PRODUCTIVITY COMMISSION INQUIRY

DETERMINANTS OF REGIONAL AIRFARES: INITIAL SUBMISSION

2 APRIL 2026

The Qantas Group (the **Group**) welcomes the opportunity to contribute to the Productivity Commission's (the **Commission**) inquiry into the determinants of regional airfares.

Qantas is the world's second oldest airline, founded in the Queensland outback in 1920 as Queensland and Northern Territory Aerial Services Limited (QANTAS).

Today, we are Australia's largest domestic and international airline, having built our reputation on excellence in safety, operational reliability, engineering and maintenance, and customer service.

In 2004, the Qantas Group launched Jetstar as a low-cost carrier, which has put air travel within reach of Australians who had previously never flown. Together, the Qantas Group operates regional, domestic and international services under both the Qantas and Jetstar brands.

The Group's broad portfolio of subsidiary businesses ranges from Qantas Freight Enterprises to Qantas Frequent Flyer and adjacent Qantas Loyalty businesses.

As the world's sixth largest country by land mass but ranking 54th on population, Australia presents both vital opportunities and significant challenges for aviation. Air services play a critical role in connecting international, domestic, regional and remote communities and supply chains, and provide a major source of employment and tourism revenue.

Aviation is the primary mode of transport connecting people and goods between Australia and the rest of the world. Aviation supports 604,000 jobs and contributes $68.4 billion in economic activity, including tourism.[1]

The economic contribution of the Qantas Group is equivalent to circa one per cent of gross domestic product (GDP) in Australia.[2]

The Qantas Group recognises the importance of this inquiry and look forward to supporting the Commission in developing evidence-based policy recommendations. The Group looks forward to providing a more comprehensive second submission during the subsequent consultation phases outlined by the Commission.

[1] IATA raises important questions about Australian airports, 16 March 2026. LINK
[2] Qantas Group Submission to Aviation Green Paper 2023.

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Scope of This Submission

Qantas' initial submission addresses the fundamental realities of operating regional air services in Australia, including the diversity of regional markets and demand profiles, the structural cost drivers of regional aviation, competitive dynamics within the regional aviation sector, and the cost pressures facing regional operators.

Key Issues

1. Diversity of Regional Markets and Demand

The Qantas Group operates across geographically diverse regional markets with significantly different characteristics. These variations in demand, population density, competing transport options, and seasonal patterns directly influence both the recovery of operational costs and fare levels.

2. Structural Cost Drivers of Regional Aviation

Regional air services face inherently higher unit costs than capital city routes due to lower passenger volumes and the fixed nature of many aviation expenses.

In recent years, Qantas' regional turboprop fleet has sustained cost inflation across critical areas including airport charges and aircraft maintenance, resulting in cost per available seat kilometre (CASK) growth.

The Group has observed sharp increases in some costs including airport charges and Government fees, which have increased at double the rate of inflation over the past 12 months.

3. Competitiveness of the regional aviation sector

The underlying economic dynamics of regional aviation have implications for both service continuity and affordability outcomes for industry and regional communities. We have seen very real examples of this in Australia in the recent past.

4. Future Cost Pressures

Regional aviation faces mounting cost pressures from volatile fuel prices, rising regulatory burdens and compliance costs, and escalating airport charges - costs that regional operators cannot easily absorb or spread, further threatening the viability of regional routes and airports.

Conclusion

Aviation plays a critical role in Australia's regional economies and communities. It provides essential connectivity for healthcare, education, and emergency services, enables tourism and business connectivity and supports remote and regional development. The Group is committed to delivering reliable regional services and supporting customers effectively when service disruptions occur.

The Group recognises that different regional markets face different challenges and will require tailored solutions. In this submission, we have suggested a number of potential policy directions for the Commission's consideration - including regulated routes, demand aggregation, sustainable aviation fuel development, integrated transport systems, tourism demand management, assessing the impact of future regulations and compliance costs, and a clearer regulatory framework for airport charges.

The Group refers the Commission to its 2023 submission to the Australian Government's Aviation Green Paper, particularly Chapter 5 on Regional and Remote Aviation Services, which provides additional context and analysis relevant to this inquiry.

