

22 September 2023

Antony Paul
Principal Research Officer
Senate Select Committee on Commonwealth Bilateral Air Service Agreements

Via email: [REDACTED]

Dear Antony,


Senate Select Committee on Commonwealth Bilateral Air Service Agreements

Rex did not submit any submissions to the Senate enquiry on Bilateral Air Service Agreements as we are a purely domestic airline with no international operations. However, we have been specifically requested to appear before the Committee as the latter is interested in the anti-competitive behaviour of Qantas.

Ahead of our testimony to the Senate on 27 September, we would like to submit the following documents that are pertinent to the matter of Qantas predatory behaviour and its abuse of market power.

1. Rex's original complaint to the ACCC on Qantas anti-competitive behaviour on 31 January 2020.
2. Rex's further complaint to the ACCC dated 3 March 2021 following the ACCC's initial dismissal of Rex's complaint without proper investigation, which identified 9 routes targeted by Qantas since the outbreak of COVID. The ACCC investigated this further complaint for several months and retained external legal counsel and advisors to carry out the investigations. The ACCC formally informed Rex on 31 March 2022 that it did not have enough evidence to meet the standard required by the court due to the complication of COVID impacts.
3. Update of the state of affairs on the projections given in the complaint including the latest financials on the regional operations.

Yours Sincerely,



Neville Howell
Director and Chief Operating Officer

Regional Express

Regional Express (Rex) submission to ACCC
regarding the impact of Qantas capacity dumping
on regional routes

31 JANUARY 2020

Rex complaint regarding the impact of Qantas capacity dumping on regional routes

Regional Express (Rex) is making an official complaint to the ACCC about Qantas's behaviour of dumping excessive capacity on regional routes that are already extremely marginal. The direct impact of this conduct is to force Rex out and substantially lessen competition in the long term.

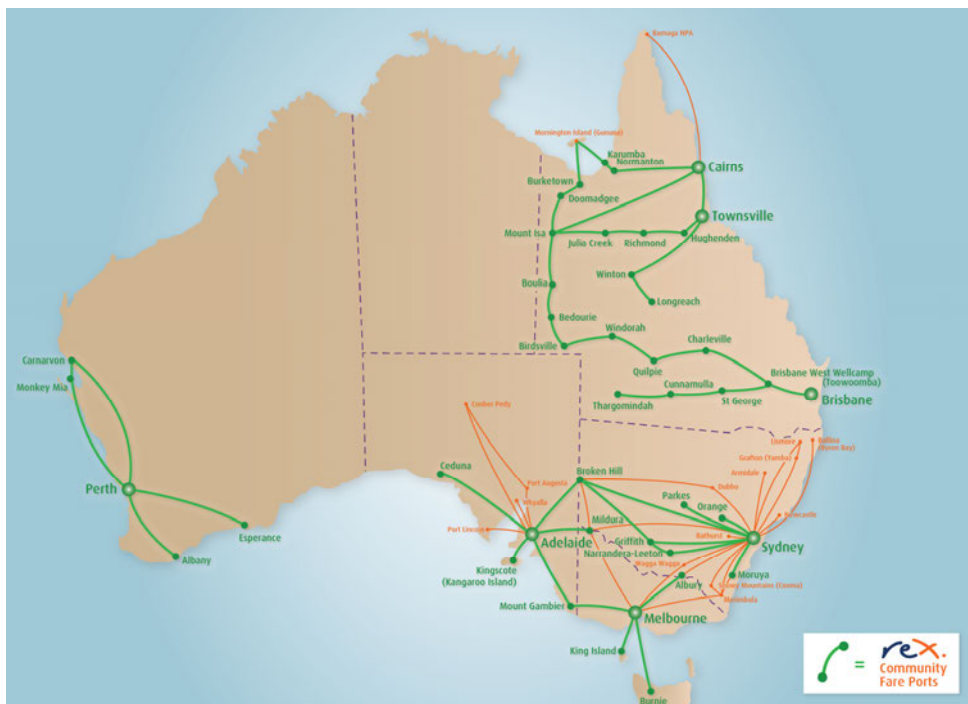
Confidentiality

Rex will be making a public statement about its complaint to the ACCC (copy of media release attached as Appendix A) in the following business day.

This submission does not contain confidential material that Rex has not made public.

