



**BARNZ**  
VOICE OF THE AIRLINE INDUSTRY

# BARNZ response to Airway's Proposed Revised Service Framework

16 June 2021

# BARNZ IS THE TRUSTED VOICE OF THE AIRLINE INDUSTRY IN NEW ZEALAND

We work closely with the Government, regulators, airports and local communities to create an environment that fosters continued, sustainable growth for the airline industry in New Zealand. We do this through advocating for service quality and fair prices, which help our airlines grow their international and domestic services.

The 29 BARNZ members keep New Zealand connected to the world, directly enabling our tourism industry and delivering \$8 billion of exports. They bring together families, friends and businesses, as well as the free flow of ideas, information and innovation that only happen when people come together face-to-face.



WE CHAMPION THE AIRLINE INDUSTRY AND ITS CONTRIBUTION TO TRAVEL, TRADE AND TOURISM IN NEW ZEALAND.



WE STRIVE FOR FAIR-PRICED, CUSTOMER-FOCUSSED AIRPORT, BORDER AGENCY SERVICES AND INFRASTRUCTURE FOR OUR MEMBERS AND THEIR PASSENGERS.



WE HELP TO WIN THE AIRLINE INDUSTRY'S ABILITY TO GROW AND OPERATE IN NEW ZEALAND THROUGH CONSULTATION AND ENGAGEMENT WITH THE WIDER COMMUNITY.

# BARNZ RESPONSE

## Introduction

1. BARNZ welcomes the opportunity to provide feedback on proposed changes to the Airways Service Framework.
2. This paper sets out the BARNZ response on behalf of our airline members to the Proposed Revised Airways Service Framework provided in May 2021.
3. We note that some of our members may also provide their own direct responses to the discussion document.
4. BARNZ's contact person for this response is:

Justin Tighe-Umbers  
Executive Director  
[justin@barnz.org.nz](mailto:justin@barnz.org.nz)

## Proposed changes to the Service Framework

5. Airways provides critical air navigation services to domestic and international airlines operating in New Zealand. How these services are provided and structured within a service framework is important to airlines. Delivery of air navigation services needs to be underpinned by a commercial framework that drives the safety, efficiency and operational outcomes that benefit customers.
6. We welcome Airways asking the question “whether there are underlying structural issues that prevent Airways from supplying services in ways that are more efficient and cost-effective”. We support the objectives outlined in the letter accompanying the consultation document. How air navigation services are structured can have a significant impact on the timeliness, operational performance and profitability of airline services, at a network and individual route level. It is right that this should be regularly tested, especially when the sector is experiencing unprecedented financial shock as it currently is, the impact of which will continue as the industry recovers.
7. However, it is not immediately clear to BARNZ that there are service framework issues at play that are materially affecting efficiency. It is difficult to provide a view on whether the current structure is impeding efficiency without understanding the current challenges to efficiency and what benefits the model Airways proposes will deliver. There is insufficient information provided in the consultation document for stakeholders to be able to answer this question.
8. This is not an insignificant change and one that must be fully examined. We therefore propose flipping this question on its head, and ask Airways to outline what benefits the proposed changes will deliver to airline and other customers. We recommend that an industry workshop is facilitated by Airways to outline the benefits that proposed changes would deliver to customers over and above the current service framework today.

9. This response sets out some of the information sought to assist such a workshop.

### Should contestable services be treated differently to statutory monopoly services?

10. BARNZ is open to changes to commercial structure that lead to better outcomes for airline and other customers.
11. Any changes should be tested as to whether they deliver one or more of the objectives outlined in the letter accompanying the discussion document, namely:
- a modern, fit for purpose aviation system that delivers safety and efficiency;
  - aligned with the aviation industry's commercial imperatives;
  - productive relationships with our customers and stakeholders;
  - closer alignment between customer relationships and the provision of Airways services;
  - a framework that incentivises innovation and quality outcomes.
12. The discussion document does not provide enough information to be able to meaningfully assess what benefits or detriments the proposed changes to contestable services will bring, or how they meet the above objectives.

