

Note to Syn Chung Wah  
Michael Chan

From: Sam Fairchild

Subject: Draft National Interest Package Regarding the New Zealand Government

Tony and Michael,

I have been asked to provide you with additional guidance regarding the contents of a National Interest Package. As you know, most New Zealanders will believe that the benefits from Singapore Airline's proposed investment in Air New Zealand will accrue to the benefit of Australia. In addition, there is considerable fear that the investment may lead to a result that could be similar to the reduction in services that followed SQ's first investment in NZ. As a result, the Ministers will need to assuage public fears by showing tangibly how they have protected the public interest with a National Interest Package. The Package is in no way intended to signal any distrust in SQ by the New Zealand Government. Rather, the attached draft package is designed to provide the Ministers with the necessary political ammunition without encumbering the commercial interests of the tieup. Careful scrutiny of the package, we believe, will prove this out. In support of that level of scrutiny, we offer the following:

- The most powerful benefit the Ministers can put forth is one that reasonably will increase, in real terms, the level and quality of tourism in the country. To that end we have established a non-binding, best-efforts goal of a 250,000 permanent increase in annual NZ tourists over and above normal growth levels. Singapore and Air New Zealand would commit to this goal, and undertake the following set of efforts to facilitate the goal. Dr. Cheong has already signaled his willingness to work with a significant tourism promotion program to Rob Cameron.
- The first hard commitment is an annual investment by Singapore (and separately by Air New Zealand) in direct targeted destination marketing. These would be in selected markets, and the investment amount would be in addition to Singapore's normal support. The benefits from this investment would naturally flow to both airlines as well as to the national economy.
- The next commitment – use of Tradewinds to promote New Zealand Tourism – would have occurred anyway, we suspect. The obligation here is not very specific, so it should have no real impact above that which would have occurred naturally. The effect of the commitment, though, accrues benefit to Singapore's reputation among New Zealand citizens, including many of the high value travelers that Singapore seeks to capture within its system. I believe you know that many of these travelers belong to both Qantas' and Air New Zealand's loyalty programs at the premium level, so any non-cost or low-cost methods to build goodwill in this transaction will help to generate real loyalty. This element (and several others) fall cleanly into that category.
- The next commitment – schedule coordination and network adjustments – is consistent with your own commercial practice. Here, the goal of the coordination and planning is simply laid out in terms that New Zealanders will find acceptable – to maximize convenience and minimize impediments to passenger flow to and from New Zealand. Again, this gives Ministers the ability to point to a consumer-focused benefit. As a side benefit, it builds additional goodwill with those premium New Zealand travelers.

- The commitment that comes next – fleet growth – is no more than what you have already committed to in your presentation. Any mechanical elements on this have been removed. The benefits of this to the Ministers is obvious – they can point to this as the protection against having all of the fleet investment flowing to Ansett's benefit – a real concern.
- The next commitment is an important one, and needs to be agreed to both by Singapore Airlines and Air New Zealand. There is real concern that Air New Zealand will shift international destinations from direct service to indirect over Australia over some period of time. While some of this will be inevitable, the Ministers will need to point to a provision that allows them to argue that they have assured some basic level of direct service well into the future. We have created an entirely streamlined market-driven approach to doing this in the attachment, where a benchmark scoring of the level of direct service is done at the beginning, and both airlines accept a hard commitment not to reduce that level. Again, where the routes are flown (other than to Australia and Singapore) is not at all prescribed – simply that the overall level is maintained at or above the initial threshold. Unless SQ was intent on taking down a significant level of direct service in New Zealand – and both you and I know that this is not the case, this provision will not impact SQ or NZ's plans. Mechanically, direct service to an international point other than Australia or Singapore counts as 1.0, Service to Singapore that offers same plane service beyond Singapore counts as a 0.75, other service to Singapore counts as a 0.5. Service to Australia counts as a 0.25 and service to Australia that continues on as same plane service to an international point counts as 0.5. The service offered by SQ, NZ and AN that touches New Zealand is added up at the beginning, and is scored annually. My analysis shows that this will have no impact on any of the natural plans SQ would have regarding network adjustment and growth in the New Zealand market. Yet its use by the Ministers in pointing to protection of the island nation's access to work markets cannot be overstated.
- As we signalled, technology transfer is an important part of the SQ-NZ relationship, and this provision, which is called out to be on commercial terms, simply reveals what you would be doing anyway.
- The bilateral and STAR Alliance commitments have been shifted to a best efforts commitment except for the one regarding the SQ-NZ relationship itself, which remains a hard commitment. I suspect you intended to do this anyway, so this should not be a difficult one to accept.
- We have included a mechanism for removing most of the hard commitments simply by measuring progress towards the tourism goal. When the goal is reached, nearly all of the hard commitments disappear and revert to purely commercial arrangements. Any new tourism generated by other airlines will benefit the mechanism.
- There are several non-tourism elements. First, we have replaced any specific employment provisions with a provision that simply calls out the intention to establish MRO Centers of Excellence at Auckland for 767's and at Christchurch at 737. Ministers need this to prove that they have considered the importance of retaining high value jobs. Again, there are no specific commitments otherwise regarding employment.
- Finally, we have moved the most favoured customer idea to a best efforts with regard to SQ affiliates which should remove your concern about legal restrictions.

