MELBOURNE AIRPORT

March 2026

Inquiry into the determinants of regional airfares

Productivity Commission

Contents

1. Executive Summary

1.1 Introduction

Melbourne Airport welcomes the opportunity to contribute to the Productivity Commission's inquiry into the determinants of regional airfares. This inquiry, first recommended by the Senate Rural and Regional Affairs and Transport References Committee in 2019 and subsequently commissioned through the Australian Government's Aviation White Paper, addresses questions of enduring significance for regional communities, the aviation industry and the national economy.

As Australia's largest 24-hour airport, Melbourne Airport is a critical piece of national transport infrastructure connecting regional Victoria, Tasmania and communities across southern and eastern Australia to the national and international aviation network. In financial year 2025, Melbourne Airport facilitated more than 36 million passengers, generating approximately $22 billion in gross value added and supporting approximately 239,000 direct and indirect jobs.[1] In December 2025, Melbourne Airport recorded its busiest month on record, with 3,421,195 passengers.[2]

Melbourne Airport connects to 25 regional and non-metropolitan destinations, serving over 4 million passengers annually.[3] In financial year 2023, regional destinations accounted for 3.78 million passengers, growing to 4.00 million in FY24 and 4.06 million in FY25. These figures show that approximately one in six domestic passengers at Melbourne Airport is travelling to or from a regional destination, while nearly one quarter of all our domestic aircraft movements serve regional routes.

Melbourne Airport supports five domestic airlines and serves as the critical interstate gateway for Tasmania, handling the majority of passenger connections between the island state and mainland Australia. We work closely with domestic airlines, collaborate with regional airports and communities, and observe the commercial dynamics of thin route economics on a daily basis. This submission draws on Melbourne Airport's operational experience, independent cost analysis commissioned by the Australian Airports Association (AAA) from InterVISTAS Consulting, traffic data spanning three financial years and Melbourne Airport's 2025 Economic and Social Impact Report prepared by ConnellGriffin. It addresses the Commission's terms of reference and six information requests across several interconnected themes.

1.2 Core Propositions

Airport charges are not the primary driver of regional airfares

Independent analysis by InterVISTAS for the AAA demonstrates that airport charges represent just 7.6 per cent of the average domestic airfare, while the airline base fare accounts for 81.2 per cent[4]. The full cost breakdown is set out in Section 4.1. This finding is consistent with the Productivity Commission's own conclusion in 2019 that 'aeronautical charges account for a small percentage of airlines' operating costs.'[5]

[1] Melbourne Airport, Economic and Social Impact Report 2025, p. 37.
[2] Melbourne Airport media release, 13 January 2026.
[3] Melbourne Airport internal traffic data, financial years 2023 to 2025.
[4] InterVISTAS Consulting Inc., Airport Charges and Airfares in Australia, prepared for the Australian Airports Association, 17 April 2025, p. 8.
[5] Productivity Commission, Economic Regulation of Airports, Inquiry Report No. 92, 2019, p. 306.

The light-handed regulatory regime for privatised airports is delivering effective outcomes

Four successive Productivity Commission inquiries have confirmed that the evidence does not suggest airports have systematically exercised market power to the detriment of the community.[6] Australia's four largest airports are now collectively investing $33 billion over the coming decade in terminal expansions, baggage processing, security screening, runways and passenger amenities, all funded through private capital without reliance on government funding.[7]

Regional airports face structural economic challenges that require targeted policy responses

Recent analysis by the AAA found that 17 of 35 regional airports examined reported operational deficits in FY24,[8] with disproportionate compliance costs from federally mandated security and safety obligations a contributing factor.

1.3 Recommendations

Recommendation 1: The Australian Government should maintain the light-handed regulatory regime for privatised airports, consistent with the findings of four successive Productivity Commission inquiries. Introducing heavier-handed regulation would increase costs, reduce investment certainty and ultimately harm regional connectivity.

Recommendation 2: The Commission should recognise that airport charges represent a small fraction of airfare costs. Policy interventions to improve regional airfare affordability should focus on the dominant cost components within airline base fares as well as the market dynamics and route economics that shape fare outcomes on thin regional routes.

Recommendation 3: The Australian Government should develop a National Regional Aviation Infrastructure Strategy aligned with the Aviation White Paper, providing coordinated, long-term planning for regional airport investment, compliance support and workforce development.

Recommendation 4: The Commonwealth should establish dedicated, ongoing support for federally mandated security and safety compliance costs at regional airports.

Recommendation 5: The Commission should examine barriers to airline entry and expansion on regional routes, including slot allocation at capacity-constrained airports, with a view to supporting competitive market outcomes where demand conditions permit.

[6] Productivity Commission, Economic Regulation of Airports, Inquiry Report No. 92, 2019.

[7] Australian Airports Association media release, 'Record international travel drives growth and new investment', 5 March 2026.

[8] Australian Airports Association analysis of FY24 regional airport financial data, cited in Launceston Airport Submission to Senate Inquiry, February 2026, p. 5.

