A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

4 April 2025

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Airways Proposed Pricing for the 2026 – 2028 Period

Air New Zealand welcomes this opportunity to submit on Airways proposed pricing for the FY26-FY28 period.

Airways proposal is for a 22.8% increase in charges over the 3-year period, comprising 14.4% in FY26, 5.5% in FY27, and 1.7% in FY28.

The aviation system in New Zealand is presently facing significant cost pressures, with increasing airport charges, CAA and aviation security levies, and international visitor levies all putting pressure on airline margins. Air New Zealand is also experiencing significant operational challenges as a result of powerplant issues with the A320/1 and B787 fleets.

As New Zealand's national carrier we take seriously our purpose of connecting New Zealanders to each other, and New Zealand to the world, but also bear the brunt of these increases in the New Zealand aviation system. We'd also note that while Auckland Airport has indicated it will respond to the Commerce Commission's latest finding of excessive profits, this is simply a reduction in the intended increase rather than a reduction per se.

In these circumstances it is imperative that all industry participants ensure that their actions and decisions bring real benefit to the system and are absolute must-haves rather than nice-to-haves. As such we would urge Airways to review its proposed capital plan and ensure that what is being planned is absolutely essential and will deliver real benefits to airspace users.

We note the proposed $17.6m expenditure on Airspace Architecture. There is a case to be made for exploring alternative funding methods for this review given the national interest/public good nature of this activity.

Similarly, the funding source for work on the uncrewed traffic management system (UTM) must be reallocated to those that Airways have identified as beneficiaries. Airways has clearly identified the benefit as being to "customers [who] are able to take advantage of commercial opportunities offered by uncrewed aircraft quicker and more confidently." It is these customers who must pay for the system rather than existing commercial operators.

Airways is proposing a cumulative 10.5% increase for GA operators (compared to 22.8% for commercial operators). This appears arbitrary, based simply on inflation. It is not apparent whether this results in GA operators appropriately meeting the costs associated with their operations. Commercial operators should not be funding any shortfall in revenue resulting from this arbitrary decision on GA prices.

Air New Zealand notes Airways proposed volume growth forecasts and the intent to update these closer to the price reset date. Air New Zealand considers this an appropriate approach. Given the volume risk sharing mechanism included in Airways' Pricing Framework, there is some ability to adopt forecasts that may be more optimistic than otherwise.

Airways' approach to assessing its cost of capital is essentially unchanged from previous pricing rounds and reflects the Commerce Commission's Input Methodology for airports. Air New Zealand notes that Airways will be updating the risk-free rate closer to the price reset date. Airways has "*conservatively*" adopted a 65th percentile WACC based on its own assessment that "*the risk and cost of underinvestment for Airways is likely higher than that of airports, gas pipeline and electricity distribution businesses.*" Air New Zealand disagrees with this approach, particularly given the ability for Airways to adjust pricing mid-cycle. Air New Zealand calculates the appropriate mid-point WACC as 7.41%.

Airways' proposal has a significant increase front-loaded in FY26, with far less significant increases in FY27 and FY28. This FY26 increase occurs at a time when Airways itself acknowledges that, particularly in the domestic market, volumes will be softer. The latter part of the pricing period, particularly FY28, is expected to see a return to more robust volume growth. Air New Zealand agrees with this sentiment. Accordingly, Air New Zealand considers Airways should explore an alternative approach which sees a smoother price path over the period.

Conclusion

This pricing review comes at a time when the sector is facing significant operational and financial challenges. As such, it is incumbent on all players to ensure they are operating in the most efficient and effective manner and focusing on what needs to be done, rather than nice-to-haves.

Air New Zealand appreciates the opportunity to submit on Airways' FY26-FY28 price proposal and looks forward to positive consideration of this submission.

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Please contact f you have any queries relating to this submission.

Ngā mihi nui,

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