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Airport Operators
Airline Operators
Aviation Insurers

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Submission on behalf of the Aviation Industry Association of New Zealand

Thank you for the opportunity to participate in your recent pricing consultations. In the consultative document there are operators who benefit from the proposal and in relative terms pay less and other operators who in relative terms will pay more, and to that degree, the proposal to restructure and simplify the pricing model is supported.

Year One Revenue increase

The proposal to increase prices across the board by 13.4% is excessive and consideration should be given to ways to reduce the increase specifically in:

- Previous period volume under recovery – as we understand it, this is largely an issue of the underperformance, by volume, of a particular segment of the industry, namely, domestic regional New Zealand. We fail to see why this increase of 3.3% should be built into all prices and then the price, once set, is compounded by increases for years 14/15 and 15/16. The sector which under performed, or alternatively, cost savings should be examined. It is of concern, for example, that the Gisborne Tower is known not to require Air Traffic Control but no action has been taken to conduct an aeronautical study to look at cost saving methodologies. Our submission on this point has been consistent now for three years. There are other towers such as Invercargill which are also low utilisation and relatively high cost.
- Value adding service enhancements – these appear to pertain to the airline segment and not the whole industry. Where there is value add these should be targeted at the segment and the segment should pay should they require the value added product – not an across the board increase which is further compounded by the further increases of 4.9% and



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3.4%. GA in particular does not consider it benefits significantly from service enhancements. If it did, there would be more support (relative to the comment above about support), for the proposal over all. GA can operate safely at most regional airfields without ATC and perhaps the best example is New Zealand's busiest airport Ardmore who have a very low incident rate.

- Shareholder returns – the government appears to be a particularly demanding shareholder. We accept that the SOE model requires Airways to behave commercially, but behaving commercially does not involve prices being increased to deliver a targeted level of return, in ignorance of actual market conditions. We would prefer that this targeted level of additional return was delivered either via cost efficiencies or through the return being set on the basis of the performance of the total business. Firstly it would be appropriate to speak extensively with the airport users to determine what they require and the hours they require services. We see exporting and the Airways ability to grow this substantially as integral to setting the overall rate of return.
- CPI – it is not clear from the papers whether with reference to Figure 14. Has a cost has already been built into items A, B and E to account for inflation going forward or are the costs identified in figure 15 all present cost? This is a question requiring clarification. For example a project such as the redevelopment of Wellington Tower we would have thought would have a project life time cost and not be impacted by the likes of CPI etc.

General Aviation situation

GA does not consider it is benefiting from the fuel savings that clearly are being made within the airline sector and to that extent the comments made require some qualification. Recently, we have provided Airways with data on the state of the flight training industry in this country. From that data (charts attached as annex A) it is clear that there has been a very steep contraction in the industry. We do not believe this is reflected in the Airways data.

The steep decline has been caused both by government policy settings which have seen the number of New Zealand student loan funded students training in this country decline by over 25% and a

50% reduction in the number of foreign student training in this country. Our best predictions are that the number of New Zealanders training will further decline by 20-25%, and a slow recovery in the number of foreign students training – not enough to offset the decline in New Zealand trainees.

On this basis, we would like the issue of the circuit price, vicinity landing price and aerodrome control zone price re-examined. When the industry is growing strongly we can see some sense in applying an across the board charge. However, we are concerned when the industry is contracting, there could be some serious under recovery of charges and no realignment of Airways costs to reflect changed demand.

It is our view that the 2011/12 activity levels will overstate the actual situation in 13/14.

We understand the new circuit charges as these relate quite precisely to the additional costs incurred by Airways at Hamilton and Christchurch airports. However, the situation in Tauranga is quite different. This is not driven by the flight training community but GA in general using that airport. It was our understanding that the trainer demand at Tauranga has reduced significantly. We would wish to understand whether this is true or not.

In our view, it is inappropriate to charge either a vicinity landing charge or a VFR transit charge. We think Airways would have great difficulty actually isolating the additional costs put on the system by providing these two services. It could also be argued that GA cross subsidises all of the regional services by making a contribution to regional operations when GA do not in fact need those services. We appreciate this is a contentious issue but the point is that subsidies operate both ways.

It is difficult to assert that the use and cost of using Airways services is equal for all of three activities ie Circuits, vicinity landing and aerodrome control zone transit. We think there needs to be some rethink as to how the cost of \$0.55m is recovered. The GA sector is volatile and there are many players as opposed to very few in respect of the recovery of regional charges so the overs and unders model working in the Regional Sector may not be the most robust method going forward..



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Perhaps it is a contract negotiation with the GA community similar to that of the military. It is possible to define which operators are in the GA bundle.

We suspect that the administrative cost of collecting these charges will be quite high and although we have asked the question, this point has not been answered.

The major concern is the volatility in the sector. While the statement is made in the pricing consultation that GA as a sector is growing, we are not so certain that this is in fact the situation at the present time.

Milford Airport

The charge at Milford airport stands out as unsustainable.

The issue is that the number of flights has reduced substantially from their peak and is now capped by DoC at 12,000 a year. Actual usage we understand is around 7,000 per year.

We would favour an aeronautical study to ascertain the best method of providing an acceptable level of safety at a reasonable cost. Such a study would have to rely heavily on input from the affected operators. We understand that Airways are in consultation with the group of affected operators and are awaiting their response.

The comment in the consultation that "Milford prices are required to offset low and declining traffic volumes" highlights the problem we all find ourselves in.

Savings

The pricing consultation document does not specify any savings other than the savings to airlines through less fuel burn. Missing is the quantification of savings to Airways from :

- Decommissioning old equipment and its non replacement
- A change to the legislation in respect of the meal breaks provision. In the past we have heard a figure of three million referred to. While we accept this can be difficult to quantify we would anticipate there would be some mention of this

The consultative document presents a “cost plus” pricing perspective whereas we know that this is not the traditional or normal behaviour of Airways.

A quantification of savings would dispel this impression

Yours sincerely



Irene King
Chief Executive.



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