2. Melbourne Airport's Regional Connectivity

2.1 Regional Destinations Served

Melbourne Airport connects passengers to 25 regional and non-metropolitan destinations across five states and territories. These services span a diverse range of communities and economic functions, from interstate Tasmanian gateways and major tourism centres to smaller regional centres dependent on aviation as their primary link to capital city services.

Table 1. Melbourne Airport regional and non-metropolitan destinations (FY25)

Destination	IATA Code	State	Destination	IATA Code	State
Alice Springs	ASP	NT	Launceston	LST	TAS
Albury[9]	AXB	NSW	Merimbula	MIM	NSW
Ayers Rock (Uluru)	AYQ	NT	Mildura	MQL	VIC
Ballina/Byron Gateway	BNK	NSW	Mount Gambier	MGB	SA
Broome	BME	WA	Orange	OAG	NSW
Busselton	BQB	WA	Proserpine/Whitsunday	PPP	QLD
Cairns	CNS	QLD	Shellharbour (Wollongong)	WOL	NSW
Coffs Harbour	CFS	NSW	Sunshine Coast	MCY	QLD
Devonport	DPO	TAS	Townsville	TSV	QLD
Dubbo	DBO	NSW	Wagga Wagga	WGA	NSW
Hamilton Island	HTI	QLD	Williamtown (Newcastle)	NTL	NSW
Hervey Bay	HVB	QLD	Wynyard (Burnie)	BWT	TAS
King Island	KNS	TAS			

This network reflects the varied needs of regional communities, from resource sector operations and tourism access to agricultural trade, healthcare connections and family travel. Melbourne Airport's regional connectivity function differs from that of Sydney, Brisbane and Perth, where regional services predominantly connect intrastate destinations. Melbourne Airport serves as the critical interstate gateway for Tasmania, handling the majority of passenger connections between the island state and mainland Australia. This interstate gateway function means that disruptions to Tasmanian services affect communities that have no road or rail alternative for timely access to mainland services.

2.2 Scale and Significance of Regional Operations

Regional connectivity represents a substantial and growing component of Melbourne Airport's operations. Table 2 presents regional passenger numbers and aircraft movements across the three most recent financial years.

[9] Note: In February 2026, Qantas announced the cancellation of flights to Albury and Wagga Wagga citing declining demand rather than airport charges as the reason for the decision - https://australianaviation.com.au/2026/02/qantaslink-drops-2-routes-from-melbourne-to-regional-nsw/.

Table 2. Regional passengers and aircraft movements FY23 to FY25.

	Year End June 2023		Year End June 2024		Year End June 2025	
	Pax	**Movements**	**Pax**	**Movements**	**Pax**	**Movements**
Regional Total	3,778,836	39,712	4,003,023	40,800	4,060,857	39,283
Domestic Total	22,500,000	167,500	24,100,000	178,700	24,200,000	170,300
% of Domestic	16.79	23.71	16.61	22.83	16.78	23.07
Total	30,800,000	218,300	35,100,000	243,800	36,200,000	235,600
% of Total	12.27	18.19	11.40	16.74	11.22	16.67

These figures confirm that approximately one in six domestic passengers at Melbourne Airport is travelling to or from a regional destination, while nearly one quarter of all domestic aircraft movements serve regional routes. Regional passenger numbers have grown steadily across the period, rising by 7.4 per cent from FY23 to FY25 despite considerable market disruption including the collapse of Bonza and the administration of Regional Express.

3. The Benefits of Airport Privatisation and the Light-Handed Regulatory Regime

3.1 The Success of Private Investment

In April 1994, the Australian Government announced the privatisation by long-term lease of airports operated by the Federal Airports Corporation. The stated rationale was to improve the efficiency of airport investment and operation in the interests of users and the general community.[10] Sales were completed in two phases from 1997 to 2002.[11]

The privatisation program has delivered on its original objectives. Australia's four largest airports are now collectively investing $33 billion over the coming decade to expand terminals, upgrade runways and improve passenger facilities.[12] At Melbourne Airport, investment under private ownership has included significant aeronautical infrastructure over the past decade, encompassing major upgrades to the international terminal and the construction of domestic Terminal 4.[13]

Melbourne Airport is now embarking on a further $17 billion capital investment program over the next decade, one of the largest infrastructure programs in Australia.[14] This includes a $4.5 billion expansion of the international terminal announced in February 2026 incorporating five new widebody-capable gates, expanded check-in and baggage claim halls, and improved passenger waiting areas.[15] A new $500 million international baggage system, capable of processing over 4,000 bags per hour (more than double the existing system), is in its final stages of commissioning.[16] The $500 million Naarm Way road project will deliver expanded pick-up and drop-off capacity in 2026,[17] and Melbourne Airport's Third Runway, approved by the Federal Government in September 2024, is due to open in 2031.[18]

All of this investment proceeds without reliance on government funding. The privatised airport model creates strong incentives for efficient investment and operation. Airports charge airlines for aeronautical services on a user-pays basis and earn revenue from non-aeronautical services such as retail and car parking. The success of the airport business model is therefore predicated on passenger numbers, giving airports a strong commercial incentive to grow volumes through timely infrastructure investment, competitive charges and quality of service.

