



Wellington Regional Chamber of Commerce

1 August 2006



Agenda

Diverse air services are vital

The Current Issue – the Proposed Tasman Cartel

Long Term – Long Haul

Keeping Wellington's Infrastructure Fit for Purpose



Wellington Regional Strategy

Wellington Region is well & truly focused on its economic future.

The drift of people and businesses to Auckland and Australia has to be stemmed.

For the first time, all Local Authorities are united on a strategy for the region.

Wellington Regional Strategy has already adopted long haul flights.



The Danger of Isolation

The NZ Institute recently issued “The Flight of the Kiwi”.

NZ has few markets it can participate in within 3.5 hours.

Australia is one of the few.

High standards of access and connectivity are required to ensure

- **Our best and brightest are prepared to stay and return**
- **Our Businesses can participate in larger overseas markets.**



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Ten Airline Myths

1. This agreement is **all about the Tasman**
2. This is a **normal code share**
3. You **can't make money** on the Tasman
4. There is enormous **excess capacity** on the Tasman
5. Qantas & Air NZ **can do nothing unilaterally**
6. The Tasman Routes are **Intensely Competitive**
7. **Virgin and Emirates** will constrain the cartel
8. Other **airlines will enter** if fares increase
9. There are **no alternatives**
10. There are **benefits for customers** from a cartel



