



9 February 2017

John Richardson  
Secretary / Treasurer  
Bega Valley Shire Residents and Ratepayers Association

Sent by email: [secretary@begavalleyshireratepayers.asn.au](mailto:secretary@begavalleyshireratepayers.asn.au)

## Merimbula Airport Proposed Airport Upgrade – 200m Runway Extension

Dear John,

Thank you for your letter of 6 February 2017 seeking our views on the upgrade of Merimbula Airport for \$7M which includes a proposed 200m runway extension.

Regional Express (Rex) operates to 58 destinations throughout New South Wales, Victoria, Tasmania, South Australia, Queensland and Western Australia. With its fleet of more than 50 Saab 340 aircraft, Rex operates 75,000 flights and carries some 1.2 million regional passengers per year.

Rex is the largest Saab 340 operator in the world with decades of regional aviation experience that stems back to its predecessor airlines Kendell and Hazelton. Kendell Airlines established the Merimbula to Melbourne route in 1973 and Hazelton Airlines began servicing the Merimbula to Sydney route in the 1980s with Kendell and Hazelton merging to become Rex in August 2002.

In regards to Merimbula Airport and the Bega Valley Shire Council's 'build it and they will come' approach, Rex has been providing feedback to the council since 2009. In 2010 Rex advised Council that ***"In all of Rex's years of experience we have never witnessed such grandiose airport plans being put forward by a regional council. No other centre in Australia of similar size to Merimbula receives daily flights to two major capital cities."***

In 2015 Council requested from Rex a letter of support for funding under the Restart NSW Regional Tourism Infrastructure Fund, Regional Airports Program. Rex declined the request and advised Council that ***"the current facilities at Merimbula Airport will be more than adequate to service the local needs for the next 15 years"*** and that ***"Rex intends to continue to do so over the period using our Saab 340 aircraft"***.

Since Rex commenced operations in 2002, there have been 17 regional airlines that have collapsed which should clearly illustrate the significant challenges faced by the regional aviation industry. Even with Rex's efficiencies associated with operating more than 50 aircraft on 75,000 flights per year, Rex's FY16 operational profit before tax amounted on average to only \$4 per passenger flight hour of over 400km, while it spends \$185 paying for the cost of flying the same passenger. A taxi driver makes much more profit on the 10km trip from Sydney Airport to the city.

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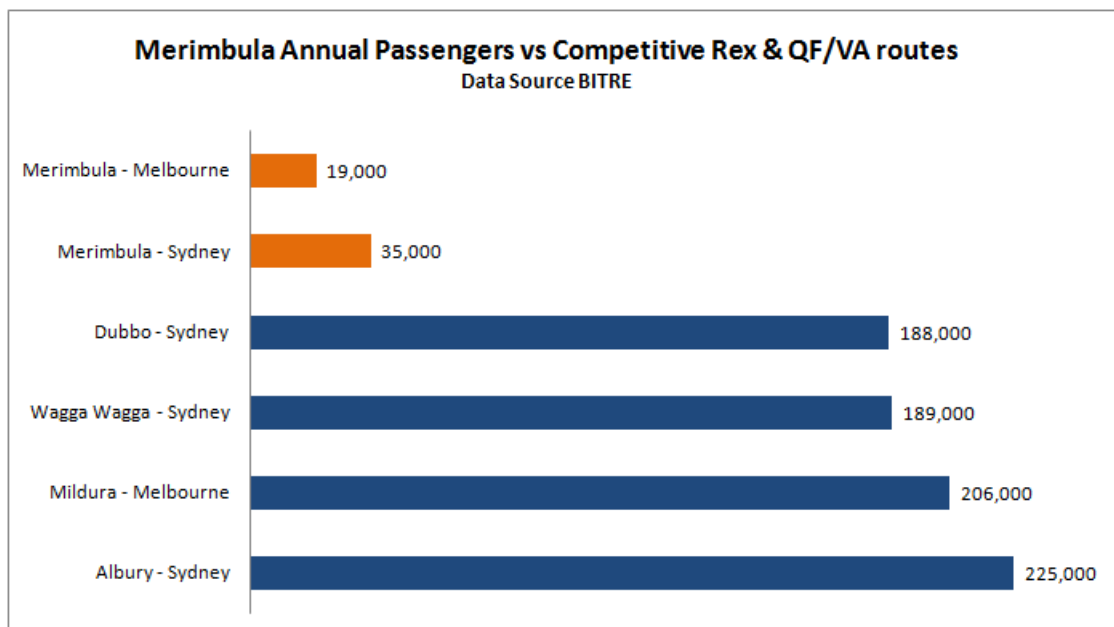


Having illustrated the backdrop of the current environment, allow me to address some of the specific questions raised in your letter.

