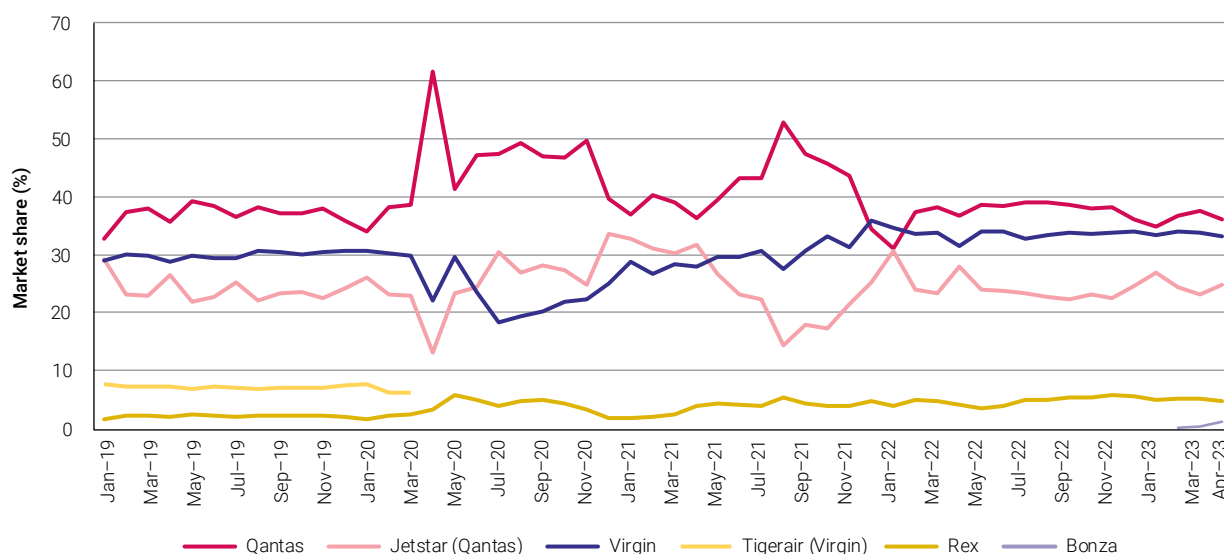
As Bonza is largely introducing previously unserved routes into the Australian market, the number of routes serviced by a sole operator increased to 101 in April. The proportion of passengers on these routes increased by 1 percentage point since January to 9%.

Almost half of all domestic passenger trips in April 2023 took place on routes with 2 competing airline groups (49%, down 3 percentage points since January 2023). All of the routes with 2 airline groups involved the Qantas Group competing with one of either Rex or Virgin Australia. This means none of the routes had only Virgin Australia and Rex competing with one another.

3.5 Qantas Group and Virgin Australia carried 94% of passengers in Australia

Figure 9 shows that despite the expansion of Rex and the recent entry of Bonza, the market share composition remains very highly concentrated. Over the last 12 months, the 2 largest airline groups – Qantas Group (including Jetstar) and Virgin Australia – consistently accounted for around 95% of the domestic passenger market. The 2 groups flew 94% of passengers in April 2023.

Figure 9 Airline passenger market shares across all domestic routes – January 2019 to April 2023



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

Qantas accounted for 36.1% of the market in April 2023. The airline’s market share has been down slightly in 2023 from where it was for most of 2022. This partly reflects seasonal trends, with Qantas generally conceding market share to its low-cost subsidiary Jetstar during periods when proportionally more people are flying for leisure purposes, such as January and the Easter school holidays in April.

For these reasons, Jetstar’s market share increased in April 2023 as it carried nearly a quarter (24.7%) of all domestic passengers. However, its April 2023 figure was 3 percentage points below the previous April market share of 27.8% in 2022.

The combined market share for the Qantas Group was 60.8% in April 2023. Qantas Group’s market share averaged 61.3% over the 12 months to April, which was slightly higher than its average share in 2019.

Virgin Australia’s market share is less impacted by seasonal trends than Qantas and Jetstar. The airline flew 33.2% of domestic passengers in April 2023, which was roughly in line with its market share over the past year. Despite going through voluntary administration in 2020, Virgin Australia’s market share is more than 3 percentage points above 2019 levels. As an airline group, however, its market share has declined since that time due to the exit of its low-cost subsidiary Tigerair. Virgin Australia maintained its lead on the larger city routes with a market share of 37.7% in April.

Rex’s market share was 4.8% in April 2023, slightly below a recent peak of 5.2% in March. Its average market share was 4.9% for the 12 months to April.

The chart also shows new entrant and low-cost carrier Bonza for the first time. It flew 1.2% of passengers in April 2023, but this should grow slightly from May which is when all of its routes became operational.

