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INTRODUCTION

1. Christchurch International Airport Limited (*CIAL*) welcomes the opportunity to submit on the discussion document released by the Ministry of Transport (*MOT*), *International Air Transport Policy*.

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EXECUTIVE SUMMARY

There is a strong correlation between liberalising air services and economic growth.

New Zealand’s 1998 international air transport policy recognises this with its objective to ‘maximise economic benefits to New Zealand’, and several initiatives taken pursuant to this policy have successfully contributed towards opening up the New Zealand economy, including:

4.1 creating the Australia-New Zealand Single Aviation Market;

4.2 entering into open skies agreements with many of New Zealand’s key international markets;

4.3 removing foreign ownership restrictions in the New Zealand domestic market; and

4.4 signing the Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT).

This MOT review presents a timely opportunity to further develop New Zealand’s positive international air transport policy, in order to promote increased tourism and increased capacity for New Zealand producers.

Further to this, CIAL’s primary recommendations relate to opening up air access to the South Island – a regional economy of national significance.

The South Island tourism and air freight industries are significantly and disproportionately prejudiced by the reciprocity, route, and quota restrictions in New Zealand’s air services agreements (ASAs) with many key trading partners. This is largely due to the South Island’s distance from principal gateway airports, but capacity constraints have been exacerbated by the Canterbury earthquakes.

To ease capacity constraints and encourage air services to the South Island, CIAL proposes 3 alternative amendments to the MOT’s proposed policy for air services liberalisation, listed in order of preference:

8.1 unilateral open skies for New Zealand;

8.2 a regional air access package for the South Island (mirroring that in Australia) whereby any registered international airline can fly to South Island airports, subject only to the usual safety and security standards; or

8.3 extra-bilateral services for the South Island whereby the MOT adopts a preference for granting extra rights to South Island airports for a minimum of 24 months, and places an onus on stakeholders who are against the service being granted to prove that the service would result in objective harm to New Zealand.

The two latter recommendations confer special status on South Island airports in recognition of the special circumstances facing the South Island region, and of the role liberalisation can play in creating economic growth. This is particularly
important at a time when the restoration of economic development in the South Island is critical following the adverse impact of the Christchurch earthquakes.

10 We agree with the end point that the MOT has identified – open skies. This would result in economic gains, and New Zealanders would be better off. The discussion is around how fast we move forward that objective, and in particular whether we tie our progress to the appetite foreign governments have to liberalise their markets, and the ability of New Zealand airlines to grow. CIAL submits that in the current challenging environment we need to move faster.

11 With respect to the other MOT proposals for New Zealand’s international air transport policy, CIAL:

11.1 **strongly endorses** the granting of unreciprocated air services in relation to extra-bilateral services and access to regional airports for cargo-only services;

11.2 **recommends** that these unreciprocated services be established for a minimum of 24 months and that - in deciding whether to grant either type of unreciprocated service - the MOT engage comprehensively and transparently with stakeholders, and place an onus on stakeholders who are against granting the service to prove the service would result in objective harm to New Zealand;

11.3 **endorses** the proposals regarding third-country investment in foreign airlines and the designation criteria for New Zealand airlines, other than Air New Zealand;

11.4 **recommends** that the ownership criteria for the designation of airlines in New Zealand’s open skies agreements, like the Australia-New Zealand Open Skies Agreement, be more relaxed than is currently the case;

11.5 **recommends** a slight rewording of the policy objective to ensure it reflects the dynamic nature of the aviation industry and New Zealand’s key international markets;

11.6 **endorses** the proposed elements for New Zealand’s model open skies agreements;

11.7 **endorses** the MOT’s proposal to develop mechanisms allowing for systematic engagement with a wider range of stakeholders in determining the forward negotiation programme;

11.8 **recommends** systematic engagement with stakeholders on the establishment of individual ASAs, and transparency surrounding the basis upon which ASA decisions are made; and

11.9 **endorses** the CAPA Consulting recommendation that the MOT formulate a specific strategy for providing open access to the ASEAN region.
APPRAISON TO AIR SERVICES LIBERALISATION

Key Points
12 There is a strong correlation between liberalising air services and economic growth. This review presents a timely opportunity to further develop New Zealand’s positive international air transport policy, in order to promote increased tourism and increased capacity for exports.

13 The MOT correctly observes that removing regulatory constraints will, on balance, increase air services to New Zealand by enabling carriers to make commercial decisions about entering the market. CIAL supports this general proposition.

14 However, the current ASA settings, and the proposed air services liberalisation policy, adopt an approach that weights the advantages primarily to principal gateway airports, without taking into proper consideration the constraints that New Zealand’s ASAs have on the South Island - a regional economy of national significance.

15 The South Island tourism and air freight industries are significantly and disproportionately prejudiced by the reciprocity, route, and quota restrictions in New Zealand’s ASAs with key trading partners.