The Qantas Group welcomes the Commission's holistic examination of regional aviation and will support the Commission during subsequent consultation phases.

Diversity of Regional Markets and Demand

The Group operates to 58 regional destinations and 108 routes across our country.[3] The underpinning drivers of demand for regional ports differ across different regions and different markets.

The Group considers these in three broad thematic areas:

- **Resource Markets** – regional ports with demand profiles predominantly driven by the resources industry (e.g. Port Hedland – a major town and key industrial centre located within the Pilbara region of Western Australia).

- **Other Regional Markets** – regional ports with a demand profile that are a mix of some residents traveling for personal or business reasons, visiting friends and relatives, tourism and/or some local industry (e.g. Broome – a seasonal tourism-led economy with a mix of some fly-in/fly-out population and some small to medium local businesses, through to Bendigo – a regional city with a strong localised workforce, tourism and health/social services and growing population with viable land connectivity options (2-hours' drive from Melbourne)).

- **Sub-Trunk Markets** – typically a regional hub or city connecting with a capital city (e.g. Darwin – a highly seasonal tourism-driven profile impacted by wet and dry seasons, with some defence and resource driven demand, through to Gold Coast - high-volume, leisure-focused, and seasonal market, driven by domestic tourism).

To effectively serve each of these distinct markets, the Group operates different schedules, frequency and aircraft type within its available fleet that best matches these different markets.

Compared with capital cities, regional towns and cities generally have significantly lower population sizes than Australia's metropolitan centres. Demand for air services is often inconsistent, unidirectional and, at times, less than what is required to sustain regularly scheduled services. The availability of substitutes such as low-priced trains or the ability to drive between destinations also impacts demand for air travel.

On any given day, the Group has well over 100 aircraft dedicated to regional operations. These are deployed on over 3,500 flights per week, carrying more than 9 million customers every year flying to and from rural, regional and remote parts of Australia.

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[3] Qantas Group Investor Presentation FY26H1. LINK

These services are not only vital for people-to-people connections, but also goods and supplies – carrying over 350,000 tonnes of freight annually and enabling time-critical shipments for medical supplies, fresh produce and essential goods that form a bedrock for remote supply chains and contribute materially to liveability and resilience of regional and remote Australia.

Understanding the Qantas' turboprop fleet in serving regional markets

Qantas' Q400 turboprop fleet is the most suitable aircraft to service the long and thinner remote or smaller regional routes. Given the significant role of Qantas' turboprop fleet in servicing regional markets, it is important to understand the Group's approach to this fleet.

In 2024, the Group announced it would acquire up to 14 mid-life Q400 aircraft and phase out older (and smaller) Q200 and Q300 aircraft, which were driving complexity into the operation and becoming commercially unsustainable due to their cost performance. This consolidation from three sub-fleets into one single turboprop fleet was completed in late-2025.

This multi-million-dollar investment benefits our customers by offering a consistent turboprop experience, with Q400s flying over 30 per cent faster and delivering superior operational reliability for regional residents.

In the face of rising costs, this consolidation has critically brought hard-to-achieve scale benefits and efficiencies for Qantas in serving the regions, including lower maintenance and operating costs. The Group's recent investment to replace aging Q200 and Q300 aircraft with mid-life Q400 aircraft was designed to slow the rate of cost inflation across the turboprop cost base, to ensure ongoing viability of these operations and to safeguard regional flying.

While Q400 production continues to be paused and delivery of similar aircraft remains constrained, these additional Q400s enable Qantas to provide certainty to the regions over the next decade while aircraft manufacturers and other suppliers continue to develop new regional aircraft including potentially electric, hybrid-electric and hydrogen powered aircraft that are the right size and range for the regional Australia network.

Western Australia fleet

The Group's regional Western Australia footprint is significant, operating between Perth and Kalgoorlie, Geraldton, Newman, Paraburdoo, Exmouth, Karratha, Port Hedland and Broome – reinforcing a long-term commitment to serving regional communities across the state and connecting the critical resources sector.

