



**SUBMISSION TO THE PRODUCTIVITY COMMISSION**

**Inquiry into the Determinants of Regional Airfares**

**Submitted by:**

Darwin Major Business Group (DMBG)  
Northern Territory / Northern Australia

**Contact:**

Executive Officer, DMBG  
[admin@dmbg.com.au](mailto:admin@dmbg.com.au)

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## **Executive Summary**

Regional aviation in Northern Australia functions as enabling economic infrastructure. It underpins labour mobility, defence capability, tertiary health access, SME participation in national markets and tourism inflows.

Elevated and volatile regional airfares are frequently discussed in the context of airline competition. This submission contends that, while competition remains relevant, the principal determinants of regional airfares in Northern Australia are structural.

Six structural drivers are material:

1. Thin-route economics in a geographically vast, population-light market;
2. Limited contestability on long-haul routes;
3. Airport charging structures operating within natural monopoly characteristics;
4. Government-mandated security and regulatory cost recovery mechanisms;
5. Dynamic pricing interacting with non-discretionary demand; and
6. Limited transparency in route-level price dispersion and cost pass-through.

Sustainable airfare moderation in Northern Australia is unlikely to arise solely from additional airline competition in geographically sparse, long-haul markets. More durable reform may arise from calibrated adjustments to cost architecture, transparency frameworks and regulatory settings.

The Productivity Commission's inquiry provides an opportunity to examine these determinants rigorously and distinguish structural drivers from behavioural assumptions.

### **1. Aviation as Enabling Infrastructure in Northern Australia**

In Northern Australia, aviation frequently performs the functional role that road and rail perform in higher-density jurisdictions.

Distances are long. Surface alternatives may involve multi-day travel and can be seasonally disrupted. Aviation supports:

- Specialist medical access
- Defence rotations and personnel mobility
- Fly-in fly-out resource operations
- Public service delivery
- SME participation in interstate markets
- Tourism inflows
- Education mobility

Accordingly, airfare volatility may generate broader economic effects than in high-density metropolitan corridors.

### **2. Structural Determinants of Regional Airfares**

#### **2.1 Thin-Route Economics**

Regional long-haul routes in Northern Australia exhibit:

- Lower passenger volumes;

- Long sector lengths;
- Smaller aircraft deployment;
- Higher per-passenger fixed cost allocation.

BITRE data for Darwin trunk routes demonstrates material 12-month fare volatility, with peak fares commonly two to three times the lowest observed return fares.<sup>1</sup>

In thin markets, fixed costs are spread over fewer passengers. This raises the effective fare floor and increases sensitivity to cost shocks.

## 2.2 Competition and Contestability

Treasury analysis indicates fares are materially higher on monopoly routes than on duopoly routes, and that additional competition can reduce fares by 5-10 per cent depending on the measure used.<sup>2</sup> ACCC monitoring confirms high national concentration and sensitivity of prices to capacity adjustments.<sup>3</sup>

However, Northern Australia presents structural constraints:

- Low traffic density relative to sector length;
- Entry risk in thin markets;
- Slot and terminal access constraints at major hubs;
- Limited ability to sustain parallel capacity.

Competition remains important on contestable routes. However, on long-haul thin routes, additional carriers may not materially alter outcomes where underlying demand remains structurally limited.

A policy distinction between contestable routes and structurally thin essential routes may therefore assist in calibrating responses.

## 2.3 Airport Charging Structures and Regulatory Asymmetry

Many airports operate within natural monopoly characteristics in their geographic catchments. Airlines typically lack close substitutes for primary capital city airports.

Published aeronautical charge schedules indicate that passenger-based charges at major airports can exceed \$20 per passenger per movement before mandated security components are included.<sup>4</sup>

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<sup>1</sup> Bureau of Infrastructure and Transport Research Economics, *Domestic Air Fares – Cheapest Available Return Fares* (Monthly Series, 2025–26)

<sup>2</sup> Department of the Treasury (Cth), *How Competition Impacts Prices: The Australian Aviation Sector* (Working Paper, 2024)

<sup>3</sup> Australian Competition and Consumer Commission, *Domestic Airline Competition in Australia* (Monitoring Reports, 2025)

<sup>4</sup> Brisbane Airport Corporation, *Aviation Services and Charges Agreement (FY2025–26)*; Sydney Airport, *Table of Charges* (1 July 2025); Perth Airport Pty Ltd, *Notice of Aeronautical Charges* (1 July 2025)

Recent reported increases in landing charges at Darwin Airport illustrate how charge adjustments can materially affect thin-route economics.<sup>5</sup>

This submission does not allege improper conduct. However, the interaction between:

- Building block pricing methodologies;
- Capital recovery timing;
- Depreciation settings; and
- Limited competitive discipline

warrants examination where cost pass-through materially affects low-volume routes.

There exists regulatory asymmetry between:

- Airlines operating in competitive markets with volatile net margins; and
- Infrastructure operators operating under monopoly characteristics with light-handed oversight.<sup>6</sup>

The implications of this asymmetry may become more material in thin markets where cost pass-through is less easily absorbed.

