



BARNZ
VOICE OF THE AIRLINE INDUSTRY

Submission

Airways pricing proposal 2019-2022

To Airways NZ

15 March 2019

Introduction

1. This is the response of the Board of Airline Representatives New Zealand (BARNZ) to Airways on the consultation paper *Airways proposed pricing for the 2019-2022 period*, published on 29 January 2019.
2. This submission is made on behalf of the BARNZ member airlines, listed in the Appendix. Some members may make their own submissions.
3. Attached to this submission is the template provided by Airways, with our answers to each of the questions.

Overview

4. Overall BARNZ and our airline members are pleased with the innovation and investment proposals that Airways is putting forward. We support investments in digital towers, for the cost savings and flexibility improvements these should deliver. We agree that drone management is required and welcome Airways leadership in this area (although we disagree that airlines are the right parties to fund this work). We support the new air traffic management system and business transformation programme, which we understand should unlock real savings and service improvements after 2023.
5. However, BARNZ and our airline members are disappointed that operating cost growth is now exceeding inflation and this is being reflected in prices to airlines. Also, for reasons explained in detail in the attachment, we believe that Airways' proposed cost of capital is not credible.
6. The proposed 18.9% cost increase adds to a number of headwinds facing airlines at this time. Airlines are seeing significant fuel cost pressures, causing profit reductions for some. The New Zealand cost environment is not helping with biosecurity and aviation security costs also increasing from 1 July 2019 and Customs costs expected to increase in 2021. BARNZ and our airline members are increasingly concerned about the cost of air travel to New Zealand and whether it will remain sustainable.
7. In recent years, Airways' government shareholder has done very well from growth in the industry, with dividend payments growing from \$3m in 2014 to \$11m in 2018, a 267% increase. We believe the time is right for Airways' shareholder to support continued growth in the aviation sector and help mitigate the cost increases we are seeing across the board, by taking reduced dividends over the next pricing period. We encourage Airways to raise this with government as a fair and reasonable way to meet the looming spike in air traffic control costs.
8. For example, as drones are essentially a nationwide problem that affect more than just airlines, it would be appropriate for government to take a funding role here, either directly or by reducing the dividends it takes from Airways.
9. BARNZ looks forward to working with Airways to further improving the service quality and cost efficiency of New Zealand's air traffic control service.

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	Hainan Airlines
Hong Kong Airlines	Jetstar
Korean Air	LATAM Airlines
Malaysia Airlines	Philippine Airlines
Qantas Airways	Qatar Airways
Sichuan Airlines	Singapore Airlines
Tasman Cargo Airlines	Thai Airways International
Tianjin Airlines	United Airlines
Virgin Australia Airlines	
Associate Members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport	Glidepath