In early 2026, the Group announced further investment in its regional Western Australia operation with the acquisition of three additional Embraer E190s. This forms part of a broader plan to acquire up to 14 of the type while phasing out older F100 aircraft. These E190s will provide customers with greater reliability, improved fuel efficiency and more comfort across the regional Western Australia network.

In addition, Network Aviation will commence the installation of onboard WiFi across its fleet of 28 Airbus A319 and A320 aircraft.

Economies of scale

The combination of higher cost of supply and challenging demand characteristics, results in significantly worse economies of scale for regional operations compared to larger city-to-city markets.

On a per passenger basis, the unit cost of operation for a regional flight is always higher than on services between larger markets on larger aircraft. As market sizes increase, fixed and variable costs are divided among more passengers.

On a route between major population centres (such as Melbourne and Sydney), demand challenges can potentially be addressed with pricing reductions or tactical marketing, with several million potential customers on either end of the route possibly stimulated to travel.

However, in regional markets, demand is significantly more inelastic and therefore, the cost of operation needs to be spread across a smaller number of passengers. When costs fall short of revenue, the route becomes unprofitable.

Average regional airfares

While public commentary related to airfares generally focusses on 'sticker shock' examples purchased close to departure on full or near-full flights, this does not represent the experience for the majority of regional Australians, who have access to a range of airfares when booked in advance.

The price a customer sees at any given time is a consequence of the seats already sold and the remaining forecast demand for each price point across the tariff. In general, fares further away from departure with a low booked load are lower, while fares closer to departure with a high booked load are higher.

This pricing structure enables customers to have access to a variety of price points and gives airlines the opportunity to generate a commercial return for their services. If there was no range in fares, the average or median fare paid by consumers would need to be higher to cover the cost of operation.

In the last 12 months, fewer than two per cent of non-corporate passengers on Qantas' regional turboprop network purchased Full Economy fares. During this period, the average Economy base fare paid was less than $200 (excluding airport and government charges).

Discounted Fares for Residents Program

Despite the majority of regional residents accessing airfares at the lower end of the fare structure, we acknowledge that, at times, it may be necessary for regional residents to travel at short notice.

To support this, Qantas established the Discounted Fares for Residents Program in 2017, designed to make it easier for residents of remote and regional towns to access lower fares on flights to their nearest capital cities.

The discounts (starting from 20 per cent off the base fare) are applied to the Qantas-controlled component of return fares (excluding airport and government charges). This is restricted to 12 return airfares per year originating from the resident's home airport is necessary to ringfence against misuse.

The below markets were chosen because residents compete with a very high volume of corporate travel, generally from the resource industry.

Queensland	Cloncurry, Moranbah, Mount Isa, Barcaldine, Blackall, Longreach
Northern Territory	Alice Springs
Western Australia (pre-July 2022)	Broome, Kalgoorlie, Karratha, Paraburdoo, Port Hedland, Newman
Western Australia (post-July 2022)* **Western Australia Government's Regional Airfare Zone Cap Scheme introduced.*	Onslow

Over 200,000 discounted resident fare trips are booked annually, which represent a $40 million investment by the Group in the first half of FY26.

Structural Cost Drivers of Regional Aviation

While our network is large, regional aviation continues to be commercially challenging and there are fundamental realities about the costs of operating regional air services across vast distances.

The cost of regional operations, on a per seat basis, is significantly higher than mainline domestic and international operations due to a number of factors including higher airport and security charges, more expensive fuel, and greater maintenance expenses – with costs having to be spread across a smaller number of passengers compared to larger aircraft and higher density markets.

Higher costs for regional aviation have been a feature of the industry for a long time however, in recent years, some of the largest regional cost inputs (particularly engineering and airport charges) have been rising significantly above inflation, while revenue from airfares has not. The Group has seen a sharp increase in some costs including airport charges and Government fees, which have increased at double the rate of inflation over the past 12 months.

Accordingly, the Group must continue to make difficult decisions to ensure both the operational strength and commercial viability of the regional network. For example, earlier this year Qantas announced the suspension of services on the Albury to Melbourne and Wagga Wagga to Melbourne routes. Despite attempts to stimulate demand through sales, tactical marketing, adjusting schedules and working with local councils to build awareness, both of these services had insufficient revenue to cover the increasing cost of operations.

