



Rex – Australia’s Outback Airline

Australia is vast. The largest island on Earth, the world’s sixth largest country. The major cities are on the coasts, leaving much of the interior, known as the outback, sparsely inhabited and gapingly empty.

PHOTO: PAUL MCCARTHY · SYD 1

STORY Ken Donohue PHOTOS As noted

WHEREAS AUSTRALIANS ONCE RELIED ON THE RAILWAY TO CONNECT THEIR TOWNS AND CITIES, TODAY THEY DEPEND ON AIR SERVICE. THE LARGEST OF THE COUNTRY’S INDEPENDENT REGIONAL AIRLINES, SERVING 57 DESTINATIONS, IS REGIONAL EXPRESS AIRLINES (ZL). OR, AS IT IS AFFECTIONATELY KNOWN, REX.

REX EMERGED from the shocking 2001 collapse of Ansett Australia (AN), the country’s second largest airline, after a 65-year history. But the beginnings of the airline occurred unknowingly decades before. In the 1970s, aviation veterans Max Hazelton and Don Kendell established two separate passenger airlines that bore their respective names. These small carriers provided critical links between small-town Australia and the country’s larger centers.

Kendell Airlines’ (KD) first scheduled flight was from Wagga Wagga (WGA)

to Melbourne (MEL), a route previously operated by Ansett. In time, Kendell took over from Ansett more routes that were uneconomical for the larger airline’s bigger aircraft.

In 1990, Don Kendell sold his remaining shares to Ansett, which put KD under the latter’s umbrella. By 2000, KD had grown into the largest regional airline in the country, carrying more than one million passengers annually. Hazelton Airlines (ZL), also acquired by Ansett, was no slouch itself. When Ansett went out of business, Hazelton was carrying 400,000 passengers a year.



Both Hazelton and Kendell, still operating under their respective brands, were profitable companies but, as they were part of the Ansett group, they too were placed under bankruptcy administration. Given their history of success and the critical service they provided, a Singaporean-Australian business group sought to revive the regional operations of the two airlines and purchased them. Hazelton and Kendell were merged to form Regional Express. The new



2 PHOTO: REX



3 PHOTO: GRAHAME HUTCHISON · SYD

carrier's first flight took place in August 2002, from Wagga Wagga to Sydney (SYD).

History cannot guarantee success, and getting Rex into the air wasn't as simple as merging what had been two prospering airlines. At the time, the airline's first CEO, Michael Jones, said that it had been the most difficult undertaking of which he had been a part.

Rex secured a AUD\$47 million investment, negotiated a 50%

1 This Rex Saab 340 is banking away from Runway 16R at Sydney's Kingsford Smith Airport.

2 Following the collapse of Ansett Australia, Rex was born from the success of Hazelton and Kendell Airlines seen here in their respective liveries.

3 Rex inherited seven Fairchild Metroliner-23s from Kendell Airlines. These aircraft were phased out in 2006. Rex now operates 55 Saab 340s.

drop in aircraft leasing costs, agreed to assume the employees' salary liabilities, and negotiated with 36 local councils in relation to their airports. The airline also had to win over a skeptical public that had been rocked by the collapse of Ansett.

Things did not look promising in the first year. Rex burned through its working capital and posted a loss of AUD\$30 million. Jones was replaced, and a restructuring effort was led by Singapore businessman Lim Kim Hai, the

airline's executive chairman and largest shareholder. The next year, the airline made a profit of AUD\$1 million.

THE WORLD'S LARGEST SAAB 340 OPERATOR

Rex began operations with seven Fairchild Metroliner-23s (which were phased out in 2006) and 21 Saab 340s. Today, Rex is the world's largest operator of Saab 340s. It has 55 of the type: 52 are owned and three have been leased to fuel a recent service expansion in Western Australia.

Warrick Lodge, the airline's General Manager, Network Strategy and Sales, told *Airways* that Rex will keep operating the Saab 340s for the next 10 to 15 years at least. "It's an aircraft that is still well supported, and the right one for the routes we serve," he said. "There are really limited options, because no one is producing 30-seat aircraft, but we don't spend time right now debating different aircraft."

Although the Saab 340s are out of production, maintenance costs



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have flat-lined and will not increase much as the fleet ages, Lodge noted.

Rex has its heavy maintenance base in Kendall Airline's old Wagga Wagga base, 450km (280 miles) southwest of Sydney. All the 'C' checks are performed here. The facility's 50 engineers perform about 13 of these checks each year. "There are decades of engineering experience at the Wagga Wagga maintenance facility," says Lodge. "All that expertise is valuable."

