

18 June 2012



Mr Bruce Johnson
Group Manager, Safety and Security
Ministry of Transport
89 The Terrace
Wellington

Dear Bruce,

Wellington International Airport Submission:

The Ministry of Transport review of New Zealand's International Air Services Policy

1. Executive Summary

Wellington International Airport welcomes the opportunity to submit on the New Zealand International Air Services Policy Review. Wellington Airport supports the findings of the New Zealand Airports Association (NZAA) and the supporting CAPA report, and provides an additional submission to the review process as local context to the CAPA findings.

Air passengers travelling to or from Wellington are limited by the currently available international air services. On trans-Tasman sectors, only two airlines operate (and only one airline to Brisbane) after the Air NZ and Virgin alliance, and with Virgin's repositioning to align with Air NZ no Low Cost Carrier (LCC) operates. Given the lower levels of competition at Wellington, there has been little stimulus for existing airlines to increase capacity or for partner airlines (such as Jetstar) to be introduced. This situation at Wellington has resulted in:

- Trans-Tasman capacity which is around half that of Christchurch and 60% of Auckland when corrected for population at the end of the various sectors
- International fares for Wellington visitors and residents which are significantly higher (around 30% on average) than Auckland and Christchurch
- International air freight handled at Wellington is less than 1% of the country's total, even though around 30% of the national GDP is created within the airport's catchment

For Auckland and Christchurch airports, the significant step-change in capacity has been the introduction of 5th freedom carriers on trans-Tasman sectors, which in turn has elicited a competitive response from other existing and new airlines.

The Wellington region has identified direct flights to Asia as being one of the most important stimuli to the regional economy, and has quantified significant benefits which could be expected were such services introduced. A recent long haul market study has shown there is already a strong commercial case for a long haul route; there are however only a limited number of aircraft, airline,

and Asian destination combinations that can operate commercially from Wellington's relatively short runway.

Wellington's runway length provides an obstacle to entry which has resulted in lower levels of competition and capacity than other markets. This has led to higher fares and an almost total lack of air freight capacity serving the region.

An Air Services policy should recognise and be used to counteract constraints such as these, which serve to limit the region's (and ultimately New Zealand's) connectivity and economic performance. Current Air Service Agreement's (ASA's) are negotiated with little regard for the additional benefits that improved linkages to New Zealand regions would bring. International studies have concluded that direct international air services stimulate the passenger market, and that "any mechanism that allows international services to proliferate to non-traditional gateways can be a powerful stimulus to traffic"¹.

Wellington Airport is encouraged by the Ministry of Transport's draft Air Services policy as it:

- Has an objective of unilateral open skies approach but provides mechanisms, such as extra bilaterals, to maximise potential benefits to New Zealand to the extent possible if open skies cannot be achieved
- Provides a more open approach to negotiations with industry stakeholders
- Looks to relax foreign ownership regulations for international airlines
- Recognises the needs and opportunities of individual regions within New Zealand, evaluates the benefits, and if desirable encourages airlines to operate into these ports

The CAPA (in conjunction with TFI) report has identified full market liberalisation could provide an additional value to New Zealand of \$1.88 billion per annum based on the market opportunities that will exist in the near future. This analysis does not take into account further benefits that could be achieved through optimisation of services at the New Zealand end, such as having airlines which cover similar markets flying to different New Zealand airports if commercially viable. We would encourage the Ministry of Transport in conjunction with the Ministry of Economic Development to undertake a study examining the opportunities and benefits which would be realised through encouraging operation to New Zealand regions.

¹ InterVISTA, The Economic Impact of Air Service Liberalization, 2006, pES-8

2. Wellington's Current Situation

Wellington is a significant international travel generator and attractor. As a generator of outbound demand, Wellington has New Zealand's second largest urban population², is the centre of government, the location of the New Zealand stock exchange and recognised as a global financial centre³, and has two significant universities within its catchment. As an attractor of inbound demand, Wellington has consistently been voted New Zealand's favourite leisure destination by New Zealanders⁴, Te Papa is the most visited museum/gallery in Australasia, and has numerous international events⁵.

By contrast, the number of overseas visitors to Wellington is significantly lower than the population, economy, and popularity would suggest. For 2010, international visitors to the Wellington Regional Tourism Organisation (RTO) area were 685,000, significantly lower than the South Island's West Coast and Queenstown, and slightly ahead of Rotorua. More nights are spent in Wellington by visitors on average (5.2) than the other listed RTO's (apart from Auckland), suggesting there is as much for visitors to do in Wellington as the West Coast and Queenstown. The statistics show that Wellington's visitor numbers are being held back compared to Auckland and Christchurch (and related West Coast/Queenstown).

