



22 December 2017

Ms Jessica Jane Shaw MLA
Chair
Economics and Industry Standing Committee
Legislative Assembly

Sent by e-mail: dworth@parliament.wa.gov.au

Dear Ms Shaw,

Regional Express (Rex) notes with interest the report released by the Economics and Industry Standing Committee titled Perceptions and Realities of Regional Airfare Prices in Western Australia, released in November 2017.

Rex is Australia's foremost authority on the provision of regional air services, servicing 60 destinations throughout all States and having carried out these essential services for close to 50 years initially through our predecessor airlines Kendell and Hazelton and later as Rex in the last 15 years. Rex has given a detailed submission to the Committee and has provided evidence at a public hearing in Perth on 13 September 2017.

Rex Management has had the opportunity to review the final report released by the Committee and it behoves us to voice our strong objections to 2 principle findings of the report which we believe to be factually wrong and which would distort the true reasons for the extremely high air fares in WA.

Finding 24 of the report states the following:

“Airport landing fees constitute a varying, but generally small, component of the total cost of regional airfares”

Rex notes the broad statement that airport landing fees do vary amongst regional airports however Rex refutes the finding that landing fees are generally a “small” component of the total airfare. Rex has provided detailed evidence relating to the Perth to Albany and Perth to Esperance routes that the airport charges form up to 40% of the total revenue on the route. In similar distance routes elsewhere in the Rex network, the comparable cost would be in the region of 10-15% of the total revenue. Rex fails to understand how the Committee could construe 40% of revenue to be a small component of total costs.

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Furthermore, even if the Committee deems that airport costs form a small component of the overall ticket price, it should not mean that the charges are not worthy of being further examined. Given that regional airline margins are seldom better than 4% of revenue, a charge that is inflated from 2% to 5% of revenue would mean that the airline could have made 75% more profit if the airport charges were not inflated.

Finding 23 of the report states the following:

“The debate about the cost of WA airport charges relative to airport charges in the Eastern States is similar to the claims made about high regional airfares in WA. Apples for apples’ comparisons are difficult and should be made with caution.”

In providing regional air services to 60 ports throughout all States of Australia, Rex is of the view that the operational profile and constraints in WA are not dissimilar to that found in other states like SA, NSW and QLD. The case in point of Albany and Esperance demonstrates that extremely high airport charges (about 300% above the Rex’s network average) are neither related to route distance (the sector length of 1 hour to 1.5 hour is not unusual) nor to remoteness (both these ports are significant regional centres that are accessible by road) nor to passenger numbers (Albany and Esperance routes are in Rex’s top 10 sole-operated routes for passenger numbers).

One cannot but conclude that there had been a long period of laissez faire in the aviation industry in WA due to the cyclic nature of the mining booms which has allowed airport owners to charge extortionist prices and get away with it. Any attempt to shield the airports from receiving their full share of blame will diminish the report and dilute any potential benefits that could arise from the findings.

Rex also regrets to note that the Committee has not given more weightage to empirical evidence and to proffer regulation of routes as a prime avenue for the reduction of airfares. The regulation of the Perth to Albany and Perth to Esperance routes through a competitive tender process has provided prima facie evidence that this avenue does deliver the desired outcome. At the very least, the WA government could test the hypothesis further by trialling out the concept on other routes like Geraldton to see if the desired outcome could be reproduced.

Yours Sincerely,

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

