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Dear Rob,

IATA COMMENTS ON THE SUPPLEMENTARY INFORMATION - PRICING CONSULTATION FY2026-FY2028

The International Air Transport Association (IATA) appreciates the supplementary information provided by Airways to support the FY2026-FY2028 pricing consultation process. We welcome some of the proposed adjustments, particularly the reduction in the proposed WACC from 8.08% to 7.90% after adjusting for leverage and risk-free rates – a step in the right direction.

It is also encouraging to see that the NZ$3 million funding of the Uncrewed Traffic Management (UTM) strategic initiative is being reassessed – rightfully, we would expect that this will not be included in the operating costs as proposed initially i.e. being recovered from existing airspace users. We also welcome the decision to extend the current pricing to 31 August 2025 until the new pricing is implemented from 1 September 2025, without Airways recovering the additional costs between 1 July and 31 August 2025.

Target WACC

However, our concerns regarding the inappropriateness of the proposed asset beta and target WACC parameters remain unanswered, with Airways citing only, “We also continue to consider that there remain good reasons for using the asset beta and percentile initially proposed” as justification for maintaining its approach. This response is insufficient and warrants a more detailed consultation between airspace users, Airways and the Commerce Commission.

Based on IATA’s experience and involvement in similar discussions globally, we believe Airways must assume a lower asset beta and target the 50th percentile WACC instead:

- Asset beta – IATA remains unconvinced that it is appropriate for Airways to compare itself with Auckland Airport and target an asset beta of 0.60. We reiterate the fact that air navigation service providers typically have a much lower risk than airport operators, with the ANSP peer average of 0.40 as highlighted in our earlier submission. This observation is also supported by the fact that the Commerce Commission applied an asset beta of 0.36 to calculate the WACC for the electricity providers. By assuming an asset beta of 0.60, Airways is implying it is significantly much riskier a business than electricity providers - this simply does not make sense. Further, Airways’ Price Reset mechanism is currently set at +/- 2% of the target pricing revenue, which helps to de-risk the exposure to Airways by transferring the risk to its customers. If Airways insists on maintaining the 0.60 asset beta, the downside risk i.e. anything beyond -2% must be eliminated/excluded from the risk sharing scheme and not be assumed by its customers. Airways can’t have it both ways.
- Target WACC – We maintain that the target 50th percentile WACC (as a cap) is more appropriate for Airways, particularly given the nature of its services, which are essentially a state function rather than purely commercial services, and its status as a State Owned Enterprise. Even the regulated New Zealand airports, which are run privately for profit, are expected to target the 50th percentile vs Airways’ 65th percentile. It is improper and

unjustified for Airways, being a State Owned Enterprise responsible for providing essential national strategic services, to target a percentile that is higher than the private airports.

In the supplementary information provided, Airways has modelled an increase in the asset beta (0.715) to match that of Auckland Airport and target the 50th percentile, which resulted in the WACC changing from 7.90% to 7.88%. Instead, it would be more sensible for Airways to model the WACC calculation based on an asset beta of 0.40 and target the mid-point WACC as an example, i.e., the 50th percentile. IATA requests Airways to proceed in this direction to demonstrate that the considerations taken ensure that appropriate financial decisions align with its mandate to be efficient and with broader social and community values.

Overall Cost Optimization and Governance

It is also necessary to eliminate all forms of cross-subsidization across different user groups to prevent cost creep to commercial aviation airspace users. We note Airways' response, "While GA represents a large share of flight activity, it contributes less Air Navigation Service revenue". We commend Airways for its intention to minimize the cross-subsidization by implementing increases that reflect the underlying costs for each user segment, notably with GA charges increasing at a higher pace to close the gap. We believe this rationalization could be further expedited within the upcoming pricing decision.

Concerning the capital programs and operating costs, IATA would encourage a comprehensive assessment to optimize the costs and efficiencies of Airways. We would encourage Airways to formulate a comprehensive plan and detailed roadmap and subject them to an annual review process with stakeholders to assess the success and benefits of these initiatives. This would also help in the review of proposed business cases to support the required improvements and investments in a more holistic and ongoing manner, leading to an inclusive governance process.