## **2.4 Government-Mandated Security Cost Recovery**

Federally mandated aviation security is a national public good.

Where screening costs are recovered solely on a per-passenger basis at low-volume airports, fixed operating costs divided by smaller passenger bases produce materially higher unit costs.

### **Illustrative Model**

Assume:

Regional airport

- 300,000 departing passengers
- \$6 million annual screening operating cost
- Unit cost = \$20 per passenger

Major metropolitan airport

- 20 million departing passengers
- \$100 million annual screening cost
- Unit cost = \$5 per passenger

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<sup>5</sup> Australian Broadcasting Corporation, 'Darwin Airport Landing Fees More Than Double' (18 July 2025).

<sup>6</sup> Sydney Airport, *Annual Report 2023*; Australia Pacific Airports (Melbourne) Pty Ltd, *Annual Report 2023*; Qantas Airways Limited, *Annual Report 2023*.

Under a pooled national model:

Total cost = \$106 million

Total passengers = 20.3 million

Pooled unit cost ~ \$5.22 per passenger

This would reduce regional unit cost from \$20 to approximately \$5.22, while modestly increasing metropolitan cost.

For a Darwin return journey, this could reduce embedded screening cost by approximately \$30 per passenger.

### **Efficiency Consideration**

Deadweight loss may arise where elevated fixed cost recovery suppresses demand below levels that would otherwise occur under alternative cost allocation structures.

The Commission may wish to consider whether point-of-departure recovery of a national public good maximises overall welfare.

### **2.5 Dynamic Pricing, Volatility and Essential Demand**

Airline revenue management allocates lower fares early and higher fares closer to departure. This intertemporal price discrimination is economically rational.

Volatility is particularly pronounced within 7-14 days of departure, a period in which travel is frequently non-discretionary (medical, bereavement, defence posting, operational call-outs).

Snapshot lowest-fare metrics may understate transaction-level volatility and dispersion experienced by passengers purchasing closer to departure.<sup>7</sup>

The objective should not be broad fare regulation, but improved transparency of route-level fare dispersion (including 3-7 and 14-day indicators) to support evidence-based assessment.

### **2.6 Aviation Cost Stack Transparency**

Improved disaggregation of the aviation cost stack would enhance clarity regarding:

- Airport passenger service charges;
- Runway and airfield charges;
- Security screening recovery;
- Airservices charges;<sup>8</sup>
- Other regulatory fees.

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<sup>7</sup> Bureau of Infrastructure and Transport Research Economics, *Domestic Air Fares – Cheapest Available Return Fares* (Monthly Series, 2025–26).

<sup>8</sup> Airservices Australia, *Statutory Charging Determination — Services and Facilities* (Effective 1 August 2025)

Where cost drivers are transparent, reform can focus on structural architecture rather than individual operators.

### **3. Regional Airfares and Productivity**

High and volatile airfares in Northern Australia affect:

- Labour mobility and recruitment costs;
- Defence mobility and rotation expenses;
- SME interstate participation;
- Patient travel scheme expenditure;
- Investment attractiveness and population retention.

#### **Workforce Cost Illustration**

Assume a Darwin-based project recruits 20 interstate specialists annually. Each requires:

- 1 interview trip (short notice);
- 1 relocation planning trip;
- 2 professional development trips.

If short-notice return fares average \$850 compared with \$450 in lower-volatility periods, the differential is approximately \$400.

$\$400 \times 4 \text{ trips} \times 20 \text{ recruits} = \$32,000$  additional annual travel cost.

In larger defence or resource projects with 100+ interstate staff, volatility exposure may scale into the hundreds of thousands of dollars annually.

Even modest reductions in airfare volatility that improve labour mobility at the margin could plausibly generate broader economic effects that warrant evaluation alongside the fiscal cost of alternative cost-recovery models.

Aviation functions as enabling infrastructure in Northern Australia. Where volatility is elevated, economic friction may increase across labour and capital markets.

### **4. Reform Options**

1. Route classification distinguishing contestable and structurally thin routes;
2. Examination of national security cost pooling mechanisms;
3. Strengthened transparency and consultation requirements for major airport charge changes;
4. Targeted aerodrome upgrades to reduce disruption-driven volatility;
5. Consideration of competitively tendered PSO-style models for structurally thin essential routes;
6. Enhanced publication of route-level fare dispersion and reliability metrics.

### **Conclusion**

Regional airfare outcomes in Northern Australia appear to be shaped primarily by structural cost architecture rather than isolated pricing behaviour.

Competition remains important. However, structural determinants particularly security cost recovery, airport pricing architecture and thin-route economics warrant detailed examination.

Recalibrating these structural settings may be more likely to produce durable moderation of fare levels and volatility than reliance on competition alone in geographically sparse markets.

Northern Australia offers a suitable environment in which to trial structural reform.