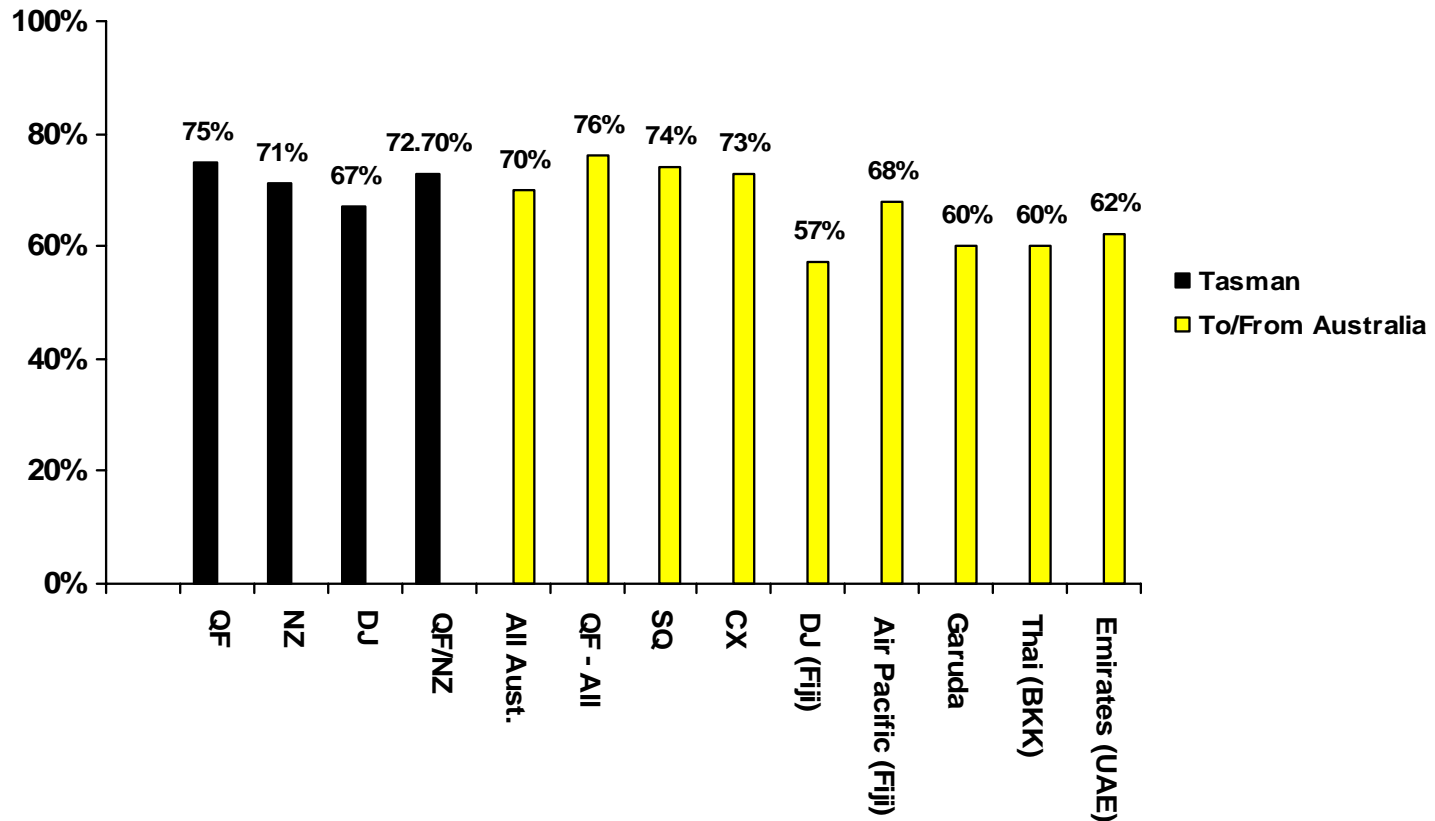
Not a normal code share

Aspects Jointly Managed & Agreed	TNA	JV Example	Air Share (Old Tasman)	Seat Blocks Eg: NZ/JL	Freesale Eg: STAR
Frequency	X	X		X	
Aircraft Type	X	X			
Capacity	X	X			
Routes	X	X	X		
Available Seat Kilometres	X	X	X		
Retail Pricing	X	X			
Net revenue	X	X			
Revenue Risk Sharing	X	X			
Defined blocks of seats (limited)			X	X	
Freesale of seats (unlimited)	X	X			X
Wholesale price or pro-rate				X	X



Empty Seats are Normal & Desirable

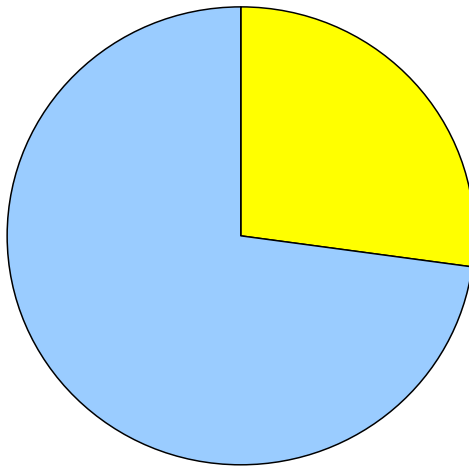
International Load Factors - Tasman & Other Australia



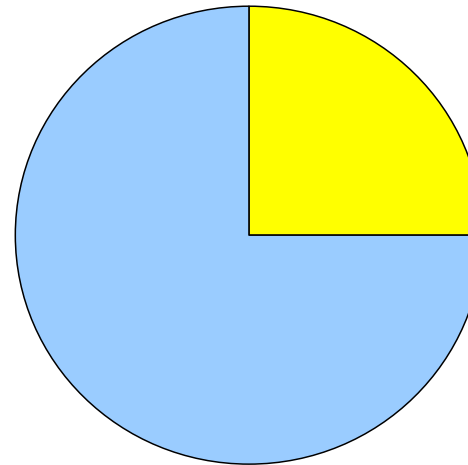


There will still be empty seats under the Cartel

Current Seat Occupancy



TNA Seat Occupancy - 3 years





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Proposition

Service to Asian Hub

Starting at 3-4 per week but building to daily

Serving Origin/Destination itineraries between Wellington and:

- Europe
- Asia – but not Japan/Korea
- Middle East
- Africa



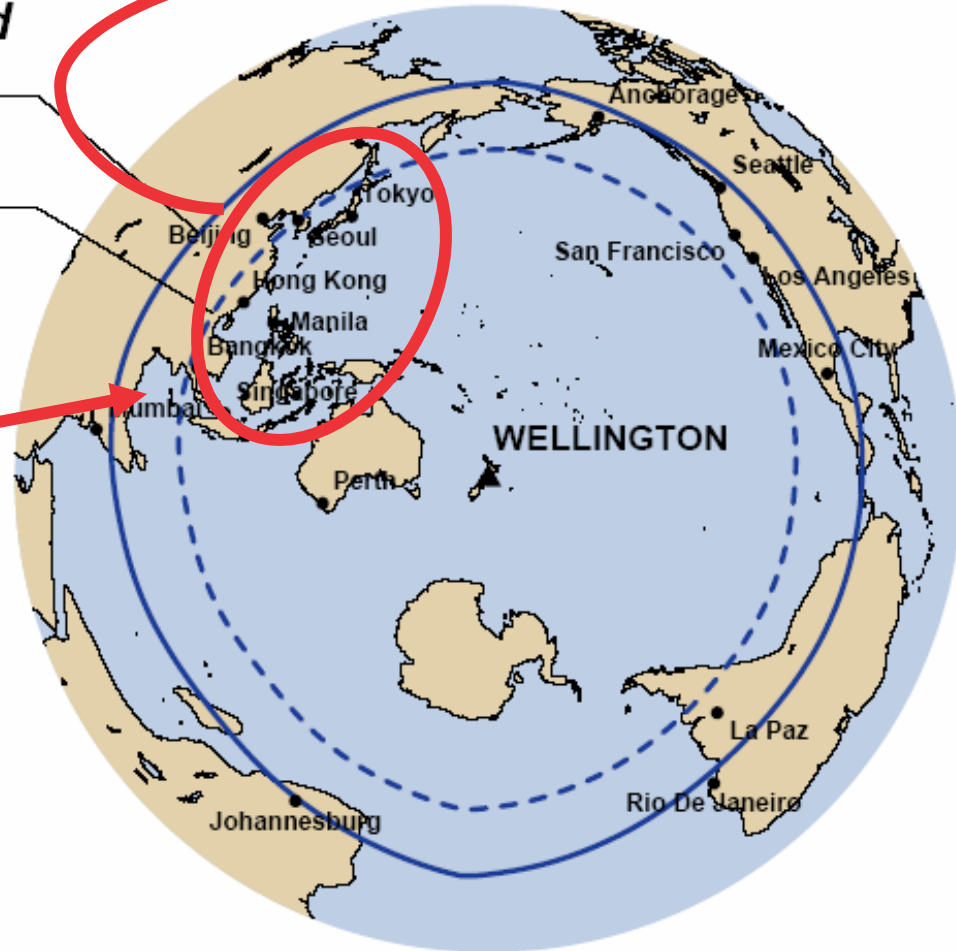
Full Passenger Payload On-board

787-8 GE or RR Engines
with 224 Passengers

787-9 GE or RR Engines
with 259 Passengers

Asia

Hub to Europe



Typical airline mission and reserve rules
Performance degraded by 2% for in-service estimate
85% annual winds
Airways allowance included
Standard day