3.6 Airfares have fallen in recent months

Domestic airfares have generally fallen in recent months after hitting historically high levels in December 2022. These falls reflect a number of factors including a decline in the price of jet fuel, an easing of pent-up demand for travel, the rising cost of living becoming a greater concern for consumers, and marginal increases to capacity.

Much of the analysis in this section uses movements of inflation-adjusted *real* prices. This means the measure reflects how airfares are changing relative to prices of other goods and services in the economy. While this is the standard approach to analysing price movements over time, the high rate of inflation over the last year means there has been a growing disparity between movements in real prices and movements in the nominal prices actually paid by consumers. The higher the inflation rate, the greater the difference in the measure of real prices compared to the measure of nominal prices.

Average revenue per passenger reflects movements in airfares across all types of domestic tickets and fare classes. Figure 10 shows that following the peak in December 2022, average revenue fell by 14% in real terms to April 2023. Average revenue per passenger in April 2023 was 2% higher than pre-pandemic levels (April 2019) in real terms and 17% higher in nominal terms.

Figure 10 Index of average fare revenue per passenger – January 2019 to April 2023



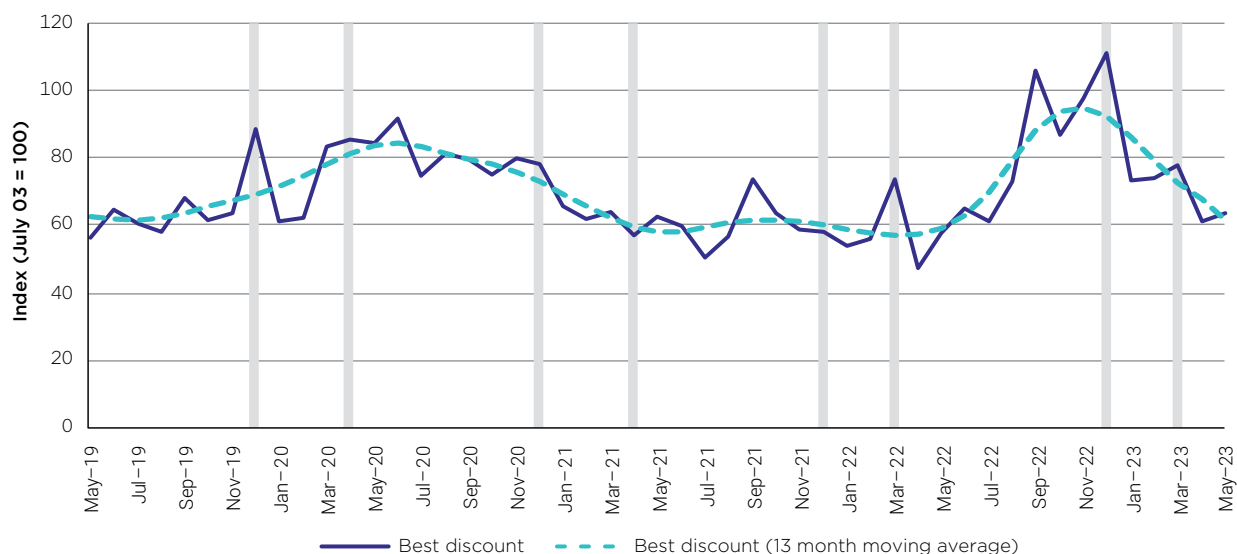
Source: ACCC calculations using data from the ABS and data collected by the ACCC from Qantas, Jetstar, Virgin Australia, Rex and Bonza.

Note: The average revenue per passenger includes both economy and business fare revenue. It excludes ancillaries and Tigerair data. Data has been adjusted for inflation using the latest ABS CPI quarterly data up to March 2023.

Price indices calculated by the Bureau of Infrastructure and Transport Research Economics (BITRE) have also shown a recent fall in the real price of domestic airfares. BITRE's indices are based on the cheapest available fare and therefore may not represent price movements more broadly.

Figure 11 shows the price index of best discount economy airfares in May 2023 was 43% below what it was in December 2022 and 14% less than in February 2023. Despite these recent falls, the price index was still 13% higher in real terms (32% in nominal terms) in May 2023 compared to the same month pre-pandemic.

Figure 11 Real price index of the best discount economy airfares – May 2019 to May 2023



Source: BITRE Domestic Air Fares (Best Discount) index (cheapest available economy airfares). The price index is weighted across the 70 busiest domestic routes.

