AIRPORTS COUNCIL INTERNATIONAL

ACI ASIA-PACIFIC AND MIDDLE EAST
CROSS-SUBMISSION ON CONSULTATION PAPER TO
THE COMMERCE COMMISSION OF NEW ZEALAND
IN RELATION TO
REVIEW OF PRICE SETTING EVENT 4 – AUCKLAND AIRPORT

ACI Asia-Pacific and Middle East (ACI APAC & MID), representing 625 airports across the region, submits this response to the submissions on the New Zealand Commerce Commission's draft report on Auckland International Airport's pricing and investment plans. As New Zealand's largest airport, Auckland Airport plays a vital role in both domestic and international connectivity and requires modernization to meet future demand. While airlines have raised concerns about the scale of investment and the calculated WACC, ACI APAC & MID emphasizes that Auckland's plans align with international best practices, particularly when compared to regional peers like Western Sydney and Brisbane, which are undertaking similar infrastructure projects. The airport's existing infrastructure no longer meets the expectations of modern air travel and must be upgraded to ensure competitiveness. ACI APAC & MID supports Auckland's WACC decision, recognizing the financial risks posed by post-pandemic recovery, inflation, and supply challenges. Furthermore, Auckland Airport has followed a robust and transparent consultation process, providing stakeholders with ample opportunities to engage and offer feedback, in line with international standards. A balanced approach is essential to address the airport's long-term infrastructure needs while considering stakeholder concerns and ensuring sustainable growth.

1. Introduction

1.1. About ACI Asia-Pacific and Middle East

1.1.1. ACI Asia-Pacific and Middle East (ACI APAC & MID) is one of the five regional offices of Airports Council International and functions autonomously. ACI APAC & MID serves as the voice of 132 airport members, operating 625 airports across 47 countries/territories in Asia-Pacific and the Middle East.

1.1.2. As the global association representing airport operators in the Asia-Pacific and Middle East regions, ACI APAC & MID supports its members in achieving operational excellence and sustainable growth. Auckland International Airport (Auckland Airport), New Zealand's largest airport, plays a crucial role as the gateway to the nation, facilitating domestic and international connectivity.

1.1.3. This cross-submission addresses the submissions on the Commission's draft report on Auckland Airport's recent pricing decision and its ambitious investment plans. ACI Asia-Pacific's cross-submission aims to provide a balanced, industry-specific response to key points raised by airlines, IATA, and other stakeholders, focusing on terminal design, consultation processes, the cost of capital (WACC) and capital investment. The position we present supports the airport's strategy to

ensure that New Zealand remains competitive as a global aviation hub, particularly in the post-pandemic landscape.

1.1.4. ACI APAC & MID strongly supports Auckland Airport's balanced approach to investment and pricing, recognizing that while economic pressures are real, the need for robust, future-proof infrastructure is equally pressing. We encourage the Commerce Commission to adopt a balanced approach in its final report, one that acknowledges both the airport's long-term infrastructure needs and the concerns raised by stakeholders.

1.1.5. ACI APAC & MID remains committed to facilitating dialogue between airports, regulators, and airlines, ensuring that the regulatory framework supports sustainable, economically sound growth for all parties involved.

1. Levels of Service in Terminal Design

1.1. Auckland Airport's role as New Zealand's largest gateway makes it an essential part of the nation's aviation infrastructure. The airport's current pricing and capital investment strategy is designed to ensure it remains competitive in the region while meeting growing passenger demand and adapting to new regulatory, environmental, and financial challenges.

1.2. Auckland Airport adheres to globally recognized design and operational standards set by ACI and IATA. The airport's design falls within the optimum range for capacity, passenger experience, and operational efficiency. As a major airport in New Zealand, Auckland must provide a level of service that accommodates the needs of both domestic travelers and international passengers while ensuring resilience for future growth. Air New Zealand's assertion that Auckland Airport's capital investment plans fall outside optimum range is unfounded.

1.3. Air New Zealand and other stakeholders have raised concerns regarding overdesign and excessive space allocation in Auckland's terminal infrastructure, suggesting that it inflates capital expenditure unnecessarily. It is important to recognize that the challenge Auckland Airport faces is part of a broader global trend. Much of the world's airport infrastructure, including New Zealand's, was developed during the 1960s and 1970s, designed to accommodate the air travel demands of that era. Today, these legacy systems are increasingly inadequate, unable to meet the operational requirements, technological advancements, and passenger volumes that have emerged in recent decades. Airports around the world, from Europe to Asia-Pacific,

are entering a new infrastructure investment cycle aimed at modernizing and expanding facilities to meet future demands. Auckland's planned expansion is in line with this global shift, where airports across Asia-Pacific and other regions like Sydney, Melbourne and Brisbane are making multi-billion-dollar investments to future-proof their operations. In New Zealand, where significant infrastructure was built over half a century ago, the need for modernization is critical. Auckland's investment is not just a reaction to immediate needs, but a forward-looking strategy designed to accommodate the projected 27 million passengers annually by 2030, ensuring that the airport remains competitive on the global stage and resilient to future growth pressures.

