Aviation Industry Association

Submission on the

**Airways Proposed Pricing for the 2026 to 2028 period**

4 April 2025

## About us

1. The Aviation Industry Association (AIANZ or the Association) is the peak membership body that represents the interests of the commercial aviation industry in New Zealand. Founded in 1950, its overall goal is to support a safe, sustainable, and resilient sector in New Zealand. So, while safety is front and centre of everything we do, we also enable our members and the wider aviation sector to grow and innovate.

2. The membership of the organisation includes more than 200 operators from small to large who operate aircraft in many sectors of the industry. They include flight and ground training, aerial work, agriculture, scheduled and charter air transport services, freight, photography, search and rescue, surveillance, and tourism. Our membership also includes companies that service, maintain, design or manufacture for these sectors, including engineers. In more recent times, unmanned aerial vehicles (UAVs) or drones have become an important part of AIANZ's diverse membership. For the benefit of doubt include commercial airlines and General Aviation (GA) operators.

3. The aviation industry in New Zealand plays a critical role in the country's economy. As an island nation, aviation is an important connector for domestic and international markets. Aviation also plays an important social role in the work that it does to support disaster relief, search and rescue activities and medical emergencies

4. New Zealand has the most aircraft per capita in the world that are integral to our economy and for traversing NZ's terrain in a brief period. The high number of helicopters, for example, were vital to the swift response to Cyclone Gabrielle in 2023 and the Kaikoura earthquake in 2016. There are 4,600 aircraft and 900 helicopters operating in New Zealand. This represents one aircraft for every 1,120 people and one helicopter for every 5,700 people.

5. Our role is primarily a policy one that is supported by evidence-based advocacy and lobbying to Government and their agencies. We support members in regulatory matters, advancing professionalism in all safety matters while being recognised as the voice of the country's commercial aviation industry.

6. The Association itself is organised into six divisions which are:
    a. New Zealand Agricultural Aviation Association (NZAAA)
    b. New Zealand Helicopter Association (NZHA)
    c. Unmanned Aerial Vehicles Association (UAVNZ)
    d. Training and Development
    e. Supply, Service and Engineering that includes the Aircraft Engineers Association (AEANZ)
    f. Operations (including scheduled airlines and tourist flight operators).

## Introduction

7. The AIANZ welcomes the opportunity to comment on the Airways Proposed Pricing for the 2026 to 2028 period. Our submission has been made on behalf of our members across the six divisions we represent. Separate submissions may also be made by these divisions and/or their members and may be read in conjunction with the Association's overarching submission.

8. As a peak body, we aim to balance the interests of all our members, but where necessary highlight what we think are inequities in the Airways pricing structure. In compiling our submission, we have also received feedback from parties beyond our membership who are affected by Airways proposed pricing.

9. Airways notified the industry of this consultation on 5 March 2025, allowing just four weeks in which to make a submission on a detailed set of proposals. The Association believes this timeframe is too short when comparable processes across other Government agencies allow six weeks. The brief period does not provide for our Association, and others, much time to respond in a considered and meaningful way. In addition, there have not been any information forums, either online or in person, with stakeholders to explain the detail of these proposals.

10. While we acknowledge Airways has a vital role to play in the safety and operation of aviation services in New Zealand, the AIANZ cannot support the extent of the increases proposed at a time when the industry has been, and still is, facing challenging economic headwinds. Amongst our membership, for example, the agricultural aviators are enduring a difficult trading period not experienced for some decades, flight training organisations have not seen student numbers recover to anywhere near 2019 levels and tourism has not got back to where it was pre-pandemic.

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11. The proposed pricing adds to a growing burden of cost recovery that Government agencies and entities are passing on to industry. These include the recent CAA fees, levies and price increases, ACC hikes, immigration fees, and FENZ levies that if the latter had proceeded in 2024 would have decimated the industry. If the Airways increases go ahead as planned, the sustainability of aviation operators will be threatened further.

12. Industry associations have neither the resource nor the capacity to scrutinise every aspect of the consultation document, but at a high level we can recognise the reasonableness or otherwise of a proposal. In this case, the document ignores the current realities of commercial aviation in a struggling economy. It gives the impression that Airways is out of step with what operators at the coalface are enduring.

13. Our submission focuses on areas where we think price increases cannot be justified. In doing so, the Association seeks any opportunity there may be after 4 April to work with Airways and moderate areas of the pricing proposal that do not compromise safety outcomes but allow relief for commercial aviation operators.

