

## Chapter 5

# The Postpandemic Future of Australian Regional Aviation: How Regional Express (Rex) Navigated the Challenges and Opportunities

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### **ABSTRACT**

*This chapter provides an analysis of the journey an Australian regional airline has adopted to navigate the extreme challenges posed by the effect of COVID-19 on the passenger aviation sector. Operating in a deregulated and highly competitive sector characterized by competing stakeholder requirements, this regional airline initially responded to the crisis by ceasing almost all its passenger operations. Simultaneously, the airline proactively lobbied the Australian government on behalf of regional carriers in an attempt to highlight the severity of the crisis. The analysis of the financial reports of this airline presents a stark view of the financial consequences of the global pandemic. Despite the negative financial outcomes they recorded, the regional airline predicts a return to profitability as soon as the impact of their strategic response, supported by government intervention, is realized and as soon as the effect of the pandemic is mitigated by vaccination rates and by a gradual return to COVID-19 normal operations.*

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## **INTRODUCTION**

This chapter portrays the current impact of the pandemic and government policy on regional aviation in Australia. In the pre-COVID-19 era, regional airports in Australia had already faced multiple challenges in maintaining and managing the infrastructure asset being heavily dependent upon cross-subsidization by local governments, with limited financial resources (Australian Airport Association, 2016). In the previous three decades, there had been a move to privatization of regional and hub airports, and in New South Wales (NSW) the state government gifted regional airports to the local governments, transferring the responsibility of managing these resources to the local communities. Recognized by the Senate Standing Committee on Rural and Regional Affairs and Transport (2019), “the Australian government does not have a direct role in the daily operation, maintenance or development of local aerodromes, which local governments and other organizations generally manage” (p. 6). This has enabled local airports to set their prices, subject to council governance arrangements, and comply with the Competition and Consumer Act 2010. Airlines providing regional aviation services have also faced many challenges pre-COVID-19, including new regulations, unavoidable high fuel and engineering costs, changes in the economic circumstances of regional communities (e.g., those arising from drought), and major industries relocating or closing.

The aviation sector is one of the most affected sectors by the COVID-19 pandemic. This chapter provides the background to regional aviation in Australia and includes a discussion of the impact of COVID-19 from two perspectives. First, the authors address the impact of the pandemic on the traditional paradigm of operating and maintaining airports to serve the public interest, while also maintaining the necessary infrastructure for air service providers to engage in passenger facilitation. The relationship between stakeholders at regional airports is interdependent and symbiotic, as an airport cannot coexist without airlines. Airports were initially established to serve the interests of the community and society; therefore, privatized airports should be publicly accountable to their stakeholders; thus, the importance of stakeholder accountability in regional aviation is highlighted. Second, the authors exemplify the effect of the pandemic on regional aviation stakeholders by the use of a case study of Regional Express (Rex) Airlines to showcase the survival of the fittest concept and how the governments’ assistance has saved it from bankruptcy.

Given the vast geographic nature of Australia and its population distribution, many communities depend on air services. Privatization reforms have resulted in less concentration on pure airport functions and a clustering of different commercial activities (Zakrzewski, 2009). Airports in Australia became natural monopolies through the federal government’s decisions to privatize major hub airports from 1996 to 2002 and gift regional airports to local councils from 1986 to 1991, under the Aerodrome Local Ownership Program. These actions reduced the federal government’s fiscal burden for maintaining the nation’s aviation infrastructure (Bureau of Infrastructure, Transport, and Regional Economics [BITRE], 2008). While regional airports were gifted to local councils, major airports were privatized: Melbourne, Brisbane, and Perth in 1997, 14 further airports in 1998, and finally Sydney airport in 2002. This chapter begins with a background on the privatization of Australian regional airports. Then, the authors investigate (via an analysis of financial reporting and published articles) the effect of COVID-19 on the major Australian regional carrier, Rex. The chapter concludes with how Rex has survived the COVID-19 challenge so far and with some policy suggestions for the future. This chapter acknowledges that some regional air services are provided for commercial purposes (example.g., mining, agriculture or tourism), rather than for the greater access to health, education, and other key services which are

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