16 This significant and disproportionate prejudice results from the South Island’s distance from principal gateway airports, but has been exacerbated by the Canterbury earthquakes.

17 Regulatory barriers to the movement of people and goods into and out of the South Island need to be removed. The strong and ever increasing demand for direct air services by the South Island tourism and air freight industries is not being met by supply – to the overall detriment of the New Zealand economy.

18 CIAL recommends 3 alternative amendments to the MOT’s proposed policy for air services liberalisation, listed in order of preference:

18.1 unilateral open skies for New Zealand;

18.2 a regional air access package for the South Island (mirroring that in Australia) whereby any registered international airline can fly to South Island airports, subject only to the usual safety and security standards; or

18.3 extra-bilateral services for the South Island whereby the MOT adopts a preference for granting extra rights to South Island airports for a minimum of 24 months, and places an onus on stakeholders who are against the service being granted to prove that the service would result in objective harm to New Zealand.

South Island tourism industry
19 Growing New Zealand’s tourism sector is a key stated goal of the Government, and increasing direct air services to the South Island – home to New Zealand’s primary tourist attractions - is a necessary step towards achieving that goal.
Christchurch Airport is the principal gateway to the South Island; however, following the Canterbury earthquakes, the lack of direct air services to and from Christchurch Airport has contributed to a significant drop in international passenger movements to the South Island region.

The effects of this are being widely felt. Queenstown, Wanaka, Kaikoura and Mt Cook are all reporting a sharp decline in visitors. In Mt Cook business is reportedly down 50%. In Kaikoura the celebrated Whale Watch operation has laid off staff.

Visitor numbers are slowly starting to bounce back, however South Island tourism operators are citing a lack of direct air services into Christchurch Airport as a primary constraint on their business.

Asian countries in particular have a clear preference for visiting the South Island over the North Island; however there is not enough service capacity to Christchurch Airport to get them here efficiently.

Given the commercial realities of long-haul flying, and securing access to distant markets, it is challenging enough to prompt passenger services to and from the South Island even without the constraints imposed by current ASAs.

The South Island needs to communicate as clearly as it can that it is open for business, creating the incentives for people to travel here and generating positive publicity for the region to recalibrate tourist perceptions.

Growing South Island tourism is key to the New Zealand economy

International visitors, especially from Asian markets, are attracted to New Zealand because of our adventure tourism, outdoor activities and scenic locations.

These attractions are predominantly based in the South Island as they leverage off the South Island’s natural environment.

They include, but are certainly not limited to:

28.1 Lake Tekapo and the Church of the Good Shepherd;
28.2 the Marlborough Sounds;
28.3 Kaikoura Whale Watching;
28.4 Milford Sound;
28.5 Mt Cook/Aoraki;
28.6 Southern Glaciers;
28.7 Hanmer Springs;
28.8 Wanaka; and
28.9 Queenstown.
Government statistics show that over the past five years, international visitors have consistently spent more time and money in the South Island than in the North Island:

29.1 The average stay in the South Island is 24 days, compared to an average stay of 21 days in the North Island.

29.2 The average amount of money spent in the South Island is NZD $3,444, compared to an average spend in the North Island of $2,605.¹

**Asian markets want to fly direct to the South Island**

Christchurch Airport’s close proximity to regional attractions makes it the preferred gateway to the South Island.

This preference is illustrated by the fact that, in April 2012, Malaysian passenger movements grew to be Christchurch Airport’s 4th largest market as a direct result of the (now discontinued) AirAsia X service - which directly linked Kuala Lumpur and Christchurch.

In contrast, Malaysia did not even feature amongst any other International Airports’ top markets for the same month.

South Island tourism operations are acutely aware of the importance of facilitating the direct access of Asian markets to the South Island.

Many of these operations:

34.1 receive first-hand comment from Asian visitors that poor airline connections to Christchurch Airport have prevented them from visiting sites they would have otherwise; and

34.2 experienced a direct link between the introduction of the AirAsia X service linking Kuala Lumpur and Christchurch, and the significant growth of Malaysian visitors as a result.

**ASA constraints prevent direct flights to the South Island**

Capacity constraints into Christchurch Airport are due to New Zealand’s ASAs with many Asian countries.

This is illustrated by the fact that the Australia-New Zealand Open Skies Agreement has resulted in both Christchurch and Auckland airports sharing New Zealand and Australia as their top-2 arrival markets, while a clear disparity exists in each airports subsequent top markets.

For example, Japanese passenger movements did not feature in Christchurch Airport’s top 10 markets for April 2012, in contrast to Auckland where Japanese travellers were its 6th largest arrival market.

