

Fleet Co: A Sector-Wide Framework for Regional Fleet Renewal

Purpose

Fleet Co is a sector-wide initiative to make next-generation regional aircraft affordable and operationally sustainable. This exploratory paper sets out the public-policy rationale for establishing a Fleet Co Special Purpose Vehicle (SPV) and explains why a sector-wide framework can align the interests of the Commonwealth, regional communities, operators, their employees and private capital.

Context

The framework described in this paper was first tabled in March 2025, prior to the REX transaction. While not advanced at that time, its central contentions were that fleet renewal, and the associated need to lower operating costs, are the binding constraints on regional aviation. The former has since been borne out by acquisition and financial documentation disclosed in Air T, Inc.'s United States Securities and Exchange Commission (SEC) filings. This paper likewise focuses on the structural barriers to thin route fleet renewal and the underpinning arrangements that may facilitate: (1) lower-cost access to replacement aircraft and (2) more efficient operation thereof.

Fleet Co sits at the intersection of Policy, Politics and Capital

Policy, because regional aviation connectivity is a public-interest objective. Many regional communities depend upon regional air services for their economic prosperity, access to healthcare, education, government services and social connectivity.

Politics, because governments are routinely required to respond when air services become threatened. The history of Australian aviation demonstrates that connectivity concerns can quickly become matters of national political significance.

Capital, because sustainable fleet renewal ultimately depends upon access to financing structures that regional operators cannot typically access on a standalone basis. Whilst more efficient modern aircraft exist, and operator capability endures, capital formation remains the principal constraint.

Fleet Co seeks to align these interests through a sector-wide framework that treats fleet renewal as infrastructure, not as a carrier-specific proposal.

The objective is not to support any specific airline, but to establish a repeatable construct capable of supporting regional aviation across multiple operators and future fleet-renewal cycles.

1. Why Now

Two developments make fleet renewal time sensitive. Firstly, public filings relating to Air T and REX highlight the financial constraints associated with thin route regional aviation.

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Secondly, ongoing parliamentary examination of 'The State of Australian Aviation' inquiry creates an opportunity for government to consider structural solutions before future fleet-replacement decisions become critical.

2. Australia's Fleet Renewal Challenge

Much of Australia's regional aviation network relies upon ageing aircraft operating thin routes where passenger volumes do not support the economics available to trunk route airlines.

Regional operators typically face materially higher funding costs than larger airlines and often lack the balance-sheet strength required to procure replacement fleets on acceptable terms. The challenge is not solely operational; it is more fundamentally a capital access problem. Fleet renewal also brings with it a timely environmental dividend. Next-generation regional aircraft consume between 15 and 25 per cent less fuel per seat-kilometre than the ageing types they would replace, and additional lifecycle emissions reductions may be achievable through SAF blending.

3. Why Fleet Co Matters

The underlying challenge facing the sector is how to reduce the inherent cost of conducting regional operations. Without affordable financing, reduced costs of maintenance and operational efficiency improvements, thin-route operations will remain structurally problematic, even where community demand for air services would be otherwise healthy.

Fleet Co is intended to address this challenge by creating a sector-wide financing and operating platform. Its essential purpose is to make next-generation regional aircraft accessible to qualifying operators at a total operating cost thin-route economics can sustain.

Preliminary research has concluded that sustainable and affordable regional air services are more likely to be achieved through a framework that:

- separates fleet ownership from airline operations;
- standardises the aircraft types used by participating regional airlines;
- facilitates the purchase of next-generation regional aircraft at globally competitive prices; and
- enables participating operators to achieve best-practice efficiencies stereotypically available only to much larger carriers.

These same features carry a direct workforce dividend. Fleet standardisation and renewing the fleet provides broader and more secure regional employment, including, but not limited to, being domiciled in regional cities.

While REX's scale, regional footprint and fleet-renewal requirements make it an obvious candidate, Fleet Co is not intended to be a REX-specific solution.

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Its value lies in establishing national regional-aviation infrastructure capable of supporting fleet replacement across multiple operators and future fleet-renewal cycles.

4. How Fleet Co Works – The Leasing Structure

The financing structure Fleet Co employs is not itself novel. The separation of aircraft ownership from the airline, with assets held in a special-purpose vehicle and leased to operators, is well established in global aviation finance. What is distinctive is its application to a pooled, standardised regional fleet and the recognition that pooling and standardisation unlock operating efficiencies that materially improve thin-route economics beyond the effect of what lower capital costs alone can achieve.

