

17 MARCH 2020

MEDIA RELEASE

OPEN LETTER TO THE DEPUTY PRIME MINISTER ON IMPACT OF THE COVID-19 PANDEMIC ON REGIONAL AVIATION AND REGIONAL COMMUNITIES

Regional Express (Rex) yesterday lodged an open letter to the Deputy Prime Minister and the Leader of the Nationals, Michael McCormack, on the extremely dire consequences of the COVID-19 pandemic on regional aviation and on regional communities (see attached).

Rex is a very strong airline with no debt and probably only one of five airlines worldwide that managed to maintain uninterrupted profits since 2003 in spite of a series of global economic and environmental shocks - wars, fuel prices above USD120 a barrel, volcanic ash, GFC, the worst drought in 120 years, catastrophic bush fires, crippling pilot shortages and the list goes on.

Yet even Rex cannot survive the next six months of this global emergency if the forecast of worldwide health experts materialises. If Rex, with all its strengths, were to collapse, probably following the collapse of all other independent regional carriers, and maybe even a domestic carrier, there will be utter chaos and mayhem on many regional and rural communities that depend on regional air services to be their socio-economic lifeline.

The crisis we are facing is a national emergency of epic proportions not seen since World War II and is not expected to abate for at least nine months. Just today Qantas has announced the slashing of 90% of its international routes and grounding of over 150 jets. The CEO of the International Air Transport Association, Alexandre de Juniac, has issued an urgent call to all governments in an interview last week:

“Airlines would need emergency measures to get through the crisis, and governments should be looking at all possible means to assist the industry.”

“Extending lines of credit, reducing infrastructure costs, lightening the tax burden are all measures the governments will need to explore.”

“Air transport is vital, but without a lifeline from governments we will have a sectorial financial crisis piled on top of the public health emergency.”

Rex warns the government that many of the smaller regional carriers have only weeks of reserves left (rapidly changing to days with the situation deteriorating exponentially). If the pandemic continues to grow at the exponential rate of the past week then impactful actions need to be taken in the next two weeks to prevent irreversible damage being done to most regional carriers.

Rex is confident that the Leader of the Nationals will display firm and decisive leadership during this period of national emergency and will not allow all the regional carriers to collapse under his watch. Rex has outlined measures the Government can adopt to provide regional carriers with a fighting chance to stay afloat long enough to survive the pandemic and we look forward to working closely with the government to implement these measures.

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.

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APPENDIX A



16 March 2020

The Hon. Michael McCormack MP

Deputy Prime Minister

Minister for Infrastructure, Transport and Regional Development

Leader of The Nationals

Federal Member for Riverina

My Dear Deputy Prime Minister,

OPEN LETTER TO THE LEADER OF THE NATIONALS IMPACT OF COVID-19 PANDEMIC ON REGIONAL AVIATION AND REGIONAL COMMUNITIES

The current COVID-19 outbreak comes on the heels of the recent devastating bushfires and the historic prolonged drought from which regional airlines and communities are still reeling. Italy, with 5% of China's population, already has over 30% (over 24,000 cases) of China's infection rate and over 55% (over 1,800) of China's fatality rate and is increasing exponentially. This means that on a per capita basis, Italy's infection rate is more than five times that of China and its fatality rate is double. The German authorities forecast that as many as 70% of Germans could be infected by COVID-19 and I am sure Australian Health authorities would soon also be making similar projections. In fact, there is every chance the situation in Australia could be much worse as the colder months ahead will exacerbate the situation at a time when the Northern Hemisphere could count on their warm summer months to slow down the pandemic.

The Regional Express Group (Rex) is a strong, nimble and extremely resilient company that has been able to overcome many adversities over the past 18 years. Rex is one of the few airlines in the world and the only Australian carrier that has continued to maintain uninterrupted profitability when faced with the series of severe global economic and environmental shocks of the past two decades - wars, fuel prices above \$USD120 a barrel, volcanic ash, GFC, the worst drought in 120 years, catastrophic bush fires, crippling pilot shortages and the list goes on.

