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Tasmanian Government Submission

Productivity Commission Inquiry
Determinants of Regional Airfares

Department of State Growth

Tasmanian Government

Contents

Executive Summary

As Australia's only island State, with dispersed regional settlements and multiple remote island communities, Tasmania is uniquely exposed to challenges impacting the affordability and reliability of aviation. Aviation is essential social infrastructure and an enabling input to productivity, workforce participation, tourism and investment.

In Tasmania, critical regional aviation services include routes serving King Island, Flinders Island and Cape Barren Island, which underpin access to health care, education, justice services, essential supplies, employment and community connection. Passengers pay relatively high fares across all these routes, which has material consequences for regional economies, population retention, tourism competitiveness, productivity and equity outcomes, including Closing the Gap objectives for Aboriginal communities in remote and island settings.

The Tasmanian Government supports the Productivity Commission's focus on the determinants of regional airfares, including the interaction of limited demand, high fixed costs, airport charges, regulatory imposts and market structure. Evidence cited in the Productivity Commission issues paper indicates fares per-kilometre outside capital cities have remained above capital-to-capital fares over time, and that a high proportion of regional airports operate at a loss. For remote island settings, where air travel is often the only year-round option, these structural cost pressures translate into high effective prices per kilometre, limited fare choice, and heightened exposure to service withdrawal risk.

The Tasmanian Government submission outlines the government's position that regional aviation affordability should be assessed as an 'essential service' in remote and island contexts. It is also important to differentiate between 'contestable' regional markets and smaller thin or remote routes. The framework for regional aviation must emphasise proportionate regulation, transparency of cost drivers, long-term airport infrastructure funding and targeted support mechanisms that protect access for residents.

Taken together, these measures would improve affordability, reliability and equity of access while supporting broader national objectives for regional development, productivity and social inclusion.

Measures to alleviate the cost pressures on regional air-routes are critical. This submission outlines potential measures that could be considered to support the long-term viability of regional aviation, including:

- measures to improve the transparency of airport charges and cost components in regional fares,
- place-based route support for remote routes with limited demand,
- long-term airport infrastructure funding aligned to need, and
- demand-building measures (tourism and population) where feasible.

Critical to addressing disproportionate per-passenger costs faced by smaller airports/routes is a national cost-recovery approach for Commonwealth regulatory and security requirements. These costs have been identified as a critical issue for regional routes.

1. Tasmanian context and policy position

Tasmania's economic structure intensifies the consequences of high airfares. The State's gateway airports at Hobart and Launceston are critical for tourism, time-sensitive freight and business connectivity, while regional airports are essential to the Bass Strait Islands and other remote communities. The Tasmanian Government has consistently advanced a policy position that a strong, affordable and reliable aviation network is foundational to the State's liveability and economic performance. Commonwealth regulatory and funding settings materially shape outcomes because major gateways are federally-leased and many regional cost drivers arise from Commonwealth rules (security, safety, air navigation, and national programs).

Tasmania's visitor economy is particularly dependent on aviation. 88 per cent of visitors to Tasmania travel by air, with most arriving via Hobart and Launceston airports. This concentration means that changes in airfare levels, seat capacity or schedule reliability translate rapidly into visitor demand and regional dispersal outcomes.

The Tasmanian Government supports a range of measures aimed at improving access and affordability including targeted travel assistance programs for essential health and education travel where no road option exists.

2. Why regional aviation is so important

2.1. Regional economies: tourism, migration and regional development

Regular and reliable air services shape regional economies through three principal channels:

- visitor demand,
- labour mobility and population retention, and
- market access for high-value and time-sensitive goods.

In Tasmania's island setting, air access is not merely a convenience but a foundational input to tourism viability, business travel, and the capacity of small communities to attract and retain residents and skilled workers.

Recent modelling commissioned by the Tasmanian Government found that the tourism industry is estimated to contribute $2.2 billion directly and indirectly to GSP in FY25, and 15,127 jobs (directly and indirectly). Aviation is critical to the state's tourism industry, with 88 per cent of visitors arriving by air.

