

Can You Justify Your Fees?

WHEN FEES MAKE ECONOMIC SENSE AND HOW TO SET THEM
FOR COST RECOVERY

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Fees charged by businesses have recently attracted increased attention in Australia. Cost-of-living pressures have increased scrutiny not only of how much Australian consumers pay for goods and services, but also of how fees charged on top of base prices are structured and disclosed.

That scrutiny is reflected in recent Australian legislation designed to close a particular gap around transaction fees. The Competition and Consumer Amendment (Unfair Trading Practices) Act 2026 strengthens protections against ‘drip pricing’, including by requiring mandatory transaction-based charges to be disclosed prominently and upfront from 1 July 2027.¹

While the drip-pricing reforms focus on the transparency of fees added to a transaction, Australia has also turned its attention to the underlying prices businesses charge. For example, a new prohibition on excessive grocery pricing commenced on 1 July 2026, adding to a broader regulatory focus in Australia on the relationship between costs and the amounts businesses charge – an issue explored in a recent Brattle white paper, [*Estimating Cost in Excessive Pricing Cases: Unpacking the Costing Challenges Under Australia’s New Grocery Pricing Prohibition*](#).

At the same time, businesses and governments continue to face their own cost pressures, from rising input costs and increasingly personalised services to changing patterns of customer interaction. For example, generative AI has increased processing costs for some businesses and governments by making it easier for customers and members of the public to prepare and submit applications, complaints, and other submissions.

The Australian Fair Work Commission reported that its workload is likely to have increased by more than 70% over three years, attributing the increase principally to greater access to AI tools.² Similarly, IP Australia reported a 58% increase in provisional patent filings in 2025, identifying AI-enabled reductions in drafting and search costs as a possible driver.³

¹ The Parliament of the Commonwealth of Australia, Competition and Consumer Amendment (Unfair Trading Practices) Bill 2026 – Explanatory Memorandum.

² Fair Work Commission, A disrupted future: Artificial intelligence and the Fair Work Commission, Presentation to the Victorian Bar Association by Justice Adam Hatcher, President of the Fair Work Commission, 18 February 2026.

³ IP Australia, 2026 Intellectual Property Report, May 2026.

These developments raise a broader question: as new forms of customer activity create additional costs, when should those costs be recovered through separate fees?

Against this backdrop of cost pressures and regulatory scrutiny over fees, it is timely to consider the economics of charging consumer fees. For the purposes of this white paper, we define a consumer fee as a charge presented separately from the base or headline price, even though it remains part of the total price paid by at least some consumers. We address three fee-related questions from an economic perspective: when can charging a separate fee improve economic efficiency; when can it undermine competition; and, where a fee is justified and intended to recover costs, which costs should it recover?

When Might a Fee Improve Economic Efficiency?

Economic efficiency provides a useful starting point for assessing whether a fee should be separated from the base price. The welfare economics of pricing under shared infrastructure has long recognised that recovering common costs through uniform charges has the potential to distort consumption decisions. When costs differ across consumers or activities, pricing that ignores those differences can lead to over-consumption of high-cost services and under-consumption of low-cost ones.⁴

Separate fees can address this by more closely aligning the price of an activity with the resources required to provide it. This does not mean that every cost should be separately identified and charged. Instead, the relevant question is whether charging separate fees improves the allocation and use of resources relative to recovering the same cost collectively through the base price.

A useful way of applying this principle is to adopt a cost-causation view of an organisation. An organisation can be thought of as an operating system upon which different consumers and activities place different demands. Some costs are incurred in serving consumers generally and do not vary meaningfully with the actions of particular consumers. Others arise or increase when particular services, transactions, or activities are accessed. Viewed through this lens, the case for a separate fee is generally stronger where there is a meaningful relationship between the activity for which the fee is charged and the resources required to provide it.

Charging separate fees can then improve incentives. Where an optional activity consumes additional resources, but its cost is incorporated into the base price, consumers face little or no additional cost when deciding to pursue that activity. Greater use of the activity may

⁴ The economic efficiency of a fee is distinct from its distributional effects, which may warrant separate consideration, particularly where the charged activity relates to an essential service or is not meaningfully avoidable.

therefore account for a larger share of the associated resource requirements, while consumers who do not use the activity nevertheless contribute to recovering its costs through the base price. A separate fee can reduce this cross-subsidy and provide a price signal that more closely reflects the resources used in providing the activity.