BOEING PROPRIETARY

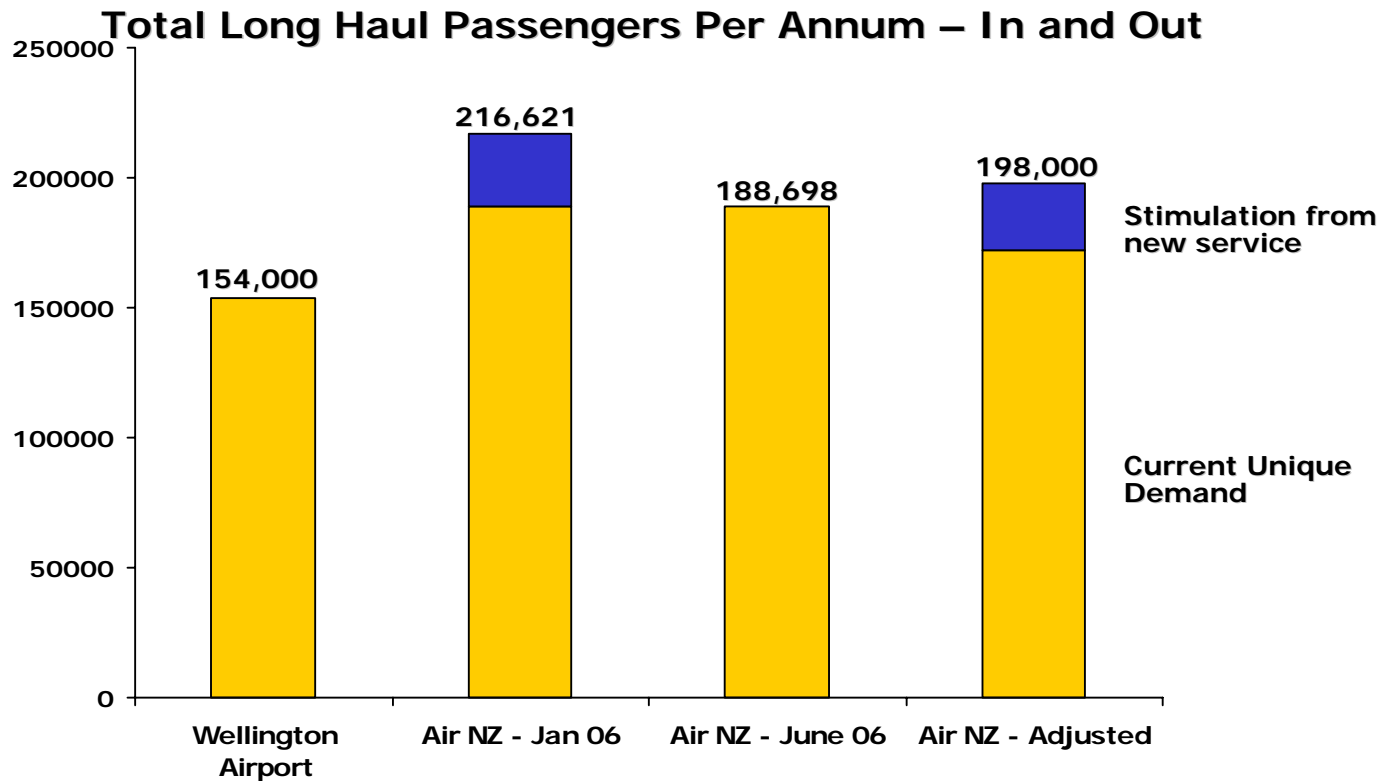


Four Questions

1. **Enough passengers** for a long haul service?
2. Can the 787 **operate** at Wellington?
3. Won't the **weather** stop it proceeding.
4. Is it **financially viable** to operate long haul from Wellington.