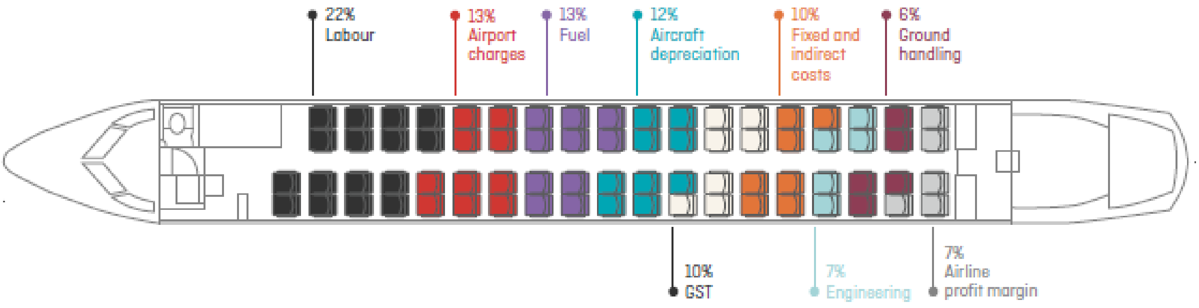
The cost of airline operations is driven by a range of variable and fixed inputs including:

Variable costs	Fixed costs
• Maintenance • Fuel • Personnel (pilots, cabin crew, ground services) • Airport charges • Taxes • Air navigation charges • Security charges • Catering and product	• Aircraft • Insurance • Training • Maintenance (fixed) • Overheads

The cost of operating can vary substantially across markets dependent on dozens of factors specific to that route, including airport charges, distance, fuel costs and maintenance. On a number of markets, Qantas also overnights crew and aircraft to provide a more convenient schedule which comes with additional costs.

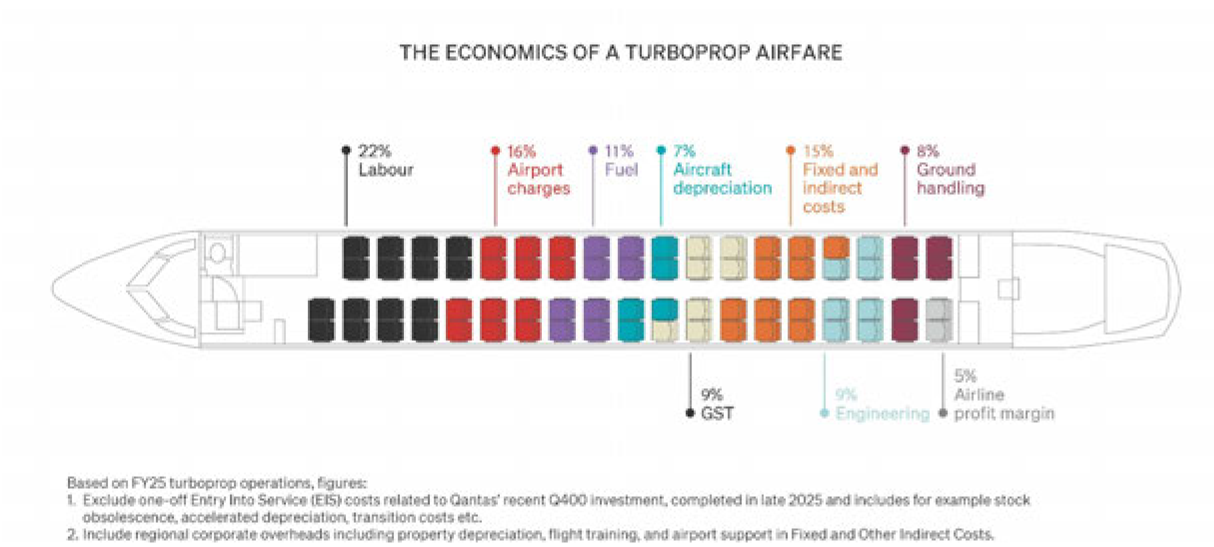
While Qantas' Q400 turboprop fleet is the most suitable aircraft to service the long and thinner remote or smaller regional routes, on average, these services are more than twice as expensive to operate than Qantas 737s and about three times more expensive than Jetstar and Qantas international services on a per passenger basis.

