

28 February 2014

Richard Cross
Senior Adviser
Ministry of Transport

Dear Richard

RE: PROPOSED STRATEGIC ALLIANCE AGREEMENT BETWEEN AIR NEW ZEALAND AND SINGAPORE AIRLINES

Christchurch International Airport Limited (*CIAL*) welcomes the opportunity to submit to the Ministry of Transport (*MOT*) on the application for authorisation by Air New Zealand Limited (*Air NZ*) and Singapore Airlines Limited (*SQ*), (together, the *Airlines*) of their Strategic Alliance Agreement (the *Alliance*).

We take this opportunity to express *CIAL*'s views on the Alliance – an arrangement of great significance to us and to our various stakeholders because it relates to current services operated by *SQ* between Christchurch Airport (*CHC*) – Changi Airport (*SIN*). For the reasons explained in this submission, *CIAL* supports the potential opportunity for capacity growth between *CHC-SIN*. We appreciate the commitment that the Airlines have made to the South Island economy to date and we are committed to working with them to maximise the opportunities that the Alliance opens up.

SQ is very important to the South Island

We hold our relationship with *SQ* in the highest regard because of the airline's dedication to the South Island, and because of the wider, significant economic benefit that the airline's services provide to a broad range of stakeholders across the region.

We are proud of the benefits that our relationship with *SQ* has delivered to the people of the South Island, Singapore and to destinations beyond Singapore from the Changi hub.

SQ's commitment to the South Island has been outstanding

SQ commenced direct services between *CHC-SIN* in 1986, and its contribution to the Christchurch and broader South Island over the subsequent 27 years (including throughout the earthquakes, more recent snow events, and the disruptions caused by the Chilean volcanic ash clouds in June 2011) has been outstanding.

SQ has been the only operator of regular, direct services between *CHC-SIN* since 2002 (when Air New Zealand ceased services), and the airline has been active in the local business community – undertaking a range of promotional and sponsorship activities continuously. This was reinforced recently when *SQ* representatives visited *CHC* making a range of positive, public statements about the Christchurch recovery, the additional services the airline introduced during the Dec 2013 and Jan 2014 period, and the additional services which it plans to introduce in the upcoming Dec 2014 to Feb 2015 period.

In fact, *SQ* has increased annual capacity on the *CHC-SIN* sector by more than 21% since 2010. This increase in capacity is due to *SQ* commencing year round, daily services to *CHC* in April 2012 (prior to this, *SQ* operated a 5 times, weekly service, for the duration of the IATA Northern Hemisphere Summer Season – New Zealand's winter, and operated a daily service over the New Zealand summer season).

The South Island depends on the SQ services through CHC

As a result of SQ's long-standing dedication to the South Island region, we have a broad range of stakeholders with an interest in the SQ Service, including: consumers wanting to travel internationally, tourism organisations needing to attract overseas travellers to the region, and air freight exporters/importers needing to transport time sensitive freight to and from overseas markets. These stakeholders all depend on CHC, as the gateway to the South Island, to provide them with access to international markets, and the SQ services have been a fundamental part of providing that access to date.

We demonstrate in Appendix A the importance of a direct air service between CHC and South East Asia, to the South Island economy. This is an economy of national significance that is built off the back of the tourism and production industries (both of these industries being particularly dependent on direct international air connectivity through overseas hubs like Changi Airport).

SQ has recognised the appeal of the South Island to overseas travellers by increasing service standards (with a new cabin interior revealed on 11 Feb 2014 – see the article **attached** at Appendix B) and has added capacity on their existing SIN-CHC service. As mentioned, in addition to the current daily service, SQ added additional services during the Dec 2013 and Jan 2014 summer period and plans to almost double the amount of supplementary flights flown this coming summer (18 supplementary flights in summer 2014/15 compared to 10 supplementary flights in summer 2013/14).

Despite the appeal of the South Island region, we know that there is much work to be done in assuring international tourists that the region is open for business. Continuing current levels of service between CHC-SIN, and growing those levels (and connectivity) where possible, is a crucial part of painting the picture that the region is recovering strongly.

We support the potential opportunity for CHC-SIN capacity growth

The Airlines' ambitions to grow their respective networks, and to increase tourism, the wider visitor economy, and trade activity, are undeniably positive aspirations. And in terms of a meaningful benefit to the South Island, we are very supportive of the potential opportunity for capacity growth between CHC-SIN.

