



tourism
INDUSTRY
ASSOCIATION NEW ZEALAND

**Submission to the
Ministry of Transport**

on the

Air New Zealand and Air China Strategic Alliance

8 May 2015

EXECUTIVE SUMMARY

1. The Tourism Industry Association New Zealand (TIA) welcomes the opportunity to comment on the authorisation of the Air New Zealand and Air China Strategic Alliance.
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. The industry has a strong focus on attracting high value visitors from China. Given the value that can be generated from the Beijing and surrounding North China area, this service would provide a substantive opportunity to further grow this important part of the China visitor market. The service would complement the growth that is currently generated from the existing Shanghai - Auckland and Guangzhou - Auckland direct services.
4. TIA would strongly support this service utilising Air New Zealand's domestic network to stimulate regional dispersal and help spread the flow of visitors to other areas of New Zealand.
5. In 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 authorisation of the Alliance can benefit New Zealand more widely.

RECOMMENDATIONS

6. TIA recommends the authorisation of the Air New Zealand and Air China Strategic Alliance is approved.
7. TIA agrees with the initial 5 year term of the alliance, given there is no existing capacity on this route and the required investment by Air China to set up this service, but we suggest a review mid-period of how the alliance is working.
8. TIA recommends MOT consider how, through a regulatory response, the Alliance can benefit the wider New Zealand economy.

INTRODUCTION

9. The Tourism Industry Association (TIA) is the peak body for the tourism industry in New Zealand. With around 1,500 members 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.
10. 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.
11. Any enquiries relating to this paper should in the first instance be referred to Steve Riley, TIA Senior Insight Advisor at steve.riley@tiaz.org.nz or by phone on 04 495 0812 or 021 0342 433.

COMMENT

Tourism 2025

12. 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.
13. 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.

14. Tourism 2025 is an economic framework that is aligning the industry in New Zealand for growth. It positions the tourism industry to take advantage of the new growth opportunities that lie with a growing middle class in Asia and the Pacific Rim.

The Air New Zealand/ Air China Alliance

The benefits for inbound tourism

15. 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 Air China Alliance is an example of how as a country we can grow sustainable air connectivity. The benefits for inbound (and outbound) tourism are:

- This alliance provides Air New Zealand and New Zealand inbound tourism with the opportunity to have a stronger presence in the important Beijing catchment area and the opportunities to grow the North China market.
- Both airlines will offer their respective services through beneficial codeshare, revenue sharing, and coordination of pricing, schedules and capacity through the existing Air New Zealand Shanghai - Auckland service and the new Beijing-Auckland service, with an overall improved visitor experience for their respective customers.
- More interline connections and greater access to the partner's networks with the Alliance giving both Air China and Air New Zealand greater ability to sell inbound seats into New Zealand from throughout Air China's network and the Beijing based carrier having access to Air New Zealand's domestic network.
- It is proven that non-stop services stimulates stronger growth between destinations. This is supported by the 80% growth in the number of arrivals from non-stop services from the introduction of the Guangzhou - Auckland service and the 43% increase from those on the non-stop Shanghai - Auckland service in the year ending March 2015. More modest growth is seen from non-direct services in to New Zealand, such as those via Australia. It is therefore important to leverage off the economic value that foreign based airlines such as Air China are injecting in to the New Zealand economy through the introduction of non-stop air services.
- Encouraging mono-destination travel (e.g. non-stop travel that is not via Australia) is important. It is proven that those who travel to New Zealand using this mode of travel, stay longer than dual-destination visitors.
- While TIA's focus is on inbound tourism, it is important to acknowledge that international airline services to China would not be economically sustainable without the more than 80,000 New Zealanders who travel to China each year.

Beijing is an important gateway for China

16. In the year ended March 2015, 295,552 Chinese visitors arrived in New Zealand, with official tourism forecasts predicting that annual visitor numbers will exceed 500,000 by 2020, an average growth of 40,000 more visitors each year. Beijing residents currently make up only 12% of all Chinese visitors to New Zealand.
17. Beijing and surrounding provinces provide a further opportunity to grow value from the China visitor market beyond the Shanghai and Guangzhou hubs. Of the 35,824 residents who travelled to New Zealand from Beijing in the past year, almost three-quarters travelled to New Zealand for a holiday. This market segment provides greater value to the visitor economy than those travelling for the purposes of Visiting Friend and Relatives (VFR).
18. This Alliance with the proposed additional Beijing – Auckland non-stop service is therefore useful in providing another means of sustainable air connectivity to New Zealand while at the same time ensuring Air New Zealand has a strong presence in the important northern China market.

Sharing the benefits more widely

19. If, as Air New Zealand and Air China suggest, this is to be an enduring strategic alliance for both parties, consideration should be given to what that success looks like for New Zealand more widely. It would be wrong to authorise this Alliance for a five year period if it prevented the establishment of additional direct air services between key Chinese ports of departure and other New Zealand airports during that time frame.
20. 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).
21. 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.
22. As evidenced in Tourism 2025, there is a strong industry focus on value rather than volume. At present the Auckland region attracts 57% or \$466 million of the total China visitor market spend across New Zealand. In contrast, the Christchurch region generates \$43 million from Chinese visitors and Wellington \$15 million. Spend by Chinese visitors should flow through the regional economies of New Zealand more evenly and this alliance provides an opportunity through Air New Zealand's domestic network to further

stimulate the South Island and other parts of New Zealand with the growing economic value of the China visitor market.

23. 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"

24. If this is to happen, then regulatory arrangements such as this Alliance between Air New Zealand and Air China and the air services agreement (ASA) between China and New Zealand, need to signal the importance of connectivity into other New Zealand regions so the benefits of sustainable air services can be shared more widely.
25. Seasonality is a major challenge for the tourism industry and TIA supports mechanisms that will drive demand in to the shoulder and broader off-peak season. The alliance provides an opportunity to improve travel during the off-season, with the proposed off-peak services offered during this period.

Tourism infrastructure and capacity

26. 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 had been running at over 90% occupancy for much of the 2014/2015 summer season.
27. 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.

CONCLUSION

28. TIA supports the authorisation of the Air New Zealand and Air China Strategic 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

29. 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.

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

- Tourism in New Zealand is a \$65 million per day and \$24 billion a year industry.
- The tourism industry directly and indirectly supports more than 166,000 full-time jobs, or 8.3% of the workforce.
- The tourism industry represents 7.1% of GDP and is New Zealand's second largest export industry.

End.