FY23 Qantas Group turboprop operations



Based on FY23 Qantas Group turboprop operations, and includes crew accommodation, transport, catering, marketing, IT costs, property and other expenses.

FY25 Qantas Group turboprop operations



Engineering

With 800 Q400s in service worldwide and production currently suspended, the cost of spare parts continues to rise significantly.

	2019	2026	Increase	CAGR*
Windscreen wiper blade	$900	$1,750	94%	10.0%
Landing gear wheel	$77,800	$148,200	90%	9.6%

**Compound Annual Growth Rate*

The rise in engineering costs cannot be attributed solely to pre- or post-pandemic factors.

For example, in 2023 a landing gear proximity sensor cost $6,700 whereas today, Qantas pays over $10,000 for the same component. Moreover, the year-on-year increases across that time have been rising exponentially from nine per cent in 2023, 15 per cent in 2024, and to 19 per cent in 2025.

Last year, engineering costs for the turboprop fleet increased by over 13 per cent, significantly higher than CPI of 3.8 per cent.

These growing engineering costs, together with increases in other input costs and combined with lower seat counts, contribute to the substantially higher cost of regional operations compared to other domestic and international services.

Airport charges

Airports are natural monopolies and some continue to exercise monopolistic power over the fees they charge their airline customers.

Airport profits continue to persist well above normal commercial returns. According to the Australian Competition and Consumer Commission's Airport monitoring report 2024-25, the profit margin of all major Australian airports exceeded 30 per cent.

For airlines, airport charges have a significant impact on the cost of operation for a regional route and, consequently, directly impact the price of travel for consumers.

Airport charges generally consist of three components:

- Passenger Service Charge (PSC) paid by arriving and departing passengers;
- Landing Charge (LC) based on maximum take-off weight of aircraft in tonnes; and
- Security Charge (SC) based on departing and/or arriving passengers.

Regional airport charges

When comparing the cost (excluding security) of airports across Australia, regional airports charges can be more than $50 per passenger – significantly more expensive than capital city airports.

The majority of regional airports are owned by local councils and, as government-owned infrastructure, hold the ability to unilaterally set and increase airport pricing without consultation (at times over and above inflation and/or without justification) irrespective of whether there has been any capital investment or upgrade to the airport.

A regional airport in Western Australia increased charges by 50 per cent in FY25, and a further five per cent in FY26. Airlines have no mechanism to challenge payment.

Impact on airfares

The relationship between airport charges and airfares is often misunderstood, with public commentary frequently comparing relatively small dollar amounts (such as $30) with the relatively higher airfare amount (e.g. $400 including government fees and charges).

However, on a return operation, the difference between ~$15 worth of airport charges versus ~$30 could be several thousand dollars. Extrapolated across a daily return operation over the course of a year, this amounts to over $1 million in route costs. That difference could be enough to turn a profitable route into an unprofitable one.

Fuel

The Group spends just under $5 billion on fuel annually.[4]

Aviation fuel pricing is determined in US dollars, exposing the Group to significant foreign exchange risk and volatility that is largely outside its control. Depreciation in the Australian

[4] Prior to impacts stemming from the Middle East in late February.

dollar translates directly into higher fuel costs regardless of demand conditions, operational efficiency, or network performance. While the Group has sophisticated fuel and currency hedging programs, this does not protect against fuel refining margins which can be extremely volatile.

This exposure is particularly acute for regional operations, where yield flexibility is limited and cost recovery is constrained by underlying economic dynamics, market size and essential service obligations.

Beyond the underlying commodity and foreign exchange exposure, into-plane (ITP) fuel costs at regional airports are structurally higher than at major metropolitan ports. The ITP includes logistics, storage and labour costs associated with the delivery of jet fuel from refinery into the aircraft tank.