This disparity in Japanese passenger movements is because of the lack of capacity to Christchurch Airport, as:

¹ Statistics New Zealand 2011.
38.1 anecdotal evidence from tourist operators in Japan is that consumer preference from Japan is 9/1 for a South Island visitation over a North Island visitation; and

38.2 Air New Zealand flies direct from Japan to Christchurch during the summer months and Christchurch Airport has secured Japanese charters this coming summer.

39 Furthermore, Chinese passenger movements are only Christchurch Airport’s 8th largest passenger market, while they are New Zealand’s 3rd largest tourism market overall, and represent Auckland’s 3rd largest passenger market by a clear margin over the rest of its top passenger markets.

40 Many of the Asian markets are yet to truly discover the South Island. Upon doing so, this will make a significant difference to South Island tourism operators.

Case studies from South Island tourism operations

41 Taieri Gorge Railway:

The overwhelming comment has been that everyone wants to do more South Island or mono-South Island trips but airline connections in and out of Christchurch are limited. The current situation is unsatisfactory as most of these visitors currently fly in and out of Auckland and end up missing the parts of New Zealand they really want to see.

It is vital for the economy of New Zealand and for visitor satisfaction levels that more airlines use Christchurch as an international gateway. Taieri Gorge Railway has found that, while the Emirates service to Christchurch is very useful for Thailand visitors and the Singapore Airlines link for several countries, the vast majority of outbound agents are looking for an increase in airline schedules to Christchurch,

We have been heavily promoting 5-10 day South Island itineraries out of Christchurch and intend to keep doing this as we need to ensure that Asian visitors to New Zealand are able to experience the part of New Zealand they really want to see.

Taieri Gorge Railway currently carries 85000 passengers per annum with the Asian countries and Australia being key markets. Our train trip is utilised as a sightseeing attraction as well as a transport link to or from Queenstown.

(Murray Bond – Chief Executive, 20 April 2012)

42 Tourism Dunedin:

A new direct air service from Asia is vital for New Zealand tourism, which is our country’s number one industry and a great opportunity for aviation leaders. Most visitors to New Zealand are attracted by the icons of the South Island. As the South Island’s gateway, Christchurch Airport is the beginning of a memorable holiday experience to the most beautiful parts of New Zealand...

Dunedin has a long-standing sister-city relationship with Shanghai. Our connections with Asia, and China, reflect the relevance of the gold rush and University. Now these reasons appear revitalised and the interest from Asia in Dunedin is on the increase.
Growth and air access today from North Asian markets however appear subdued, and for this reason we’re supportive of securing more access from those high growth markets, for the benefits of both countries in the area of trade, education, tourism and business opportunity.

(30 April 2012)

43 Whale Watch:

We have directly experienced the significant growth of the Malaysian market since the introduction of Air Asia X to Christchurch and it wouldn’t be unreasonable to suggest, based on this, that the same success should be experienced with the introduction of a direct service to Christchurch from Southern China.

(Kauahi Ngapora – Chief Operating Officer, 2 December 2011)

44 House of Travel, Upper Riccarton:

Our customers are fiercely patriotic towards those international carriers flying internationally from Christchurch International Airport, to the extent that for many, consideration of carrier choice is limited only to those flying from Christchurch.

(Dalwyn Sinclair – Managing Director, 29 November 2011)

**South Island air freight industry**

45 A strong demand for air freight capacity into and out of the South island exists, and is growing.

46 However this demand is not being met by supply, constraining South Island producers – who either incur delay and higher transaction costs by moving goods through Auckland, or who do not enter the international market at all.

47 This represents an inefficient outcome for New Zealand as a whole. South Island businesses looking to increase their international trade, and prepared to pay the price of belly hold freight, are unable to do so.

48 The capacity constraints are caused by the propensity of New Zealand’s ASAs with key trading partners to limit the supply of passenger flights, in particular to the South Island.

49 Given the air freight industry’s dependence on belly hold freight capacity in international passenger aircraft services, the significance of air freight capacity constraints cannot be underestimated in the context of ASAs.

50 This was recently acknowledged by the Productivity Commission, in its Final Report on New Zealand’s International Freight Transport Services.

51 The Productivity Commission recognised that New Zealand’s air freight sector was heavily reliant on passenger belly hold capacity, and therefore had a legitimate interest in ASA restrictions. The Productivity Commission recommended that:
The Government should account for freight-specific costs and benefits whenever it considers changes to air services agreements or new air services agreements.2

**Current demand for air freight capacity**

The South Island produces almost half of New Zealand’s primary sector goods (seafood, vegetables, meat and fruit),3 resulting in a strong demand for export air freight services out of Christchurch Airport.

South Island importers also require air freight services into Christchurch Airport, primarily for other time sensitive freight (excluding perishables), and high value manufactured goods used in the manufacture of goods that are re-exported or produced for the local market.4

Currently, about 25,500 tonnes of air freight passes through Christchurch Airport annually.5 This includes both import and export tonnes, worth NZ$2.44 billion.6

An important variable to consider in the context of air freight demand is also the recent, significant increase in the value of cargo coming into and out of the South Island, through Christchurch Airport.