The case for charging a separate fee also depends on the magnitude of the costs to be recovered versus the costs of administering the fee. An activity undertaken infrequently may be absorbed within existing capacity, while the same activity undertaken thousands of times may require dedicated staff, systems, or infrastructure. At the same time, a separate fee can impose operating costs of its own. Where the costs to be recovered are small relative to the administrative costs, it may not be economically efficient to charge a separate fee.

When Can Separate Fees Weaken Competition?

Competition can discipline fees in much the same way as it disciplines other components of price. This is especially the case where consumers understand the fees they are likely to incur after purchasing a product or service, can readily compare the total price across competing businesses, and can switch between competing offers. A business that charges a higher fee without offering corresponding value risks losing sales to its rivals. In these circumstances, there is no economic requirement for each individual component of the total price to correspond to a particular cost.

Separating fees from the base price can itself result from competition. Where firms compete intensely on headline prices, they have an incentive to remove ancillary services from the base product and allow customers to purchase them separately. This can benefit consumers whose service preferences differ. An airline passenger travelling with only a small bag, for example, need not necessarily pay for services used by passengers travelling with more luggage. Unbundling can therefore simultaneously lower the base price while increasing consumer choice.

However, the same process can weaken competition when separating fees makes the total price more difficult for consumers to observe or compare. If suppliers compete prominently on a low headline price but recover significant amounts through other charges, consumers may choose between suppliers using an incomplete measure of price. When consumers place less weight on fees than on the headline price, suppliers in turn face weaker competitive pressure on those components of the total price. A supplier can therefore appear cheaper when the consumer selects between alternatives without actually offering the lower total price.



Several features of fee design can increase this risk. One dimension is *when* fees are disclosed and charged. A fee disclosed only after a consumer has selected a supplier, invested time in a transaction, or otherwise incurred switching costs is less likely to influence the initial competitive choice. Other features include the *number* and *complexity* of fees. While a single, clearly disclosed optional charge may facilitate choice, numerous small or contingent fees can increase the effort required to determine and compare total prices.

In addition, the *stability* and *predictability* of fees can also impact competitive outcomes. If fee amounts, or the circumstances in which they apply, change frequently or without sufficient notice, consumers may find it difficult to form reliable expectations about the price they will ultimately pay. Finally, whether a fee is *meaningfully avoidable* is important. If most consumers must incur a fee to use the core service in the ordinary way, separating it from the headline price provides little additional choice.

These effects need not be confined to individual purchasing decisions. Charging separate fees can also influence how competition evolves across a market. If unbundling allows one firm to advertise a lower headline price successfully, competitors may face pressure to adopt a similar pricing structure to remain competitive in headline-price comparisons. This can result in an equilibrium in which firms increasingly compete on only part of the total price, even though consumers might collectively benefit from simpler and more readily comparable pricing.

An individual firm may have little incentive to move back to a more inclusive pricing structure if doing so raises its advertised headline price and makes it appear more expensive than its rivals, even where its total price is no higher.

How Should Cost-Recovery Fees Be Set?

Neither of the preceding economic arguments implies that a competitively constrained fee must be based upon a cost-recovery objective. But where an organisation justifies a fee specifically as a means of recovering the costs attributable to a consumer or operating activity, the cost basis of that fee becomes important. The question then shifts from whether a separate fee is economically desirable to which costs can appropriately be attributed to the charged activity and recovered through the fee.

Greater rigour in the costing analysis may therefore be required because the resulting cost estimate provides the basis for determining and justifying the amount charged to consumers. Established cost accounting principles provide a useful framework for bringing that rigour to the analysis.

Robust costing stems from good costing design, including specifying at the outset the purpose of the costing exercise and what is being costed (i.e., the 'cost object'). For a cost-recovery fee, the purpose is to identify and measure the costs appropriately recovered from the consumer group or activity responsible for generating those costs. The cost object identifies the activity, service, consumer group, or other subject whose resource requirements are being measured, while the charging unit identifies the basis on which those costs will ultimately be recovered from individual consumers.

Recognising the operating conditions attached to the costing problem is also essential to achieving defensible cost estimates. Operating conditions define the circumstances under which the cost object is produced or delivered, including relevant volumes, technology, service requirements, organisational arrangements, and timeframe. These conditions matter because they shape how the operating system responds, which resources are required and consumed, and how those costs behave. A resource that is relevant under one set of operating conditions may not be relevant under another. Operating conditions should therefore be identified before accounting costs are selected because they help determine which resources and costs are economically relevant and how they should be measured.

