

Airways Corporation Of New Zealand

FY25 Price Reset Consultation

Decision

30 July 2024

Overview

In June 2024, Airways received revised schedules showing a reduction in both domestic and international flight volumes. These schedule changes reduced our forecast revenue for the June 2025 year to 96.2% of our target revenue and below the 98% threshold in the risk-sharing mechanism provided for in Airways' Standard Terms and Pricing Framework.

We invited customers to provide feedback or additional schedule information by 28 June 2024. In response to the feedback, we decided to wait to review the next update to schedules, which we have done, bringing revenue back within the +/- 2% range. This has informed our final decision.

Decision

As our forecast revenue for the period is within the 2% threshold and in line with our risk-sharing mechanism, **Airways confirms no changes to our published prices**. These prices are included in our Standard Terms and Conditions and pricing calculator on our website.

Submissions

Airways received five responses to the consultation which are appended to this document. Airways is committed to an open and transparent price-setting process. We want to thank those who took the time to respond to the consultation.



Appendix:

Consultation Responses

From:

Sent: Thursday, June 27, 2024 3:28 PM

To: Submissions <Submissions@airways.co.nz>

Subject: Fw: Airways' proposed prices 1 July 2024 to 30 June 2025

You don't often get email from

CAUTION: This email originated from outside of the Corporation. *If you do not recognise the sender or you are not certain that the content is safe, then do not click on any links or open any attachments.*

Hi Airways team

Thank you for giving airlines the opportunity to have inputs on the proposed prices via email. Please see feedback below.

- 1. Increased Flight Schedules and Associated Costs:** Singapore Airlines will increase its schedule to three flights daily in Auckland (AKL) and add a seasonal additional flight (3 additional flights a week) in Christchurch (CHC) for the NW24/25. These changes which are beneficial for passenger connectivity to New Zealand, will also result in increased operational costs for Singapore Airlines, including landing fees, ground handling, and other airport-related expenses.
- 2. Impact on Cost Structure:** The proposed increase in published weight prices from 1 September 2024 to 30 June 2025 will further add to our operational costs. Given that our schedules are increasing, this price hike will have a disproportionate impact on our cost structure and is punitive to airlines that are adding to the flight volumes.
- 3. Consideration of Seasonal Variations:** The additional seasonal flights in AKL and CHC for Singapore Airlines highlights the need to consider seasonal variations in flight schedules when setting prices. We suggest that Airways adopt a more flexible pricing mechanism that can accommodate such fluctuations without resorting to broad price increases.
- 4. Addressing Increased Operational Costs:** Given the increase in operational costs associated with the additional flights, we urge Airways to consider alternative measures to manage their financial position. This could include operational efficiencies, cost-saving initiatives, or targeted pricing adjustments rather than a blanket price increase.

We appreciate that Airways is engaging in direct consultation with airlines, but we hope for a more comprehensive and earlier consultation process with airlines to develop a set pricing strategy in order to avoid changes in prices midway through the financial year.

Best

Station Manager



From: Sent: Friday, June 28, 2024 4:12 PM

To: Submissions <Submissions@airways.co.nz>

Cc:

Subject: Airways' proposed prices 1 July 2024 to 30 June 2025

CAUTION: This email originated from outside of the Corporation. *If you do not recognise the sender or you are not certain that the content is safe, then do not click on any links or open any attachments.*

Good afternoon,

Qantas appreciates the opportunity to respond to Airways' FY25 Price Reset Consultation. Thank you for the opportunity to discuss how Airways sources its schedule information with members of your team.

We understand that Airways sources airline schedules data from OAG and Qantas/Jetstar provide schedules to Airways on a monthly basis (most recently on 25 June 2025). If Airways does not already, seeking supplementary air movement data from the slot controller, Airport Coordination Limited, may assist to further inform forecasts.

We are disappointed with the proposed 2.7% increase to the published prices to apply for the period 1 September 2024 to 30 June 2025 - although we acknowledge that this is in accordance with the pricing framework. Given the proposed price reset is already well within the selling window for flights, we request any changes to Airways pricing be deferred to 1 October 2024.

We would be pleased to provide any further information that Airways requires.

Kind regards,

Qantas Airways Limited



AIRWAYS



28 June 2024

Airways New Zealand
PO Box 53093
Auckland 2150
NEW ZEALAND

By email: submissions@airways.co.nz

IATA Response to *FY25 Price Reset Consultation*

The International Air Transport Association (IATA) is the global trade association for the world's airlines, representing some 335 airlines, or over 80% of total air traffic. Our members include Air New Zealand, as well as many international airlines who operate services to/from New Zealand, and through your airspace. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

IATA endorses the comments provided by BARNZ in their letter to you dated 28 June.

A previous IATA economic study demonstrated that elasticity of demand can increase when costs are held steady or reduced. Given that for 2024, airlines in Asia-Pacific are forecasting a net profit per passenger of USD1.20 (which represents a profit margin of only 0.7%) we expect monopoly service providers to be doing everything possible to reduce or at least contain service costs. These already very low profit margins for airlines will be further eroded by any cost increase from service providers.