Background about Rex

Reliable, sustainable and affordable air services are critical to the socio-economic wellbeing of regional Australia. Rex is the largest independent regional airline in Australia with a total 60 destinations throughout all States of Australia. Rex services 55 regional and remote communities which is a larger regional network than Qantas/QantasLink. Rex operates with a different business model to Qantas and Virgin and has been recognised in the aviation industry as bringing better service and lower fares for consumers on regional routes.



The Rex model offers a unique service that focuses on meeting the needs of regional communities by providing frequent services at the cost of low load factors while still maintaining relatively low fares. Although it is the sole provider on 80% of its routes, it has eschewed the conventional practice of monopoly providers in pricing what the market will bear but instead focuses on stimulating growth through lower fares. Since 2002/03 the average Rex ticket price has only increased by 1.2% per annum while remaining operationally profitable every single year which is a testament to Rex's successful business model.

Attached are all the public submissions Rex has made since July 2017:

July 2017 - Regional Express Submission to the WA Government Economics and Industry Standing Committee – Inquiry into Regional Airfares in Western Australia.

February 2018- Regional Express Submission to the Federal Government Senate Standing Committees on Rural and Regional Affairs and Transport - Inquiry into service delivery to rural, regional and remote service delivery to rural, regional and remote communities.

September 2018 – Regional Express Submission to the Productivity Commission – Economic Regulation of Airports.

The above submissions and other supplementary correspondence relating to the submissions can be found on the Rex website;

http://www.rex.com.au/MediaAndPressClippings/RexPublicSubmission_IR.aspx

These submissions provide further background about Rex and its unique business model. Indeed Rex is the only carrier that has ever been complimented by the various committees that examine the pricing of regional airfares:

“Regional Express (Rex) has undertaken a very proactive community engagement model. On the evidence presented to the Committee, Rex exceeds the requirements in its Deed of Agreement. Moreover, in its stakeholder forums, Rex presents information to the community regarding costs, pricing and passenger numbers, enabling the community to assess the operator's conduct with respect to pricing. The DoT observed that Rex had been very forthcoming about its airfares with the residents of these two towns in the six-monthly Community Consultative Group meetings, and that this had changed the attitude of these communities to the level of the airfares.

Secondly, Rex has worked collaboratively with the local community to develop a 'Community Fare', introduced when Rex took over these two routes from Virgin Australia in 2016.

The collaborative development model for this fare, the engagement with the local community and joint contribution to costs management has considerably removed the 'heat' from the airfares issue in these regulated destinations."

Economics and Industry Standing Committee – Perceptions and Realities of Regional Airfare Prices in Western Australia, November 2017.

"The evidence provided to EISC indicated that Rex's operation of regulated routes in WA had met with some success, in part due to the ongoing consultation that Rex undertook with local communities. This mechanism enabled the communities to better understand airfare pricing and allowed for a more collaborative approach between stakeholders to determine fares. As noted by the EISC, this took the 'heat' out of the issue for these communities.

The committee encourages all airlines to emulate this approach and engage with local communities as far as practicable. It appears to the committee that providing residents with information about how airfares are determined would greatly assist in increasing transparency and thus reducing frustrations over the perception of high airfares.

The committee notes that the Community Fare Scheme offered by Rex does not apply any restrictions on access with regard to residency, with no proof of residency required, and with a flat discounted rate made available for all applicants. The only criteria to access the discounted fare remains the time the booking is made.

The committee views this approach as sensible, as it offers a reduced administrative burden to both the air operator and to passengers. It is also an approach established in collaboration with local councils as the airport operators, and thus has broad support from key stakeholders.

The committee would encourage other operators to consider how such an approach – including the removal of residency requirements – may be applied within their business, to reduce the frustration and difficulties experienced by passengers. Simplification of access to discounted fares may also result in passenger growth in the areas where such fares are offered."

Rural and Regional Affairs and Transport References Committee – Operation, regulation and funding of air route service delivery to rural, regional and remote communities, June 2019.

Qantas's market power

Qantas's entrenched position in Australian aviation, and its sheer size, scale and financial firepower mean that Qantas enjoys substantial market power within Australia and on any route it chooses to operate.

In particular, Qantas has the ability to shift capacity and price discriminate between the various routes on which it chooses to offer services such that it can incur losses on particular routes whilst retaining its market position and profitability on other routes and remaining profitable overall. Qantas also has the ability to sustain losses on any particular route longer than any of its competitors. This is particularly so in the last five years

since its only major competitor in Australia virtually self-imploded and chalked up losses of \$1.5 billion over the last decade.