## Comment and analysis

14. The proposed fee increases, which mean a 22 % increase over three years for commercial airlines, and 10.5% over three years for General Aviation (GA), are not supported by the AIANZ. Our reasons for not supporting an increase of this nature are made on the following basis:

    - Airways is already profitable and does not need the extent of extra revenue proposed to fund its activities.
    - Forecast cost increases are excessive and not justified due to current economic circumstances.
    - Capital investment planning is questionable, and the true benefits of such investment have not been set out.
    - Despite a post-Covid recovery, air traffic movements have not returned to the levels seen in 2019.
    - Leave liability and staffing costs should be managed internally and not borne by industry.
    - Commercial aviation endures the most of proposed pricing increases.
    - Airways have not shown there are cost-saving measures in place.
    - Performance measures should be commensurate with any price proposal.

*Airways is already profitable and does not need the extent of extra revenue to fund its activities.*

15. AIANZ understands that Airways, as a State-Owned Enterprise, has an imperative to return a dividend to the Government. However, the amount of such a dividend through cost-recovery on the commercial aviation industry must be questioned. On 28 February, just five days before Airways commenced its consultation to increase its pricing for the 2026 to 2028 period, it announced an after-tax profit of $6.7 million for the half-year ending 31 December 2024, $0.5 million ahead of budget https://www.airways.co.nz/media-centre/media-statements/airways-new-zealand-announces-fy25-half-year-result/

    > *On 28 February, just five days before Airways commenced its consultation to increase its pricing for the 2026 to 2028 period, it announced an after-tax profit of $6.7 million for the half-year ending 31 December 2024.*

16. The half year result to 31 December 2024 followed on from a $14.5 million profit for the year ended 30 June 2024 https://www.airways.co.nz/media-centre/media-statements/airways-announces-2024-full-year-results/ In total, it returned a $20 million dividend to the Government.

17. Results such as these indicate Airways is profitable and so the Association questions whether increases of the scale being proposed for the industry are justified in what has been a challenging economic environment for commercial aviation. Indeed, aviation operators cannot always pass on costs to customers and need to absorb the price rises that in the end could make their businesses financially unsustainable.

*Forecast cost increases are excessive and not justified*

18. In the Consultation Document, Airways indicates its operating costs are forecast to increase by 22.7% for the fiscal year ended 30 June 2026 (page 12), which is more than predicted annual inflation. The Consumer Price Index (CPI) for the last quarter has been running at 2.2%, and the Reserve Bank has set an inflation target of between 1% and 3% for the remainder of 2025. Airways increases are “out of whack,” running higher than inflation and ignore the fact that commercial operators cannot increase their costs at 22.7% and expect to remain competitive.

19. Salary increases for Airways staff of CPI plus 1% is a decision made by the organisation and not a cost that should be met by industry through significant increases in fees. It is laudable to be rewarding staff performance with salary increases, but the bill for increases beyond CPI is a cost that should not be imposed on industry if Airways is reporting profit over and above forecasts.

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20. It is worth noting that in the fiscal year ended 30 June 2023, Airways employed 668 staff with a salary bill of $135 million. In the year ended 30 June 2024, the headcount increased by more than 10% to 736 staff with a salary bill of $151 million. The increased salary bill for Airways of more than 10%, comes at a time when the Government has been asking its agencies to deliver savings across all areas of their operations.

*Capital investment planning is questionable*

21. As set on pages 21 to 26 of the Consultation Document, some of the capital investment projects raise questions. In particular, the AIANZ seeks clarity on capital investment related to the Auckland Tower replacement. On page 22 it is stated the Auckland Tower replacement will not enter the Airways pricing asset base until FY29, yet the table on the same page allocates $36.5 million of funding for FY26 to FY28. If the project is not to be commissioned until FY29, the AIANZ questions why the industry is being asked to pay now through increased pricing.

22. Our Association acknowledges that Airways is consulting with industry on the Auckland Tower replacement, but we believe it is incumbent on the organisation to be actively consulting with industry on other capital projects if they are to be funded through increased prices in the coming years. Meanwhile, the Uncrewed Traffic Management (UTM) system (page 4) is still in its early phases and does not warrant immediate funding.

*Air traffic movements have not returned to the levels seen since 2019.*

23. Despite a post-Covid recovery bounce, air traffic movements have not returned to where they were in 2019, either domestically or internationally. While there may be exceptions to this, like Queenstown, which has experienced more growth than anywhere else in the country, domestic traffic is at 93% of 2019 levels. Indeed, recent statements by Air New

Zealand indicate a flatlining in domestic passenger growth https://www.nzherald.co.nz/business/air-new-zealand-cuts-deeper-into-its-domestic-schedule-as-demand-flatlines/SUQZ5KCPAFF2PBVTQFRB3MNC6Y/ .

