

27 JULY 2018

## MEDIA RELEASE

### REX FINDS KING ISLAND COUNCIL'S ACTIONS DEPLORABLE

Regional Express (Rex) is calling off a planned meeting between its senior management and senior officials of King Island Council (KIC) due to the outrageous and unacceptable behaviour of senior council officials.

On 3 July 2018, KIC General Manager Troy Brice sent an e-mail to Rex's Executive Chairman and Chief Operating Officer (COO) requesting a meeting between KIC's senior officials and Rex's senior management. Rex's response was as follows;

*"Rex would be happy to discuss with the management and councillors of King Island if there is genuine desire to want to forge a true partnership with the airline. Our doors in Sydney are always open. Otherwise Rex cannot stop you from carrying out your ill conceived plans, but I am giving you a solemn warning that this will surely lead to a disastrous outcome for the community and we want you and the community to know upfront".*

However, on the same day (3 July 2018) KIC issued a press release containing misinformation and lies about Rex, to which Rex was forced to publicly respond on 6 July 2018 (appended below).

On 19 July 2018, the KIC General Manager sent a further e-mail request for KIC senior officials to meet with Rex's senior management. Rex accepted, at face value, the sincerity of KIC's request as expressed by the KIC General Manager;

*"We remain sincerely keen to cordially progress a discussion with Rex for a long term relationship."*

The same day, Rex agreed to a meeting in Sydney during the last week of August when Rex's Chair will be in town.

Almost immediately after, the KIC Mayor made disparaging, untrue and defamatory remarks about Rex in the local press, an astounding lack of professional courtesy towards the organisation he was seeking an audience with. The following remarks have been made by the KIC Mayor on local media, all of which are untrue;

- The doubling of KI Airport Charges does not impact Rex's bottom-line. This is a passenger charge that Rex get to pass on to the passenger.  
*Rex response: KIC Mayor would do well with a basic economics textbook and try to understand the chapter on price elasticity of demand.*
- Rex are brow-beating KIC in the media.  
*Rex response: Rex's 6 July media statement was a direct response to a KIC media statement of 3 July.*
- KIC had done some initial investigations and KIC thinks that Rex is receiving a federal government subsidy that is worth hundreds of thousands of dollars.



*Rex response: Rex does not receive any Federal Government subsidy at all. The Federal Government does have an Enroute Rebate Scheme which seeks to provide some reduction in the enroute charges it imposes on the carrier. In the case of King Island, Rex pays about \$16K in annual enroute charges and receives \$9K as a rebate.*

- “I think Rex are taking some Trump playbook stuff and saying stuff that is not entirely accurate or not revealing the entire truth.”

*Rex response: These are very irresponsible statements of an elected official. Rex challenges the Mayor to cite a single incident where Rex had not been 100% truthful.*

- The service reductions by Rex are just a seasonal reduction.

*Rex response: This is totally fabricated and further debunked below.*

- Rex have a backlog of maintenance, with a heap of aircraft sitting in Wagga Wagga so the reductions to KI might be helping Rex out.

*Rex response: Here again the Mayor is simply inventing facts to justify his indefensible position.*

- A KI press release of 3 July 18 claimed that Rex is a foreign company with its headquarters in Singapore.

*Rex response: Rex is headquartered in Sydney and is an Australian company listed on the Australian Stock Exchange since 2005. The claims by KIC are completely false. Their claims are a shocking attempt to generate xenophobic support to justify their behaviour.*

Rex has also uncovered that the KIC General Manager has also been spreading lies, negativity and defamatory comments internally to its councillors. It behoves Rex to set the record straight:

- The General Manager has attempted to explain away the announced reduction of services as a “seasonal adjustment by Rex” so as to detract from his personal responsibility in provoking this issue. For the record, Rex’s seasonal KI Winter reductions have historically applied between the months of May and July. Rex had never scheduled any seasonal reductions in August before and it makes no sense to introduce seasonal Winter reductions as Winter is coming to an end.
- It is disingenuous for the General Manager to be pointing to the proposed schedule review of services to Mildura to demonstrate that the reduction in services of KI is routine. Mildura is another port which is having its services reviewed for similar reasons as KI – i.e. an exorbitant increase in airport charges putting the commercial viability of essential regional air services at stake.
- For the avoidance of doubt, the reduction of Rex services between KI and Melbourne is permanent with effect from the announced date of Tuesday 14 August and **further cuts would be extremely likely** depending on the future commercial performance on the route and any further increases in airport charges being planned by KIC in future years.
- The General Manager has characterised Rex’s actions as unethical and bullying. We find this to be most hypocritical given that one of the first things this newly appointed General Manager did was to raise the airport fees by more than 100% without prior consultation. We also find the General Manager’s behaviour to be most reprehensible as he has reached out to Rex under the cloak of sincerity while plotting to spread deceitful and poisonous remarks about Rex behind Rex’s back.

Given the deplorable and hypocritical actions of the KIC's General Manager and Mayor, Rex believes that any meeting would simply be a charade and a waste of time. Rex will no longer devote any more time to this matter, nor will it entertain any further discussions, and will henceforth make purely commercial decisions concerning the air service on the King Island to Melbourne route. Further to the 30% cuts in air services already announced, Rex will review quarterly to determine if further changes are needed.