The ACCC has in the past acknowledged the risk smaller operators face of Qantas increasing the capacity it offers on particular routes and, or alternatively, reducing its fares on those routes, thereby making it unprofitable for the smaller operator to operate on those routes.

However, the ACCC has in the past indicated to Rex and other small operators that the test used in Australian competition law to deal with “misuse of market power” (prior to November 2017) made it difficult for the ACCC to deal with any such conduct by Qantas.

Qantas’s conduct

Rex’s complaint is about Qantas’s behaviour in three regional routes.

1. Adelaide to Whyalla route

In 2015 Qantas decided to mount services on the Adelaide – Whyalla route. This route was serviced by Rex with annual passenger numbers of 60,000 serviced by 100,000 seats provided by Rex giving an annual load factor of 60%. In April 2015 Qantas commenced services on the route by bringing in an additional 66,000 seats – ie bringing the total market load factor to 43% which makes the service uneconomical for both carriers.

2. Adelaide to Kangaroo Island route

This route was serviced by Rex with annual passenger numbers of 37,000 serviced by 66,000 seats provided by Rex giving an annual load factor of 57%. In December 2017, the peak period for visits to Kangaroo Island route, Qantas commenced service by bringing in 6,200 seats in the period of December 2017 to February 2018 bringing the total capacity during that period to 24,700 seats to service only 13,000 passengers. The addition of these seats to the route has drastically collapsed the yield on the routes and hence the profitability during the peak season making it an even bigger struggle to ensure overall annual profitability on the route.

3. Sydney to Ballina route

On 17 January 2020 Qantas announced that it would mount additional services on the Sydney to Ballina route with effect from 29 March 2020. The new service targets the only service which Rex operates to Ballina, which is the early morning departure out of Ballina and the late evening return from Sydney. This service currently has 10,000 annual passengers serviced by Rex with 18,000 annual seats. The addition of the 36,000 annual seats from QantasLink would mean that the load factor for this service would fall to 19%.

Impact on competition

Regional aviation presents a number of challenges, from the inherent inefficient nature of regional air services (due to thin passenger numbers and the nature of regional communities needing day return services both to and from the nearest capital city) to the directional flow of traffic to the monopolistic behaviour of many regional airports and access issues at capital city airports.

Not all regional routes can sustain competing services. Rex's business model does not need a competing service on the route to constrain its pricing. For example, Rex pioneered the revolutionary concept of Community Fare in the airline industry whereby all unsold tickets the day before travel are sold at the steeply discounted Community Fare. This scheme is mainly offered in Rex's sole operated routes and has the effect of lowering average fare while stimulating the market. Just today, Rex announced the extension of the Community Fare Scheme in Queensland for another year (see attached media release, Appendix B). Between 20-30% of all passengers now travel on these Community Fares on routes where they are offered. On the other hand, Qantas requires a competing service to constrain its pricing.

The Rex business model is designed to make an otherwise marginally commercial activity viable. It is a business model that effectively pushes down its own margins, delivering lower airfares and also more services to the benefit of regional communities. However, the fact that efficiency gains are generated and then passed back to customers by way of lower fares means Rex is a lean business and it does not have deep pockets to sustain the impact of capacity dumping by large and powerful competitor.

It is therefore obvious that the massive additional capacity introduced by Qantas on the routes described above kills the ability for Rex to offer a sustainable alternative to the Qantas model for regional communities and increases Qantas's market power. When Rex is forced out of a route and Qantas is left with a monopoly, regional communities pay more.

For example, in late 2009 Rex entered the Townsville to Mackay route. In response to Rex's entry, Qantas increased capacity by 35% and dropped pricing by 30%, forcing Rex to exit this route in early 2010. Once Rex left, Qantas increased fares. Rex did lodge a formal complaint to the ACCC but no action was taken.

There are broader impacts too. In order to offer a sustainable regional service, an airline needs a minimum level of scale and it has to achieve this out of a limited number of regional routes that can sustain an air service. Rex is able to be consistently profitable only by having a large network of routes to provide economies of scale and by leveraging on the synergies of a large network. By being squeezed out of routes, Rex will have a smaller number of routes to support its fixed overheads and its margin will be sharply eroded.