The weighted average fuel price at regional ports (inclusive of base price plus ITP) is approximately 45 per cent higher than at capital city airports, ranging from 26 to 203 per cent at an individual port level. [5]

As noted, there are legitimate additional costs which are incurred by fuel suppliers operating at rural, regional and remote ports due to:

- Lower fuel volumes, which prevent suppliers from achieving economies of scale
- Higher logistics and transport costs, including storage, handling and delivery to remote locations
- Less frequent movements and smaller aircraft types, increasing unit costs per uplift
- Limited infrastructure redundancy, which raises risk pricing by suppliers

However, only some of the cost disparity to capital city airports can be explained by the above.

Unlike major airports where volume supports competitive tendering and pricing tension, many regional locations lack these market fundamentals. At a number of regional ports, these cost pressures are further exacerbated by high levels of supplier concentration and, in some cases, effective monopolies. Where a single into-plane fuel supplier operates, airlines have little or no negotiating leverage, and pricing outcomes can diverge materially from benchmarks observed at comparable regional locations.

Security

The security of commercial aviation is a critical element of Australia's national security and forms part of its critical infrastructure.

In the prevailing threat environment, there are security risks requiring a range of complementary measures to be applied by Government and industry to ensure the safe and secure operation of aircraft and airports.

The Group supports establishing the Department of Home Affairs (or other appropriate agency) as the nation's single screening authority – to establish, manage and perform all screening functions across passenger, baggage and cargo operations. The Group believes this will bring economies of scale to the industry, reduce security costs for regional

[5] Prior to impacts following the Middle East crisis Feb 2026.

passengers and provide greater certainty for regional security employment, consistency of screening applications and improve passenger expectations.

Beyond operational security costs, capital investment in proposed perimeter fencing represents a substantial upfront expense. While appropriate security is essential, the cost of meeting national standards at small regional airports with limited passenger throughput can be disproportionately high.

40-seat rule

The Group considers it necessary that differential screening at regional airports is resolved.

In December 2019, the Department amended Aviation Transport Security Regulation 4.02 and the definition of a Screened Air Service to include an aircraft threshold of 40 seats.

Permitting screening exemptions for commercial RPT aircraft departing from the same terminal where security infrastructure is already in place weakens the effectiveness of the domestic network. The Group believes that all RPT aircraft (other than single pilot operations providing critical services to communities) should be screened.

Such a change would not require any further investment at Designated, Tier 1, Tier 2 or Tier 3 airports with existing infrastructure, but would increase the coverage of passengers, baggage and cargo subject to screening and examination, reduce the risk of prohibited items and weapons arriving into the airside of a Tier 1 or Designated airport, make screening points more efficient via economies of scale and remove the risk of mixing screened and unscreened passengers departing on the apron of departing aircraft.

Adopting this initiative will make best use of planned or existing infrastructure and eliminate the need for confusing differential screening methods and boarding gates for passengers.

Continuing the arbitrary 40 seat threshold in the definition of a Screened Air Service will prolong market distortion, with carriers operating larger aircraft paying significantly more in security fees.

Competitiveness of the regional aviation sector

The Australian domestic aviation network (including regional Australia) is one of the most liberalised aviation markets in the world. Unlike many comparable jurisdictions, Australia imposes no restrictions on foreign carriers establishing domestic operations here. Virgin Australia and Regional Express are both beneficiaries of these settings, as was Bonza.

The Group acknowledges that the domestic aviation market is highly concentrated – though contends this is not a new phenomenon nor the result of competitor entry constraints, but rather a product of Australia's geography and population profile.

The Government recognises these structural characteristics and applies extensive regulatory oversight across the airline industry. This includes the active enforcement of competition and consumer protection laws, monitoring and information gathering powers, reformed slot management arrangements, and other regulatory controls designed to promote fair competition and protect consumers.

Within the regional aviation network, the Group is the largest provider of regional air services in Australia. However, of more than 100 domestic routes served by the Group, it operates as the sole airline on only 38.

