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DETERMINANTS OF REGIONAL AIRFARES

Submission to the Productivity Commission



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INTRODUCTION

Canberra Airport welcomes the opportunity to provide this submission to the Productivity Commission's inquiry into the *Determinants of regional airfares*. Communities across the ACT and southern NSW rely on the aviation industry as an essential service for business, government, health and personal connectivity, however, these communities frequently experience disproportionately high airfares. This inquiry is a timely opportunity to assess the existing structural and policy factors that adversely impact passengers from the national capital region.

Canberra Airport is a local family-owned business with a long-standing commitment to the people and communities of the national capital region. Since the purchase of the airport in 1998, a sustained program of development and renewal has been undertaken to transform the airport into a nationally significant transport asset. This growth has delivered substantial economic, social and employment benefits across the ACT and southern NSW. Approximately 20,000 people across diverse aviation, defence, aerospace, commercial and government functions work at Canberra Airport and its surrounding precincts each day. This equates to 7.5 per cent of the ACT's total workforce, demonstrating its evolution from a traditional infrastructure provider to a broad-based economic hub that supports the region.

The airport's ongoing investment has ensured that the residents of the ACT and southern NSW have access to an airport with modern facilities, iconic terminal design and an unwavering commitment to community service. The airport contributes \$5 billion annually to gross regional product, with this expected to increase to almost \$6.8 billion by 2028. These benefits are not confined to the ACT, rather, they flow across a wide regional catchment. In the 12 months to September 2025, 2.8 million passengers travelled through Canberra Airport, with a significant proportion of them being residents of the surrounding regional areas. For communities stretching from the South Coast to the Southern Highlands, the Central West and the Riverina, Canberra Airport functions as both the gateway to the national capital region and an access point to domestic and international markets, as well as an entry point for tourists and business visitors.

As of February 2026, seven airlines operate to 12 domestic and international destinations from Canberra, offering residents and visitors extensive options for leisure, business, government and essential travel. These services also play a vital role in supporting tourism and ensuring regional residents can access healthcare, emergency services and broader economic opportunities.

This submission seeks to encourage the Commission to consider the structural and policy settings that need to be addressed to ensure airfares are fair, transparent and reflective of the market. It highlights the key issues affecting regional passengers, including the impact of airline pricing behaviour, the consequences of limited domestic competition, the need to better utilise bilateral air services agreements, the importance of maintaining curfew-free operations at Canberra Airport and the critical role of Sydney Airport's operating environment.

Canberra Airport's unique role, serving both the national capital and a vast regional catchment, allows it to offer practical insights to the Commission. It is hoped that the analysis and recommendations contained in this submission will support the development of policy settings that strengthen the aviation network and deliver more reliable and more affordable air services for regional passengers.

SUPPORTING REGIONAL COMMUNITIES

Canberra Airport's classification as a capital city airport does not prevent its interest in, or contribution to, this inquiry as much of its operations and catchment extend beyond the boundaries of the ACT. As the gateway to southern NSW, Canberra Airport is critical to connecting rural and regional communities of the region with domestic and international markets. These communities rely on Canberra Airport for reliable and efficient aviation services that connect them to domestic and international destinations.

Canberra Airport plays a critical role in supporting the ongoing economic and social growth of these regions. This is because the airport facilitates visitation to these communities, can support the movement of time-sensitive freight for regional producers and provides a critical link for residents to access other destinations. Many of the residents of southern NSW use Canberra as their primary airport due to the regular availability of flights to key markets, the seamless passenger journey and the road network that connects the airport to the regions.

While Canberra Airport provides critical access to those seeking the national capital and its institutions, it is also deeply embedded in the social and economic prosperity of the rural and regional communities of southern NSW. The state-of-the-art terminal and network of domestic and international services underpin tourism, business travel and specialise health access for regional residents, while the airport's freight facilities provide the support to regional producers to access key trade markets.