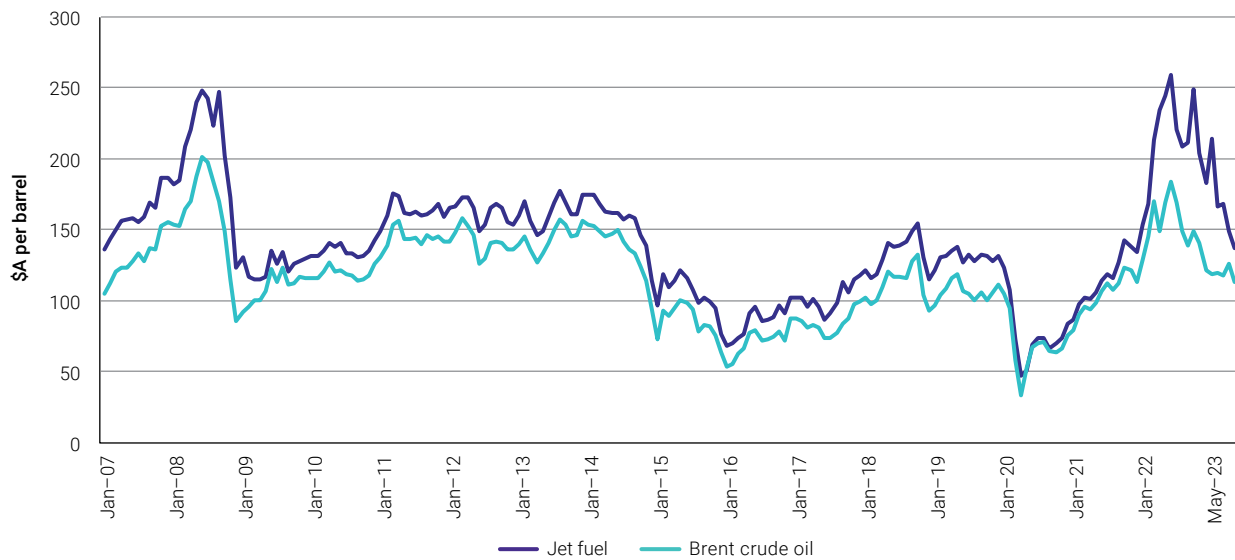
Note: Grey bars indicate December and Easter holiday periods. Airfares recorded between April 2021–February 2022 may be impacted by the government’s half-price ticket program (TANS).

This fall in best discount economy airfares was not observed across all routes collected by BITRE. Airfares on some routes have increased and continue to be significantly higher compared to pre-pandemic. In particular, the cheapest return fares for Coffs Harbour – Sydney was almost triple at \$348 in May 2023. Similarly, several routes that have more than doubled include Brisbane – Darwin (up 172% to \$622) and Launceston – Sydney (up 138% to \$228). Other routes where fares have increased significantly include Cairns – Gold Coast (up 129% to \$362) and Adelaide – Brisbane (up 121% to \$398).

BITRE also calculates price indices for restricted economy and business airfares, which as noted above is derived by the lowest available fare observed by BITRE. Between December 2022 and May 2023, both of these price indices fell by 11% in real terms. Both of these airfare types are more than 20% lower than pre-pandemic levels in real terms.

A key reason for the falling airfares in recent months is the significant decline in the price of jet fuel, which is a key operating cost for airlines. Figure 12 shows that the price of jet fuel declined to \$137 per barrel in May 2023. This is a fall of almost half in real terms since the price of jet fuel hit a record high of \$259 per barrel in June 2022, following Russia’s invasion of Ukraine. The refining margin between jet fuel and Brent crude oil prices has fallen by almost half from \$47 per barrel in February 2023 to \$24 in May 2023. The falling price of jet fuel may enable the airlines to further reduce airfares in the future.

Figure 12 Real jet fuel and Brent crude oil prices – January 2007 to May 2023



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 latest month of data is to 24 May 2023.

Very little, if any, of the recent fall in the measures of airfares used above can be explained by the launch of low-cost airline Bonza. Bonza currently represents a very small proportion of the industry with only a few flights per week on predominantly small routes.

4. State of competition in domestic airline services

This chapter considers the level of competition between domestic airlines over the last 10–15 years, and how this has impacted on consumers.

It offers the view that a lack of effective competition is a key reason why the industry has generally underperformed in terms of meeting the needs of both the travelling public and the parts of the economy that rely on domestic air travel.

While the expansion by Rex and the launch of Bonza provides an opportunity for the industry to move beyond its historical duopoly market structure, both airlines would need to expand significantly to become meaningful competitors to the Qantas Group and Virgin Australia. The ACCC will continue to watch how the incumbent airlines respond to this emerging competition and we will investigate where we consider there has been a potential contravention of the competition law.

Many of the views in this chapter are explored in more detail in the ACCC's submission in response to the terms of reference for the Australian Government's Aviation White Paper process.³¹

4.1 Duopoly market structure has led to minimal competition between airlines

The Australian domestic airline industry has long been characterised as a duopoly. Going back as far as 2002 when Ansett Australia ceased operations, over 9 in every 10 domestic passengers on regular scheduled flights have flown with either the Qantas or Virgin Australia airline groups. This represents an extraordinarily high level of concentration.

