



Submission to
Ministry of Transport
on the
Qantas Airways and American Airlines
Joint Business Agreement

7 August 2015

EXECUTIVE SUMMARY

1. The Tourism Industry Association New Zealand (TIA) welcomes the opportunity to comment on the authorisation of the Qantas and American Airlines Joint Business Agreement.
2. Growing sustainable air connectivity is a key theme of the Tourism 2025 growth framework (www.tourism2025.org.nz) 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 Qantas and American Airlines Joint Business Agreement creates a platform that should encourage Qantas / American Airlines to consider further opportunities for future growth in New Zealand.
4. TIA recognises that future growth of sustainable air services into New Zealand could be supported by utilising the Jetstar (a wholly owned subsidiary of Qantas) 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 should ensure that competitive customer pricing and increased travel options are being offered. We believe that MOT should consider how authorisation of the Joint Business Agreement can benefit the wider New Zealand economy.
6. In undertaking an analysis of the proposed Qantas/American Airlines JBA, the Ministry of Transport should ensure that by approving this JBA, competition is sustainable and that there is no material adverse impact on the New Zealand inbound tourism market, given the current proposed services offered are direct into Australia.

RECOMMENDATIONS

7. TIA recommends the authorisation of the Qantas and American Airlines Joint Business Agreement to be approved, subject to areas of concern outlined in this submission.
8. TIA suggests a periodical review (every 2.5 years) to ascertain how the Joint Business Agreement (JBA) is working, whether the JBA is delivering the proposed benefits and whether growth in New Zealand has been established.
9. TIA recommends the Ministry of Transport (MOT) consider how the JBA can benefit the wider New Zealand economy.

INTRODUCTION

10. 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.
11. 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.
12. Any enquiries relating to this paper should in the first instance be referred to Steve Riley, TIA Policy and Insight Specialist at steve.riley@tiaz.org.nz or by phone on 04 495 0812 or 021 0342 433.

COMMENT

Tourism 2025

13. 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.
14. 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 insight 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.

The Qantas Airways / American Airlines Joint Business Agreement (JBA)

The benefits for Trans-Pacific tourism

15. The Qantas and American Airlines JBA provides an opportunity to grow sustainable air connectivity. The potential benefits for Trans-Pacific tourism are:

- This JBA potentially stimulates Trans-Pacific inbound tourism, including New Zealand, with the opportunity to have a stronger presence in the US and grow the US visitor market.
- It is stated that the JBA will increase competition through capacity extension to the Trans-Pacific. Capacity between Australian and mainland US routes will net increase by 9% and capacity on the Sydney-Los Angeles market will net increase by 6%.
- Both airlines will offer their respective services through a joint business agreement resulting in coordination in respect of marketing and sales, freight, pricing, scheduling, distribution strategies including agency arrangements, yield and inventory management, frequent flyer programs, lounges, joint procurement and product and service standards, with an overall improved visitor experience for their respective customers. Customers can expect to benefit from better flight schedules, more coordinated services and greater access to a wider variety of fares.
- More interline connections and greater access to the partner's networks with the JBA, giving both Qantas and American Airlines greater ability to sell inbound Trans-Pacific seats through the Qantas-American Airlines network.

16. The Australian Competition and Consumer Commission (ACCC) previously authorised a similar five-year arrangement between Qantas and American Airlines in September 2011. Qantas and American Airlines already had authorisation to coordinate on designated routes under the original JBA which is valid to June 2016.

The benefits for New Zealand tourism

17. As noted in the application to MOT by Qantas – American Airlines, confidential market data show that New Zealanders can and do take advantage of indirect flights to the US, particularly via Australia.

18. Visitors from the United States make up an important part of the New Zealand international visitor market. Forecasts show growth through to 2021, both in visitor numbers and spend.

- The US is New Zealand's third-largest international tourism market in terms of visitor arrivals, with 233,000 visitors per annum, generating \$801 million in annual visitor spend. Visitors from the US spend \$3,300 on average and stay an average 18 days.

- MBE's New Zealand Tourism Forecasts 2015-2021 projects for US visitor spend to grow by an annual 11.9% up to \$1.69 billion pa in 2021; total visitors from the US are projected to grow by an annual 4.8% to 307,000 in 2021.
 - The US visitor market is showing growth in New Zealand's shoulder season. In June 2015 compared with June 2014, the US was one of the three countries showing the biggest growth in visitor arrivals. TIA supports mechanisms that will drive demand in to the shoulder and broader off-peak season. The JBA provides an opportunity to improve travel during the off-season.
19. Currently American Airlines does not serve New Zealand. The Qantas and American Airlines JBA will create a platform that will encourage Qantas / American Airlines to consider further opportunities for future growth in to the New Zealand market.
20. Qantas / American Airlines have indicated that there is a strong likelihood that they will explore growth opportunities in New Zealand. The proposed JBA therefore has potential to grow sustainable air connectivity into New Zealand while at the same time building on a strong marketing platform in both Australia and New Zealand.
21. The US visitor market is an important market for dual destination travel, with almost three-quarters of holiday travellers visiting another country during their trip.
- Research by Tourism New Zealand shows that 47% of US holiday visitors who came to New Zealand also visited Australia as part of their visit to New Zealand.
 - Of those who visited Australia, their average length of stay in New Zealand was 13.5 days and the average length of stay in Australia was 13.8 days.
 - Dual destination visitors tend to be from an older demographic, who have more time and money to spend. Attracting these dual visitors aligns with the Tourism 2025 goals of 'productivity for profit' and 'target for value'.
22. Airline websites are the most popular source of planning a New Zealand trip for US visitors and the second most popular source of booking a New Zealand trip. One of the benefits for New Zealand of the JBA is the increase in marketing of New Zealand as a tourism destination using the Qantas/American Airlines / One World marketing channels. From a New Zealand point of view, it is very important that this proposed JBA does not divert visitors away from New Zealand. Increased marketing in the US market of New Zealand as a tourism destination is needed for this.

