

The Saab 340 has been the backbone of Rex's fleet right from the airline's creation.

The people's champion

Regional Express continues to win awards and make profits in a difficult market. Its executive chairman, Lim Kim Hai, lets Bernie Baldwin in on how it's done.



“The Australian environment is a little bit different from other places. We’re seeing a delayed reaction to the financial crisis.” Regional Express (Rex) Holdings’ executive chairman, Lim Kim Hai, is explaining why, along with political challenges he comes to later, his airline’s profits have dropped considerably over the past two years. Even so, Rex remains Australia’s most profitable airline. So there must be something in the way it operates which keeps it ahead of the rest.

“One of the reasons is that we do not do silly things,” declares Lim. “I suppose what has happened on the Australian aviation scene is that perhaps the two major carriers were not really behaving rationally. That probably explains why they are in the difficulty they are in today.”

Rex had to be on its guard when Virgin Australia moved into the regional market by buying Skywest and purchasing ATRs.

Although mainly operating in the west of Australia, Virgin Australia Regional has encroached into the southern and eastern parts. “But the routes we are operating are a bit too thin for them. And where it is enough to sustain competition, we are already in competition with QantasLink,” he notes.

■ OVERCAPACITY

“The only way they could come in is by trying to muscle us out of the route. They have done that once or twice already, and they found that we didn’t leave,” Lim reports. “But everybody loses when there’s too much competition. Qantas and Virgin are putting in too much capacity, where nobody blinks. And everybody loses.”

Rex has applauded the Abbott administration for abolishing Australia’s carbon tax, a move which directly affects the bottom line. “For us, it’s about A\$2.5 million a year.

That’s the direct impact,” Lim confirms. “But it goes beyond that. It was not just the direct impact, it was the more devastating indirect impact where the entire economy was hit. We saw straight away demand just shrinking.”

Another government decision affecting Rex is the reintroduction of the Enroute Charges Payment Scheme. However, Rex COO Neville Howell has declared that it is at too low a level to provide enough long-term help to regional carriers.

“The Enroute rebate is budgeted at A\$1 million a year. Before it was taken away, it was A\$6 million a year, so it has gone down by something like 85%,” Lim comments.

“It also needs to be understood that the government has never considered regional aviation as part of the necessary infrastructure for the country. So a token A\$1 million aid to regional aviation – if you compare this to the

billions of dollars that are budgeted for road and rail – is just a really, really tiny drop, not able to redress the drastic situation that regional aviation is in.”

EU policy on the regions aims to keep them vibrant, to avoid everyone wanting to move into the big cities. Lim says that a similar policy exists in Australia. “However, once we get into the practical details, we enter the realm of politics. There are three major parties in Australia – the Labour, Liberal and National parties – and it is only the National party that has its power base in the regional areas,” he explains.

“The Labour and Liberal parties have the vast majority of the seats in the capital cities. And right now, the National party is the junior partner in the country’s coalition government. They don’t really have the necessary clout to insist on having a huge budget dedicated to what they really want,” Lim adds.

“They are also trying to undo six years of Labour government, six years of horrendous budget deficits, and trying to have a very disciplined and severe budget. So maybe things cannot be afforded anymore.”

■ STATE AID

An additional problem is that the responsibility for regional aviation is split between the federal government and state governments. “At the end of the day, it is really a state matter. And the state governments are not really doing their parts, except in Queensland, where you see a very active subsidy programme to help all the remote communities, a bit like what you see in America with the Essential Air Service programme. They have quite a clever approach to subsidising very thin routes in Queensland,” Lim remarks.

“The state’s government has defined all the routes that need subsidising and put them out to tender. Whoever wins will be able to run the routes with a cost-plus kind of approach. The tender was issued a couple of months ago, and they are coming to an announcement in October.

“What is very clever is that amongst all the routes tendered is one that has a huge number of passengers. What they are doing is to get the airline that succeeds in this tender to have this

route exclusively and agree to share the profits. So the [Queensland] government is taking the profit from this route and sharing it with all the other routes that need assistance. That’s how I’ve analysed it. They are robbing the rich and helping the poor,” Lim exclaims.

The chairman believes other state governments must start thinking of similar plans to follow what the Queensland government does, either by replicating it or via other initiatives. “Another way is for states to say, ‘I’ll give a few routes to you, and in the bundle you will have really good profitable ones and less profitable ones, and you take it as a whole.’ That could be another model to allow the better routes to cross-subsidise the less patronised routes,” he elaborates.