Table 1: Top 10 RTO's by International Visitors (2010)

	International Visitors ('000)	Visitor Nights ('000)	Average Nights
Auckland	2,287	16,320	7.1
Canterbury	2,035	6,594	3.2
West Coast	797	1,175	1.5
Queenstown	742	2,653	3.6
Wellington	685	3,543	5.2
Rotorua	639	1,412	2.2
Northland	492	1,750	3.6
Nelson	415	1,465	3.5
Fiordland	378	661	1.8
Dunedin	371	1,348	3.6

This is not surprising given the current international offering into and out of Wellington. Internationally, Wellington is served by only two independent airlines (NZ/DJ and QF), on 3 trans-Tasman sectors (BNE, SYD, MEL and a seasonal Fiji) using narrow-bodied aircraft, with no direct services from airlines with significant global presence. Only having two airlines makes it easy for each to closely monitor the others operation and subsequently find a favourable equilibrium of capacity (and fare).

By contrast, Auckland has 7 airlines (excluding DJ) serving 7 destinations and Christchurch 4 airlines serving 4 destinations. Whilst the number of airlines indicates a high level of competition at Auckland and Christchurch airports, the types of offering have also been critical to stimulating the

² Wellington and Kapiti combined population of 429,700 as at 30 June 2010

³ Wellington ranked 27th on the Global Financial Centre index 2011; see

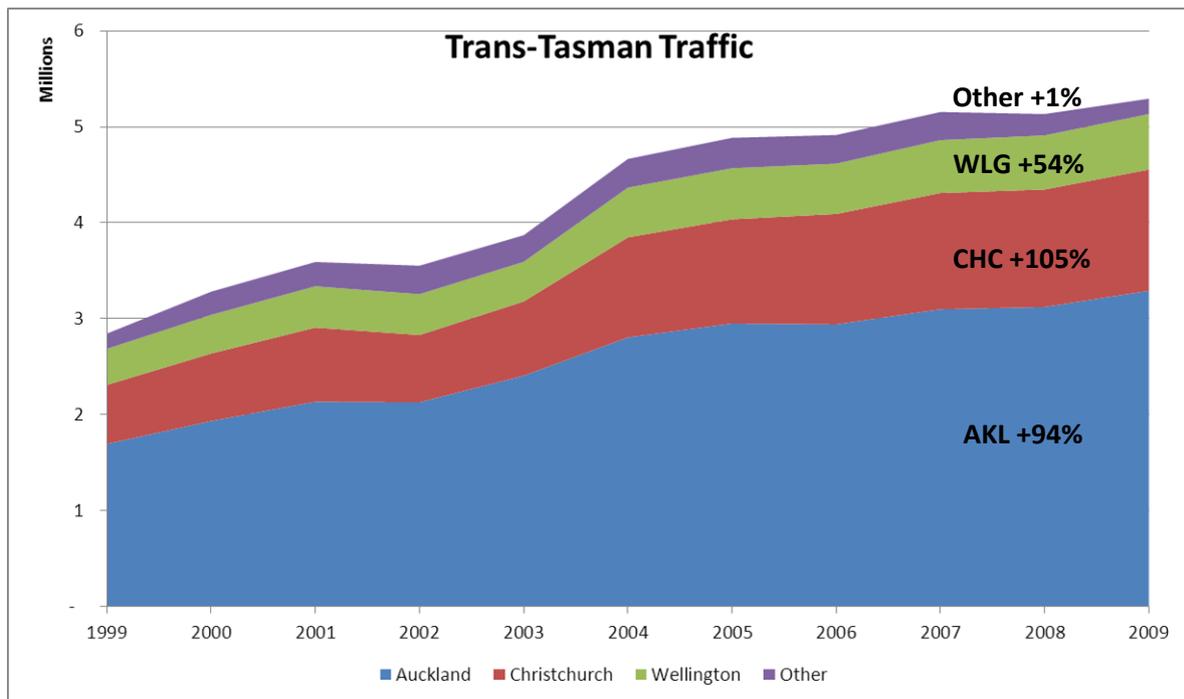
<http://www.zyen.com/PDF/GFCI%2010.pdf>

⁴ The Tourism Industry Association "Mood of the New Zealand Traveller" quarterly survey