Because of its unique position supporting both the national capital and regional communities, Canberra Airport offers a valuable perspective. It is hoped the insights offered in this submission will assist the Commission to make recommendations to the Commonwealth Government on how to deliver a more competitive, reliable and affordable aviation network.

COMPOSITION OF AIRFARES

High airfares often become the deciding factor in whether people choose to fly. It is important to note that airfares generally consist of four components – the base airfare, ancillary airline charges, government charges and airport charges. It is the base airfare, which is entirely set by the airlines, that forms the most significant component of the airfare. While this charge is designed to cover the cost of operating a flight, including aircraft maintenance, fuel and crew wages, airlines have the power to set this charge at whatever level they deem appropriate. However, on routes with limited regular services or reduced competition, airlines tend to increase their profit margins rather than simply covering their core costs, because they have the market power to do so. Regional communities are disproportionately affected when an airline chooses to set the base airfare at a high level, as there is little to no competition to keep pricing in check.

It is unfortunately the case that regional passengers are often charged for higher fares per kilometre than those travelling from the four gateway airports. This is despite the aircraft type, flight length and airlines servicing the routes being relatively the same. This demonstrates the strategic pricing behaviour airlines enact to extract excessive revenue from smaller markets, particularly those that service regional communities, and it is known that residents have no practical alternatives, especially if they have to travel interstate or internationally.

Passengers also have to contend with ancillary airline charges, which have been progressively introduced for services that were once standard. When purchasing tickets, passengers are often required to pay extra costs in addition to the base airfare for checked baggage, seat selection and in-flight refreshments. For most travellers, these “optional” features are in fact essential and by electing to add these extras, it increases the cost of the airfare even further. The decision by airlines to begin charging for these services that were once part of the principal airfare has increased the all-in cost of air travel, particularly for regional travellers.

In comparison to the charges airlines impose on passengers, airport charges are both stable and relatively minor. These charges are contracted with airlines over long-term periods, ensuring they remain predictable and do not fluctuate in the way airline charges do.

Government taxes and fees are another component of airfares which are applied uniformly across the country. As these charges are fixed, they cannot be attributed to the stark price differences between regional and metropolitan routes.

While the current Senate inquiry by the Rural and Regional Affairs and Transport References Committee in to the state of Australia’s aviation sector and the ACCC’s quarterly domestic airline monitoring are both important mechanisms to review the conduct of airlines, further analysis is required. The Commission is urged to consider the value of the establishment of a Treasury-led taskforce to examine market concentration, capacity decisions and yield-management practices and how these influence the fares airlines set.

The Commission must also recognise that the primary driver of higher airfares is airline pricing behaviour, not airport charges or government taxes. Without greater scrutiny of the pricing strategies enacted by airlines, particularly on routes with limited competition, regional communities will continue to be subjected to disproportionate airfares. Achieving a more accountable pricing environment will restore increased confidence in the domestic aviation sector by improving regional connectivity and ensuring fairer access to air travel regardless of where a passenger lives.

COMPETITION IN THE DOMESTIC MARKET

Increasing competition in the domestic aviation industry has to be a priority for the Commonwealth Government to ensure reliable and affordable air services are delivered to regional communities. The domestic market is one of the most concentrated in the world. This is particularly the case at Canberra Airport where the Qantas Group and Virgin Australia collectively carry approximately 98 per cent of all domestic passengers. The Qantas Group account for between 60-65 per cent, while Virgin Australia carries between 30-38 per cent. The remaining 2 per cent are carried by Link Airways and Fly Pelican.

In the absence of targeted government intervention, existing policy settings preserve the market power of airlines rather than promoting competition. For those passengers from regional communities who rely on Canberra as their primary airport, the concentrated nature of the market means higher fares, fewer choices and inconsistent reliability. When competition is limited, airlines are not incentivised to improve on-time performance, reduce cancellations or improve service delivery. This is acutely felt in

regional communities when the cancellation of services cause significant consequences such as missed medical appointments or lost business opportunities.

