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To the Attention of; David Barrett and ThiThi Nguyen Tran  
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**RE: Response to Airservices Australia Draft Price Notification (2024-2026) Issues Paper**  
(enroute navigation, terminal navigation, and aviation rescue and fire-fighting services)

The International Air Transport Association (IATA) is a global trade association representing some 320 member airlines and accounting for 83% of total global air traffic. Our members include Qantas, Virgin Airlines, Link Airways as well as most of the foreign airlines that operate scheduled services to/from Australia. We support many areas of aviation and help formulate industry solutions and policies on critical aviation issues.

IATA welcomes the opportunity in providing input to the ACCC's Draft Price Notification (2024-2026) for new En-Route (overflight) charges to be paid by aircraft flying over Australia FIRs for the use of air navigation facilities and services provided by AirServices Australia (AsA).

We would like to request for your kind attention and consideration towards the following comments and recommendations that will hopefully contribute to a positive consultation process, as our primary aim is to foster constructive dialogue between all parties concerned.

The following are our observations and recommendations:

- 1) AsA is proposing a price path that gradually aligns revenues with costs over a period of 3 Financial years (2023-24 to 2025-26). In several chapters of both AsA Draft Price and ACCC's Issues Paper (for instance, page 21, table 6.7), it is displayed a cost recovery path where AsA forecasts recovery shortfalls.

In this regard, and following ICAO ANS Charges recommended practices, IATA would like to bring to your attention the notification sent by ICAO Secretary General on 6th January 2023 (Annex 1 attached). This notification reminds States of their obligations to follow all ICAO policies related to the setting of ANS charges. It **recommends caution when attempting to compensate for shortfalls in revenue through increased charges**, in view of the multiplier effects on the aircraft operators and other end-users. The notification also refers to the ICAO Airport Economics Manual (Doc 9562) and the Manual on Air Navigation Services Economics (Doc 9161) to provide practical guidance to States and assist in implementing ICAO's policies on charges.

- 2) Regarding ACCC's Issues Paper reference to "Return of Capital (chapter 6.4.5, pages 27-29)", and note that AsA is proposing a nominal vanilla Weighted Average Cost of Capital (WACC) of 8.93% for the draft price notification.

Please note the following considerations:

- a) Table of parameters considers an Asset Beta of 0.7. We observe that in the preliminary AsA Draft Price notification (March 2023), the asset beta considered was 0.55. However, according to 2022 McKinsey's value chain study, the asset beta for ANSP across countries is considered to be 0.4, while for the airports, it is 0.55.   
*(source: <https://www.iata.org/en/iata-repository/publications/economic-reports/understanding-the-pandemics-impact-on-the-aviation-value-chain/>). IATA understands there are no structural changes to the industry since 2022 and hence, IATA recommends to set the value of asset beta for ANSPs at 0.4.*
- b) AsA has compared against other ANSPs and local airports to calculate the WACC. For instance, AsA Draft Notification (16thNov2023, page 82, chapter 'Review of WACC'), principles analysis mentions: *"Based on our first principles analysis of Airservices, we consider that the best comparators for Airservices can be found in the*



*airports sector*". We believe AsA's calculation of WACC should be benchmarked against ANSPs and not Airports. Further, it is important to note that the proposed WACC of 8.71% put forth by AsA is higher than Sydney Airport Holdings' WACC of 8.0% (source: <https://valueinvesting.io/SYD.AX/valuation/wacc>). Further examination is required by the ACCC, especially considering that ANSPs inherently carry a significantly lower risk compared to airports.

- c) IATA points out that there is no tax rate in the calculation of WACC. While the low gearing helps with the equity beta, applying the Hamada formula will reduce the equity beta further by incorporating the tax wedge. Hence, including Tax Rates is recommended as this would lower the WACC.
- 3) Regarding ACCC's Issues Paper "Activity forecast" (chapter 6.2, pages 17-20), IATA recognizes the necessity of establishing specific traffic forecasts. It is understood that higher traffic forecasts lead to a reduction in individual charges and conversely, lower traffic forecasts result in an increase in individual prices. The new ANS Charges charge increase path is based on high level estimations of traffic volume forecast, capital expenses, and operational costs to forecast AsA revenue. This practice is standard according to international norms. However, there does not appear to be a cross-examination in place to consider in the eventuality that AsA actual revenue might exceed the estimates. In this regard, IATA would like to recommend an annual evaluation of Revenue forecast vs. Actual revenue throughout the duration of the process. Hence, in case that AsA revenue is better than estimations resulting in surplus, AsA could consider in sharing the surpluses with airlines in a pro-rate basis, either by providing rebates or credits.
- 4) Regarding Operational KPIs, IATA would like to propose AsA to provide some specific outcomes or agreed KPIs, and a link these to operational performance, efficiency, and charges. This would produce positive alignments with service provisions and with traffic volume projections.

We hope that the above will be taken into consideration and would welcome the opportunity to provide any clarification that may be required.

Yours sincerely,

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Area Manager South West Pacific

*cc: Diego Albert, Assistant Director Asia Pacific, Operations, Safety and Security.*

**Annex 1:** ICAO Letter to States - ICAO Policies on Charges 06 Jan 2023.