⁵ Such as the New Zealand International Rugby Seven's, Toast Martinborough, International Festival of the Arts, World of Wearable Arts Awards Show

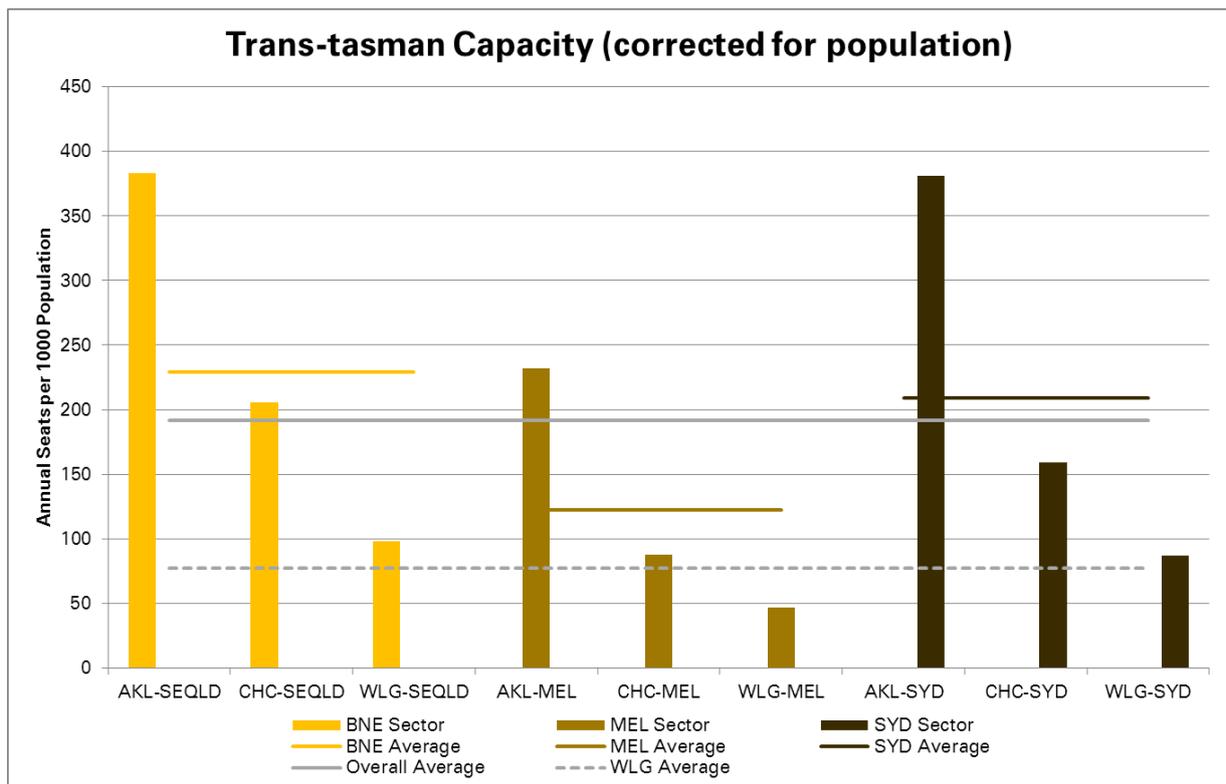
international visitor market. 5th freedom trans-Tasman carriers offering an affordable full service in wide-body aircraft, with seamless connections to long haul destinations have transformed the Auckland and Christchurch markets, and have themselves been the catalyst for the introduction of low cost carriers (LCC's) offering a significant price differential. Wellington does not have a 5th freedom carrier or an international LCC. Figure 1 shows that trans-Tasman passenger growth 1999-2009 at Wellington airport has been around half that of Auckland and Christchurch.

Figure 1: Trans-Tasman Traffic 1999-2009



When capacity increases, fares reduce. Figure 2 shows the number of seats per annum in 2010 (before the Christchurch earthquake) on the major trans-Tasman sectors corrected for the population at both ends. At the time Wellington was significantly underserved compared to Auckland and Christchurch when population was corrected for. The Wellington-Melbourne sector was around 25% of the trans-Tasman average on a seats/capita basis, while Wellington's sector with most capacity (South-East Queensland) was around 50% of the average. The situation remains unchanged.

Figure 2: Trans-Tasman Capacity Comparison (2010)



Constraints in capacity translate into higher relative fares, and trans-Tasman fares to or from Wellington are around 35%⁶ higher than the comparative Auckland and Christchurch fares on average (even though airport charges and trans-Tasman distances are comparable).