As illustrated by the following graph (containing Statistics New Zealand data), while the gross weight of freight passing through Christchurch Airport has stayed almost constant, in the past 2 years the value of freight has increased significantly:

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3 PWC “Opening up the South – A report to the Canterbury Development Corporation” (12 August 2011) at 1.

4 PWC “Opening up the South – A report to the Canterbury Development Corporation” (12 August 2011) at 21.

5 PWC “Opening up the South – A report to the Canterbury Development Corporation” (12 August 2011) at 14.

6 PWC “Opening up the South – A report to the Canterbury Development Corporation” (12 August 2011) at 14.
Demand for air freight capacity is growing

By 2031, the PWC Report estimates that the demand for South Island air freight services will have increased to 87,800 tonnes per year, representing:

58.1 55,500 export tonnes; plus
58.2 32,300 import tonnes.\(^7\)

In terms of total New Zealand import and export weights, this would amount to:

59.1 38.7% of export weights; and
59.2 22.7% of import weights.\(^8\)

Current air services out of CHC, which are insufficient to meet present demand, would meet about 1/3 of this future demand.\(^9\)

Market demand is not being met by supply

South Island demand for bellyhold air freight capacity is not being met by supply, meaning that South Island importers and exporters are having to either:

61.1 use Auckland Airport as their import and export hub, requiring the domestic transportation of the goods to or from the South Island (which is inefficient in terms of time and cost); or
61.2 not trade internationally at all, leading to a loss of economic wealth to New Zealand.\(^{10}\)

29,700 tonnes of air freight per year is affected

This has resulted in Christchurch Airport transporting less than half of the South Island’s share of air freight (having regard to the South Island’s production and consumption patterns).\(^{11}\)

In weight terms, this gap between actual and potential air freight passing through Christchurch Airport translates into 29,700 tonnes of missed air freight per year, being:

63.1 17,700 export tonnes (the equivalent of 170 fully-laden Boeing 777s); and

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\(^7\) PWC "Opening up the South – A report to the Canterbury Development Corporation" (12 August 2011) at 2 and 46.

\(^8\) PWC "Opening up the South – A report to the Canterbury Development Corporation" (12 August 2011) at 46.

\(^9\) PWC "Opening up the South – A report to the Canterbury Development Corporation" (12 August 2011) at 2.

\(^{10}\) PWC "Opening up the South – A report to the Canterbury Development Corporation" (12 August 2011) at 37.

\(^{11}\) PWC "Opening up the South – A report to the Canterbury Development Corporation" (12 August 2011) at 36 – 42.
Case studies illustrating South Island air freight capacity constraints

Ngai Tahu

Direct air services out of Christchurch Airport are fundamental to the future success of Ngai Tahu’s export business. Current constraints on air freight capacity and connectivity through Christchurch Airport are restraining Ngai Tahu’s ability to trade internationally.

Ngai Tahu exports live lobsters to China and other international markets including Kuala Lumpur, Hong Kong, Taiwan, Dubai & Japan.

Because of the very short shelf life of live seafood, exporting to international markets demands regular, direct air connections. Ideally, Ngai Tahu would have regular connections from the South Island enabling:

- daily services into Shanghai;
- weekly services into Beijing; and
- daily services into Hong Kong.

However, air freight capacity constraints through Christchurch Airport mean that such direct and regular connections do not exist out of the South Island – where Ngai Tahu Seafood’s head office and all of Ngai Tahu’s seafood plants are located.

Consequently, Ngai Tahu must domestically transport most of its live exports to Auckland Airport from the South Island. Such domestic transport is inefficient in terms of time and expense. This inefficiency is exacerbated by:

- the lack of domestic air freight capacity from Christchurch Airport to Auckland Airport;
- the extra time that must be allowed for packing the lobster to meet domestic flights (i.e. longer time than necessary being packed into boxes); and
- the extra cost in moving the lobster from the South Island to the North Island.

Currently, Ngai Tahu exports approximately 500 tons of seafood per year. Of this only 10% leaves through Christchurch Airport, and 90% leaves through Auckland Airport.

Improved air freight capacity and connectivity through Christchurch Airport could see 100% of Ngai Tahu’s exports leaving directly from the South Island, avoiding the inefficiencies mentioned in transporting exports domestically to Auckland Airport, and greatly improving Ngai Tahu’s ability to trade internationally.

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12 PWC “Opening up the South – A report to the Canterbury Development Corporation” (12 August 2011) at 2.
(Brian Moriarty - Chief Executive; Amanda Mitchell – Sales & Marketing Executive)

**Market Gardeners**

Market Gardeners’ primary business is marketing domestic and imported fresh produce. Market Gardeners is New Zealand’s largest importer of fresh produce, primarily from Queensland, the West Coast of the USA, and South America - by sea and air.

