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 Airways' Consultation Document dated March 2025 "Proposed Pricing for the 2026 – 2028 period" (the Proposal).

BARNZ represents some 25 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

BARNZ welcomes recent comments from Ministers on their intent to grow tourism to New Zealand. Tourism to New Zealand has underpinned substantial economic growth in the past. If New Zealand can recover air connections to pre-Covid levels airlines will support significant economic benefit to New Zealanders through regional growth, tourism business growth, and international visitor spend.

However, the recent Civil Aviation Authority (CAA) levy increases that apply to airlines have already drawn negative attention to international routes to New Zealand. The combination of increases to CAA levies and the proposal for Airways' prices to rise within a six-month period will no doubt present further challenges for airlines seeking to ensure sustainable air connectivity to New Zealand.

BARNZ appreciates that Airways is the latest in a series of aviation system cost increases, and that previous increases by other system participants create a burden which should not be felt by Airways price setting in isolation. However, the combination of increases imposed by both Auckland International Airport Limited (AIAL) and the CAA, and the demand effect felt by New Zealand's 2024 increases to visa charges and to the International Visitor Levy (IVL) compound the increases now proposed by Airways New Zealand.

The rising cost of New Zealand's aviation system is a cause for concern for all system participants. Our aviation system cannot afford to experience further demand impact as a result of ever-increasing charges. As we conclude the summer season, there are several airlines who have ended high seasons early. One airline has cancelled planned services over the New Zealand winter. While announcements of services from Vietnam in 2025 and India in 2028 are welcome, we are yet to see practical preparations for such services in market. Airlines will always look for commercially successful air connections. Unfortunately, New Zealand is becoming an increasingly expensive destination to operate to. Airlines are able to respond to this by reducing market exposure.

BARNZ is also mindful that Airways' charges are lower on a per air service basis than those imposed by AIAL, CAA or by Customs and Biosecurity. From an airline perspective, it is clear that New Zealand Inc is prioritising the capital plan and excess profit taking of AIAL and allowing CAA levies to increase to recover Covid losses, when it sets its 'price' for international connectivity. It does not appear that there is any central government oversight of total aviation system costs – nor is there a prioritisation of *which* aviation system investments should take priority at a time when there are many calls for system investment.

Airways New Zealand Limited is responsible for the core navigational and safety infrastructure which controls our skies. BARNZ member airlines do not support underinvestment in this system while those without cost oversight – such as AIAL – drive the greatest increase in charges over time.

To this end, our comments in this submission aim to support Airways to ensure core infrastructure investment, while asking that Airways reduce or delay those investments which could be considered later. BARNZ recognises and appreciates Airways' important safety role. Despite the New Zealand's aviation system's unchecked cost pressures, this should not be compromised.

Proposed capex programme

There is a need for Airways to look carefully at its proposed capex programme and restructure it with the aim of ensuring targeted investment in core safety infrastructure to smooth out proposed increases over the pricing period.

The revision of the capital programme should aim to smooth resultant price increases for airlines. At present, Airways proposes increases of 22.8% over three years, with 14.4% applied to prices in year one. BARNZ asks that all possible is done to smooth price rises. We note that from 1 July 2025 airline members of BARNZ will also have to pay increased landing and passenger charges to AIAL and also pay CAA charges which will increase by some 143% on that same date.

Looking ahead, AIAL will re-set its price path for financial years 2028-2032 during 2026 -2027. CAA has indicated it will re-set fees and levies in 2027. Airways might wish to consider a shorter price period, so that in future it is able to reset prices ahead of other system headwinds.

Specific capital plan comment follows below:

- Ground power and lighting

  BARNZ is aware that Airways has been gradually divesting ground power and lighting assets to New Zealand airports. We generally become aware of this when the assets are sold, and their cost and future investment requirement then needs to be accounted for in airport capital planning – which airlines fund. Costs for recovery of certain ground power and lighting assets sold to airports has been substantial. BARNZ asks that Airways ensures that those ground power and lighting assets it still owns are appropriately maintained and invested in.

- Emerging technology and Airways modernisation

  While we applaud Airways looking to the future and considering emerging technology needs, airlines cannot afford to pay for all of them via new Airways charges.

  In the case of the intended Airspace Architecture Review, airspace management is a national interest/public good issue, and there may be a case for dedicated Government funding or a separate policy-level funding mechanism to support this work.

