Australian Travel Industry Association

# Australian Travel Industry Association (ATIA)

Productivity Commission Review – Creating a Dynamic and Resilient Economy

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# Creating a Dynamic and Resilient Economy

The Australian Travel Industry Association (ATIA) welcomes the opportunity to contribute to the Productivity Commission's Five Pillars of Productivity Review. In this submission, we focus on Pillar 1, Creating a Dynamic and Resilient Economy, specifically on the policy reform area of the impact of regulation on business dynamism.

## Question 4: What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

Aviation plays a critical role in Australia's economy, linking businesses to domestic and international markets, underpinning tourism and freight, and connecting regional communities. When regulation encourages competition, airlines are incentivised to operate effectively, price more competitively, and innovate in services and product offerings. These outcomes drive lower fares, higher service quality, and stronger economic expenditure, which benefits the broader economy.

In support of ATIA's submission, we attach the report *Reliability and Cancellation Trends in Australian Aviation* by Dr Tony Webber, CEO of Airline Intelligence and Research, and former Qantas Chief Economist. This report provides evidence that the current regulatory framework enables elevated cancellations and undermines consumer outcomes, constraining business dynamism by reducing reliability and limiting competitive pressure. Throughout our submission we have also referenced Dr Webber's competition analysis on domestic and international routes using the Herfindahl-Hirschman Index of Market Concentration, which highlights the limited competitiveness of Australia's aviation markets.

ATIA welcomes the Government's steps towards improving aviation competition, including through the Sydney Airport Demand Management Amendment Bill and extension of the ACCC's Domestic Airline Monitoring Reports to 2026. Looking forward, it is vitally important that the supporting regulations under development in 2025 are drafted and implemented in a way which maximises aviation competition. In addition, sustained regulatory focus on aviation competition is essential to enhance market efficiency and economic resilience.

**Current State of Aviation Competition in Australia**

The Australian aviation market is highly concentrated. Domestically, 98.3% of all passengers are serviced by two domestic airline groups.[1] Since Rex's withdrawal from major city routes in July 2024, there has been no domestic route operated by more than 2 major airline groups.[2]

Using the Herfindahl-Hirschman Index (HHI),[3] where a value above 2,500 indicates a highly concentrated market, Dr. Webber's analysis shows that all of the top ten domestic routes in Australia are highly concentrated, with HHI values ranging from over 3,000 to above 8,000. A HHI that is close to 10,000 indicates a monopoly route while a HHI that is close to zero indicates a highly competitive route. Specifically:

- 12.7% of routes have a HHI that is less than 5,000 (with all exceeding 3,000);
- 68.3% of routes have a HHI that is between 5,000 and 6,000;
- 17.5% of routes have a HHI that is between 6,000 and 8,000; and
- 1.6% of routes have a HHI exceeding 8,000.

[1] ACCC Domestic Airline Competition in Australia, May 2025, p.21.
[2] ACCC Domestic Airline Competition in Australia, May 2025, p.22.
[3] In analysing concentration on particular routes, the Herfindahl-Hirschmann Index (HHI) has been used, a well known metric that can be used to determine the concentration of airlines on routes. A HHI that is close to 10,000 indicates a monopoly route while a HHI that is close to zero indicates a highly competitive route. A HHI value that exceeds 2,500 for a particular aviation market is usually regarded as indicative of a highly concentrated market.

Using this highly respected model, no domestic route in Australia meets the definition of being competitive.

Internationally, nine of the top ten international country-level routes have HHI above 2,500, with China as the only exception. The report also found that competition has been in decline comparing 2019 to 2023:

> *The mean HHI in the case of the 2019 international aviation market in Australia was estimated to be 6,338 while the mean estimate for 2023 was found to be 6,418, suggesting that the levels of concentration for the market on average are higher in 2023 than in 2019.*
>
> *The most popular industry configuration at the country level in the case of Australian international routes in 2019 is the duopoly, which represents almost a third of routes. This is followed by monopolies and triopolies with equal probability. The average number of airline operators per Australian international route fell from 2.71 down to 2.69 between 2019 and 2023.*

This high concentration creates market conditions favourable to anticompetitive conduct, limiting consumer choice and economic efficiency.

**Relationship between Competition, Pricing and Cancellations**

Dr. Webber's reports demonstrate that low competition drives adverse outcomes for consumers and the economy, particularly through elevated airfares and cancellation rates.

