Australian Government
Productivity Commission

pc.gov.au

Determinants of regional airfares

Interim report

Executive summary





This is an interim report prepared for further public consultation and input. The PC will finalise its report after these processes have taken place.

November 2026

Acknowledgment of Country

The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

About us

The PC is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long-term interest of the Australian community.

The PC's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

For more information visit our website: www.pc.gov.au.

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Opportunity for comment

The PC thanks all participants for their contribution to this inquiry and now seeks additional input for the final report.

You are invited to examine this interim report and comment on it by written submission or brief comment to the PC, preferably in an electronic format, by **22 December 2026**.

Feedback can also be provided by appearing at a public hearing. Proposed dates of public hearings are outlined below. You can register your interest to appear at or observe the public hearings on the inquiry website: www.pc.gov.au/airfares.

Public hearing dates and venues

Date	Location
Friday 27 November 2026	Online
Monday 30 November 2026	Online
Wednesday 2 December 2026	Online

The PC will prepare its final report after considering the evidence provided in further submissions and public hearings, and after undertaking further analysis. The final report is due to be delivered to the Australian Government by 27 April 2027.

Commissioners

For the purposes of this inquiry and interim report, in accordance with section 40 of the *Productivity Commission Act 1998* the powers of the PC have been exercised by:

- Catherine de Fontenay, Commissioner
- Martin Stokie, Commissioner

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Executive summary

Key points

- **There is no single regional aviation market. Regional aviation serves diverse communities with different travel needs, levels of demand and degrees of reliance on air services. These differences shape airfares, service levels and the impacts on people, businesses and local economies.**
  - Many regional and remote routes have limited demand, with half carrying less than 15,000 passengers a year, operating 10 flights or fewer each week and having 35% or more empty seats per flight.
  - Communities can be disproportionately affected by high airfares if they are reliant on air services, have minimal access to alternative transport options, and have limited capacity to pay.
- **High regional airfares largely reflect the costs of providing services.**
  - Regional and remote airfares were 11% higher per passenger and 13% higher per kilometre in 2023–2025 than on major city routes – but on some routes, such as short regional and short remote routes, the fare per kilometre was more than double.
  - Operating costs make up about 91% of the fare, on average, while profit margins average about 9%, broadly comparable to major city routes. However, profit margins are much higher on some routes and average more than 20% on mining routes.
- **The viability of short regional and short remote routes is likely to come under increasing pressure.**
  - These routes operate with smaller aircraft and spread fixed costs across relatively fewer passengers.
  - Many of these routes earn a profit margin of less than 5%, making them vulnerable to increases in costs or reduced demand.
- **Competition in regional aviation is limited, with over 90% of passengers flying with either Qantas Group or Virgin Australia.**
  - Many regional and remote routes are too small to sustain more than one airline. On higher-volume routes, additional competition could deliver benefits for consumers. However, prospective entrants face barriers to competing with incumbents, such as economies of scale, network advantages and corporate loyalty.
  - Government support for airlines may help sustain services in the short term, but it can discourage new entry and protect inefficient operations. The focus should instead be on community connectivity.
- **As regional airfares largely reflect the costs of providing services, higher fares do not necessarily indicate a policy problem in need of correction. The case for support instead depends on the consequences of those fares for regional and remote communities and their ability to access services, economic opportunities and personal connection.**
  - People in regional and remote communities often must travel for healthcare services. Governments should ensure the patient assisted travel schemes provide timely and adequate support.
  - Air services may not be available on some regional and remote routes without government support. Government support should prioritise routes that are necessary for connectivity, such as for remote areas and islands.
  - Airport infrastructure is funded on a project-by-project basis and funding arrangements do not prioritise regional system needs. Funding should be prioritised to airports that are critical for community connectivity and important public functions.