Airports also bear significant demand risk. Revenue is predominantly earned on a per-passenger basis, meaning that when passenger volumes fall, airport revenue falls directly. Unlike airlines, airports cannot redeploy their assets to other locations in response to declining demand. This risk profile reinforces the alignment between airport interests and the communities they serve. Airports succeed when more passengers choose to fly.

[10]The rationale for privatisation was to 'improve the efficiency of airport investment and operation in the interests of users and the general community'. See Productivity Commission, Economic Regulation of Airports, 2019, Box 1.2, citing Harris.
[11]Productivity Commission, Economic Regulation of Airports, 2019, Box 1.2: A brief history of airport regulation in Australia.
[12]Australian Airports Association media release, 'Record international travel drives growth and new investment', 5 March 2026.
[13]Melbourne Airport, Submission to Productivity Commission Inquiry into Economic Regulation of Airports, 2019.
[14] Melbourne Airport, Economic and Social Impact Report 2025.
[15]Melbourne Airport media release, 25 February 2026. Planned $4.5 billion expansion of the international terminal, including five new gates, expanded check-in and baggage claim halls.
[16]Melbourne Airport media release, 17 November 2025. New $500 million international baggage system will more than double capacity to process over 4,000 bags per hour.
[17]Melbourne Airport media release, 30 October 2025. $500 million Naarm Way project to open new pick-up and drop-off zones in 2026.
[18]Australia Pacific Airports Corporation, Annual Report FY25, 2025.

3.2 The Ownership Structure Benefits All Australians

Melbourne Airport is operated by Australia Pacific Airports Corporation (APAC) under a 50-year lease from the Australian Government (1997 to 2047) with a 49-year extension option.[19] It is owned by major superannuation and infrastructure investment funds: Dexus (27.32 per cent), IFM Investors (25.17 per cent), Future Fund (20.34 per cent), SAS Trustee Corporation (18.47 per cent) and Utilities of Australia (8.70 per cent).[20] This ownership structure means everyday Australians share directly in the success of this critical infrastructure through their retirement savings.

In FY25, APAC delivered an EBITDA of $945.4 million and Net Profit After Tax of $388.5 million, with a Return on Assets of 4.2 per cent.[21] APAC's own characterisation of this return is that it 'reflects a balanced performance consistent with a competitive market environment'. This is not the profile of an entity exercising monopoly power to extract excessive returns. To fund the capital program, APAC secured an additional $1.5 billion of financing in June 2025, including an inaugural hybrid issuance, demonstrating capital market confidence in the business model.[22]

3.3 How the Light-Handed Regime Works

The light-handed regulatory regime comprises several interrelated components: financial performance and quality of service monitoring by the ACCC, periodic reviews by the Productivity Commission, and the Aeronautical Pricing Principles which guide commercial negotiations between airports and airlines. The Principles effectively direct airports to provide aeronautical services as if those services were subject to economic regulation: prices sufficient to meet efficient costs including a commensurate return on risk, established through good faith negotiation with open information exchange.

Melbourne Airport conducts itself in accordance with these principles, basing aeronautical prices on a regulatory building block model, providing the underlying information to airlines in negotiations, and including service levels in commercial agreements.

3.4 The Regime Has Been Repeatedly Validated

In four separate inquiries, the Productivity Commission has found that while Australia's four largest airports have market power, the evidence does not suggest they have systematically exercised that power to the detriment of the community. In 2019, the Commission recommended continuing the light-handed approach and clearly rejected airline calls for a negotiate-arbitrate framework, concluding that such a framework 'would have perverse effects, leading to outcomes that would harm competition and the community'.[23]

Airports are further constrained by the strong countervailing power of airlines, the ability and practice of airlines to withdraw services, the requirement under Commonwealth leases to provide access, competition from other airports (Melbourne Airport competes with Avalon Airport in Victoria and with other major gateways with respect to attracting international airlines), and the ongoing threat of heavier regulation. The ACCC's annual monitoring acts as an early warning system. The ACCC has not, to date, recommended that the Minister initiate a formal airport pricing inquiry under Part VIIA of the Competition and Consumer Act.

[19] Melbourne Airport, Economic and Social Impact Report 2025, p. 21.
[20] Australia Pacific Airports Corporation, Annual Report FY25, 2025, p. 12.
[21] Australia Pacific Airports Corporation, Annual Report FY25, 2025, Chair's Report, pp. 4–5.
[22] Australia Pacific Airports Corporation, Annual Report FY25, 2025, Chair's Report, pp. 4–5.
[23] Productivity Commission, Economic Regulation of Airports, Inquiry Report No. 92, 2019, p. 28.

3.5 Aligning with Productivity and Regulatory Reform

Policy interventions affecting airport regulation must be considered in the context of the Australian Government's renewed focus on improving productivity. The Productivity Commission's recent work on creating a more dynamic and resilient economy has identified that Australia's regulatory environment has become too restrictive, with layers of well-meaning rules adding to a cumulative burden that reduces dynamism and resilience. The aviation sector's light-handed regulatory framework is a successful example of proportionate regulation. Given that airport charges represent only 7.6 per cent of airfare costs and the regime has been repeatedly validated, policy attention should focus on the 81.2 per cent base airfare component where airline operating costs, market dynamics and broader economic factors exert far greater influence.