### Is it appropriate for contestable services to be offered directly to airports on a commercial basis?

13. The answer is – it depends.
14. What it depends on is how service outcomes would be improved for customers and whether it will lead to greater efficiency.
15. The most important contestable service for airlines is the Aerodrome Air Traffic Management Service (ATMS). The answers in this section relate exclusively to the ATMS.
16. Without detail outlining how this would work in the discussion document, our supposition of the proposal is that Airways could provide the ATMS directly to any Aerodromes outside of the ICAO designated international airports (sub-category A). This would see Airways having a contractual relationship with an airport operator, who procures the service, pays Airways for it, and then on charge to airlines as part of their standard airport services.
17. Airways poses the question as to whether offering contestable services directly to airports would enable them to be provided on an efficient basis. The key point for airlines is whether these services are provided on a *more* efficient basis than Airways providing them directly. If this is the case, then airlines could be supportive. If not, and the ATMS costs airlines more than when they were provided directly by Airways, then clearly airlines would be unlikely to support. It is not possible to know the answer to this from the information provided.

18. As stated, BARNZ is open to any changes that can demonstrably lead to better customer outcomes. We would welcome better understanding the benefits Airways sees for airlines. However, we have a number of concerns that we see could lead to poorer ATMS service outcomes for airlines should Airways provide the services to airports.

- **Arms-length contractual management** – with Airways providing ATMS to an airport, the airline is removed from being the direct commercial customer of the service provider. Airlines would pay for the service, and receive the service outcome, but have no commercial redress with Airways as the airport operator is the intermediary.
- **Lower cost transparency** – airports would be free to add their own margin to cover overhead expenses, and it would be even more difficult for airlines to understand whether services are being provided on an efficient basis. The risk of higher costs are of particular concern given the rate of return regulation for airports. We know of a recent example where a UK airport took over the provision of air navigation services from NATS, significantly raised the service charge and provided no input cost transparency. No improvements to the service were forthcoming – the only change for airlines was the bill going up.
- **Service performance once removed** – managing any ATMS service performance issues would require airlines to engage with the airport. However the airport is not providing the service. Airlines would be left in a weaker commercial position to drive KPI performance and service improvements, as they would have to negotiate via a proxy (the airport) even though they would be the recipients and ultimate funder of the service.
- **Administrative complexity and inefficiency** – airlines would be required to have commercial relationships with up to 14 airport operators to provide ATMS. This fragments the ability of airline customers to have “all of service” conversations with Airways to drive network level improvements. It would also likely lead to administrative inefficiency, with each airport having to provide commercial and service delivery capability to work with airline customers, as well as having a centralised capability at Airways for the same purpose, only to manage airport customers.

### Will contestable services being directly offered to airports lead to improved competition?

19. There is a contention that the removal of contestable services from being grouped with base services as they are today may lead to a potential for competition from other providers. It is unclear as to how Airways having direct commercial relationships with airports for contestable services will lead to improved competition.

20. New entrant air navigation service providers are free to enter the market today for contestable services. It is not obvious how barriers to entry of this market would be lowered by the suggested change.

21. Airlines and BARNZ welcome competition of services as long as they lead to more efficient outcomes for airlines in terms of lower service charges and service efficiencies at the network level. It is important that competition leads to better outcomes for airlines at the network level, not just the route level. Airlines seek efficiency across base and contestable services, to ensure that their total spend does not increase even if some parts of the network are more efficient than prior to service framework changes.
22. BARNZ recognises that there is a danger that the total cost to provide airline services could go up for the domestic market. There are scenarios where the introduction of competition can actually lead to more expensive outcomes in a network such as New Zealand's.
23. For example, an efficiently run monopoly service provider can deliver total lower cost to serve than a competitive network where one provider can effectively "cherry pick" the most profitable services, and leave the others to another provider, leading to significant variance in service charges on a route-by-route basis. This can drive up individual route costs significantly, as well as total air navigation service costs for airlines that operate domestic networks.
24. BARNZ seeks evidence that the proposed changes won't lead to airlines losing the network efficiencies provided by the current model, and experiencing a net cost increase.
25. The current model also enables Airways to provide uniform service charges for ATMS for airports that have similar cost to serve characteristics. More uniform service charges are valued by airlines operating domestic networks as it allows them to pass through more consistent ticket prices for travellers across the network.
26. If a new entrant only has a small number of airports they provide an ATMS service for then economies of scale and efficiencies will be lost. The cost of ATMS could significantly increase for individual airports / routes as a result. Equally, with the right scale of operations an efficient ANS provider could lead to a total network cost reduction for airlines.