Australia's vast geography makes air travel critical for supporting connections, access to services and economic opportunity. Regional aviation accounted for 38% of domestic passengers and 53% of domestic flights in 2025. However, there is no single regional aviation market. Aviation plays different roles across Australia, reflecting differences in geography, population, economic activity and alternative transport options. For some communities, air travel is one transport option among many, while others rely on it to maintain access to health care, education, government services, economic opportunities and family networks. For Aboriginal and Torres Strait Islander people, air travel can be fundamental to maintaining connections with family, community and Country.

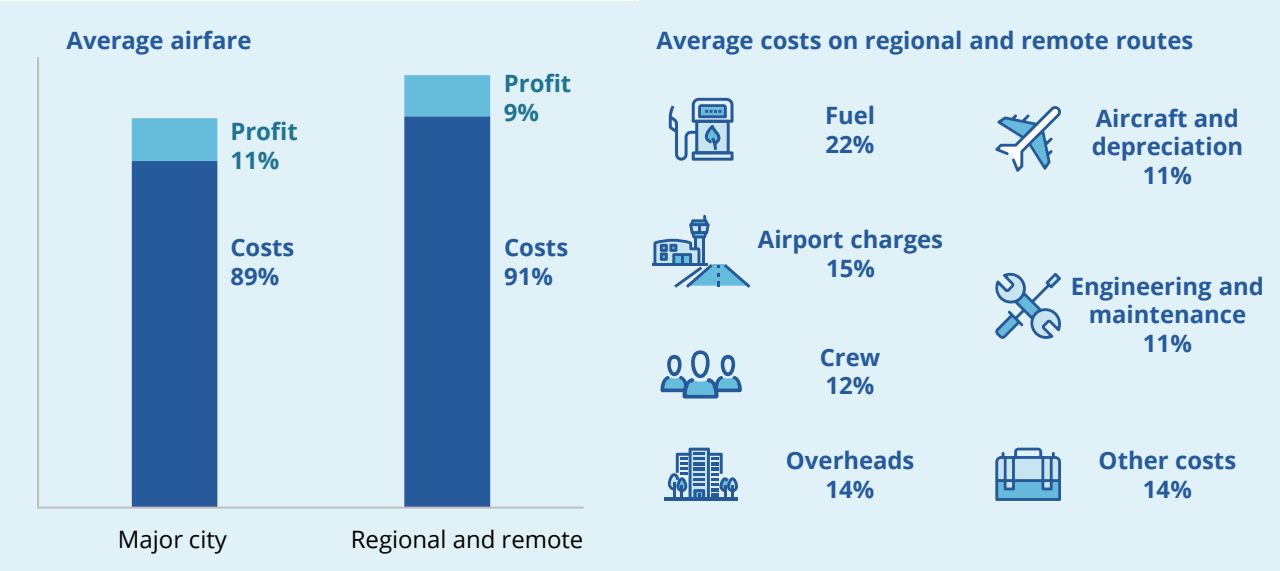
Despite airfares being a longstanding concern in regional and remote Australia, there is limited public information about what drives fares and services, and how this impacts the communities that rely on them. The Productivity Commission requested data from airlines operating regionally on flights, passengers, load factors, costs and revenue. As a result, we have a unique dataset to provide insights into demand for air travel, how airfares differ between types of routes and the factors that influence them. We have complemented this analysis with a questionnaire, visits to regional communities, online meetings and qualitative analysis to understand how air services and airfares affect regional and remote communities and the scope for improvement.

High regional airfares reflect the cost of delivering services

Regional and remote airfares were 11% higher per passenger and 13% higher per kilometre on average than fares on major city routes between 2023 and 2025. Airfares have remained relatively stable over time in real terms. Higher airfares partly reflect the economics of serving smaller markets. Half of all regional and remote routes carry fewer than 15,000 passengers a year, operate 10 flights or fewer each week and record load factors (passengers per available seats) below 65%.

