

# Submission to the Productivity Commission

Determinants of Regional Airfares - March 2026



# 1 Executive summary

Virgin Australia welcomes the opportunity to contribute to the Productivity Commission's inquiry into regional airfares and supports rigorous, evidence-based analysis of regional aviation markets.

Regional fare outcomes are driven primarily by demand density and airline cost structure, not remoteness alone. Thin regional routes operate with lower passenger volumes, uneven demand and reduced aircraft utilisation. These structural characteristics result in higher per seat costs than those observed in high demand inter-capital markets, and can also influence competition outcomes on a route, with direct consequences for airfares. Understanding this is foundational to designing policy interventions that are effective and do not inadvertently reduce services or investment in regional aviation.

There are two factors further exacerbating these structural challenges which warrant the Commission's particular attention: barriers to competition that affect regional routes and commercial practices by airports that inflate costs and weaken competitive outcomes. Australia's current 'light-handed' approach to airport regulation has not effectively constrained airport monopoly power over airlines. In practice, airports are able to set aeronautical charges with limited cost discipline, despite airports being natural monopolies. This imbalance has contributed to sustained high airport profitability relative to airlines and rising input costs for regional travel. Urgent reform is required.

Virgin Australia makes the following recommendations in this submission:

1. **Demand density and route economics as the analytical framework.** The Commission's analysis should prioritise demand sustainability, load factor dynamics, aircraft economics and utilisation constraints, rather than treating remoteness or distance as standalone indicators of fare levels.
2. **Route-specific competition assessment.** The Commission should assess competition viability at a granular, route-specific level rather than relying solely on the number of operators present. Competition assessments should account for the long-lived, capital-intensive nature of aviation investment and the practical barriers – including access to appropriately timed airport operating windows and terminal facilities at major hubs – that determine whether entry is economically sustainable.
3. **Airport regulatory reform.** The Commission should recommend mandating the Aeronautical Pricing Principles; extending ACCC monitoring to regional airports above a defined passenger threshold; establishing binding dispute resolution mechanisms; and implementing independent oversight of significant airport infrastructure projects. These reforms are necessary to address the structural cost disadvantage faced by airlines and passengers on regional routes.
4. **Recovery of other upstream costs.** In undertaking its analysis, the Commission should consider that airlines are required to recover upstream costs like jet fuel and regulatory compliance costs across a lower volume of passengers and the impact this has on regional airfares.
5. **Aircraft supply constraints.** The Commission should recognise aircraft supply constraints and limited innovation in smaller-gauge aircraft segments as structural cost pressures when assessing the economics of thin regional routes.
6. **Least-cost decarbonisation.** The Commission should assess how decarbonisation policies, including SAF measures, affect costs, equity and the viability of regional air routes, consistent with the principles of least-cost decarbonisation. Mandatory sector-specific instruments – including approaches that impose technology or fuel uptake obligations on a single industry – risk increasing input costs in a manner that is not aligned with economy-wide least-cost abatement principles, with disproportionate effects on thin regional routes.

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## 2 Background

### 2.1 Virgin Australia's proud presence in the regions

Virgin Australia is committed to delivering aviation connectivity for rural and regional Australians and businesses. Today, we operate services across 50 different routes to more than 25 regional airports on up to 710 return flights per week. We have been able to increase capacity across a number of our regional routes compared to 2025, including by moving our services between Brisbane and Mount Isa and Brisbane and Townsville from smaller, wet-leased turboprop aircraft onto Virgin Australia's own larger 737 aircraft.

Our dedicated Virgin Australia Regional Airlines (VARA) business has been operating in Western Australia for more than 60 years to connect residents and provide major resources, energy and government clients with charter and fly-in-fly-out services. Virgin Australia is committed to maintaining these operations for the long-term, a fact which is supported by the acquisition of eight new Embraer E190-E2s well-suited to the unique demands of the state's regional and remote airports.