Weight in Charging Formula

IATA has proposed reconsidering the use of aircraft weight in the charging formula. However, Airways has yet to provide its perspective on this matter. Airlines operating heavier aircraft generally pay a disproportionate level of the costs, resulting often at times in cross-subsidization by heavier/bigger aircraft for air navigation services.

In the Airways' Pricing Service Framework section 6.1.2, IATA noted that the allocation of costs relies on "*weight being used as a proxy for the value that customers derive from the service"*. This approach is discriminatory and does not equitably distribute the costs of providing the required services i.e. regardless of the aircraft's weight. The value that airspace users derive from the service should not determine their payment amount.

While charging formulas generally include a weight-related element as a proxy for the 'ability to pay' and the 'value that customers derive from the service', reflecting the relative productive capacity of different aircraft sizes, it is necessary to recognize that ICAO Policies also allow for weight to be disregarded.

We reiterate our request for Airways to explore options for gradually removing weight consideration from the charging formulas. An initial analysis should be conducted to review the feasibility of this option and develop a transition strategy over the medium and long term. As shown in the table and texts below, provided in the consultation paper, the overall costs are heavily subsidized by the airspace users of Auckland Airport and other New Zealand international gateways. This is fundamentally unjust and must be rectified.

B.3 Weights used to allocate approach and aerodrome-related overhead

Aerodrome	Actual 23/24 tonnes landed
Auckland	7,349,661
Christchurch	2,032,113
Wellington	1,415,040
Queenstown	726,854
Dunedin	231,625
Nelson	218,144
Palmerston North	160,952
Napier	153,053
Tauranga	140,120
Hamilton	100,768
New Plymouth	104,566
Woodbourne	89,929
Rotorua	65,553
Invercargill	87,223
Gisborne	64,763
Paraparaumu	14,007

6.1.2 Step 2: Allocation of Overhead Cost Pools

Terminal business unit overheads relate to delivering Approach Services. These overheads are allocated to Approach Services based on the relative weight of aircraft landed at each airport (with weight being used as a proxy for the value that customers derive from the service. Tower business unit overheads relate to delivering Aerodrome Traffic Management Service. These overheads are allocated to the Aerodrome Traffic Management Service based on relative weight of aircraft landed at each airport. En-route Domestic / Oceanic Service business unit overheads are allocated directly to the services they relate to.

Company-wide overheads are allocated to the services where Airways is the sole provider by statute (Approach Service, En-route Domestic / Oceanic Service), based on their relative direct costs.

Remote Aerodrome Advisory Services (RAAS)

IATA has raised in our earlier submission that the costs associated with this strategic initiative should be demarcated and recovered from the users that will benefit from this initiative, in this case, airspace users of Milford. While Airways has correctly classified this cost to the Milford regional aerodrome, we would like to receive the assurance that the translation of the costs to pricing will be reflected based on this understanding.

Increase in Tax Expense

As highlighted in the submission made by IATA earlier, we continue to be concerned with the removal of the tax deduction for depreciation on non-residential buildings. We would encourage Airways to initiate a request for exemption given its SOE status and mandate in providing critical state functions. If this has been discussed, we would appreciate understanding the current status and the response from the relevant authority on this matter.

High Cost Environment for Aviation

Aviation stakeholders across the value chain, such as ANSPs have a critical role in helping to manage the escalating operating costs for airlines. IATA expects airlines globally to collectively make a net profit margin of 3.7% this year, with a profit per passenger of US$7.20. For airlines in the Asia-Pacific region, this is reduced to a meagre 1.9% net profit margin with a US$2.60 profit per passenger, despite contributing US$890 billion to the region's GDP. It is a very thin buffer, and with margins this low, any cost increase can impact an airline's viability. It is important to recognize that collective industry efforts and cost restraints are needed to ensure that New Zealand remains a competitive, innovative, sustainable, and resilient air hub.

IATA welcomes further deliberation on the proposal by Airways and refinement of the options being considered to yield better outcomes for airspace users and align with global practices.

Yours sincerely,

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cc Richard Tan, IATA Senior Manager Airport & ANSP Charges, Asia Pacific