To illustrate how these design considerations matter, consider an online retailer that is considering a separate fee for deliveries to consumers in remote areas. The cost object is the activity of delivering a parcel to a remote consumer, since this is the activity for which the fee is charged. However, the resources attributable to that cost object need not all be caused at the level of an individual delivery. Some costs may arise directly from a particular delivery, while others may be caused collectively by remote deliveries within a region or by the remote-delivery service as a whole and therefore need to be appropriately attributed across individual deliveries.

The operating conditions in this example matter as well. At low volumes, remote deliveries might be accommodated through occasional third-party couriers; at greater volumes, they might require dedicated transport capacity or regional infrastructure. The costing exercise therefore needs to reflect the activity consumers are being charged for and the conditions that determine the resources required to provide it.

The next step is to trace those resource requirements through the organisation. Some costs will have a direct causal relationship with the activity. If a third-party courier charges \$20 for a particular remote delivery, the causal resource connection is clear, and the cost

information is directly traceable in the form of courier transaction data. But limiting recovery to the costs triggered by each individual transaction can be too narrow. Suppose that increasing demand by remote customers causes the retailer to construct a regional warehouse. Once established, one additional delivery may have virtually no effect on the warehouse's fixed costs. Yet if the warehouse would not be required without the remote-delivery service, its costs have a causal relationship with remote customers collectively. A cost associated with a dedicated resource therefore does not cease to be relevant to the individual cost object merely because it is caused collectively rather than by an individual customer transaction.

The remaining question is how an appropriate share of that collectively caused cost should be attributed across the individual deliveries for which the fee is charged. The analysis then moves to allocating those costs across individual deliveries using identified causal cost drivers or, where direct causal relationships cannot practicably be established, reasonable proxies for hypothesised patterns of resource consumption.

However, the principle of cost allocation has an important limit in the context of setting separate fees. Cost recovery under these circumstances should not become an exercise in allocating the organisation's entire cost base to consumers. A shared resource dedicated to providing an activity that benefits a particular group of customers may appropriately be reflected in a fee charged to that group, even where its cost cannot be traced to individual transactions.

By contrast, general overhead costs that would be incurred at substantially the same level regardless of whether the activity were provided have a much weaker causal relationship with that activity. Those costs may still need to be recovered by the organisation, but their recovery may be more appropriately reflected in the base price charged to customers rather than in a separate fee for the activity.

The scale and timeframe implied by the costing problem can also change which resources, and therefore which costs, are relevant. The marginal cost of one additional transaction may be close to zero where spare capacity exists, while accommodating 100,000 transactions each year may require additional staff, systems, and infrastructure. Similarly, a resource that appears fixed over a short period may become avoidable as contracts expire, staffing can adjust, or capacity is replaced. Cost classifications such as 'fixed' and 'variable' therefore have meaning only within a particular range of activity and timeframe. For an ongoing cost-recovery fee, the relevant inquiry is not simply what the next transaction costs, but what resources the charged activity causes the organisation to require at the relevant scale and over the relevant timeframe.

Once the recoverable cost base has been established, a separate question arises: *how should those costs be translated into the amount charged?* This requires determining the transactions, customers, or other units over which the recoverable costs should be spread. Assumptions about volumes can be particularly important where fixed costs are significant: the same cost base spread over fewer transactions will produce a higher fee. Where costs and volumes are uncertain or change over time, periodic review can help ensure that the fee remains aligned with the costs it is intended to recover rather than producing persistent over- or under-recovery.

Conclusion

The growing scrutiny of fees does not mean that charging a separate fee is inherently undesirable from an economic perspective. Separately pricing an activity can improve economic efficiency by more closely aligning its price with the resources required to provide it and can allow consumers to avoid paying for services they do not value.

Nor does a fee, from an economic perspective, require a cost justification simply because it is separately stated. Where consumers understand the fees they are likely to incur and can readily compare total prices, competition can discipline a fee just as it disciplines other components of price.

Problems can arise, however, when separating fees makes total prices more difficult to observe, comprehend, and compare, weakening the competitive pressure consumers place on those charges. And where an organisation specifically justifies a fee as a means of recovering costs, the costs used to determine the fee should have a causal relationship with the activity for which consumers are being charged.

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