



12th January 2018

Wayne Murphy
Senior Export Adviser
NSW Department of Industry

Via email: wayne.murphy@industry.nsw.gov.au

RE: Inquiry into the provision of air route service delivery to Regional NSW

Dear Wayne,

Thank you for requesting our subsidiary, the Australian Airline Pilot Academy (AAPA), to provide input to the NSW Government's submission to the Commonwealth Senate inquiry on the provision of air route service delivery to regional NSW. Ivan Tan forwarded this request through to us. It is quite surprising that Regional Express (Rex), as the largest regional operator of regional air services in NSW, has not been asked for input given the focus of the inquiry. We are also astounded that we were given only two days to respond. It probably reflects the importance the department attaches to this initiative.

The deadline is very rushed given the importance of some of the issues we wish to raise. As such, we have done the best we can by listing some key issues, and have attached references to assist in outlining each issue in detail.

1) High Airport Charges

We have attached a submission to the WA Government (item 1 – attachment 1) in response to their inquiry on Regional Airfares. This submission sets out the challenges we and other regional airlines face with high airport charges and actions that can be taken by local government to make routes viable. All that has been said for the WA inquiry remains relevant for the NSW situation.

We also want to emphasise that in many occasions these high airport charges have been driven by non-essential and extravagant airport upgrades often partially funded by State Governments with absolutely no consultation with operators. This ill-conceived funding is poison chalice and could result in regional services being unsustainable. We have attached an example (item 1 – attachment 2) from Mount Gambier, SA showing the consequences of what can occur when higher airport charges are implemented without consultation with the operating airline.

2) Regional Airport Security

The imposition of security screening at regional airports for all aircraft types will further increase costs (a challenge already highlighted in point 1) to a point where a large number of regional routes will no longer be commercially viable. Most of our NSW routes where we are the sole operator and as such provide a critical

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service, would fall into this category (for example services to Parkes, Bathurst, Grafton, Lismore and Broken Hill).

There is some information on airport security in the 2009 Aviation Policy White Paper which is still relevant. An excerpt of the Aviation White Paper referencing airport security is set out in the following link - <http://www.rex.com.au/AboutRex/InTheCommunity/Petition/DBO/AviationPolicy.aspx> .

Rex's position is that there should be no requirements to change screening arrangements due to knee-jerk reactions to isolated events. We have attached a media release (item 2) from Aug 17 that outlines our position.

3) Visa Requirements for Foreign Pilots

The Australian Airline Pilot Academy (AAPA) was built in response to severe pilot attrition in Rex during 2007 that threatened the viability of the airline. Even with our extensive training programme, it still takes a number of years before a pilot is qualified to be given a command (made a captain). During periods of high Captain attrition, Rex relies on foreign pilots that can be made direct entry Captains given their experience. The announced knee-jerk changes to the Australian immigration program announced on 18 Apr 17 threatened to undermine this. We've attached a media release from Rex at the time (item 3 - attachment 1).

It was announced on 28 Dec 17 that visa requirements for pilots would be relaxed to allow two year visas. This is, however, not a sufficient duration to attract foreign pilots to Australia. We've attached our media release from 29 Dec 17, which sets out our position (item 3 – attachment 2).

We would be happy to take your department through these issues in more detail as they are critical issues for the sustainability of regional air services in NSW.

Irwin Tan
GM Corporate Services
Regional Express Holdings Ltd

CC : Deputy Premier and Minister for Regional NSW, John Barilaro
Minister for Transport and Infrastructure NSW, Andrew Constance





Attachments:

Item 1 – attachment 1 -- Rex Submission WA fare Inquiry - July 2017

Item 1 – attachment 2 -- Rex responds to proposed upgrades of Mt Gambier airport 21 February 2017

Item 2 -- Regional Airport Security Screening - 4 August 17

Item 3 – attachment 1 -- Rex Warns against New Visa Ruling - 28 April 2017

Item 3 – attachment 2 - -Visa Requirements for Foreign Pilots – 29 December 2017





***Regional Express Submission to the
Economics and Industry Standing Committee
Inquiry into Regional Airfares in Western Australia***

July 2017

Regional Express (Rex) intends this to be a public document as this is a matter of public importance and relevant to all of Australia. Most of the contents have already been released to the public in various forums and Rex intends to continue to release some or all of the contents to the public. We understand that we may lose parliamentary privilege and we are prepared to do so.

AVIATIONWEEK
TOP PERFORMING AIRLINE
ASIA-PACIFIC 2013

TRAVELLER
READERS' CHOICE
AWARD 2013
BEST REGIONAL AIRLINE

AVIATIONWEEK
TOP PERFORMING
REGIONAL AIRLINE
2009-12

ATW 2010
REGIONAL AIRLINE
OF THE YEAR

Best Under A Billion
Forbes
2009

CANA Aviation Awards for Excellence
REGIONAL
AIRLINE OF THE YEAR
2010, 2008, 2007

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Inquiry into Western Australian Airfares
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1 BACKGROUND

Regional Express (Rex) welcomes the opportunity to provide a submission to the Parliamentary Inquiry into Regional Airfares in Western Australia.

