



Airways Pricing Consultation  
Airways Corporation of New Zealand  
PO Box 294  
WELLINGTON 6140

Date 14/03/2019

[submissions@airways.co.nz](mailto:submissions@airways.co.nz)

## IATA SUBMISSION TO AIRWAYS' PROPOSED PRICING FOR THE 2019-2022 PERIOD

### Summary

As the global trade association representing the world's leading airlines, the International Air Transport Association (IATA) is pleased to provide a submission on Airways NZ's (Airways) Proposed Pricing for the 2019-2022 Period Consultation Document. IATA's membership includes some 290 passenger and cargo airlines comprising 82% of total air traffic and IATA's mission is to represent, lead and serve the airline industry.

IATA appreciates the opportunity to contribute feedback to Airways' latest pricing proposal and also acknowledges the extensive consultation activities that Airways regularly undertakes with airspace users. In particular the tele-conference undertaken with IATA and member airlines to provide more detail on the proposal and on specific queries has been helpful and appreciated.

IATA and member airlines support much of the work detailed in the proposal, and while there are many areas of investment that are expected for Airways to maintain current service levels and introduce new technologies, we are concerned with the magnitude of the proposed increases and with several of the cost-base items that are driving those higher rates. In the course of reviewing the paper and considering the responses to our queries, IATA has identified several items that we feel are not directly attributable to the cost-base for service delivery by Airways or else create unnecessary capital costs that could be mitigated by the investigation of newer available technologies or reviewing the need for the capability. We also believe estimations for the cost of capital and forecast air traffic movements are not reliable and should be revised.

Specifically, we offer the following for consideration by Airways:

- **Navigation Aids asset replacement:** Several installations that are proposed for replacement have been superseded by improved technology that delivers a service more appropriate to the Airspace Users' needs. Replacing redundant technology with like-type assets is an unnecessary expenditure particularly when newer technology offers more



cost-effective solutions. This includes the ILS replacements at Wellington and Dunedin, and any DVOR/DME replacements that are not agreed by Airspace Users as required under the Minimum Operating Network (MON). We note that Airways is prepared to engage in discussions with primary customers as to the most appropriate technology and its relevant timing for service delivery. We encourage this planning to occur prior to finalising the pricing structure.

- **Flexible Contingency Runway:** We have not had demonstrated the cost-benefit and thus the need for such a facility with a very significant overall investment and additional burden on the cost-base for this pricing period. A contingency runway for emergencies and/or runway works is not common given the low rate of occurrence of those events versus the very large capital investment. As the cost recovery of such an investment by Auckland Airport and Airways NZ will fall onto the same users, until further detailed discussions can occur and there is convincing cost-benefit-analysis data to support the project, we recommend it is removed from the cost-base and from this pricing proposal and that Auckland Airport and Airways work with primary customers to determine if it remains a viable investment.
- **Detection and risk management of Unmanned Aircraft Systems (UAS):** IATA supports the development of Regulations for UAS compliance and enforcement by authorities however in line with regional and global standards this is a Regulator responsibility. We appreciate Airways' proactive action on the issue however most of Airways' contribution of support in the form of resource input would be considered part of the sunk-cost activities of OpEx for staff. As such some or all of the costs in Figure 10 should be transferred to CAA NZ. Where the costs for a non-cooperative surveillance asset includes an element of safety requirement for detecting other rogue aircraft, then that cost should be proportioned between Airways and the CAA. Please note that IATA does not support ongoing investment in Primary Surveillance Radar (PSR) in lieu of other available superior alternatives.
- **Under-estimation of volumes:** The past three periods have resulted in an over-collection of charges due to higher levels of aircraft movements than estimated. While the trigger mechanism in the pricing arrangement has been effective for re-balancing each year, the estimations for new periods often result in higher starting unit prices than required. It is preferred that the base price unit is set against realistic predictions from the start of the period so that adjustments are not required. Airways' aircraft movement forecast of 7.2% (including 3.2% adjusted), 1.0% and 1.0% for the next three years is below IATA's latest forecast for domestic and internal air travel for New Zealand of between 3.75% and 4.25%





year-on-year over the next five years. We recommend Airways considers IATA's passenger forecast growth rates in the modelling of aircraft movement projections.

- **WACC:** It would seem logical that the overall cost of capital would have reduced given that some of the key elements used to calculate it have reduced since being set at last pricing period. The calculation is also largely influenced by the not-insignificant increase in leverage (from 40% to 58%). IATA requests a review of the calculation of the cost of capital as we believe there is scope to reach a lower figure.

## Conclusion

In the interest of effective financial planning for all stakeholders, IATA stresses that prices must be set with realistic projections and cost estimates to ensure stability in charges for the 2019-2022 period. The current proposal includes several items that IATA and member airlines consider to be potentially unnecessary or unrelated to the direct cost of providing the Air Navigation Service.

We recommend discussions with primary customers and representative bodies are initiated in the immediate future in order to identify an agreed set of cost drivers that reflect service delivery catering best for the needs of the Airspace Users.

As discussed on our tele-conference, IATA's bi-annual Regional Coordination Group (RCG) and ANS Charges meeting for both ASPAC and North Asia regions occurs in the week 18-22 March 2019. We understand that cut-off for response to your proposal is Friday 15 March 2019 however we would appreciate your acceptance of any further response identified during our RCG and ANS Charges meeting as part of the IATA submission after that time.

Again, IATA appreciates the opportunity to respond to the consultation paper and is confident a successful outcome is achievable.

Regards

**John MOORE**  
Assistant Director  
Safety and Flight Operations Asia-Pacific  
[www.iata.org](http://www.iata.org)