In short, the effect of Qantas's conduct is to substantially lessen competition regardless of how narrowly or broadly the relevant market is defined (for example, by reference to route or regional services more generally).

ACCC should investigate

As a result of Qantas's capacity dumping conduct, on 3 February 2020 Rex will announce that it is pulling out of the Adelaide to Kangaroo Island and Sydney to Ballina routes in the coming months because it is not able to match Qantas's financial firepower and unlike Qantas, Rex is not able to continue servicing a money-losing route indefinitely. Refer to attached draft media release, Appendix A.

As mentioned above, the ACCC has in the past indicated to Rex and other small operators that the test used in Australian competition law to deal with "misuse of market power" (prior to November 2017) made it difficult for the ACCC to deal with capacity dumping conduct by Qantas. Specifically, when Rex formally complained to the ACCC about the capacity dumping that kept Rex out of the Townsville to Mackay route, the ACCC was unable to do anything because it believed it could not demonstrate that this was "taking advantage" of market power for a proscribed purpose.

However, following the changes to section 46 of the Competition and Consumer Act in November 2017, the ACCC now has an "effects test" in section 46 that it can use to deal with capacity dumping by Qantas.

In relation to both the Adelaide to Kangaroo Island and Sydney to Ballina routes, the conduct by Qantas occurred after 6 November 2017 and the direct impact of the conduct has been to cause Rex to pull out of these routes and cause consumer detriment. In both routes Qantas has engaged in conduct that has the effect of substantially lessening competition in the relevant market/s.

Should Qantas' behaviour be left unchecked, Qantas will continue its tactics to force out Rex from more routes until the tipping point is reached whereby the entire existence of Rex is in jeopardy. When that happens, there may never be another regional operator that could make a very marginal regional air service viable.

Rex therefore believes that the ACCC should investigate Qantas and take appropriate action under section 46.

3 FEBRUARY 2020

MEDIA RELEASE

REX TO RAISE QANTAS ABUSE OF MARKET POWER TO ACCC

Regional Express (Rex) today announces that it has raised an official complaint to the Australian Competition and Consumer Commission (ACCC) about Qantas' behaviour of dumping excessive capacity on routes that are already extremely marginal. The direct impact of this conduct is to force out the smaller competitor and substantially lessen competition in the long term.

Rex will be citing Qantas' behaviour in three regional routes that go beyond "competition on the merits":

- **Adelaide to Whyalla**

In 2015, Qantas decided to mount services on the Adelaide to Whyalla route. This route was serviced by Rex with annual passenger numbers of 60,000 and annual seats of 100,000, giving a Rex load factor of 60%. In April 2015, Qantas commenced services on the route by bringing in an additional 66,000 seats, thus bringing the total market load factor to 43% which makes the service uneconomical for both carriers.

- **Adelaide to Kangaroo Island**

This route was serviced by Rex with annual passenger numbers of 37,000 and annual seats of 66,000, giving an annual Rex load factor of 57%. In December 2017 – the peak period for traffic on the Kangaroo Island route – Qantas commenced services by bringing in 6200 seats in the period of December 2017 to February 2018, bringing the total capacity during that period to 24,700 seats to service only 13,000 passengers. In addition, Qantas commenced direct services to Melbourne, further diluting the passengers travelling on Rex since they no longer need to travel to Adelaide to fly to Melbourne.

- **Sydney to Ballina**

On January 17, 2020, Qantas announced that it would mount additional services on the Sydney to Ballina route with effect from March 29. The new service targets the only service which Rex operates between Sydney and Ballina (early morning departure from Ballina and late evening return from Sydney). This service currently has 10,000 annual passengers serviced by Rex with 18,000 annual seats. The addition of the 36,000 annual seats from QantasLink would mean the load factor would fall to 19%.

It is obvious that the excessive additional capacity introduced by Qantas on these routes kills the ability for Rex to offer a sustainable alternative to the Qantas model for regional communities and increases Qantas' market power.

Rex has been a steadfast partner to Kangaroo Island, Ballina and other regional and remote communities for decades, faithfully providing reliable, safe and frequent air services with affordable fares. In fact, even though Rex is the sole operator across 80% of its vast regional network, Rex's average fare has risen only 1.2% annually since Rex was formed in 2002.



However, Rex has to face up to the reality that it is not able to match Qantas' financial firepower and unlike Qantas, Rex is not able to continue servicing a money-losing route indefinitely. The Rex Board has decided that in light of the sharp downturn experienced in the last six months and the poor economic outlook for the next 12 months, Rex will be exiting the Sydney to Ballina and Adelaide to Kangaroo Island routes in the coming weeks.

