



29 May 2020

Isabelle Mauleon-Wells  
Merger and Authorisation Review Division  
Australian Competition & Consumer Commission

Via email: Isabelle.Mauleon-Wells@accc.gov.au

Dear Ms Mauleon-Wells,

**Regional Express Pty Ltd – Application for Authorisation AA1000478**

Thank you for your email dated 25<sup>th</sup> May 2020. Regional Express (Rex) has no comments regarding the submissions from the Councils of Kangaroo Island, Armidale and Dubbo.

In response to the submission from the Australian Airports Association (AAA), we do not share their optimism in the speed at which the airline industry will recover. IATA indicated in a press release of 13 May 2020, that they did not expect airline passenger numbers to return to 2019 levels until 2023 (<https://www.iata.org/en/pressroom/pr/2020-05-13-03/>).

Rex shares IATA's view with regards to the evolution of passenger numbers in Australia. While we believe that regional and domestic travel will recover much faster than international, we believe that in the next 12 months the level of regional travel will at best reach 60-70% of what it was before the crisis given the severe economic damage the pandemic has wreaked on almost all businesses in Australia which in turn reduces drastically the ability of both businesses and individuals to afford to fly like before. Additionally, we believe it will take some time before the public regains full confidence in air travel and many regional passengers will choose to travel by car for some time yet.

The pandemic has wiped out practically all air travel and all airlines were forced to virtually lock down in order to conserve cash. The Federal Government has considered it a national priority to preserve a minimum regional aviation network in Australia and has stepped in to underwrite a barebones twice-weekly schedule to all the regional cities that previously had an air service. This allows Rex and the other regional carriers to continue operations up to 30 September 2020 without incurring any further losses. In comparison to pre-crisis, the Rex barebones twice-weekly schedule during this current month of May represents an 85% reduction in flights and 95% reduction in passenger numbers, which illustrates the significant scale of the recovery.

The expected prolonged U-shape recovery will mean that when the Federal Government's support ends in September this year, Rex and all the regional carriers will be in a very vulnerable position as the expected passenger numbers then are expected to be at best 40-50% of pre-crisis levels which will be very far from the 85% level needed for breakeven. Rex does not expect this level to be reached before the end of calendar year 2021.

It will be an almost impossible task for all airlines (unless one has the huge financial reserves of Qantas) to navigate at least one year during the transition. The airline could reduce flying to match the demand and this will ensure the variable costs are largely covered. However airlines are very capital intensive with very high fixed costs and these will not be covered sufficiently by the greatly reduced passenger numbers.

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The only avenue that presents some hope of helping the regional airlines pull through the period of transition is to allow the competing airlines to cooperate in such a way that they could fill up the aircraft to much higher load factors (above 90%) than what is typically possible under open competition so that all airlines could generate much more marginal revenue per flight. This will go a long way towards reducing the losses every month and hopefully Rex could have the reserves to sustain the many months of losses.

Obviously this can only occur under the protection of, and subject to, the strict conditions of, the authorisation that is currently in place on an interim basis.

Rex therefore calls on the ACCC to make a final determination allowing Rex and all other regional carriers to cooperate in the manner approved under the interim authorisation. Rex further requests that such authorisation remains until regional air travel has reached 90% of its pre COVID levels and that a reassessment be made at that time. In fact, a similar authorisation should be accorded to the domestic carriers for the same reason. Rex was about to support Virgin Australia's application in this respect when the latter's withdrawal of the application was announced.

There is little doubt that Qantas, and with it QantasLink, will be able to survive the next 18 months even at lockdown mode. Qantas has announced that it is currently losing \$40M a week and it has enough reserves to last 2 years if necessary. Rex does not have the same depth of reserves and may not be able to sustain over 12 months of heavy losses during the transition period.

The final authorisation could make a difference for Rex and will result in Rex being the only strong competitor to Qantas in regional Australia. Without this authorisation there is a far greater chance that Rex will not be able to see through the transition period and it will probably mean that regional Australia will never again have a strong operator to constrain Qantas' behaviour in the regional market.

There is no guarantee that even with final authorisation Qantas will be willing to engage in cooperation. Qantas may well take the commercial view that it would be tactically more advantageous to suffer greater financial losses in the short term in order to achieve the permanent elimination of a strong regional competitor.

[REDACTED] If the ACCC refuses final authorisation then one would never be able to find out the extent of Qantas' willingness to enter into cooperation for the greater good of regional aviation.

The AAA's fear is unwarranted. In the highly unlikely event that recovery is as fast as the AAA optimistically hopes, the ACCC has the power to revoke the authorisation if there has been a material change in circumstance and the benefits no longer justify the authorisation.

Thank you.

Yours sincerely,



Irwin Tan  
GM Corporate Services