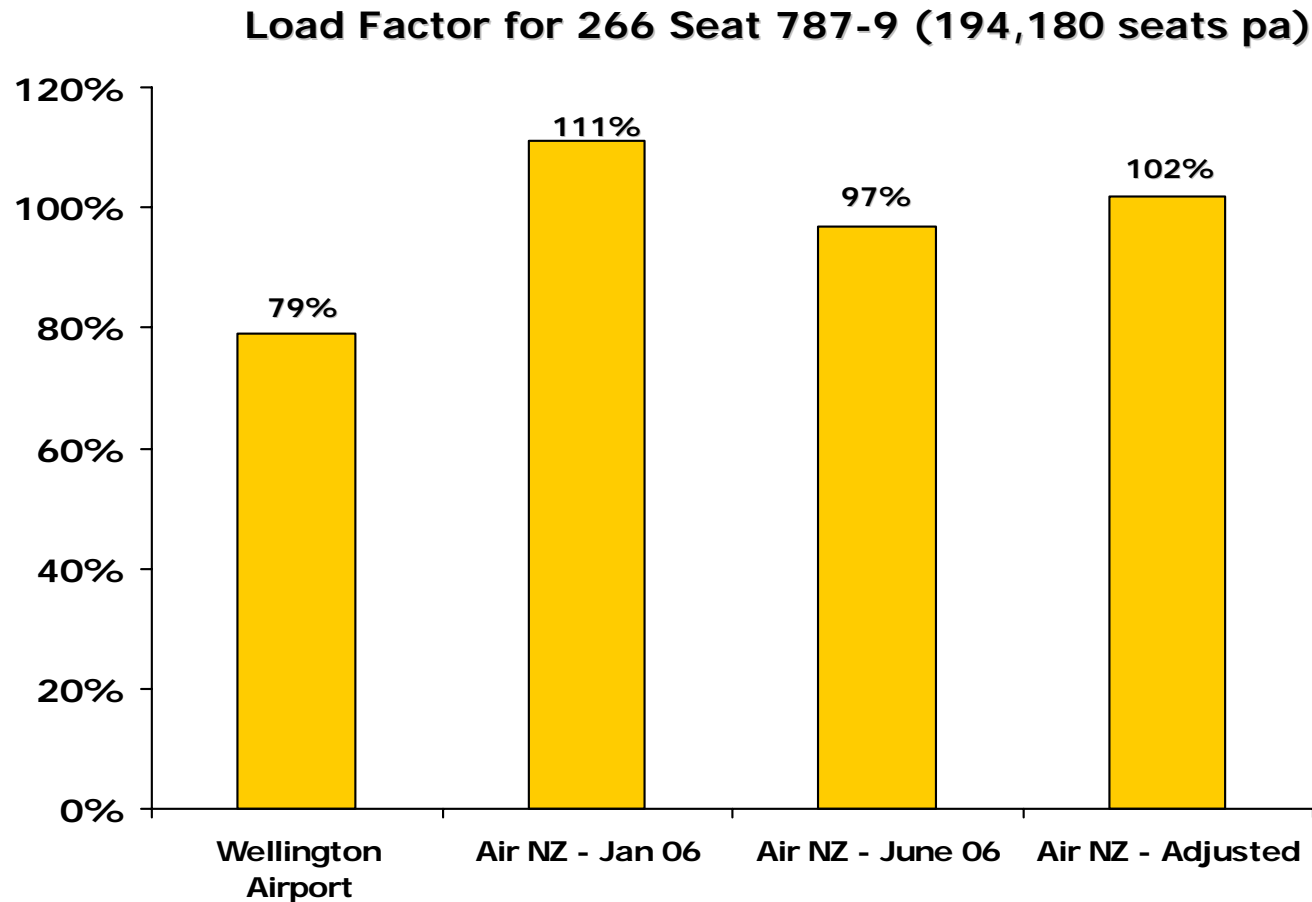
Summary – Unique Demand Assessments



- Wellington Airport set out to be very conservative in its assessment (its number is too low).
- No growth or stimulation assumed by WIAL
- Air New Zealand assessments are all higher than Wellington Airport's
- The Air NZ adjusted figure is their originally advised figure, reduced by WIAL (we thought it was too high).



