Supplementary Submission to the Senate Standing Committee on Rural & Regional Affairs & Transport

Regarding the Committee's inquiry into the State of Australia's Aviation Sector and its Ability to Deliver Reliable and Affordable Services to Rural, Regional and Remote Communities

With specific reference to – 'policy and practical measures in place, or that could be established, to assist the aviation sector to provide services to rural, regional and remote communities'.

Submitted by: Ian Woods **01 December 2025**

PROFESSIONAL CONTEXT AND DISCLAIMER
My professional background includes formal qualification as an economist, service as a Royal Australian Air Force (RAAF) pilot, commercial airline pilot with major carriers, superannuation trustee, president of the Australian and International Pilots Association (AIPA), and current employment with the Civil Aviation Safety Authority (CASA). This submission is an independent policy initiative, drawing on my personal expertise, and is not directed, endorsed, or contributed to by CASA.

PURPOSE
This supplementary submission focuses on my November submission's identification of a fundamental cost-of-capital barrier facing regional and new-entrant Australian carriers. It explains why a structural asymmetry persists, quantifies its practical impact on fleet renewal economics, and proposes a targeted public-private partnership to evaluate and implement a durable policy solution.

EXECUTIVE SUMMARY
Fleet Co addresses a capital-access barrier that consigns many regional carriers to sub-investment-grade financing (8–10%) and recurring government intervention. By separating aircraft asset risk from operator credit risk, aggregating a diversified portfolio, and using a limited government credit-enhancement facility, Fleet Co can likely mobilise institutional capital at near-investment-grade rates (5.5–6%). This transformation materially improves the economics of REX-type fleet renewal, reducing the likelihood of future bailouts and protecting the Commonwealth's investment in New Rex.

Key Ask: That the Committee consider endorsing the establishment of an Aviation PPP Evaluation Taskforce to validate Fleet Co modelling, design a practicable Special Purpose Vehicle (SPV), confirm regulatory pathways, quantify the Commonwealth's indicative financial exposure, and report its findings within six months.

1. THE COST OF CAPITAL PROBLEM: A SIMPLE EXPLANATION
When airlines buy or lease aircraft, they need capital—either borrowed money or investor equity. The price they pay for this capital (the 'cost of capital') directly affects their operating costs, fare competitiveness, and financial viability. Major carriers access capital at significantly lower rates than most regional carriers can. This creates an invisible but powerful competitive advantage that compounds over time. For REX-type operators, this cost differential is ultimately decisive for survival. An additional $14–26 million in financing charges per aircraft—before the aircraft generates any revenue—makes profitable operations financially unsustainable on thin regional routes.

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This explains recurring insolvencies, ageing fleets, and government bailouts. It is not operational incompetence; it is a structural capital market failure.

2. WHY MOST REGIONAL OPERATORS CANNOT REPLICATE ALLIANCE'S SUCCESS

Alliance Aviation's achievement of 5.6% financing represents the ceiling of private-market optimisation for sub-investment-grade operators. This success required:

- Fleet ownership: 72 wholly owned aircraft (no dependence on expensive operating leases)
- Operational excellence: 94% on-time performance and industry-leading reliability
- Diversified revenue: Qantas wet lease contracts, 15 major mining sector contracts, FIFO market dominance
- Scale: $770M annual revenue, $207M EBITDA, 113,621 annual flight hours
- Years of relationship building: Established banking relationships, proven track record, financial stability

REX demonstrates this reality.

Despite serving essential communities and operating critical routes, REX could not access Alliance-level capital through private markets alone. For new entrants, the result is 8–10% financing costs, which makes startup operations ultimately unprofitable, leading in turn to recurring government intervention.

Understanding the Structural Market Failure

This capital access differential represents a structural market failure, not operational inadequacy. Regional carriers serve essential public functions (connectivity, emergency services, economic development) but cannot achieve the scale or credit ratings that would provide capital market access on viable terms. This creates a policy rationale for government facilitation parallel to infrastructure financing—enabling private capital deployment for public benefit through limited credit enhancement.