Virgin Australia understands that delivering affordable fares for regional Australia is critical. We offer exclusive regional fares to Velocity members living in selected areas in Queensland, the Northern Territory, and Western Australia to support continued access to more affordable air travel. This commitment has also seen us partner with the Western Australian Government to provide capped fares for the state's regional residents through the Regional Airfare Zone Cap scheme. Our participation in this scheme began in 2022, and we are proud to be continuing support through to June 2031.

### 2.2 Market-led restructuring and capital discipline

The restructuring of Virgin Australia following its voluntary administration period from April to November 2020 and the subsequent recapitalisation by private investors has resulted in material and enduring implications for how Virgin Australia operates. To introduce or expand capacity across Australia, including in the regions, we must consistently demonstrate sustainable route economics.

In practical terms, this requires disciplined network planning and capacity deployment. In some regional markets, low or unsustainable demand and load factors post-COVID have made it economically unviable to introduce or expand services, resulting in a slower return of capacity than communities would have preferred. In other cases, structural demand constraints have required a reassessment of route viability.

This discipline must be understood in the context of the Australian aviation industry's long history of volatility and repeated second-carrier failure. Since deregulation, multiple airlines seeking to compete nationally with the Qantas Group have exited the market or collapsed, including Ansett in 2001, and the voluntary administration of Virgin Australia in 2020. In addition, a number of smaller operators have entered and exited particular markets where demand proved insufficient to sustain competition. Most recently, Bonza entered the domestic market in 2023 pursuing a 'second-tier' network strategy focused on point-to-point services linking regional and non-major airports, with the majority of its routes not served by other airlines. Bonza subsequently suspended operations and entered voluntary administration in April 2024, underscoring the structural challenges of sustaining new entry in thin and dispersed markets.

This pattern is not coincidental. The Australian market is characterised by high fixed and capital costs, a relatively small and geographically dispersed population, and a concentration of demand on a limited number of high-volume trunk routes. These features create a structurally challenging environment for sustained head-to-head competition, particularly for a second carrier to replicate network breadth, fleet scale and connectivity in order to compete effectively.

Where capacity expansion has outpaced sustainable demand, or where competition has been pursued without durable returns over the investment cycle, the historical outcome has been financial distress and market exit. The repeated restructuring or collapse of second carriers demonstrates that aviation competition in Australia is highly sensitive to marginal changes in demand, costs and capital availability.

These outcomes are not isolated commercial decisions. They reflect the broader policy context in which market-led restructuring was prioritised over government assistance as the mechanism for responding to Virgin Australia's insolvency. That policy framework has reinforced what private capital investment makes clear: that long-term sustainability in aviation depends fundamentally on capital discipline, disciplined route economics, and realistic risk pricing. For Virgin Australia, this is fundamental to ensuring the airline remains viable and capable of serving communities over the long term, rather than repeating the cycles of unsustainable expansion that have historically destabilised the industry.

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### 3 Regional fares reflect demand density and structural cost dynamics

Airline fares are set with reference to the economics of operating individual routes rather than distance or remoteness in isolation.

In practical terms, airlines price services to recover the costs of operating each flight, taking into account the level and mix of demand, the costs of aircraft, crew, fuel, maintenance, airport charges and regulatory compliance, as well as how efficiently aircraft can be utilised across the network. Fares will tend to be lower on routes where there are large and consistent passenger volumes, high aircraft utilisation, and strong opportunities to spread largely fixed costs across many seats and multiple daily rotations. Conversely, fares will tend to be higher on routes with smaller and more variable demand, lower utilisation, or higher unavoidable input costs, because the same underlying cost base must be recovered from fewer passengers. These basic features of airline economics are central to understanding why fare outcomes vary significantly across routes, including within regional Australia.