Wellington has a significant long haul passenger market of 300,000 passengers per annum, of which approximately 120,000 are between Wellington and Asia, and 100,000 between Wellington and Europe. Currently passengers must travel between Wellington and Asia indirectly via another airport (predominately Auckland), which in many cases involves a domestic-international transfer, adding time and uncertainty onto any journey.

The ability to deliver Wellington’s long haul aspirations has primarily been affected by the length of the airport’s runway which only provides a limited number of possible aircraft/airline/airport combinations that work commercially for an airline. For example, the B777-200LR has the best aircraft performance at Wellington, and can take a full passenger payload to most of Asia and North America; however there are only two operators in the region with the aircraft and only around 50 worldwide.

⁶ Sabre ADI for period June 2010-June 2011

3. Competition on the Tasman isn't that tough (out of Wellington)

Wellington's current international offering is predominately trans-Tasman focussed, but the passenger offering is limited by the number of destinations served (only 3), the choice of airlines (only 2, and no wide-body or LCC operation), the capacity provided on existing routes (less than half that of Auckland and Christchurch when corrected for population), and the fares that are charged (over 30% higher on average). Over the last 10 years the significant driver of international capacity at Wellington has been Pacific Blue (now Virgin Australia) launching and growing the Brisbane route and more recently Sydney. This driver of significant growth has now mostly disappeared with the establishment of the alliance and Pacific Blue's move from a LCC to be metal neutral with Air NZ.

When comparing Wellington with Auckland and Christchurch, the difference in passenger offering is clear and significant. There is little incentive for existing airlines to invest in capacity at Wellington without the catalyst that more competition from another airline brings. For Auckland and Christchurch, the catalyst has been the 5th freedom operators such as Emirates which have provided a significant increase in capacity, a full service (3-class) operation at affordable prices, and good connections to long haul destinations (all things that are lacking at Wellington). The introduction of these 5th freedom airlines have resulted in a response from existing operators; for example when Emirates launched CHC-MEL in July 2004 and CHC-SYD in August 2005, Jetstar began operations soon after (December 2005) on the trans-Tasman sectors from CHC.

Not only is an increased trans-Tasman offering of benefit to Wellington residents, but every seat taken by a local passenger in one direction will likely be filled by an overseas passenger in the other (the current split for Wellington international travel is 47% overseas visitors and 53% New Zealand residents), bringing significant regional benefits.

Table 2: New Zealand's Top Trans-Tasman Airports

	Wellington	Auckland	Christchurch
Choice of Airlines¹	2	7	4
Choice of Direct Australian Destinations	3	7	4
Trans-Tasman Seats (2010)	0.8M	4.8M	1.7M
Seats/Capita²	2.2	3.6	4.3
Wide-Body Flights (2010) and % of Tasman	0	7,862 (33%)	972 (11%)
LCC Flights (2010)	0	1,493 (6%)	2,592 (29%)
Average one-way fare³	\$412	\$305	\$300

1. NZ and DJ assumed to be a metal-neutral airline, QF and JQ separated given the difference in offering
2. Population based on 2010 estimated population for urban areas
3. Straight average of fares to BNE, CBR, MEL, OOL, SYD

An air service policy needs to support and promote as much competition on the trans-Tasman sectors as possible. There are limited opportunities for this competition to come to Wellington:

- Qantas has operated the current double-daily service to SYD since 2001 and daily to MEL since 2005, with only minor increases in capacity associated with aircraft upgauging
- Jetstar has the potential to operate internationally out of Wellington, but is only likely to as part of a Qantas Group competitive response to a new entrant
- Virgin Australia and Air New Zealand are likely to maintain their alliance growth commitments to grow at overall trans-Tasman market growth. Given the highly competitive nature of the Auckland trans-Tasman market and muted growth for earthquake affected Christchurch it is unlikely any alliance increase in Wellington capacity will provide significant catchup to Auckland and Christchurch in terms of capacity and fares
- There are currently limited 5th freedom opportunities as not all wide-body aircraft can operate into Wellington
- The move towards codesharing and alliances (e.g. Etihad's access to the New Zealand market) is further reducing the number of airlines which will serve New Zealand (and Wellington) directly
- There are only a few airlines that operate in Australia that are considering services to New Zealand. One such airline has shown interest in the New Zealand market, but is currently limited by foreign ownership rules

Any air service policy needs take note of the current trans-Tasman offering throughout the country, and in particular recognise the regional limitations that exist; such as in Wellington. These limitations provide strong opportunities for step changes in the regional and national economies. In the case of Wellington, the lower level of competition is a significant impediment, and any policy which provides more choice of trans-Tasman operators either as a 5th freedom operator, or air service rights based on country of operation as opposed to country of ownership will bring significant benefit to passengers and the regional/national economy through reduced time and monetary costs for residents and visibility of Wellington as a destination resulting in an increase in visitors and activity.