3. ALLIANCE AVIATION: PROOF THE MODEL WORKS

Alliance Aviation provides pragmatic proof of the Fleet Co concept by showing how aircraft ownership, scale and established financing relationships work together to reduce capital costs and enable sustainable fleet modernisation.

Key Alliance indicators for FY2025

- **Revenue:** $769.7 million
- **EBITDA:** $207 million
- **Fleet ownership:** 72 wholly owned aircraft.
- **Financing efficiency:** ~5.6% cost of debt
- **Fleet modernisation:** active replacement of legacy types with E190s.

Why Alliance matters for the Fleet Co argument

- **Asset ownership improves lender security:** owning aircraft converts leasing exposure into collateral that materially improves borrowing terms.
- **Scale and diversified contracts reduce revenue volatility:** large, multi-sector contracts make aggregated financing more attractive to institutional lenders.

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- **Established relationships lower risk premium:** a sustained operating record and bank relationships enable near-investment-grade pricing that smaller operators cannot access.

Limitations of the Alliance example

- Alliance's position is the result of sustained scale, accumulated capital, and long-term contracting; these conditions are not replicable for typical regional carriers or new entrants without structural support.
- Alliance proves the mechanism and outcome but not the feasibility for every operator; it therefore validates Fleet Co as a method to deliver the same mechanics at portfolio scale.

Policy implication

- The Alliance case shows that owning modern, fungible aircraft and aggregating revenue streams supports near-investment-grade financing. Fleet Co applies these same principles across a diversified portfolio, **separating asset risk from operator risk** so that operators who cannot individually achieve Alliance's scale can nonetheless benefit from similar financing outcomes.

4. FLEET CO: EXTENDING ALLIANCE'S MODEL TO OPERATORS WHO NEED IT

Fleet Co replicates Alliance's successful ownership model at scale, making it accessible to operators who cannot achieve it alone:

Why Fleet Co Works

- Aircraft ownership: Fleet Co owns the aircraft (like Alliance) and leases to regional operators.
- Risk aggregation: Diversifies across multiple operators/routes, converting individual high-risk profiles into a pooled investment-grade portfolio.
- Government credit enhancement: Limited PPP guarantee enables institutional capital access at near investment-grade rates.
- Institutional capital: Superannuation funds can provide financing at 5.5-6% (matching Alliance's access is transformative for REX)
- Scale economies: Bulk aircraft orders (manufacturer discounts), maintenance aggregation, standardised configuration.

Who Fleet Co Would Serve

- REX-type operators: Currently excluded from capital markets or facing 8-10% rates, need transformational intervention to modernise their fleets.
- New entrants: Cannot access affordable aircraft financing without an established track record and need venture capital-like access to enter the market.
- Small regional operators: Lack scale for fleet ownership, depend on expensive operating leases, and cannot negotiate favourable financing.
- Alliance-type operators (optional): May participate for marginal optimisation, but do not require Fleet Co for survival.

Economic Impact for REX-Type Operators

For $50 million of debt over 12 years:

- REX at 8-10% (if accessible): $48-60M total interest
- Fleet Co at 5.5-6%: $33-36M total interest.

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- Savings: $12-24M per aircraft = viability transformation

For REX's $260–400M fleet renewal requirement:
- At 8-10% financing: $21-40M annual interest burden (likely exceeds operating profit potential)
- At Fleet Co 5.5-6%: $14-24M annual interest burden (potentially viable with operational efficiency)
- Annual savings: $7-16M = difference between insolvency and sustainability

Not a Subsidy—A Risk Transformation
- Fleet Co charges near investment-grade rates (5.5-6%), but not below market rates.
- Government-backed cost of funds: Financing cost plus appropriate risk premium to match commercial near investment-grade rates: Comparable to Alliance's 5.6%
- Justified by risk reduction: Portfolio diversification, and a limited government guarantee converts individual sub-investment-grade risks to achieve a near investment-grade profile.
- Not a competitive distortion: A levelling of the playing field designed according to international standards, which does not advantage any specific operator.