Rex was founded in 2002 as the merger of Ansett subsidiary airlines Hazelton and Kendell following the collapse of Ansett in 2001. Both Hazelton and Kendell airlines had over 30 years experience prior to the collapse of Ansett. Rex is a dedicated regional airline that operates 52 Saab 340 turbo-prop aircraft (34 seats) to 59 destinations throughout Western Australia, South Australia, Victoria, Tasmania, New South Wales and Queensland. Rex carries around 1.2 million passengers on some 75,000 flights per year. Rex is a publicly listed company on the ASX.

Rex Regular Public Transport (RPT) Network



As such, Rex possesses great experience in servicing sparse population centres with most of regional centres on its network having a population of fewer than 30,000 with the largest regional city having only around 60,000. As a dedicated regional airline Rex is solely focused on the provision of regional air services.

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Over the past 15 years Rex has been very successful in growing regional passenger numbers to record levels with Rex's annual passenger numbers growing from around 600,000 in 2002/03 to around 1.2 million currently. This has been achieved through keeping fares affordable, focusing on efficiencies and on-time performance, all with heartfelt country hospitality.

In addition to Rex's focus on service reliability, Rex is mindful of the tremendous social and economic impact its services have on the regional communities and strives to work in partnership with these communities to balance their needs against the imperatives of providing a sustainable and safe regional air service.

Rex is also committed to giving back to regional communities by supporting worthy charitable causes which are focused on helping those in need. For first half of FY17 Rex contributed over \$300 thousand to various worthy causes ranging from fundraisers and sponsorships to important community events around Regional Australia. Rex also places a high priority on supporting cases of hardship, particularly out in the regions.

Rex has frequently been recognised as the world's best regional airline by aviation experts and as such Rex is eminently qualified to shine a light on why regional aviation has become so unaffordable prior to Rex's entry into WA and how the State could look to reverse this with the correct policies.

2 REX IN WESTERN AUSTRALIA

On 28 February 2016 Rex commenced the Perth Albany and Perth Esperance routes under a Deed of Agreement with the Western Australian (WA) government. This confers onto Rex the sole right to operate on the Perth Albany and Perth Esperance routes for a five year term beginning on 28 February 2016. This was a major milestone for Rex as it resulted in Rex establishing operations in WA for the first time.

From Perth Rex operates 23 weekly return services to Albany and 18 weekly return services to Esperance. Rex has 4 Saab 340 aircraft based in Perth of which 2 aircraft are allocated to the Albany and Esperance flight schedules, 1 aircraft is a dedicated back-up aircraft and the last aircraft used for maintenance and adhoc charter.



In 2016 Rex achieved controllable departure on-time-performance (OTP) (within 15 mins of scheduled departure time) of 93% across the Albany and Esperance routes, which well exceeded the contractual requirements of 80% controllable OTP. Overall on-time-performance including uncontrollable delays due to weather and Air Traffic Control exceeded 86%.

Rex has flight crew and engineering staff that are based in Perth and contracted airport ground handling arrangements in Perth, Albany and Esperance.



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Rex provides the following RPT services in WA under a Deed of Agreement with the WA Government:

Albany Perth (23 weekly services)

ALBANY - PERTH 										PERTH - ALBANY 										
FLIGHT NO.	DEPARTURE	ARRIVAL	M	T	W	T	F	S	S	FLIGHT NO.	DEPARTURE	ARRIVAL	M	T	W	T	F	S	S	
ZL2112	6:30 am	7:40 am	●	●	●	●	●	●		ZL2113	8:40 am	9:50 am	●	●	●	●	●	●		
ZL2114	10:15 am	11:25 am	●	●	●	●	●	●		ZL2125	12:10 pm	1:20 pm	●	●	●	●	●			
ZL2126	1:45 pm	2:55 pm	●	●	●	●	●			ZL2131	4:05 pm	5:15 pm	●	●	●	●	●			●
ZL2132	5:40 pm	6:50 pm	●	●	●	●	●		●	ZL2133	7:25 pm	8:35 pm	●	●	●	●	●			●

Albany Perth (18 weekly services)

ESPERANCE - PERTH 										PERTH - ESPERANCE 										
FLIGHT NO.	DEPARTURE	ARRIVAL	M	T	W	T	F	S	S	FLIGHT NO.	DEPARTURE	ARRIVAL	M	T	W	T	F	S	S	
ZL2356	6:30 am	8:05 am	●	●	●	●	●	●		ZL2357	8:15 am	9:50 am	●	●	●	●	●	●		
ZL2358	10:15 am	11:50 am	●	●	●	●	●	●		ZL2375	2:15 pm	3:50 pm	●	●	●	●	●			●
ZL2376	4:15 pm	5:50 pm	●	●	●	●	●		●	ZL2377	6:25 pm	8:00 pm	●	●	●	●	●			●

The following also provides some context in regards to the operational dynamics of Rex’s WA Network versus Rex’s Traditional Network* for the first half of FY17:

	WA Network	Traditional Network	Comparison
Passengers	52,707	542,322	9.7%
ASKs (M)	32.8	368.0	8.9%
Load Factor	75.5%	56.0%	19.5% pts
On-Time Departure	86.3%	86.6%	-0.3% pts

* The Rex Traditional Network excludes QLD Regulated (Subsidised) and the WA Regulated Routes.