### 1. 'Build it and they will come' approach adopted by Council

Council naively believes that there will be long queues of airlines wanting to operate to Merimbula once the air services are deregulated. Unfortunately this is a pipe dream that Rex has witnessed many times over the past decade in several communities, and every single one has ended as a white elephant.

The truth of the matter is that the Merimbula to Sydney route has around 35,000 passengers per year with the Merimbula to Melbourne route (which has never been regulated) achieving around 19,000 passengers per year. Routes this size cannot sustain competition, with or without regulation. As can be seen below in Rex's network, the vast majority of which are not regulated, only routes with over 130,000 passengers a year can sustain a second carrier, be it QantasLink or VARA.



Furthermore, it will be extremely naive to hope for another carrier to dedicate precious Sydney Airport slots to fulfil the weaker demand of Merimbula when currently Merimbula cannot even fill up 55% of the capacity that Rex has dedicated to it.

It is worth noting that if an airline were to service the Merimbula to Sydney route with a 74 seat Q400 aircraft, then a single daily return service would equate to 54,000 seats. This would represent a 65% load factor against the current 35,000 annual passenger numbers. Based on these dynamics, the most likely outcome would be a middle of the day return service at a time where off peak slots at Sydney Airport could possibly be secured. This would have a significant negative impact on passenger numbers, as the bulk of travel is for same-day return to Sydney, resulting in further decline in passenger numbers and the eventual loss of the air service.



## 2. Current Runway Inadequate

Rex questions the need to extend the Merimbula Airport runway by 200m beyond the **1602m** that is currently available in order to accommodate aircraft such as the 74 seat Q400. As outlined in the below table, QantasLink has either past operated, or currently operates, the Q400 aircraft into many airports that have runway lengths that are less than or comparable in length with the **1602m** that is available at Merimbula.

Airport with past or current Q400 flights	Available Runway Length
Horn Island (QLD)	1389m
Port Lincoln (SA)	1499m
Roma (QLD)	1504m
Charleville (QLD)	1524m
Moranbah (QLD)	1524m
Moree (NSW)	1613m
Rockhampton (QLD)	1645m
Weipa (QLD)	1645m

## 3. Rex may withdraw its services

Rex has clearly given its commitment in the letter to Council in 2015 that it intends to continue servicing Merimbula and it is extremely reprehensible and irresponsible if a public official has attempted to distort Rex's position for whatever agenda.

On the other hand, Council can be almost certain that Rex's services will be severely downgraded, if not withdrawn, if Council embarks on this cavalier exercise. It is well and good to receive government and ratepayer funding for airport works. However from experience (including some very recently), this will result in ongoing airport costs spiralling out of control. This includes increased depreciation, operating and maintenance costs for something that the airlines have not asked for. This then places huge upwards pressure on airport charges which in turn threatens the viability of the regional air service meaning that the ultimate outcome will likely be no regional air services at all.

A simple computation will clearly illustrate the folly of the initiative. If \$7M were invested, this would mean that the annual cost of running the airport would increase by the depreciation of this investment. Practically the \$7M airport works would be depreciated over 10 years which makes it \$700K in additional costs a year or \$13 extra per air ticket to Sydney or Melbourne. On top of that, operational costs will increase which will further add to the ticket price. When we realise that Rex does not even make a profit of \$4 on each ticket, we can understand how foolish it is to gamble away such a critical community service for some grandiose aspirations.

John, as you would know, Sydney Airport slots during peak periods are all fully allocated and international, domestic and regional carriers will not be able to mount new services during these peak periods. Rex has dedicated prime early-morning and late-evening slots at Sydney Airport to service what is at best a marginal Merimbula route so that your community can enjoy the benefits of a day-return trip to Sydney. Should Council embark on this careless venture and increase the passenger head tax significantly, Rex will redeploy these coveted slots to other more deserving regional cities and simply service Merimbula with one or two middle-of-the-day services. Rex may also terminate the services to Melbourne.





Rex applauds you for taking this matter seriously and defending the community's critical interest. Indeed you are right that you could be on the verge of losing something very precious which the council has taken for granted and is now on the verge of destroying.

Yours Sincerely

*Warrick J Lodge.*

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

*Copy: The Hon. Andrew Constance, Member for Bega, Minister for Transport & Infrastructure  
Leanne Barnes, General Manager, Bega Valley Shire Council  
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