IATA appreciates Airways New Zealand allowing the aviation sector and associated stakeholders the opportunity to provide feedback on the proposal for the revision of air service charges. In future, we would kindly request that Airways New Zealand includes the IATA South West Pacific team abreast of any consultations and developments by adding and myself to relevant mailing lists. Should you require additional information, please do not hesitate to contact either of us.

Sincerely yours,

Area Manager South West Pacific



AIRWAYS



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

27 June 2024

To: Tracey Hall
Customer Relationship Manager
Airways New Zealand

By email: submissions@airways.co.nz

Kia ora Tracey

Re: FY25 Price Reset Consultation

Thank you for the invitation to contribute to the price reset consultation for FY25. Thank you also for the opportunity discuss the deterioration in demand against forecast with members of your team.

We understand that Airways New Zealand may not be relying on air movement data from New Zealand's slot controller, Airport Coordination Limited (ACL). BARNZ considers ACL is the most current source of air movement information for New Zealand. We encourage Airways to seek up to date schedule information from ACL to assess current and future seasons for pricing purposes.

As Airways will be aware, airlines are currently operating the Northern Summer 2024 season. Schedules for the Northern Winter 2024 (NW24) which runs November to March are currently being finalised by airlines. According to the IATA slot calendar, the deadline for series return for NW24 is **15 July 2024**. We request that Airways awaits the deadline for series returns prior to finalising prices. This is likely to generate the most accurate movement forecast. We request that Airways applies adjusted FY25 pricing from 1 October 2024 with effect to the full financial year.

BARNZ notes that post-pandemic, airline movements to, from and within New Zealand have changed for a range of reasons. Last summer saw an increase in movement from the United States, which is now easing as other opportunities emerge for deployment of aircraft from the United States. We have seen some unrest in New Caledonia impact flying from that jurisdiction, and insolvency impact one Pacific airline. Supply chain impacts continue to make provision of new aircraft challenging, and there are similar constraints in provision of parts for airframes.

For these reasons and many more, BARNZ considers we are yet to see where New Zealand's air services capacity will sit for NW24. We note there are a range of cost headwinds in place for airlines operating and considering services to New Zealand. These include:

- Significant price rises forecast by Auckland International Airport Limited (AIAL). These have been published to 2027 and have been shared as estimates with airlines to 2032. These prices aim to cover the 5.9 billion NZD of capex to restore AIAL. Prices for this period include a target return of 8.73% on aeronautical capex to 2027.
- Consultation on Civil Aviation Authority levies which is expected to commence in the coming months. These levies fund almost the entire operation of the CAA including AVSEC, and have not been re-set since pre-pandemic.
- Possible imposition of increases to the International Visitor Levy (IVL) of up to \$100NZD per passenger (excluding New Zealanders and Australians). This will be a particular disincentive to airlines operating air connections beyond Tasman connectivity.

Air services to New Zealand are critical for travel and trade. As an isolated island nation, New Zealand has always had to work hard to make sure we are an attractive destination to operate to, and within. New Zealand has an aviation system which is entirely user pays. Fewer users will lead to increased prices, which risks further reducing demand.

BARNZ will continue to escalate this issue with relevant agencies and Ministers. We welcome open dialogue with Airways New Zealand on this issue as the year progresses.

Ngā mihi -

Executive Director
Board of Airline Representatives New Zealand



AIRWAYS

AIR NEW ZEALAND 

OPS/22/20

1 July 2024

Customer Relationship Manager
Airways New Zealand
By email: submissions@airways.co.nz

Kia ora

FY25 Price Reset Consultation.

Thank you for the opportunity to contribute to the price reset consultation. Airline schedules are always hard to assess due to external factors, and passenger demand. For example: recent disruptions to flights between New Zealand and New Caledonia due to civil unrest, the shifting focus of USA based carriers to more profitable markets, ongoing supply chain issues that are requiring aircraft to be removed from flying, and price sensitivity for the travelling public in a time of cost-of-living pressure.

Air New Zealand being required to absorb this unbudgeted increase at a time when our market guidance indicates a somewhat challenging second half of FY24, and we face into more challenging economic conditions, will require yet more fare increases for consumers (passengers and cargo) who are already absorbing high levels of inflation across most of our business. Air New Zealand will continue to be transparent with consumers as to underlying causes of these price increases.

Based on observations of previous cost transfer a 2.7% increase in ticket prices imposed because of this proposal may result in more than 2% reduction in ticket sales, a vicious cycle with deleterious results for both Air New Zealand and Airways as schedules reduce even further. However, if Airways were to hold prices at the current level, then it is possible to reverse the outcome. IATA studies on the elasticity of demand showing that increased passenger demand and therefore increased schedules may result.

It is possible that the northern winter season schedules that will soon be published will see an increase in traffic to New Zealand as we saw in 2023.

We accept that Airways may view this as a material and adverse change, and a trigger to the clause in your Standard Terms allowing Airways to reset prices. This will have an obvious negative effect on an aviation industry which is struggling to make any profit. We note that the clause also states, "not being a circumstance that could reasonably have been avoided by prudent management action".

Air New Zealand proposes that in the current environment the prudent action available to Airways' management is to hold prices, assist with keeping costs down for the travelling public, and therefore allowing industry to increase schedules and Airways' revenue.

Ngā mihi nui,