

**AUSTRALIAN SENATE
SELECT COMMITTEE ON THE
SCRUTINY OF NEW TAXES**

**Questions on notice: Public hearing of the Senate Select Committee on the Scrutiny of New
Taxes – Friday 22 July 2011 SYDNEY**

Response from Regional Express Holdings Limited



August 2011

Before responding to the questions on notice, The Executive Chairman of the Rex Board would like to provide additional comments to the question posed by Senator Cameron in the following excerpt from the transcript of the public hearing held on 22 July 2011 in Sydney:

Senator CAMERON: REX Airlines is a company that has a monopoly in a range of areas, isn't it?

Mr Hine: In some areas, not all. But yes.

Senator CAMERON: Your biggest shareholders are in Singapore and elsewhere overseas.

Mr Hine: Yes, that is correct. The largest single shareholder is in Singapore.

Senator CAMERON: How much of your profits do you repatriate overseas?

Mr Hine: Very little, if any.

Mr Lodge: There is none.

Mr Hine: For example, we did not pay a dividend in the 2009-10 financial year. We basically used all of that money to support the funding of our Australian airline pilot academy at Wagga Wagga, which will end up being close to a \$25 million investment. That represents all of one year's profit.

**Statement to the Chairman of the Senate Select Committee on the Scrutiny of New Taxes
from the Executive Chairman of Rex:**

Chairman, as the largest shareholder and a Singaporean and therefore the person targeted by Senator Cameron, I cannot condemn strongly enough the line of questioning portrayed in the excerpt above. It would be hypocritical and dishonest for any country to actively seek and welcome Foreign Direct Investment and at the same time begrudge the dividends of such investment being repatriated overseas. I am sure the Australian Government and people share my outrage at such a xenophobic and bigoted approach. The said Senator brings shame to the House with this line of questioning and diminishes Australia's standing in the civilised world.

1. First Question on Notice

Senator CAMERON: What costings have you done on the carbon price to the company?

Mr Lodge: We have estimated in the order of \$2.4 to \$2.5 million.

Senator CAMERON: Is that per annum?

Mr Lodge: That is right.

Senator CAMERON: And that is on a turnover of \$230 million. Have you factored into that \$2.4 to \$2.5 million the capacity to pass costs on?

Mr Lodge: We have done those basic numbers but we do not believe it is as simple as that. When we look at our profitability, as a regional airline we work on a return of around nine to 10 per cent. We do not believe that that is an excessive return by any measure given that we have got 29 regional communities that rely on their air service. That nine per cent return we believe to be

Senator CAMERON: I do not have all that much time. I am happy for you to provide that answer on notice, if you do not mind. I want to come back to specifically what I am asking here: of the \$2.4 to \$2.5 million cost, have you factored in that cost to the company the ability to pass on or is that the headline cost?

Rex response: If Rex could simply raise its fares and make an additional \$2.5m, it would have done so already.

2. Second Question on Notice

Senator CAMERON: So where has there been social and economic devastation when you closed down a flight?

Mr Hine: I think the point where making is that, for regional communities

Senator CAMERON: Would you take it on notice

Rex response: Senator Cameron mentioned that Rex had exited Sydney to West Wyalong, Cooma and Parkes, Melbourne to Griffith and Brisbane to Maryborough. For the record Rex still operates regular air services between Sydney and Parkes and Melbourne and Griffith. The Sydney to West Wyalong service was effectively a fly-in-fly-out service for Barrick Gold's Lake Cowal gold mine. The service operated during the construction phase of the mine and the twice weekly flights were opened to the general community to provide additional community benefit. When the construction phase was complete the service stopped and the West Wyalong community now utilise the Rex air services from both Narrandera and Wagga Wagga to Sydney.

The Sydney to Cooma service is a seasonal route that caters for snow traffic and the route consequently does not exhibit the normal characteristics of typical regional routes that rely on their air service for essential needs. The service between Sydney and Cooma is now operated by Aeropelican airlines. The Brisbane to Maryborough service was commenced by Rex in October 2007 with Rex forced to exit a short 6 weeks later as a result of the global pilot shortage.

Rex has worked extremely hard not to close down regional air services and with the exception of the Sydney to Canberra route, which Rex exited in 2004 due to not receiving sufficient federal government travel, Rex has not exited any of the established regional routes that were operated by our predecessor airlines Hazelton or Kendell.

As for the economic and social impact that regional air services have on regional communities in Australia, Rex would direct the Committee's attention to the studies already conducted, some of which were commissioned by the Government. We would be able to provide references to these studies if the Government department is not able to provide any. We also suggest that the Committee questions directly some of the regional communities.

3. Third Question on Notice

Senator THISTLETHWAITE: Qantas and Virgin have announced to the market what the effect on their prices will be. Have you done the same thing?

Mr Lodge: We have not.

Senator THISTLETHWAITE: Why?

Mr Lodge: We do not believe it is as simple as announcing a price per passenger because we have a complex and diverse network. We just cannot say to all of our regional customers on those 33 routes that it is a black-and-white \$2 increase in the ticket price. We believe it is going to be a combination of price adjustments and route rationalisation. We may find there are some marginal routes we may need to exit.

Senator CAMERON: Are you saying you have a more complex operation to run than Qantas?

Mr Lodge: We cannot speak on behalf of Qantas.

Senator CAMERON: But you say you know the industry.

Mr Lodge: I know the regional airline industry.

CHAIR: Sorry, we have now gone past the time.

Senator CAMERON: That is okay. Can you take on notice to respond whether you believe you are a more complex operation than Qantas?

Rex response: We run a different operation from Qantas. We could say that it is more complex as we have to cater to thin routes with low load factors and unavoidably inefficient usage of aircraft and crew compared to domestic trunk routes or international routes. The particular difficulty of regional aviation industry is illustrated by the fact that 8 regional airlines have collapsed in the past 8 years.