3 FACTORS CONTRIBUTING TO CURRENT HIGH COST OF REGIONAL AIRFARES

The dynamics of regional air travel inevitably results in higher ticket prices:

- Thin passenger numbers often less than 40,000 pax a year
- The need for day return capabilities for passengers originating from both the regional centre and the capital city. This means that:
 - o Aircraft needs to overnight in the regional centre to allow for early morning departure.
 - o Minimum 3 returns needed otherwise the capital city based aircraft and crew will be left stranded in the regional centre.

These factors result in extremely high inefficiencies with load factors typically in the 55-60% range when typical jet operators need at least 75% load factor to break even and even over 80% for the low cost carriers.

Rex would like to state categorically for the record that, contrary to popular folklore, competition in regional aviation can be particularly detrimental for all the smaller routes of less than 100,000 passengers a year. Competition does not ultimately result in lowering prices as Rex's vast experience has shown and in fact can destroy efficiencies and result in higher airfares and lower profits (or bigger losses) for all concerned.

A case in point is the example of the Adelaide to Port Lincoln route in SA. Before the entry of QantasLink (QL), Rex was servicing the port with 10 returns a day. After QL's entry, Rex now has only 6-7 returns a day and the average Rex airfare is 30% higher than what it was before QL's entry 7 years ago. This is because with the lower load factor that both carriers now face, higher average fares are required to compensate for the lower load factors and higher inefficiencies. The end result is negative for everyone – the community has fewer real schedule choices (QL's 3-4 returns essentially mirrors Rex's schedules) and the customer has to pay a much higher ticket price while the carriers see their profit margins at barely sustainable levels. The Adelaide to Port Lincoln route has around 175,000 total annual passengers.

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To better understand the operating cost situation in WA we have benchmarked against Rex’s vast Traditional Network of more than 50 routes throughout SA, VIC, NSW, TAS and QLD as outlined in the following table;

First Half FY17	Albany	Esperance	Traditional Network
Flight Duration (hours)	1.16	1.58	1.16
Average airfare per pax (excl. airport taxes & GST)	\$144.25	\$171.83	\$162.18
Average airport charges per pax (excl. GST)	\$53.76	\$44.19	\$15.58
10% GST	\$19.80	\$21.60	\$17.78
Average airfare per pax (Inc. airport taxes and GST)	\$217.81	\$237.62	\$195.54
Revenue to Rex per pax, per hour (Excl. head tax and GST) (% of traditional network)	\$124.35 (89%)	\$108.75 (78%)	\$139.81 (100%)

Based on the above, we can draw the following observations:

- A. The cost of airport charges in WA are astronomically high, some 300% – 350% higher than the rest of Australia. To put this into context, the revenue received by the airports for the Albany sector is 40% of the revenue that Rex receives (excluding airport taxes and GST).
- B. Rex is one of the most efficient regional operators in the world and Rex’s traditional network average fare given in the table above represents the lower limits of regional airfares in Australia. In the case of the Adelaide to Port Lincoln route cited earlier, Rex’s average fare per hour of flight is some 7% higher than the average of Rex’s traditional network and between 20% and 40% higher than the Albany and Esperance routes operated by Rex. This illustrates that Rex’s average fare is not exceptionally high due to lack of competition.
- C. Regional aviation is inherently more expensive than domestic or international aviation due to the poor economies of scale associated with needing to respond to regional dynamics highlighted earlier. The operating costs for a regional carrier are around 3 times higher on a per seat basis than a larger carrier operating larger jet aircraft on significantly higher volume passenger routes. Even with Rex's high level of efficiency associated with operating more than 50 aircraft on 75,000 flights per year, Rex's FY 16 operational profit before tax amounted to only \$4 per passenger per flight hour of over 400 km. This means that on a ticket price of about \$200, a \$5 reduction in average fare would put Rex out of

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business. A taxi driver would make more profit carrying the same passenger 18km between Perth Airport and Perth CBD.

- D. The Rex average fares on the Perth Albany and Perth Esperance routes represent very good value for money. If we strip away the airport charges, on a per hour basis it equates to \$15 - \$30 reduction over Rex's average fare in its traditional network. When we consider that Rex's profit is only \$4 per hour of flight, we realise how significant the reduction is. We invite the Standing Committee to examine the average airfares of other operators in WA that fly the smaller regional routes with turbo prop aircraft to compare the hourly rates exclusive of airport charges.
- E. The Rex standard full economy fare (excluding airport charges and GST) for Perth to Albany represents \$0.65 cents per km flown and for Perth to Esperance represents \$0.49 cents per km flown. The Rex full economy fare for the Rex traditional network represents an average of \$1.22 per km flown. The standard full economy fare is the benchmark fare for all other published fares that are available.
- F. Virgin Australia Regional Airlines (VARA) operated the Perth Albany and Perth Esperance regulated routes prior to Rex with higher published fares than those currently offered by Rex. VARA publicly announced that the routes were not profitable and they therefore did not put in a submission for the current licence term. VARA subsequently exited the Albany and Esperance routes in February 2016.