Against that backdrop, regional fare outcomes reflect the interaction between demand density and airline cost structure. While remoteness is often associated with higher fares, remoteness itself is not the direct cost driver. Rather, remoteness typically correlates with smaller population catchments, lower passenger volumes, and more uneven patterns of demand. It is these demand characteristics, and their implications for cost recovery and utilisation, that shape regional route economics.

For a route to be sustainably operated, airlines must generate sufficient revenue per route to cover a combination of variable costs, such as fuel, semi variable costs, such as crew, fixed costs, such as aircraft ownership or leasing, and company overheads. Routes must also generate sufficient margin to fund fleet renewal, safety, reliability, and operational resilience, and to attract capital in a cyclical and capital-intensive industry.

Each route therefore requires a minimum revenue per flight in order to be sustainably operated. The minimum revenue threshold varies by route and will also be impacted by the type of aircraft used to operate the route. Where revenue falls below this threshold on a sustained basis, a service may cover day-to-day operating costs but will not generate the consistent returns required to support ongoing operations, capital investment and fleet renewal. For regional routes, an airline's ability to generate the minimum revenue required per flight is impacted by several factors. From an overall demand perspective, on many thin regional routes, the limited demand that exists is concentrated in essential travel segments (for example, business, government, and sector-linked travel), and there is limited discretionary demand available to be 'stimulated' through discounting without undermining the revenue required to cover high operating costs.

This makes average unit costs and fares more sensitive to utilisation, schedule peaks, and upstream cost shocks than on high volume routes. Aircraft economics reinforce these dynamics. Smaller aircraft may better match thin demand but typically have higher per seat operating costs. Fixed costs do not decline proportionately with aircraft size, meaning fewer seats over which to spread similar cost categories. In some cases, regional operations rely on wet leasing arrangements that carry higher unit cost structures. Utilisation is a critical differentiator. High demand inter capital routes can operate multiple rotations per day with limited ground time, maximising productive hours. Regional services frequently require early morning departures and late afternoon returns to support business and government travel, resulting in uneven utilisation across the day.

These scheduling requirements constrain aircraft rotation efficiency and reduce daily utilisation, increasing cost per seat. High average unit costs also result from uneven utilisation of aircraft on these routes (i.e., planes are only full in one direction). In other words, high load factors at certain times of the day do not necessarily indicate overall low underlying cost. As a result, thin regional routes operate close to minimum sustainable thresholds and are highly

sensitive to incremental cost changes. In these circumstances, even modest increases in airport charges, regulatory compliance costs or fuel prices can materially affect route viability.

Where routes are unable to recover structural costs on a sustained basis, services will not continue operating indefinitely. This commercial constraint is central to understanding both fare outcomes and service availability in thin markets. Distance alone is therefore not a reliable predictor of fares. Some shorter regional routes may exhibit higher per kilometre fares than longer capital city routes due to lower passenger volumes, reduced utilisation and limited economies of scale, rather than remoteness itself. Meanwhile on very short routes, such as where travel by automobile or rail is a viable alternative, the jet aircraft that deliver the lowest seat costs cannot spend enough time at a cruising altitude to achieve their optimal efficiency.

**Recommendation:** The Productivity Commission's analysis should prioritise demand sustainability, load factor dynamics, aircraft economics and utilisation constraints rather than remoteness or distance as standalone indicators.

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## 4 Some regional markets cannot sustain multiple airlines

Competition outcomes are shaped by the same structural constraints. Many regional routes lack sufficient scale to sustain two or more airlines over the long term. The presence of multiple operators at a point in time does not necessarily indicate long-term sustainability, as dividing limited passenger volumes reduces load factors and increases unit costs. Short-term competition may therefore be followed by market exit, resulting in instability rather than durable consumer benefit.

