



02 August 2011

Mr Anthony Wing
General Manager – Transport and General Prices Oversight Branch
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Sent by email: airport.group@acc.gov.au

Airservices Australia draft price notification – ACCC Preliminary View

Dear Mr Wing,

Thank you for the opportunity to provide further comment following the ACCC preliminary view relating to the Airservices Australia (AsA) draft price notification. Rex maintains its position as put forward in the two prior submissions to Airservices (December 2010) and the ACCC (May 2011) which have been re-attached to this letter.

Rex reiterates its strong opposition to location specific pricing due to the significant cost impact to the thin and vulnerable regional airline sector. The fragile nature of the regional airline sector is evidenced by the collapse of 8 regional airlines in as many years. Regional air services are the backbone of regional economies and in turn these regional economies are the engine room of the national economy. The Government has an obligation to ensure that AsA's costs are reflective of what the specific market segments can afford because in the absence of this approach, regional air services will decline at a faster rate than we have already experienced and this will have a significant knock on effect not only to the economy but also to domestic and international services that the regional airlines feed.

In section 8.2 (page 62) of the ACCC preliminary view the ACCC states the following:

The ACCC supports the transition to location specific pricing, and would not support the return to network pricing. In the absence of any detailed evidence relating to price elasticities and the impact of Airservices' prices on carriers' costs, the ACCC considers that it is not unreasonable to expect that faster moves to cost reflective, location specific pricing could have adverse effects on demand at regional and GA airports"

"The ACCC further acknowledges the impact of regulatory changes and constraints for increasing prices leading to increased under recovery across these locations in the five year period. The ACCC would expect, however, that the move to recovery of costs by regional and GA airports would continue to occur"

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Between FY03 and FY11, Rex has grown regional passenger numbers from 600K to 1.2M and it has achieved that with less than a 1% increase in its average ticket price over this 8 financial year period. Thin regional routes are price sensitive, but importantly the ticket pricing is responsible for stimulating the necessary passenger growth to support sufficient flying activity to achieve the required economies of scale to be sustainable.

It is very clear that not only faster moves, but any moves towards “cost reflective, location specific pricing” will have “adverse effects on demand at regional and GA airports”. Should the move to the recovery of costs by regional and GA airports (meaning regional and GA airlines) continue to occur, the unmistakable outcome will be the continued decline of regional and GA airlines at a faster rate than presently exists.

In the event that this is the outcome, this will have a catastrophic impact to regional Australia. However we do believe that there are many meaningful things that the Government can easily do to avoid this adverse outcome. The regional airline industry is fully cognisant that it gives more than it receives.

Yours Sincerely,

Warrick J Lodge.

Warrick Lodge
General Manager Network Strategy
Regional Express (Rex)

Attachments:

1. Rex Submission to Airservices Australia Pricing Proposal (December 2010)
2. Rex Submission to the ACCC (May 2011)