We have had some concerns with the Alliance

Despite the opportunities submitted by the Airlines, we initially had concerns relating to the Airlines' planned substantial increase in capacity between Auckland (AKL) - SIN (of up to 30%). We saw a risk that such a substantial increase in capacity could result in current, direct SQ capacity through CHC being diverted to AKL, or in the very least, future South Island and lower North Island market growth resulting from the Alliance failing to occur through CHC. For the reasons outlined above and in Appendix A, if either of these outcomes eventuated they would be highly detrimental to the South Island.

Our concerns were grounded in our understanding that the competitive London and Singapore markets alone could not justify the AKL capacity increase. Without the opportunity to review the QSI analysis and challenge its assumptions we were left to rely on our experience which suggested airlines on sectors ex-AKL have tended to reduce fares considerably to stimulate the necessary volume growth needed to fill new capacity increases, and that such fare reductions are not financially sustainable. The low price of fares ex-AKL pulls capacity out of the South Island catchment, thus reducing the appeal of services and normal capacity being added to CHC.

The Airlines have provided us comfort to address our concerns

We have had separate and positive meetings with both Air NZ and SQ to discuss our concerns - particularly in relation to maintaining existing capacity and stimulating demand on the CHC-SIN route. The airlines have both reinforced the importance of the CHC-SIN route to the Alliance, and the fact that they are both incentivised to ensure demand is stimulated on the route. We understand that they do not consider it to be in their strategic interests to reduce current capacity levels servicing the South Island.

[CONFIDENTIAL

] SQ has been particularly encouraging about the fact that they intend to maintain their services through CHC, having made both public comments and private statements to that effect. We welcome their continued commitment to the people of New Zealand and especially to CHC and the South Island.

Looking ahead

Given the comfort that has been provided by the Airlines, CIAL is optimistic that an opportunity exists to strengthen and grow tourism and trade links to the South Island as well as the wider visitor economy. This is potentially a significant and exciting development, and CIAL will work hard with the Airlines to maximise these opportunities, to the benefit of the South Island and New Zealand.

Please do not hesitate to contact me in relation to any aspect of this submission.

Yours sincerely,

Matthew Findlay
General Manager Aeronautical Business Development
Christchurch International Airport Limited

APPENDIX A

Contribution of direct Asia link to South Island air freight importers and exporters

Wide body aircraft used by long haul operators such as SQ provide invaluable services to South Island importers and exporters requiring efficient air freight connectivity with international markets – especially Asia. The extent of this is explained in PWC’s independent review of the South Island air freight sector, ‘*Opening the South*’, commissioned by the Canterbury Development Corporation (provided with this submission). PWC’s report concluded that:

- Air freight plays a major strategic role in our country’s international trade, in particular because it enables our producers of primary, perishable produce (namely seafood, meat and fruit) to export to international markets efficiently, and our manufacturers to import component parts quickly (pg 4).
- Given New Zealand’s geographic isolation, air freight services need to go through hubs in Australia and Asia to ensure global connectivity (pg 10). Asia is becoming increasingly important as an air trading partner. The report noted that in 2011, China was New Zealand’s second biggest air trade partner by weight, and that the fastest growth in air trade by weight is coming from China, Thailand and India (pg 11). This means that South Island importers and exporters need services that facilitate connectivity with Asia (pg 27).
- There is not currently sufficient air freight capacity, nor the frequency required, through CHC to meet demand (pg 24), and most of the air freight capacity that does exist is provided in the belly hold of passenger air services – like those operated by SQ (pg 22). Consequently, many South Island importers and exporters must incur the time and cost of transporting their freight domestically to/from Auckland, or do not enter the export market at all (pg 37). It is estimated that the South Island currently transports less than half its share of air freight (in numerical terms, amounting to 29,700 tonnes of missed air freight per year) (pg 36).
- The constraint on air freight capacity through CHC means that if either Qantas, Emirates or SQ (the only three international carriers to provide wide-body year-round scheduled services out of CHC with air freight capability) were to replace their services through CHC with services into Auckland, this would have a “calamitous effect on capacity for South Island exporters and importers” (pg 24). We note that, of these three airlines, SQ provides the only non-stop direct link with Asia.
- The PWC Report states that the region’s reliance on a small number of wide-body operations, “creates substantial risk should one airline pull out of the market, and puts air freight capacity in the hands of a small group of players none of which have an obligation to best serve the needs of New Zealand industry” (pg 24).