4 IMPACTS THAT HIGH-COST REGIONAL AIRFARES HAVE ON REGIONAL CENTRES FROM A BUSINESS, TOURISM AND SOCIAL PERSPECTIVE

Regional air services linking remote and regional communities with Capital Cities are critical to the socio-economic wellbeing of Regional Australia. Regional air services are essential in the provision of business (including mining), government, medical and education related travel. Discretionary travel, including visiting friends and relatives is also very important for the social wellbeing of regional communities. As such regional communities will be severely affected if air travel is out of reach.

We believe that once air travel becomes unaffordable, the entire socio-economic fabric of the regional communities will enter into a terminal downward spiral. On the other hand, affordable fares will stimulate the economic activity of the regional cities as more industries will be attracted to set up their businesses there.

5 IMPACT OF STATE GOVERNMENT REGULATORY PROCESSES ON THE COST AND EFFICIENCY OF REGIONAL AIR SERVICES

In Rex's experience, the current regulatory process is efficient and does not impose a heavy cost burden. However the regulatory policies may need to be reviewed if the State is serious about achieving lower regional airfares.

The currently regulatory process did provide Rex with a structured environment to enter WA and this would not have been possible in the absence of the route regulation. Rex sees this as positive measure as it encourages new entrants to the State which in turn makes for a more competitive aviation landscape.

6 ACTIONS THAT THE STATE AND LOCAL GOVERNMENT AUTHORITIES CAN TAKE TO LIMIT INCREASES TO AIRFARES WITHOUT UNDERMINING THE COMMERCIAL VIABILITY OF RPT SERVICES

Rex believes there are several actions that the State and Local Government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services.

Local Government

In Rex's vast non WA network of 55 airports, around 70% of the council owned regional airports are not able to even recover the operating expenses from the airport charges. However they understand that charging a head tax rate to cover operating expenses would make the marginal air service completely not viable.

Regional airports were vested to the local councils at no cost (often with a large sum to offset future maintenance costs) by the Federal Government prior to 1991. Regional airports are a vital piece of community infrastructure and form a valuable community asset.

Local Councils should not consider the airport as a cash cow. Regional airports should be treated no differently than local roads and bridges as critical local infrastructure that has broad ranging benefits across the entire council municipalities. Yet, most regional airports adopt a user pays approach that requires the 'airport business' to stand-alone at no cost to the council ratepayer and in many cases generate a substantial surplus back to council.

Regional airports are dynamic with ever-changing passenger throughput and activity levels. In a competitive environment, regional airports should consider passenger and activity growth (and subsequent improved airport efficiencies) rather than simply applying routine increases of either CPI or greater.

Rex estimates that it costs about \$600,000-\$700,000 annually to effectively operate a regional airport, which includes having an adequate sinking fund to undertake significant airport works. In

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the case of the WA regional airports to which Rex operates, Rex generates airport revenue of between \$1.0M to \$1.6M – some \$0.4M to \$1M above the normal operational needs. The Standing Committee should seek to understand why the needs of the WA airports are so high when 70% of the airports in Rex's network can sustain an air service with less than \$600,000 revenue a year.

From Rex's experience, the high cost of depreciation is often cited as the basis for needing much higher airport revenue. It is well and good for regional airports to receive State and Federal Government funding for airport investment however this increases the asset value of the airport which in turn causes airport depreciation costs to spiral out of control.

The concrete steps that the local councils can take to lower the cost of airfares are:

- Reduce airport charges / reduce the airport passenger tax. If this reduction is translated into lower ticket fares, there will be a stimulatory effect on the passenger numbers. More importantly it will create a positive impact on the socio-economic well being of the community. The net gain to the community far outweighs, in our opinion, the drop of airport revenue and local councils should get out of the myopic mindset and think of the bigger and longer term good of their community. Separate from the social advantages, the economic activity generated through a regional airport far exceeds any perceived short-falls in a regional airports financial position.
- Work in Partnership with the airline. Rex has pioneered and successfully implemented many partnership programmes with various cities where both parties invest into growing the passenger numbers by reducing the airfares. This has also been successfully implemented in the WA ports Rex services as will be described below.
-

State Governments

The WA State Government has little control over the airport charges at both Perth airport and the regional airports. However it could license more routes and then use this ability to regulate the number of carriers such that it could achieve the following:

- Achieve the highest level of operational efficiency through higher load factors;
- Ensure that the efficiency gains are passed on to the passenger by ensuring the carrier only makes a fair economic return on the route. By so doing, the added efficiency would automatically translate into a lower ticket price;
- Ensure more frequencies as the passenger demand is stimulated.

The awarding of the Albany and Esperance routes to Rex through a competitive tender has clearly shown how this model could work. From a money-losing venture for VARA, the route now has

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more frequencies, lower published fares, and a sustainable service since there is a sufficient fair economic return for Rex to want to continue servicing the routes.

This approach could and should be applied to other city suitable city pairs like Perth-Geraldton for example. A tender could be called to assess the commitments a carrier is prepared to make if given the right to be the sole operator - even on routes that already has competition. This is done by the Queensland Government who has regulated the Brisbane to Roma route that had over 200,000 annual passengers.

