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Australian Government

Department of Infrastructure, Transport,  
Regional Development, Communications and the Arts

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**To: The Hon Catherine King MP, Minister for Infrastructure, Transport, Regional Development and Local Government (for information)**

**Subject:** Australian Competition and Consumer Commission's (ACCC) final quarterly report on airline competition in Australia – June 2023

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**Recommendation:**

1. That you **note** this update on the ACCC's final *Airline competition in Australia* report (at Attachment A).

Noted / Please Discuss

  
 The Hon Catherine King MP

Date: 20 June 23

**Comments:****Key Points:**

1. The ACCC has provided you and the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the Department) with an advance copy of their 12<sup>th</sup> quarterly report on prices, costs and profits relating to the supply of domestic air passenger transport services. The Report is under embargo until it is publicly released by the Treasurer on 5 June 2023, and is likely to attract media attention when it is released.
2. Key issues raised in the Report include:
  - a. Domestic airfares have fallen significantly in 2023 as demand for travel has eased and the price of jet fuel declined. However, average revenue per passenger and discounted economy airfares remain higher than pre-pandemic levels, even after adjusting for inflation.
  - b. 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 Qantas Group reached 101% of its pre-pandemic domestic capacity in April 2023, compared to 96% for Virgin Australia and 85% for Jetstar. Qantas further expects capacity to increase to 108% of pre-pandemic domestic capacity between July–December 2023.
  - c. Cancellation and delay rates have worsened in this period with industry performance remaining poor compared to long-term averages. 3.9% of flights were cancelled in

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April 2023, compared to the industry long-term average of 2.1%. Jetstar reported notably worse cancellation rates than other airlines.

- d. 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. The airlines have reported that air traffic control staff absences have impacted these figures. As the busiest and most connected hub, delays at Sydney Airport have flow on effects on other routes.
  - e. Despite a substantial improvement of on-time performance in January, on-time arrival rates have declined to April, only 71.8% of flights arrived, compared to the industry long-term average of 81.5%.
3. The expansion of Rex and the entry of Bonza have created the opportunity for a more competitive industry. However, both airlines would need to grow significantly to become more meaningful competitors to Qantas Group and Virgin Australia. The ACCC will continue to watch how airlines respond to emerging competition from Rex and Bonza and will investigate where they consider there has been a potential contravention of the competition law.
  4. The state of competition in Australia's domestic airline industry remains of concern to the ACCC:
    - a. The report indicates that half of all domestic trips in April 2023 took place on routes with 2 competing airlines, and that on each of these routes Regional Express or Virgin Australia were competing with Qantas Group;
    - b. Over the last 12 months Australia's 2 largest airline groups, Qantas and Virgin Australia, consistently accounted for 95% of the domestic passenger market. In April 2023 their market share comprised 60.8% and 37.7% respectively.
    - c. The report suggests the Australian Government could promote competition by implementing reforms to help new and expanding airlines obtain slots at Sydney Airport.
  5. The ACCC holds the view that a 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. Consistent with their submission to the Terms of Reference for the Aviation White Paper, the ACCC has identified a range of options that the Australian Government could consider to incentivise airlines to invest in their customer service. Including:
    - a. Introducing a new system for resolving disputes between airlines and consumers. The current industry-based scheme, the Airline Customer Advocate, is considered an ineffective mechanism and could be replaced with a truly independent ombuds scheme with the ability to make binding decisions;
    - b. Introducing specific consumer compensation entitlements for delayed or cancelled flights;
    - c. Reforming Australian Consumer Law (ACL) to make it a contravention for businesses to fail to provide a remedy for consumer guarantees failures.
  6. While the Australian Government's direction to monitor airline competition is expiring, the ACCC will continue to investigate a number of issues that consumers have raised about Qantas, and whether these issues raise concerns under the ACL.

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7. On 15 March 2023, the ACCC provided a submission in response to the terms of reference for the Australian Government's Aviation White Paper. This included suggestions for legislative and policy changes to promote the level of competition in the domestic airline industry and deliver better outcomes for consumers (see **Attachment B**).

*This will be the ACCC's last quarterly report into airline competition in Australia*

8. The ACCC has produced this series of monitoring reports on a quarterly basis for 3 years since the June 2020 direction from the former Treasurer. Further advice and background on this issue is included under Additional Information.
9. The ACCC's reporting has covered key drivers impacting competition, airfares, service levels and consumer choice as the industry navigated and emerged from the pandemic; and, it has identified opportunities to stimulate competition, such as improving the slot management scheme at Sydney Airport.
10. The ACCC, now informed through the experience of this direction, will continue to have an active role in watching how airlines compete for and treat consumers and, where necessary, act to ensure compliance with the Competition and Consumer Act 2010 (Cth).

