

Productivity Commission  
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Dear Commissioners,

Thank you for the opportunity to make a submission to the inquiry into regional airfares and to share our operational and lived experience with you. As one of Australia's largest general aviation groups we want to emphasise that regional connectivity is not solely delivered through scheduled passenger services and that many of Australia's most remote communities rely on general aviation charter services where scheduled regional airlines do not operate.

While our group does operate a number of scheduled passenger services throughout Western NSW and the Northern Territory our primary business is general aviation charter, which is under significant pressure sitting in between suppliers that have exponentially increased operational cost and, in most cases, a highly competitive market that often drives pricing to marginal or unsustainable levels.

We look forward to engaging with the Productive Commission in providing real experiences and policy suggestions aimed at strengthening Australia's regional and general aviation sectors.

### **Executive Summary**

Regional airfares in Australia are primarily driven by structural cost factors and market characteristics, rather than a lack of competition or excessive operator margins. Evidence from Aviation Logistics Group's operations across northern and regional Australia indicates that:

- The cost per passenger is inherently high due to low seat capacity and thin demand.
- Fuel, airport charges and regulatory costs are the dominant drivers of fares and are largely outside operator control.
- Airport pricing and fuel supply dynamics exhibit characteristics of limited competition and have a direct, near one-for-one impact on fares.

- In many markets, competition already exists but suppresses pricing below sustainable levels, increasing the risk of service withdrawal.
- Regional aviation operators carry material commercial risk, including exposure to bad debts, which further affects pricing and service continuity.

Accordingly, policy responses that focus on increasing airline competition are unlikely to materially reduce fares. More effective reform would focus on reducing upstream costs, improving market efficiency in monopoly segments, and supporting operator sustainability.

### Submission

Aviation Logistics Group, including Chartair and Air Link, operates a fleet of more than 60 aircraft providing passenger, freight, aeromedical and charter services across regional and remote Australia. Many of the communities we serve have no practical alternative to aviation, making the sustainability of these services critical.

Public commentary frequently attributes high regional airfares to insufficient competition. While this is an intuitive explanation, it does not align with the operating realities of regional and general aviation. In our experience, fares are best understood as the outcome of a high-cost, low-volume operating environment, where operators have limited ability to absorb or dilute cost increases.

The fundamental constraint is unit economics. Aircraft operating in regional markets typically carry between six and nineteen passengers, often with load factors below capacity. This means that fixed and variable costs must be recovered across a very small number of paying passengers. As a result, relatively modest increases in total flight cost translate directly into material increases in fare per passenger. Unlike major airlines, there is no scale advantage or network cross-subsidy available to offset these impacts.

Fuel costs are the most significant and volatile component of this cost base. Within our operations, fuel historically accounts for approximately one-third of total operating costs, however in recent months this has increased to above 40%. Changes in fuel price therefore have an immediate and observable effect on fares and service cost. This effect is amplified in remote regions, where logistics and supply constraints create substantial price differentials. While fuel in major centres may be available at relatively competitive rates, operators servicing remote locations can face costs several multiples higher. These geographic cost penalties are unavoidable and are directly reflected in pricing outcomes.

An example of fuel pricing disparity is highlighted across regional areas such as the Northern Territory and Western NSW. The price of Jet A1 and Avgas in Darwin in March was \$2.05 (Jet) / \$2.40 (Avgas), this increased to \$2.94 (Jet) / \$2.92 (Avgas) in April while fuel in a large but remote port like Groote Eylandt is currently \$3.98 (both Jet & Avgas). In smaller more remote locations such as Borroloola or Burketown it is not unusual for fuel prices to exceed \$5 per litre. Chartair currently pays more than \$7 per litre for fuel in Daly Waters representing one of our higher cost locations.

Airport charges represent another major driver of fares and exhibit characteristics of monopoly pricing. Regional operators cannot substitute between airports and have limited ability to influence pricing structures. Consequently, increases in aeronautical charges are passed through to passengers with zero dilution. Recent increases, including a 114 per cent rise in landing fees at Darwin Airport, demonstrate the scale and immediacy with which these cost pressures can emerge. For small aircraft with low passenger volumes, even modest absolute increases in airport charges can result in significant per-passenger impacts due to our inability to share these costs over a high number of individual passengers.

To explain this, Darwin Airports recent price increase of 114% saw the landing charge for a C441 conquest twin turbine 9 passenger aircraft increase from \$170.67 per landing or \$18.96 per passenger to \$364.46 or \$40.49 per passenger. It must be highlighted that most flights do not operate at full capacity so per passenger costs are in fact even higher.