Data presented by the Grattan Institute in its 2017 study on competition showed that the domestic airline industry was one of the 2 most highly concentrated sectors in the Australian economy, other than natural monopolies.³² The level of concentration in the domestic airlines sector was higher than for banks, supermarkets, internet service providers, newspaper publishers and insurance companies.

The Qantas Group has been the dominant airline group over this period. The group operates a dual brand strategy with Qantas (including QantasLink) as a full-service airline and Jetstar as a budget leisure airline. Combined, the 2 airlines have generally accounted for approximately 60% of domestic passengers. Further, while profits in the airline industry can fluctuate greatly from year-to-year, the Qantas Group earned most of the profits made by the domestic airline industry. The Qantas Group estimates that it earned around 70% of the domestic industry profits (earnings before interest and taxation, EBIT) between the 2011 and 2015 financial years, which increased to around 90% between the 2015 and 2019 financial years.³³

The dominance of the Qantas Group derives from multiple sources. Qantas benefited from merging with Australian Airlines in 1992, which was one of only 2 airlines (along with Ansett Australia) permitted to operate domestic flights prior to market liberalisation in the 1990s. This legacy provided Qantas with advantages such as the early establishment of routes as well as access to both airport terminals and take-off and landing slots. Qantas has also invested significantly to develop

31 ACCC, [Aviation White Paper: ACCC submission in response to the terms of reference](#), 15 March 2023.

32 Grattan Institute, [Competition in Australia: Too little of a good thing?](#), December 2017, p 11.

33 Qantas, [Qantas Group Investor Day Presentation \(2023\)](#), 30 May 2023, accessed 30 May 2023.

comparative advantages such as being able to offer customers the largest domestic route network, schedule, network of airport lounges, and customer loyalty program.

There have been some periods when consumers have benefitted from heightened levels of competition. In the early 2010s, low-cost carrier Virgin Blue's transition into full-service carrier Virgin Australia meant that it was competing more directly with Qantas, including for the highly profitable corporate customer segment. The 2 airlines competed vigorously for market share by adding capacity and bringing down airfares. However, the price war proved to be unsustainable and was abandoned in the latter part of the decade after both airlines had incurred significant financial losses.

Another source of competition in the early 2010s was the presence of Tiger Airways. In particular, the low-cost carrier competed with Jetstar for budget leisure travellers. This competition led to important developments such as the Qantas Group starting to deploy Jetstar on some larger intercity routes (alongside Qantas) to better compete with Tiger Airways. Tiger Airways' competitive impact reduced over time as it developed a poor reputation after it was temporarily grounded by the Civil Aviation Safety Authority (CASA). Tiger Airways lost its independence soon after when it was acquired by Virgin Australia (and renamed Tigerair) through transactions in 2013 and 2015.

Competition within the domestic market was relatively subdued towards the end of the 2010s and in the lead-up to the pandemic. Qantas Group and Virgin Australia did not face any competition from an independent airline on the major routes. Unlike the period of price wars in the earlier part of the decade, the airlines did not compete as rigorously, both appearing content with their respective shares of the market. In this regard, the 2 airline groups publicly talk about their target market shares which broadly reflect a 2/3 (Qantas Group) and 1/3 (Virgin Australia) split of total domestic passengers. During the end of the 2010s, it is also likely that neither airline group felt much of a competitive constraint from the potential for a new airline to enter the market, with Tiger Airways the last to do this in 2007 (until Bonza in 2023).

There have been significant competitive developments within the industry since the pandemic. One of the first key structural shifts for the industry was the decision by Virgin Australia to suspend the operations of Tigerair in March 2020. While the suspension was temporary at the time, the airline was formally discontinued in September 2020, leaving Jetstar as the country's only budget airline at the time.

In what represented a substantial risk to Australian domestic airline competition, Virgin Australia then went into voluntary administration in April 2020 with significant levels of debt. Virgin Australia emerged from administration in November 2020 with new owner Bain Capital and a new strategy targeting 'value-conscious' travellers in the middle of the market. New CEO Jayne Hrdlicka said at the time that 'Australia already has a low-cost carrier and a traditional full-service airline, and we won't be either'.³⁴ Virgin Australia also consolidated its fleet to the one aircraft type (Boeing 737s) and offloaded other aircraft types.

The new strategy employed by Virgin Australia has had several consequences for competition. While Virgin Australia continues to seek to attract business travellers, its new offering based around lower airfares but without complimentary meals has likely meant that Qantas faces less direct competition in the premium corporate customer segment. Separately, with a less diverse fleet of aircraft, Virgin Australia is less capable of directly servicing certain routes, especially in regional areas. Virgin Australia continues to offer some of these routes through the wet leasing of aircraft through Alliance Airlines and Link Airways.

³⁴ Virgin Australia, [Ready for take-off: Virgin Australia Group soars out of administration, unveils future direction](#), [media release], 18 November 2020, accessed 29 May 2023.

