

Presentation by John Sheridan
Chief Executive, Wellington International Airport Limited



Introduction

Aviation experience

- 16 years in the aviation industry including 12 years in senior airline positions and over 4 years as the Chief Executive of Wellington International Airport

The interest of WIAL in the application

- WIAL is directly affected by the outcome

Objective

- To clearly demonstrate the critical importance of competition for both market growth and the continuing introduction of new product and services

Domestic Market: 1987 - present

Ansett New Zealand commenced operations in 1987 with some immediate outcomes being:

- Upgraded terminal facilities
- The introduction of aerobridges
- Improved service standards.

A few examples: Catering on the aircraft, lounge facilities & valet parking

- Most importantly Ansett New Zealand meant competition and the availability of discount fares.

Average fare dilution increased from 15% to 35%-40% on those sectors where Ansett New Zealand competed

- The stimulation of market growth

Domestic passenger numbers through Wellington airport increased by 20% in the first two years after Ansett New Zealand started operations

Domestic Market: 1987 - present

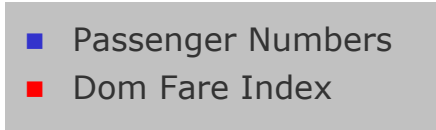
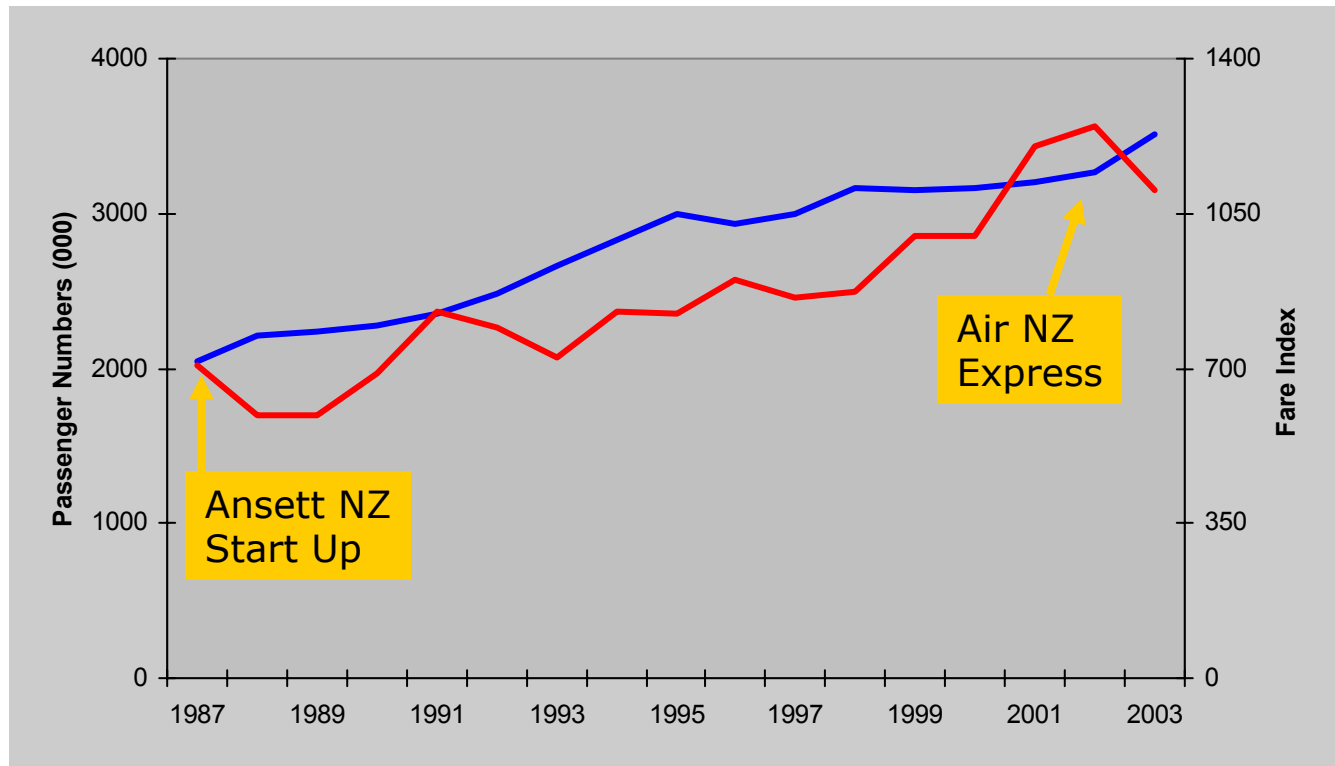
- In the period 1995 through to November 2002 there were few initiatives in the market, with the result that growth averaged 1.3% per year only over this period.
- This period included the Ansett pilots dispute in 1999, the receivership of Tasman Pacific in 2001, the start-up of Qantas Airways domestic services in New Zealand and the growth of Origin Pacific.
- This modest growth pattern dramatically changed in November 2002 with the introduction of the Air New Zealand Express product.
- Domestic passenger numbers at Wellington airport in the past nine months have increased by an average of 8.9% over the previous year on an annualised basis.