This is not a decision that Rex has taken lightly having serviced Kangaroo Island continuously for 30 years and Ballina for 24 years, first as Kendell Airlines and then as Rex since 2002.

Rex's only recourse is to appeal to the ACCC to stop this anti-competitive conduct now that the ACCC has an effects test in section 46 that can be enforced.

Qantas has won this round, but in the longer term the communities are the real losers.

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

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



31 JANUARY 2020

MEDIA RELEASE

REX EXTENDS COMMUNITY FARE SCHEME IN REGIONAL QUEENSLAND

Regional Express (Rex) today announces the extension of the Rex Community Fare scheme on the Rex operated Queensland Government Regulated routes throughout Queensland.

This follows a successful six-month trial period with the Rex Community Fare scheme now being extended until 31 December 2020. This initiative is made possible with the active support from the Queensland Department of Transport.

The Rex Community Fare scheme is available to 23 QLD communities across the Rex operated Western 1 and 2 routes from Brisbane, the Northern 1 and 2 routes from Townsville and the Gulf route from Cairns.

In addition to the Rex Community Fare linking remote and outback QLD with Brisbane, Townsville and Cairns, the discounted fare is also offered between the regional communities resulting in more than 70 different fare combinations throughout the State.

The Community Fare is available outside of 60 days prior to departure subject to Community Fare availability, in addition to all remaining unsold seats being made available as Community Fares within 24 hours prior to departure.

Steve Jones, Rex Queensland State Manager says the extension of the Rex Community Fare scheme throughout regional and remote QLD is a testament to Rex's on-going support of regional communities.

"Rex's Community Fare Scheme is now on offer in 40 regional communities throughout Australia with more than half of these in remote and outback QLD," he said.

The Rex Community Fare (Rex Promo) is available for purchase via rex.com.au. The list of communities benefiting from this scheme can be found below.

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

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



Annex A

Rex Community Fare Levels to/from Brisbane, Townsville, Cairns and Mount Isa.

| Between Brisbane and: | Standard Best Fare | Rex Community Fare |
|-----------------------|--------------------|--------------------|
| Wellcamp | \$154.00 | \$119.00 |
| St George | \$218.00 | \$155.00 |
| Cunnamulla | \$261.00 | \$185.00 |
| Thargomindah | \$285.00 | \$199.00 |
| Charleville | \$247.00 | \$179.00 |
| Quilpie | \$262.00 | \$185.00 |
| Windorah | \$305.00 | \$219.00 |
| Birdsville | \$356.00 | \$249.00 |
| Bedourie | \$362.00 | \$255.00 |
| Boulia | \$373.00 | \$260.00 |
| Mount Isa | \$406.00 | \$299.00 |

| Between Townsville and: | Standard Best Fare | Rex Community Fare |
|-------------------------|--------------------|--------------------|
| Winton | \$211.00 | \$149.00 |
| Longreach | \$236.00 | \$179.00 |
| Hughenden | \$165.00 | \$119.00 |
| Richmond | \$189.00 | \$135.00 |
| Julia Creek | \$229.00 | \$163.00 |
| Mount Isa | \$314.00 | \$199.00 |

| Between Cairns and: | Standard Best Fare | Rex Community Fare |
|---------------------|--------------------|--------------------|
| Normanton | \$280.00 | \$209.00 |
| Karumba | \$280.00 | \$209.00 |
| Burketown | \$325.00 | \$239.00 |
| Doomadgee | \$337.00 | \$249.00 |
| Mount Isa | \$333.00 | \$199.00* |

Note * direct non-stop services only

| Between Mount Isa and: | Standard Best Fare | Rex Community Fare |
|------------------------|--------------------|--------------------|
| Boulia | \$137.00 | \$109.00 |
| Bedourie | \$182.00 | \$139.00 |
| Birdsville | \$239.00 | \$179.00 |
| Julia Creek | \$127.00 | \$109.00 |
| Richmond | \$149.00 | \$129.00 |
| Hughenden | \$205.00 | \$155.00 |
| Doomadgee | \$217.00 | \$165.00 |
| Burketown | \$223.00 | \$165.00 |





3 March 2021

Mr Rod Sims
Chairman
Australian Competition & Consumer Commission

Sent via email: rod.sims@accc.gov.au

Dear Mr Sims,

Qantas's Conduct

I refer to the 15 December 2020 letter from the ACCC's Airline Competition Taskforce regarding our complaints about Qantas's conduct towards Rex on thin regional routes. This letter stated that the ACCC "will not be pursuing these issues further".

