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Rob Hughes
Head of Customer & Stakeholder Management
Airways New Zealand
PO Box 14131
Christchurch 8544

Via email: submissions@airways.co.nz

Dear Rob

NZ AIRPORTS SUBMISSION ON AIRWAYS FY 2026-28 PRICING

1. INTRODUCTION AND SUMMARY

1.1 Thank you for the opportunity for the NZ Airports Association to consider and respond to Airways' Consultation Document dated March 2025 "Proposed Pricing for the 2026 – 2028 period".

1.2 This submission is made on behalf of NZ Airports' member airports. It is limited to commenting on the basis and rationale for the Proposal, as well as broad policy concerns that are common to all airports. This submission does not comment on airports' potential commercial response to the Proposal which, if required, is a matter for each airport to separately consider. Individual airports may make separate submissions which should be read in conjunction with this submission.

2. GENERAL

2.1 Airports and airlines are operating in the same challenging commercial environment that you make reference to Clause 1.1 of the Proposal. NZ Airports therefore makes this submission with some understanding of those challenges and the need for the aviation system to work smarter while maintaining or enhancing safety standards.

2.2 Our primary concerns relate to the cumulative impact of Airways' cost increases on the aviation sector, the transparency of cost allocations, and whether the burden of funding air traffic services is equitably distributed.

3. AMOUNT OF PRICE INCREASES

3.1 NZ Airports is concerned about the scale of the price increases in the Proposal and the pattern of Airways' rising costs over the past three years, continuing through to 2028. While the dollar value of the examples that you have provided of Airways increases expressed as a cost per seat may appear relatively small, the cumulative effect of all cost increases on the passenger becomes significant. For that reason, the scale of percentage increases is a more meaningful guide on the overall impact of price increases in the system.

3.2 The Proposal represents an increase in 3 years of 34.4% in the operating base cost from the FY25 price plan. This is an average of 10.3% annually over the 3-year pricing period, which appears extraordinarily high and far above general inflation rates.

3.3 It is acknowledged that the above includes costs which occurred over and above the pricing assumptions of the FY23-25 pricing period, and that the Proposal is an increase in FY28 base operating cost base of 16.6% above the forecast FY25.

3.4 For the sake of transparency in these circumstances, we would like to see the actual outcomes of costs for the past 3 financial years presented in the same format (categorisation of costs) as the Proposal so that the cumulative impact of the FY26-28 period can be seen and explained. We note that this has been provided in the *Response to requests for additional information* document, but only for labour costs.

3.5 Total Labour and Other costs for FY23-25 are shown in Table 15 of the original consultation document and go some way to disclosing insight to the bigger picture. They show that the Proposal represents an increase in annual operating costs of over 40% between FY23 and FY28. This is an average annual increase of around 7.0% each year cumulatively over 5 years. This level of cost escalation raises serious concerns which we believe should be proactively addressed in this consultation, including, but not limited to, the following questions:

(a) How is Airways managing costs responsibly to mitigate these increases?

(b) Where Airways has identified projects that will provide efficiency benefits, how will these specifically reduce long-term costs?

(c) Further, Airways has prioritised a programme of preventative maintenance, which enhances what we assume was already a suitable asset management programme. Is Airways able to define the return on investment from this work?

(d) How has Airways proactively adjusted its pricing model to reflect known changes in future volume, cost, and asset allocation - such as the introduction of international jet services at regional towers, or the transfer of responsibilities for lighting and power assets to airports?

4. INCREMENTAL COST INCREASES

4.1 Clause 5.5.2 of the proposal refers to some $4.9m of cost increases over and above the NZIER Primary Producers Index. This has the effect of almost doubling the impact of inflationary effects which have been allowed for in the Proposal.

4.2 An increase such as this can be a reflection of the quality of the engagement and acquisition of non-labour cost inputs. This may relate to such things as definition of the scope of the work, exposure to competitive markets, quality supervision, administrative efficiency, and definition of risk-ownership among others. NZ Airports questions whether provision for such cost is appropriate in this Proposal.