It has long been Canberra Airport's view that there must be a third independent domestic airline. To ensure genuine competition, they must be able to secure at least 15 per cent of the domestic market. This also requires access to at least 15 per cent of slots into-and-out of Sydney Airport at peak times. Without this, no new entrant can viably compete with the two dominant carriers. For residents of the ACT and southern NSW, access to Sydney is essential as it serves as the main hub for tourism, business and broader domestic and international connections.

Providing support to new entrants is also critically important. The collapse of Bonza in 2024 and the subsequent administration of Rex Airlines highlights the systematic challenges faced by carriers attempting to challenge the dominance of the Qantas Group and Virgin Australia. Both airlines offered lower fares and improved choice for regional passengers, yet the structural barriers of the domestic market limited their ability to remain competitive and viable.

Without targeted intervention from the Commonwealth Government, the likelihood of a third independent domestic airline emerging in the foreseeable future is unlikely. Structural barriers such as economies of scale, restricted access to peak-hour slots and the high capital and regulatory costs of entry favour the two major airlines. It is clear that market forces alone will not deliver the competition the domestic market needs. The Commonwealth Government must consider practical measures that assist new entrants to enter and expand within the domestic market. This includes reducing regulatory burden, providing targeted financial or tax-based support and regulating those practices the dominant airlines use to weaken the viability of their competitors.

The Commission is encouraged to consider avenues to increase competition in the domestic aviation sector, because it will deliver significant benefits for regional passengers by driving down airfares, increasing the reliability of services and improving regional connectivity.

BILATERAL AIR SERVICES AGREEMENTS

Bilateral air services agreements are a critical mechanism for facilitating air travel between Australia and international markets. The Commonwealth Government has negotiated more than 110 agreements, each permitting international airlines to operate to Australia under varying capacity arrangements. In practice, the vast majority of these airlines direct their allocated flights exclusively to the four major gateway airports – Sydney, Melbourne, Brisbane and Perth. Only a limited number of agreements grant additional rights of access to secondary airports.

Canberra Airport and other regional airports are considered by the Commonwealth as a secondary gateway airport, as it has the full suite of customs, immigration, biosecurity and other border services required to support scheduled international flights. Expanding international connectivity to Canberra and other airports supporting regional communities would be strengthened considerably by a more deliberate and refined approach to bilateral air services agreements. This would be one that actively encourages international airlines to consider secondary gateway airports as either primary destinations or the terminating airport for services. In particular, where agreements impose capacity limits, airlines

should be incentivised to operate to secondary gateways through the allocation of specific regional access rights.

When launching the 2009 *Aviation White Paper*, the then Minister for Infrastructure, Transport, Regional Development and Local Government, the Hon Anthony Albanese MP, highlighted the significant economic and tourism benefits that could be realised by encouraging more international services to secondary gateways. He stated:

“To benefit regional tourism, the Government will encourage international airlines to increase services to our secondary international gateways... Australia will offer foreign airlines unlimited access to secondary gateway markets – airports other than Sydney, Melbourne, Brisbane and Perth – and offer improved access to major destinations for those international flights.”

Despite this clear policy direction in 2009, there has been little engagement from the Commonwealth on attracting international airlines to secondary gateways since. Notably, the 2024 *Aviation White Paper* contains no reference to supporting or incentivising international services to regional or secondary gateway airports.

The contemporary policy settings appear to leave the decision entirely to international airlines as to whether they operate to markets beyond Australia’s four major gateways. While this has been the default approach of successive governments, experience shows that relying on international airlines to voluntarily enter regional markets has delivered very limited outcomes. A return to the proactive policy position championed in 2009 would be both timely and appropriate. Targeted secondary port access incentives in agreements would provide a clear signal to airlines and help overcome any barriers that may discourage services to secondary gateways.