*Correlation between Competition and Airfare Growth*

Dr Webber's analysis demonstrates that low competition contributes to sustained airfare increases, undermining consumer welfare and economic efficiency:

> *A simple scatterplot analysis of the relationship between the growth in airfares between the 6-months to December 2019 and the 6-months to December 2023 and the HHI for 71 domestic city pairs finds that **city pairs with higher HHI's have experienced higher airfare growth.** In other words, **airfares have remained elevated for longer for those city pairs with relatively high HHIs.** Specifically, we find the following:*
>
> > if domestic city pair A has a HHI that is 10% greater than domestic city pair B, other things being equal, then we would expect the growth in economy and business airfares from the pre-Covid world to the post-Covid world is higher on route A by 5.9 percentage points compared to route B.
>
> *This finding suggests that anticompetitive conduct may be occurring in the Australian domestic aviation market.*

*Correlation between Competition and Cancellations*

Dr Webber's also report establishes a clear correlation between low aviation competition and higher cancellation rates (see Sections 5-6) [4]. While there are many factors that impact an airline's decision to cancel a flight, an analysis of domestic flights over two decades demonstrates a trend where airlines often cancel flights for purely commercial reasons. Dr Webber's report found there is likely to be a lower cancellation rate on a route for commercial reasons if more competition exists of a route.

Data was used to estimate a multivariate cross-sectional regression relationship between the cancellation rate, the number of flights offered per day, the extent of competition between airlines and the distance between city pairs. The multivariate regression model statistically significantly found:

> *if route A is 1,000 units more competitive than route B then route A will have a 0.6 percentage points lower cancellation rate than route B. In other words, airlines operating on routes that are not competitive are more likely to cancel services to maximise profits*

[4] See Dr Webber, *Reliability and Cancellation Trends in Australian Aviation,* sections 5 and 6.

This provides evidence that the more anticompetitive is a route the higher the cancellation rate is likely to be.

**Impact of Cancellations**

Dr. Webber's report (sections 4 and 7) shows that elevated cancellation rates in 2024, higher than the long-term average, result in significant economic losses and opportunity costs, undermining productivity and economic activity.

In 2024, the total domestic cancellation rate reached 2.6%, surpassing pre-COVID averages (0.8% to 2.1% from 2004–2019). Notably, the Sydney-Melbourne route experienced cancellation rates ranging from 3.9% to 7.2% across airlines, continuing to exceed pre-COVID average levels. The flow on effects of this are significant considering it is the fifth-busiest domestic flight route in the world.[5]

These cancellations generate substantial economic and productivity impacts across multiple sectors:

- **Travel Agents & Tour Operators:** Time spent by staff reorganising trips results in lost opportunities and revenue.
- **Passengers:** Cancellations result in lost time and out-of-pocket expenses for passengers. The opportunity cost of time that could have been spent on a more productive activity is estimated to be **$20.06 per hour for leisure passengers, increasing to $64.26 for business passengers.** Business travelers face disrupted meetings, affecting multiple stakeholders and further hindering productivity.
- **Airfares:** Reduced seat availability due to cancellations **drives up airfares, increasing costs for consumers and businesses.**
- **Airports:** A 5% reduction in passengers due to cancellations leads to **$4.0 million in lost aeronautical revenue** and **$4.5 million in non-aeronautical revenue** annually across Australia's top ten airports.
- **Economic Expenditure:** Just a 5% decrease in travellers due to flight cancellations could lead to an **estimated 223m loss in domestic tourism expenditure** annually, with the **potential losses escalating to $892m** if 20% of passengers choose not to fly.

These findings underscore how cancellations, facilitated by current regulations, diminish business efficiency and economic resilience.

**Improved Aviation Competition Regulation to Enhance Dynamism and Resilience**

The evidence reveals a domestic and international aviation market hampered by high concentration, elevated cancellation rates, and sustained airfare increases. This is evidence that reform of the regulatory framework would be advisable to drive reforms that increase competition and improved customer outcomes.

Improved aviation competition regulation offers a pathway to revitalize the sector, fostering a more dynamic and resilient economy by enhancing market efficiency, affordability, and service quality. Sustained focus on measures that enhance aviation competition is needed to ensure benefits are realised across the entire economy.

[5] OAG Annual Report 2024, https://www.oag.com/busiest-routes-world-2024