### Airways seeks to provide services on an efficient basis

27. BARNZ supports the stated Airways objectives geared towards efficiency, in particular to be a "modern, fit for purpose aviation system that delivers safety and efficiency" and "aligned with the aviation industry's commercial imperatives".
28. The onset of the Covid-19 pandemic has devastated airline balance sheets and cash flows. Airlines globally have parked up fleets and laid off staff in numbers never seen before. The recovery of the commercial aviation sector is dependent on all service providers operating as efficiently as possible.
29. In this challenging operating environment Airways' commitment to efficiency would be more effectively demonstrated if it were explicitly mentioned in the vision, purpose and strategy and strategy statements (page 3).

## Airways does not consider ground power and lighting core services

30. We note the service principles developed to assist Airways assess what core contestable services should be provided.
31. BARNZ supports the service principles outlined.
32. We would like Airways to consider an addition where a contestable service should be maintained where its inclusion provides an overall efficiency of service offering to customers by virtue of being bundled as a related service (for example if there is limited additional fixed cost to provide a service).
33. The intent of this suggested addition is to recognise the efficiencies that a large network service provider such as Airways can bring. It seeks to prevent a situation where overall costs for airlines would increase were a contestable service to be carved off, losing the scale efficiency of a larger service provider such as Airways with the subsequent cost to serve by a smaller provider going up.
34. BARNZ understands that ground power and airfield lighting at airports do not meet the outlined service principles, and as such we agree they equally be part of the service delivery of an airport as much as Airways.
35. In the event that a contestable service is withdrawn by Airways any assets transferred to another provider should be done in a transparent manner, with clear asset register information outlining asset age, condition, maintenance history, and remaining asset life.
36. BARNZ is neutral as to whether Airways or airports are best placed to own and operate airfield lighting and ground power networks in so far as the cost to operate is neutral. As such it would be useful to understand the overall condition of airfield lighting and ground power assets New Zealand wide, and if there is a large maintenance programme required in the near future.
37. If a significant programme of maintenance works is required across multiple airports, there could be more efficiencies if completed in one programme of work by Airways rather than by individual airports.
38. Lastly, we have a question regarding the interoperability of airfield lighting and digital tower technology. We note in the digital tower demonstration provided by Airways in 2019 that some software overlays allowed Air Traffic Control (ATC) to manage an integrated airfield lighting system. This system allowed ATC to effectively manage aircraft ground movements around the airfield in low visibility / fog conditions by providing a software overlay of lighting assets. Would asset ownership of airfield lighting have any implications for future integration with digital tower technology?

## In conclusion

39. We welcome Airways opening consultation on the service framework, and support the objective to ensure service outcomes are as efficient as possible. We have pointed out that efficiency can be difficult to consistently achieve at a total network level and at individual routes. We would like to understand more about how the proposed changes would lead to overall improved outcomes for Airways customers, in particular airlines.
40. As such we recommend that an industry workshop is organised to discuss this important topic and its impact on efficiency with stakeholders from airlines, airports and general aviation as appropriate.

## APPENDIX – LIST OF BARNZ MEMBERS

Airline Members	
Air Calin	Air China
Air New Zealand	Air Tahiti Nui
Air Vanuatu	Airwork
American Airlines	Cathay Pacific Airways
China Airlines	China Eastern Airlines
China Southern Airlines	Emirates
Fiji Airways	Jetstar
Korean Air	LATAM Airlines
Malaysia Airlines	Philippine Airlines
Qantas Airways	Qatar Airways
Singapore Airlines	Tasman Cargo Airlines
Thai Airways International	United Airlines
Virgin Australia Airlines	
Non-Airline Members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport	Air Center One