Regional airfares largely reflect the high costs of delivering services. On average, 91% of the fare paid on regional and remote routes over 2023–2025 covered airline operating costs, with fuel, airport charges, crew and maintenance the largest cost drivers. Profits accounted for about 9% of revenue on average on regional and remote routes, broadly in line with major city routes (figure 1).

Figure 1 – Costs make up the bulk of regional airfares



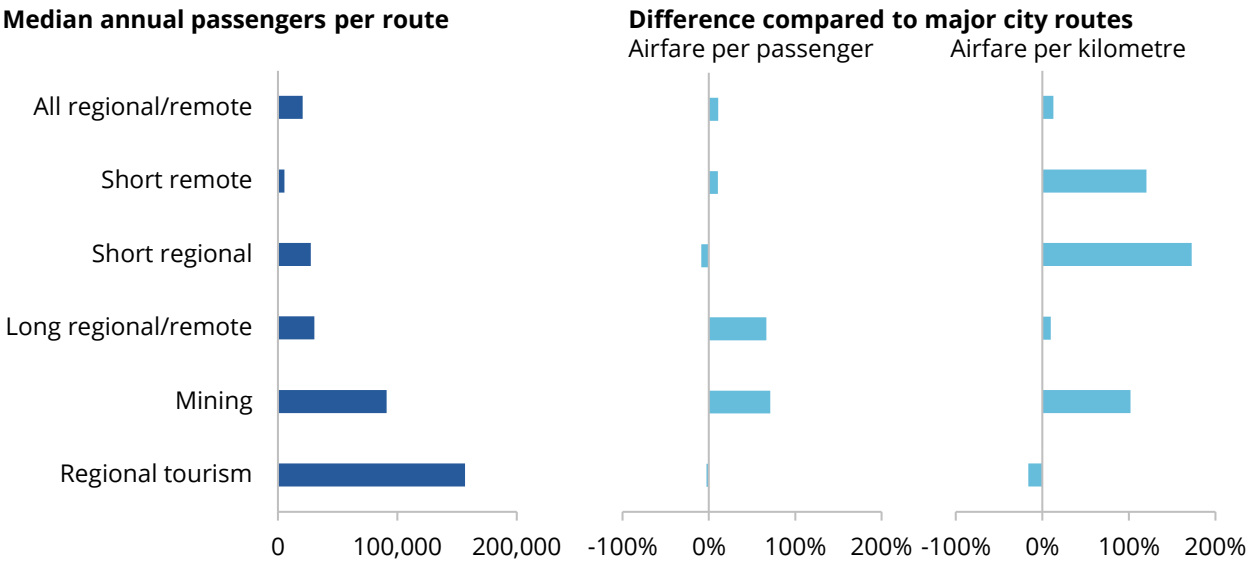
However, these averages mask variations across routes. Regional aviation serves diverse communities with different travel needs, levels of demand and reliance on air services. These differences shape airfares, service levels and impacts on people, businesses and local economies, with the impacts not felt evenly across regional Australia.

There is variation across different types of routes

Short regional and short remote routes have high costs per kilometre

Short regional and short remote routes serve small populations and have low passenger volumes. In 2025, half of all short remote routes carried fewer than 5200 passengers and half of all short regional routes carried fewer than 26,400 passengers (figure 2).

Figure 2 – Passenger volumes are low and airfares higher on many regional and remote routes compared with major city routes



The importance of aviation varies across these routes. While regional communities may have alternative transport options, some remote communities, such as islands or seasonally isolated locations, have few practical alternatives and rely on air services for critical needs. On most short remote routes, passenger volumes are insufficient to support more than one airline and, in some cases, too low to sustain any regular public transport service without government intervention. About 50% of short remote routes (and 30% of all routes with fewer than 50,000 annual passengers) are regulated through exclusive operating rights, direct subsidies or a combination of both.