4. The Wellington Region has Long Haul Aspirations

The Wellington Region has for a long time recognised the importance of direct flights between Wellington and Asia, with good onward connections to Europe. The Wellington Regional Strategy was developed by local and regional authorities in conjunction with Wellington businesses. The strategy states that:

“A direct air service to Asia, one-stop to Europe, is arguably the most significant thing the region can do to realise its economic potential”⁷

More recently, the Wellington City Council has reaffirmed their support for a direct service to Asia by including a high priority action in their draft 2011 Economic Development Strategy to “put in place a Long Haul Attraction Fund in order to secure direct flights from Wellington to Asia by 2013”⁸.

Wellington International Airport (WIAL) and Positively Wellington Tourism recently completed an independent study looking at Wellington’s long haul market and opportunities. The study concluded that there already exists a large enough long haul market to support a route to Asia and onward to Europe, and that when the route is launched there will be a significant stimulation of Wellington’s inbound and outbound markets. A previous study undertaken by BERL in December 2008 concluded that a daily long haul service would bring in 35,000 overseas visitors per annum into Wellington, which would stay on average 7 days, and spend \$824 per visitor. A direct spend of \$28.8M per annum would result in a total output spend of \$51M, a GDP contribution of \$23.4M, and employ 372 FTE’s annually.

As long as there is a strong commercial opportunity with a pathway to growth, WIAL believes the benefits of opening up a new long haul gateway in New Zealand are larger than providing extra (similar) capacity at New Zealand’s current gateway airports which may in turn be directly competing against existing services. For example, if an airline was providing a double daily service between Auckland and Singapore and a second airline was providing a daily, then a third airline wanting to satisfy demand for travel between New Zealand and Singapore (and beyond) would be better encouraged to fly to another airport. A study by InterVISTAS on the economic impact of air service liberalisation concluded that the introduction of “nonstop international services can often cause traffic to double in only a year, even for city pairs that already have a profusion of one-stop connecting traffic”⁹. They go on to say that “any mechanism that allows international services to proliferate to non-traditional gateways can be a power stimulus to traffic”.

The Australian government has recognised the potential of opening up secondary airports to provide significant local and national tourism opportunities. While capacity limits have been placed on major state airports such as Sydney and Melbourne, other airports such as Adelaide, Gold Coast and Cairns have benefited from negotiating more open access to these airports when there are capacity limitations provided at the main airports of both negotiating countries. China Southern announced on the 13th of June the planned commencement of services between Guangzhou and Cairns (a city of 150,000 residents) in October 2012.

⁷ Wellington Regional Strategy, June 2007, P21

⁸ Draft Economic Strategy, P24

⁹ The Economic Impact of Air Service Liberalization, 2006, pES-8

For Wellington, the commercial opportunity exists, the positive contribution to the region has been quantified, stakeholder support is widespread, and opening up a new long haul gateway would be economically beneficial for New Zealand. Wellington Airport's current runway length is the main impediment to a direct Asia route. The short runway limits the type of aircraft that can operate, the Asian destinations that can be reached, and the partner airlines that operate hubs at these destinations to other Asian and European airports. A runway extension of up to 500m is included within Wellington Airport's 2030 Masterplan, although the cost is likely to be substantial. WIAL also expects next generation aircraft such as the B787 and A350 to provide better performance than most currently available aircraft. However in the case of the B787, many airlines will be using these aircraft as fleet replacement on existing sectors, or on shorter sectors (of 3-6 hour flight time) with higher frequency; meaning that in the short-term there may be few next generation aircraft available for a destination such as Wellington.

Given the limited long haul options Wellington currently has available and probable short-term restrictions on next generation aircraft, it is important that any Air Service Policy understands and is able to act on the specific opportunities for cities such as Wellington. There are airlines which provide significant and immediate opportunities for Wellington, but where Air Service Agreements have not been reached due to a perceived similar offering already being provided to New Zealand. This approach does not take in to account the currently offering providing little benefit for Wellington, plus the significant benefit the service could provide central New Zealand with little impact on current similar services.