In some regional markets, governments intervene directly to regulate services where passenger demand is insufficient, either via licencing or financial support. Examples include the Queensland Government's 'Long Distance Air Services' program which regulates seven intra-Queensland routes; Qantas operates 'Central 2' from Brisbane to Longreach via Barcaldine and Blackall. Similarly, the New South Wales Government regulates services on routes from Sydney to Lord Howe Island and Moree, with Qantas operating services to Moree.

These arrangements reflect the role of government intervention in maintaining air connectivity for regional and remote communities where market forces alone cannot sustain regular services.

Future Cost Pressures

Beyond the structural cost challenges outlined above, regional aviation faces several additional cost pressures that warrant consideration:

Fuel price volatility and supply chain risks

Global disruptions, including current geopolitical tensions in the Middle East, continue to expose the aviation sector to fuel price volatility and supply chain pressures that disproportionately affect regional operations.

Increasing regulatory and compliance costs

Regional aviation is increasingly exposed to what might be termed 'regulatory inflation' - the accumulation of government compliance costs arising from new or enhanced regulatory requirements.

Proposed government reforms relating to aviation consumer protections, accessibility standards, additional capital investment in security infrastructure, and the new Aviation Consumer Ombudsman Scheme will generate significant additional compliance and operational costs that will affect the economics of regional routes.

While individual regulatory measures may be justified on their merits, the cumulative impact of multiple regulatory changes occurring in compressed timeframes creates material cost pressures, particularly for regional operations with limited cost recovery capacity.

The impact of regulatory compliance differs markedly between mainline and regional operations. A major airline operating large-scale capital city routes can amortise compliance costs across millions of passengers and substantial revenue bases. A regional operator, serving smaller markets with lower passenger volumes, must recover similar compliance costs across a far smaller passenger base resulting in a significantly higher unit cost of regulatory compliance.

The Group would welcome clarity from Government, or advice from the Productivity Commission, on the cumulative cost impacts of all current proposed regulatory changes on Australian aviation before implementation.

Airport infrastructure costs

Airservices Australia's new Long-Term Pricing Agreement and a substantial pipeline of future airport infrastructure upgrades (totalling up to $44 billion) present ongoing cost pressures for airlines and airports.

Regional airport viability

Many regional airports operate at a loss and face pressure to increase landing fees, which are often disproportionately high on a per-passenger basis compared to major hub airports.

Potential Policy Directions

The Group believes the inquiry should consider a comprehensive suite of policy interventions tailored to different regional markets. These could include:

Regulated Routes - Government-supported 'lifeline' routes for small regional communities where demand is insufficient for commercial viability but air services are essential. Support should focus on guaranteeing minimum service levels, using competitive tender mechanisms where appropriate.

Demand Aggregation - Coordinated government planning to consolidate existing travel demand for health and essential public services. By pooling government travel requirements, such coordinated approaches could create more predictable demand, reducing reliance on direct subsidies while underpinning regional route economics.

Integrated Transport Systems - Strategic planning by governments to create seamless connectivity between air services and other modes of transport (rail, road). Establishing regional transport hubs could expand catchment areas and improve overall route viability.

Tourism Demand Management - For regions where tourism underpins regional routes, targeted off-peak tourism campaigns and event-based demand strategies could help smooth seasonal demand volatility and improve year-round route economics.

Airport Charges Framework - A clearer regulatory framework is needed to address structural power imbalances between airports and airlines. Such a framework should protect against monopolistic pricing practices and require airports to consult meaningfully with airlines before implementing fee changes or modifying commercial terms.

Airport Security Screening - The Group supports establishing the Department of Home Affairs (or other appropriate agency) as the nation's single screening authority – to establish, manage and perform all screening functions across passenger, baggage and cargo operations to achieve economies of scale.

Sustainable Aviation Fuel (SAF) - Development of a local SAF industry would support regional jobs and economic development while improving fuel security and reducing exposure to international fuel price volatility - a particular concern for remote operations. [6]

Regulatory burden and compliance review - The Group would welcome clarity on the cumulative cost impacts of all proposed regulatory changes on Australian aviation before implementation.

[6] Qantas Group Pre-Budget Submission 2025-26 January 2025. LINK