The small scale of short regional and short remote routes means that airlines typically operate small aircraft and spread fixed costs across relatively few passengers. As a result, fares on short regional and short remote routes were more than twice as high per kilometre than major city routes in 2023–2025. While average airfares per passenger were broadly comparable to major city routes due to shorter travel distances, costs can rise quickly when passengers need to take multiple flights, such as travelling from the Torres Strait via Cairns to Brisbane.

The sustainability of these routes – particularly short remote routes – is under increasing pressure, as recent service reductions and route withdrawals demonstrate. Many operate with profit margins of less than 5%, and some operate at a loss, leaving services vulnerable to rising costs or reductions in demand. This creates risks to the long-term availability of services for some communities.

Regional tourism routes are broadly comparable to major cities

Regional tourism routes account for 58% of regional passenger travel and are among the largest regional aviation markets, with a median annual passenger volume of over 150,000. Strong demand supports larger aircraft, high load factors and lower unit costs. As a result, fares per passenger and per kilometre are generally comparable to or lower than on major city routes.

Leisure travellers are generally more price sensitive than those on other regional routes and may switch destinations or transport mode if fares rise. There tends to be more competition on these routes and airline profitability is generally comparable to major city routes.

Long regional and long remote routes have high fares per passenger

Long regional and long remote routes are served by large aircraft operating less frequently, or seasonally to meet tourism demand. However, compared with regional tourism routes, many long regional and long remote routes have relatively thin demand, with half of routes carrying fewer than 29,400 passengers annually, and competition is limited. On these longer routes, passengers generally have few practical transport alternatives and some routes serve 'must-see' tourist locations, making demand less sensitive to price.

Larger aircraft and longer distances keep unit costs relatively low, with fares per kilometre similar to those on major city routes. However, the fare per passenger was 67% higher in 2023–2025 because journeys are longer. These factors combine to deliver profit margins higher, on average, than on short regional and short remote routes and broadly comparable to major city routes.

Mining routes are highly profitable

Mining routes accounted for about 14% of regional passenger travel in 2025. While the median annual passenger volume is about 70,000 passengers, some routes serve close to 500,000 passengers annually. Demand is driven largely by workforce travel, which means it is generally less price sensitive, and service quality (such as flight timing and reliability) is valued by corporate customers but can result in aircraft being less intensively used on these routes. Fares per passenger on mining routes were about 70% higher than on major city routes in 2023–2025. Mining routes were the most profitable regional route group, with an average profit margin above 20%.

Prioritising support to where it matters most

On many regional and remote routes, higher airfares are a consequence of the costs of serving smaller and more dispersed markets and do not necessarily indicate a policy problem in need of correction. The case for support instead depends on the consequences of those fares for regional and remote communities and their ability to access services, economic opportunities and personal connection.

Competition where markets can sustain it

Competition is limited on regional and remote routes. In 2025, over 90% of passengers on regional and remote routes flew with Qantas Group or Virgin Australia. And on 72% of routes there was only a single carrier.

The constraints on competition differ across routes. On routes carrying fewer than 50,000 passengers a year, demand is often too low to sustain multiple airlines. As passenger numbers increase, competition becomes more viable. Duopolies emerge on some routes carrying 50,000 to 150,000 passengers a year, although profit margins tend to be low. Most routes above 150,000 passengers can support more than one airline and are profitable.

Beyond this point, the key constraint is less about market size and more about the ability of airlines to enter and expand in regional markets. Economies of scale, large networks, brand loyalty and corporate travel relationships can make it difficult for competitors to gain a foothold.

Governments should seek to remove barriers, rather than reinforce them. While government support for airlines can help maintain services to communities in the short term, ongoing assistance for individual carriers can weaken incentives for entry and more efficient service provision. Where intervention is warranted, support should instead focus on the continued provision of regional services.

Over time, a new entrant on major city routes could strengthen competition and create opportunities for airlines to expand into some regional markets. Continued monitoring and public reporting of airfares and service quality on regional and remote routes will support policymaking and ensure opportunities for entry are not undermined by anti-competitive conduct.