The Fleet Co concept separates aircraft asset ownership from operator credit. Aircraft would be owned within a dedicated special-purpose vehicle (SPV) and leased to participating regional airlines. The investment proposition therefore becomes centred on aircraft asset quality and portfolio diversification, rather than dependence upon a single airline's balance sheet.

For operators, the model removes the front-loaded financial burden of direct fleet ownership. For asset managers, it creates scalable assets under management. For government, it establishes a framework capable of supporting multiple operators without repeated intervention.

5. The Capital-Cost Problem

Regional operators commonly face aircraft financing costs significantly above those available to major carriers. These higher costs ultimately flow into lease rates and passenger fares. Because demand on many thin routes is highly sensitive to price, higher financing costs effectively undermine route sustainability, which consequently reduces the scheduled connectivity that regional communities rely upon for growth and prosperity.

A central proposition of Fleet Co is that the principal constraint is the cost of capital access. Existing commercial leasing markets price regional aviation risk at levels that effectively prevent economically sustainable fleet renewal on thin routes. If funding costs can be materially reduced through an appropriate risk-sharing and financing structure, modern aircraft would become more accessible.

6. The Shared Solution

International precedents suggest that infrastructure-style structures can attract institutional capital when an appropriate risk-sharing framework exists. Under the Fleet Co concept, aircraft would be financed through a dedicated vehicle capable of attracting private investment whilst maintaining commercial discipline and operator independence.

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If such a layer is established, senior capital should price against the reduced risk profile a Fleet Co SPV structure enables, rather than the standalone credit profile of individual regional operators. The result would be materially lower funding costs than what's normally available to standalone regional operators.

The scale of the differential is no longer a matter of assumption. Air T's filings disclose that the private layer of REX's capital stack pricing is nearly twice the interest rate that major carriers can borrow at. While earlier Aviation Economics (AE) analysis assumed regional operators faced financing costs of 8–10 per cent, disclosed pricing indicates that the assumption was, if anything, conservative. The achievable differential is therefore larger than AE previously modelled and quantifying it precisely would be a central undertaking for any taskforce.

The SPV pricing advantage would reflect the structural features on which the model rests: senior capital secured against a diversified pool of modern aircraft rather than a single operator's balance sheet; a government-facilitated first-loss layer absorbing the subordinated risk that would otherwise raise senior pricing; and the scalable efficiencies of pooled procurement and standardised assets. The scale of that advantage is indicative at this stage and requires validation through detailed analysis, but each of its drivers is well established in infrastructure investing and aircraft-finance markets.

Table 1: Where the savings arise

N.B. The scalable efficiencies set out in Table 1 below draw on Aviation Economics April 2025 analysis, reconstructed against a single, reconciled cost base for a representative thin-route turboprop operation. Cost shares sum to the whole of that base, and each impact is the product of the relevant share and the efficiency improvement applied to it.

Cost element	Share of total cost	Source of improvement	Efficiency improvement	Impact on total cost
Fuel	25%	Fleet renewal	15–25%	3.8–6.3%
Maintenance — new v ageing aircraft	20%	Fleet renewal	15–20%	3.0–4.0%
Maintenance — fleet standardisation and spares pooling	(same 20% base)	Fleet Co structure	5–8%	1.0–1.6%
Pilot training and type ratings ¹	3%	Fleet Co structure	15–25%	0.5–0.8%
Other operating costs ²	29%	—	—	—
Administration insurance and compliance	13%	Fleet Co structure	8–12%	1.0–1.6%
Financing	10%	Fleet Co structure	40–50% ³	4.0–5.0%

¹ No reduction in crew numbers or employment is claimed. The improvement shown reflects a single type rating in place of several, shared recurrent training facilities and shared access to a common simulator. All of which reduce training cost per pilot, not headcount. Fleet renewal and standardisation are expected to broaden and secure regional employment.

² Comprises the elements against which no efficiency improvement is claimed, including labour costs, landing and terminal charges, enroute and navigation services, ground handling, security and screening, and passenger service charges.

³ Combines the compounding effects of the financing charge: a reduction in senior financing cost from standalone regional pricing to approximately 6.5 per cent, and an OEM discount of 10–20 per cent on asset price achieved via a sector-wide order.

