

16 June 2021

Katie Bhreatnach
GM of Customer and Regulatory Partnerships
Airways New Zealand

By email : tracey.hall@airways.co.nz

Dear Katie

1. Thank you for the opportunity to comment on proposals to review the Airways service framework. Air New Zealand has had the opportunity to review submissions from IATA and BARNZ and is supportive of comments made in these submissions.

2. From the information provided by Airways in the Service Framework Review Process and Consultation Paper, we understand that Airways proposes to amend its service framework to encompass only those services it considers it has a statutory monopoly to provide. Should this change be made, Airways would set prices for only those services when it undertakes the upcoming price consultation.

3. Beyond these 'statutory monopoly' services, Airways considers airport companies would contract it to provide other services required to operate aerodromes and will pass those costs on to airlines. These other services are Aerodrome Air Traffic Management and Aerodrome Visual Navigation Aid services.

Air New Zealand supports contestability - but the benefits of this proposal are unclear

4. In general – and as you will note in our submissions on the exposure draft of the Civil Aviation Bill, Air New Zealand is supportive of contestability for services provided by Airways. While other Air Navigation Service suppliers have not sought to compete in the New Zealand market to date, given digital air traffic control developments, this may change in the coming years.

5. From the consultation material provided, it isn't immediately clear what benefit this change will provide to airlines as customers. Air Traffic Management services will still need to be provided by a certificate holder – and at present Airways is the only certified operator. We reflect that this means that Airways remains a monopoly supplier of that service at time of writing.

Covid-19 has reduced services – and the reduced customer base will increase costs

6. While we are unclear on benefits the proposal brings, Air New Zealand is concerned about increases in pricing as may arise from the proposal.

7. As Airways notes in its consultation, all industry participants have been impacted by the effect of Covid-19 on aviation. Air New Zealand's domestic services reduced by 97% during Alert Level 4. The ongoing effect of the closed international border means that while the domestic market is rebuilding strength, international connections to New Zealand are drastically reduced. Given our proximate year end reporting, we are unable to comment on our financial position; but it is true to say that these are some of the most difficult days in Air New Zealand's history.

8. With far fewer customers to pay the fees, levies and charges to deliver services to aviation and the border, costs for those services recovered by customer-based levies are forecast to rise.

Insufficient consideration has been given to how airport price setting might affect ATC charges

9. Airways Air Traffic Control charges are broadly based on MCTOW – maximum certified take-off weights – rather than per passenger charges. This is appropriate given the nature of services. Airport charges contain elements of both MCTOW and per passenger charges. It remains to be seen how airports might set prices to recover services proposed to be directly contracted to airports.

10. Airports must set prices at least every five years, unless substantial customers accept variation to this cycle. During price consultation, substantial customers are consulted with on prices according to airport price methodologies.

11. We appreciate that airport companies currently nominally contract services from Airways, but they do not currently set prices for these services. We do not consider that this “obscures the value proposition of the services...”¹ as per the consultation paper.

12. From the information provided, it is unclear whether Airways has considered how this change might transition into regulated pricing, particularly where timing for price setting by airports will not align with the change.

Monopoly services benefit from central negotiation

13. We note Airways intend airport companies to negotiate pricing for these other services in future. Given market power of Airways as the current monopoly service provider, airports would benefit from a model where pricing was centrally negotiated.

14. Should this proposal be enacted, Air New Zealand suggests that costs for Air Traffic Management be centrally negotiated via the Airports Association and provided to all airports against a common pricing methodology. Airports might then include these prices in their own price setting as pass through pricing to airlines. Given prices are centrally negotiated and provided by a third party, additional cost allocation by airports could be minimized.

15. Without central negotiation of pricing, prices would have to be negotiated with some 16 airports (including Ohakea), who will in turn consult with airline customers. The burden of multiple consultation processes is significant at a time where airlines have reduced management structures.

Considerations for service contracts

16. Airports set charges based on their statutory authority as per the Airports Authorities Act ability for airports to set prices. Given these settings, we are unclear as to how airlines might contract with airports to protect airline performance provisions and costs for delays, or increased carbon costs.

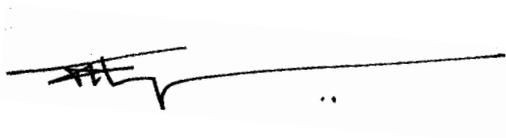
17. Air New Zealand considers there is a risk of service level degradation given the proposed 'arm's length' structure. Any Air Traffic Control service failures would need to be reported by airlines through to Airways for resolution – and then back via airport companies to airlines. This would be inefficient, and slow.

Conclusions

18. It is the view of Air New Zealand that there is insufficient information included in the consultation documents to support these proposals.

19. We welcome the suggestion from BARNZ to hold an industry workshop to discuss proposals in detail. Following this, we would suggest further publication of proposals by Airways, and updated timelines to accommodate revised proposals.

Regards,



Captain David Morgan
Chief Operational Integrity and Safety Officer
Air New Zealand