



tourism
INDUSTRY

ASSOCIATION NEW ZEALAND

**Submission to the
Ministry of Transport**

on the

Air New Zealand and Cathay Pacific North Asia Alliance

23 January 2015

EXECUTIVE SUMMARY

1. The Tourism Industry Association New Zealand (TIA) welcomes the opportunity to comment on the reauthorisation of the Air New Zealand and Cathay Pacific North Asia Alliance. TIA lodged a submission in support of the original authorisation of the Alliance in 2012 and again supports the reauthorisation.
2. Growing sustainable air connectivity is a key theme of the Tourism 2025 www.tourism2025.org.nz growth framework and is seen as a crucial pipeline for New Zealand's visitor industry. The country's distance from international markets means air services are critical to the country's global connectivity as such services facilitate not only tourism, but also business, freight and wider trade objectives.
3. Hong Kong, the hub point for this Alliance, is a growing source of visitor arrivals to New Zealand in its own right (30,448 to year ended November 2014, up 8.9% and our 11th biggest visitor market). It is also an important gateway for visitors from China which is now the country's second largest international visitor market (257,584 visitors to year ended November 2014). The North Asia Alliance, if re-authorised will be important in retaining and increasing connectivity from China as well as helping Air New Zealand to maintain a strong presence in the North Asia region.
4. In re-authorising this agreement, TIA believes the Ministry of Transport (MOT) should ensure that capacity on the route is not impacted, that competitive customer pricing is continued and how the agreement can stimulate inbound tourism. As our submission points out, we believe that the MOT should consider how re-authorisation of the Alliance can benefit New Zealand more widely.

RECOMMENDATIONS

5. TIA recommends the re-authorisation of the Air New Zealand and Cathay Pacific North Asia Alliance is approved.
6. TIA recommends a review period be built in at a mid-way point in the Alliance e.g. 2018.
7. TIA recommends MOT consider how, through a regulatory response, the Alliance can benefit the wider New Zealand economy.

INTRODUCTION

8. The Tourism Industry Association (TIA) is the lead association that represents the interests of about 1,500 tourism businesses in New Zealand. TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and activities, attractions and retail, airports and airlines, as well as related tourism services.
9. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive, Chris Roberts.
10. Any enquiries relating to this paper should in the first instance be referred to Simon Wallace, TIA Policy and Insight Manager at simon.wallace@tianza.org.nz or by phone on 04 494 1842 or 0272 489 375.

COMMENT

Tourism 2025

11. Tourism 2025 (www.tourism2025.org.nz), an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching \$41 billion in annual tourism revenues by 2025. To achieve that, the industry must grow international tourism at a rate of 6% year on year and domestic tourism at a rate of 4% year on year. The industry's focus is on growing value faster than volume.
12. The Tourism 2025 framework is based around five key themes which are:
 - Insight - this is at the core of the framework recognising that having timely, accessible and relevant is what will help tourism businesses with the information they need to support operational and strategic decision making.
 - Connectivity - focusing on growing sustainable air connectivity is critical for an island nation that relies on 95% of its visitors arriving on a commercial aircraft.
 - Productivity - making more money from the investments we already have but finding new solutions to seasonality (the tourism industry's perennial challenge) and regional dispersal.
 - Visitor experience - we can derive more value by creating outstanding visitor experiences that meet the needs of a changing visitor mix and recognising the end to end visitor experience, the need to improve facilitation and be measuring dissatisfaction.

- Target for Value - the identification of targeted opportunities that, if taken up, will deliver the greatest economic benefit.

13. Tourism 2025 is an economic framework that is aligning the industry in New Zealand for growth. Ultimately, it is about positioning the tourism industry to take advantage of the new growth opportunities that lie with a growing middle class in Asia and the Pacific Rim and improving the competitiveness of the industry in New Zealand.

The Cathay Pacific/Air New Zealand North Asia Alliance

The benefits for inbound tourism

14. As visitor growth from Asia and the Pacific Rim is expected to increase markedly over the next ten years with a burgeoning middle class population, the Air New Zealand and Cathay Pacific North Asia Alliance is an example of how as a country we can grow sustainable air connectivity. The benefits for inbound (and outbound) tourism are:

- Both airlines offer the other's Hong Kong to Auckland services as if they were their own with improved time of day benefits.
- More interline connections and greater access to the partner's networks with the Alliance giving both Cathay Pacific and Air New Zealand greater ability to sell inbound seats into New Zealand from throughout Cathay Pacific's network and the Hong Kong based carrier having access to Air New Zealand's domestic network.
- There has been no apparent consumer detriment since the Alliance was established in July 2012 with fares remaining at competitive levels.
- Capacity has been sustained on the route with the addition of Cathay Pacific's second service in the northern winter.