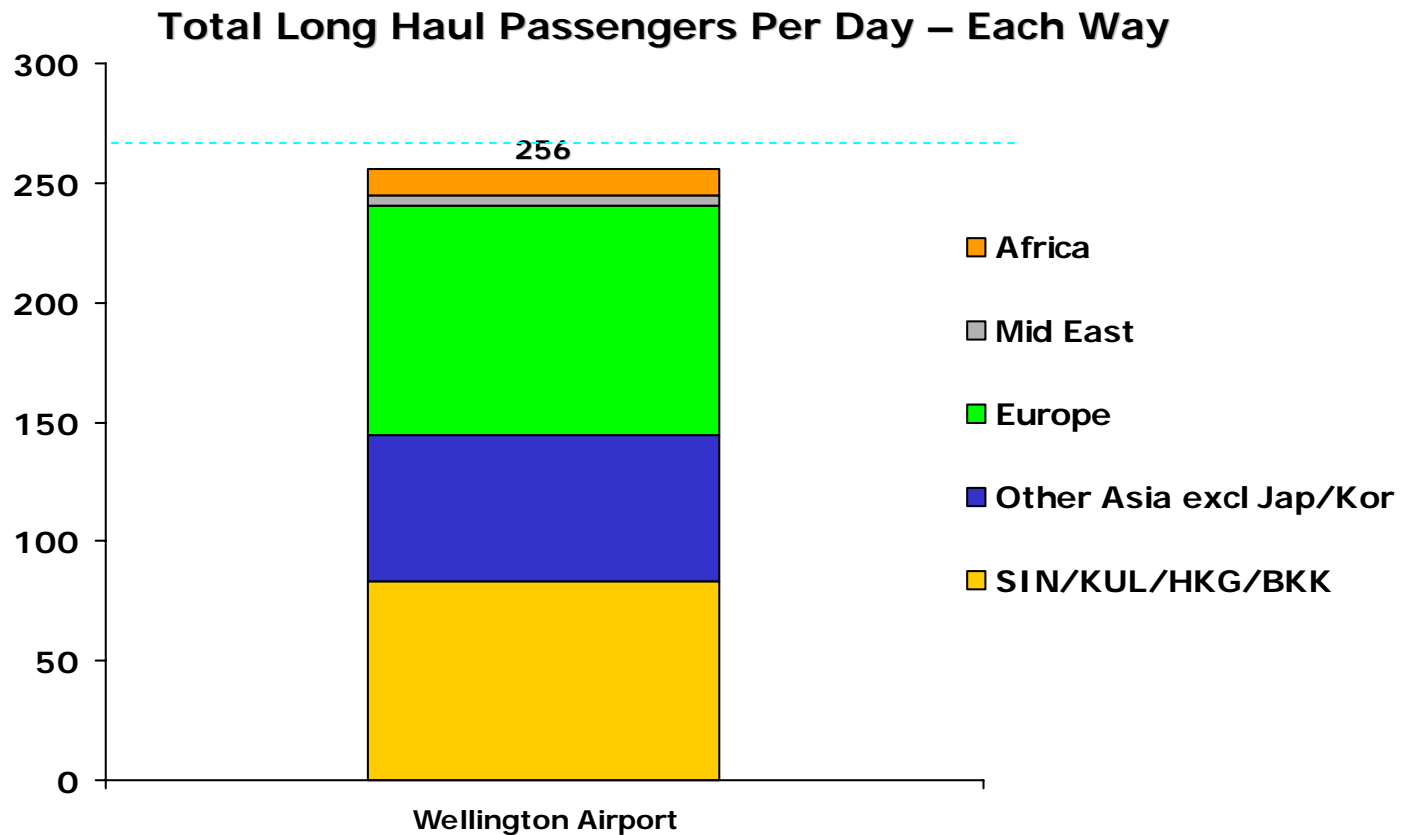
Load Factors – Based on Unique Demand Assessment



Note: Assessments based on Air NZ figures are all higher than those based on Wellington Airport's figures.



Summary – MIDT Origin/Destination Data



- Assumes no stimulation from direct service or marketing
- Assumes no growth from 2005 - 2010



Can the 787 Operate at Wellington?

- **Independent** studies by a **reputable NZ aircraft performance engineer**.
- Those studies were done very **conservatively**.
- Assumed **wet runway and nil wind** – assume runway is 15% shorter.
- **Ignores runway grooving** which means that the runway is rarely 'wet'.
- On those assumptions, the **737s would not operate** on the Tasman from Wellington.
- In practice, payload restrictions will be **non-existent or not commercially significant**.