Rex urges the ACCC to re-open enforcement investigation of Qantas's conduct in light of the on-going impacts of this conduct as evidenced in Rex's media release attached.

Qantas's conduct involves two key impacts that are anti-competitive:

- in respect of routes not capable of sustaining two carriers, a dominant carrier displacing a smaller more efficient carrier that is better able to meet the specific needs of passengers on those routes; and
- from a broader network perspective, a dominant carrier forcing a smaller more efficient carrier into being less efficient and thus less of a threat to the dominant carrier.

These outcomes are the antithesis of what competition is expected to deliver. They harm consumers and go to the heart of why competition law focuses on the conduct of firms with market power.

It is axiomatic that, in the discipline of a genuinely competitive environment, one expects to see less efficient firms displaced by, or lose market share to, more efficient firms. So where there is market power and the opposite is occurring, competition authorities should not hesitate to use their enforcement powers.

If competition authorities are too risk averse, it gives a green light for firms with market power to engage in precisely this type of harmful behaviour. The end result would be the dominant player would be allowed to define the line between predation and “vigorous competition” in a way that protects its dominance even as it gets more and more inefficient and makes the public pay for the inefficiencies.

We look forward to your response to our request.

Yours sincerely,



Irwin Tan
GM Corporate Services

CC: The Hon Michael McCormack MP, Deputy Prime Minister and Minister for Infrastructure, Transport and Regional Development (michael.mccormack.mp@aph.gov.au),
Hon Anthony Albanese MP, Leader of the Opposition (A.Albanese.MP@aph.gov.au)
The Hon Josh Frydenberg MP, Treasurer (josh.frydenberg@treasury.gov.au)

22 FEBRUARY 2021

MEDIA RELEASE

REX REVEALS NEW REGIONAL NETWORK STRATEGY

Rex announces that it will embark on a major revamp of its regional route network in response to aggressive predatory moves by Qantas into thin regional routes serviced by Rex.

Rex's Deputy Chairman, the Hon John Sharp AM, said, "Qantas has clearly embarked on a deliberate strategy of moving into Rex's routes that can only support one regional carrier in an attempt to intimidate and damage Rex in its traditional regional market, hoping that Rex would be a less formidable competitor in the domestic market."

"Qantas is making record losses during COVID and has received an estimated \$1.2 billion in Commonwealth assistance to stay solvent but, despite this, feels it is appropriate to use taxpayers' funds to finance the losses on new services whose sole objective is to weaken the competitor."

The routes on which Qantas has announced it will be starting, or has started, services since the outbreak of COVID are listed below. All of these routes have only supported one regional carrier in the past and the current monthly passenger numbers are laughable. Even when passenger numbers return to pre-COVID levels, these routes would still be unable to viably support 2 carriers:

| Qantas new regional routes since COVID started | Annual Passengers per year (pre-COVID) | Rex Passengers in last 4 weeks (17 Jan to 13 Feb 21) |
|--|--|--|
| Sydney – Orange (started in July-20) | 65,000 | 1,017 |
| Sydney – Merimbula (started in Dec-20) | 36,000 | 417 |
| Sydney – Griffith | 73,000 | 1,171 |
| Melbourne – Merimbula | 22,000 | 602 |
| Melbourne – Albury | 22,000 | 210 |
| Melbourne – Wagga Wagga | 26,000 | 152 |
| Melbourne – Mount Gambier | 36,000 | 134 |
| Adelaide – Mount Gambier | 49,000 | 1,286 |

"The Rex Board has decided to stand its ground in these routes even if inevitably both carriers will be making significant losses. Unfortunately, the expected drag on Rex's financial position from the losses on the above eight routes will mean that Rex will be unable to continue subsidising marginal routes that we have serviced for the past 20 years. It is with a heavy heart that we are announcing the cessation of services to the five routes below once the government support through the RANS program is discontinued at the end of March:

- Sydney - Bathurst (20,000 passengers pre-COVID)
- Sydney - Cooma (6,000 passengers pre-COVID)
- Sydney - Lismore (12,000 passengers pre-COVID)
- Sydney - Grafton (18,000 passengers pre-COVID)
- Adelaide - Kangaroo Island (42,000 passengers pre-COVID including Qantas)

“In order to recover from the losses, Rex will, from April, commence new services to ports where Virgin Australia has retreated, leaving Qantas as the sole or dominant operator. The new services are from Sydney to:

- Coffs Harbour (330,000 passengers pre-COVID)
- Port Macquarie (190,000 passengers pre-COVID)

and will be available for sale from tomorrow.”