3.6 Implications for Regional Connectivity

The light-handed regime's relevance to regional airfare outcomes is indirect but important. By enabling privatised airports to invest efficiently in infrastructure and negotiate flexible commercial arrangements with airlines, the regime supports the cost-effective operation of services, including regional services. Melbourne Airport's Third Runway will provide additional capacity for passengers and exporters, support competition between airlines and reduce delays.

4. The Determinants of Regional Airfares

4.1 The InterVISTAS Cost Breakdown

Analysis by InterVISTAS for the AAA, using average airfare data from Sabre covering the twelve months to June 2024, provides the most comprehensive available breakdown of what passengers actually pay. The average domestic all-in one-way airfare is $357. Of this, the airline base airfare accounts for $290 (81.2 per cent), government taxes and fees $32 (8.9 per cent), airport charges $27 (7.6 per cent) and ancillary airline charges $8 (2.3 per cent).[24]

The airport charges used in this analysis are based on publicly available schedules adjusted for the average level of commercial discounting that typically occurs through negotiation between airports and airlines.[25] Since commercially negotiated charges are typically lower than published schedules, the 7.6 per cent figure may overstate the true contribution of airport charges.

A ten per cent reduction in airport charges would translate to less than a one per cent reduction in the total ticket price. The factors that comprise the base airfare, including fuel costs, crew wages, aircraft lease costs, maintenance expenses, corporate overheads and network efficiency, are far more significant determinants of what passengers ultimately pay. Any reduction in aeronautical charges could render investment in critical airport infrastructure unviable, compromising the ability of airports to maintain and develop assets necessary to accommodate growth.

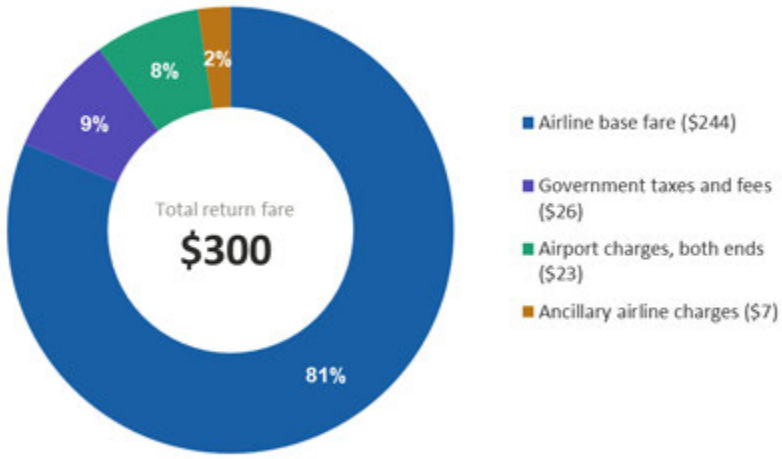

Figure 1. Illustrative breakdown of a $300 regional return airfare

If a return airfare on a typical regional route costs a passenger $300, airport charges at both ends account for approximately $23. The airline base fare, covering fuel, crew, aircraft and overheads, accounts for approximately $244. A policy that halved airport charges would save the passenger around $11 per return trip. A ten per cent improvement in airline operating efficiency would save approximately $24. The Commission should weigh the modest consumer saving achievable through airport charge

[24] InterVISTAS, Airport Charges and Airfares in Australia, 17 April 2025, p. 8.
[25] InterVISTAS, Airport Charges and Airfares in Australia, 17 April 2025, p. 7.

reductions against the potential loss of investment certainty for regional airport infrastructure, particularly given the capital requirements many regional airports face over the coming decade.

4.2 The Growing Significance of Ancillary Charges

Globally, airline ancillary revenue has grown from approximately US$60 billion in 2015 to an estimated US$148 billion in 2024, representing approximately 15 per cent of global airline revenues.[26] While Australian carriers have not unbundled to the same degree as airlines in other markets, all domestic carriers apply ancillary charges for checked baggage, seat selection and onboard meals. The InterVISTAS analysis estimates weighted average domestic ancillary fees of $8.08 per passenger. The use of an average all-in airfare rather than only the base fare is critical for understanding the true impact of airport charges, as passengers make purchase decisions on the total price.

4.3 Thin Market Economics

The Commission's call for submissions acknowledges that fares to and from regional locations are generally higher than other domestic fares.[27] The causes of this differential are primarily structural: high fixed costs recovered across fewer passengers, limited or no competition on many routes, fuel price exposure, crew and engineering shortages constraining fleet deployment, lower seat density on turboprop and smaller jet aircraft, substantially higher Airservices Australia terminal navigation and aviation rescue and firefighting charges recovered on a location-specific basis, and the simple mathematics of distance and operating costs.