On larger routes that have several operators, Rex would also like to see both State and Federal Governments strictly enforce the best fare of the day (BFOD) travel policy for government related travel, in the absence of public servants being able to personally from frequent flyer or loyalty reward programs. This will ensure a level playing field for all carriers whilst also protecting taxpayers' money. The larger carriers have been able to charge significantly higher airfares to public servants travelling on government business due to the public servants being enticed by personal loyalty rewards. Without strict enforcement of the BFOD policy, public servants will find ways to circumvent the BFOD policy to end up flying on a higher priced fare in return for personal benefit.

In addition to costing the Government more, this practice has the nefarious effect of driving the small regional competitor out of business and without competition, the larger carriers are able to charge even more extortionist pricing as evident on some of the routes in WA. Without Governments strictly enforcing BFOD travel policies they are effectively contributing to the higher cost of air fares.

7 ACTIONS THAT AIRLINES CAN TAKE TO LIMIT INCREASES TO AIRFARES WITHOUT UNDERMINING COMMERCIAL VIABILITY OF RPT SERVICES

In regional airline terms Rex is an extremely efficient operator, and we have already set about making airfares as low as sustainably possible on the Perth Albany and Perth Esperance routes. We have also seen above that Rex has delivered average fares in WA that are around 25% lower than the prevailing levels elsewhere in Regional Australia.

Furthermore, Rex has introduced a revolutionary Community Fare scheme on the Albany and Esperance routes in partnership with the City of Albany, the Shire of Esperance and Perth Airport. The Community Fare is priced at \$129 fully inclusive for both the Albany and Esperance routes and on an annual basis we have seen more than 8,000 community fares sold on each of the routes (in the first year of the scheme and this will no doubt increase in subsequent years) which equates to approximately 15% of total passengers and about \$1.2m savings for the community based on the average fare.

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The scheme has been so successful that all of the stakeholders have recently signed on for a 3-year extension of the scheme through until 30 June 2020. To achieve the \$129 fully inclusive price for the customer Rex has to lower its core fare to \$63 (Albany Perth) and \$73 (Esperance Perth) in order to accommodate the airport charges at Albany, Esperance and Perth. This is a significant investment undertaken by Rex to make fares more affordable and to stimulate passenger growth.

8 RECENT ACTIONS TAKEN BY OTHER AUSTRALIAN GOVERNMENTS TO LIMIT REGIONAL RPT AIRFARE INCREASES

NSW: In NSW, intrastate routes with less than 50,000 annual passengers have historically been licensed to a single operator. The NSW Government has deregulated some routes and is in the process of deregulating the remaining routes. This is not expected to have any impact on fare affordability.

QLD: The QLD Government has the most enlightened approach and has the most successful, innovative and progressive programme that Rex has been involved with.

As part of a competitive tender process, the QLD Government has regulated 7 routes of which 5 routes were awarded to Rex. As foreshadowed earlier, even large regional routes like Brisbane - Roma (historically more than 200,000 passengers) are regulated to a single operator and put to tender.

The tenderer will stipulate all the committed service levels including fare levels and also the required level of subsidy for thin routes or payment to the Government for the larger routes.

This system ensures that every route is operated at its maximum efficiency, fair economic returns are generated for the operator, the community gets fair pricing and schedule and the supernormal profits are returned to the community.

SA has only one licensed route and it has no impact on fare levels.

Rex is not aware of any other initiatives by other Governments that will limit RPT airfare increases.

9 SUMMARY AND CONCLUSION

- Regional airfares on thin routes are condemned to be at least 300% more expensive than the equivalent airfare of a large jet on big routes due to the inherent rigidity and inefficiencies of regional air travel. This is true everywhere in the world from Rex's vast experience with its overseas counterparts.
- Rex's airfares in WA are significantly lower than its average airfares in the rest of its network due to the higher load factor achieved. Rex acknowledges that this lower airfare may not be representative of other regional routes and operators in WA.
- Both Perth and the regional airports charge a passenger head tax that is much higher than in the other States and this pushes up the fully inclusive ticket prices up by about \$30 for each one way flight.
- The State Government could bring effective lower fares by licensing the bigger routes of up to 200,000 annual passengers and putting these routes out to tender. Rex estimates that airfares could fall by over 25% if tendered out correctly with the proper safeguards.

Rex welcomes this opportunity to provide the Economics and Industry Standing Committee with this brief position paper and offers to share our vast experience in regional air services, including our experience with the QLD model, through more in-depth face-to-face discussions.



21 February 2017

LETTER TO THE EDITOR
The Border Watch

Sent by email: editor@tbw.com.au

Regional Express (Rex) would like to respond to recent articles published in *The Border Watch* on 15 February 2017 & 17 February 2017 in regards to the proposed upgrade of Mount Gambier airport.

Regional Express (Rex) operates to 58 destinations throughout New South Wales, Victoria, Tasmania, South Australia, Queensland and Western Australia. With its fleet of more than 50 Saab 340 aircraft, Rex operates 75,000 flights and carries some 1.2 million regional passengers per year.

Rex is the largest Saab 340 operator in the world with decades of regional aviation experience that stems back to its predecessor airlines Kendell and Hazelton. Kendell Airlines commenced servicing the Mount Gambier to Melbourne route in May 1983 which was followed by the Mount Gambier to Adelaide route in November 1985.

