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PRESS RELEASE

Review of the Los Angeles and Sydney underwritten flights

As part of the process for the tendering of underwritten air services, the Cook Islands Government (CIG) commissioned an independent assessment of the underwritten, direct, flights from Los Angeles (LAX-RAR) and Sydney (SYD-RAR). The assessment looked at the contracts for those routes, as well as the financial and economic performance of the underwritten flights.

The lead reviewer was Market Economics, a leading New Zealand (NZ) economic research consulting firm, in partnership with the Hillhouse Group and Astral Aviation.

As a whole, the two underwritten flights are estimated to have a positive effect for the Cook Islands economy, with the additional spending by overseas visitors outweighing the cost to the taxpayer, particularly for the direct to Los Angeles service.

- The underwrite for the Los Angeles service is estimated to deliver approximately \$11.5 million to the national economy, and have a positive impact on job creation for local workers.
- The economic effects of the Sydney underwrite are smaller. The average economic outcome over the 2014-15 period showed a net negative effect of -1.1 million in GDP terms, although 2016 and 2017 are expected to be better due to strong tourism arrivals and low fuel prices.

The expected replacement of the Boeing 767 aircraft with the larger Boeing 777-200 aircraft (B772) by Air New Zealand on both routes will improve service levels and make the flights to the Cook Islands more attractive to visitors, with increased numbers of premium economy and business class seating. However, changing to the B772 will greatly increase costs in the short term.

Going forward, the costs of the larger aircraft will be reduced if visitor numbers remain strong. The NZ, Australia, USA and Asia markets have shown strong growth over the 2010-2016 period, and the B772 service is expected to have a positive effect on visitor numbers from these markets as they continue to grow.

In addition to the generally positive effects on the economy, the reviewers felt that there are important strategic reasons for keeping the direct services from Los Angeles and Sydney:

- A. Direct flights with key tourist markets, especially the USA and the Northern Hemisphere markets through the Los Angeles service;
- B. Market security and diversification by making it easier for visitors from Australia and the Northern Hemisphere to visit the country,
- C. Broadening the visitor base by attracting more higher-end visitors via the B772.

The reviewers conclude that the underwrites are delivering positive benefits to the country but there is room for improvement. Over the medium term, the focus should be on limiting the costs and increasing revenue. The reviewers recommend CIG and Air New Zealand engage in joint marketing programs to help achieve this.

Additionally, strengthening the governance arrangements of the contract and increasing the ability of the CIG to actively manage the relationship is also a key factor that will help the success of the underwrite in the future.

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30 August 2016