➤ Proposed National Interest Package

**Tourism Promotion**

Singapore Airlines, with Air New Zealand, would agree to make its best efforts as an airline and as a significant shareholder in Air New Zealand to generate an increase in new tourism into New Zealand of 250,000 tourists annually. This goal would be above normal expected growth in tourism as derived from a baseline calculation using the annual average of tourism growth over the last five years. These efforts would include a number of initiatives, some individually by Singapore Airlines, some jointly with Air New Zealand, and some by Air New Zealand with support from Singapore Airlines at the board level. These initiatives include, but are not limited by, the following elements:

1. A High Quality Commitment by Singapore Airlines to invest NZ\$\_\_\_\_\_ annually in Tourism New Zealand's targeted destination marketing programme, and to coordinate its own destination marketing activities with Tourism New Zealand. This investment would be in addition to normal investment by Singapore Airlines and the Air New Zealand Group with Tourism New Zealand.
2. A High Quality Commitment by Singapore Airlines to develop and launch New Zealand holiday package promotions within Singapore Airlines' *Tradewinds* operations.
3. A Contingent Commitment, subject to agreement by the Air New Zealand Group Board, to coordinate operating schedules, connections and network structure with Air New Zealand and Ansett to provide for maximum convenience for travelers to New Zealand and minimum impediments for passenger flows to and from New Zealand from Singapore Airlines' global network.
4. A Contingent Commitment, subject to agreement by the Air New Zealand Group Board, to support the growth of Air New Zealand's fleet separate from Ansett's fleet.
5. A High Quality Commitment, jointly with the Air New Zealand Group, to retain the level of direct international service currently enjoyed by New Zealand based on the market mechanism described in Attachment A.
6. A Contingent Commitment, subject to agreement by the Air New Zealand Group Board, to provide Air New Zealand with the most advanced, state of the art planning, scheduling, yield management, and operations management tools available. This technology transfer would be on normal commercial terms, and would be directed towards making maximum use of existing Air New Zealand assets.
7. A Reciprocal High Quality Commitment by Singapore, on the one hand, to provide Air New Zealand, dynamically, with the same bilateral commercial relationship Singapore Airlines has with its best bilateral partner, and by Air New Zealand, on the other, to do the same.
8. A Best Efforts Commitment to secure a position for Air New Zealand within the Star Alliance and bilaterally with STAR Alliance members at a level equivalent to the level enjoyed by Singapore Airlines.
9. A Best Efforts Commitment to use any renegotiation of Singapore Airline's STAR relationship as an opportunity to pull Air New Zealand Group's STAR Alliance position to a level equivalent to that of Singapore Airlines.

There would be an audit in September of 2003, and again in September of 2006, by a three person audit committee – one selected by Singapore Airlines, one selected by the New Zealand Government and an independent chairman selected by the two parties. If the audit committee determines, in its best judgment, that the tourism goal has been achieved in a sustainable manner, then the High Quality Commitment obligations under items 1, 2, 3, 4, 6 and 9 revert to normal commercial practices.

### **Employment**

10. A Contingent Commitment, subject to agreement by the Air New Zealand Group Board, to establish MRO Centers of Excellence at Auckland (B-767's) and Christchurch (B-737's) as part of a Best Efforts Commitment to retain and expand New Zealand's corpus of highly-skilled technical capability.

### **Commercial**

11. A Best Efforts Commitment to secure "most favoured customer" terms for any goods or services provided to the Air New Zealand Group by a Singapore Airlines affiliate.
12. A High Quality Commitment to provide Air New Zealand Group with "most favoured customer" terms for any goods or services provided to the Air New Zealand Group by Singapore Airlines.