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Qantas, Rex in coastal stoush

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Heading north ... Rex flying between Mackay and Townsville. *Photo: Jim Rice*

An arm wrestle between airlines may test predatory pricing laws, writes Clive Dorman.

Strengthened Australian laws controlling competitive behaviour may be tested in north Queensland as independent regional airline Rex tries to establish its first scheduled service outside the southern states.

Rex this week began flying between Townsville and Mackay in a move that has triggered an aggressive response from QantasLink, the national carrier's regional arm, which until now has held a monopoly on the coastal "milk run" between Cairns and Brisbane.

It's a response that Rex, which also has a monopoly on most of the routes it flies in NSW, Victoria and South Australia, has rarely encountered. According to managing director Jim Davis, Rex planned to simply match – not undercut – Qantas's high fares between Townsville and Mackay when it announced the new three-times-a-day service, which enables travellers at both ends to undertake a same-day business trip in the other city for the first time.

Davis says Qantas responded by introducing a third lunchtime return service on most weekdays, on top of the twice-daily services operated by either 50- or 70-seat Dash 8 turboprops, compared with Rex's 35-seat Saab 340s.

Qantas also cut its best one-way fare from $130, compared with Rex's $129, to $99, which Rex has since matched, he says.

Rex took the chance to launch the Townsville-Mackay service after it won a recent contract to provide up to three daily return services between Townsville and Barrick Gold's Osborne gold and copper mine, 700 kilometres to the west and 200 kilometres south of Mount Isa.

"The mining operation that existed up there provided us with synergies with aircraft resources, with flight crew and with ground handling," Davis says.

Davis, however, is wary of complaining to the Australian Competition and Consumer Commission because of the long history of failure in the Australian and US airline industries of predatory pricing cases brought before regulators.

Industry folklore has always been that if you rely on the regulator to save you, you'll go broke while you wait years for a battery of high-priced lawyers to drag the case through court.

The last similar case in Australia was when Virgin Blue launched services between Brisbane and Mount Isa in 2000. Qantas had been gifted a monopoly on the route when Ansett disappeared. Qantas introduced extra services when Virgin Blue launched its daily flights but Virgin Blue withdrew rather than face years of litigation.

However, in 2007, the ACCC won new provisions of the Trade Practices Act, which made even more explicit the definition of predatory pricing, where an incumbent operator uses its market power to engage in prolonged sub-economic pricing to drive out a rival.

"We have not spoken with the ACCC at this stage, although we've spoken to our lawyers about the situation," Davis says. "At this stage, we're appealing to the local community to support us as much as possible."

Qantas says it has not breached any rules.