



12 March 2014

Open Letter to all Regional Councils and Airport Owners

Regional Air Service Viability and Regional Airport Charges

The aviation industry is in crisis. Not since the Ansett collapse in 2001 have we witnessed this much turmoil in the Australian aviation industry. Australia's two network carriers have announced combined half year Profit Before Tax (PBT) losses exceeding \$420 million. This will be the third year that both Qantas and Virgin Australia will be essentially loss making and both carriers are expected to post combined PBT losses way in excess of \$1 billion for this financial year (FY), effectively wiping out more than 35% of their current market capitalisation.

In regional Australia the situation is even more precarious, as smaller routes have no economies of scale and entail a less efficient use of resources. Regional carriers simply do not have the deep pockets of the larger airlines and the support of foreign backers to sustain prolonged periods of financial loss. We recently witnessed the collapse of two of Australia's oldest regional airlines, bringing the total number of such collapses to about 10 in the past decade. In addition, the introduction of the carbon tax, removal of the Federal Government's en-route rebate scheme and harsh regulatory constraints have cost regional aviation tens of millions every year.

Since Rex's inception in August 2002, it has doubled its regional passenger numbers resulting in significant increases in airport revenues over this period. Rex has made significant contributions to regional communities in the past 12 years; by investing in upgraded aircraft, transitioning to an all Saab 340 fleet and ensuring that we continue to provide Australia's best On-Time Departures with sustainable air fares. In the process, Rex has provided essential regional air services to the economic and social benefit of the regional communities it serves.

However, even Rex's acknowledged efficiencies and operational excellence cannot withstand the combined onslaught of a sharp slowdown in economic activity, record fuel prices and unfavourable movements in the exchange rate. Rex's profits fell by 45% in the previous FY and another 60% in the first half of this FY.

In extremely dire times like these we believe it is imperative that all stakeholders in regional aviation pull together to ensure its survival. Councils and airport owners cannot continue a business-as-usual approach and continue to apply CPI increases on passenger taxes, especially those airports that are already generating excess profits on their airport operations. Air services are no less important than roads and bridges to the socio-economic fabric of the community and yet some councils upkeep the latter at great cost while somehow feeling that airports, gifted to them by the Federal Government, need to generate profits.

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It is to all stakeholders' - the local council, the airport, the community and the airlines - interests to collectively work together so that regional airlines can survive this crisis. Otherwise regional air services could be irreversibly damaged or destroyed, and many communities would be left without an air service. During the Global Financial Crisis, Singapore Changi Airport gave out hundreds of millions of dollars in rebates to airlines to help tide them through that difficult time.

To this end, Rex would like to call upon all regional councils and airport owners to assist in the continued sustainable provision of essential regional air services to their communities by having, as a minimum, a moratorium on airport head tax increases until regional aviation has recovered. Councils may wish to deliberate on other innovative measures to further support regional airlines.

Rex would like to thank those regional councils and airports who have and continue to co-invest in their air service through local partnership agreements with Rex, and we strongly urge those regional airports to extend the benefits of their current partnership arrangements into FY15.

On balance, when the importance of regional air services are properly considered, Rex does not see this request as being too great an impost on regional councils and airports considering the doubling of airport revenues for most councils/regional airports serviced by Rex during the past 12 years.

Rex thanks you in anticipation of your understanding.

Yours Sincerely,

A handwritten signature in black ink that reads "Warrick J Lodge".

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

