**Air Chatham's submission regarding Airways Corporation pricing increase**

Air Chathams operates Scheduled Air Services to three provincial Airports plus the Chatham Islands. These are services which Air New Zealand withdrew from, in part because of the marginal profitability of operating regional passenger aircraft on these routes.

Apart from Air New Zealand and Jetstar, Air Chathams is the only operator of scheduled passenger services in New Zealand using aircraft of 19-50 seats.

Air Chathams does not gain the "network" benefits which the other two operators gain from their networks, enabling them to take a "whole of country" view of their Airways costs.

The current method for allocating Airways charges to airports places Air Chathams at a financial disadvantage. This is made worse by the fact that sectors such as those operated by Air Chathams are not only marginally profitable, but they are very price sensitive. Even relatively small increases in fare prices results in a down turn in demand that generally exceeds the calculated increase in revenue.

We believe that the general principle required is one which recognises and responds to these factors.We note that in an Airways Corporation publication regarding unattended aerodromes the Corporation acknowledges the principle that the low volume of IFR traffic at these Aerodromes means the most cost-effective solution is necessary to ensure the continued viability of these Airports. We endorse that view.

We believe that to achieve equitable allocation of Airways costs, the Airways Corporation Services within New Zealand should be regarded as a single network. Costs should be spread evenly regardless of which entity owns and maintains the various equipment and services at the aerodromes, and on a basis where the operator pays a contribution to total costs which reflects the scale of the scheduled services.

The current pricing methodology penalises Commercial Operators flying into provincial aerodromes that have lower traffic flows. This is because recovery of cost is allocated by movements and operator. Where there are fewer commercial movements, this has the perverse effect of raising the costs at the point where the service is at its most marginal. This means that a lesser number of movements increases the cost per movement for an Operator.

We believe a more equitable and fairer pricing method may be to regard the Airways Corporation services as a Network and even out the Aerodrome and Approach charges by increasing the Enroute charges across the network.

In contrast, marginal land-based transport services (e.g. remote freight by road) pay a road user charge which is not based on identification of costs on a localised basis. If the aviation approach were applied to allocate road costs to such services, they would often not be viable.

The present system also creates serious uncertainty and affects the confidence of an Operator in providing a service. If an Operator increases fares to recover the increased Airways costs and that causes customer demand to decrease, this may force the Operator to reduce flight frequency. If the reaction to that is that Airways pricing at that Airport will become higher for each of the remaining flights, This becomes a downward spiral, potentially ending with no service at all and Airways with the full cost. We believe the pricing at PPQ is an example of this.

We also question how the assessment of services provided at each Aerodrome is evaluated. Those services drive the Airways Corporation pricing as they are taken as the cost base. There is no obvious incentive for any of the entities involved to reassess these factors to reflect Airport traffic and usage variation. On the cost allocation model used, both necessary and avoidable costs are simply passed onto the Commercial Operator.

PPQ is a good example to consider. A Flight Service facility was considered to be necessary in the past when activities included Helicopter operations, significant Fixed Wing training, the Aero club and Scheduled Passenger Services. The traffic and usage of the Aerodrome have significantly decreased over the last few years. This has meant that the Airways Corporation cost now falls to a very high extent onto the remaining Commercial Operator, and Air Chathams as that operator in fact has a smaller base from which to gain revenue, and less need for the services themselves.

We submit that there needs to be an independent system in place to reassess the risk and requirements on a regular basis and to ensure that where there is significantly reduced activity, both costs and charges are reviewed. Air Chathams believes that there is a current need to reassess whether the current risk profile still requires a Flight Service to be place at PPQ. In that regard, the allocation issue is not solely one of the PPQ aerodrome facility. Much of the need for services at PPQ arises from the proximity of Wellington International Airport. A holistic view, at least at a regional and preferably at a national level, needs to be taken.

In its time operating through PPQ, Air Chathams has found that some of the reasons advanced to justify flight service (such as VFR traffic) have not been matched by actual experience. Levels of VFR through traffic have been very low

We feel that there is no incentive for Airways to focus on these issues while the Commercial Operator continues to accept and pay the increases.

Unless this is addressed and resolved now, the inevitable consequence will be that it becomes unviable to operate scheduled services to PPQ and other marginal aerodromes. Air Chathams has made a major investment in establishing these services, but it cannot operate on a loss-making basis on any route and it would then have no choice but to terminate any loss-making service.

**In Summary** - The proposed Airways Corporation pricing are significant and will require Air Chathams to consider its service frequency. They may even cause some sectors to become unviable, especially AKL/PPQ.

They will certainly deter provision of any additional services. Each of the centres which Air Chathams services has expressed interest in the possibility of services to other destinations such as Wellington or Christchurch.

We request the Airways Corporation gives fresh, detailed, and further consideration to the proposed Pricing increases.

We appreciate the willingness of Airways to engage in these issues. We understand the constraints which the Corporation has to work within, but we are certain that there is scope for the improvement of charging systems in a more equitable manner. We point out that the beneficiaries of that review are mainly the communities which we serve.

We welcome further engagement on this, and we would be pleased to discuss these issues in further detail and to assist in planning an outcome which meets community needs, the obligations of Airways, and in turn protects the viability of the Air Chathams services.