Airport security charges are another example of how uniform cost application can disproportionately impact regional airfares. At Dubbo Airport, security screening is applied to all passengers, including those travelling on smaller aircraft where screening is not required under federal regulations. As outlined in our recent Senate submission, this results in additional charges being imposed on regional operators and their passengers, despite no regulatory obligation to do so. For low-capacity aircraft, these fixed costs materially increase the per-seat cost and, ultimately, the fare.

The Commission may wish to distinguish between the presence of multiple operators and the existence of effective competition. In several regional markets, including Darwin, there are numerous general aviation operators (10 GA operators) competing for a relatively small pool of demand. This has created a highly competitive pricing environment, often constraining operators' ability to generate sustainable returns and recover rising input costs. In this context, additional competition will not result in lower fares. Instead, it will further fragment demand, duplicate fixed costs and increase the likelihood of operator exit. The longer-term consequence is reduced service availability, rather than improved affordability.

It is our expectation that the Darwin general aviation sector will look very different in 5 years' time than today with the likely exit of several operators.

Another important consideration is the level of commercial risk inherent in regional aviation. Operators frequently provide services to resource projects, government programs and regional businesses, often on extended payment terms – for example most of the country's largest mining companies dictate payment terms at end of month plus 30-45 days. Contracts are offered as a take it or leave it proposition with unfair terms that result in significant cash flow pressure on operators.

Chartair is currently exposed to more than \$700,000 in unpaid debt from a single customer. For an operator of our scale, this represents a material working capital impact and highlights the extent to which regional aviation businesses effectively absorb financial risk within the broader regional economy. This risk must either be priced into services or managed through more conservative service provision, both of which have implications for fares and connectivity.

Taken together, these factors explain why regional airfares are structurally higher than those observed on metropolitan routes. They reflect the cost of delivering services in low-density markets with high input costs and limited economies of scale. Importantly, they do not reflect excessive profitability. As outlined in our previous submission to the Senate inquiry into the aviation sector, regional and general aviation operators typically operate on very thin margins with limited capacity to absorb further cost increases.

In this context, policy measures aimed solely at increasing airline competition are unlikely to materially reduce fares and may, in some cases, undermine the viability of existing services. A more effective approach would focus on addressing the underlying cost structure and market settings that have the greatest influence on pricing outcomes.

In particular, there is a strong case for closer examination of airport pricing behaviour, especially where monopoly characteristics exist. Consideration should also be given to the cumulative impact of federally imposed charges and cost-recovery models, which fall disproportionately on operators with low passenger volumes. Fuel supply arrangements in regional and remote areas also warrant attention, particularly where reduced competition may be contributing to higher input costs.

More broadly, there may be merit in exploring mechanisms that distribute unavoidable fixed costs more evenly across the aviation network, rather than concentrating them on a small number of regional passengers. Supporting the financial resilience of regional operators - particularly in managing cashflow volatility and commercial risk - would also contribute to maintaining service continuity in vulnerable markets.

Regional aviation performs a critical role in connecting communities, supporting economic activity and enabling access to essential services. The policy objective should therefore be to ensure that this sector remains sustainable over the long term. This will be best achieved not through artificial suppression of fares, but through improving the efficiency of upstream markets, ensuring equitable cost allocation, and recognising the unique operating characteristics of regional aviation.

Without such an approach, there is a material risk of continued service erosion, particularly in the most remote parts of Australia.

The current policy framework also creates an uneven competitive environment between government-funded charities and commercial general aviation operators. Organisations such as the Royal Flying Doctor Service (RFDS) receive substantial and ongoing government funding, along with access to significant tax concessions including income tax exemptions and fringe benefits tax advantages.

While this support is appropriate for the delivery of critical aeromedical services, these organisations also operate in adjacent markets where they compete directly with commercial charter operators - such as clinic transport, passenger movements and ad hoc charter work. In these instances, RFDS aircraft are often utilised in a manner that overlaps with services provided by unsubsidised commercial operators, but with the benefit of a materially lower cost base due to public funding and tax advantages. This creates a distortion in the market, where commercial operators - who are subject to the full tax and regulatory burden - are competing against subsidised entities.

Over time, this has undermined the viability of commercial general aviation businesses, reducing competition and ultimately impacting service availability across regional and remote Australia.

Recent years have seen a material and sustained increase in aircraft maintenance costs, particularly in engine overhauls and life-limited component replacement. This has been driven by a combination of OEM pricing strategies, supply chain constraints and labour shortages across the global MRO (maintenance, repair and overhaul) sector.

