

Submission to the Productivity Commission Inquiry into the Determinants of Regional Airfares

1. Introduction

Airlines for Australia and New Zealand (A4ANZ) appreciates the opportunity to make a submission to the Productivity Commission's inquiry into the determinants of regional airfares. A4ANZ represents airlines operating across Australia and New Zealand and advocates for policy settings that support safe, affordable, competitive and sustainable aviation services. Our airline members are Air New Zealand, Jetstar, Qantas, Regional Express (Rex) and Virgin Australia. Several members will submit their own submissions to the PC that will incorporate a level of detail relevant to their operations.

Regional aviation is an essential service. It supports regional economic development, enables access to healthcare, education and employment, facilitates tourism, and underpins the movement of time-critical freight and supplies. For many regional communities, aviation provides the only practical transport link to major population centres. Ensuring the ongoing affordability and viability of regional air services is therefore a matter of national importance.

This submission focuses on the determinants that materially shape regional airfares, many of which are outside airlines' direct control. A4ANZ supports reforms that promote competition where feasible, improve the efficiency of upstream cost settings, and protect consumers from the consequences of monopoly airports exercising market power.

2. Competition and Long-Term Consumer Outcomes

Australia's aviation market is highly competitive and operates within one of the most liberalised domestic aviation frameworks globally. Airlines face strong competitive pressures, low margins and extensive and growing regulatory oversight.

Across the aviation industry, airlines have delivered sustained value to consumers by broadly holding real airfares flat since 2000, despite substantial increases in key cost inputs such as labour, fuel, regulatory compliance, security requirements and airport charges. This outcome reflects ongoing efficiency improvements, productivity gains and intense competition across airline networks, including regional services.

This long-term pricing context is critical to the Commission's inquiry. It indicates that regional airfare outcomes are best understood through structural and cost-based determinants - particularly in 'thin markets.'

3. Structural Cost Pressures in Regional Aviation

Regional aviation is structurally more expensive to operate than services in larger metropolitan markets. This reflects enduring characteristics of regional networks rather than airline-specific decisions or business models.

On a per-passenger basis, regional services face materially higher costs due to:

- Smaller aircraft and lower seat counts
- Reduced aircraft utilisation
- Higher per-unit costs for labour, engineering and maintenance
- Elevated fuel supply and logistics costs
- Airport and security charges that are often significantly higher than in capital city markets.

Many of these costs have increased well above CPI in recent years. At the same time, airlines' ability to recover those costs through fares is constrained by the size, income levels and travel patterns of regional communities.

Airlines continue to operate many regional routes because of their broader network value and their role in supporting regional connectivity - not because these routes generate high returns.

4. Demand Characteristics and Economies of Scale

Demand in regional aviation markets differs fundamentally from demand on high-density intercapital routes. Regional services typically cater to smaller populations, with travel patterns that can be irregular, seasonal or unidirectional.

In larger markets, demand fluctuations can often be managed through pricing adjustments, schedule changes or targeted marketing initiatives. In regional markets, demand is generally more constrained, limiting the ability of airlines to materially increase load factors or prices in response to rising costs. As a result, fixed and variable costs must be spread across fewer passengers, resulting in persistently weaker economies of scale, particularly for those smaller dedicated regional airlines forced to pay higher prices due to the lack of volume.

These characteristics also place practical limits on the depth of competition that can be sustainably supported on many regional routes. Where markets cannot support frequent competing capacity, the most effective affordability reforms are those that reduce avoidable upstream costs and monopoly airport rent seeking.

5. How Regional Airfares Are Formed

Public discussion around regional airfares often focuses on isolated examples of high fares purchased close to departure. However, such examples do not always reflect the experience of regional travellers.

Airlines offer a range of fare levels based on booking time, remaining seat availability and forecast demand. Lower fares are generally available earlier in the booking cycle, while higher fares closer to departure reflect constrained inventory rather than structural pricing behaviour.

This approach enables airlines to balance affordability for customers who can plan ahead with the need to recover the high fixed costs of operating regional services. Without fare differentiation, average fares would be higher across the board to sustain services, reducing overall affordability for regional communities. Such supply and demand factors are experienced across many service industries, including the accommodation sector.

6. Airport Charges and Monopoly Market Power

Airport charges are a significant and rapidly growing driver of costs for regional air service providers. By their nature, airports are geographic monopolies, and many regional airports operate with little to no effective competitive discipline or regulatory constraint. This imbalance has real and unavoidable consequences for airlines and the customers they serve.

For several Australian airlines, airport charges now exceed fuel costs and represent the second or third largest component of total operating expenditure. One domestic airline has noted in its Aviation Green Paper submission to the Department of Infrastructure and Transport that fourteen of its fifteen most expensive domestic airports to service are located in regional Australia. This stark reality highlights the extent to which monopoly pricing is concentrated in the very markets least able to absorb it.



