Submission to the Productivity Commission

Inquiry into the Determinants of Regional Airfares

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Summary

Regional airfares in Australia are influenced by a number of structural factors that extend beyond simple market demand. These include limited airline competition, restricted access to major airport slots, high regulatory compliance costs, and the significant infrastructure investment required for regional airports to attract airline services.

Many regional routes in Australia are serviced by a single airline operator, resulting in limited competitive pressure to reduce fares. The ability for new airlines to enter the market is further constrained by access to slots at major capital city airports, where incumbent airlines may control a large proportion of viable operating times.

Regional airports themselves also face significant challenges in attracting airlines. In many cases, airports must provide financial incentives, reduced charges or infrastructure investment to attract and retain airline services. For council owned airports, these incentives are often funded by local ratepayers or through passenger service charges, which ultimately contribute to higher ticket prices.

Infrastructure requirements mandated through aviation security regulations can also create substantial financial barriers. For example, airports wishing to accommodate aircraft carrying more than 40 passengers must implement security screening infrastructure, which can cost several million dollars to install and maintain.

Shellharbour Airport provides a clear example of these challenges. While serving a large regional population across the Illawarra and South Coast (~480K), the airport is currently ineligible for many regional aviation grant programs due to its classification within a broader metropolitan statistical area. This significantly limits the airport's ability to fund infrastructure required to support airline growth.

Without targeted policy reform, regional airports will continue to face structural barriers to attracting competition, and regional communities will continue to experience higher airfares and reduced connectivity.

1. Introduction

Shellharbour Airport is a council owned regional airport that services the Illawarra and South Coast regions of New South Wales. The airport plays an important role in supporting:

- Regional business connectivity
- Tourism
- Medical and specialist travel
- Freight and logistics
- Employment and economic development

Despite this role, regional airports such as Shellharbour face a number of structural challenges that influence both the availability and cost of regional air services.

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2. Limited Airline Competition in Regional Markets

A key determinant of regional airfares is the limited number of airlines operating regional routes in Australia.

Many regional routes are serviced by a single airline, leaving communities with limited choice and little competitive pressure on pricing.

Unlike larger metropolitan routes, regional aviation markets are often:

- Limited passenger volumes
- Dependent on smaller aircraft fleets
- Highly sensitive to operating costs

As a result, new airline entrants are rare and competition is limited.

Where competition does not exist, fares can remain relatively high due to the lack of alternative service providers.

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3. Barriers to Market Entry and Slot Access

Access to slots at major city airports, particularly Sydney Airport and Gold Coast, which are critical factors in the viability of regional air routes/holiday destinations for regional residence.

There have been ongoing industry concerns that slot allocation practices may be used strategically by incumbent airlines, making it difficult for new entrants to obtain commercially viable arrival and departure times.

Without access to suitable slots, new airlines cannot realistically compete on key regional routes.

This can effectively reinforce market dominance by existing airline operators and reduce opportunities for increased competition in regional aviation.

Greater transparency and oversight in the slot allocation system would improve market access for potential new entrants.

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4. Reliance on Airport Subsidies and Incentives

Regional airports frequently provide financial incentives to attract airline services.

These incentives may include:

- Reduced landing fees
- Marketing support
- Terminal concessions
- Route development funding

For council owned airports, these initiatives are often funded through:

- Airport operating revenue
- Local government budgets (rate payer funding)
- Passenger service charges

Ultimately, this means regional communities and passengers may subsidise airline operations, which can contribute to higher ticket prices.

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5. Inconsistent Regional Aviation Funding

Government aviation infrastructure funding programs play an important role in supporting regional airport sustainability.

However, eligibility criteria for these programs often exclude airports located within metropolitan statistical regions, even when those airports serve regional populations.

This creates inequities where airports that perform a regional aviation role are unable to access funding available to other comparable regional airports.

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6. Infrastructure and Security Screening Costs

A significant barrier to attracting larger aircraft operations at regional airports is the cost of aviation security screening infrastructure.

Under current regulations, airports that handle aircraft carrying more than 40 passengers are required to implement passenger screening.

This requires:

- Screening equipment
- Terminal modifications
- Security screening staff

- Ongoing regulatory compliance
- Continuous training and certification

For many regional airports, these requirements represent substantial capital and operating costs.

These costs ultimately flow through to passengers via increased airport charges and ticket prices.

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7. Shellharbour Airport Case Study

Shellharbour Airport provides a clear example of the structural challenges facing regional aviation.

The airport serves the Illawarra and South Coast region, supporting a significant regional population (~480K) and growing tourism market.

However, attracting larger commercial aircraft operations requires the installation of aviation security screening infrastructure.

The estimated cost of implementing security screening at Shellharbour Airport is approximately:

$3.4 million in capital investment

For a council owned airport, recovering this investment would require the introduction of security screening charges on passengers.

Based on projected passenger numbers, it is estimated that it could take up to 10 years for council to recover the capital investment through screening fees alone.

In addition to the capital cost, the airport would also incur ongoing operational expenses including:

- Security screening staff
- Mandatory training and certification
- Equipment servicing and replacement
- Compliance with federal aviation security regulations

These costs would ultimately contribute to higher ticket prices for passengers.

Compounding this challenge is the fact that Shellharbour Airport is currently ineligible for many regional aviation infrastructures grants due to its classification within a broader metropolitan region.

Despite clearly serving a regional catchment, the airport cannot access funding available to other regional airports.

This creates a significant funding barrier for infrastructure that is required to support airline growth.

8. Policy Recommendations

To improve competition and reduce the structural drivers of regional airfares, the following policy reforms should be considered.

Improve Competition in Regional Aviation

Government should examine mechanisms to encourage greater airline competition on regional routes, including reducing barriers to entry for new airline operators.

Review Slot Allocation at Major Airports

The slot allocation system at constrained airports such as Sydney Airport should be reviewed to ensure:

- Greater transparency
- Fair access for new entrants
- Prevention of slot hoarding or strategic slot control by incumbent airlines

Improved access to slots would enable greater competition on regional routes.

Expand Eligibility for Regional Aviation Infrastructure Funding

Regional aviation funding programs should be reviewed to ensure eligibility reflects the role an airport plays in serving regional communities, rather than relying solely on statistical geographic classifications.

Airports such as Shellharbour that serve regional populations should be eligible for regional aviation infrastructure support.

Support Security Screening Infrastructure at Regional Airports

The Australian Government should consider ongoing dedicated funding programs for aviation security screening infrastructure at regional airports.

This could include:

- Capital funding for screening equipment
- Support for terminal upgrades
- Assistance with implementation and training costs

Such programs would reduce financial barriers to airline growth and minimise the impact on passenger fares.

Reduce Regulatory Burden on Small Regional Airports

Where possible, regulatory frameworks should adopt risk based and proportionate compliance models for smaller regional airports while maintaining aviation safety and security outcomes.

Reducing administrative burden would improve the financial sustainability of regional airports.

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9. Conclusion

Regional aviation provides critical connectivity for communities across Australia, supporting economic development, tourism, healthcare access and business activity.

However, a combination of structural market conditions, regulatory requirements and infrastructure costs continue to influence the price of regional air travel.

Without targeted policy reform addressing:

- limited airline competition
- barriers to airport slot access
- infrastructure funding gaps
- regulatory compliance costs

regional communities will continue to face higher airfares and reduced aviation connectivity.

Shellharbour Airport welcomes the opportunity to contribute to this inquiry and look forward to a positive outcome for regional airport and ticket pricing

Please feel free to contact Paul Ferguson, Shellharbour Airport Manager for additional information if required