By the end of 2022, 2 years after emerging from voluntary administration, Virgin Australia said that its business transformation was returning the airline to profitability and enabled it to increase its fleet size by over 60%.³⁵

Other competitive developments since the pandemic have been the expansion by regional airline Rex onto major intercity routes in 2021 and the launch of low-cost airline Bonza in 2023. These developments are discussed in section 4.3.

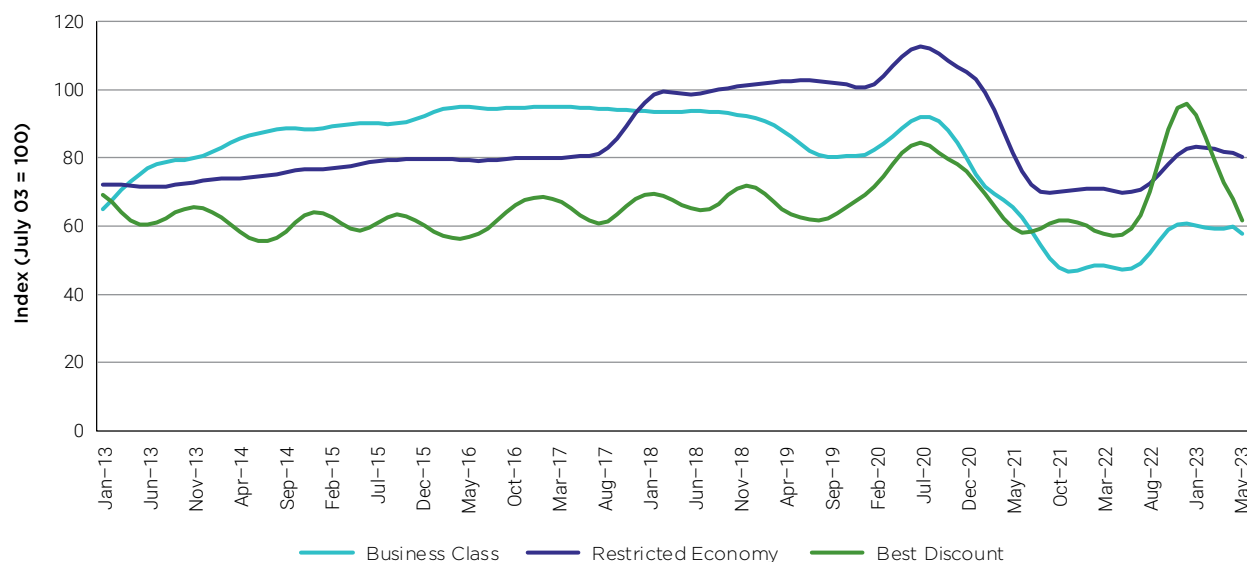
4.2 Outcomes delivered by the domestic airline industry have been underwhelming

With a highly concentrated industry structure and significant barriers to entry and expansion holding back competition, it is not surprising that many of the outcomes from the domestic airline industry for consumers and the broader economy have been underwhelming.

‘Competition’ encompasses a range of factors and market dynamics beyond providing connectivity between destinations. Without the risk of losing customers to other airlines, there is less incentive for airlines to offer attractive airfares, develop more direct routes, operate reliable services, and invest in systems to better deal with customer concerns.

Figure 13 shows movement in price indices produced by BITRE for different types of tickets. Between January 2013 and January 2020, prior to pandemic, the price index for restricted economy airfares went up by 41% in real terms and the price index for business class tickets went up by 26%. The discount economy index increased by 3% over this period.

Figure 13 Real movements in domestic Australian airfares (13-month moving average) – January 2013 to May 2023



Source: BITRE monthly survey of the lowest available fare in each fare class, weighted over selected routes.

Note: Adjusted for CPI. The sharp increase in the restricted economy index from November 2017 is due to the exclusion from the index of Jetstar’s restricted economy product (Starter with Max) after the airline began refunding cancellations in the form of a voucher.