Virgin Australia previously invested in ATR regional turboprop aircraft – which are smaller aircraft designed for short-haul and lower-demand regional routes – launching services to a number of regional routes including Brisbane to Port Macquarie in 2011 and Brisbane to Bundaberg and Moranbah in 2013. Virgin Australia entered as the second carrier on Bundaberg and Moranbah. On Port Macquarie, there were no other operators. These three services ceased in 2017 as VA mainline operations, as the airline could not generate the required returns to make the routes sustainable. Since then, other airlines have entered Bundaberg and Moranbah as a second carrier on those routes, however it remains to be seen whether those current services can maintain a long-term presence in competition with Qantas. Port Macquarie has remained a market with a single operator and no competition. As at 2025, none of these routes have grown capacity compared to 2013 levels.

Assessments of competition viability should take account of the aircraft investment cycle and the long-lived, capital-intensive nature of aviation investment. Aircraft deployment involves substantial upfront commitment and cannot be reversed without material cost and disruption. Entry and exit decisions are therefore driven by expectations of sustainable returns over an investment cycle, not short-term fluctuations in demand or pricing.

Competition assessments should be conducted on a route-by-route basis. Where competition is viable, it depends on practical access to the inputs required to operate a schedule that passengers value, including peak-time access, terminal facilities, and operational arrangements at airports. The Commission should examine whether any airport processes or arrangements create unnecessary barriers to entry or expansion, or otherwise undermine competitive neutrality, particularly in markets where demand is only sufficient to support one effective challenger.

Network connectivity through Sydney and Melbourne is a relevant operational consideration for many regional services. The commercial viability of some regional routes is strengthened where schedules can support reliable onward connections to domestic and international services, noting that this is influenced by airport operating capacity, terminal/gate availability and other day-to-day operational factors.

**Recommendation:** The Productivity Commission should assess competition viability at a granular, route-specific level rather than relying solely on the number of operators present.

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## 5 External Cost Pressures and Supply Constraints Affecting Regional Fares

Regional fares are influenced by upstream cost settings that airlines cannot control. Thin routes operate close to minimum sustainable thresholds, meaning relatively small cost increases can have disproportionate effects.

Key costs impacting the viability of regional routes for airlines include airport charges and infrastructure cost recovery, fuel cost, decarbonisation policy and cost pass through, aircraft supply constraints, and regulatory compliance costs. These are discussed in further detail below.

### 5.1 Airport charges and infrastructure cost recovery

For Virgin Australia, airport charges have now surpassed fuel to become our second largest operating cost after labour.<sup>1</sup> Airport charges are a significant and growing contributor to the cost of air travel to regional Australia. At regional airports, charges are on average more than 40% higher than major capital city airports on a per passenger basis – a structural cost disadvantage that directly flows through to airfares for regional travellers.

Regional airports demonstrate the following behaviours that are impacting regional airfares:

1. **Excessive pricing:** Regional airports are seeking to increase charges by 8%, which is well above the long-run CPI target of 2-3%. Without enforceable pricing principles or ACCC oversight, airports face no credible check on their pricing proposals.
2. **Protracted negotiations:** Aeronautical Services Agreement negotiations with regional airports routinely extend multiple years beyond agreement expiry, driven by information asymmetries, unrealistic expectations on the rate of return and an absence of dispute resolution mechanisms. This uncertainty delays investment, disrupts operations, and ultimately impacts passengers.
3. **Inefficient and over-scoped capital investment:** Regional airports are progressing significant capital expenditure programs. These plans are frequently driven by growth projections that are not supported by airlines, and are proceeding without meaningful airline input on need, timing, scope or cost. Airports regularly exceed agreed capital expenditure by 20–50%, with limited airline recourse. These cost overruns are recovered through higher charges in subsequent pricing periods, with no independent oversight of whether the expenditure is prudent or efficient. At regional airports, where passenger volumes are lower, the per passenger cost impact of inefficient investment is magnified.

Australian airports have publicly indicated planned capital expenditure of approximately \$45 billion over the next decade, inevitably resulting in higher aeronautical charges as airports seek to recover these costs. Critically, the impact on regional passengers extends well beyond the \$2 billion investment directed at regional airports. The majority of VA's regional journeys involve at least one major airport, meaning higher aeronautical charges at major airports will directly and unavoidably flow into the cost of regional travel and ultimately regional passengers. This impact will be further compounded unless there is effective regulatory oversight on whether major airport investment is genuinely necessary, efficiently delivered, and priced to reflect a reasonable commercial return.