20 regional airlines have gone into administration in the last 15 years, such is the reality of regional aviation, and increasingly small regional communities are facing the prospect of never ever having a reliable RPT air service. The KI community is very lucky to have Rex stick by it faithfully and continually over the past 38 years and it is most unfortunate that it may not realise how much of a good thing it has until it is permanently lost.

**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 60 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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**APPENDIX A: Regional Express Media Release, 6 July 2018**  
*'Rex Condemns the Lies, Deception and Incompetence of King Island Council'*



## APPENDIX A

6 JULY 2018

### **MEDIA RELEASE**

#### **REX CONDEMNS THE LIES, DECEPTION AND INCOMPETENCE OF KING ISLAND COUNCIL**

Regional Express (Rex) vehemently condemns the press release issued by the King Island Council (KIC) in response to Rex's objection of KIC's unilateral decision to more than double the airport charges at King Island airport.

Rex has operated to King Island airport since 2002 and prior to this as Kendell Airlines since 1980 - almost 40 years ago. King Island is one of Rex's most marginal routes across its entire network of 60 ports with only 14,000 annual passengers and operates at a loss to Rex for much of the year. A doubling of airport charges bringing an additional \$127,000 in cost will surely make the services in its current form completely unviable.

Rex does not dispute the fact that an airport with such low annual passenger traffic will inevitably make losses. More than two dozen of Rex's ports are in a similar situation and none of them would have any aspirations to break even on airport operations. KIC too would not expect its local infrastructure like the library, swimming pool, roads and bridges to be profit centres. The airport is a community asset gifted to the Council from the Federal Government with reserves of over \$450,000 and is a strategic economic asset to attract air services. It is totally myopic to talk in terms of profits for this asset as the socio-economic benefits which it brings to the island far outweighs the cost of maintaining it. If the island loses its air service, it would undoubtedly spiral into a terminal economic decline.

The recent Media Release by the KIC is full of lies, deceit, xenophobic and defamatory remarks concerning Rex and it behoves Rex as a publicly listed Company to expose the duplicity of the KIC.

#### **1. The airport is running at a loss of \$450k annually**

Rex notes that at a Senate Inquiry into the Aerodrome Local Ownership Plan (ALOP) back in 2003 outlined that King Island airport was only making a loss of \$49,000. Since then, its revenue has grown significantly and it is unbelievable that it can today make such a massive loss. Rex has fairly intimate knowledge of the costs of running a regional airport and typically this is in the region of \$400,000 per annum if no security screening is needed. As such, it is highly suspicious to see a loss of \$450,000 on a revenue exceeding \$200,000.

From decades of dealing with over 60 ports, it is our experience that every time a Council makes incredulous claims of massive losses as a basis for steep escalation of airport charges, invariably the real reason is due to one or more of the following:

- Corruption; and/or
- Sheer incompetence, and/or
- Creative accounting so as to cross subsidise Council's other money-losing ventures.



## 2. Rex has been consulted for over 2 years

This is a total lie and fabrication and we call on council to produce evidence. Rex was first informed of the 100% increase in airport charges in a letter from KIC's new General Manager, Troy Brice, on 20 June 2018. On the 27 June 2018, Rex received an email from Council's General Manager Troy Brice advising that Council had decided to proceed with the increase with effect from 1<sup>st</sup> October 2018.

The only prior correspondence was in mid-2016 when Council attempted to increase the airport charges by 75%. This increase was subsequently revoked following similar outrage from Rex and the State Government.

## 3. Rex practices price gouging in its airfares

The KIC has made serious defamatory statements in its Press Release insinuating that Rex had indulged in price gouging practices in Western Australia. Rex challenges the council to produce a single criticism of Rex's fare practices by the WA Government Senate Inquiry into the cost of regional airfares that occurred in mid-2017. On the contrary, the report has complimented Rex's innovative approach to lowering airfares through its Community Fare scheme. Rex was also commended by the WA Government for its proactive approach in partnering with airports to make regional air fares more affordable.

KIC has also made the false and scurrilous accusation that the Central Queensland Communities are outraged by Rex's price gouging. Rex has participated in 19 Consultative Forum meetings organised by the Queensland Government Department of Transport and Main Roads to gather feedback on Rex's service across the five regulated routes in that state. Minutes are taken for all these meetings. We challenge the KIC to produce any evidence that Central Queensland communities are accusing Rex of price gouging as this is contradictory to what the Minutes reflect.

## 4. Rex is headquartered in Singapore

It is well known fact and of public record that Rex is a publicly listed company on the Australian Stock Exchange (ASX), with its corporate headquarters in Sydney. Council's irresponsible assertion that Rex is headquartered in Singapore is mischievous and deceitful and is totally unworthy of elected officials. It is a poor reflection on the quality of KIC professional standards that such incorrect and deliberately xenophobic statements could be made in an official council press release.

**In summary**, the KIC has made factually incorrect, reprehensible and defamatory claims in its Media Release and Rex demands that the KIC either retracts these statements and apologises to Rex, or alternatively produce evidence to back its claims.

Regarding the more than doubling of airport charges that KIC has voted to implement, Rex wishes to solemnly warn the KIC that such a move will inevitably lead to a sharp degradation of the air services to the King Island community and may even result in the disappearance of air services in the longer term.