In regards to the District Council of Grant's 'build it and they will come' approach being adopted with Mount Gambier Airport, it is important to fully understand the history.

In July 2010 the District Council announced a 46% airport passenger tax increase effective from September 2010 and this was significantly covered by *The Border Watch*. The 46% passenger head tax followed two earlier head tax increases of around 8%. Rex issued then a solemn warning to the District Council of the dire consequences that would follow which was reported by *The Border Watch* in July 2010:

"The District Council's actions are economically and socially irresponsible as the community will end up paying for the additional costs through higher ticket prices. This will have a negative downward spiral effect as higher fares will mean fewer passengers which in turn will translate into a reduction of services which in turn will lead to a further reduction of passengers. In the not too distant future the District Council will have to explain to the community why it had spent millions on additional airport infrastructure to welcome an ever decreasing number of passengers" (Open Rex Letter to the District Council of Grant – 6 July 2010)

As predicted by Rex, the District Council's irresponsible money-grabbing decisions in the period 2007 – 2010, which sky-rocketed the airport head tax by more than 50%, resulted in a steep decline in passenger numbers from 117,000 then to 76,000 today. Sadly the 76,000 passengers today will have to support more airport head tax than the 117,000 did in 2007/08.

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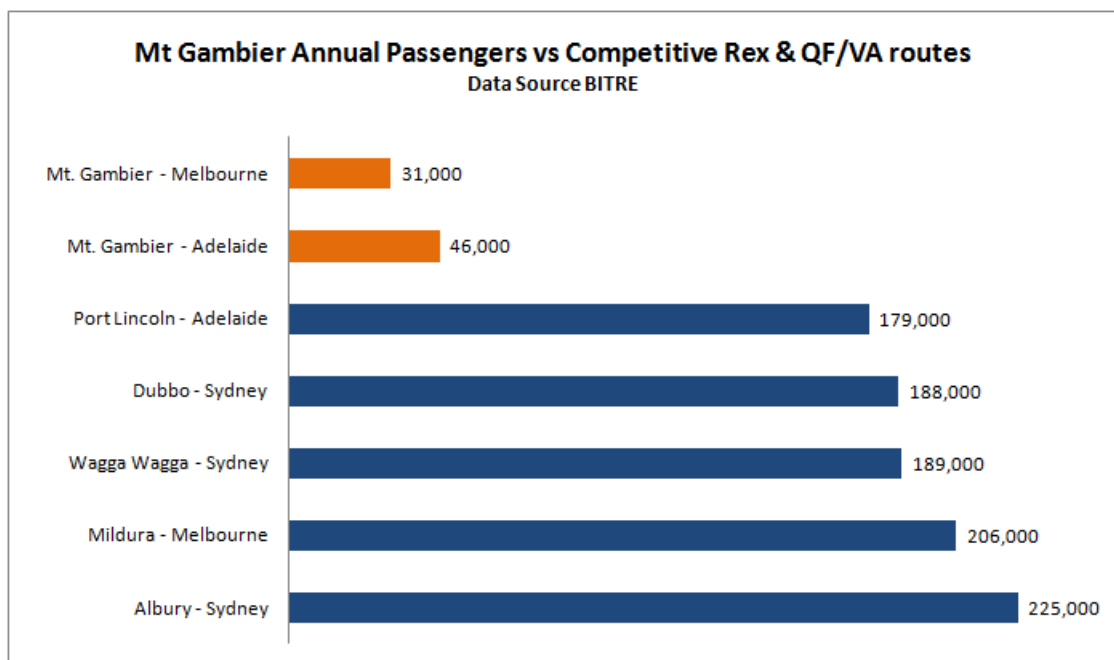
Since Rex commenced operations in 2002, there have been 17 regional airlines that have collapsed which should clearly illustrate the significant challenges faced by the regional aviation industry. Even with Rex's efficiencies associated with operating more than 50 aircraft on 75,000 flights per year, Rex's FY16 operational profit before tax amounted on average to only \$4 per passenger flight hour of over 400km, while it spends \$185 paying for the cost of flying the same passenger. A taxi driver makes much more profit on the 10km trip from Adelaide Airport to the city.

Having illustrated the backdrop of the current environment, I would like to make the following points;

1. The 'Build it and they will come' approach adopted by the District Council

Despite having seen 40,000 fewer passengers a year, it is unbelievable that the District Council still wants the ratepayers to believe that there will be long queues of airlines wanting to operate to Mount Gambier. Unfortunately this is a pipe dream that Rex has witnessed many times over the past decade in several communities, and every single one has ended as a white elephant.

The truth of the matter is that the Mount Gambier to Adelaide route has around 45,000 passengers per year with the Mount Gambier to Melbourne route achieving around 31,000 passengers per year. Routes this size cannot sustain competition. As can be seen below in Rex's network, only routes with over 130,000 passengers a year can sustain a second regional carrier, be it QantasLink or VARA.





2. Current Runway Inadequate

Rex questions the need to extend runway at Mount Gambier airport beyond the 1524m that is currently available in order to accommodate aircraft such as the 74 seat Q400. As outlined in the below table, QantasLink has either past operated, or currently operates, the Q400 aircraft into many airports that have runway lengths that are less than or comparable in length with the 1524m that is available at Mount Gambier.