Singapore Route

Wellington – Singapore vv

Aircraft	In (Landing)	Out (Take Off)
787-9	266 pax 10 tonnes freight	266 pax 5 tonnes freight

* Assumes wet runway and no wind.



Bangkok

Wellington – Bangkok vv

Aircraft	In (Landing)	Out (Take Off)
787-8	236 pax 14-15 tonnes freight	236 pax 7-8 tonnes freight
787-9	266 pax 10 tonnes freight	250 pax No freight

* Assumes wet runway and no wind.



What about the weather?

Auckland – Recent History

- Since June 2005, Auckland had diversions to Wellington on 11 days due to fog.
- In July 2006 alone we have had long haul diversions from Auckland on three days.

Long Term Trends

- Wellington gets far less incidence of fog than Christchurch or Auckland
- Christchurch is particularly bad, but still manages to operate.

Improvements

- Wellington Airport, Airservices Australia and Airlines are working with CAA to increase the ability to operate during fog.



Wild at Heart
Wellington Airport





Is Long Haul is Financially Viable?

On conservative assumptions, **profit of \$11m to \$13m** per annum.

This is profit **over and above** the overheads and contribution built into airline costings.

Wellington – Singapore	787-9	787-8
Seats on Board	266	236
Average Seat Load Factor	70%	70%
Average Fare (one way)	\$930	\$930
Airline Revenue WLG-SIN (each way)	\$173,166	\$153,636
Full cost of WLG-SIN sector	\$155,000	\$138,000
Profit per sector (above that allowed in full costing)	\$18,166	\$15,636
Frequency	Daily Return	Daily Return
Annual profit (above full costing)	\$13.3 million	\$11.4 million



Fare Levels

- **MIDT** data suggests that the average one way fare to Singapore is **USD 708**.
- At NZD 1.00 = USD 0.65, that average fare is **NZD 1089**.
- Note: WLG-SIN vv would have **strong business element** (higher avg fare).
- We have used an average fare of **NZ\$930 to be conservative**.
- About 10-11 cents / RPK – well within normal bounds (especially as an average)



Fare Levels – Indicative Fares

Indicative Fares WLG-SIN (one way)	Low	High
Restricted / Saver Fares	\$519	\$532
Flexi – some restrictions	\$641	\$807
Fully Flexi	\$676	\$950
Premium Economy	\$1038	\$1270
Business	\$1789	\$1963
First	\$2756	\$3255

- Fares are net of government charges and taxes.
- These fares are internet fares (net of commissions). Nor do they include charges for phone bookings, which is also an airline revenue source.
- Restricted and special deals not available on some flights.
- Low Fully Flexi fare an outlayer of one fare only – generally in the range of \$769-\$950.



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RESA - Southern End





Conditions can be harsh





Wild at Heart
Wellington Airport





Other Major Projects

- Terminal Stage 1 – Underway
- Terminal Stage 1c - Pending
- RESA North – announcement soon
- Terminal Stage 2 – timing to be determined



What about prices?

- **Every five years** there is an extensive and high profile process to set charges
- **Airlines play hard ball and commercial positioning** has well and truly started.
- According to them, they are **powerless** against Wellington Airport, Rotorua Airport, Hamilton Airport etc
- **Nearly a year** before prices will be finalised
- Prices have to be **justified** and all details **disclosed**



What about prices?

- If there is any price increase, I expect it will be very **affordable and reasonable**.
- Certainly **insignificant compared to airline price increases in recent years**.
- Also **low compared** to the price increases required when the terminal was built.
- We are talking **small amounts**.



Not only about infrastructure

- Wellington needs to put much more into promoting business and travel.
- Private sector participation will be required.
- The region is working together and there is strong business engagement.
- If we stick with it, the future is bright.