Market Gardeners is reliant on belly hold air freight capacity for most of its perishable products, but experiences severe capacity constraints out of each of these core supply areas into the South Island.

Capacity constraints are caused by the lack of direct flights into Christchurch Airport, and by the lack of wide-bodied aircraft operating services into Christchurch Airport.

The lack of flights into Christchurch Airports means that most of Market Gardeners’ imports come via Auckland Airport and are domestically transported to the South Island. Given the perishable nature of the product, the cost and time involved in domestically transporting in this way is a substantial issue for Market Gardeners.

For example, it takes a total of 4-5 days for produce to get from the West Coast of the USA to Christchurch. This means that, by the time the produce arrives, Market Gardeners does not end up selling it all. Fresh produce simply does not have the shelf-life to effectively last such long transits.

Even where direct flights into Christchurch Airport do exist, the lack of wide bodied aircraft severely restricts air freight capacity. A good example of this is the air service out of Brisbane, where space is so restricted it is not possible for Market Gardeners to economically load its freight.

**Tait Communications**

Tait Communications (Tait) is a Christchurch based manufacturer. Tait imports components and partner products and exports radio communications solutions.

Approximately 90% of Tait's import shipments and 100% of Tait's export shipments are via airfreight. At least 95% of Tait's airfreight shipments are transported using belly hold freight capacity.

Because of the range of Tait's international origins and destinations, Tait achieves best market connectivity by using offshore regional hubs, preferably with direct flights into or out of Christchurch Airport.

Tait’s offshore manufacturing suppliers are primarily based in Australia, Asia (Singapore, Malaysia, Indonesia, China, Hong Kong, and Taiwan) and the USA. Approximately 35% of Tait’s import shipments travel to Christchurch via Auckland Airport. An example is shipments from Hong Kong, which travel via Auckland Airport because there are no direct flights from Hong Kong to Christchurch Airport. The main issue for Tait in importing via Auckland Airport is that it adds at least one day to the transit time.

Tait exports to over 150 countries, both via twice weekly shipments to regional offices in Brisbane, Houston and Huntington and direct to customers in many
countries as required. Tait uses offshore hubs, such as Sydney, Dubai, Singapore and London, to access airfreight services to many countries. Approximately 6% of Tait's export shipments go via Auckland airport.

Many of Tait's export shipments are too large for narrow bodied passenger aircraft, so the availability of wide bodied passenger aircraft out of Christchurch Airport is more of an issue to Tait than the lack of freighter aircraft out of Christchurch Airport.

**Restrictive ASAs disproportionately prejudice the South Island**

Because of the South Island's distance from key aviation hubs, the South Island economy is disproportionately prejudiced by the reciprocity, flight restrictions and quotas contained in New Zealand's ASAs with key trading partners.

**Reciprocity**

Policies requiring national reciprocity have a tendency to limit the potential of smaller local economies.

This is because principal gateway airports generally use up the rights that are granted in reciprocal ASAs, to the benefit of local economies in the vicinity of those gateway airports.

This fact has been recognised by several international governments, which have instituted a 'two-tier' approach to ASAs.

Such a two-tiered approach opens up the available rights for secondary airports (like Christchurch Airport and other South Island Airports), while managing the principle gateway airport ASA restrictions.

The following are good examples of this 'two-tier' approach:

**Australia regional air access policy**

Under Australia's regional air access policy, foreign airlines are granted:

89.1 unlimited access to regional Australian airports; and

89.2 more capacity to Australia's major gateways (Sydney, Melbourne, Brisbane and Perth) if their air services are linked to Australian regional airports.\(^\text{13}\)

The Australian Government will also endeavour to offer more liberal beyond rights to foreign airlines from regional airports in future ASA negotiations.\(^\text{14}\)

**Chinese open skies arrangement for Hainan Island**

In 2003, the Chinese government put an open skies arrangement in place for Hainan province, which waived the requirements for reciprocal air rights to/from Hainan and allowed foreign airlines free access to the province's two principal airports with unrestricted rights to fly people in and cargo out.

The arrangement was independent of China's general air policy and required no changes to any of its existing bilateral ASAs.

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\(^\text{13}\) Australian Government “National Aviation Policy White Paper” (December 2009) at 45.

Foreign airlines to make use of this liberalisation include Jetstar Asia (from Singapore), AirAsia (from Kuala Lumpur), Asiana (from Seoul), Tiger Airways (from Singapore) and Tansaero (from Moscow).

**United States extra-bilateral arrangements**

Since the early 1990s the US Department of Transportation has allowed foreign carriers to apply to operate from their home country to a destination in the US for up to one year outside of any bilateral ASA. Each application requires approval and is subject to a number of conditions, the most notable of which is that no existing service by a US carrier be operating on that route.

