Board of Airline Representatives NZ
6 Leonard Isitt Drive, Auckland Airport
Auckland 2022

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Rob Hughes
Head of Customer & Stakeholder Management
Airways New Zealand
PO Box 14131
Christchurch 8544

Via email to: submissions@airways.co.nz

Dear Rob

Re: Airways FY2026 – 2028 Pricing

Thank you for the opportunity to provide feedback on the Airways Consultation Document dated June 2025, "Supplementary information: Airways Pricing Consultation for the period FY26-FY28" (the Supplementary information document).

BARNZ represents more than 20 member airlines who fly to, from and within New Zealand. We also represent businesses reliant on air connectivity such as ground handlers, catering companies and waste management businesses who partner with airlines to deliver air connectivity. Our members are those businesses who work hard to connect New Zealanders to the world, to welcome visitors, and enable New Zealand's trade via air cargo connectivity. Individual member airlines may choose to provide their own submissions to reflect their specific situations.

General

Our earlier 2 April 2025 submission on the substantive pricing proposal noted the importance of tourism to New Zealand. This importance has been amply highlighted since then by the 10 June announcements from the Prime Minister and the Minister of Tourism on the launch of the Tourism Growth Roadmap and its setting of a clear aspiration for tourism growth.[1]

New Zealand has not yet recovered 2019 visitor numbers. We need to work as hard as we can to change this – for the economic health and prosperity of New Zealand and New

[1] See https://www.beehive.govt.nz/release/more-funding-grow-international-tourism and https://www.beehive.govt.nz/sites/default/files/2025-06/Tourism%20Growth%20Roadmap_1.pdf.

Zealanders. BARNZ and its members are up for the recovery challenge the Tourism Growth Roadmap represents but to help us achieve its growth aspirations the rising costs for airlines to connect to New Zealand must be considered by Airways when arriving at its prices.

As our earlier submission identified, Airways is the latest in a series of aviation system cost increases, and previous increases by other system participants create a burden which should not be felt by Airways price setting in isolation. Our aviation system cannot afford to experience further demand impact as a result of ever-increasing charges.

While we appreciate the supplementary information provided, and the opportunity to further submit, points raised by BARNZ and others earlier in the process have not been responded to. The absence of an updated price path is problematic. BARNZ reiterates its earlier comments about lesser increases, and about the need for a smoothed approach rather than a 21% increase in year one. BARNZ encourages Airways to share an updated price path with its customers before prices are set.

Opex

BARNZ members note that opex increases sit well above CPI increases. BARNZ members would like to understand how opex increases are linked to capital programmes, and how they are linked to services received by customers. Commercial airlines remain concerned about levels of cross-subsidy between Airways customer types, and ask whether operation costs can be linked fairly to services received.

WACC rate

The proposed reduction in the WACC rate from 8.08% to 7.90% is noted. We applaud Airways for being prepared to revisit and refine its earlier assumptions, which resulted in this reduction. We expect to see this reduction reflected in lower pricing for airlines than that originally proposed. That said, BARNZ notes that Airways adoption of what is essentially the approach to regulated airport price setting is a poor outcome which delivers perverse incentives. There is no monopoly regulation of Airways pricing – so there is no oversight of what might, or might not, be an acceptable WACC return. Without such oversight, excess profit taking is a risk.

BARNZ notes that some of its members have asked material questions about reconciliation of cost of capital over the three year period – it will be important to provide clarity on any questions of reconciliation so airlines can have confidence in price setting processes.

Proposed capex and strategic initiative expenditure programmes

We reinforce the need referred to in our earlier submission for Airways to revise proposed capex and strategic initiative programmes and restructure these with the aim of ensuring targeted investment in core safety infrastructure to smooth out proposed increases over the pricing period.

The new information in the Supplementary information document on the divestment of airfield ground power and lighting assets is noted. We reiterate the comments in our earlier submission on the need for Airways to ensure that ground power and lighting assets it still owns are appropriately maintained and invested in.

We also reinforce our earlier comments on the intended Airspace Architecture Review – there may be a case for dedicated Government funding or a separate funding mechanism for this work.

Regarding the Uncrewed Traffic Management (UTM) proposal, there is nothing in the Supplementary information document that changes our earlier position on this, as expressed in the 2 April submission. **Airways and the Government should consider alternative funding mechanisms for a UTM system that better aligns cost recovery with the intended beneficiaries of the system and the safety risk exacerbators in question.** Noting this, we are pleased to see the comment in the Supplementary information document (at page 6) that Airways is reassessing how it funds this initiative.

Cost allocation for General Aviation

The content of the Supplementary information document on cost allocation for General Aviation is noted. However there is nothing provided that would cause us to change our earlier position – General Aviation accounts for a large proportion of air traffic movements but appears to contribute disproportionately little in revenue. BARNZ member airlines are cross- subsidising other parts of the system. Charges must be proportionate to service usage rather than involving arbitrary inflation adjusted uplifts.

Zero-rating of GST on international overflights

Clarification provided in the Supplementary information document on the zero-rating of international overflights for GST purposes is noted and appreciated.

Volume forecasts

We reiterate the comments in our earlier submission that **growth forecasts supporting the pricing proposals are optimistic**. BARNZ re-emphasises the need for growth forecasts to be softened to no more than 3% in year one despite the consequence that prices will increase. As our earlier submission noted, this is preferable to the scenario where we set growth forecasts too high and then have to adjust pricing upward mid cycle.

In this regard the advice in the Supplementary information document that Airways will refine its domestic and international volume assumptions prior to arriving at final pricing is welcomed. BARNZ is happy to provide any necessary inputs to assist Airways in that refinement process.

Timing of new costs

The intention that new pricing will come into effect 1 September 2025 is noted, as is the advice that Airways will holding current pricing until 31 August 2025, and not seek to recover the additional costs from 1 July to 31 August 2025. The intention not to recover these additional costs is appreciated.

Given Airways has stated final pricing will be published no later than 31 July and therefore only approximately a one month lead time, we repeat the need expressed in our earlier submission for Airways to consider if it can delay the imposition of new prices to allow for a longer lead time for airline customers and avoid airlines incurring unbudgeted cost. We also repeat the request that price setting in future periods is commissioned 12 months in advance of new prices being set – as is the practice of Air Services Australia.

We also note that it is difficult for airlines to anticipate cost increases from 1 September without clarification on what those prices might be. Other that the first indications from Airways of a 21% increase over three years, there has not been a further update on new prices. Airlines do need to know what prices might be well before they are implemented.

Conclusion

The Government's recently released Tourism Growth Roadmap highlights the importance of tourism for our economic prosperity and international connectivity. However, as noted above, and explained more fully in our earlier submission, the growing cost of New Zealand's aviation system puts our tourism industry at risk. As also stated in that earlier submission we do appreciate the work that Airways does and remain happy to work with you to ensure we set prices – and investment – appropriate to New Zealand.

Yours sincerely,

Cath O'Brien
Executive Director
Board of Airline Representatives New Zealand