For example, overhaul costs for widely used turboprop engines such as the Honeywell TPE331 have increased from approximately US\$294,000 in 2018 to around US\$487,000 in 2025, with some overhauls now exceeding US\$700,000. Similarly, OEM-backed overhaul programs for engines like the PT6A now routinely sit in the US\$500,000 - \$700,000 range up from \$300,000 depending on variant. These increases are not simply inflationary; they reflect sharp rises in the cost of critical components - some increasing by several hundred percent - as well as reduced availability of serviceable parts, longer turnaround times and constrained global MRO capacity.

The result is that what was once a relatively predictable maintenance event has become both more expensive and more variable, placing significant pressure on operator cost bases. This volatility is playing out across all aviation operations highlighted by Alliance Airlines recent announcement of significant cost blow outs around their maintenance program. Aviation Logistics Group has experienced similar cost blow outs with recent overhauls almost doubling from previous years.

These pressures are further amplified by foreign exchange movements, as the majority of aircraft engines, components and overhaul services are priced in US dollars. For Australian operators, any depreciation in the Australian dollar directly increases the effective cost of maintenance inputs, often with immediate impact. This creates a double exposure - where base maintenance costs are rising globally, and currency movements further inflate those costs locally. In practice, this means operators are facing compounding cost escalation across engine overhauls, life-limited parts (LLPs) and routine component replacements, all of which must ultimately be recovered through service pricing. Unlike larger airlines, regional and general aviation operators have limited ability to hedge currency risk or absorb volatility, meaning these increases flow more directly into operating costs and, in turn, regional airfares.

Finally, a significant structural challenge facing regional aviation is the ageing fleet and the limited availability of viable replacement aircraft. Much of Australia's general aviation fleet is between 30 and 50 years old, reflecting decades of underinvestment driven by thin margins and constrained access to capital. Replacement options are limited, particularly in the 6 - 36 seat category, where few modern aircraft are being produced and those that are available come at significantly higher acquisition costs than legacy aircraft.

For many operators, the capital cost of replacement - often several million dollars per aircraft cannot be supported by the revenue generated in low-density regional markets. This creates a cycle where operators continue to rely on older aircraft, which in turn drives higher maintenance costs and reduces operational efficiency. Without access to affordable capital or targeted support mechanisms, fleet renewal remains economically challenging, further impacting the long-term sustainability of regional air services.

Some may view general and regional aviation operators as price gouging, profit hungry organisations that are lining the pockets of shareholders with gold, however the reality is very different – general and regional aviation is a highly competitive sector that is sandwiched between unsustainable market pricing and opportunistic upstream supplier behaviour that has left the sector on its knees and in need of desperate support before more operators and regional services disappear.

## Recommendations

1. **National Aviation Passenger Levy** - Introduce a modest fee attributed to each air passenger and kilogram of freight (or alternative levy model) that pools funds to support regional connectivity, security screening cost-sharing and general aviation support.
2. **Concessions & exemptions for regional and general aviation operators** – This could reduce charges or exempt regional airlines and general aviation operators from air traffic control, regulator levies and fuel excise to improve the financial sustainability of the sector. This is a successful policy used in the United States.
3. **Full pricing regulation of airports** - Subject airports to full ACCC price regulation, monitoring and enforcement, including consultation, benchmarking and efficiency reviews, potentially along the lines of electricity network pricing methodology where operational efficiency is encouraged.
4. **Interest free long-term loans for fleet replacement** - Government-backed financing to support GA and regional airlines to modernise older aircraft, improve fuel/maintenance efficiency, meet regulatory standards and deliver modern fleets with associated reliability and safety improvements for customers.
5. **Skills and workforce incentives for remote labour** - Provide relocation assistance, increased training subsidies and government-funded job placements for key roles like Licensed Aircraft Maintenance Engineers (LAMEs) and pilots in remote regions.
6. **Mutual recognition of foreign Licensed Aircraft Maintenance Engineers** - Recognise and fast track mutual recognition of foreign licenses for aircraft maintenance engineers under Part 66 of the Civil Aviation Safety Regulations. The CASR's currently permit the recognition of foreign states however CASA has never exercised this section of the regulations due to a lack of framework around assessing and recognising foreign states.
7. **Tax relief measures** - Exempt regional and general aviation operations from fuel excise (or reduce it), waive import duties on aircraft and spare parts, and provide payroll tax relief for regional aviation businesses.
8. **Restrictions on not-for-profit charity operators competing in commercial charter operations** - Attach conditions to the provision of government funding limiting charity and not-for-profit operators from undertaking commercial charter flights and competing with commercial operators that do not receive the same level of government funding and tax concessions.

Thank you for the opportunity to contribute to this inquiry. I would welcome the opportunity to engage further with the Commission as its work progresses.

Yours sincerely,

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**Group Chief Operating Officer**