“Other routes under active consideration where Qantas is the sole or dominant carrier include:

- Sydney - Tamworth (175,000 passengers pre-COVID),
- Perth - Geraldton (110,000 passengers pre-COVID),
- Melbourne - Devonport (146,000 passengers pre-COVID), and
- Sydney - Canberra (930,000 passengers pre-COVID).”

“We will be launching services to these cities once a partnership agreement is concluded with the local councils or airport owners.”

“Our plans to commence domestic jet services on the Sydney-Melbourne route on 1 March are still firm barring further border closures.”

Rex also calls on the ACCC to take enforcement actions against Qantas for its predatory behaviour. All carriers are facing existential challenges and the ACCC must do its part to ensure that the dominant carrier does not take advantage of the current situation to deliver pre-emptive strikes against its much smaller competitors, especially at a time when it is receiving massive handouts to stay solvent.

In this environment, the introduction of new competing services in fragile regional routes should be set aside by the ACCC until we return to a semblance of normality. Indeed, this is consistent with the public benefit criterion accepted by the ACCC when it granted authorisation to Rex to enter into an unprecedented collaboration with Qantas on regional routes where the parties had competing services prior to the pandemic.”

It is noteworthy that Qantas had not accepted numerous offers by Rex to enter into a collaborative partnership that optimises resources, as permitted under the authorisation, to achieve better outcomes for all stakeholders including the travelling public.

Rex is Australia’s largest independent regional and domestic airline operating a fleet of 60 Saab 340 aircraft (pre-COVID) on 1,500 weekly flights to 60 destinations throughout all states in Australia. Rex will begin its domestic services with six 737-800 NGs in March 2021. In addition to the airline Rex, the Rex Group comprises wholly owned subsidiaries Pel-Air Aviation (air freight, aeromedical and charter operator) and the two pilot academies, Australian Airline Pilot Academy in Wagga Wagga and Ballarat.

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

Members of the Rex Group



Attachment 2

EFFECTS OF QANTAS CAPACITY DUMPING ON REX'S ROUTES

The effect of Qantas anti-competitive dumping of capacity on routes during the COVID period that could barely support one operator has been catastrophic for Rex in terms of revenue, passenger numbers and profitability even after the COVID restrictions have been lifted.

SYDNEY-BROKEN HILL

Qantas decided to enter the market from 8 April 2022, initially operating two weekly return flights with its 50-seat Q300 aircraft. Currently, Qantas operates five return flights a week.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|--------------|------------|
| Revenue | \$9,486,881 | \$8,362,812 | -\$1,124,068 | -11.85% |
| Passengers | 25,374 | 24,411 | -963 | -3.80% |
| Average Fare | \$ 373.88 | \$342.58 | -\$31.30 | -8.37% |

SYDNEY-GRIFFITH

Qantas launched flights between Sydney and Griffith on 1 March 2021.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|--------------|-------------|--------------|------------|
| Revenue | \$11,910,428 | \$8,977,074 | -\$2,933,355 | -24.63% |
| Passengers | 72,725 | 48,479 | -24,246 | -33.34% |
| Average Fare | \$163.77 | \$185.17 | \$21.40 | 13.07% |

SYDNEY-ORANGE

The FY22-23 reflects the compounding impact of QF's decision to launch flights in competition with Rex on 1 May 2020.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|--------------|-------------|--------------|------------|
| Revenue | \$11,370,951 | \$6,480,935 | -\$4,890,015 | -43.00% |
| Passengers | 65,291 | 40,149 | -25,142 | -38.51% |
| Average Fare | \$174.16 | \$161.42 | -\$12.74 | -7.31% |

SYDNEY-MERIMBULA

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|------------|------------|
| Revenue | \$6,560,549 | \$6,332,899 | -\$227,650 | -3.47% |
| Passengers | 37,209 | 31,749 | -5,460 | -14.67% |
| Average Fare | \$176.32 | \$199.47 | \$23.15 | 13.13% |

