

**From:** Tim Hunter [<mailto:Tim.Hunter@christchurchnz.com>]

**Sent:** Friday, 3 May 2013 5:37 p.m.

**To:** Richard Cross

**Subject:** Submission from CCT on the Reauthorisation of the NZ and VA Airline Alliance

Dear Richard

Please find below our submission on the proposed reauthorization of the NZ/VA Alliance Arrangements :

**Submission on the reauthorisation of the Air New Zealand and Virgin Australia Group Australasian Airline Alliance**

**Introduction**

Christchurch and Canterbury Tourism (CCT) has considered the proposal submitted by the applicants to the Minister of Transport and wishes to make a brief submission on one aspect of the request by the applicants which relates specifically to have the current arrangements renewed without the capacity commitments contained in the original Alliance Capacity Implementation Agreement. This departure from the original arrangements being sought by the applicants is strongly opposed by CCT as we consider it will further reduce competition on trans Tasman air routes into Christchurch and will not provide the necessary environment for the restoration of tourism demand for air services to Christchurch.

**Background**

Christchurch and Canterbury has suffered a significant reduction in holiday traffic from Australia in the wake of the Canterbury earthquakes of 2010 and 2011. We accept that this demand shift initially required air capacity reductions to ensure that air services could continue on an economically sustainable basis. It was for this reason that the capacity reductions sought by the Alliance in 2011 and 2012 were not opposed by CCT.

The capacity cuts applied by both the NZ/DJ Alliance and its competitors on the Christchurch routes have however been more severe than anticipated and have this summer denied us important growth opportunities due to unacceptably high load factors and consumer resistance to escalated pricing, reduced schedules and the frequency with which travelers are required to accept more indirect routings to reach our destination.

**Current Capacity Status**

Trans Tasman seat capacity by all carriers into Christchurch reduced by 81,000 seats (down 10%) in 2011 and a further 84,000 seats (down 11%) in 2012.

As it currently stands trans Tasman capacity on all Christchurch routes is estimated at 682,890 seats in calendar year 2013 which represents a total reduction of 19% since 2010. This equates to 17 fewer flights per week than 2010 and equates to a capacity level that is now lower than levels of air capacity on Christchurch routes that were operated in 2004.

**Tourism Recovery Trends**

Christchurch has made considerable progress with visitor recovery initiatives and needs an air service environment that encourages competition and capacity growth to ensure that visitor recovery for the tourism sector can take place.

From an industry capability point of view we have achieved some significant recovery milestones recently:

- 85% of our city's paid for tourism activities are now fully operational and are being well patronized by both international and domestic visitors.
- 2012/13 summer throughput of visitors through our Christchurch visitor centre has increased by more than 30% and local tourism operators have reported a significant surge in demand in Q1 2013 that indicates tourism recovery is strong.
- The new earthquake related attractions of "Red Zone Tours" and "Quake City" Exhibition are achieving very high patronage levels.
- More than 550 restaurants, bars and cafes are operating across the city and new hospitality venue openings are occurring at a rate of 10-15 new venues per month.
- Accommodation capacity is now rising steadily and this year we will open a further 800 new rooms in Christchurch city which will bring our total commercial accommodation stock up to more than 5,000 rooms. 4 hotels will re-open in the next six months.

### **Feedback from Australian Travel Sellers**

The diminution of schedules to Christchurch and restricted availability of fare classes commonly sought/sold by key holiday focused travel agents is considerably restricting our ability to compete with other New Zealand arrival hubs.

Some recent verbatim comments from travel sellers (for which original e-mail documents are held) that have come to our trade marketing team are as follows :

#### ***Agent A – Specialist New Zealand Consultant (on 11 April 2013)***

*"As only VA and NZ operate the CHC BNE sector at the moment (nothing from QF,EK or JQ), the availability on most days is as nearly the highest booking class. A few quotes I have done last week for travel in May/June only returned the 4<sup>th</sup> & 5<sup>th</sup> highest booking classes with Air New Zealand (out of 14 booking classes). This makes the airfare over \$1,100 return ex Brisbane to Christchurch which turns most people away from booking. I have been able to book a few via Sydney or Auckland to reduce the price, but for those looking for direct flights, I have had a few that have postponed their trips or decided not to travel after receiving the flight price."*

#### ***Agent B – Australian Ski Wholesaler***

*"We have been frustrated during the Ski season because of limited capacity and non-availability of "seat only" and "seat and bag" fares. The "Works" fare is also at the higher level because of the supply and demand factor. Demand is high. We believe this will affect South Island ski sales because many skiers are at low income, low fare levels, and with BNE - ZQN direct services being heavily booked at higher yields, the cost of ski airfares has risen considerably and the availability of seats diminished. Direct services to Queenstown do have an effect on Christchurch.*

*If for example there was a late rush, due to good snow, we don't think Air NZ and Virgin would have the capacity to cope. Result – lost sales and revenue for Ski New Zealand products.*

*We don't have time to compile figures but we are frustrated with the lack of "value" seats into CHC and ZQN, and this will impact on our ability to promote and sell ski products during the months nearest to the season."*

### **Marketing Implications**

CCT is keen to run a range of successive campaigns to stimulate the recovery of the Australian holiday market to our region. We find however that it is not possible to drive demand growth over air routes with restricted capacity, and it is now not possible to achieve any perceptible

improvement over any trans Tasman routes in the peak Jan-Mar quarter because of the fundamental shortage of seats.

One example that relates to restricted seat supply was the “Christchurch Re-imagined” campaign which we ran in Q4 2012 with a significant media investment of \$700k plus over the three major East Coast cities. This campaign proved to be a modest growth driver from Melbourne and Sydney with 12% and 6% holiday arrival growth but bombed completely from Brisbane with a 11% arrival decline. We believe that this outcome was a direct reflection of the fact that at this time the BNE-CHC route was being operated with 35% fewer overall seats than the 2010 level.

We have also noticed that since the Alliance has been in place there has been reluctance by both NZ and VA to participate with us in joint marketing activity on trans Tasman routes. There may be many and varied reasons for this but we suspect that the high load factors that are prevalent on Christchurch routes has reduced their impetus to invest in market stimulation.

It is for all of the reasons above that we are opposed to the removal of minimum capacity requirements as part of an extension to the future Alliance arrangements to be approved by the Minister.

We would be happy to respond to any further questions that you may have on this brief submission.

Yours sincerely

**Tim Hunter**  
**Chief Executive**

**Christchurch & Canterbury Tourism**

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