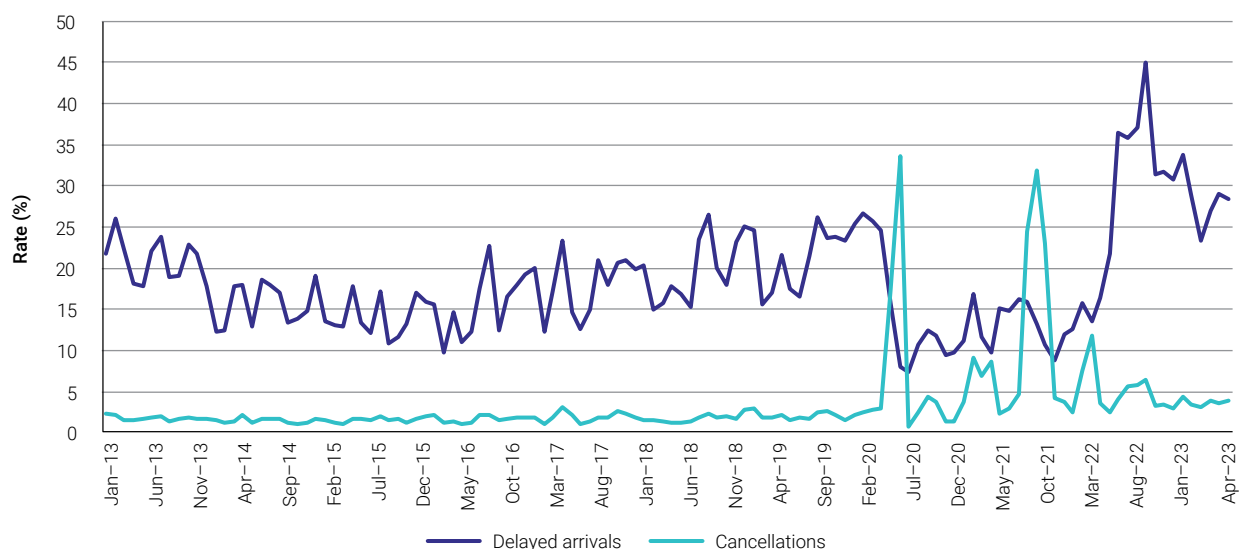
Airfares initially fell following the outbreak of COVID-19 in 2020, but they began increasing again when airlines returned to more normal levels of flying in 2022. As discussed in section 3.6, the discounted

³⁵ Virgin Australia, [Bring on Wonderful: Virgin Australia soars through transformation, enters wonderful era of flying](#) [media release], 24 October 2022, accessed 18 May 2023.

economy price index hit record highs in late 2022 before falling again throughout 2023. The restricted economy and business indices remain below pre-pandemic levels in May 2023.

Over the past decade, domestic flights have also become less reliable in terms of whether a flight will go ahead and whether it will arrive on-time (Figure 14). Even now that the industry has had some time to return to normal operations after the COVID-19 related travel restrictions, 3.9% of flights were cancelled and 28.2% of flights arrived late in April 2023. Even prior to the pandemic, the rate of delayed arrivals had trended up to over 1 in every 4 flights by December 2019. Some of this trend may be explained by growing airport congestion.

Figure 14 Rate of domestic delayed arrivals and flight cancellations – January 2013 to April 2023



Source: BITRE on-time performance time series – April 2023.

Note: A flight is regarded as a cancellation if it is cancelled or rescheduled less than 7 days prior to its scheduled departure time. A flight is considered delayed if it arrives more than 15 minutes after the scheduled arrival time shown on the airline’s schedule.

Airlines have also been providing a declining level of customer service. Even accounting for the disruption to the airline industry from the pandemic, consumer dissatisfaction with the airline industry has been rising over the years. As noted in our submission to the Aviation White Paper process, contacts to the ACCC about the airlines have been trending upwards since January 2018, particularly in 2022 following pandemic related travel restrictions and lockdowns being lifted.³⁶

The CEO of Bonza, Tim Jordan, considers that Australian consumers have missed out because of a lack of competition in the market. In May 2022 Jordan said that despite having the eighth largest domestic aviation market in the world, Australia was the only one without an independent low-cost operator.³⁷ He further said that while other markets around the world had significant growth in low-cost routes over the decade leading up to the pandemic, the number of routes operated by low-cost carriers Jetstar and Tiger/Tigerair was the same in 2019 as it was in 2010 (58 routes).³⁸ This is despite continued growth in the Australian population over the same period.

Perhaps reflecting some of the outcomes discussed above and a lack of effective competition, there has been only limited growth over the last decade or so in the number of people flying domestically, even prior to the pandemic. Between 2012 and 2019, the number of annual domestic passengers

36 ACCC, *Aviation White Paper: ACCC submission in response to the terms of reference*, 15 March 2023, p 24.

37 Bishop, A, *TravelBulletin*, ‘Will they get bums on seats?’, May 2022, accessed 23 January 2023.

38 Bailey, J, *Simple Flying*, ‘Bonza’s launch will grow Australian low-cost routes by 40%’, 7 March 2022, accessed 23 January 2023.

grew by 9.1% to just over 61 million. The rate of growth in domestic passengers over this period was below that for both the Australian population (11.5%) and economy (17.8% in real terms).

4.3 Rex and Bonza would need to grow if Australia is to have more effective competition

As mentioned earlier, the last few years have seen 2 significant competitive developments within the Australian domestic airline industry with respect to Rex and Bonza airlines.

While Virgin Australia was facing financial difficulties in 2020, regional airline Rex announced that it was acquiring jet aircraft for the purpose of offering services between major cities. It began offering services between Melbourne and Sydney in March 2021, before expanding its network to include Brisbane, Gold Coast, Adelaide and Canberra. Rex now offers 7 intercity routes, with another route between Adelaide and Sydney to commence on 29 June 2023.