The last Productivity Commission Inquiry into Airport Regulation was in 2019. Given the extent of change in the industry since then, combined with the scale of planned airport investment and the current limitations of price monitoring, the current 'light handed' airport regulation regime is no longer fit for purpose. In particular, the regime has not provided airlines or consumers with effective protection against the exercise of airport monopoly power in

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<sup>1</sup> Data is correct as at immediately prior to the March 2026 Middle East conflict.

aeronautical pricing or infrastructure cost recovery. The Australian Competition and Consumer Commission (ACCC) has observed that Australia's major airports are geographic monopolies capable of exercising market power and that the current monitoring-based framework does not, of itself, act as an effective constraint on airport conduct.<sup>2</sup> Virgin Australia submits that this inquiry should explicitly recommend that the government direct the Productivity Commission to undertake another review into Airport Regulation as a matter of priority, given its direct and material bearing on the airfares paid by regional Australians.

**Recommendation:** The Productivity Commission should consider recommending the following regulatory reforms:

- Mandate the Aeronautical Pricing Principles;
- Extended ACCC monitoring to regional airports with annual passenger numbers above 1 million, applying the same financial reporting and transparency standards that apply to the four monitored capital city airports;
- Mandate dispute resolution mechanisms — including mediation and binding arbitration — to provide a credible circuit breaker when negotiations between airports and airlines fail; and
- Introduce independent oversight of significant infrastructure projects >\$50 million.

Eliminating excessive airport charges would reduce upstream costs for airlines, creating conditions for more affordable travel. Greater regulatory oversight would ensure infrastructure spending genuinely meets demand rather than generating unnecessary cost. Streamlined negotiations would reduce the risk of service disruptions and support more stable, long-term route commitments. Together, these changes would strengthen the foundation for sustainable, affordable air connectivity to regional Australia.

## 5.2 Fuel costs

Fuel costs are also affected by structural differences between major and regional airports. Jet fuel supplied to remote and regional airports is typically transported over longer distances and in smaller volumes. This can result in higher into-plane fuel costs at remote and regional airports compared with major capital city ports. Consequently, most airlines tanker fuel in from major airports, further contributing to decreased volume requirements and increased unit costs at regional airports. Fuel is a significant operating cost for airlines and therefore fuel price is a key consideration in network decisions.

## 5.3 Decarbonisation policy and cost-pass through

The aviation sector is subject to decarbonisation obligations, including those arising under the Safeguard Mechanism, and may be subject to additional measures relating to Sustainable Aviation Fuel (SAF).

The Productivity Commission has stated that "Governments should aim to reduce emissions at the lowest possible cost to households, businesses and taxpayers".<sup>3</sup> It further concluded that "Enduring, broad-based market mechanisms are the best way to reduce carbon emissions."<sup>4</sup>

As detailed above, thin regional markets have limited capacity to absorb incremental fuel or compliance costs. Where passenger volumes are lower and margins tighter, cost pass-through pressures are more immediate. The distributional impacts of high-cost decarbonisation measures on thin regional routes therefore warrant careful consideration.

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<sup>2</sup> ACCC, Airport Monitoring Report 2024-25, March 2026.

<sup>3</sup> Productivity Commission 2025, Investing in cheaper, cleaner energy and the net zero transformation: What we heard, p. 3.

<sup>4</sup> Productivity Commission 2025, What we heard, p. 4.