Hong Kong is an important gateway for China

15. To the year ended November 2014, 257,584 Chinese visitors arrived in New Zealand, with official tourism forecasts predicting that number will increase in excess of 500,000 by 2020, an average of 50,000 more each year. Of the arrivals in the past year, 32,000 (or around 13%) used Hong Kong as a transit point.

16. If the rapid increase in visitor arrivals continues as forecast, then such growth cannot be achieved either through non-stop services from mainland Chinese cities or via hub cities in Australia. The North Asia Alliance is therefore critical to providing another means of connectivity to New Zealand while at the same time ensuring Air New Zealand has a strong presence in the important North Asia market.

Sharing the benefits more widely

17. If, as Air New Zealand, Cathay Pacific and the Ministry of Transport suggest, the North Asia Alliance has been successful in its first two years, then consideration should now be given to what that success looks like for New Zealand more widely. It would be wrong to re-authorise this Alliance for a five year period if it prevented the establishment of additional direct air services between Hong Kong and other New Zealand airports during that time frame.
18. The South Island is a regional economy of national significance that is underserved by international air services, especially from Asia at a time when it is growing its tourism from the North Asia region. Annual traffic between Christchurch and the North Asia region increased by 5% between 2012 and 2013 and by 17% between 2013 and 2014. From China, this increase was more marked with a 24% increase between 2012 and 2013 and 46% between 2013 and 2014 (source, Christchurch Airport, January 2015).
19. Recovering the value destroyed by the Christchurch earthquakes is critical to achieving the aspirational goals set out in Tourism 2025. Tourism suffered a significant loss of capacity as a result of those quakes, but this loss of value occurred not only in Christchurch but across many other regions of the South Island. Restoring this lost capacity will improve the competitiveness of the Christchurch and New Zealand tourism as a whole.
20. The government has an important enabling role to help ensure the benefits of inbound tourism (and growing exports) are shared more widely. Its own Building Export Markets is a sub-theme of the government's wider Business Growth Agenda and places Christchurch at the heart of this strategy, saying:

"It is essential a vibrant and dynamic Christchurch continues to play its part in our nation and economy. This includes its contribution to New Zealand's exports, both from the region's commodity base and its high-tech and manufacturing businesses"
21. If this is to happen, then regulatory arrangements such as this Alliance between Air New Zealand and Cathay Pacific and the air services agreement (ASA) between China and New Zealand, need to signal the importance of connectivity into Christchurch and also Wellington so the benefits of successful air services can be shared more widely.

Tourism infrastructure and capacity

22. It is true that no New Zealand airports are facing the kind of infrastructure pressures and capacity limitations that some overseas are facing, for example, Sydney. However, the same cannot be said about hotel capacity, especially in Auckland and Queenstown, which are running at over 90% occupancy for much of the 2014/2015 summer season.

23. Industry and government must work collaboratively to ensure the spread of visitors is more evenly spread so that available infrastructure is better utilised, the benefits of the growing visitor economy are more widely received and tourism businesses are ultimately more productive. This requires not only a regulatory response on the part of government, but as Tourism 2025 highlights, better collaboration between the government's international marketing agency and the industry.

Review period

24. Air New Zealand and Cathay Pacific are seeking a five year renewal to the North Asia Alliance. Given the initial period of the Alliance was set at three years together with what is a fast changing aviation environment, a review should be built in at a mid-point in the five year period. Such a review could consider the success of the Alliance at that time, consumer benefits and how the wider tourism industry is benefitting from the arrangement.

CONCLUSION

25. TIA supports the re-authorisation of the Air New Zealand and Cathay Pacific North Asia Alliance. As Tourism 2025 points out, airline alliances such as this one offer the best opportunity to grow sustainable air connectivity that also grow visitor markets in a sustainable way. Provided there is no customer detriment and that the arrangement stimulates inbound tourism, then this Alliance should be authorised. However, while it is incumbent on the tourism industry to support the Alliance in every way it can, a responsibility rests with government through regulatory settings, to help all of New Zealand share in its success.

BACKGROUND

26. Tourism for New Zealand is big business as the country's second largest export sector. It is a major contributor to the New Zealand economy that will always be here – and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

27. The tourism industry delivers the following value to New Zealand's economy:

- Tourism in New Zealand is a \$66 million per day and \$24 billion a year industry
- The tourism industry directly and indirectly supports more than 172,000 full-time jobs, or almost one in ten people in the workforce.
- International tourism represents 8.9% of GDP as New Zealand's second largest export industry

End.