Several of these cost drivers merit specific attention. Airport operations are characterised by high fixed costs and significant regulatory overhead that do not scale with passenger volumes. Staffing, security, infrastructure maintenance, pavement standards, airfield lighting, wildlife hazard management and regulatory compliance must all be maintained to national standards regardless of how many passengers pass through the terminal. For airports handling tens of millions of passengers, these fixed costs dilute across a large user base, producing low per-passenger unit costs. Regional airports serving smaller catchment populations cannot achieve this dilution. The result is structurally higher cost per passenger that reflects the economics of serving regional communities, not operational inefficiency.

Regional airports also face demand-side constraints that compound the cost challenge. They typically serve a relatively tight passenger catchment defined by the population and economic activity of the surrounding region. Their passenger mix tends to carry a higher proportion of leisure and visiting-friends-and-relatives traffic relative to business travel, making the passenger base more price-sensitive and limiting the yield per passenger that airlines can achieve. These demand characteristics, combined with limited capacity to grow the addressable market through route development or airline attraction, narrow the revenue available to fund the cost base.

The revenue constraint extends to the commercial side of airport operations. For major airports, non-aeronautical revenue from retail, car parking, property and ground transport can be substantial. Regional airports have a constrained ability to replicate this commercial revenue model. Their smaller commercial catchments result in more limited retail precincts and fewer ancillary revenue opportunities.

Due to the tyranny of distance, flying is often the only option for people living in regional and remote communities.[28] The greatest economic cost is not the price of individual flights but isolation and

[26] InterVISTAS, Airport Charges and Airfares in Australia, 17 April 2025, pp. 4 and 16.

[27] Australian Government, Aviation White Paper: Towards 2050, August 2024, p. 141.

[28] Zeng, B. (May 2018) Airfares and Flights Routes in Regional Australia: Case of Central Australia, The Northern Institute, Charles Darwin University.

disconnection from the rest of Australia, which has a compounding impact on retaining population, attracting investment and sustaining essential services.

4.4 Airfare Trends and Demand Drivers

The BITRE Domestic Airfare Index shows an overall decline in monitored fare classes since the early 2000s, with all fare classes lower in real terms in January 2025 than in 2003. Following the pandemic, real restricted economy and best discount fares have returned to pre-pandemic levels, while business class fares remain below.[29] However, the broader inflationary environment of recent years means consumers have experienced rising airfares in absolute terms alongside the increasing price of other goods and services. This context is important for interpreting community perceptions of airfare affordability.

Melbourne Airport's experience suggests that while fares are a relevant consideration, demand for regional air services is driven by a combination of factors: purpose of travel (business, medical, tourism, visiting friends and relatives), availability and frequency of services, alternative transport modes, seasonal patterns and local economic conditions. For communities where aviation is the only practical option, demand is relatively inelastic. For discretionary leisure travel, competitive pressure from additional carriers can have the greatest effect on fare outcomes.

[29] InterVISTAS, Airport Charges and Airfares in Australia, 17 April 2025, p. 12.

5. The Economics of Regional Airports

5.1 Structural Challenges

Of 35 regional airports included in BITRE's airport traffic data that published financial statements in FY24, 17 reported operational deficits. Among the 21 regional airports ranked in the top 50 for domestic aviation activity, four recorded operational losses. For smaller regional airports, 14 reported losses with only one achieving an operating surplus.[30] The pattern is clear: the smaller the passenger throughput, the higher the likelihood of operational deficit.

The financial data confirms a pattern that is well understood within the sector but not always appreciated in policy discussions. As outlined in Section 4.3, the structural economics of thin markets produce higher per-passenger costs at regional airports. What the deficit figures reveal is the extent to which these cost pressures translate into unsustainable financial positions. Regional airports face a distinct combination of challenges beyond simple scale: concentrated capital investment cycles where a single project can represent a significant multiple of annual revenue, difficulty attracting and retaining airline services, ageing infrastructure that requires renewal regardless of passenger throughput, and a constrained revenue base that limits capacity to absorb cost increases. These characteristics distinguish regional airport economics from those of metropolitan facilities and justify a differentiated policy response.

5.2 Disproportionate Compliance Burdens

Aerodrome safety obligations required by the Civil Aviation Safety Authority (CASA), security obligations required by the Department of Home Affairs, and associated requirements for emergency planning, airfield lighting, wildlife hazard management and pavement standards apply nationally regardless of airport scale. These functions deliver a public good for the national aviation system, yet they are disproportionately expensive for small airports with limited passenger bases. Many council owned airports absorb these costs to avoid passing them on to passengers, shifting the burden onto local ratepayers.

The breadth of these obligations is not widely understood outside the aviation sector, and this inquiry provides an opportunity to document them. The compliance framework applying to regional airports includes: aerodrome facilities and operational management under the Part 139 Manual of Standards (Aerodromes) and the *Airports Act 1996*; drug and alcohol management and safety management system requirements under the *Civil Aviation Safety Regulations 1998*; airport security and passenger screening under the *Aviation Transport Security Act 2004* and associated regulations; emergency management planning; building operation and occupation requirements under the Building Code of Australia; environmental management including adherence to the Airports (Environment Protection) Regulations, the *Environment Protection and Biodiversity Conservation Act 1999*, the PFAS National Environmental Management Plan and relevant National Environment Protection Measures; and protection of airspace under the *Airports (Protection of Airspace) Regulations 1996*.[31].