1.4. When compared to airports such as Sydney, Brisbane, Perth, and Melbourne, Auckland Airport's modernization plan is in line with the region's best practices. Regional competitors are making significant investments in infrastructure to accommodate growing traffic and enhance service quality. For instance, Sydney Airport is undergoing a multi-billion-dollar expansion to increase its capacity to handle 50 million passengers annually by 2030. Brisbane Airport has committed NZD 5 billion to expand terminal facilities and increase capacity for 35 million passengers by 2035. Perth Airport is also investing NZD 5 billion, with a focus on runway and terminal upgrades to manage 25 million passengers by 2027. Melbourne Airport is advancing a NZD 10 billion infrastructure overhaul, including a NZD 500 million investment in a new baggage system and the approval of a third runway project, positioning itself to handle 68 million passengers by 2038. For Auckland Airport to maintain its competitive edge, similar capital investment is imperative not only to sustain its position as a key gateway to international travel but also to support New Zealand's broader economic and social development. Delaying these necessary upgrades would not only hinder Auckland's ability to meet future demand but could also result in significant service degradation, operational inefficiencies, and lost opportunities in the highly competitive regional market.

2. Consultation Process

2.1. Auckland Airport has carried out extensive consultations with its stakeholders throughout the price-setting and investment planning phases. The process was transparent, with sufficient opportunity for all stakeholders to provide input. The fact that airlines are dissatisfied with the outcomes does not indicate a failure in the process itself. From an economic perspective, the consultation aimed to balance the diverse interests of all stakeholders while ensuring the long-term sustainability of not only the airport, but also New Zealand's aviation sector and the broader economy.

2.2. Post-pandemic economic factors, including inflation and supply chain disruptions, have placed additional pressure on airports to bear increasing capital expenditure. In this context, it is critical to note that ICAO's Doc 9082 and Doc 9562 recommend clear guidelines on consultation timelines based on the nature of the projects involved. **For major capital projects, ICAO advises that consultations should occur over a period of 6 to 12 months, ensuring adequate time for stakeholder engagement, while for minor projects, consultations may be completed within 3 to 6 months.** Auckland Airport's consultation process, particularly for its significant infrastructure investments, far exceeded these timelines, offering ample time for comprehensive feedback from all stakeholders, thereby facilitating a more thorough and inclusive decision-making process.

2.3. Unreasonable consultation requests from airlines regarding capital expenditures can significantly hinder airport operations and infrastructure planning. When airlines demand extended and exhaustive consultation processes, it often results in delayed timelines for critical projects, which can impede an airport's ability to meet growing passenger demand. This not only escalates costs but also leads to decision paralysis, where the need to accommodate conflicting stakeholder interests stalls necessary infrastructure developments. Furthermore, excessive consultations can create a conflict of interest, particularly when airlines prioritize short-term cost savings over the airport's long-term infrastructure needs. These delays and complications can lead to regulatory challenges, as airports struggle to comply with investment timelines, and ultimately result in operational disruptions that degrade the overall passenger experience and airport efficiency. While consultation is necessary for transparency, balancing the demands of all stakeholders is crucial to avoid stalling essential projects.

3. Cost of Capital and Pandemic Risk

3.1. Auckland Airport's decision to set its Weighted Average Cost of Capital (WACC) at 8.7% is well-founded and reflective of the prevailing post-pandemic economic landscape. The airport's submission, underpinned by expert analysis from the Competition Economists Group (CEG), provides a comprehensive and data-driven rationale for this WACC figure. CEG's analysis, which rigorously considers the increased financial risk associated with global economic uncertainties, inflationary pressures, and ongoing supply chain disruptions, demonstrates the necessity of incorporating a higher risk premium into long-term infrastructure financing.

3.2. CEG's assessment emphasizes that the aviation industry remains exposed to significant volatility, from labor shortages to fluctuating interest rates, which further justifies Auckland Airport's WACC calculation. Their expert recommendation takes into account not only the beta adjustments needed to reflect Auckland's risk profile but also the broader industry trend of adopting more conservative financial models in the face of capital market challenges. Importantly, CEG has an in-depth understanding of WACC adopted by similar companies across Oceania and the Asia-Pacific region. These adjustments reflect the increased risk premiums associated with large-scale infrastructure projects, especially in the context of post-pandemic economic recovery and region-specific financial conditions. This alignment helps ensure that investment decisions are grounded in a realistic understanding of the economic landscape and risk environment.