> *Despite a post-Covid recovery bounce, air traffic movements have not returned to where they were in 2019, either domestically or internationally.*

24. Meanwhile, international volumes are at 84% of pre-pandemic levels, some way from the pre-Covid highs of 2019. The commentary on pages 33-34 of the Consultation Document, makes no mention of international services that have been lost since Covid, including Thai Airways, Philippine Airlines, a reduction in Emirates services and the rationalisation of Virgin Australia services who now only fly into Queenstown. At the same time supply chain issues have impacted Air New Zealand's ability to regularly service destinations such as Chicago and Seoul while the Buenos Aires flights that operated before Covid have ceased.

*Leave liability and staffing costs should be managed internally*

25. Commercial aviation operators should not bear the costs of Airways leave liability which must be managed internally and should not be passed on to its customers, the commercial aviation industry. And, as noted in paragraph 20 above, Airways headcount between 2023 and 2024 has increased more than 10% when other Government agencies have been shedding staff. As noted in paragraph 19, it is commendable Airways provides strong employment benefits, including generous superannuation benefits, five weeks' annual leave and hybrid working, however, these are above market employment conditions - it is not reasonable to expect customers to fund these benefits through substantial price increases when most of their customers (aviation operators) cannot offer similar conditions.

*Commercial aviation endures the most of proposed increases*

26. As with the CAA Fees, Levies and Prices Review last year, it is commercial aviation operators, whether scheduled airlines or GA, that will endure the most of the proposed price increases by Airways. GA faces a cumulative 10.5% price increase, despite contributing only a small portion of Airways' revenue. Commercial airlines, who are also part of the AIANZ membership, are hit harder, and are facing a 22% price increase over the 2026 to 2028 period. Where commercial airlines are concerned, it is not possible to pass on all the costs to customers as there is a point of 'elasticity,' when the travelling public will not pay increased airfares and just not travel.

27. Utilising the numbers on Page 2 of the Consultation Document, the per-seat price increase is higher for domestic flights than those on international routes which makes regional travel less viable, examples being Auckland to Napier at +30.4% per seat and Auckland to Christchurch at +13.3% per seat. Analysis of the Pricing Tables on pages 38-54 of the Consultation Document show similar levels of increases. These increases can amount to hundreds of thousands of dollars, depending on the size of the operation.

*No clear cost savings measures explored*

28. The AIANZ would like to have seen work done to demonstrate cost-saving initiatives before simply raising fees. For example, Airways has not shown where it is making efficiency improvements and/or workforce restructuring. Alternative funding options, which might for example include a staggered approach to introduce new charging, have not been explored.

29. It is not clear how Aeropath, a commercial arm of Airways, contributes to the income for the organisation, and therefore whether cost recovery is needed to the extent that is required from non-commercial parts of the business.

30. Cost reductions in depreciation and equipment suggest the organisation does have the capacity to self-fund investments.

*Performance should be commensurate with any price proposal*

31. Proposed pricing increases must be commensurate with improved service and delivery. As the AIANZ pointed out in its submission on the CAA Review of pricing last year, this should include key performance indicators (KPIs) to cover a range of agreed measures, for example, timeliness. The Association would be keen to work with Airways more closely on what these performance measures might include, in the same way that we have an expressed an interest in doing so with the CAA. The AIANZ believes it should be mandatory for Airways to outline service improvements or performance metrics.

**Conclusion**

32. As you will be aware, the AIANZ has been through a similar process with the October 2024 CAA Review of their pricing. The Association was pleased the Authority took on board industry concerns and made changes that followed the submission process. It resulted in a paring back of increases for some parts of the sector, albeit increases have gone ahead in other areas. What is important is the CAA will be implementing a First Principles Review of the Funding Model, something the Airways may also wish to consider.

33. Airways has indicated in its 5 March 2025 statement from Rob Hughes, Head of Customer and Stakeholder Engagement, that it will carefully consider submissions and consult with industry again before final decisions are made. It is critical this does happen and if it does not, it will be viewed by industry as nothing more than paying lip service to industry concerns, while reinforcing a view of consultation with industry that does not adjust pricing plans based on feedback.

34. Finally, the AIANZ believes the Airways must consider the current state of the industry, that like many other parts of the economy, has been struggling to return to pre pandemic norms. It should not under-estimate the impact that price increases impose on industry, the flow on effect for customers, and the risk those create for the financial sustainability of aviation businesses.

End.

Simon Wallace
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Aviation Industry Association.