Supporting regional air travel

People in regional and remote Australia rely on aviation for a range of purposes, as outlined above. Many of these journeys are important to individuals and communities but the consequences of high airfares or limited access to air travel can vary. In some cases, travel can be delayed, substituted for road travel, or undertaken less frequently. In other cases, barriers to air travel can have significant impacts on wellbeing and community outcomes. For Aboriginal and Torres Strait Islander people living in remote and regional areas, barriers to air travel can also affect progress towards Closing the Gap outcomes, including in health, education and justice.

One area where the consequences can be particularly significant is access to health care. Many healthcare services, such as specialist consultations, diagnostic tests, procedures and emergency care are not available in all communities and require travel to regional centres or major cities. State and territory patient assisted travel schemes, which pay for travel for healthcare purposes, are therefore vital for reducing barriers to accessing services. However, there is scope to build on the success of existing schemes, to provide more timely and adequate support to ensure people are supported to travel when they need to.

Some regional and remote communities rely on air travel to access cities or regional centres. However, low passenger numbers and high operating costs can make services difficult to sustain commercially. Governments may have a role in supporting air routes, including through subsidies and regulated monopoly arrangements, where: there is demonstrated demand for air travel; aviation is the most efficient and practical way to meet that demand; and the market does not provide flights at a price or service level that meets community needs. When determining whether to regulate a route, governments should also consider if alternative transport options or service delivery would be more

cost-effective. Where route regulation is necessary, governments should ensure their decisions are transparent and consistently assessed.

To the extent governments choose to provide support that reduces airfares for people more broadly, including for personal and business travel, it should be targeted to where it generates significant benefits that would not otherwise be realised.

Better targeted support for regional airports

Regional airports underpin access to passenger transport, health care, emergency response, freight and other services. Low passenger volumes make it challenging for some regional airports to cover operating, maintenance and infrastructure costs. Many rely on subsidies from Australian, state, territory or local governments. However, current planning and funding arrangements are largely focused on projects at individual airports. As a result, governments lack a clear basis for assessing when support is warranted, comparing priorities within and across regions and directing funding to where it will have the greatest benefit.

Governments should take a system-wide approach to direct regional airport infrastructure funding to where it delivers the greatest public value. Funding should be prioritised towards the minimum airport capability required for preserving community connectivity and important public functions, such as aeromedical services and emergency management.

The case for funding airport infrastructure to support other regular public transport services is weaker and requires additional justification. Funding should only be provided where the broader benefits of retaining regular public transport services justify taxpayer contribution and could not be achieved more effectively through alternative arrangements. Airports with sufficient passenger demand and commercial opportunities should fund their own infrastructure. Where responsibilities overlap, governments should agree on their contributions and coordinate funding across relevant programs.

Findings and reform directions

Interim finding 1.1
Passengers pay more for airfares on average on regional and remote routes than major city routes, but fares vary considerably depending on the route

On average over the period 2023–2025, regional and remote airfares purchased were 11% higher per passenger and 13% higher per kilometre than on major city routes.

- On short regional routes, airfares were 9% lower per passenger, but 173% higher per kilometre on average than on major city routes.
- Airfares per kilometre were 120% higher on short remote and 102% higher on mining routes, and airfares per passenger were about 70% higher on mining and long regional and long remote routes than on major city routes.
- Compared with major city routes, airfares were similar or lower on regional tourism routes.

Interim finding 1.2
High airfares do not affect all communities equally. Their impacts are greatest where people rely heavily on aviation and have limited capacity to pay for travel

High airfares have the greatest impact on communities in more remote areas and those cut off from other transport. Low-income households only access air travel when absolutely necessary and if there is assistance from government support schemes. Aviation policies can support Closing the Gap outcomes by reducing the impacts of remoteness and ensuring reasonable access to essential services.