3.3. Auckland Airport's WACC aligns with international best practices, and its use of CEG's independent analysis strengthens its position, ensuring that the airport can secure the necessary funding for long-term capital projects. Setting a WACC far from a realistic range would increase financial vulnerability, hinder the ability to meet future demand, and fail to adequately de-risk critical infrastructure investments. Maintaining a balanced and well-calculated WACC is essential to ensuring sustainable growth and mitigating potential risks associated with large-scale projects. The Commerce Commission's lower WACC estimate of 7.28%-7.51%, while technically feasible, does not account for the specific risks facing the aviation sector and Auckland Airport in particular, which CEG's advice has appropriately captured.

3.4. The Commerce Commission's comparator sample, which led to its 7.51% WACC estimate, involves a set of airport companies that differ significantly from Auckland Airport in terms of size and risk profile. Many of the companies included in the sample, such as Aéroports de Paris, AENA, and Fraport, are much larger international operators with diversified operations, and thus, possess a different financial and operational risk landscape compared to AIAL. This discrepancy is important to highlight because the WACC estimate based on this sample may not fully account for Auckland Airport's specific market characteristics, which include its smaller scale, regional focus, and different financial vulnerabilities. As a result, applying the same WACC estimate may not reflect the realistic risk premiums necessary for Auckland Airport's infrastructure and growth needs. Given these differences, it is crucial to carefully assess the comparability of these benchmarks to ensure Auckland Airport's unique financial context is considered.

3.5. Auckland Airport's prudent approach to setting its WACC ensures the sustainability and resilience of its operations, positioning it to weather future economic shifts while continuing to invest in essential infrastructure for the benefit of passengers and airlines alike.

4. Addressing Other Stakeholder Concerns

4.1. Airlines, particularly Air New Zealand and Qantas, have raised concerns that Auckland Airport's capital investment plans are excessive and may result in higher aeronautical charges. However, this claim is unfounded for at least two key reasons.

4.2. First, there is a clear and objective need to modernize the existing infrastructure to address growing capacity requirements and meet the standards of comparable airports in the region. As passenger volumes and operational demands continue to increase, Auckland Airport must enhance its facilities to efficiently accommodate future traffic while maintaining competitiveness. Capacity expansion not only enhances the experience for all passengers—not just premium travelers—by increasing comfort and reducing delays, but it also serves as a crucial enabler for boosting overall connectivity.

4.3. Second, airport charges have remained stable over the past decade and continue to account for a small share of an airline's operating costs. There is no direct correlation between changes in airport charges and airfare increases. Instead, airline fares are driven by dynamic pricing models that respond to factors like demand, supply management, price elasticity, and route competition. Macroeconomic pressures have also played a key role in rising airfares. Inflation has increased by an average of 13% across the Asia-Pacific and Middle East, raising airline operating costs, which are often further impacted by currency fluctuations, especially for carriers with expenses in U.S. dollars. As a result, airlines have had to raise fares even though airport charges have remained flat. In New Zealand, these trends are evident. While airport charges increased slightly, airfares have increased by 14.7% in 2024 compared to pre-pandemic levels. This reflects broader regional factors such as rising fuel prices, reduced fleet capacity, and a constrained recovery in service supply, all of which contribute to higher fares despite stable airport costs.

4.4. Rather than being excessive, Auckland Airport's capital investment plan is proportionate and necessary to maintain operational efficiency, meet rising passenger demand, and ensure future competitiveness. The planned infrastructure upgrades are aimed at addressing long-term capacity constraints and operational bottlenecks that,

if left unaddressed, could lead to increased delays, service disruptions, deteriorating passenger experience, and ultimately higher airfares. Without these necessary improvements, the rising demand would put additional strain on existing facilities, potentially raising operational costs that could be passed on to passengers in the form of increased ticket prices. Moreover, investment in modernizing airport facilities will not only benefit current operations but will also accommodate future growth, reduce maintenance costs on outdated infrastructure, and bring Auckland in line with global standards in terms of safety, sustainability, and technology integration.

5. Contacts

5.1. **Stefano Baronci**
Director General, ACI Asia-Pacific and Middle East
[redacted]

5.2. **Ilia Lioutov**
Head, Economics and Middle East Office
[redacted]

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