For the Bass Strait Islands, the relationship between air access and demographic sustainability is direct. A Flinders Council submission notes that airfare pricing has a direct social and economic impact by affecting population growth and tourist visitation, and that 'the cost of getting on and off the Island is a major consideration' for permanent relocation decisions. In practice, a high 'access cost' operates like an additional tax on island residency and enterprise.[1]

Air access also underpins the performance of regional tourism operators, particularly in shoulder and off-peak seasons. For island destinations, a lack of fare availability at reasonable price points

[1] Flinders Council (on behalf of Furneaux Aviation Special Committee), Recommendations to Flinders Council for Senate inquiry submission, January 2018, discussion of airfare pricing and relocation considerations (p. 2). https://www.flinders.tas.gov.au/client-assets/images/Council/Downloads/Agendas/2018.01/Annex.%207%20-%20Recommendation%20from%20the%20Furneaux%20Group%20Aviation%20Special%20Committee.pdf

can suppress visitation even when accommodation and experiences are competitively priced. This dynamic is visible in community observations that some destinations can cost less than flights to Flinders Island, highlighting the sensitivity of discretionary demand to relative prices.

2.2. Productivity impacts

Regional aviation supports productivity by lowering effective travel time, enabling access to specialised services that are otherwise unavailable locally and facilitating trade.

For Tasmanian businesses, aviation improves the ability to meet clients, participate in supply chains, and access national and international markets. For government services and essential providers, air travel reduces the time cost of service delivery to remote communities and enables timely workforce deployment.

Aviation supports productivity through freight connectivity. Tasmania's producers rely on aviation for high-value perishable exports (including live seafood and horticultural products), with passenger flights providing critical 'belly space' capacity for freight. This interplay between passenger networks and freight capacity means that declines in passenger frequency can also raise logistics costs and reduce export competitiveness.

The Tasmanian Trade Strategy 2019-2025 includes the objective of growing trade to $15 billion by 2050. Although most freight in and out of the state moves by sea, aviation is critical for time-sensitive, high-value products.

2.3. Closing the Gap outcomes

The Tasmanian Government notes that the Commission's inquiry spans the national context, including the role of aviation in Closing the Gap outcomes. For remote Aboriginal communities and the Torres Strait, aviation is essential for timely access to health services, education pathways, cultural obligations, and government services, particularly where seasonal conditions limit road or sea access.

For such communities, aviation is central to equitable service access. If airfares rise beyond affordability, the impact is not simply reduced discretionary travel: it is diminished access to critical services and a widening of outcomes gaps. For Closing the Gap, the relevant lens is therefore 'functional access', or the ability to travel when needed, rather than prioritising tourism.

2.4. Substitution and complementarity with road, rail and digital connectivity

In much of mainland Australia, inconvenient though it may be, travellers can substitute air travel for road or rail transport. In remote island settings, aviation is not readily substitutable. For the Bass Strait Islands, sea transport is primarily freight-oriented, and passenger carriage is limited.

Digital communication can complement but not replace aviation. Telehealth and online service delivery reduce some travel needs, but clinical assessments, specialist procedures, education placements, court and administrative requirements, freight and emergency evacuations still require physical movement. As a result, air travel remains a necessary complement to digital connectivity in sustaining remote communities.

3. How much do fares influence demand for regional air services?

3.1. Main drivers of demand in Tasmania's regional markets

Demand for regional air services reflects a mix of non-discretionary and discretionary travel. In Tasmania's remote routes, core demand drivers include:

- access to specialised health services,
- education and training access,
- employment and government service travel,
- family connection, and
- tourism visitation.

The relative weight of each driver differs by route and season. For many remote communities, airfare pricing is linked to population retention and tourism demand.

Because baseline passenger volumes are low, small changes in demand can materially change route viability. This is why the Commission's analysis of demand drivers should explicitly distinguish routes with lower passenger numbers but with high shares of essential travel from larger regional markets where discretionary travel dominates.

3.2. How fares have changed over time

National evidence collated by the Commission suggests that fares per kilometre outside capital cities have remained higher than capital-to-capital fares over time, based on BITRE fare data. The persistence of a regional premium reflects structural cost differences (fixed costs spread over fewer passengers) and market structure (limited competition and capacity).

Tasmania's regional experience consistently aligns with this pattern, with airfares between northern Tasmania and the Bass Strait Island consistently higher than flights between Hobart and the Australian mainland.

3.3. Changes since COVID-19

The Commission's issues paper notes significant post-COVID dynamics in airline entry and exit that have affected capacity and competition, with consequent impacts on fare availability and service stability. For routes with lower numbers of passengers, volatility can be particularly disruptive because demand shocks and schedule uncertainty quickly erode consumer confidence and local business planning.

Tasmania's experience during 2025 underscores this vulnerability. The Tasmanian Government has noted that Australian Government support provided to Rex during its administration period influenced competitive dynamics on routes serving Tasmania, particularly King Island, and necessitated State funding to underwrite other essential services in the interim.

Airlines have also reported significant increases in their cost base, making it challenging to achieve commercial outcomes in thin markets.

