

Destination Wellington - Route development and marketing support :

International Air Capacity Growth Opportunity

December 2015

Background

Wellington Airport (WIA) has been working with Singapore Airlines (SIA) over the past 5 years to enable the airline to operate a Wellington service. Discussions were initially around direct services WLG<>SIN, however it is now clear that the limitation of the runway length and the poorer performance of next generation aircraft mean that direct services are not an option without a runway extension. Discussions then moved to indirect options from the existing runway [REDACTED]

[REDACTED] This offer has been conditionally accepted, and SIA is now seeking to formalise arrangements to enable the launch of Wellington services from as soon as August 2016 subject to regulatory approval.

The Service

Given the current runway limitations, the airline is proposing to operate a service between Singapore and Wellington via Canberra (CBR). The service will commence from August 2016 with an initial frequency of 4 return flights per week using an Airbus A330-300 aircraft (285 seats: 30 business class, 255 economy class). The days of operation are yet to be finalised however WIA has suggested a Monday/Wednesday/Friday/Sunday schedule to appeal to business travellers and provide choice of travel throughout the week. The following schedule is proposed where the service will minimise ground time in Canberra on the way through to/from Wellington (90 minutes turnaround):

Local Time	Dep SIN	Arr CBR	Dep CBR	Arr WLG
Inbound	21:50	07:20	08:50	14:05
	Dep WLG	Arr CBR	Dep CBR	Arr SIN
Outbound	20:00	21:45	23:15	05:25

The departure/arrival times in Singapore maximise connectivity at the Singapore hub with European and Asian services. The departure/arrival time at Wellington provides connectivity with other New Zealand cities via Wellington's extensive domestic network. The travel time from Wellington to Singapore via Canberra of around 13 hours 25 minutes compares with 15 hours for WLG-AKL-SIN, 14:05 for WLG-CHC-SIN and 14:55 for WLG-SYD-SIN, plus has the added benefit of a business class, widebody, international product all the way.

The availability of a genuine business class product is expected to produce a highly competitive environment for business travel to and from Wellington. This is likely to impact the prices and product offers available on other carriers/competing alliances in Wellington. [REDACTED]

[REDACTED] However, travel between Wellington and Canberra which is currently very expensive is anticipated to become cheaper. Additionally, and significantly, airfares to and from long haul destinations on other carriers are expected to reduce as they will be forced to compete with the more convenient and higher quality offering.

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

The Benefits

A SIA service SIN-CBR-WLG provides significant benefits for the city, region and New Zealand. Although it will not provide all of the benefits that a direct long haul service would provide (faster/more convenient travel to a main hub focused on driving Asia growth opportunities) it will deliver some of the benefits in the interim ahead of a possible runway extension. In particular it delivers:

- Presence on the international network of one of the world's leading international airlines
- A significant increase in visitation to Wellington, and a strong reason for business/residents to locate in the city
- A direct link to the capital city of Australia
- Faster linkages to Singapore and many other cities in Asia
- The first international short-haul break for Canberra, with a catchment of >500,000 Australians (attractive for Wellington tourism)

- Reintroduction of widebody services at Wellington providing a better (business) product and the return of a significant freight capability
- One of the best airlines in the world connecting Wellington to arguably the best global hub airport in the world; star alliance and most requested/popular airline in Wellington market

Based on the InterVistas estimates, and an average stay of 3 days/2 nights in Wellington the new service would generate \$4.2M in direct GDP (\$8.1M total GDP) annually from tourism alone based on a 4/week service.

Table: One-Year Benefits of New Service

	New Pax	New Visitors (1)	Ave. Visitor Spend	Ave Stay (Days)	Spend/Day	Wellington Benefits			
						Direct Visitor Spend (2)	Total Visitor Spend	Direct GDP	Total GDP
CBR	10,339	2,740	\$ 2,019	11	\$ 184	\$ 1,508,777	\$ 2,922,501	\$ 694,037	\$ 1,357,537
SIN	21,355	5,659	\$ 3,871	20	\$ 194	\$ 3,286,156	\$ 6,365,285	\$ 1,511,632	\$ 2,956,752
Asia/Europe	22,811	6,045	\$ 4,688	20	\$ 234	\$ 4,251,081	\$ 8,234,344	\$ 1,955,497	\$ 3,824,953
Total	54,505	14,444				\$ 9,046,014	\$ 17,522,130	\$ 4,161,167	\$ 8,139,242

Note: (1) Assumed 53% Visitors, 47% Residents (2) Assumes 3 days/2 nights in Wellington

We would expect that once SIA is established in the Wellington market we will see a significant increase in interest from other international airlines, as history shows that global airlines tend to follow each other into new ports.

The Support Request

SIA requested a long-term partnership with the airports (Wellington and Canberra) and local government agencies, consistent with their strategy of longevity in markets (SIA began CHC services in 1986 and continued flying during the CHC earthquakes).

The support package includes:

- Contribution towards the route development and marketing based on delivery of daily services [redacted] for any year the airline operates a daily service)

SIA will drive the in-bound passenger traffic through marketing and promotion of the new route and Wellington as an end destination for the service. The value to the city and region is significantly enhanced by the in-bound aspect of the service delivering international tourists and better servicing the business community.

WIAL is submitting a request for support from Destination Wellington [redacted]

[redacted] the funding would represent a contribution towards the route development and marketing. The level of support would be contingent on the frequency of service operated, with the contribution based on [redacted] per annum per weekly return flight up to 5 weekly flights. For example,

the current proposal of 4/week return flights maintained for [REDACTED] would result in a support contribution of [REDACTED] per annum. If this was to increase to 5/week flights or more, the support contribution would be [REDACTED] per annum. The support would be paid at the end of the anniversary year and would be based on the frequency of services operated in that year. If the service did not operate (and inter alia the benefits did not eventuate), the support contributions would not be payable. This mechanism closely links the route development and marketing support contributions to actual hard delivery of services.

The following table outlines the level of support for a 4/week service over [REDACTED] of the deal:

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The value to WIAL of this service will depend on how much abstraction occurs from existing airlines travelling domestically via AKL or internationally via Australia. Based on the InterVistas analysis WIAL could expect around [REDACTED] to be new passengers, [REDACTED] abstracted from existing domestic and [REDACTED] from existing international. Based on this assumption, WIAL would receive [REDACTED] in revenue over the [REDACTED] after the discounts and rebates are taken into account [REDACTED]. The net airport position will only be known once the service is established and the necessary works to host it are complete.

For a daily service over [REDACTED] the support amounts would total:

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Our expectation is that the service would increase from 4/week to at least a daily service at some stage over the [REDACTED] agreement, particularly as more A330 aircraft are freed up as SIA take delivery of their new A350's.

What does this mean for the Runway Extension?

The introduction of SIA via Canberra will be positive for the runway extension argument.

- The service answers the question as to whether there are airlines interested in Wellington
- The CBA assumes that a service like this (ie Asia via Australia) exists in the Do Minimum scenario
- Services such as this add complexity/cost to an airline's operation and longer-term airlines would want to fly direct if it is operationally possible to do so
- The service doesn't deliver all the benefits associated with the extension (journey time savings, direct connectivity with Asia/North America)
- Doesn't "futureproof" Wellington if airlines want to fly larger aircraft such as the A350
- Doesn't alleviate existing constraints caused by the RWY length on narrow-body services

[REDACTED]

[REDACTED]

[REDACTED] We would expect that the airline would evaluate the direct service if the extension is committed and the InterVistas analysis shows the service would be viable [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]