



Submissions  
Airways New Zealand  
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Date 30/11/2021

**IATA submission to AIRWAYS NZ REVIEW OF PRICING FRAMEWORK AND STANDARD TERMS AND CONDITIONS – CONSULTATION PAPER**

To whom it may concern,

Thank you for inviting IATA Asia-Pacific to provide feedback on Airways NZ's recent consultation paper for proposed changes to your Pricing Framework and related Standard Terms and Conditions.

Like ANSPs, airlines continue to face an extremely challenging operating and financial environment as the industry recovers from COVID-19. IATA supports a review such as this and is also advocating for forensic reviews of National Air Navigation Plans (NANPs) across the region in order to identify most appropriate services going forward, and related capital and infrastructure cost reductions where possible.

With respect to the consultation paper, we offer the following feedback:

**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?**

Any investment in change, either as a capital project (CAPEX) or an operational initiative (OPEX), should be driven by one or more of the following objectives:

- Enhance safety;
- Provide a tangible benefit to airlines in the form of efficiency or fuel savings; and/or,
- Provide a tangible cost saving to the State or ANSP that can be passed on to Airspace Users (AUs).

IATA has long advocated that recovery of costs, particularly of capital infrastructure investment, should not commence until the service or completed asset is providing a benefit to the AU and other stakeholders. To that end, we support in-principle the proposal that "CAPEX would only enter the pricing base once an asset is commissioned".

We are concerned however, of the effect that changes to the design and application of the weighted average cost of capital (WACC) on the works-in-progress (WIP) will have to the end capital cost-base value of the new asset. We note from the footnote on page 6 of the *Consultation Paper - Review of Pricing Framework and Standard Terms and Conditions* that alignment with NZCC guidance "would result in an increase in the forward-looking present value of revenues" and so would appreciate further details on this to better assess the impact. As a result, we reserve that caveat for our support of the proposed treatment of WIP assets.



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

As mentioned, the design and application of the WACC is unclear, particularly with respect to its impact on the financial accounting of WIP assets. Submissions to previous pricing proposals have questioned the appropriateness of industry comparisons used when setting the value of the WACC and so IATA would seek a full review given Airways' intention to alter its application under the NZCC guidance.

IATA supports ongoing inclusion of a risk-sharing mechanism in the revised Pricing Framework and Standard Terms and Conditions. Reflecting on the catastrophic financial impacts of COVID-19, and considering other significant recent events in the region and their subsequent impacts to service delivery, IATA proposes a discussion on consideration of more defined limits for the risk-sharing mechanism to provide protection against any future 'force majeure' type events like COVID that may leave AUs excessively exposed in a risk-sharing arrangement. We note that the fourth dot-point of paragraph 4.1 of the *Consultation - Airways Proposed Pricing Framework* relates for the impact to Airways NZ (also reflected in paragraph 6.3.2(d) of the *Consultation - Airways Proposed Standard Terms & Conditions*):

**4.1 Within-Cycle Review**

*Airways may trigger a review of this Pricing Framework before the end of the current pricing cycle if one or more of the following events occur:*

- *Any other circumstance that has, or will have a material and adverse effect on Airways, its assets, liabilities, or financial position (including profits or losses) not being a circumstance that could reasonably have been avoided by prudent management action*

IATA appreciates the inclusion of Efficiency and Innovation Mechanisms and the proposal for 50% sharing of material and separately identifiable cost reductions in preceding pricing cycles and looks forward to some detailed examples for clearer context.

In general, except where caveated, IATA supports the proposed Pricing Framework and Standard Terms and Conditions with their amendments as provided. We do reserve the right to revise our in-principle support at a later stage as a result of any future analysis of the application of the changes under the provisions.

Regards

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