Rex is also negotiating with Douglas Aerospace for the purchase of a paint hangar at Wagga Wagga Airport, which would create more efficiencies for the airline.

COPING WITH PILOT SHORTAGE

In 2008, with the demand for air travel growing both in Australia and globally, Rex lost 115 Pilots—half its total complement—to other airlines. "This created a significant operational challenge for us," says Lodge. "It was the most intense period for the airline." The carrier discontinued only one route during this time, but its long-term survival demanded a creative solution to stem future Pilot attrition.





7 PHOTO: DAVID MORRELL, AVID CREATIONS

The solution? Rex established the Australian Airline Pilot Academy, a wholly owned subsidiary located in Wagga Wagga. The residential campus opened in 2010, with the academy training about 35 cadets each year. Although it does accept cadets with some piloting experience, Rex prefers students with none, so it can train them to its high standards and operating procedures.

Rex offers scholarships to cadets in exchange for a seven-year employment commitment. “We understand that some Pilots will have bigger aspirations and may want to fly for larger airlines, and so we think that a seven-year commitment is fair,” said Ivan Tan, the Academy’s Chief Operating Officer. “Given

4 Captain Andrew Robertson, F/O Herrick Chan, and F/A Stephanie Brennan.

5 Rex has a Saab 340 flight simulator at its wholly-owned Australian Airline Pilot Academy.

6 Rex performs all of its heavy maintenance, including C checks, at its Wagga Wagga base.

7 The Saab 340 is perfectly suited for Rex’s operations. With 55 in the fleet, Rex is the world’s largest operator of the type.

that good Pilots can usually transition to Captain at Rex within seven years, they wouldn’t lose anything if they choose to stay, or go elsewhere for a First Officer position.”

The Academy has recently diversified by collaborating with other airlines for Pilot training. Currently, 13 Pilots destined for Vietnam Airlines (VN) are studying at the school. Tan said that both Qantas (QF) and Tigerair Australia (TT) aggressively recruit Rex Pilots. Rex is the only Australian airline that has its own Pilot academy and cadet program. “It’s pleasing to look back at all of our First Officers that have gone through the cadet program and see many of them now as Captains,” Lodge told *Airways*. “We are doing this

for our own survival, but we are also providing a great benefit to the industry.”

Captain Andrew Robertson, who has been with Rex for eight years and is based in Wagga Wagga, cannot see himself anywhere else. “I love the lifestyle that flying for Rex offers,” he said. “I wouldn’t want to live in a big city and, here, I am home every night.”

STRETCHING THE REACH ON THE OUTBACK

With nearly 60 destinations in its network, Rex flies to all six states across Australia, most of which depend on the airline. “We operate to a lot of dots on the map, and if we didn’t operate to many of these places,

they wouldn't have air service," said Lodge. "Some communities have become so accustomed to air service that, if they were in other parts of the world, they wouldn't get it because of their small size. We don't have the deep pockets that other airlines have, so we have a responsibility to make the business work."

Last year, the airline expanded its reach into Western Australia, with two routes from Perth (PER) to Albany (ALH) and Esperance (EPR). This is a region that Rex had long sought to add to its network. The airline was given a five-year license to be the sole operator of these routes. "We felt that this would give us the perfect opportunity to establish a base in Perth that would then allow us to expand further in the state."

Four aircraft are based in Perth—two used to operate the service to ALH and EPR, one a dedicated spare, and the fourth enabling the airline to respond quickly to ad hoc opportunities. The economy of Western Australia depends heavily on the mining industry, which is currently in a downturn, but this doesn't deter Rex. "It says a lot that we can still open new routes in a challenging time without losing money," Lodge said. "There will always be booms and busts in the resource sector, and this gives us an orderly way to move into the region." Rex expects almost 10% of its total passengers to come from the Western Australia routes over the coming year.

One would think that the 2,000 miles and three-hour time difference between Rex's headquarters in Sydney and its



Warrick Lodge,
General Manager,
Network Strategy
and Sales.

Western Australia base in Perth would be the biggest drawback. But Lodge says that the greatest challenge is having a small base in Perth without the economies of scale that come with larger operations elsewhere in the network. Aircraft are cycled through Adelaide (ADL) in South Australia for maintenance, so the ferry flight to get Western Australia-based aircraft to and from Adelaide is just 800 miles by way of Rex's two ports in Port Lincoln (PLO) and Esperance.