**Flight Restrictions**

In addition to restricting the capacity, number and frequency of flights, ASAs prevent effective connectivity to overseas markets by determining the specific routes that airlines must fly.

Determining routes involves specifying the origins, destinations and intermediary points of flights.

South Island importers and exporters are disproportionately prejudiced by these route restrictions in New Zealand’s current ASAs.

Consider the following examples:

**Indonesia**

The only intermediary points allowed between Indonesia and New Zealand are two points in Australia, however the ASA between Australia and Indonesia limits the points allowed beyond Australia to New Zealand - including limiting access to Christchurch Airport.

**India**

Auckland is the only airport airlines from India are permitted to fly to.

Consequently, Indian passengers have to travel to the South Island on indirect services, including by Singapore Airlines, or other options via Australia.

**South America**

The current New Zealand-Brazil ASA limits the frequency of flights to and from New Zealand, and the current New Zealand-Argentina ASA does not include Christchurch Airport as a designated point in New Zealand that can be served by an Argentinean airline.

Linking South America with Asia via New Zealand has been a long held objective and CIAL endorses the MOT’s objective to remove restrictions in entering the South American market in the near future.

In pursuing this objective, it is important for the MOT to understand that, from most points in Asia, a stop in Christchurch Airport would reduce the time and cost of fuel burn incurred in making the journey between Asia and South America.
In terms of great circle distances, Christchurch Airport is closer to points in South America than Auckland. Using Christchurch as a transit point on the way to South America from Asia (or vice versa) saves airlines fuel burn and cost, adding to the potential profitability of the service.

Key traffic flows between the three regions are principally Asia to South America, with New Zealand providing a much smaller volume of traffic to the connection.

An objective of using NZ as a natural hub for connecting traffic should be built around increasing speed to market and reducing costs of operation.

However existing ASAs limit Christchurch Airport’s ability to offer airlines a choice in their deliberations, as some Asian-South American ASAs have additional limitations over and above those for Auckland.

The current flight frequency limitation for airlines flying between Brazil and New Zealand, and the exclusion of Christchurch as a designated point in the Argentinean ASA, limits choice for consideration of New Zealand as a transit hub.

The table below shows the great circle distances between specified points. The sum of the segments between China and Indonesia to Argentina for instance demonstrates that Christchurch Airport is closer to the great circle distance, or simply a shorter flight between the two end points, compared to a transit via Auckland.

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<tr>
<th>From</th>
<th>To</th>
<th>Distance</th>
<th>Distance longer</th>
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<tbody>
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<td>AKL</td>
<td>5769 mi</td>
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<tr>
<td>AKL</td>
<td>EZE</td>
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<td>CAN</td>
<td>CHC</td>
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<td>CHC</td>
<td>EZE</td>
<td>6158 mi</td>
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2 segment path: (Jakarta – Buenos Aires, via points in NZ)  

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<th>Distance</th>
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<td>CGK – CHC – EZE</td>
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2 segment path:  

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<td>11185 mi</td>
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**Quotas**

111 North Island airports secure 3/4 of the volume of international flights under the current ASA framework, and as Auckland Airport is the largest metropolitan centre, it uses up New Zealand’s initial quota under some existing ASAs.

112 Airlines that would schedule further flights to the South island are prevented from doing so.

**South Island Producers are dependent on passenger services**

113 South Island producers are particularly reliant on passenger services for air freight capacity (and consequently, New Zealand’s ASAs). This is because only one dedicated freighter operates out of Christchurch Airport 6 days a week – reducing to 4 services over the summer peak, December to March.

**It is difficult enough to promote long-haul carriers to the South Island**

114 Given the commercial realities of long-haul flying, and securing access to distant markets, it is challenging enough to promote passenger services to and from the South Island, even without the constraints imposed by current ASAs.

115 For example, the head offices of most New Zealand based airlines are located at Auckland. And Air New Zealand’s engineering, operational and resourcing capability for long haul flying capacity is entirely based in Auckland.

116 Consequently, long haul flying into and out of Christchurch Airport adds greater complexity for New Zealand airlines due to long-haul crew bases and support being based elsewhere.

**International air services are interested in flying to Christchurch Airport**

117 Communication with a number of international airlines leads CIAL to believe there is interest in launching new routes to Christchurch from both China and other Asian Countries.

118 CIAL is aware of three airlines who are interested in launching a service to Christchurch, but who are currently unable to progress any expansion under existing ASAs.

**Chinese ASA and co-terminalisation**

119 Further, although the newly negotiated China ASA enables Christchurch Airport to secure air services from China, Chinese carriers have recently been informed that co-terminal operations in New Zealand are not permitted under the newly negotiated ASA.
120 CIAL believes that is an incorrect interpretation of the NZ-China ASA at page 2, paragraph 6.