5. AERODROME VISUAL NAVIGATION AIDS (LIGHTING, POWER AND SIGNAGE)

5.1 During the FY23-25 period, Airways has been progressing a strategy to transfer the provision and operation of lighting, power and other visual navigation aids at certain airports. In some cases, this has resulted in re-pricing of Aerodrome Services not just for the individual aerodromes that transitioned ownership of lighting and power assets, but for all aerodromes within a regional tower group - even where only one or two aerodromes made the transition.

5.2 This transfer of costs (capital and operational) away from Airways does not appear to be reflected transparently in the Proposal. The description of ‘Aerodrome Visual Navigation Aids’ in clause 3.1.1 does not refer to this transition, and instead simply refers to “(at those airports where Airways currently provides that service)”.

5.3 In the absence of transparent disclosure of this change (reduction in the scope of Airways delivery), the percentage increases referred to earlier in the submission are in fact understated.

5.4 NZ Airports asks that the changes in scope of Airways services over the FY23-28 period (undertaken and planned) be disclosed in the costings and pricing of this Proposal.

(a) What are the specific cost reductions Airways has achieved by transferring visual navigation aid responsibilities to airports?

(b) Can Airways provide a clear, itemized disclosure of all services it has stopped delivering or plans to offload over the pricing period?

(c) Has this reduction in service scope been factored into the price-setting process? If not, why?

5.5 As more airports assume ownership of power and lighting assets, Airways should reconsider how regional tower groups are structured for pricing purposes. Current groupings do not appear to reflect the differing levels of service provided, particularly where some airports have taken over power and lighting provision and others have not. NZ Airports is concerned that this approach may result in cross-subsidisation - for example, where airports like Hamilton and Tauranga have taken on asset ownership, but pricing across the group continues to reflect the capital and operational costs of airports where Airways retains responsibility. This raises fairness concerns and reinforces the need for pricing structures that accurately reflect service scope.

6. COST ALLOCATION TO GENERAL AVIATION

6.1 NZ Airports notes that the general aviation pricing adjustments appear arbitrary, with no clear methodology for determining cost allocations. The Proposal states a 6.8% increase in FY26 and a 10.5% increase over FY26-28, but there is no detailed breakdown of how general aviation contributes to Airways' total costs. General aviation accounts for a significant proportion of air traffic movements but appears to contribute disproportionately little in revenue. NZ Airports requests that Airways fully disclose its GA cost allocation methodology, ensuring charges are proportionate to service usage rather than using arbitrary uplifts.

7. QUESTIONING GROWTH PROJECTIONS

7.1 NZ Airports seeks further detail on the assumptions underpinning Airways' domestic air transport growth projections, particularly given ongoing industry capacity constraints. Airways cites "logical growth" as the basis for its forecast of 2-5% annual increases in domestic traffic, yet it is unclear what "logical" means in this context or how these projections have been developed. This outlook is particularly difficult to reconcile with the significant seat capacity reductions occurring across the regional sector, where many thousands of seats have been lost per week. We request further clarity on whether Airways has accounted for continued constraints on regional aircraft availability, airline fleet mix adjustments, and potential further reductions in regional air services.

7.2 Conversely, at some regional airports, known and material increases in aircraft activity - such as the reintroduction of international services - are expected, without a corresponding increase in Airways' service hours or demand. We encourage Airways to ensure that its volume assumptions reflect these developments, so that pricing remains aligned with actual and forecast activity across the network. Ensuring that pricing and capacity assumptions reflect real market conditions is essential for setting fair and realistic charges across the domestic network.

8. AIRWAYS EXPANDING SCOPE AND FAIR COST RECOVERY

8.1 Airways' proposal includes funding for several strategic initiatives focused on airspace modernisation**,** including the Airspace Architecture Review and the UTM system. While these initiatives address important challenges, they also raise a broader question: should airspace design and long-term strategic planning be funded through Airways user charges, or should these functions be the responsibility of the Civil Aviation Authority? At present, it appears that Airways is stepping in to fill a void in airspace governance, but this raises concerns about whether it is appropriate to recover these costs from airlines rather than from the regulator or policy agency. 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.

