ALGA Submission

Productivity Commission Inquiry into the Determinants of Regional Airfares

Building Better Communities.

The Australian Local Government Association (ALGA) welcomes the opportunity to make a submission to the Productivity Commission's inquiry into the determinants of regional airfares. This submission draws heavily on ALGA's earlier submission to the Senate Rural and Regional Affairs and Transport References 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 (2025)* (Senate inquiry). It updates and reframes those views to respond directly to the matters raised in the Productivity Commission's December 2025 call for submissions.

ALGA is the national voice of local government in Australia, representing 538 councils across the country. Established in 1947, ALGA is a federation of state and territory local government associations and has a long history of contributing to issues of national significance affecting local government and local communities. ALGA works with the Australian Government and state and territory governments to ensure local government perspectives are reflected in national policy development. This submission should be read in conjunction with any separate submissions from state and territory local government associations and individual councils.

Local governments own or operate the majority of Australia's regional airports and aerodromes. They are therefore at the frontline of the regional aviation system, bearing significant infrastructure, safety and compliance costs, while also witnessing first-hand the impacts of high airfares and limited services on communities, businesses and essential services. ALGA's perspective is grounded in this practical experience across regional, rural and remote Australia.

Improving Affordability and Access: ALGA's Key Proposals

ALGA proposes:

1. **A national approach to regional aviation policy**, recognising the essential service nature of many routes.

2. **Sustainable funding for regional airports**, including recurrent support for safety-critical infrastructure and compliance.

3. **Targeted fare and access measures** for residents of remote and high-cost regions, rather than blunt, one-size-fits-all controls.

4. **Greater transparency in airline and airport cost data**, to inform evidence-based policy decisions.

5. **Stronger engagement with local governments** in route planning, service design and intervention mechanisms.

Why Regional Aviation is Critically Important

Regional economies, services and liveability

Access to regular and affordable air services is essential to the economic and social wellbeing of regional communities. Aviation underpins:

- business connectivity and workforce mobility;

- tourism and visitor economies;

- access to specialist health, education and government services; and

- emergency response and disaster recovery.

In many regional and remote communities, particularly in remote Australia, access to essential health services, including medical, dental, maternity and allied health care, relies heavily on visiting practitioners who travel by air. Where airfares are high or services unreliable, communities face reduced access to timely care and poorer health outcomes.

For many remote and island communities, aviation is not a discretionary mode of transport but an essential service. Where fares are high or services unreliable, the cost burden is borne disproportionately by regional residents, local businesses and councils.

Productivity and regional development

High regional airfares act as a brake on productivity by increasing transaction costs, reducing labour mobility and limiting firms' access to markets. They also weaken the attractiveness of regional areas for investment, skilled workers and population growth. This undermines broader national objectives for decentralisation and regional development.

First Nations communities and Closing the Gap

Regional aviation plays a critical role in connecting First Nations communities, particularly in remote Australia, to health care, education, justice services and cultural obligations. Affordability and reliability of air services directly affect outcomes under Closing the Gap. High airfares and limited service options can have especially significant impacts for Aboriginal communities in remote regions, where alternative transport options are limited or non-existent. Many of these routes face the highest fares and the least competition.

Demand for Regional Air Services and the Role of Fares

Demand for regional air services is shaped by a mix of factors, including population size, remoteness, income levels, industry structure (for example, FIFO employment), tourism demand and the availability of alternative transport.

ALGA's earlier evidence set out in its submission to the Senate inquiry highlighted that:

- demand in many regional markets is relatively inelastic, particularly for essential travel;

- high fares suppress discretionary travel and tourism; and

- post-COVID service reductions have compounded affordability concerns, even where headline passenger numbers have recovered.

Local governments consistently report that fare levels influence not only passenger volumes but also the frequency and sustainability of services.

Key Determinants of Regional Airfares

Structural cost drivers

Regional airfares reflect a fundamentally different cost structure from capital city routes. Key drivers include:

- lower passenger volumes and lack of scale;

- higher per-passenger airport operating costs;

- long distances, fuel costs and limited network efficiencies;

- aircraft type constraints and maintenance costs; and

- workforce availability in regional locations.

Local governments absorb many airport-related costs, including runways, lighting, security, compliance and inspections. These costs are largely fixed regardless of passenger numbers. Councils also face increasing operational challenges associated with outdated security screening equipment and ambiguous compliance triggers, which can result in significant unplanned capital and operational expenditure.

Airport charges and local government constraints

ALGA notes that airport charges at regional airports are frequently cited as a contributor to fares. However, for council-owned airports these charges are typically cost-recovery mechanisms, not profit-seeking tools. Councils face constrained revenue bases, rising regulatory and safety compliance costs, and limited access to ongoing operational funding.

ALGA notes that while improved transparency in airline pricing practices and regulatory cost drivers would support better policy outcomes, local government airport cost structures can be commercially sensitive and vary significantly by scale and operating context. Any transparency measures relating to local government airports should therefore be applied at an aggregated or policy level to avoid unintended impacts on commercial negotiations and funding responsibilities.

Without adequate government support, councils have little capacity to further reduce charges without compromising safety or shifting costs onto ratepayers.

Competition, Market Structure and Barriers to Entry

Many regional routes are served by a single carrier, and market churn has increased since COVID-19. Barriers to entry and expansion identified in ALGA's previous submission include thin and volatile demand, high upfront and sunk costs, limited access to suitable aircraft and crews, and commercial risk associated with short-term route viability.

Where services are lost, the impacts on communities are immediate and severe. Mechanisms to restore routes are often ad hoc and reactive.

Government Policies and Interventions

ALGA supports targeted government intervention where markets cannot deliver affordable and reliable outcomes. Existing measures, such as fare caps, subsidies and route support, have demonstrated benefits but are uneven across jurisdictions.

From a local government perspective, effective policy settings should:

- recognise regional aviation as essential infrastructure;

- provide stable, long-term funding for council-owned airports;

- align Commonwealth, state and territory programs; and

- avoid cost-shifting regulatory burdens onto councils.

Improving Affordability and Access: ALGA's Key Proposals

ALGA proposes:

1. **A national approach to regional aviation policy**, recognising the essential service nature of many routes.

2. **Sustainable funding for regional airports**, including recurrent support for safety-critical infrastructure and compliance.

3. **Targeted fare and access measures** for residents of remote and high-cost regions, rather than blunt, one-size-fits-all controls.

4. **Greater transparency in airline and airport cost data**, to inform evidence-based policy decisions.

5. **Stronger engagement with local governments** in route planning, service design and intervention mechanisms.

Conclusion

Regional airfares are shaped by structural, geographic and market realities that differ fundamentally from metropolitan aviation. Local governments play a central but often under-recognised role in sustaining the system. ALGA encourages the Productivity Commission to reflect these realities in its analysis and to recommend policy settings that balance affordability, safety and long-term service viability for regional Australia.

ALGA would welcome the opportunity to participate further in the inquiry, including through hearings and consultations.

Contact details

Robert Knight
Policy Director