International Air Transport Policy

Submission by the
Aviation Industry Association of New Zealand
to the Policy review document

1. Introduction

1.1 The Aviation Industry Association (AIA) welcomes the review of the 1998 air transport policy document and appreciates the opportunity afforded to participate in this consultation.

1.2 AIA's role is to represent the diverse interests of commercial aviation and notes that the document is entitled "International Air Transport Policy". Our submission is that in establishing policy settings it is essential that not simply the interests of the tourism industry are fostered and engendered, but it equally important that the interests of the aviation sector are considered in any "economic benefits" equation.

1.2 International Air Transport Policy is not simply about tourism and air freight it must also be about the contributions a strong and vibrant aviation industry can bring to this economy. We suggest that these benefits are in fact of an equal if not greater magnitude than the contribution inbound tourism makes to this economy.

1.3 Our one criticism of the document is that it perpetuates the belief that growth in inbound tourism is the major beneficiary of bilateral air service agreements whereas we submit, the major economic contribution arises from the trickle down effect of a growing aviation industry, predicated around an airline sector providing strong connectivity to, through and within New Zealand.

2 Economic Contribution to the Economy of the Aviation Industry

2.1 The first point we would make is that the multiplier effect for aviation is around 2.52 meaning that for every $1 of aviation revenue the combined upstream and downstream impacts would result in a total further $1.52 of revenue arising[1] "Finally a further

[1] New Horizon's report July 2010 P.27
factor to be considered in addition to the economic impacts is that the aviation industry can be seen as a significant enabler of commerce in general and in particular of high value sectors such as tourism, agriculture and horticulture."[2]

2.2 The airline sector and tourism are inextricably linked however it is critical our air transport policy setting must recognise that the objective is to grow and deliver greater prosperity for the New Zealand economy and all New Zealanders and bilateral agreements are facilitators of this opportunity providing access to global supply chains, passengers and goods markets. We submit the policy proposal on Page 8 of the Document is inappropriately focused and wrongly weighted.

2.3 The aviation industry in New Zealand contributes revenues of over $10Bn. Approximately 55% of that is derived from the operational sector (airlines and GA). The dominant force in this sector is Air New Zealand and the impact and effects of the ‘trickle’ down from the carriers extensive activities within New Zealand should not be overlooked.

2.4 This carrier and its associated activities are the dominant group in manufacture, overhaul and repair sector contributing around a billion dollars to New Zealand’s economy. It is also a substantial provider of training services and purchaser of airports and infrastructure services.

2.5 The aviation industry is an employer of high value add and high net worth individuals. Average salaries in 2008 dollars were around $80,000 twice the average income. Productivity is also extremely high at around $456,000 per individual employed. Again these are 2008 figures and were at the time higher than equivalent rates recorded by Fonterra considered to be an exemplar of productivity.

2.6 Critically the industry has set a goal of growing the revenue contribution to $16Bn by 2016. Revenue growth from exporting will be a major contributor.

2.7 In this context we submit the real value to the New Zealand economy of a robust International Air Transport policy is:

[2] PP 29
• Recognition of the critical contribution strong carriers based in New Zealand can have to the New Zealand economy – tourism is an important consideration, but not the dominant or only consideration;
• Where a carriers which would be considered “foreign” establishes or proposes a domiciled in New Zealand and could potentially access New Zealand bilateral rights they should not be precluded but a very clear economic off set “programme” should be an integral part of the proposal.
• Where ever possible all agreements which make reference to air transport should include reference to the supply of aviation services and products from New Zealand.

2.8 Recommendation Policy Proposal Page 8

The objective should be to maximise the economic benefits to New Zealand, including trade, tourism and the growth and development of a vibrant aviation industry, consistent with foreign policy and strategic considerations.

3 Approach to Air Service Liberalisation

3.1 Proposed Policy Approach

3.1 Sub paragraph One

3.2 We agree with the proposal however the matter of New Zealand’s best interests must be defined. Our submission is that New Zealand’s best interests have been looked at from a very narrow public policy perspective. This narrow perspective has led to the conclusion that all in bound tourism is in essence good. However when you drill down into the table on page 5 of the document under the heading “trends in air services it is clear that expanding growth markets are underpinned by VFR (visiting Friends and relative traffic) and not the pure discretionary leisure tourism market.

3.2.1 New Zealand’s interest we submit are thus inextricably aligned to immigration policies as much as they are by a philosophy of free trade. In fact it could be argued that free trade encourages more liberal immigration policies. In turn this underpins the need to liberalise markets.
3.2.2 To that end we support the work of the Ministry of Economic Development, however would caution that without taking account of the trickle down effect into the aviation industry of a dominant domiciled carrier any conclusions will understate the economic benefits of aviation and have a perverse impact on any appraisal of “New Zealand’s interest”

3.3 Sub Paragraph Two

3.3.1 Multilateral agreements should not be fixated on purely air markets. For example there has been no further liberalization of the Single Aviation Market even though mutual recognition of New Zealand’s regulatory system would we believe bring considerable benefits across the whole spectrum of aviation. Essentially the development of the air markets between Australia and New Zealand has been frozen in a time warp and no further liberalization has occurred because there is a perception that the market is open and deregulated.