  In the case of the proposed UTM system it is noted that the Proposal identifies the intended benefit of this as *"customers are able to advantage of commercial opportunities offered by uncrewed aircraft quicker and more confidently"*. The trade off in an UTM system not being delivered is identified as *"customers are constrained in their ability to adopt commercial uncrewed aircraft technology into their fleet"*[1]. There is no clearer statement that could be made making it obvious that the conventional aviation system, including BARNZ member airlines, is cross subsidising the intended development of a UTM system while getting no benefit from it. 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.

  The increasingly diverse and broad operating nature of the new, emerging and advanced aviation sectors clearly no longer supports the argument that airlines and their passengers are both the risk exacerbators and the beneficiaries of Airways system level costs in support of new, emerging and advanced sectors.

  Rather the risk exacerbators and beneficiaries in question are the organisations and investors seeking to make financial returns through their entry into and involvement in these sectors, and those who specifically benefit from the services provided via them.

  In discussion with Government, Airways should remove the proposed UTM system from its current proposals and identify alternative funding streams that, as noted above, better align cost recovery with the intended beneficiaries of the system.

[1] Page 11 of the Proposal.

Cost allocation for General Aviation

BARNZ agrees with the New Zealand Airports Association (NZAA) submission that general aviation pricing adjustments appear arbitrary, with no insight on methodology for determining cost allocations. There is no detailed breakdown of how general aviation contributes to Airways' total costs, noting that it accounts for a large proportion of air traffic movements but appears to contribute disproportionately little in revenue. Once again it appears that airlines are cross-subsidising other parts of the system.

BARNZ supports the NZAA request that Airways disclose its general aviation cost allocation methodology, ensuring charges are proportionate to service usage rather than arbitrary uplifts.

Volume forecasts

BARNZ considers growth forecasts supporting these price proposals are optimistic. Given global supply chain challenges, risks to supply of parts for aircraft maintenance, given the sharp increases to costs to operate to destination New Zealand, given demand impacts arising from increases to the International Visitor Levy (IVL) and to visa charges as imposed during 2024, New Zealand currently presents a particular connectivity challenge.

New Zealand is a small market of 5 million people – the same size as Sydney. Traditionally, routes to New Zealand rely on the strength of international visitors travelling here to support a route. At present, New Zealanders themselves are travelling at rates which exceed pre-pandemic levels, but international visitors have not returned in their earlier volumes – and the market balance has changed, perhaps permanently. This means that routes to New Zealand are harder to sustain, and difficult to grow.

It is not clear how growth for certain international markets has been assumed. BARNZ submits that growth forecasts be softened to no more than 3% in year one despite the consequence that prices will increase. This is preferable to the scenario where we set growth forecasts too high and then have to adjust pricing upward mid cycle.

Timing of new costs

Airways has proposed that new process apply from 1 July 2025. BARNZ appreciates that this is the beginning of the Airways New Zealand financial year. However, the increased charges will apply for services to be flown in a short period after decisions are taken. Tickets for these services will have been sold – New Zealand is a long lead time market for international airlines.

Airlines have already set budgets – indeed, many international airlines have March/April financial years. This means that increases to Airways charges will be unbudgeted cost and will impact route commercials. Routes with negative commercial impacts are reviewed and may be subject to ticket price increases. Ultimately routes which are poor commercial performers see aircraft repositioned elsewhere.

BARNZ asks that Airways consider whether it can delay the imposition of new prices to allow for a longer lead time for airline customers. BARNZ also request that price setting in future periods is commissioned 12 months in advance of new prices being set. We note that this is the practice of Air Services Australia.

Conclusion

BARNZ has not been able to assess the objective reasonableness of the proposed price increases. As noted in this submission, we consider the capital plan could be reassessed to adjust for those things which airlines should not sustain, or which we cannot afford to proceed with in the high-cost environment our aviation system currently faces.

The growing cost of New Zealand's aviation system puts New Zealand's tourism industry and our resulting economic prosperity and international connectivity at risk. While Airways is only one system participant, the aviation system is, and has always been, an interconnected whole. It is unfortunate that the existing weight of system cost requires Airways to carefully assess its proposed investment and prices.

We appreciate the work that Airways does in safely managing the New Zealand airspace. Airlines appreciate the consultation opportunity Airways has provided, and we are happy to work with you to ensure we set prices – and investment – that are appropriate to New Zealand.

Yours sincerely,

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