Risk Separation: The Key to Near Investment-Grade Economics
Fleet Co achieves near investment-grade financing rates not by making regional operators, investment-grade, but by separating asset risk from operator risk. Institutional investors underwrite the aircraft portfolio—modern, fungible aircraft serving government-supported routes—rather than any specific operator's creditworthiness. Operator failure becomes a temporary re-leasing event (3-6 months) rather than a capital loss event, fundamentally changing the risk profile that determines financing costs.

The Fleet Co structure incorporates multiple layers of risk protection:
1. Asset ownership separation: Aircraft remain government/institutional-owned assets, not operator balance sheet items.
2. Residual value protection: Modern aircraft retain 60-70% residual value, thereby providing substantial collateral.
3. Portfolio diversification: Multi-operator structure diversifies route-specific and operator-specific risks.
4. Regulatory continuity: CASA safety oversight remains unchanged—regulatory standards are maintained regardless of financing structure and ongoing air worthiness obligations.
5. Re-leasing capacity: Aircraft can be redeployed to alternative operators within 3-6 months in event of operator failure.

5. INTERNATIONAL PRECEDENTS FOR GOVERNMENT-FACILITATED AVIATION FINANCE
Fleet Co's design reflects proven international models where governments enable private capital deployment through limited credit enhancement:

United Kingdom: Private Finance Initiative (PFI)
PFI aviation projects achieved investment-grade financing for sub-investment-grade operators through Special Purpose Vehicles with government guarantees averaging 10-15% of project value. HM Revenue & Customs guidance (INTM517070) confirms SPV credit rating enhancement through

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government participation. UK National Audit Office reports (2007–2018) document successful risk transfer and value-for-money outcomes in infrastructure projects using this structure.

Japan: JOLCO Structures
Japanese Operating Lease with Call Option (JOLCO) structures enabled airlines to access aircraft at near-investment-grade rates through tax-advantaged SPVs with Development Bank of Japan participation. These arrangements typically require 12-20% government credit enhancement and have facilitated over $50 billion in aircraft financing since the 1990s. Legal analyses from Morgan Lewis and Chambers demonstrate the commercial viability and risk mitigation inherent in these structures.

Implications for Australia
These precedents suggest that, when carefully designed and adapted to domestic legal and tax settings, government facilitation can mobilise private capital while limiting subsidy risk; any applicability to Australia should be evaluated by the Taskforce. The proposed Australian Fleet Co model falls within established international parameters: Modelling suggests a $100M guarantee against a $260–400M programme would imply 25–38% credit enhancement; the Taskforce should validate whether this sizing is necessary or can be optimised to reduce fiscal exposure.

6. GOVERNMENT'S CHOICE: STRUCTURAL SOLUTION OR RECURRING BAILOUTS
Government has already invested $150+ Million in REX's survival through Air T's acquisition. However, this does not address the structural capital access asymmetry that caused REX's collapse.

The Predictable Trajectory Without Fleet Co
- Years 1-2 (2025-2027): Air T operates REX's ageing Saab fleet; maintenance costs begin accelerating.
- Years 3-5 (2027-2030): Fleet reliability deteriorates, unscheduled maintenance spikes, fleet renewal becomes increasingly urgent.
- Fleet renewal barrier: REX cannot access capital markets at viable rates ($260-400M financing requirement at 8-10% = financially unsustainable)
- Government exposure: Additional $100-150M bailout required to prevent service collapse.
- Indicative additional government exposure in the baseline scenario is estimated at $250–300M; this figure is model-dependent and should be validated by the Taskforce.

The Fleet Co Alternative
- Government credit enhancement: Limited guarantee (<$100M) enables institutional capital mobilisation)
- REX fleet renewal: $260-400M financed at 5.5-6% through Fleet Co, economically viable.
- Fiscal efficiency: Government facilitates private capital, avoids direct funding.
- Structural solution: Addresses root cause (capital access) rather than operational symptoms
- Protected investment: Current $150M investment secured by sustainable operating model.

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Government Risk Appetite and International Context
The proposed government exposure of <$100M reflects conservative international precedent. UK PFI guarantees averaged 10-15% of project value; Japan's JOLCO structures typically require 12-20% government credit enhancement.