Airport with past or current Q400 flights	Available Runway Length
Horn Island (QLD)	1389m
Port Lincoln (SA)	1499m
Roma (QLD)	1504m
Charleville (QLD)	1524m
Moranbah (QLD)	1524m
Moree (NSW)	1613m
Rockhampton (QLD)	1645m
Weipa (QLD)	1645m

3. Continued provision of Rex services to Mount Gambier

The recent articles in *The Border Watch* suggested that the District Council was uncertain about Rex's continued operations with the Saab 340 aircraft. If this was indeed the true concern of the District Council, it would have sought feedback from Rex on this matter. Rex would have advised that it intends to operate the Saab 340 aircraft for at least another 15 years, and that it intends to continue servicing Mount Gambier airport over this timeframe if the airport head tax remained at the current level..

On the other hand, the District Council can be almost certain that Rex's services will be severely downgraded, if not withdrawn, if Council embarks on this cavalier exercise to significantly expand the airport with the inevitable sharp increase of the airport head tax that follows. It is well and good to receive Federal, State and ratepayer funding for airport works, however from experience (including some very recently), this will result in the ongoing airport costs – depreciation, operating and maintenance costs - spiralling out of control.

The airport will inevitably pass these huge cost increases to passengers. Fewer passengers will travel and in turn the remaining passengers will face even higher charges. This will be a repeat of the scenario of 2007 – 2010 only this time the current marginal passenger numbers will shrink to a level for services to be no longer viable.

A simple computation will clearly illustrate the folly of the initiative. If \$17M were invested in the airport, this would mean that the annual cost of running the airport would increase by the depreciation of this investment. Practically the \$17M airport works would be depreciated over 10 years which makes it \$1.7M in additional costs a year or \$22 extra per air ticket to Adelaide or Melbourne. On top of that, operational costs will increase which will further add to the ticket price. When we realise that Rex does not even make a profit of \$4 on each ticket, we can easily figure out what will happen to the air service if the head tax were to be increased by \$4, let alone \$22.



Rex solemnly urges the District Council to learn from its past mistakes and not to gamble with the future of the community's air service for the sake of its unrealistic grandiose visions. The already very fragile social economic fabric of the community will disintegrate once it loses its air services.

Yours Sincerely

Warrick J Lodge.

Warrick Lodge
General Manager
Network Strategy & Sales
Regional Express (Rex)



4 AUGUST 2017

REX COMMENTS REGARDING REGIONAL AIRPORT SECURITY SCREENING

To ABC Riverina & ABC Perth,

In response to your requests for our comments on the latest terrorist threat to airports, Regional Express (Rex) has the following comments to make:

The safety and security of our customers is paramount to our airline and Rex abides by all regulations as prescribed by the relevant governing authorities.

In the aviation world, there are several specialised agencies that constantly evaluate the most recent data and information to carry out risk assessments on all aspects of aviation. This constant evaluation ensures that our transport security system is fit for purpose and security measures are appropriate for the prevailing threat environment. Rex believes that the risk assessment of air transport security risks is extremely complex and should best be left to the experts at the Office of Transport Security (OTS) who possess the latest security intelligence and who are constantly updating the risk assessments. Rex complies with all security instructions of the OTS and will continue to do so if and when regulations change.

We are also of the view that Australia's response to terrorist threats must be balanced and measured. For example, smaller regional aircraft carry fewer passengers than most buses and it would be senseless to enforce screening on the former while leaving 'vulnerable' the tens of thousands of buses plying the streets each day. This example can easily be extended to trains, cinemas, shopping malls, restaurants, and the list goes on. Terrorists will and do strike soft targets too as we have seen in the truck attacks in Nice and in London, and the attack on a Sydney cafe.

We must never ever give in to hysteria. Screening of all such potential targets would be so prohibitively expensive and onerous that normal life would be shut down. To illustrate this in the context of Rex's network, Rex operates to 45 regional communities where screening is not required. The annual operating cost associated with the provision of screening is about \$750,000 per annum at each location which means that regional air travellers will have to absorb an additional \$34M per annum in costs. The Rex Group's latest full year results (for the Financial Year 2016) only showed a \$4M operational profit, so it would be easy to see what would happen if screening were made mandatory - most regional centres would be left without an air service.

The socio-economic impact of the loss of air services would be devastating to regional communities. Those needing to travel for essential medical, education and business reasons would be forced to drive and when they do, they would need to stop at cafes along the way for a break where they would presumably be screened too. Additionally, the millions of extra

Regional Express

road users would undoubtedly add to the 1,200 road fatalities recorded each year in Australia.

Giving in to hysteria is precisely the outcome that the terrorists seek and this would allow them to succeed in their objective of severely disrupting daily life without needing to carry out a single attack. Australia and Australians know better than to fall for their trap.

END OF COMMENT

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Copy:

- Office of Transport Security
- Department of Infrastructure & Regional Development
- Aviation Adviser to the Hon Darren Chester MP, Minister for Infrastructure and Transport
- Hon Anthony Albanese MP, Shadow Minister for Infrastructure and Transport
- Members of Parliament
- National and regional media
- Regional councils



28 APRIL 2017

MEDIA RELEASE

REX WARNS OF GRAVE CONSEQUENCES TO REGIONAL AUSTRALIA WITH NEW RULING ON PROFESSIONAL WORK VISA

Regional Express (Rex) has today warned the Federal Government that its new ruling on professional work visas will gravely affect essential air services to regional Australia.