Contribution of SQ services to the South Island tourism industry

SQ’s services through CHC play an important role in getting international travellers to the region, in particular those coming from Europe and Asia.

We know that the South Island is a destination that Asian travellers, in particular, want to reach (this is largely attributable to the broad range of scenic and adventure tourism

activities available). For example, an international visitor survey completed by Tourism NZ in 2013 showed that Chinese tourists to New Zealand that took the time to visit the South Island stayed longer in the region than those who didn't (17.4 nights vs 6.2 nights), spent more money (\$3,499 pp vs \$2,969 pp), and were overall more satisfied with their trip to New Zealand. [CONFIDENTIAL

]

Economic benefits of SQ services in financial terms

The economic benefits of SQ's services through CHC are significant. This was illustrated by a 2012 BERL Report '*An Economic Impact Assessment of a Long-Haul Service with Singapore*' (provided with this submission). BERL used the 2010 calendar year as its baseline in this Report, and at that time SQ operated a direct service to CHC that operated 5 times per week during New Zealand winter (IATA Northern Hemisphere Summer season), and a daily service (7 times we week) during New Zealand summer (IATA Northern Hemisphere Winter season).

In summary, BERL estimated that the direct impact of the SQ services to the South Island economy in 2010 to be additional employment of 2,113 Full-Time Equivalents, \$243.7 million in gross output and \$113.3 million in value added or Gross Domestic Product. If the indirect and induced effects of the SQ services were factored in, then 3,607 Full-Time Equivalents were estimated to be employed in the South Island in 2010 as a result of the services, which translated to \$496.9 million in gross output, and \$203 million in Gross Domestic Product (pg 6).

APPENDIX B

'Scoop,
INDEPENDENT NEWS

<http://www.scoop.co.nz/stories/BU1402/S00264/multi-million-dollar-aircraft-re-fit-unveiled-in-chch.htm>

Multi-Million Dollar Aircraft Re-Fit Unveiled In Chch

Tuesday, 11 February 2014, 11:15 am
Press Release: Christchurch Airport

Multi-Million Dollar Aircraft Re-Fit Unveiled In Christchurch

The long-term relationship between Christchurch Airport and Singapore Airlines was highlighted today with a multi-million dollar re-fit of aircraft flying direct between Christchurch and Singapore.

Upgraded seats and cabin interiors form part of a NZ\$77.4 million investment programme offering South Island travellers additional space and comfort on the daily flights.

Christchurch Airport Chief Executive Malcolm Johns says the new product is outstanding and yet another reason South Island travellers choose to fly to Singapore direct out of Christchurch.

“Singapore Airlines has been a valued partner of Christchurch Airport for 28 years, providing travellers from Wellington south with award winning passenger services and air freight capacity from this airport,” says Mr Johns.

“The airline’s commitment to the airport is underscored by increasing capacity on the route since before the 2011 earthquake by what is now an astounding 21.5%.

“This recent summer has also seen Singapore Airlines provide 10 additional supplemental services over our summer - the highest volume of additional seats ever seen from the airline. 18 new services have already been announced for next summer, which we hope may yet see more services to meet the 2014/15 summer season.”

The new cabin product unveiled at Christchurch Airport today is the airline’s best-in-class award winning product, with airline executives telling invited guests Christchurch’s new integrated terminal makes the combined offering a superior choice over others. The distance between Christchurch and Singapore is the shortest from New Zealand, with the single integrated terminal reducing the elapsed travel time.

Mr Johns says the daily flight offers southern travellers many international connections. “Singapore Airlines’ long haul service contributes \$144m to the economy and provides connectivity beyond Singapore, with connecting services to and from Europe, Asia and Africa,” he says.

“When you add all these factors together, it’s not difficult to see why Singapore Airlines carries hundreds of thousands of visitors and South Islanders on the existing service every year, a service which has been daily since 2012 – and which we are committed to for decades to come.”

The value of the partnership is also highlighted by Singapore Airline’s visiting regional vice president Subhas Menon, who said today “We’ve been flying here for almost three decades and we’ll be flying here for the next three decades.”

ENDS