Rex's presence as a third competing airline group has had a notable impact on airfares on these routes. The ACCC's March 2022 report showed how the combined industry revenue per passenger for Jetstar, Qantas, Virgin Australia and Rex fell by around 25% on the Melbourne – Sydney, Melbourne – Gold Coast, Sydney – Gold Coast and Melbourne – Adelaide routes in the weeks following Rex's entry.³⁹

New low-cost carrier Bonza began offering regularly scheduled flights from February 2023. The airline's network covers 27 routes across Queensland, New South Wales and Victoria. Bonza is launching predominantly unserved routes that directly connect regional centres to holiday destinations.

Bonza is the first high-capacity passenger airline to enter the Australian market since Tigerair 15 years ago. It is also the first independent low-cost carrier in the market since Virgin Australia acquired Tigerair in 2013.

For many consumers, the primary benefit from Bonza's entry to the market is through the additional connectivity provided by the new routes. Bonza is also providing some direct competition to other airlines on the contested Melbourne – Sunshine Coast and Melbourne – Mildura routes.

Bonza's entry and Rex's expansion places the domestic airline industry at a critical point from a competition perspective. After 2 decades of what has essentially been a duopoly between the Qantas Group and Virgin Australia, there is now an opportunity for the industry to enter a more competitive era. To realise this opportunity, Rex and Bonza would need to not only succeed with their current plans, but expand further into the future.

The new competition provided by Rex and Bonza is far from assured. New airlines in the past and around the world have often struggled in response to aggressive competition from the incumbent airlines. In this regard, the ACCC will continue to watch how the incumbent airlines respond to Rex and Bonza and will investigate if there are concerns that the behaviour contravenes competition law. The ACCC investigated whether Qantas' entry and expansion on certain routes in competition with Rex in late 2020 and early 2021 was a misuse of market power in contravention of competition law. In closing the investigation, we noted that a range of factors impacted competitive dynamics at the time, particularly the COVID-19 movement restrictions and border closures.⁴⁰

Both Rex and Bonza would need to expand significantly if they are to become more meaningful competitors to the incumbents Qantas Group and Virgin Australia. The ACCC has observed that the incumbent airlines will often reduce their prices for flights that are scheduled at similar times to Rex,

39 ACCC, [Airline Competition in Australia – March 2022 report](#), 8 March 2022, pp 17–18.

40 ACCC, [Airline competition in Australia – June 2022 report](#), 8 June 2022.

but less so for flights at other times. Both Rex and Bonza offer relatively few services compared to the larger airlines. Rex will grow its fleet of Boeing 737 jet aircraft from 7 to 9 by July, while Bonza has 4 jets of its own. However, this compares to fleets of at least 79 jet aircraft for each of Qantas, Jetstar and Virgin Australia.

The relatively small scale of Rex and Bonza is represented by their small market shares (as shown previously in Figure 8). Rex flew 4.8% of Australia's domestic passengers in April 2023, while newcomer Bonza flew 1.2%. This compared to 36.1% for Qantas, 33.2% for Virgin Australia and 24.7% for Jetstar.

Bonza's competitive impact is also limited by the fact that it not only operates on a few services per week on each route, but it predominantly operates on routes without any other airlines. While this is consistent with Bonza's stated strategy, the airline may expand into more contested routes in the future, including possibly larger intercity routes. This would represent a more significant competitive threat to the other airlines.

Both airlines may also be hindered in any plans for expansion by limited access to take-off and landing slots at large airports, especially Sydney Airport. Sydney Airport is the primary gateway into Australia and the busiest hub in the country. The inability to access sufficient peak slots at Sydney Airport disincentivises new entry and significantly impacts on how much meaningful competition expanding airlines can provide. This is discussed in section 4.4.

Should Rex and Bonza not succeed and withdraw from the market, it will not just result in less competition in the near term, but will likely deter new airlines from attempting to enter the domestic industry for many years.

4.4 Legislative and policy changes could encourage further airline competition and improve outcomes for consumers

The Australian Government could make legislative and policy changes to promote the level of competition in the domestic airline industry and to deliver better outcomes for consumers and the Australian economy. These options are explored in more detail in the ACCC's submission in response to the terms of reference for the Australian Government's Aviation White Paper process.⁴¹

Reform of the demand management scheme at Sydney Airport

Access to take-off and landing slots during peak times at Sydney Airport is critical for airlines seeking to build an intercity network. The most effective way that the Australian Government could enhance airline competition for the benefit of consumers would be to implement reforms to the way Sydney Airport slots are allocated to airlines. Without these slot changes, there will not be any material improvement in domestic airline competition in Australia in the foreseeable future.