The paper highlighted the importance of cost-effective policy design and recorded strong support for enduring, broad-based and technology-neutral market mechanisms to reduce emissions at least cost.<sup>5</sup>

The Productivity Commission observed, in the context of the heavy vehicle sector, that while some policy support for low-carbon fuels (LCF) may be warranted, using prescriptive measures such as a low-carbon fuel standards (LCFS) to incentivise emissions reduction throughout the sector would be inconsistent with least-cost decarbonisation given the comparatively high abatement costs associated with LCF relative to more cost-effective alternatives such as carbon offsets.<sup>6</sup>

Virgin Australia argues the same least-cost principle is relevant and should be applied to aviation policy design. Emissions reduction incentives for aviation should, as far as practicable, be delivered through Australia's existing industrial emissions framework – particularly the Safeguard Mechanism – which is designed to facilitate lowest-cost abatement across covered sectors. Introducing additional sector-specific regulatory costs outside this framework would risk duplicative compliance burdens and higher input costs for airlines.

Policy settings that rely on prescriptive, sector-specific instruments, including mandatory approaches requiring specified levels of particular fuels or technologies, would concentrate abatement costs within aviation rather than allowing least-cost abatement to occur across the economy.

Given the structural characteristics of thin regional routes, including lower passenger volumes and tighter margins, such approaches would have immediate cost pass-through implications and may result in disproportionate impacts on regional connectivity relative to higher-density inter-capital markets.

**Recommendation:** The Productivity Commission should assess how decarbonisation policies, including SAF measures, affect costs, equity and the viability of regional air routes, consistent with a least-cost decarbonisation framework - noting that these impacts are likely to be amplified for regional air services.

#### 5.4 Aircraft supply constraints and limited innovation

While short and long haul flying between major airports has benefited from the development of new, more fuel-efficient aircraft, routes that are not suited to jet operations, including shorter distances and thin regional markets, have not experienced the same efficiency improvements.

The demand constraints that make regional aviation more challenging have also reduced the commercial incentives for manufacturers to innovate and invest in new aircraft suited to these markets. For example, Embraer recently cancelled its Next Generation Turboprop program after being unable to secure an engine manufacturer willing to assume the development risk associated with a new propulsion system. As a result, aircraft that were expected to deliver up to 20% lower fuel use are no longer expected to enter the regional market.

Airlines operating regional services are therefore largely reliant on existing turboprop platforms, which have ceased or paused production (the Saab 340 last manufactured in 1999; the De Havilland Canada DHC-8-400 paused in 2021), with only one manufacturer still producing new turboprop aircraft (the ATR 72-600).

It is acknowledged that technological innovation is occurring in emerging aircraft segments, including electric and hybrid-electric propulsion systems, with several manufacturers targeting short-haul and regional applications. These developments are promising and may, over time, improve the economics and emissions profile of certain thin routes. However, most electric aircraft programs remain at prototype or early certification stages, face infrastructure and energy supply constraints, and are limited in range and payload. Commercial deployment at meaningful scale across Australia's regional network is therefore unlikely in the near to medium term, and is more realistically measured in decades rather than years.

More broadly, global aircraft supply constraints have increased the cost of scarce aircraft and spare parts, as airlines compete to secure limited production slots and expand capacity across their networks. These supply pressures affect fleet renewal timelines and capital costs, with implications for regional aviation economics.

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<sup>5</sup> Productivity Commission 2025, What we heard, p. 7.

<sup>6</sup> Productivity Commission 2025, What we heard, p. 8.

**Recommendation:** The Productivity Commission should recognise aircraft supply constraints and limited innovation in smaller gauge aircraft segments as structural cost pressures when assessing the economics of thin regional routes.

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## 6 Conclusion

This submission provides an overview of the economic and operational complexities airlines must address to sustain services to regional communities. Virgin Australia would be pleased to assist the Productivity Commission with its inquiry by providing a 'deep-dive' into any of these areas noting that being a relatively young entrant to Australia's skies and our recent experience rebuilding a sustainable aviation business post-administration, give us a unique perspective into the challenges of ensuring sustainable competition to the benefit of all Australians, and especially those in regional areas.