The Rex Board has initiated a suite of measures to reduce cost and conserve cash and will soon announce drastic schedule reductions as well as dropping some routes altogether. However the Board's financial modelling, based on a very conservative projection of a 25% reduction in passengers in the next six months, shows that all the extreme measures we are putting in place will still be grossly inadequate as the impact of this crisis will be several orders of magnitude greater than the worst we have experienced in the past. With only 0.001% of the Australian population with known infection so far, Rex, like most businesses in Australia, is already seeing the severe impact of the drop in business due to COVID-19 – just this past Friday we saw our passenger numbers dropping 13% year-on-year. One cannot even begin to comprehend what the economic impact would be if the infection rate rises to high double digits.

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Flybe Airline in the UK, one of the biggest and oldest (40 years old) regional airlines in the world with over 11 million passengers annually, has recently gone into administration due to the COVID-19 pandemic. Norwegian Airlines also announced that they have only weeks and not months of reserves left and even legacy carrier Lufthansa said that it would need government help as it grounds two-thirds of its aircraft fleet. The CEO of the International Air Transport Association (IATA), Alexandre de Juniac, has warned in an interview last week that the travel meltdown could lead to multiple airline failures within two to three months.

Australia will surely not be spared the carnage and Australian regional carriers will be the first to be impacted due to their limited financial resources. Rex does not believe that Rex, and all other regional carriers, will be able to pull through this crisis without significant assistance if the Health authorities' projections prove accurate. If regional carriers collapse, so will many regional communities for which the air service is their lifeline.

Rex calls on the Leader of the National Party to immediately take vigorous, swift and unprecedented actions to ensure that regional aviation, and with that, regional and rural communities, is not completely and irreversibly destroyed. The Government must immediately mandate strong measures in the form of a waiver of the following fees and charges for one year:

- all Airservices charges including the Enroute Charges (ERC), Terminal Navigation Charge (TNC), Rescue and Fire Fighting Charge (RFC) and Meteorological Service Charge (MSC);
- the fuel levy that is currently imposed on domestic and regional airlines that contributes funding towards CASA's costs. On this particular point, Rex feels that it is grossly unfair that international flights are exempt from the levy while they also utilise CASA resources. In effect Rex is subsidising international airlines' activities in Australia. Airports also utilise CASA resources but are exempt from such contributions. Another example of Rex subsidising monopoly airports;
- all passenger and baggage security screening costs at all airports, including regional airports. Security screening at regional airports could be suspended for the time being.

While these measures will provide a lifeline to regional aviation, they will still be insufficient to allow the regional carriers to survive the next six to nine months due to the very negative cash flow expected. Regional air carriers, by nature of the business they are in, usually have limited balance sheets. In these unprecedented circumstances they will need additional lines of credit from the banks which will be almost impossible to obtain. Rex therefore calls on the Federal Government to provide a sovereign guarantee for any new line of credit or banking loan taken out with the banks to enable regional carriers to continue operations through to the end of the pandemic. These guarantees should only be for loans designed to help overcome the negative cash flows caused by COVID 19, not for pre-existing debts or loans. This is also the call of the CEO of IATA Alexandre de Juniac:

"Airlines would need emergency measures to get through the crisis, and governments should be looking at all possible means to assist the industry."

"Extending lines of credit, reducing infrastructure costs, lightening the tax burden are all measures the governments will need to explore."





“Air transport is vital, but without a lifeline from governments we will have a sectorial financial crisis piled on top of the public health emergency.”

Michael, just last Saturday, the National Party celebrated 100 years of steadfast service of protecting and advancing the interests of regional Australia and I am sure that you will display the strong and decisive leadership needed during this unprecedented national emergency to carry on the National’s proud legacy. We look forward to your immediate attention to this matter.

Yours faithfully,

Neville Howell
Chief Operating Officer