The current legislative rules for managing airline use of take-off and landing slots at Sydney Airport can materially impede competition in 2 interrelated ways:

- Rules allowing airlines to retain slots in perpetuity exacerbates capacity constraints by limiting the opportunities for new or expanding airlines to acquire slots needed to launch new services and compete.

41 ACCC, [Aviation White Paper: ACCC submission in response to the terms of reference](#), 15 March 2023.

- Airlines can exploit the scheme by acquiring and hoarding slots for strategic reasons, such as to prevent competitors' access to slots, resulting in inefficient slot use and further diminishing opportunities for increased competition.

The impact of these flaws in the demand management scheme is more than theoretical. Rex's ability to continue to expand its intercity jet operations and bring choice and competition to more consumers each week will likely be hindered without better access to peak period slots at Sydney Airport. Bonza CEO Tim Jordan also said that access to slots at Sydney Airport had been an impediment for the new airline, with Bonza not including Sydney in its initial network of 27 routes.⁴²

A public review of the demand management scheme by former Chair of the Productivity Commission Peter Harris, in addition to further work by the Department of Infrastructure, Transport, Regional Development, Communications and the Arts with stakeholder working groups including the ACCC, has already identified various reforms to improve the operation of the scheme.

For example, there are ways to make the scheme more robust with regard to identifying and taking action where airlines are misusing their slots, such as by hoarding slots and then selectively cancelling flights in a way that still meets the 'use-it-or-lose-it' rules. There are also improvements that can be made to the way that slots are allocated, such as removing a preference currently given to incumbent airlines seeking to change the time of a slot ahead of new entrant slot allocation requests.

The 2021 report by Peter Harris observed that pressure on the demand management scheme and the operational movement cap at Sydney Airport is likely to be reduced by opening Western Sydney International Airport, but only marginally given the likely commercial preference of most airlines to use an inner city gateway.⁴³

The implementation of the identified reforms would create meaningful benefits to consumers and the economy by improving access to slots for new and expanding airlines, leading to more competition.

Policies to better protect airline customers

As mentioned earlier, even accounting for the spike due to COVID-19 related travel issues, growing numbers of consumers have been contacting the ACCC in recent years about issues with airlines. Many of these contacts are evidence of poor customer service. For example, many consumers reported problems simply being able to get in contact with an appropriate person at the airline to discuss their issue.

While competition can create incentives for airlines to invest in customer service, it may be some time before effective competition emerges in the Australian domestic industry. In the short term, there are several policy options which could improve incentives for airlines to invest in their customer service. For example, the ACCC considers that there is a clear need to introduce a new system for resolving disputes between airlines and consumers. The current industry-based scheme, the Airline Customer Advocate, is generally ineffective. It should be replaced with a truly independent external dispute resolution ombuds scheme which has the ability to make binding decisions.

Separately, some advocates have called for the introduction of specific consumer compensation entitlements for delayed or cancelled flights. While consultation would be required to assess the impacts of such a scheme on the market and consumers, the ACCC considers there is merit in the government further considering and consulting on this.

42 Dowling, H, *Australian Aviation*, '[Exclusive: Bonza won't deal with airports that don't negotiate fees](#)', 16 February 2022, accessed 26 February 2023.

43 Harris, P, [Review of the Sydney Airport Demand Management Scheme](#), February 2021, p 14.

The ACCC also strongly advocates for reform to the consumer guarantees under the Australian Consumer Law to make it a contravention for businesses to fail to provide a remedy for consumer guarantees failures, when they are legally required to do so.⁴⁴

Other legislative and policy measures

The following measures may also be able to help promote domestic airline competition for the benefit of consumers and the economy.

- Major airports have competing incentives when they offer services to airlines. With significant market power, they have an incentive to exercise it by raising prices or reducing quality, which may impact on competition between airlines. They also have an incentive to price discriminate among airlines (to the extent they can) to maximise passengers to increase revenues. Should major airports seek to exercise their market power in negotiations with airlines, the current light-handed regulatory regime is not working effectively to constrain them. The government could consider options for strengthening the regime to better protect airlines in negotiations with the major airports. This may support more effective competition between airlines.
- The Productivity Commission inquiry into the regulation of airports found that some contracts between airports and airlines contained provisions that prevented the airport from offering lower charges or other incentives to a rival airline. There may be an argument for a prohibition on these types of clauses in circumstances where they entrench the preferential treatment of large incumbent airlines.
- Australia prevents foreign airlines from picking up domestic passengers on a domestic leg of an international flight, which is known as air cabotage. Removing these restrictions could potentially promote competition on some domestic routes.
- The ACCC's direction to monitor domestic air passenger services expires at the end of June 2023. A further direction to the ACCC would provide continued transparency and scrutiny of the industry at a time when new and expanding airlines are still trying to establish themselves.

44 Cass-Gottlieb, G, ACCC, [CEDA Speech](#), 7 March 2023.

