QANTAS

1 December 2021

Airways New Zealand Limited
PO Box 294
Wellington 6140
New Zealand

Via email: submissions@airways.co.nz

QANTAS GROUP SUBMISSION TO THE
REVIEW OF AIRWAYS' PRICING FRAMEWORK AND STANDARD TERMS AND CONDITIONS

The Qantas Group appreciates the opportunity to provide feedback on Airways New Zealand's proposed Pricing Framework and Standard Terms and Conditions.

We welcome Airways' aims of carrying out its business efficiently and building customer and stakeholder confidence by maintaining a well-understood Pricing Framework. It is appropriate that this be regularly reviewed, particularly as the airline industry is facing unprecedented operational and financial challenges due to COVID, the impact of which will continue as the sector recovers.

COVID has had a significant impact on the Qantas Group, with total revenue loss reaching $16 billion as minimal international travel and multiple waves of domestic border restrictions in Australia and New Zealand hit travel demand. In response to these challenging conditions, the Qantas Group announced a three-year plan to recovery from the COVID crisis with a target of at least $1 billion in permanent annual savings from FY23 onwards.

We encourage Airways to work closely with airlines to reduce costs, grow efficiency, lift productivity and drive innovation at every opportunity as we look to emerge from the biggest challenge ever faced by global aviation.

The Qantas Group's feedback on the consultation paper is provided below.

Question 1: *What are your views on the proposed change to treatment of works-in-progress? Are there any concerns if Airways was to implement this change?*

The Qantas Group in-principle supports the proposed change to exclude works-in-progress (WIP) from Airways' asset base. Airways is proposing capex costs would be held in a works-in-progress account, which would be rolled forward at the weighted average cost of capital (WACC). The Qantas Group does not support the capitalisation of the WIP into the asset base at the WACC value. Rather, the WIP value should be rolled forward at the cost of debt. This will be reflective of the actual costs incurred by Airways, noting that Airways will have access to more efficient and cost-effective means of financing.

Further to this, given the uncertainty related to delivery and commissioning forecasts, WIP should not be included in Airways' asset base until the associated services are delivered to the airlines. This is consistent with ICAO's key charging principle of cost-relatedness[1], whereby airlines and their passengers are only charged for the cost of services actually provided and not prior.

[1] ICAO Doc 9082 (ninth edition), paragraph 1 of Foreward refers, https://www.icao.int/publications/Documents/9082_9ed_en.pdf

Question 2: *Airways invites your feedback on any aspects of this consultation paper, the Pricing Framework or the Standard Terms and Conditions.*

Airways' objective to carry out its business efficiently, while providing a safe air traffic service, is welcomed by the Qantas Group. We strongly support continued engagement between Airways and airlines to identify efficiencies and ensure that costs do not increase above current levels and ultimately reduce over the long-term.

If you have any further questions on this matter, please contact me directly at martin.camus@qantas.com.au.

Yours sincerely,

Martin Camus
Head of Fuel Supply Chain and ATM