For a $260-400M REX fleet renewal, a $100M guarantee represents 25-38% coverage—appropriately sized to mobilise institutional capital while protecting taxpayers. This structure has proven effective internationally for enabling private capital deployment in aviation infrastructure without creating excessive fiscal exposure.

CONCLUSION
Three empirically grounded findings support the case for investigation:

> **Alliance Aviation demonstrates aging aircraft economics are decisive:** Despite optimal private-sector conditions (fleet ownership, 5.6% financing, operational excellence, scale, diversification), Alliance's November 2025 earnings guidance documents approximately $1M monthly maintenance overruns and EBITDA projections $40-60M below consensus expectations. While Alliance attributes the shortfall to multiple factors including supply chain inflation and higher depreciation charges, repairs and maintenance costs alone have exceeded budget by approximately $1M monthly, providing empirical evidence that management quality and operational excellence cannot fully offset the economic challenges of aging aircraft.
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> **REX faces the same trajectory with older aircraft:** Based on typical aircraft aging patterns, REX's Saab 340 fleet (20-25+ years) is likely to experience maintenance cost acceleration within 2-3 years. Government's $150M investment through Air T acquisition provides operational continuity but does not address the underlying structural challenge of fleet age. Without fleet renewal at economically viable financing rates, additional government support or service reductions become increasingly probable.
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> **Fleet Co addresses the root cause through modern aircraft at viable rates:**
> The proposed structure would enable transition from aging-aircraft economics (characterized by accelerating maintenance costs) to modern-aircraft economics (predictable, efficient operations) at near-investment-grade financing rates (5.5-6%). This represents a structural solution rather than incremental improvement to existing operational constraints.

Two Policy Pathways

Pathway 1: Structural Reform (Fleet Co Investigation)
- $2M investigation validates whether modern aircraft transform economics.
- Limited government credit enhancement (<$100M) enables institutional capital mobilisation.
- Addresses root cause: Fleet age and capital access barriers.
- Protects existing $150M investment through sustainable operating model.

Pathway 2: Reactive Management (Baseline Scenario)
- Continue supporting aging aircraft operations.

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- Likely maintenance cost acceleration following Alliance pattern.
- Projected additional government exposure: $250-300M by 2030.
- Potential for recurring crises requiring emergency interventions.

The Strategic Question
Alliance Aviation's experience demonstrates the practical limitations of private-sector optimisation in overcoming aging aircraft economics, even under optimal conditions that typical regional operators cannot replicate. Government has invested $150+M in REX through Air T acquisition, creditor support and policy commitment to regional connectivity.

The proposed Taskforce investigation would determine whether modern aircraft financed through government-facilitated structures can achieve operational sustainability that neither unassisted private capital markets, nor government support of aging aircraft operations appear capable of delivering independently.

Alliance Aviation's November 2025 experience provides current empirical evidence of the aging aircraft cost challenge. REX's fleet age profile suggests similar maintenance cost pressures are likely to emerge within 2-3 years on current trajectory.

I respectfully submit that the Committee's inquiry represents an opportunity to evaluate structural solutions to recurring regional aviation challenges. The question for consideration is whether to investigate this approach while maintaining policy flexibility, or to continue with existing frameworks until circumstances require reactive responses.

RECOMMENDATION
That the Committee consider recommending that the Government establish an Aviation PPP Evaluation Taskforce with the mandate and structure set out below, and that the Taskforce report its findings and implementation roadmap within six months of appointment.

Indicative Terms of Reference
- Validate the cost of capital differential: Qantas (~5%), Alliance (5.6%), REX-type operators (8-10% or market exclusion), and quantify impact on regional aviation viability.
- Assess why Alliance's successful model cannot be replicated by typical regional operators without structural intervention.
- Model financial impacts of Fleet Co near investment-grade financing (5.5-6%) versus regional-operator rates (8-10%) on REX's $260-400M fleet renewal.
- Design regulatory frameworks enabling SPV structures while maintaining CASA safety standards and Aviation Act compliance.
- Assess government credit enhancement mechanisms that minimise fiscal exposure whilst maximising private capital mobilisation.
- Develop a risk allocation framework for collaboration by government, institutional investors, manufacturers, and airline operators.
- Coordinate with the Productivity Commission airfare inquiry to demonstrate how capital access affects regional fare structures.