Domestic Market: 1987 - present

- Domestic fares have had various significant increases over the past decade
- We believe these fare increases have been a major reason for the very modest domestic growth from the mid 1990's.
- In periods when fares have reduced (1987 and 2002) the market has jumped.
- In summary, domestic market changes over the past 16 years reinforce the fact that effective competition is an essential element of market growth and service/product enhancement

Price data sourced from Statistics New Zealand Consumers Price Index - CPI Subsections for NZ - Domestic Air Travel (CPIQ.SE9F1B1)

Growth in Domestic Passenger Numbers and Fares



International market

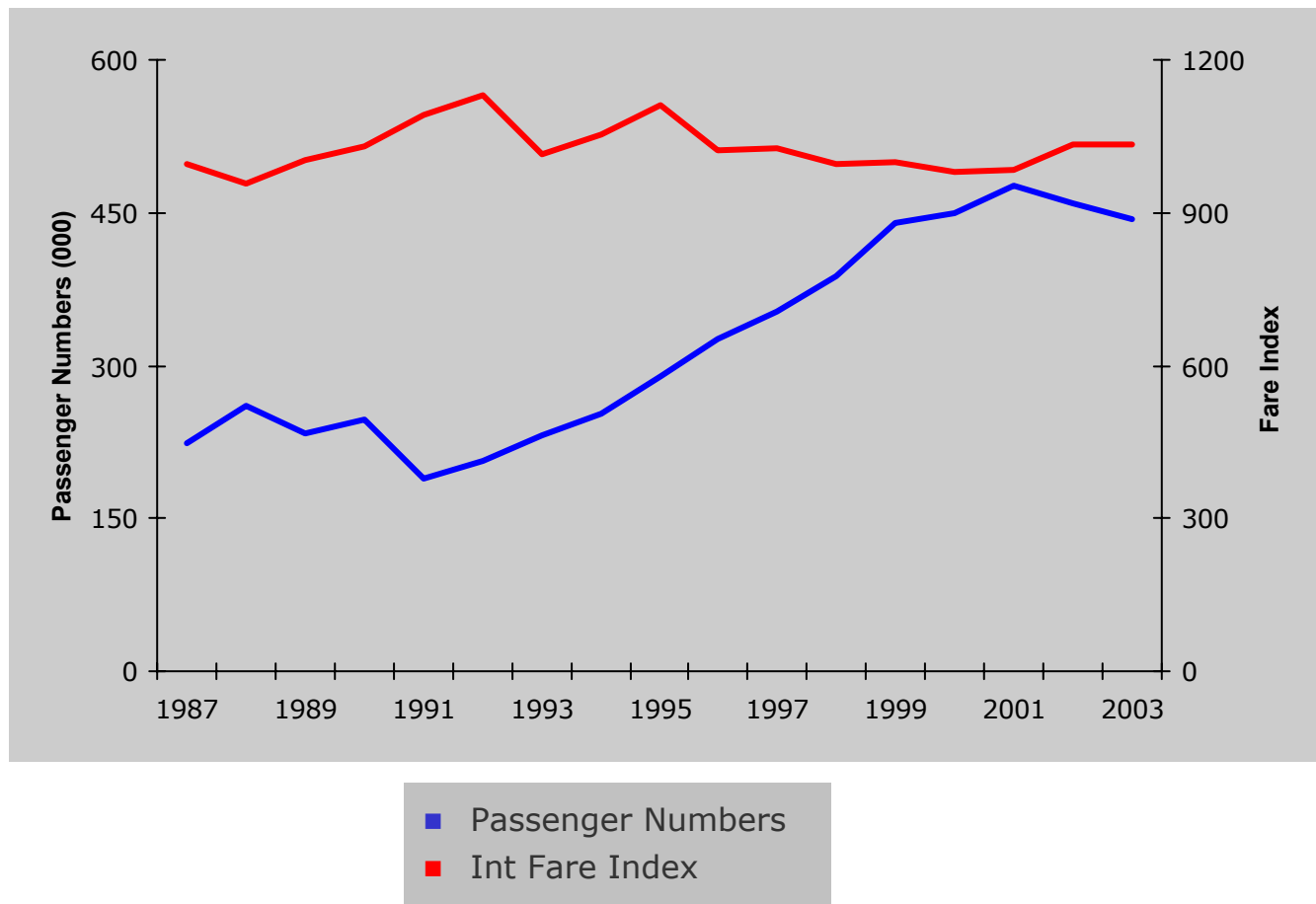
- For a period of ten years from the mid 1980's the bulk of international services to Wellington were code shared between Air New Zealand and Qantas Airways.
- International market growth over this ten year period was limited - an average of 4.4% per annum.
- The code sharing arrangement was discontinued in the mid 1990's when full and effective competition commenced out of Wellington between Air New Zealand and Qantas Airways on the Tasman.
- This competition resulted in a substantial uplift in flight frequency with the substitution of B767 aircraft by the smaller B737 aircraft.
- A survey of Wellington business leaders in 2000, commissioned by Wellington airport, identified frequency of service as one of the most important issues for the business market.