Interim finding 2.1
Limited demand shapes airfares and service offerings on many regional and remote routes

The volume of passengers and their price sensitivity are key determinants of airfares and flight frequency. Remote routes have low passenger volumes, but a lack of transport alternatives makes passengers less price sensitive. Short regional routes tend to offer more frequent flights to cater for schedule-sensitive passengers, but this has implications for the size of aircraft and results in low load factors. On mining routes, corporate preferences for reliability and specific flight times reduce price sensitivity. Regional tourism routes have more price-sensitive leisure passengers and outcomes that resemble major city routes.

Interim finding 2.2
Costs are the main driver of regional airfares

Costs account for most of the airfare paid by passengers: 91% on average on regional and remote routes, compared with 89% on major city routes. Fuel, airport charges, crew and maintenance are the biggest direct costs of delivering regional air services. Most of the difference in unit costs between regional and major city routes is due to distance, load factor and aircraft size.

Interim finding 2.3
Average profit margins on regional and remote routes are similar to major city routes, but vary by route and many short regional and short remote routes earn profit margins below 5%

Average profit margins on regional routes are similar to major city routes, at about 9%, but this masks substantial variation. Many short regional and short remote routes have profit margins below 5% due to thin demand and high costs. This leaves these routes vulnerable to increases in costs or reductions in demand and raises questions about the sustainability of services.

Interim finding 3.1
Competition is limited in regional aviation, and many routes have low margins even when served by a single operator

In 2025, over 90% of passengers flew with either Qantas Group or Virgin Australia on regional and remote routes, and on 72% of routes there was only a single carrier. Many regional and remote routes are thin markets that do not have sufficient demand to sustain competition. Few duopolies on routes with less than 150,000 annual passengers earn profit margins of more than 5%.

Interim finding 3.2
There are significant barriers to entry in the Australian aviation sector

Incumbent airlines have advantages over new entrants on scale, network breadth, brand loyalty, access to the corporate market and airport slots. These serve as a barrier to new entrants. Regional airlines are particularly disadvantaged.

Reform direction 3.1
Future government support of regional aviation should focus on services, not airlines

Government support for individual airlines can harm competition and the long-term viability of the sector. Future support, where necessary, should focus on the continued provision of regional services rather than supporting individual airlines, and be delivered through contestable mechanisms that promote long-term competition and viability.

Reform direction 4.1
Strengthen patient assisted travel schemes (PATS) to reduce barriers to accessing health care

State and territory governments should further strengthen PATS to better support access to health services for regional and remote residents and support the objectives of the *National Health Reform Agreement*.

State and territory governments should consider opportunities to improve the effectiveness of the schemes, including through adopting leading practice or more consistent standards around coverage, eligibility and access. One example of a leading practice is for governments to arrange the travel to minimise financial barriers for patients.

The PC intends to provide more detailed guidance on opportunities to improve PATS in its final report.

Reform direction 4.2
Governments should adopt an open and transparent approach to route regulation

Australian, state and territory governments should assess route regulation against a best-practice framework. Existing routes should only be supported if:

- aviation is the most efficient and practical means of providing regional connectivity, and
- the market does not provide a sufficient air service that meets community needs.

When route regulation is necessary, governments should:

- use a reverse auction to promote competition for the market and identify the minimum subsidy required to provide the specified service
- disclose the reasons for regulating routes and the criteria used to assess whether regulation is warranted.

Reform direction 4.3
General affordability subsidy schemes should be better targeted

Government support should prioritise preserving essential connectivity, rather than improving general affordability. Existing programs that subsidise airfares could be better targeted to support people who would otherwise be unable to afford air travel, as this would achieve greater impact for the same amount of public funding.

Governments should monitor subsidy arrangements to ensure they continue to provide value for money and publish information on subsidy payments to support transparency, accountability and assessment of value for money.