4. What factors influence regional airfares?

4.1. Key determinants in Tasmania

In Tasmania, key determinants of regional airfares include:

- thin demand and strong seasonality,
- high fixed costs of aircraft ownership/lease and maintenance spread over small load factors,
- airport operating and capital costs (including runway pavement, lighting, rescue and fire services where applicable),
- mandated regulatory and security requirements with high per-passenger incidence,
- fuel and supply chain costs amplified by remote logistics, and
- market structure and network competition dynamics.

Regional airport cost structures are a major determinant. Evidence cited in the Commission's issues paper indicates many regional airports operate at a loss, while having higher landing fees per customer than major airports due to limited economies of scale. In Tasmania, council-owned airports at Currie (King Island) and Whitemark (Flinders Island) face high maintenance and upgrade obligations but minimal throughput, leading to structural funding gaps.

4.2. Why regional fares differ from major-city fares

Major-city routes benefit from economies of density: large passenger volumes allow airlines to deploy larger aircraft with lower unit costs, spread overheads over more seat-kilometres, and compete on frequency and fare segmentation. By contrast, regional routes with lower numbers of passengers must recover similar categories of fixed and regulatory costs from far fewer passengers, often on small aircraft, with limited fare classes and limited scope to fill seats with discretionary travellers during low seasons.

The Commission's own route snapshot illustrates that fare per kilometre can be materially higher on regional routes than on capital-to-capital routes. This is consistent with Tasmania's remote island routes, where short distances and small aircraft can yield high per-kilometre costs even where the overall fare is moderate.

5. What characteristics of the regional aviation sector have influenced airfares?

5.1. Competition dynamics in Tasmania

Competition can constrain fares in larger markets but can also undermine viability in very small markets. Tasmania's Bass Strait Islands services demonstrate this trade-off. The Tasmanian

Government has observed that the presence of multiple operators can provide consumer choice but can also significantly impact the viability of operators in markets that may only sustain one carrier on a commercial basis.

Across all Tasmanian routes, it is important to differentiate between ‘contestable’ regional routes where competition is viable and welfare-enhancing, and ‘essential thin routes’ where the primary policy objective is continuity of access and affordability for residents, noting there are a variety of policy measures through which this outcome can be achieved, including regulated access, passenger or seat subsidies and place-based support.

5.2. Barriers to entry and expansion

Barriers to entry and expansion in regional aviation include access to suitable aircraft and pilots, maintenance capacity, insurance costs, and airport infrastructure constraints. In addition, uniform regulatory compliance obligations can create scale disadvantages for small regular passenger transport (RPT) operators relative to charter operators, potentially affecting fare levels and competitive dynamics.

It is also noted that intra-airport competition and market fragmentation within Tasmania (for example, overlapping catchments between Burnie and Devonport, and competing departure points for Flinders Island travel) which can dilute passenger volumes and reduce route sustainability.

5.3. Non-passenger services and freight

Freight and non-passenger services can support commercial viability where passenger demand is thin. In Tasmania, passenger flights provide freight belly space for time-sensitive exports, while specialised services (medical evacuations, charter, mail runs and search and rescue) contribute to the overall viability of aviation. However, on most remote island routes, freight volumes may be insufficient to materially cross-subsidise passenger services without policy support.[25]

6. Have government policies or regulations made a difference?

6.1. Commonwealth settings shaping Tasmanian outcomes

Commonwealth settings are decisive in Tasmania because they shape:

- the cost base (security screening, CASA compliance, air navigation and surveillance),
- airport governance (long-term leases and masterplan requirements for major gateways), and
- access to national support programs (RAAP, remote air services subsidies, enroute charge schemes).

These settings can improve safety and network integrity but can also impose disproportionate per-passenger costs on small airports and routes with smaller passenger numbers.

The Tasmanian Government supports a nationally coordinated approach to recovering mandated security and regulatory costs, including consideration of a pooled levy, provided it incorporates regional adjustment factors to avoid thin routes bearing a disproportionate burden.

6.2. Efficient forms of intervention

Interventions that have been demonstrated as efficient in remote settings include:

- targeted passenger subsidies for essential travel cohorts;
- place-based route support where the market cannot sustain minimum service levels;
- long-term infrastructure funding aligned to asset management plans rather than short-term competitive grants; and
- demand-building measures through tourism capacity and marketing programs, where those programs create additional seat utilisation without undermining essential access objectives.

