



Our Ref: GR.FEL.13/LT19183688  
Enquiries: Stuart Jamieson

16 April 2019

Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Dear Sir/Madam,

**RE: Productivity Commission - Inquiry into the Economic Regulation of Airports**

**Extract from Pages 10 & 11 of the Regional Express (Rex) Response to the Productivity Commission's Draft Report on the Economic Regulation of Airports, dated 25 March 2019.**

Extract:

*"For Rex's RPT network in WA in FY18 (Perth to Albany and Esperance), the average airport costs per passenger was \$50.81 (excluding GST) for a one way ticket. This represented 25% of Rex's WA average ticket price and 40% of Rex's \$129 Community Fare on the Perth Albany and Perth Esperance routes.*

*In WA, Rex's airport costs exceeded its fuel costs by 130%. These facts should be reflected in the final report.*

*More importantly the Commission needs to reject the proposition of the AAA that airport charges are a small portion of a ticket price and are therefore not material. In fact airport costs in some circumstances are the largest single cost for a regional airline.*

*That's why a review of this type by the Productivity Commission which gets this subject so completely wrong is disappointing, annoying and frustrating. Rex hopes that the Commission will correct this in the final report.*

*The key points are;*

- *Airport charges are Rex's single biggest external cost, exceeding fuel costs in most years;*
- *Increases in airport charges has a significant impact on profitability given the thin margins and low profits per passenger associated with regional air services;*
- *On some regional routes the airport costs account for 25% of the average ticket price and up to 40% of the entry-level ticket price;*
- *Airport charges, whilst significant, are one of countless other costs that Rex has to cover within the fully inclusive ticket price charged to the customer;*
- *It is not possible to simply pass on increasing costs in the fully inclusive ticket price, because if it was that simple there would not have been 20 regional airlines collapse since Rex commenced operations in 2002."*

It is disappointing that the Productivity Commission Report provided no comment on how regional Airports have worked with Rex to help them grow their State Government regulated routes.

The City has collaborated with Rex to deliver the highly successful community fare on the Albany/Perth route, which has seen a significant growth in passenger numbers, whilst not increasing the overall cost of airport fees and charges to Rex.

It is also important to note that regional airports are required to provide significant infrastructure investment, whilst not having the large passenger volumes to support a viable cost recovery model. In relation to the Albany Airport, the full operational cost including depreciation is still resulting in a subsidised operating result.

### Background:

The City of Albany and Rex entered into a three-year agreement that commenced on 1 July 2017. The City entered this agreement in good faith and in collaboration both parties agreed to include the requirement to provide a community fare on the Albany route at the set price.

As part of the current agreement, the City also agreed to fix the Rex Airport fees and charges (with CPI indexation) for the duration of the contract period.

The City of Albany Council formally resolved on 28 February 2017:

THAT Council:

- (1) ENDORSE the previous resolution that agreed to a fixed annual fee to REX for the 2017/18 period based on Perth CPI increase to the 2016/17 fixed fee of \$1,645,920 plus GST; and
- (2) GIVE IN PRINCIPLE SUPPORT for a fixed annual fee with REX for periods 2018/19 and 2019/20 (based on 2017/18 fee plus Perth CPI annual increases) on the condition that REX continues to provide a Community Fare based on \$128.91 and continues to honour the leisure package fares of \$99.
- (3) Subject to (1) and (2) above, DELEGATE AUTHORITY to the CEO to negotiate this agreement with REX that incorporates an annual increase based on an agreed Perth CPI cost index, has monthly equal payment instalments and ensures the continuation of both the Community Fare and the Leisure Package Fares.

### Discussion:

#### Why did the City of Albany Council resolve to take this approach?

The benefits from adopting the position of the following position was premised on:

- Continuing to support the growth of the Rex's RPT passenger service and delivering improved socio economic benefits to the region,
- Ensuring Rex continue to provide a low Community Fare for the next three years,
- Supporting and actively promoting growth in new inbound holiday and leisure air travel markets.

#### Regional Airports are responsive, as demonstrated

On Friday 14 December 2018, Regional Express (Rex) proposed an adjustment to the community fare pricing.

Rex's position in summary was:

- Rex needs to implement the \$139 Community Fare pricing effective for sales on/after 1st February 2018 due to reasons outlined in my letter of 14th December 2018.
- Rex is not able to sustain the existing pricing (\$66 base) through until the end of February 2019.
- The fare increase would not have any impact on council's airport head tax revenue.

In response to Rex's request the City of Albany Council resolved:

THAT:

- (1) The previous resolution that agreed to a fixed annual fee with REX for periods 2018/19 and 2019/20 (based on 2017/18 fee: \$1,645,920 plus GST plus Perth CPI annual increases) on the condition that REX continues to provide a Community Fare based on \$128.91 and continues to honour the leisure package fares of \$99, be NOTED.
- (2) Rex's proposed increase to Community Fare is SUPPORTED, with the condition that a Leisure Fare one way with the same conditions is offered.
- (3) DELEGATE AUTHORITY to the CEO to negotiate an agreement with REX that incorporates an annual increase based on an agreed Perth CPI cost index, has monthly equal payment instalments and ensures the continuation of both the Community Fare and the Leisure Package Fares.

**It is interesting to note that in the Rex's Annual Report for the financial year ended 30 June 2018, Regional Express Holdings Limited reported:**

*"Rex has turned in a 41% rise in profits, bringing its Profit Before Tax (PBT) for FY18 to \$25M, a result not seen since 2012..."*

#### **Strategic Airport Asset Management Framework (SAAFMF)**

The City of Albany and 4 other Western Australian local governments including the City of Great Geraldton have been involved in the development of a pilot SAAFMF.

The pilot is nearing completion and the City of Albany has received early feedback from the Department of Transport (WA) consultant that the level of asset data held by the City of Albany is very mature compared to other local government and they appreciated our assistance.

The modelling used summarises each aerodrome's status and indications are that the City of Albany aerodrome is socially sustainable, i.e. it raises enough revenue to recover operating and capital costs.

#### **Conclusion:**

Taking this position needs to be acknowledged, as the principal disadvantage of adopting this position is that the City of Albany, Operator of the Albany (Harry Riggs) Regional Airport will not share in any potential financial benefits attached to any significant gains in RPT passenger numbers if achieved.

The City of Albany has made a strategic decision to fix airport fees and charges, with the view that the community fare is of significant advantage to our community because it offers affordable airline travel.

Should you have any further queries with regard to this matter, please do not hesitate to contact myself

Yours sincerely

Digitally signed by

Date: 2019.04.16 10:31:04 +08'00'

Stuart Jamieson  
**Manager Governance and Risk (Airport Operations)**