On 18 April 2017 the Department of Immigration and Border Protection announced wide-ranging changes to the Australian immigration program, including abolition of the Temporary Work (skilled) visa (subclass 457), which is to be replaced with a new Temporary Skill Shortage (TSS) visa in March 2018. The changes see two occupations utilised by Rex completely removed from the official list of eligible occupations – Aeroplane Pilot and Aircraft Maintenance Engineer (Avionics). Two other occupations, Aircraft Maintenance Engineers (Airframe and Engine), are now only allowed short term visas and are ineligible for residency which will make them almost impossible to recruit from overseas. Without the ability to import these critical occupations, many smaller regional operators would not have survived up until now.

Rex Chief Operating Officer Neville Howell said, “Rex is the only major airline in Australia that established its own pilot academy simply to train new pilots for its airline. Despite seven years of effort and 20 completed intakes of cadet pilots, Rex is still obliged to recruit overseas as the rate of poaching, reflecting the shortage of pilots, by the larger carriers locally and abroad, is simply staggering.”

“As a small regional carrier, Rex has been forced to conduct expensive recruitment exercises in South Africa, the United States and Europe to bring in experienced Captains. In fact, Rex had scheduled a visit to London on 15 May 2017 just for this purpose before the news broke. It is no simple matter to bring in foreign pilots as they need to undergo extensive retraining and sit for CASA exams, but we simply have no choice as otherwise we will not have enough crew.”

“The removal of pilots and licensed engineers from the skills shortage list has been done without any aviation industry inputs besides the unions’. It is simply incredible that highly critical and scarce resources that require an enormous amount of specialised and high cost training have been removed when we see occupations like hairdressers, real estate agents, gardeners, florists, picture framers and footballers being left on the list.”

“If the government does not reverse its stand on this matter, Rex and other regional carriers will have no choice but to shut services to the more marginal regional centres in order to conserve their pilot resources for the bigger routes. The loss of connectivity to the capital cities for medical, educational and business links will undoubtedly tear apart the socio-economic fabric of many smaller regional cities and result in a terminal downward spiral of these cities.”

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“The Turnbull Government has shown enlightenment and courage in many of its initiatives but this particular one is mindless policy-making at its worst. Such policies-on-the-run are not worthy of the Coalition Government which is normally capable of much better initiatives, and are a disservice to the nation. We call upon the Prime Minister and the Minister for Immigration and Border Protection to place an immediate moratorium on the changes to the 457 visa program until a well-considered replacement list has been formulated reflecting the real needs of our economy.”

Regional Express (Rex) is Australia’s largest independent regional airline operating a fleet of more than 50 Saab 340 aircraft on some 1,500 weekly flights to 58 destinations throughout all states in Australia. In addition to the regional airline Regional Express, the **Rex Group** comprises wholly owned subsidiaries **Pel-Air Aviation** (air freight and charter operator), **Air Link** (Dubbo-based regional airline) and the **Australian Airline Pilot Academy**.

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29 DECEMBER 2017

MEDIA RELEASE

REX RESPONDS TO RELAXATION OF VISA REQUIREMENTS FOR FOREIGN PILOTS

Following yesterday's announcement that visa regulations will be relaxed to allow foreign pilots into Australia on two-year work visas, Regional Express (Rex) has welcomed the initiative as a positive step forward but does not believe the two-year work visa will be sufficient to attract experienced commercial pilots given the worldwide shortage facing the industry.

The announcement to relax the visa regulations comes from Peter Dutton, Minister of Home Affairs, in an attempt to combat the current national pilot shortage.

Rex's Chief Operating Officer Mr Neville Howell said, "No experienced commercial pilot is prepared to relocate themselves and their families to Australia, with the expectation of having to relocate again after only two years. Even with the possibility of a further two-year extension, the program will not be attractive given that Australian pilot salaries are not internationally competitive. Only the pathway towards Permanent Residency could be potentially attractive to those seeking a work-life balance, however, this pathway is closed under the current regulations."

"The tighter regulations enacted in April of this year have caused havoc on Australian airlines, with Qantas announcing a dozen permanent cancellations to their regional services due to a critical shortage of pilots. Most airlines, including Rex, have experienced a doubling of cancellation rates in the past six months, for the same reason."

"It is a total mystery why Australia would choose to deter highly trained and scarce professionals like commercial pilots, causing major disruptions to the travelling public in the process."

"Rex is the only airline in Australia that has its own pilot academy and we have invested over \$35 million to ensure our own pipeline of pilots to meet our crewing needs. Even then, we still had to supplement this with recruitment drives over the years in the UK, South Africa and USA. Rex speaks with good authority when we say that the need for good experienced pilots cannot be met locally."

Rex calls on the Turnbull government to urgently restore the provisions available under the 457 Visa scheme prior to the changes implemented 18 April 2017. This approach would allow eligible pilots some certainty and a pathway to Permanent Residency.

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