3.3.2 In reality for most operators other than CAR part 121 and some 125 operators the market is just as restrictive and constrictive as it has ever been. There has been no change in the view of air safety and the provision of services within each other’s economy since SAM was signed. As we know Australia is the most critical market for New Zealand inc exports.

3.3.3 The market place for New Zealand is not simply travel and tourism it is for the export of all aviation products and services

3.4 Sub Paragraph Three

3.4.1 We consider foreign airlines that are prepared to invest in New Zealand by contributing to our infrastructure and transfer of technology, skills or expertise should be given preference over foreign carriers who are not prepared to invest.

3.4.2 In other words there should be recognition that some foreign carriers are prepared to employ New Zealanders, create jobs and wealth for New Zealanders and share in the economic gains. These carriers should be given some preferential rights over carriers whose sole objective is to create wealth and employment for their
own nationals. We appreciate this might be a challenging concept to implement but it should be to the forefront of any decision to liberalise markets.

3.5 Sub Paragraph Four

3.5.1. Consumer interests have dominated this market it is time that these interests are balanced against creating wealth for New Zealand and New Zealanders.

3.5.2 In our comments regarding anti competitive behaviour and predatory pricing are backwards looking and do not recognize the power of the internet. We would like to understand how it is possible to indulge in such behaviours when prices are transparent on web pages owned by airlines travel companies and a variety of other groups. In the international leisure market it is destinations that compete and not airlines. In price sensitive markets it’s about packages not airlines competing.

4 Airline Investment

4.1 Policy Proposal Third Country Investment in Foreign International airlines

4.1.1 We support but note that if New Zealand is to “turn a blind eye” that consideration should in part be examined in the context of economic benefits for New Zealand

4.2.1 Policy proposal Designation of New Zealand airlines other than Air New Zealand

4.2.1 We think this is a very simplistic approach. It is simply not a sustainable situation to have your major competitor holding a substantial number of shares and sitting on the Board.

4.2.2 In all reality it is not the issue of 25 or 35% that matters it is having a competitor holding a substantial ownership position. All publically listed private sector companies would find this an intolerable position as it impedes free flow of information and growth of the company.
4.2.3 This is not a comfortable scenario in terms of New Zealand competition law or the governance of companies. Furthermore it could only apply to publically listed companies as privately owned airlines it would be impossible to determine with any veracity ownership.

4.2.4 It is not the limits of the shareholding but the degradation of competition or potential competition. It is incredibly difficult for managements to openly and transparently brief Boards when your competitor is a Board member. The potential to create dysfunctionality is significant. We think much greater consideration should be given to New Zealand company law and the responsibilities of Directors before removing foreign airline ownerships. We are not opposed to such limits being relaxed but there still need be caveats around competition. We also query where these changes would sit relative to Takeover laws.

4.3 Additional comment

On the other hand, if the policy change is made, we do not see how it is an equitable and sustainable position to exclude Air New Zealand from such changes. To place Air New Zealand at a disadvantage when raising capital is to place New Zealand’s aviation industry at a disadvantage – the linkages between the two (the trickle down effect) is too strong

5 Elements of agreements

5.1 Agree with the caveat that New Zealand’s best interest’s need to be quantified and defined.

6 The Forward Negotiating Programme

6.1 Negotiating Programme

6.1.1 Sub Para One

6.1.2 We would add aviation into the mix – this is not simply about airlines. There may be some urgency from an aviation sector perspective to have matters attended too or addressed.
6.2 Sub para Two

6.2.1 Agreed however we should not be totally dismissive of any other opportunity which may present itself. Whether the opportunity is accepted should be a matter for the Ministry to determine in conjunction with the enhanced stakeholders group. In our view no one group holds all of the knowledge on the benefits such an agreement may create for New Zealand.

6.3 Sub Para three

6.3.1 Accepted

6.4 Sub Para Four

Accepted

7. Stakeholder input on negotiating priorities

We would add Aviation interests may differ to airlines, airports, tourism and air freight. We are disappointed that Aviation is not included on the list however this we appreciate reflects the tenor of the document and we submit its major weakness – the lack of recognition that aviation makes to creating wealth for New Zealand and New Zealanders.

8 Concluding remarks

We are appreciative of being consulted but are disappointed in that there is very little acknowledgement that the potential to create economic wealth for New Zealand and New Zealanders should be the driving and overriding consideration.

Aviation itself as a wealth generator is not acknowledged and much of the thinking is based around historical perspectives on the contribution of international inbound tourism to the New Zealand economy. While this was true in the late 1990’s when the policy was developed this is not as true today. No longer is leisure travel the predominant inbound tourism activity – this has been surpassed by visiting friends and relatives and this is a very different economic contributor to the New Zealand economy.
Yours sincerely

Irene King
Chief Executive

Enclosed A copy of the New Horizons Report