Every one of these obligations applies to a regional airport serving half a million passengers in the same way it applies to Melbourne Airport serving 36 million. A regional airport must maintain an Airport Environment Strategy, conduct regular emergency exercises, meet Part 139 aerodrome standards, operate passenger screening to national requirements and manage environmental remediation obligations regardless of its throughput. At Melbourne Airport, these compliance costs are spread across 36 million passengers. At a regional airport, the same regulatory architecture is funded by a

[30] Australian Airports Association analysis of FY24 regional airport financial data, cited in Launceston Airport Submission to Senate Inquiry, February 2026, p. 5.

[31] Productivity Commission, Economic Regulation of Airports, Inquiry Report No. 92, 2019, Box 1.4, pp. 58-59.

passenger base that may be one twentieth or one fiftieth of that size. The per-passenger cost disadvantage is structural. These obligations deliver a public good for the national aviation system, ensuring the safety of all passengers and the integrity of Australia's aviation network. The cost of delivering these public goods, however, falls disproportionately on regional airports and the communities they serve.

5.3 Constrained Non-Aeronautical Revenue

Non-aeronautical revenue from retail, ground transport, property and commercial operations is an important component of the overall financial performance of major airports. Under the dual till regulatory framework, aeronautical charges are assessed on their own merits and non-aeronautical revenue does not formally cross-subsidise aeronautical services. However, the overall financial health of an airport business, including the strength of its non-aeronautical revenue, affects its capacity to invest in infrastructure, absorb cost pressures and maintain creditworthiness for the borrowing that funds capital programs.

Regional airports have fundamentally limited capacity to generate non-aeronautical revenue. Their smaller commercial catchments, more limited retail environments and fewer ancillary revenue opportunities constrain the commercial revenue available to the business. The result is that regional airports' financial sustainability depends more heavily on aeronautical revenue and, by extension, on government co-investment to fund infrastructure that the aeronautical revenue base alone cannot support. This is not a reflection of pricing conduct. It is a structural consequence of the commercial environment in which regional airports operate. The Commission should recognise that the analytical frameworks applied to major airports, which assume diversified commercial operations and substantial non-aeronautical revenue, do not translate directly to regional airport settings.

5.4 Airservices Australia Charges

Airservices Australia charges for Terminal Navigation services and Aviation Rescue and Fire Fighting services are recovered on a location-specific basis. Per-movement charges at regional airports are substantially higher than at major airports. While the specific drivers of these cost differentials are not detailed in the pricing determination, the fixed nature of service provision and the lower volume base at regional locations are likely contributing factors.

Regardless of the underlying cost allocation methodology, the practical effect is that these higher charges increase the cost of operating air services to regional destinations, and airlines pass these costs through to passengers in the form of higher fares. The Commission should examine the Airservices Australia cost allocation methodology as part of its assessment of the factors driving regional airfare outcomes.

5.5 The Regulatory Framework and Regional Airports

Australia's regulatory framework for airport pricing distinguishes between the four major monitored airports and the remainder of Australian airports, which operate under a lighter-touch regime. Melbourne Airport supports the continuation of this differentiated approach. As a major hub connecting 25 regional destinations, Melbourne Airport observes the practical importance of pricing flexibility for regional airports. Investment cycles at regional airports are concentrated and lumpy, their non-aeronautical revenue is structurally limited, and their primary objective is maintaining connectivity rather than maximising returns. A rigid or prescriptive regulatory approach applied to regional airports would risk exacerbating financial pressures and reducing their capacity to invest in essential infrastructure. The Commission's recommendations should preserve the existing flexibility for regional airport pricing.

6. Competition and Market Dynamics

6.1 A Market in Transition

The domestic aviation market has undergone significant structural change. The collapse of Rex into administration at the end of July 2024 effectively returned Australia's domestic aviation market to a duopoly.

Bonza entered voluntary administration in April 2024 after barely 15 months of operation. Before entering administration, Bonza had offered 37 domestic routes, of which 35 connected regional locations and 30 were unserved by any other airline.[32] Rex's decision to expand into capital city jet services from 2021 stretched its resources and contributed to financial difficulties. The Australian Government provided financial support including $50 million in debt to maintain regional services during administration, and Rex's sale to new investors was completed in late 2025, with the capital city jet operations liquidated and the regional turboprop business continuing under new ownership.[33]

Bonza's failure warrants particular analysis because it illustrates that airline collapses in regional markets are not necessarily evidence of insufficient demand. Independent analysis has identified several company-level factors that contributed to Bonza's failure. The airline entered the Australian market with a small fleet of Boeing 737 aircraft that offered no operating cost advantage over the identical 737s already flown by Qantas, Virgin Australia and Rex. A small fleet also meant Bonza lacked scale advantages in scheduling aircraft and crew and was more prone to operational disruption. The airline adopted an "app-first" distribution strategy under which the only place customers could search for, and book tickets directly was the Bonza app. Potential passengers using conventional search tools, search engines or online travel agencies often could not find Bonza flights, severely limiting the airline's ability to build market awareness and fill seats. Flight schedules were often suboptimal, with some routes flown only once per week compared with much more frequent services on competing carriers.