Reform direction 5.1
Governments should better target support for regional airport infrastructure

State and territory governments should ensure airport funding is prioritised towards the greatest public value. They should determine which airport capability warrants government support by:

- giving priority to the minimum airport capability required for community connectivity and important public functions
- funding airport infrastructure for other regular public transport services only where the benefits of retaining the service justify the taxpayer contribution and could not be achieved more cost-effectively through alternative arrangements
- requiring airports with sufficient passenger demand and commercial opportunities to fund their own infrastructure.

State and territory governments should fund airport capability that supports regional access, service delivery and other state responsibilities. The Australian Government should contribute where capability supports national objectives or Australian Government responsibilities. Where responsibilities overlap, governments should agree on their contributions and coordinate funding across relevant programs.

Information requests

Information request 4.1
Patient assisted travel schemes

The PC is seeking views on how the air travel component of patient assisted travel schemes (PATS) could further reduce barriers to accessing health services for regional and remote residents. This includes:

- any potential operational improvements or leading practices that would improve accessibility for patients
- any changes to coverage, eligibility or access that would facilitate better public health outcomes
- the role of air travel in the context of alternative modes of travel, telehealth or local service provision
- the extent to which state and territory governments are expanding coverage, increasing assistance, or making scheme offerings more consistent as recommended by the Senate Inquiry into Equitable access to diagnosis and treatment for individuals with rare and less common cancers, including neuroendocrine cancer.

Information request 4.2
Government procurement of air services

The PC is seeking views on the procurement of air travel across all levels of government, as well as the funding of air travel for organisations delivering services in regional and remote Australia. This includes:

- how airfares and access to air travel affect the operations of non-government organisations (NGOs) and Aboriginal and Torres Strait Islander community-controlled organisations (ACCOs) delivering services in regional and remote Australia
- how airfares and access to air travel affect access to justice in regional and remote Australia
- how government procurement of air travel could be better coordinated to improve efficiencies within government and/or facilitate better access to air travel among NGOs and ACCOs.

Information request 5.1
Airport costs associated with aeromedical and government services

The PC is seeking information on the costs associated with public service use of regional airports.

- What airport charges and other funding arrangements apply to aeromedical providers, emergency management bodies, defence and other government agencies?
- To what extent do airport charges recover the costs associated with this use?
- Who bears any costs that remain unrecovered?
- Do these users require airports to maintain additional infrastructure or operating capability?

Information request 5.2
Assessing support for airport infrastructure for regular public transport services

The PC is seeking evidence to refine its proposed framework for determining when airport infrastructure supporting RPT services warrants wider government support.

- What evidence would demonstrate that retaining local RPT services provides benefits sufficient to justify wider taxpayer support, particularly where another airport is reasonably accessible?
- How should governments compare retaining local RPT with alternative ways of maintaining regional access and service delivery?

Information request 5.3
Costs of regulatory compliance

The PC is seeking evidence from regional airport owners and operators on the costs of complying with Part 139 of the Civil Aviation Safety Regulations 1998 (Cth) and other regulatory requirements, including:

- annual operating expenditure required to comply with these regulatory requirements, including administration, staffing, inspections, planning and training
- capital expenditure required to comply with these regulatory requirements, including infrastructure renewal and upgrades
- additional operating and capital costs of regulatory compliance incurred since the reforms commenced in 2020
- where possible, the requirements that gave rise to these additional costs, with costs before and after the reforms
- any requirements that impose costs that are disproportionate to the safety risks they address, including which requirements and why.

Information request 5.4
Security screening costs

The PC is seeking information from regional airport owners and operators, airlines and other relevant organisations on:

- annual screening costs, including staffing, training and equipment maintenance
- the capital costs for screening equipment and associated terminal works, including costs of completed upgrades and expected costs of planned upgrades
- the per passenger screening charge and whether it applies to departing or screened passengers
- whether screening charges recover the full cost of screening and, if not, the size of any shortfall, who meets it and whether it affects airport finances or regional air services
- airline recovery of security screening costs from passengers and their effects on the cost of operating regional routes, airfares and decisions about regional air services.