#### **Stakeholder Implications:**

The Report's publication is likely to attract media attention in respect of airfare prices, record airline profits and dissatisfaction with current customer service levels. As the last report, it is possible that there will be stakeholders seeking for the monitoring direction to continue.

**Consultation:** n/a

#### **Attachments:**

A - ACCC Airline Competition in Australia – June 2023 - under embargo

B – Aviation White Paper - ACCC submission in response to the terms of reference

Name: Ben Vincent  
 Position: Assistant Secretary  
 Division: Domestic Aviation & Reform  
 Branch: Domestic Policy and Programs  
 Ph: 02 6274 8281  
 Mob: s22(1)(a)(ii)  
 Date: 2 June 2023

Contact Officer: s22(1)(a)(ii)  
 Section: Domestic Policy & Women in Aviation  
 Ph: 02 s22(1)(a)(ii)  
 Mob: s22(1)(a)(ii)

**Instructions for MPS:** Nil

**Responsible Adviser:** s22(1)(a)(ii)

**PDMS Distribution List:** Jim Betts, Marisa Purvis-Smith, Jason Dymowski, Ben Vincent

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**Additional Information:**ACCC quarterly reporting into airline competition in Australia – background and cessation

- On 19 June 2020, the then Treasurer, the Hon Josh Frydenberg MP, directed the ACCC to monitor domestic air passenger services for a period of three years:
  - The direction came in the wake of Virgin entering voluntary administration (April 2020) as COVID-19 forced border closures and the grounding of air services.
  - The then Treasurer's media release made clear that "ACCC monitoring will assist in protecting competition in the domestic passenger airline market, for the benefit of all Australian airline travellers"
- Until now, the ACCC has published 11 quarterly reports on airline competition in Australia. The last report was published in March 2023, attracting widespread media attention in respect of its analysis of airfare prices and customer service.
- Over that time, the ACCC reporting has been valuable:
  - The ACCC's quarterly reporting cycle has provided Government and the broader community with ongoing insight into competition in the aviation market across the pandemic, at a time when border closures threatened the viability of the sector and many routes were only viable due to the Government's COVID-19 aviation support measures. ACCC scrutiny also helps to deter incumbents from predatory behaviour.
  - The importance of competition for Australian passengers and the broader economy can be seen in airline pricing behaviour on intercity routes where Rex has entered. In March 2022, the ACCC reported that for Melbourne–Sydney, Gold Coast–Melbourne, Gold Coast–Sydney and Adelaide–Melbourne routes, the combined revenue per passenger (a proxy for average price) for Qantas, Jetstar, Virgin and Rex was 25% lower seven weeks after Rex's entry.
- The economic conditions that preceded the then Treasurer's direction have now improved, with COVID-19 restrictions now lifted and demand for travel again strong and the sector settling in to more business as usual dynamics.
- Beyond cessation of these reports in June 2023, the ACCC will continue to monitor prices, costs, profits and quality of domestic aeronautical, car parking and landside access services at Australia's major airports (Sydney – Kingsford Smith, Melbourne – Tullamarine, Brisbane, and Perth). This does not extend to the activities of airlines.
  - Airports may argue that airlines should continue to be subject to ACCC scrutiny, however, it is worth noting that the ACCC has been clear in its view that "the major airports exhibit strong natural monopoly characteristics and therefore face very little competition in the supply of aeronautical services. As recognised by the Productivity Commission, this provides them with strong market power. Based on the ACCC's experience from its regulation across the infrastructure sector, unconstrained monopolies that possess market power will use that power" (Source: ACCC March 2019 submission in response to the Productivity Commission Inquiry into the Economic Regulation of Airports draft inquiry report)
- The Aviation White Paper will be progressed over coming months as well, providing a mechanism for identifying and addressing any policy concerns that may emerge following the conclusion of the ACCC's quarterly reporting into airline competition.
- Should there be signs of anti-competitive conduct in the aviation sector, resulting in inflated airfares, the Treasurer could consider directing the ACCC to resume the reporting arrangements.

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- The Bureau of Infrastructure and Transport Research Economics (BITRE) will continue to publish regular statistics on aviation activity, including on domestic air fares and domestic on-time performance.

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