These structural challenges at the airline level were compounded by the competitive environment of Australian domestic aviation. Australia's population scale offers a far smaller market than the environments in which low-cost and ultra-low-cost carriers have succeeded overseas. European budget carriers operate across populations exceeding 450 million people and extensive networks of secondary airports. After more than a year of operation across its full network, Bonza had achieved an overall market share of only approximately two per cent. The lesson for the Commission is that route-level demand can exist while an airline still fails for reasons unrelated to the markets it serves. The Commission should distinguish clearly between route viability and airline viability when assessing barriers to competition in regional markets. Melbourne Airport was the only capital city airport that hosted Bonza's operations, providing infrastructure, commercial terms and active support for the route launches. The airport's role in facilitating new entry was not a contributing factor in the airline's collapse.

Virgin Australia's withdrawal from several regional routes following its own administration in 2020, and its subsequent partnership with Link Airways in 2024, reflects the ongoing difficulty major carriers face on thin regional routes. QantasLink's expansion into regional routes from 2021 has partly offset these changes. Virgin Australia moved to secure some of the Rex Boeing 737 fleet, and as Virgin Australia's largest port, Melbourne Airport worked to ensure the extra capacity was used to consolidate that position. November 2024 was Virgin Australia's busiest ever month at Melbourne Airport.[34]

[32] Bonza Aviation Pty Ltd entered voluntary administration on 30 April 2024 and was placed in liquidation on 2 July 2024. ACCC, Airline competition in Australia, September 2024.

[33] Productivity Commission, Determinants of Regional Airfares, Call for Submissions, December 2025.

[34] Australia Pacific Airports Corporation, Annual Report FY25, 2025, pp. 48–49.

6.2 Barriers to Entry and Expansion

The high fixed costs of airline operations relative to the passenger volumes available on thin routes represent the most significant barrier to entry. Airport infrastructure is generally not a barrier to airline entry on regional routes through Melbourne Airport. Melbourne Airport's 24-hour operating capability and available capacity mean that slot constraints are not a factor. Melbourne Airport's commitment to supporting new entrants was demonstrated by facilitating Bonza's entry and its ongoing support for carriers such as Link Airways.

The Commission should draw a clear distinction between infrastructure barriers and economic barriers. At Melbourne Airport, and at most regional airports in Australia, no infrastructure barrier to airline entry exists. Terminals can accommodate additional services; there is no slot system and airlines are not denied access. The constraints on competition are economic, driven by market size, route viability thresholds and the structural challenges of sustaining services in thin markets.

Industry experience suggests that a year-round route operating three return services per week using narrow-body jet aircraft requires a minimum of approximately 50,000 passengers per annum to be commercially viable. For smaller turboprop aircraft, the equivalent threshold is lower but still represents a significant demand hurdle for many regional markets. These thresholds vary with aircraft size, frequency, seasonal profile and airline cost structures, but they illustrate the scale of demand required before competitive entry becomes economically rational. Many regional routes fall below these thresholds, leaving them served by a single carrier or unserved entirely.

On routes where total demand may only support one carrier at a commercially viable load factor, established carriers hold inherent advantages that deter new entry. An incumbent airline has an established customer base, brand recognition, loyalty program integration and schedule familiarity that a new entrant must overcome. The risk of entry is substantial: a new entrant must win sufficient market share from the incumbent while both airlines operate at lower load factors during the competitive period. This dynamic is well documented in thin regional aviation markets across Australia and internationally.

Melbourne Airport's experience confirms that airline interest in new regional services is often present, but converting that interest into actual operations requires the right combination of aircraft availability, risk tolerance, market conditions and, in many cases, government support to bridge the gap between interest and route commencement. Regional airports also compete nationally for a limited pool of available aircraft and crew, many of which are directed towards routes backed by better-funded aviation attraction schemes. In this environment, the presence of demand alone is not always sufficient; the commercial proposition must be competitive relative to other destinations vying for the same airline capacity.

Slot allocation at capacity-constrained airports, particularly Sydney Airport, can represent a barrier to entry and expansion on routes through that hub. The opening of Western Sydney Airport brings potential to alleviate these constraints over time.

6.3 The Role of Freight

Melbourne Airport's 24-hour operating capability supports substantial freight operations. Melbourne Airport is Australia's curfew-free cargo hub, accounting for roughly 38 per cent of all Australian air freight exports.[35] The total value of international goods exported by airfreight through Melbourne Airport reached nearly $8.3 billion in 2024, equivalent to 23 per cent of Victoria's total export value. Over

[35] Australia Pacific Airports Corporation, Annual Report FY25, 2025, pp. 48–49.