International Market

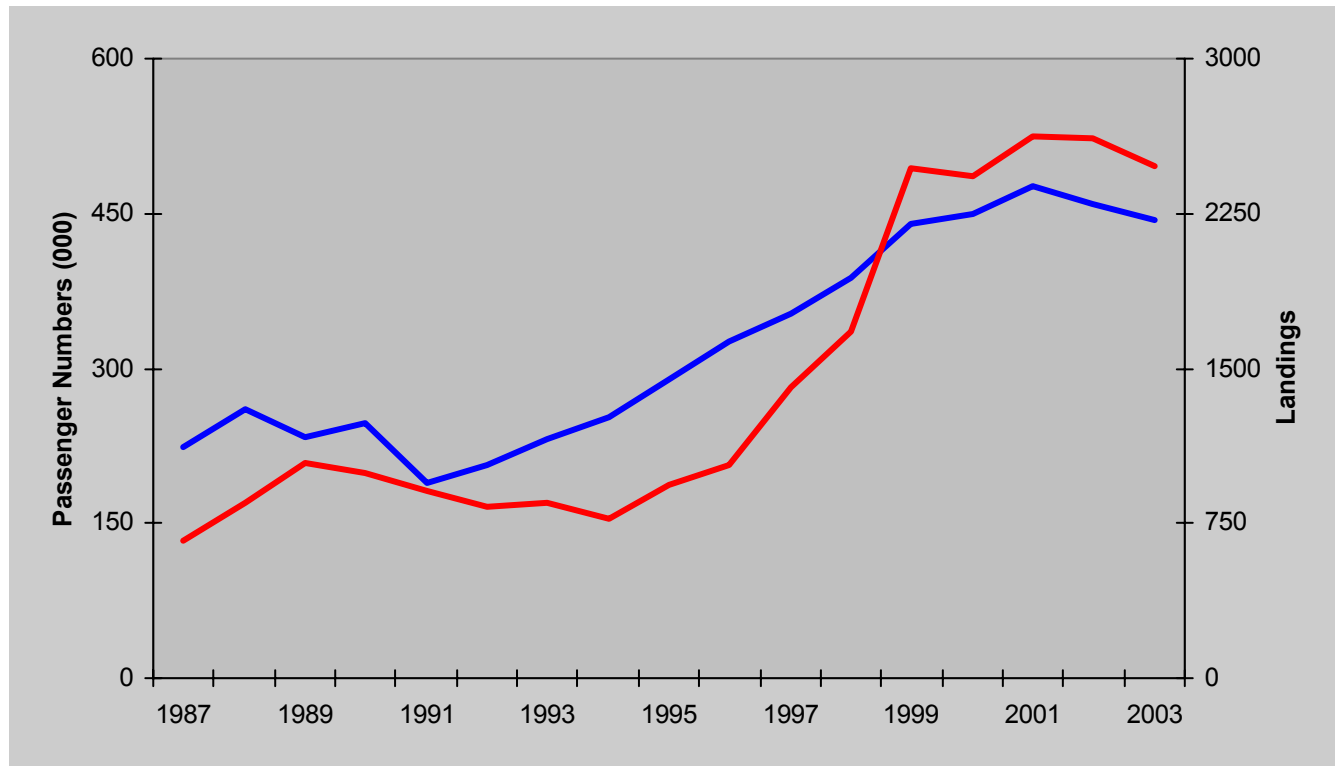
- In contrast to the substantial increase in domestic fares, international fares have remained relatively flat. International air travel costs in fact have increased by only 4% over the 16 year period of 1987 to 2003
- A contributor to the robust international growth through the mid 1990's was undoubtedly the lack of fare increases through this period.
- The introduction of effective competition and an increase in frequency resulted in sustained growth over the five years through to late 2000 of 55% (an average of 9.2% pa).
- Services to Wellington from September 2000 have had cut backs, with a consequential decline in passenger numbers.

Price data sourced from Statistics New Zealand Consumers Price Index - CPI Subsections for NZ - International Air Travel (CPIQ.SE9F1B2)