Critically, many regional services originate or terminate at major airports such as Sydney, Melbourne, Brisbane and Perth. High charges levied by these major gateways are also embedded in the cost base of regional routes.

Regulatory reviews and inquiries consistently show that airlines are often subject to unilateral price increases, limited transparency around the basis for those charges, and few practical avenues to challenge or negotiate outcomes. Too often, higher charges are imposed by airports without corresponding improvements in service quality or capacity improvements.

In regional markets, even relatively small increases in per-passenger airport charges can have a disproportionate effect when applied across multiple services over the course of a year.

These costs directly undermine the viability of marginal or 'thin' routes, forcing difficult commercial decisions that can ultimately result in higher airfares, reduced service frequency, or the loss of connectivity altogether. In this way, monopoly airport behaviour can flow through to regional passengers, businesses and communities.

Recent independent analysis by the Australian Competition and Consumer Commission (ACCC) reinforces the urgent need for reform. The ACCC has concluded that the current regulatory framework for airports – which relies largely on reporting and monitoring – is not fit for purpose. It has recommended the introduction of commercial arbitration to resolve disputes over airport charges, along with stronger information disclosure and transparency requirements on airport operators.

These findings align closely with real-world experience across the aviation market. At the time of its market entry, the CEO of Bonza publicly identified Australian airport charges as the airline's single largest cost. This underscores how unchecked monopoly infrastructure pricing can act as a binding constraint on low-fare business models, new entrants and effective competition, with clear implications for affordability and consumer choice.

Across the Tasman, where privately operated airports are similarly overseen via a 'light-touch' regulatory regime, the New Zealand High Court ruled in December 2025 in favour of airlines. The Court found that, without effective constraints, monopoly airport operators pursue pricing outcomes that enable over-recovery of costs that ultimately flow through to higher price pressure for airlines and consumers alike.

A4ANZ strongly supports reforms that establish fairer and more balanced commercial relationships between airlines and monopoly airport operators. In particular,



mechanisms that promote transparency, good-faith negotiation and effective dispute resolution are essential. A credible, good-faith commercial arbitration framework would help correct the structural imbalance that currently exists in airport-airline negotiations and deliver outcomes that better reflect the long-term interests of consumers.

7. Fuel, Supply Chains and Cost Volatility

Fuel is one of the largest and most volatile cost inputs for airlines and is largely priced in international markets, thereby exposing operators - particularly smaller regional service providers - to foreign exchange movements and global supply dynamics beyond their control.

These challenges are amplified in regional aviation. Fuel supply costs at regional ports are structurally higher due to lower volumes, higher logistics and storage costs, and, in some locations, limited supplier competition. Where supply arrangements are highly concentrated, airlines have limited negotiating leverage and pricing outcomes can diverge materially from those observed at comparable locations.

Regional aviation is also particularly exposed to external shocks - including global health crises and geopolitical developments - which can disrupt supply chains, labour availability and input pricing. These factors add volatility and risk to the provision of essential regional services and should be taken into account when assessing the sustainability of regional networks and the policies that support them.

8. Security and Regulatory Efficiency

Aviation security is a critical component of Australia's national security and critical infrastructure framework. However, the current approach to security delivery in regional Australia can result in inefficiencies and higher per-passenger costs.

9. Government Intervention and Support Mechanisms

Governments already recognise that market forces alone may not sustain essential regional air services in all cases. State-based programs, such as those in Queensland and Western Australia, provide varying levels of financial support to sustain minimum service levels which can play an important role in maintaining connectivity where commercial viability is challenging and/or marginal.

Beyond aviation-specific policy, broader population, regional development and workforce policies also influence demand consistency and the long-term sustainability

of regional air services. Larger and more stable regional population bases improve demand reliability, enable better aircraft utilisation and reduce per-passenger costs.

10. Conclusion

Regional airfares are largely shaped by structural cost pressures, including monopoly airport pricing and the inherent challenges of servicing small, dispersed markets. Across the aviation industry, airlines have delivered sustained value to consumers by broadly holding real airfares flat over time, despite significant increases in input costs such as labour, fuel, regulation and airport charges. This outcome reflects intense competition and ongoing efficiency improvements across airline operations, including on many regional networks.

If governments wish to improve regional airfare affordability in a sustainable way, policy attention must focus on the determinants that most strongly influence costs and service viability. A4ANZ recommends the Commission give priority to the following reform directions:

- Strengthen protections against monopoly airport behaviour by implementing a good faith commercial arbitration framework, increasing disclosure requirements, and making Aeronautical Pricing Principles mandatory and enforceable.
- Improve upstream cost efficiency, including fuel supply resilience and transparency at airports.
- Ensure government support mechanisms are well-targeted to preserve essential connectivity where commercial viability is marginal, recognising aviation's role as critical infrastructure for regional Australia.

A4ANZ encourages the Productivity Commission to consider these factors carefully and to support reforms that promote fair pricing, efficient investment and affordable regional connectivity. A4ANZ is available for further engagement with the Commission through the duration of this inquiry.