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Table 2: What is attributable to the Fleet Co structure

Source of improvement	Impact on total cost
Fleet renewal alone — available to any operator able to individually finance new aircraft on acceptable terms	6.8–10.3%
Fleet Co structure — pooled procurement, standardisation, shared spares and engineering, shared simulator and training, consolidated compliance and significantly lower cost of capital	6.5–9.0%
Integrated combined effect	Circa 13–18%

N.B. Cost shares are indicative and reflect a representative thin-route turboprop operation. Efficiency ranges are drawn from element-level analysis and comparable fleet transitions. Impacts are expressed against a single, reconciled cost base and are gross of the increased ownership charge arising from operating new rather than fully depreciated aircraft. The magnitude of each gain, the way the gains interact, and the net seat-kilometre comparison against the incumbent fleet need to be definitively established.

The ultimate question for policymakers, however, is not whether Fleet Co can reduce aircraft financing costs in isolation, but **whether a combination of OEM pricing, pooled procurement, lower capital costs and scalable efficiencies can reduce the total cost of operating next-generation regional aircraft to a level that allows thin-route services to be conducted with seat-kilometre costs broadly comparable to the ageing aircraft currently serving those routes**. If this proposition can be demonstrated, Fleet Co would provide a practical pathway for industry-wide fleet renewal without reliance upon ongoing ad hoc Commonwealth intervention.

Importantly, delivering Fleet Co need not require a new institution, and probably no new legislation either. Existing export-financing facilities already enable concessional, national-interest financing. Channels through which a first-loss facility could be delivered already operate within established mandates that are subject to parliamentary and budgetary scrutiny. Building on mechanisms that already exist, rather than creating new ones, reduces unnecessary complexity, which lowers the cost of implementation, whilst maintaining public accountability.

7. Open Access and Competitive Neutrality

For a Fleet Co SPV to be defensible as public policy, participation needs to be available to all qualifying regional operators under transparent and objective criteria. Open access is fundamental. The objective is to create industry infrastructure, not to provide a bespoke solution for any individual airline.

This principle supports competition, encourages participation and aligns the framework with broader government interests.

Three governance conditions follow: (1) the SPV manager should be appointed through a competitive, merits-based tender and held at arm's length from any operator the channel serves; (2) lease pricing should be transparent and consistently applied across all participants; and (3) the government-facilitated first-loss layer should be conditional on these access arrangements.

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A monopolistic leasing vehicle without these conditions would replicate the problem it purports to solve. Capital priced at fully private returns cannot reach thin routes, and a fleet channel controlled by any single operator's owner would function as a gatekeeper over that operator's competitors.

8. Legislative and Policy Relevance

Fleet renewal intersects with issues already under consideration by government, including regional connectivity, competition, infrastructure investment, productivity and aviation resilience. Therefore, Fleet Co should be viewed not solely through an aviation lens, but also through broader economic and regional development policy objectives. Fleet Co provides a foundational financing framework that aligns commercial capability, private capital and public-policy objectives to collectively create regional infrastructure.

Proposed Next Step

This initiative does not require a decision to commit capital at this stage. It requires a decision to test the proposition properly.

Aviation Economics recommends that the feasibility of a Fleet Co framework be examined by a dedicated, aviation-focused public-private taskforce, appointed by government and reporting within six months, with its analysis and findings independently reviewed by the Productivity Commission. Such a taskforce could establish, on the evidence, whether the structure can deliver the cost outcomes described in this paper, and, if it can, provide a costed pathway to implementation.

Conclusion

Fleet Co is a sector-wide infrastructure solution, not an airline rescue fix. The initiative seeks to address structural financing barriers that currently impede regional fleet renewal. If successful, the framework could support modern aircraft deployment, preserve regional connectivity, reduce carbon emissions, strengthen aviation resilience and lessen the likelihood of future ad hoc interventions.

The principal policy question is therefore, not whether a particular operator should be supported, but whether Australia would benefit from a permanent financing framework capable of supporting regional aviation over the long term.

Aviation Economics thanks the Commission for the opportunity to contribute to its inquiry and welcomes queries from any party with an interest in the long-term future of regional aviation.

**Submitted 28 August 2026 by Ian Woods
Principal, Aviation Economics Australia**