5. Wellington as a Productive Airport

A 2007 freight study commissioned by Wellington Airport looked at the potential for an increased aviation freight function at Wellington. Freight generators, attractors and forwarders were interviewed, and a Wellington airport potential freight catchment of Gisborne south to the top of the South Island was defined. Within this catchment, approximately 30% of New Zealand's GDP is created; however less than 1% of New Zealand's air freight imports or exports pass through Wellington airport. Air freight products are usually time critical (justifying the additional cost to ship by air), but products within the airport's catchment is being shipped by road past the airport to mainly Auckland, adding 1-2 days to the journey and an additional cost for the economy.

Wellington's limited freight task is due to the smaller size of aircraft and lack of long-haul services. The B737's and A320's that serve Wellington on the trans-Tasman only carry passengers and baggage, with little payload available for freight. Code D and E aircraft are able to operate off Wellington's short runway with a good freight payload on the trans-Tasman, and a 5th freedom carrier using a wide-body aircraft would be able to provide a significant freight capacity to our biggest trading partner Australia. A direct service to Asia with an appropriate aircraft (such as a B777-200LR) would also be able to carry a significant freight payload, and an airline with a strong hub operation would provide considerable distribution opportunities.

6. The Ministry of Transport's Draft International Air Transport Policy

Wellington Airport welcomes the draft International Air Transport policy as a positive way forward for New Zealand. The airport fully supports a “unilateral open skies” approach, agrees with the ministry’s stated objective to achieve open skies, and recognises that this may not be achieved in the short-term in all negotiations.

The airport believes that where an open skies agreement cannot be reached, the most open agreement possible should be sought to maximise the opportunities for New Zealand. If for example there are slot limitations at the main overseas airport which do not allow open access for New Zealand carriers, but there is a willingness to provide unlimited access to other airports in the country then this (and the reciprocal) should be considered as it maximises the opportunities for New Zealand-based carriers but also eliminates as many barriers as possible to overseas airlines operating in New Zealand. We therefore support the use of extra bilaterals to grant rights for airlines to operate to specific airports without the need for an agreement to be reached in the short term. Some submitters may argue that giving (open) access to specific or regional airports will distort the market. We would argue that the market is currently already distorted given restrictions central New Zealand already faces with regard to direct, affordable access to services and tourists. We would encourage the ministry to undertake a study identifying the benefits regions could gain both from inbound and outbound access to improved services as this will provide valuable insight and context to extra bilateral considerations.

Wellington Airport appreciates the wider consultation with stakeholders during agreement negotiations through the New Zealand Airports Association. The airports involvement in this process via association working groups has given the airport a better appreciation for the process and the complexities involved in the negotiations, and we look forward to working with the ministry on future negotiations. We would welcome input both before and after the Cabinet mandate is set.

Wellington has an international airport surrounded by the country’s second largest urban population. Passengers using the airport currently have fewer alternatives and pay significantly more for flights resulting in less international visitors than might be expected, poor connections to the rest of the world for the Wellington region, and ultimately constrained economic growth. Wellington would benefit significantly from an Air Service policy which:

- Moves to a unilateral open skies approach with no reciprocity, but if this is deemed unacceptable by the other party, negotiating as open agreement as possible
- Expedites access for foreign carriers wishing to introduce or expand services to/from and beyond New Zealand
- Recognises the opportunity of foreign airlines providing aircraft capital as well as a propensity for overseas tourists to use their aircraft
- Relaxes foreign ownership regulations for international airlines
- Provides a more inclusive industry approach to negotiations
- Recognises the needs, benefits, and opportunities of individual regions within New Zealand, and encourages airlines which are similar to operate in different ports
- Works to remove barriers for New Zealand, and regions within New Zealand

The policy in its draft form delivers on almost all of these objectives particularly through the use of extra bilaterals, however we do believe that for extra bilaterals to work, the Ministry will need a better understanding of where these bilaterals will be most effective by understanding where the country is currently constrained.

The Wellington region has constraints which limit the choice of airlines and aircraft that would be willing to operate. An effective air service policy should give effect to these constraints, and increase the air service opportunities for airports such as Wellington, recognising the advantages of capacity and choice for visitors and residents, and economic benefits for the region and New Zealand as a whole.

Best regards,

A handwritten signature in blue ink, appearing to be 'S. Sanderson', written over a faint, light blue background graphic that resembles a stylized 'W' or a similar shape.

Steve Sanderson
Chief Executive
Wellington International Airport