7. What could be done to make fares more affordable and improve access to aviation?

7.1. Policy focus areas

The Tasmanian Government recommends that policy and regulatory actions focus on mutually reinforcing priorities:

- Cost equity: introduce a transparent national approach to funding security and regulatory obligations, with explicit regional adjustments for routes with smaller passenger numbers and small airports.
- Infrastructure sustainability: shift regional airport funding toward long-term programs aligned to agreed asset management plans and safety standards, reducing reliance on uncertain competitive grants.
- Competitive neutrality: ensure Commonwealth route and carrier support is neutral and time-bound and does not unintentionally destabilise other essential services in thin markets.
- Targeted affordability: strengthen or expand targeted passenger assistance (health, education, concession cohorts) and consider capped-fare models for personal travel in remote regions, drawing on other jurisdictions' schemes.
- Data transparency: require more consistent publication of airport charge components, route-level performance metrics and mandated cost pass-throughs, supporting Commission analysis and informed policy decisions.

7.2. International examples potentially relevant to Australia

Internationally, public service obligation (PSO) models in parts of Europe use competitively tendered contracts to ensure minimum frequency and maximum fare outcomes for essential regional routes. In the United States, the Essential Air Service program provides subsidies for service continuity to remote communities. While institutional settings differ, these approaches underscore three transferable design principles:

- clearly defined 'essential access' outcomes,
- transparent tendering or funding rules, and
- regular review to balance affordability, service levels and value for money.

8. Route-specific analysis: Bass Strait Islands and remote routes

8.1. Flinders Island (Whitemark) — access, costs and fare intensity

Flinders Island (population around 833 at the 2016 census in the Flinders LGA) relies on regular air services for access to mainland Tasmania and Victoria. Community evidence describes Whitemark Airport as the main 'highway' for residents, businesses and visitors. The island's economy is based on agriculture with a growing visitor economy, and it is supported by multiple daily RPT flights to Launceston and seasonal services to Essendon.

Local evidence also highlights airport cost pressures: Whitemark airport operates at an estimated loss of about $180,000 per year and Council effectively subsidises passengers due to its inability to fully recover operating costs through landing fees. These structural costs influence fare levels and underscore the need for stable infrastructure funding programs.

Indicative fare intensity and supporting evidence (Flinders routes)

Route	Indicative one-way fare range (AUD)	Approx. distance (km)	Indicative $/km	Evidence source
Flinders (FLS) – Launceston (LST)	≈$240–$280 (implied from $/km)	≈230–260	≈$1.06/km (standard fare)	Furneaux Aviation Special Committee (2018)
Flinders (FLS) – Melbourne Essendon (MEB)	≈$260–$320 (implied from $/km)	≈380–480	≈$0.67/km	Furneaux Aviation Special Committee (2018)

8.2. King Island (Currie) — thin-market competition and volatility

King Island relies on aviation for access to health, education, freight logistics and tourism. The Tasmanian Government has identified King Island services as critical and noted that Commonwealth support provided to Rex during its administration period influenced competitive dynamics on routes serving the island, contributing to thin-market volatility and necessitating State intervention to underwrite alternative essential services.

Publicly available fare searches illustrate the high price sensitivity and limited fare diversity faced by island communities. For example, an online fare snapshot for King Island–Melbourne Essendon shows one-way fares from around $280 on a selected date, while other fare sites report one-way fares in the ~$175–$300 range depending on season and availability. These figures are indicative only and vary substantially with travel date, inventory and fare rules, but they demonstrate that modest overall fares translate into high effective prices per kilometre due to short stage length.

Indicative fare snapshots (King Island routes)

Route	Example one-way fare (AUD)	Approx. distance (km)	Indicative $/km	Evidence source
King Island (KNS) – Melbourne Essendon (MEB)	$280 (example)	≈300–400	≈$0.70–$0.93	Skyscanner route snapshot (accessed 2026)
King Island (KNS) – Burnie (BWT)	$294 (example)	≈180–260	≈$1.13–$1.63	Skyscanner 'Sharp Airlines flights to Burnie' listing (accessed 2026)

8.3. Cape Barren Island — essential access and subsidised service

Cape Barren Island is serviced by a small subsidised RPT service from Launceston. Community evidence notes the service operates twice weekly and is subsidised through a Commonwealth remote access program. In such contexts, the policy objective is functional access for residents rather than market-driven fare competition. Because flight frequency is low and alternative modes are limited, the affordability of air travel directly affects access to essential services.

Indicative considerations for Cape Barren Island route pricing

Route	Service characteristics	Key fare determinants	Policy implications

Cape Barren Island (CBI) – Launceston (LST)	Twice-weekly subsidised RPT	Very thin demand; high fixed costs; mandated compliance; limited substitution	Place-based support and targeted user subsidies; ensure continuity and affordability for essential travel

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