The Commission is encouraged to recognise that regional communities would benefit if secondary gateways were better supported through bilateral air services agreements. When agreements focus exclusively on the four major gateways, international connectivity for regional passengers becomes heavily dependent on domestic connections through congested airports, adding cost, time and complexity to international travel. This results in higher airfares for regional residents and places communities at a disadvantage. For passengers from the ACT and southern NSW, limited direct international access can increase airfare costs by forcing reliance on congested domestic connections to gateway airports.

Providing incentives in bilateral air services agreements to encourage international airlines to fly directly into regional ports such as Canberra or add regional airports as a tag service to existing routes would be appropriate and directly consistent with the inquiry’s hope of improving aviation outcomes for regional Australia. For capped airlines, this could include granting additional frequencies conditional on the operation of services to secondary gateways.

Improved international connectivity would deliver significant benefits. It would give residents of the ACT and southern NSW a seamless link to global destinations without needing to travel to one of the major gateways. It would open access to untapped markets, boost local businesses and tourism operators and showcase the unique attractions and strengths of the national capital region.

A more ambitious and regionally inclusive approach to bilateral air services agreements would not only strengthen aviation outcomes for Canberra and surrounding communities, but it would also align with the national interest by promoting economic activity, supporting regional development and broadening Australia's international aviation footprint.

OPERATING PROCEDURES

Canberra Airport is conscious that aircraft noise impacts the amenity of residents within the footprint of the airport. With more than 35,000 passenger flights arriving and departing from Canberra Airport each year, it is crucial that the travel needs of the ACT and southern NSW regions continue to be appropriately balanced against the amenity of local residents.

Canberra Airport is the only major airport in Australia that operates with designated noise abatement areas. This guarantees that 99.5 per cent of residential premises in Canberra and Queanbeyan are not impacted by aircraft noise. Aircraft generally avoid residential areas for a distance of up to 15 kilometres north and south of the airport. Alterations to flight paths over the past 25 years have further contributed to the airport's commitment to minimising noise impacts on local communities.

An oft-advocated solution to aircraft noise at airports is the imposition of operating procedures such as hourly flight caps or a night-time curfew. However, any imposition of such procedures at Canberra Airport would have serious consequences for the regional communities it serves. While curfews may address the concerns of a small number of individuals, they would disproportionately affect residents across the ACT and southern NSW who rely on Canberra Airport for domestic and international connectivity. This includes essential travel for medical care, rapid emergency response and timely access to services that are not available in smaller regional communities.

Canberra Airport's curfew-free status is a crucial safeguard for regional Australia. As the only curfew-free airport between Brisbane and Melbourne, it plays a vital role in maintaining the resilience of the domestic network. Night-time services that cannot land at Sydney Airport due to its 11pm curfew are regularly diverted to Canberra. Likewise, when Sydney or Melbourne Airports experience weather disruptions or operational restrictions, Canberra provides a safe and proximate alternative. This capability ensures passengers, including those from regional areas, can complete their journeys with minimal delay, connecting onward by air, road or rail within hours rather than being stranded far from their intended destination.

As the key transport infrastructure asset for the ACT and southern NSW, Canberra Airport functions as a gateway to the international community. As international capacity continues to grow, varying flight schedules and time zones must be accommodated, particularly for long-haul services across hemispheres. Qatar Airways and Fiji Airways already connect the national capital region with global destinations and Virgin Australia will commence direct services to Bali in mid-2026. Further international airlines are anticipated to include Canberra in future route determinations. This will deliver economic, tourism and export benefits for the communities of the ACT and southern NSW, while providing more choice and convenience for residents who would otherwise be required to travel to Sydney or Melbourne.

Careful planning continues at Canberra to ensure that expanded international activity does not adversely impact local residents, including the management of night-time movements where required by airline schedules. The curfew-free nature of the airport is what enables these services to operate without creating additional constraints or directing flights to major gateways, which are already congested.

To best support regional communities and ensure the aviation industry can increase international connectivity to regional airports, the Commonwealth Government must maintain the curfew-free status of airports such as Canberra. This will strengthen the aviation network, improve access for those living in regional communities, support emergency response capability and attract more international airlines that require operational flexibility. Maintaining Canberra Airport's status as being curfew-free will support the inquiry's objective of advancing regional connectivity.