As well as having the right political climate, having the right aircraft – in Rex’s case, the Saab 340 – is vital too. In April, the airline bought 25 Saab 340s at the end of their leases and is beginning to reap the benefits.

“Those 25 aircraft were to be returned within a few months of each other. Just the pure logistical benefits were considerable,” remarks Lim. “If we’d had to return these aircraft – getting them C-checked first, repainted and so on – that would have been a huge amount of effort and cost.

“The other part is that we could look at re-leasing these aircraft or look at a purchase,” he adds. “By purchasing the aircraft, we were effectively making the money that the lessor would have made.”

Regarding the life of the Saab 340, Lim says that if Rex runs it to its theoretical life limit, the type could last 20 years. “We don’t see why we cannot run these Saabs for another 10-15 years,” he confirms.

■ BEST BUY

Helping the Saabs to be more economical is a smart bulk purchase of spares. “About 15 months ago, Pinnacle in the US decided to get out of the Saab business, and they had a mountain of spares – worth easily in the region of A\$50-80 million – and they decided to get rid of these. They put out a competitive tender, Rex tendered for it, and we won. So we became the proud owner of this mountain of spares, which we estimate had 500,000 line items in it,” reports Lim.

“I think that probably within a year or two, we practically got back [through savings] what we paid for the spares. They just gave it all to the highest bidder, and for someone who needs spares – and with 50 aircraft, we do need a lot – that’s incredible.” →



Regional Express Holdings' executive chairman, Lim Kim Hai.

REGIONAL EXPRESS

While that was one great move, another was establishing the group's training arm, the Australian Airline Pilot Academy (AAPA), which has been operating for five years and has had a positive effect on Regional Express.

"I'm very happy that since about a year ago, we've started having early cadets graduating to be captains," Lim comments. "We really do not train pilots for other airlines in Australia, although we did train over 100 cadets for Air Arabia's MPL programme. The primary reason for the school is to protect the airline.

"Sometime just before 2008, we lost half our pilots in one year. Usually, most airlines would be crippled by that. After that, we said to ourselves, 'Never again.' We started the school, and we have had a constant feed of about 30 cadets into the airline every year since then," he states.

Rex has also made it tricky for bigger airlines to lure away graduates. "We have devised a financial scheme to loan cadets the bulk of their course fees, and if they leave us before seven years, the normal commercial interest kicks in and the cadet will be left with about A\$100,000 debts, which makes it hard to walk away."

The Saab 340 full flight simulator installed at Rex's training subsidiary, the Australian Airline Pilot Academy.



That seven-year commitment gives Rex a constant pool of talent, but more importantly, a constant pool of captains on line.

"We had to devise a special programme named PICUS – pilot in command under supervision – because these cadets do not have any command hours," Lim notes. "And to qualify as a captain in Australia, they need 500 command hours. There's no way these cadets would have command hours because they would be first officers."

■ GAINING EXPERIENCE

"So we worked with the Civil Aviation Safety Authority and got approval for the PICUS programme," he adds. "While they may be flying in the right-hand seat, they can chalk up command hours. They take the whole of the

fourth year to get their 500 hours and, in the fifth year, they can be considered for command.

"It has been difficult. It was a very painful lesson when it struck us, but we are now really happy," Lim reports. "It gives a chance to these young people, some of whom were just 19 when they joined us. Today, at 25, they will be captains – how good is that. It's a dream come true for most of them."

So if all the political obstacles were cleared and regional aviation given its due, what would be the vision for Rex? Lim is categorical with the answer. "To do what we do best – flying small aircraft in various situations," he emphasises. "We are really good in engineering, crew training and safety management. Any flying activity that relies heavily on these areas will be something we are interested to do.

"It can come about in different ways. On the Queensland tender, we hold two of the subsidised routes already. With this new tender, we have actually applied for five routes, the two that we were holding and three additional ones. If we are successful, we will be covering the whole of Queensland from Brisbane all the way to Cairns and Mount Isa. We have also participated in the Australian Maritime Safety Authority tender for a fleet of search and rescue aircraft to be stationed all around Australia. Currently, we supply the Australian Defence Force with a fleet of fast jets – Learjets and Westwinds – which perform target towing and tactical flights for the navy and air force."

In the meantime, the target is to maintain profitability and keep doing things well. As Lim notes, Rex has made more accumulated profits in absolute terms over the last nine years than either Qantas or Virgin Australia. "This doesn't go to show how good Rex is, it goes to show how badly wrong you can be if you don't play it right," he concludes. ■



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