Growth in International Passenger Numbers and Fares



Growth in International Passenger Numbers and Landings

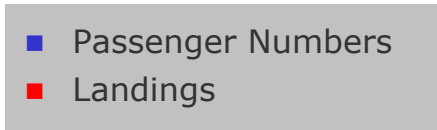
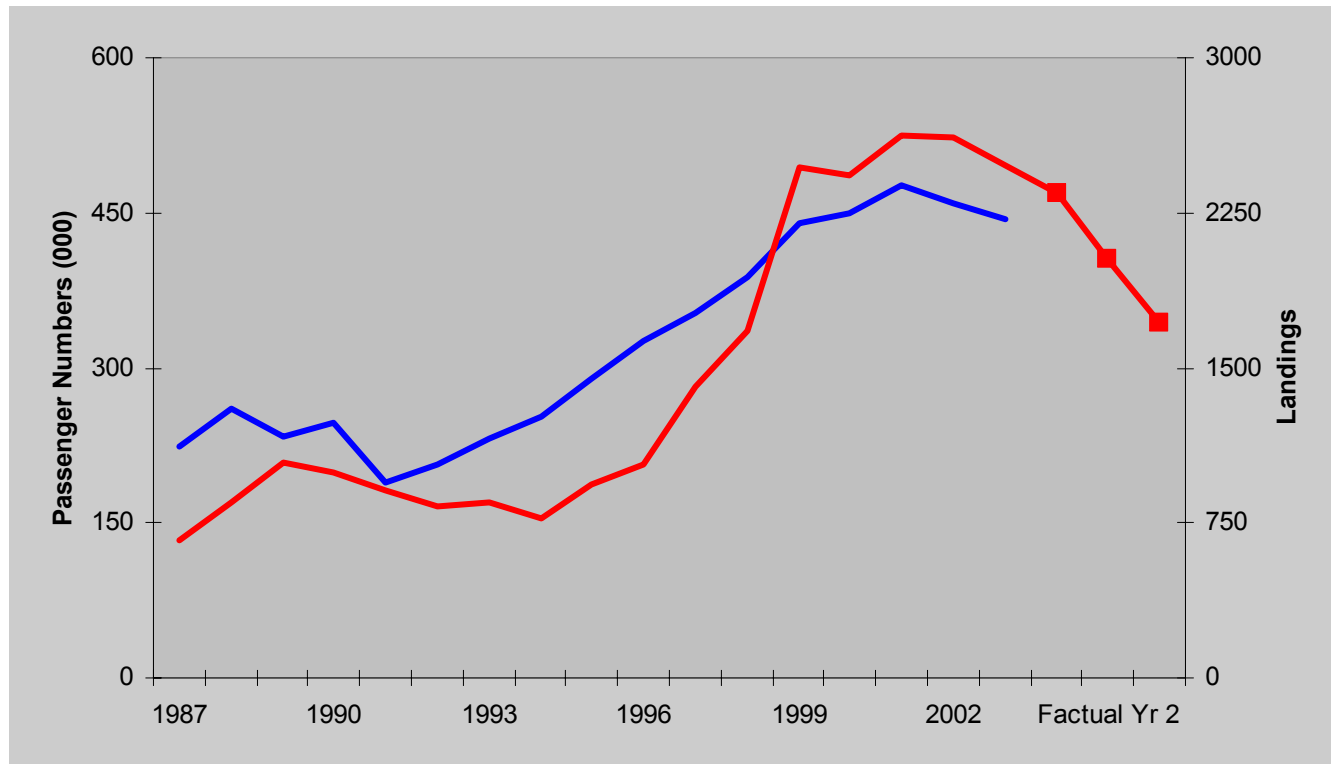


- Passenger Numbers
- Landings

The Factual Scenario

- The NECG report details a scenario of reduced international services for Wellington airport.
- The applicant's case is based on substituting frequency with larger aircraft and presumably a code sharing of services on the Tasman - an identical scenario to the early 1990's when growth was stifled.
- A stated aim of the alliance is to improve yields of both Air New Zealand and Qantas - ie increase average fares
- Flight schedules and prices for both Air New Zealand and Qantas services through Wellington will be under the control of one group.
- The factual scenario is an effective elimination of competition between the two airlines that carry over 90% of passengers that use Wellington airport.

The Factual Scenario



Market Observations – Freedom Air

- Freedom Air operated domestic services through Wellington from May 2001 to September 2002, following the receivership of Tasman Pacific.
- Freedom Air replaced Air New Zealand services to Brisbane from October 2002.
- In neither case did the introduction of Freedom Air services produce any noticeable stimulation of demand.
- Our observation is that the Freedom Air brand does not have the market penetration in Wellington as does the Air New Zealand Express brand.
- WIAL would welcome the expansion of Freedom Air services along with the start up of any other VBA.

Conclusions

- Several fundamental changes and competitive initiatives in the aviation market over the past 16 years have stimulated the industry
 - The start up of Ansett New Zealand in 1987
 - Commencement of effective trans Tasman competition out of Wellington from the mid 1990's
 - The introduction of the Air New Zealand Express product in November 2002

- These market changes reinforce the obvious that effective competition is an essential element of market growth and product enhancement

Conclusions

- The NECG schedule will lead to a reduction in services, and consequently passengers, at Wellington airport.
- The alliance will effectively eliminate competition between the two airlines that carry over 90% of passengers using Wellington airport.
- Reduced flight frequency and increased fares could seriously impact on the Wellington region.

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