Sharing the benefits more widely

23. Consideration should be given to what the success of this JBA looks like for New Zealand more widely.
24. Jetstar is a wholly owned subsidiary of Qantas. Jetstar has announced that it plans to start flights to at least four regional destinations in 2015. The cities that are being considered include Hamilton, Rotorua, Tauranga, New Plymouth, Napier and Palmerston North, Nelson and Invercargill. The Qantas / American Airlines JBA provides an opportunity through Jetstar's domestic network to further stimulate domestic dispersal of tourism in New Zealand, leading to more seats, better prices and increased connectivity on regional routes. This is in line with the Tourism 2025 framework.
25. Data from Statistics NZ shows that Auckland is the most visited territorial local authority by US visitors, followed by Christchurch, Queenstown and Wellington. In line with the Tourism 2025 framework, TIA encourages a wider domestic dispersal of US visitors. As mentioned above, the Qantas / American Airlines JBA provides an opportunity through Jetstar's domestic network to further stimulate domestic dispersal of tourism in New Zealand.
26. This JBA, combined with Jetstar's plans to fly to regional destinations offers the prospect of visitor spend flowing through the regional economies of New Zealand more evenly and stimulate regional economies with the growing economic value of the US visitor market.
27. Increasing regional dispersal of visitors is influenced by several factors. Although air access to the regions is important, this is not the only factor. For regional air access to be sustainable, visitors need to be 'pulled' to the regions. As part of the JBA, Qantas/American Airlines need to consider stimulating increased marketing activity to ensure visitors are well connected with the regional product offerings across New Zealand.
28. Regulatory arrangements such as this JBA between Qantas and American Airlines need to signal the importance of connectivity into New Zealand and its wider regions, so the benefits of sustainable air services can be shared more widely.

Tourism infrastructure

29. 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.
30. Joint business agreements are part of growing a sustainable aviation industry. By providing increased capacity and services, these business agreements can deliver benefits to the tourism industry and its visitors.

Areas of concern

31. In line with Tourism 2025, TIA supports the growth of sustainable air connectivity. We feel that an analysis by MoT of the proposed Qantas/ American Airlines JBA, including analysis of sustainable competition, is needed before authorising the proposed JBA. It is important to establish that the proposed JBA does not cause undue competitive harm. The analysis should include any material impacts on the New Zealand inbound tourism market, given the new services offered potentially compete with direct services that are currently offered into New Zealand from the US.
32. As was noted in the submission by Hawaiian Airlines to the ACCC, joint ventures between major national carriers have the tendency to become dominant on international routes they serve. This limits competition from independent carriers and increases prices for consumers. TIA believes that MoT should ensure that competition on the route is not impacted and that competitive customer pricing is continued.
33. Another important factor noted in the submission by Hawaiian Airlines to the ACCC is that *through the operation of either express or implied exclusivity agreements, Hawaiian has observed that alliance partners become unwilling to engage in arm's-length, procompetitive agreements that allow independent carriers to aggregate traffic from behind their respective gateways to fly their international services. By reducing or eliminating cooperation with independent carriers, the joint venture can prevent behind-gateway passengers from exercising a competitive choice, which further insulates the immunized joint venture from competition. It's the consumer who suffers when travel options are denied and competition is restrained.* TIA believes that the Ministry of Tourism should ensure that competition is not being restrained.
34. The Qantas and American Airlines JBA application is of an open ended nature. TIA feels that approval by MoT of an open-ended Joint Business Agreement would be unadvisable.
35. TIA suggests a periodical review every 2.5 years to monitor how the JBA is working, whether the JBA is delivering the promised benefits and whether further growth from the US market has been established through this additional capacity from the US market.
36. The applicants are of the view that the proposed JBA will result in significant and substantiated public benefits to New Zealand and that there will be no adverse impact on consumers – on the contrary, the Proposed Conduct will have pro-competitive effects and will be beneficial for New Zealand consumers. TIA welcomes these benefits, but notes that there is no guarantee that these claimed benefits will materialise.

CONCLUSION

37. TIA supports the authorisation of the Qantas and American Airlines JBA, subject to the areas of concern that have been outlined. As Tourism 2025 suggests, airline alliances such as this offer a great opportunity to grow sustainable air connectivity that also grow visitor markets in a sustainable way. Provided there is no customer detriment, no harmful competition and that the arrangement stimulates direct flights to New Zealand, then this JBA should be authorised. However, a responsibility rests with government through regulatory settings, to ensure New Zealand shares in its success.

BACKGROUND

38. 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.

39. 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.