8.2 NZ Airports commends Airways for its leadership in developing a UTM system. It is a critical step toward ensuring that New Zealand's airspace can safely accommodate emerging aviation technologies such as drones, urban air mobility, and autonomous aircraft. This work is essential for New Zealand's future aviation landscape, and we recognize the need to proactively develop the infrastructure and regulatory frameworks to support it. However, in most other jurisdictions, the development of UTM systems is led and supported by government agencies such as the Ministry of Transport or the CAA, rather than being funded by traditional airspace users. Under this proposal, airlines are being asked to fund the development of a system that will ultimately generate revenue from entirely different users. The UTM system is designed to support new entrants to the airspace, including commercial drone operators and advanced air mobility providers, yet its costs are being incorporated into the charges paid by airlines that may not directly benefit from its implementation. This raises a fundamental issue of fairness and cost allocation—why should today's airlines and airports subsidize the infrastructure for a market that will be used and commercially leveraged by different operators in the future?

8.3 Rather than embedding UTM development costs into general air navigation charges, Airways and the government should consider alternative funding mechanisms that better align cost recovery with the intended beneficiaries of the system. One logical approach would be for the programme to be funded by direct government investment. Recognising that UTM is an enabler of new economic activity, the government could provide seed funding through an innovation or advanced aviation fund. These costs could be ring-fenced and recovered through a separate funding model that does not inflate air navigation charges for traditional aviation users. This approach would fit well with the government's existing focus on, and considerable investment in, advanced aviation.

8.4 In most other jurisdictions, governments recognize that air traffic control infrastructure is a critical national service—one that underpins regional connectivity, economic development, and aviation safety. As such, many countries supplement user charges with government investment in airspace modernization, technology upgrades, and strategic initiatives like UTM and airspace redesign. The Ministry of Transport should take the lead in evaluating alternative funding mechanisms, ensuring that Airways has the right tools to deliver safe and efficient services without excessive cost burdens on existing users.

9. RECONSIDERING AIRWAYS' DIVIDEND REQUIREMENT FOR THE BENEFIT OF THE AVIATION SYSTEM

9.1 As a State-Owned Enterprise (SOE), Airways is required to generate a commercial return and pay a dividend to the Crown. This obligation creates a structural challenge for the aviation sector: Airways is not just recovering its operating costs and capital investments, but also seeking a financial return for the government, which contributes to the scale of the price increases in this proposal. At a time when the aviation industry is still navigating economic headwinds, and airports are working to maintain regional connectivity and affordability for passengers, the SOE model risks prioritizing financial returns over system-wide efficiency and cost control. Unlike in many other jurisdictions where air navigation services are structured as not-for-profit entities or government-funded infrastructure, New Zealand’s model effectively places a commercial profit requirement on a critical national service, leading to steeper cost increases for airlines.

9.2 The independent Air Navigation System Review highlighted this issue, emphasising the need to consider alternative funding mechanisms for air navigation services, particularly where investments in modernization and resilience benefit the broader transport system rather than just direct users. The review acknowledged that the current funding model, which relies on full cost recovery from users, may not be sustainable in the long term, particularly when significant capital investment is required. It recommended exploring options such as direct government funding for certain infrastructure investments, cross-sector levies, or a revised financial framework for Airways, to ensure that pricing remains predictable and does not disproportionately burden the aviation sector.

9.3 Given the extraordinary cost pressures outlined in the FY26-28 pricing proposal, the government should consider reducing or waiving Airways’ dividend requirement to ease the burden on the sector.[1] If Airways were permitted to retain earnings to fund capital investments or maintain stable pricing, rather than returning a dividend to the Crown, it could significantly reduce the need for sharp price increases. This approach would align with broader government objectives to support regional connectivity, economic recovery, and sustainable aviation growth. The government could define a measure by which the system is considered to be in sufficient health and growth to support the return of dividends.

9.4 Airports urges the government to engage with Airways and the sector on a revised financial framework—one that balances the need for Airways to be financially sustainable while ensuring that air navigation charges remain fair, predictable, and aligned with industry needs. A review of Airways' financial structure, including its return-on-equity expectations, could help create a more sustainable funding model for air navigation services without placing unnecessary financial strain on airlines, airports, and ultimately, the traveling public.

Yours sincerely

Billie Moore
Chief Executive

[1] At the very least, it would be logical to utilise the government’s dividend from Airways to fund projects like the UTM system.