100,000 tonnes of food, fibre and agriculture products are transported by airfreight through the airport annually.[36]

Beyond dedicated freight services, belly-hold cargo on passenger aircraft contributes meaningfully to route economics. For airlines, the ability to carry freight on passenger services provides incremental revenue that can improve the commercial viability of routes that might otherwise be marginal on passenger revenue alone. This cross-subsidy effect is particularly relevant for thinner routes where passenger demand alone may not cover all operating costs. The Commission should recognise freight as a factor that supports the broader aviation ecosystem and the sustainability of passenger services, particularly on routes connecting regional primary production centres to export markets.

[36]Melbourne Airport, Economic and Social Impact Report 2025, p. 41.

7. Government Policy Settings and Recommendations

The Commission has been asked to assess the role for government and the most efficient forms of intervention. Melbourne Airport supports an approach that is targeted, proportionate and evidence-based. This section sets out Melbourne Airport's specific policy recommendations, each grounded in the analysis presented in earlier sections.

7.1 Maintaining the Light-Handed Regime

The case for maintaining the current regulatory regime is set out in detail in Section 3. Four successive Productivity Commission inquiries have validated the approach. Melbourne Airport's Return on Assets of 4.2 per cent in FY25 does not suggest monopoly rent extraction. Investment of $17 billion over the coming decade, financed without government support, demonstrates the model's effectiveness.

Recommendation 1: The Australian Government should maintain the light-handed regulatory regime for privatised airports. Introducing heavier-handed regulation would increase compliance costs, reduce investment certainty, and ultimately harm passengers including those on regional routes.

7.2 Focusing on the Right Cost Drivers

The InterVISTAS analysis demonstrates that airport charges are 7.6 per cent of domestic airfares. The 81.2 per cent base airfare component, representing airline operating costs and commercial decisions, is where meaningful policy traction exists. Reducing airport charges by ten per cent would save passengers less than one per cent of their ticket price, while potentially undermining the investment that maintains and improves airport infrastructure.

Recommendation 2: The Commission should direct its analysis and recommendations towards the airline cost structures, market dynamics and route economics that drive the dominant base fare component of regional airfares.

7.3 A National Regional Aviation Infrastructure Strategy

Currently, regional airport planning and investment occurs in a fragmented manner, with individual councils making decisions based on local circumstances and available resources. A national strategy aligned with the Aviation White Paper would enable coordinated planning, shared learning across the sector and more effective targeting of government support. Better integration of airports into national infrastructure planning is necessary, including strengthening Infrastructure Australia's capacity with dedicated aviation infrastructure expertise.

Recommendation 3: The Australian Government should develop a National Regional Aviation Infrastructure Strategy providing coordinated, long-term planning for regional airport investment, compliance support and workforce development.

7.4 Security and Safety Compliance Support

Federally mandated security and safety obligations serve national policy objectives and are applied uniformly regardless of airport scale. Their financial impact falls most heavily on small regional airports. Security screening costs have reached $80 per passenger at some regional airports, causing service withdrawals. There is currently no ongoing, dedicated Commonwealth program to support regional airport security and regulatory compliance, despite these obligations growing in complexity and cost.

Recommendation 4: The Commonwealth should establish dedicated, ongoing support for these costs through a transparent assessment of cumulative regulatory impacts and long-term, equitable funding models.

7.5 Reducing Barriers to Airline Entry

Melbourne Airport does not impose infrastructure barriers to airline entry. Its 24-hour operation and available capacity mean slot constraints are not a factor. The broader market environment, however, presents significant challenges. The failures of Bonza and Rex's jet expansion underscore the difficulty of achieving commercially sustainable operations on thin routes.

Recommendation 5: The Commission should examine structural barriers to airline entry and expansion, including slot allocation at capacity-constrained airports, with a view to supporting competitive outcomes where demand conditions permit.

8. Conclusion

Melbourne Airport's experience serving 25 regional and non-metropolitan destinations with over 4 million passengers annually demonstrates both the critical importance of regional air connectivity and the complex factors affecting service sustainability and affordability.

Three propositions are central to this submission. First, airport charges represent only 7.6 per cent of overall domestic airfare costs, against an airline base fare of 81.2 per cent. Policy interventions aimed at improving affordability must address the dominant cost components. Second, the light-handed regulatory regime for privatised airports is working. Australia's four largest airports are now collectively investing $33 billion over the coming decade, all funded through private capital without reliance on government funding. APAC's Return on Assets of 4.2 per cent does not suggest monopoly rent extraction. There is no evidence-based case for heavier-handed regulation. Third, regional airports face structural economic challenges, including disproportionate compliance burdens from federally mandated obligations, that require targeted and equitable Commonwealth policy responses.

Melbourne Airport supports permanent regional airport funding programs, dedicated security compliance support and a national regional infrastructure strategy. Together, these measures would create a more sustainable foundation for the regional air services on which so many Australians depend.

MELBOURNE AIRPORT

Australia Pacific Airports
(Melbourne)
ACN 076 999 114
Level 2, T4 Melbourne Airport
Management, Victoria 3045
Australia

Locked Bag 16, Tullamarine,
Victoria 3043 Australia
+61 3 9297 1600