SLOT OPERATIONS AT SYDNEY AIRPORT

Improving the slot operations at Sydney Airport is essential to delivering reliable, efficient and competitive air services for regional communities. As the most important transport asset in the country, Sydney Airport underpins the connectivity of regional communities. For many of these, Sydney is the only practical gateway to the rest of the country, and in some cases, the world. When Sydney Airport experiences delays or capacity constraints, these disruptions cascade through the network, disproportionately affecting regional passengers who already face limited service frequency and fewer alternative travel options.

Despite its critical national role, Sydney Airport remains one of the most constrained major airports globally due to an outdated operating scheme that no longer reflects modern aviation needs. With four in every ten aircraft in Australia passing through Sydney at least once a day, even small inefficiencies at Sydney rapidly flow through to regional routes, leading to cancellations, missed connections and reduced reliability.

The reforms implemented in late 2024 to introduce a competitive tender process for slot allocation, civil penalties for slot misuse and the use of recovery periods to stabilise the network following major disruptions provide the foundations for a broader overhaul of the scheme. However, further improvements are required to ensure that regional passengers receive the dependable air services they deserve.

Amend the definition of a regulated hour

There needs to be an amendment to the definition of a regular hour from a rolling 15-minute hour to an actual period of 60 minutes. The current system provides for an assessment of compliance with the 80 movements per hour restriction every 15 minutes. This not only imposes excessive compliance review obligations, but it also means Sydney Airport does not reach the intended capacity of 80 flights per hour. The removal of the 15-minute rolling hour would significantly reduce the compliance and related assessment burden and allow airlines to service the needs of the travelling public, while ensuring that the scheduled 80 movements per hour can be achieved. This would directly benefit regional communities by improving the overall flow and resilience of the network.

Increase the movement cap each hour

To further increase efficiency and improve the overall reliability of the domestic network, there must also be a review of the 80 movements framework which has been operating since 1998. Capacity exists at Sydney Airport to increase actual movements by up to an additional 10 per regulated hour without causing significant noise impacts for local residents. The Commission should consider the potential benefits of increasing the number of movements each hour, particularly in line with an amendment to the definition of a regulated hour.

Change the 80/20 rule

The historic 80/20 use it or lose it rule is no longer fit for purpose. Allowing an airline to retain a slot even if it does not use it 20 per cent of the time has a demonstrable impact on passengers and on the efficient utilisation of slots under the scheme. A revision of the rule to 90/10 or 95/5 would further improve efficiency, reduce cancellation rates and guarantee a more effective scheme.

These reforms would ensure that Sydney Airport can operate more efficiently, recover from disruptions more quickly and provide a more stable and predictable environment for airlines serving regional communities. The Commission is encouraged to consider these changes as an important step towards protecting and enhancing the connectivity of regional communities.

CONCLUSION

Canberra Airport appreciates the opportunity to assist the Commission and provides this submission with the hope that the perspectives offered will help achieve more reliable and more affordable aviation outcomes across Australia. As both the national capital's gateway and a critical transport hub for the communities of southern NSW, Canberra Airport has a unique understanding of the pressures faced by regional travellers and the challenges that limit their access to equitable aviation services. The insights shared in this submission highlight practical reforms that would improve regional connectivity, reduce costs for passengers and strengthen the resilience of the domestic network.

The Commission is encouraged to consider the significant role Canberra Airport plays in underpinning the economic and social needs of the ACT and southern NSW. It is important that regional communities can access competitive airfares, expanded international connectivity, efficient domestic networks and a curfew-free airport capable of supporting the broader domestic network. Addressing airline pricing behaviour, increasing domestic competition, reforming Sydney Airport's operating constraints and incentivising international flights to secondary gateways are all reforms that would deliver immediate and long-term benefits for regional passengers.

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