121 Co-terminalisation is not specifically identified as being prohibited in New Zealand. The ASA is silent on the issue, much as is the case in the Korean, British and Singapore ASA – all nations from which airlines have operated in New Zealand using co-terminal operations.

122 CIAL’s approach to an improved level of access for the South Island is based upon clearing away such misinterpretations and perceived limitations to operation.

**CIAL’S recommendation**

123 CIAL recommends 3 alternative amendments to the MOT’s proposed policy for air services liberalisation, listed in order of preference:

123.1 unilateral open skies for New Zealand;

123.2 a regional air access package for the South Island (mirroring that in Australia) whereby any registered international airline can fly to South Island airports, subject only to the usual safety and security standards; or

123.3 extra-bilateral services for the South Island whereby the MOT adopts a preference for granting extra rights to South Island airports for a minimum of 24 months, and places an onus on stakeholders who are against the service being granted to prove that the service would result in objective harm to New Zealand.

**Unilateral open skies**

124 CIAL’s primary recommendation is to amend the proposed air services liberalisation policy to unilaterally enable foreign airlines entry to New Zealand, subject only to the required safety and security standards.

125 The current approach to requiring reciprocity reflects a particular negotiating tactic: that New Zealand will only lower barriers at the rate our trading partners will agree to.

126 This tactic contradicts New Zealand’s free trade policy, and often results in ASAs that are much more restrictive on passenger flights into New Zealand.

127 Consequently, it is contestable whether the reciprocity approach serves New Zealand’s long term interests.

128 It is also contestable whether or not the risks associated with a unilateral open skies policy posited by the MOT, including the potential to disenfranchise New Zealand airlines, would eventuate (see [39] and [40] of the discussion document).

129 New Zealand’s open skies policies have been a success to date, and our national airline has been the prime instigator of ASA negotiations in the past.

130 What is incontestable is that requiring reciprocity in ASAs harms the South Island economy - in the hope that a New Zealand based or domiciled carrier will benefit at some point in the future.
We agree that the MOT has identified the correct objective – open skies. The discussion is around how quickly we get there, and generate the economic benefits of liberalised aviation markets.

The current policy effectively ties our progress to two limiting factors – the speed at which other governments want to liberalise their markets, and the speed at which our national airline can expand. These two factors dictate the rate at which we move forward our national objective.

CIAL submits that in today’s challenging environment we need to move faster. This is the message we get from both the government and the private sector.

The question has changed – it is now "why should we as a country impose restrictions on our ability to get the benefits that come from liberalisation?" CIAL submits there are in most instances no good reasons, and we should be moving quickly to open skies.

**Regional air access package**

As an alternative to unilateral open skies, CIAL recommends a regional air access package be implemented for the South Island, whereby any registered international airline would be able to fly to South Island airports – subject only to the usual safety and security standards.

The Australian regional air access package should provide the model against which the New Zealand policy is developed.

As mentioned, under Australia’s regional air access package, foreign airlines are granted:

137.1 unlimited access to regional Australian airports; and

137.2 more capacity to Australia’s major gateways (Sydney, Melbourne, Brisbane and Perth) if their air services are linked to Australian regional airports.¹⁵

The Australian Government will also endeavour to offer more liberal beyond rights to foreign airlines from regional airports in future ASA negotiations.¹⁶

**Extra-bilateral services for South Island airports**

CIAL endorses the MOT’s proposed policy regarding extra-bilateral services, and recommends, as an alternative to a regional air access package, that extra-bilateral services are granted to South Island airports.

CIAL recommends that, in deciding whether to grant extra-bilateral services, the MOT:

140.1 engage with a full range of stakeholders (including airlines, airports, tourism operations and freighters) on a transparent basis;

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140.2 adopt a base position that the extra-bilateral service should be granted and place an onus on stakeholders who are against the service being granted to prove that the service would result in objective harm to New Zealand; and

140.3 approve the extra-bilateral service for a minimum of 24 months, to enable sufficient time for the service to be established and for the potential passengers and shippers in both jurisdictions, and the foreign government, to appreciate its worth.
UNRECIPROCATED EXTRA BILATERAL AND CARGO-ONLY SERVICES

Endorses proposals and recommends MOT adopt preference for granting service

141 CIAL strongly **endorses** the MOT’s proposals regarding the potential for unreciprocated air services being granted, on a case-by-case basis, in relation to:

141.1 extra-bilateral services; and

141.2 access to regional airports for cargo-only services.