In the last fiscal year, Rex recorded an operating profit of AUD\$4.3 million, but posted an overall loss of over AUD\$9 million because of non-cash write-downs caused by the cessation of a defense contract. This was only Rex's second loss, and the first since 2003. In a disarming act of transparency, the airline's fiscal performance was outlined in its inflight magazine.

Fiscally, Rex has been flying high but, in recent years, there has been a softening of profits. "We have seen declining passenger numbers because of instability in the mining industry and, more broadly, economic conditions throughout Australia have been poor," Lodge said. "There is a lot of untapped opportunity when economic conditions become as strong as they were a decade ago. What makes me optimistic is that 10 years ago, we were carrying 1.4 million passengers annually with a 70% load factor, and, today, our yearly passenger numbers are not far off that with a load factor of 55% to 60%."

Agriculture is second only to mining for importance to the Australian economy and, in recent years, severe droughts in much of the country have had a huge impact on the sector. However, the fortunes of farmers

and of the regional towns linked to the agricultural industry are changing for the better. National farm production is at an all-time high. This is good for Rex, but illustrates the challenge of remaining profitable despite the ups and downs of conditions in the communities it serves.

“We need to operate as efficiently as possible, so we can keep fares at an attractive level and continue to offer the capacity and frequencies our customers expect,” Lodge said. “This is something we are always monitoring because, the moment we lose frequencies, we may start losing passengers.” Because Rex is the sole operator on 90% of the routes it serves, he added, the airline’s competition is the car.

Many passengers rely on the airline to get to business appointments or healthcare services in the larger cities. Most flights leave the smaller regional centers in the morning and return in the late afternoon or

evening. In a few cases, the focus is reversed, with specialists flying out to smaller communities for the day to provide critical health services.

In 2009, Rex didn’t serve any routes in Queensland, the historical home of the country’s largest airline, Qantas, but, today, Rex operates to 24 destinations in the state, with just five receiving a government subsidy as they are considered public service routes. These small towns require air service for mail, freight, and medicine delivery.

Queensland is also where Rex operates the ultimate outback milk-run: a nine-hour, seven-sector route between Brisbane and Mount Isa. Flights depart from Brisbane on Mondays and Thursdays and return the following day. Rex’s management knows as much as anyone how fickle the airline business can be. “We provide a critical service to regional Australia. That’s what drives us,” Lodge said.

8 On approach to Wagga Wagga, home of Rex’s operations base and the Australian Airline Pilot Academy.

9 A Saab 340 at Wagga Wagga.



9 PHOTO: KEN DONOHUE

Fast Facts

REX REGIONAL AIRLINES

ZL / RXA / RADIO: REX

ADDRESS:

81-83 Baxter Rd. Mascot, New South Wales 2020, Australia

TELEPHONE: +02 9023 3555

WEB: www.rex.com.au

PARENT COMPANY: Regional Express Holdings

EXECUTIVE CHAIRMAN: Lim Kim Hai

CHIEF OPERATING OFFICER: Neville Howell

FOUNDED: 2002

FFP: Rex Business Flyer

PASSENGERS: 1.1 million (2016)

SUBSIDIARIES:

Air Link

Australian Airline Pilot Academy

Pel-Air

FLEET:

| Type | Current | Configuration |
|----------|---------|---------------|
| Saab 340 | 55 | Y33 |

Total: 55

DESTINATIONS:

Adelaide, Albany, Albury, Armidale, Ballina, Bamaga, Bathurst, Bedourie, Birdsville, Boulia, Brisbane, Broken Hill, Burketown, Burnie, Cairns, Ceduna, Charleville, Coober Pedy, Cooma, Cunnamulla, Doomadgee, Dubbo, Esperance, Grafton, Griffith, Hughenden, Julia Creek, King Island, Kingscote, Lismore, Longreach, Melbourne, Merimbula, Mildura, Mornington Island, Moruya, Mount Gambier, Mount Isa, Narrandera, Newcastle, Normanton, Orange, Parkes, Perth, Port Lincoln, Quilpie, Richmond, St George, Sydney, Taree, Thargomindah, Toowoomba, Townsville, Wagga Wagga, Whyalla, Windorah, Winton.

“Not having air service, for many communities throughout the country, has a huge impact, and one small error in this business can result in significant loss. We’re very aware that 16 regional airlines have gone out of business in Australia since 2002.”

Rex was formed out of passionate determination. The same spirit that keeps the airline flying 15 years on. 