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- Prepare, as proof-of-concept, an implementation roadmap for REX's fleet renewal requirements

Suggested Taskforce Composition
- Chair: Independent aviation finance expert
- Department of Infrastructure, Transport, Regional Development representative
- Department of Treasury representative
- CASA representative
- Industry representative: REX/Air T, Regional Aviation Association
- Institutional capital representative: Superannuation Infrastructure Fund
- Aircraft manufacturing representative: Avions de Transport Régional or Deutsche Aircraft

Success Metrics
Deliver a public Taskforce report to the Committee within six months that includes: validated modelling, indicative term sheets from institutional investors, a regulatory/SPV design, quantified government exposure (with recommended cap), and a clear pilot implementation plan for Fleet Co.

Thank you for considering this submission. It is offered in support of the Committee's mandate to identify structural solutions that ensure dependable, affordable, and sustainable regional air services.

SOURCE REFERENCES
1. Qantas Group FY25 Results Investor Presentation, Qantas Group, ASX lodgement, 28 August 2025 — investor presentation with debt portfolio metrics and WACC commentary; used to support headline Qantas cost-of-debt statements.
2. Qantas Group Annual Report 2025, Qantas Group, ASX lodgement, 5 September 2025 — audited annual report and financial statements; used for group leverage and capital-cost disclosures.
3. Alliance Aviation Group FY2025 Results and ASX announcements, Alliance Aviation (AQZ), FY2025 ASX releases and appended financial statements — primary source for Alliance revenue, EBITDA, fleet ownership and reported cost of debt.
4. Alliance Aviation Services Limited FY26 Earnings Guidance, ASX release, 7 November 2025 — management guidance cited for FY26 outlook and commentary on fleet modernisation impacts.
5. Rex Airlines administration materials and Ernst & Young administrator filings, 2024–2025 — insolvency notices, creditor reports and administrator statements used to document REX’s capital distress, administrator actions and disclosed creditor outcomes.
6. Australian Government communications regarding support for Air T’s acquisition of Rex, 2025 — Commonwealth statements and Ministerial releases documenting the government’s role and announced support measures.
7. HM Revenue & Customs INTM517070 (SPV credit rating guidance), HMRC internal guidance — referenced for precedent on SPV credit enhancement and how government participation can affect credit assessment of project SPVs.
8. UK National Audit Office reports on PFI (selected reports 2007–2018) — NAO analyses on PFI structures, risk transfer, guarantee sizing and value-for-money considerations cited as precedent for limited government credit enhancement.
9. Morgan Lewis / Chambers and legal practice guides on JOLCO / JOL structures (selected publications) — legal and tax treatment analysis for Japanese JOLCO structures referenced for international precedent and mechanism explanation.
10. Development Bank of Japan and Japan tax authority (NTA) papers on aircraft finance and SPC/JOLCO tax treatment — background on JOLCO effectiveness and historical government participation in aircraft SPVs.
11. Singapore Government and Temasek disclosures (COVID-19 aviation support, 2020–2021) — examples of state-facilitated capital measures in aviation used for comparative context.
12. Industry aviation finance commentary and market data (Ishka, CAPA, Cirium) — market practice notes and comparative financing structures used to corroborate financing benchmarks and industry norms.

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13. Australasian Transport News coverage, 7 November 2025 — industry press coverage used to corroborate timelines and public statements around Alliance FY26 guidance and sector commentary.
14. ASX filings and public disclosures for Alliance Aviation (AQZ) and historical Rex (REX) listings — primary public filings used to cross-check financial figures and corporate announcements.
15. Administrator reports and ASIC filings/notifications where applicable — supplementary public filings used for insolvency procedure details and creditor outcomes.

NB: This submission is based solely on publicly available sources, legal precedents, and policy analysis; a full bibliography is as provided above.