142 CIAL **recommends** that, in deciding whether to grant either type of unreciprocated service, the MOT:

142.1 engage with a full range of stakeholders (including airlines, airports, tourism operations and freighters) on a transparent basis;

142.2 adopt a base position that the unreciprocated service should be granted and place an onus on stakeholders who are against the service being granted to prove that the service would result in objective harm to New Zealand; and

142.3 approve the unreciprocated service for a minimum of 24 months, to enable sufficient time for the service to be established and for the potential passengers and shippers in both jurisdictions, and the foreign government to appreciate its worth.
AIRLINE INVESTMENT

Endorses proposals and recommends more relaxed designation criteria in open ASAs

CIAL endorses the MOT’s policy proposals with regard to:

143.1 third-country investment in foreign international airlines; and

143.2 the designation of New Zealand airlines, other than Air New Zealand.

Restrictions on ownership and control of airlines are unique to the aviation sector, and CIAL believes that the MOT’s proposals are a positive and necessary step towards liberalising the aviation industry, in line with international practice and to the ultimate benefit of consumers.

CIAL also recommends that the ownership criteria for the designation of airlines in New Zealand’s open skies agreements, like the Australia-New Zealand Open Skies Agreement, be more relaxed than is currently the case.

When traffic rights are scarce, it makes sense for countries to award those rights to airlines that are connected to the designating country in some way.

However, a more relaxed approach to designation criteria is warranted in the case of open skies agreements, where there is no scarcity of traffic rights to ration, and where increased services are being encouraged.
OBJECTIVE OF INTERNATIONAL AIR TRANSPORT POLICY

Suggested redrafting to respond to dynamic nature of relevant markets

CIAL recommends that the MOT’s proposed policy objective be slightly re-worded as follows:

The objective of New Zealand’s international air transport policy is to provide New Zealand-based and foreign airlines with opportunities to provide their current and prospective customers with better access to global supply chains and New Zealand’s current and prospective key passenger and goods markets. This will be done in order to help grow the economy and deliver greater prosperity, security and opportunities for all New Zealanders.

The aviation industry is dynamic, as are New Zealand’s key international tourism and trade markets.

It follows that New Zealand’s international air transport policy objective must be forward-looking and flexible, acknowledging the need for existing ASAs to expand, and for new ASAs to develop – so enabling the greatest possible connectivity between New Zealand and international markets.

This means encouraging officials to negotiate and implement ASAs to provide current and prospective airline customers with access to New Zealand’s current and prospective key passenger and goods markets.

It is important not to overlook markets with which New Zealand has no current ASA in place, as such markets could be a source of untapped economic potential. Because ASAs determine - and so stimulate - access to markets, lack of an ASA with a particular market will inevitably contribute towards any current, negligible exchange of people and goods.

In determining prospective passenger and goods markets, the MOT should consult with a range of stakeholders, including airlines, airports, tourism operations and importers and exporters, on a transparent basis.
ELEMENTS OF AGREEMENTS

Endorses proposal if recognition given to reciprocity waiver for South Island

CIAL strongly **endorses** the elements the MOT proposes to include in New Zealand’s model open skies agreement (at [88] of the discussion document).

However, further to CIAL’s recommendations regarding air services liberalisation, **CIAL recommends** that the policy proposal be amended to state that reciprocity requirements will be waived in relation to South Island airports where the other party will not agree to full open skies.
THE FORWARD NEGOTIATION PROGRAMME

**Endorses proposals for wider stakeholder engagement**

156 To accurately reflect New Zealand’s wider economic interests, informed determinations about what are key markets and how best to connect with those markets, requires the input of a range of stakeholders, including airports, exporters and importers, tourism operations, communities, and airlines.

157 CIAL **endorses** the MOT’s proposal to develop mechanisms allowing for systematic engagement with a wider range of stakeholders in determining the forward negotiation programme.

158 However, stakeholder input is also required at the base-level of deciding whether a particular ASA with a foreign government should be established, and on what terms.

159 CIAL **recommends** that, in addition to engaging with stakeholders on the forward negotiation programme, the MOT:

159.1 systematically engage with stakeholders on the establishment of individual ASAs, including on the establishment of MOT’s proposed unreciprocated extra-bilateral and regional cargo-only services; and

159.2 provide transparency surrounding the final basis upon which ASA decisions are made.

**Endorses CAPA submission on developing strategy for ASEAN region**

160 CIAL **endorses** CAPA Consulting’s recommendation that the MOT should formulate a specific strategy for providing open access to the ASEAN region, including by leveraging off the development of the ASEAN Single Aviation Market.

161 Several markets with key growth potential are located in the ASEAN region.

162 Further, the InterVISTAS study *Impact of International Air Service Liberalisation on New Zealand*, estimated that 62% of traffic increases to/from New Zealand from further bilateral liberalisation would come from markets in Asia – ranked in the following order of impact:

162.1 China;

162.2 Japan;

162.3 India;

162.4 Philippines;

162.5 Hong Kong; and

162.6 Indonesia.

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17 InterVISTAS Consulting Inc *Impact of International Air Service Liberalisation on New Zealand* (December 2010) at 24 – 25.
Withheld pursuant to section 9(20(a))