MELBOURNE-BURNIE

Significantly, Qantas decided to resume operations between Melbourne and Burnie from 21 June, 2021 after an absence of 15 years.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|---------|-------------|-------------|--------------|------------|
| Revenue | \$8,604,973 | \$5,517,143 | -\$3,087,830 | -35.88% |

| | | | | |
|--------------|----------|-----------|----------|---------|
| Passengers | 63,945 | 31,909 | -32,036 | -50.10% |
| Average Fare | \$134.57 | \$ 172.90 | \$ 38.33 | 28.49% |

MELBOURNE-WAGGA WAGGA

Qantas entered this route in competition with Rex on 28 March, 2021 with four return flights a week.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|------------|------------|
| Revenue | \$4,086,562 | \$3,560,361 | -\$526,201 | -12.88% |
| Passengers | 26,556 | 19,545 | -7,011 | -26.40% |
| Average Fare | \$153.88 | \$182.16 | \$28.28 | 18.38% |

MELBOURNE-ALBURY

Rex withdrew from this route in May 2022. Even pre-COVID the route was a marginal proposition. In the CY2019 Rex carried only 22,203 passengers which represented a load factor of just 44.7%. The route was hardly viable for one operator, let alone two. Nonetheless, Qantas launched four return flights a week from 28 March, 2021.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|----------|--------------|------------|
| Revenue | \$2,630,274 | \$0 | -\$2,630,274 | -100% |
| Passengers | 22,203 | 0 | -22,203 | -100% |
| Average Fare | \$118.46 | | | |

MELBOURNE-MOUNT GAMBIER

Rex has serviced this route for many years. Qantas decided launch five return flights a week on 28 March, 2021. However, QF withdrew just 16 months later on 15 August, 2022 after failing to attract sufficient passengers.

Both revenue and passenger numbers were lower in FY22-23 than CY2019.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|------------|------------|
| Revenue | \$5,506,061 | \$4,874,229 | -\$631,832 | -11.48% |
| Passengers | 36,375 | 26,859 | -9,516 | -26.16% |
| Average Fare | \$ 51.37 | \$181.47 | \$30.11 | 19.89% |

MELBOURNE-MERIMBULA

Qantas targeted this Rex route from 1 February, 2021 launching four return flights a week. However, it now only operates seasonal flights from mid-December to the end of January.

Revenue had essentially returned to pre-COVID levels by the FY22-23, and the load factor remained steady at about 75% while the average fare rose by \$45.15 or nearly 28% to \$207.33

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|------------|------------|
| Revenue | \$3,719,917 | \$3,672,910 | -\$47,007 | -1.26% |
| Passengers | 22,937 | 17,715 | -5,222 | -22.77% |
| Average Fare | \$162.18 | \$207.33 | \$45.15 | 27.84% |

ADELAIDE-MOUNT GAMBIER

This was yet another route Qantas entered on 28 March 2021.

| | CY 2019 | FY 22-23 | DIFFERENCE | % VARIANCE |
|--------------|-------------|-------------|--------------|------------|
| Revenue | \$9,040,912 | \$7,673,207 | -\$1,367,705 | -15.13% |
| Passengers | 48,955 | 37,962 | -10,993 | -22.46% |
| Average Fare | \$184.68 | \$202.13 | \$17.45 | 9.45% |

IMPACT OF QANTAS PREDATORY BEHAVIOUR ON FINANCIAL PERFORMANCE OF REGIONAL COMPETITIVE ROUTES (EXCL. STATE GOVERNMENT REGULATED ROUTES)

| | FY2019 (July 18 to June 19) | FY2023 (July 22 to June 23) |
|----------------------------------|--------------------------------|--------------------------------|
| Bookings | 1,093,274 | 960,135 |
| Available Seat Kilometres (ASKs) | 664,714,999 | 598,681,412 |
| Average Fare | 166.52 | 182.95 |
| Pax Revenue | 182,049,719 | 175,660,383* |
| Total Revenue | 205,540,508 | 198,716,503 |
| Total Operating Exp | 189,222,783 | 201,891,738 |
| EBITDA | 16,317,724 | -3,175,236 |
| Profit Before Tax | 4,646,609 | -26,304,620 |

* Passenger revenue includes revenues from new less profitable routes started after Qantas' predatory actions.