



**BARNZ**  
VOICE OF THE AIRLINE INDUSTRY

Submission

# Aotearoa New Zealand Government Tourism Strategy

To the Ministry of Business,  
Innovation and Employment  
and the Department of  
Conservation

4 February 2019

## Introduction

1. The Board of Airline Representatives New Zealand (BARNZ) welcomes the opportunity to provide comment on the consultation paper *Aotearoa New Zealand Government Tourism Strategy*, as published in October 2018.
2. BARNZ is the voice of the airline industry in New Zealand. Our profile and list of members is attached at **Appendix A**.
3. This submission is made on behalf of our 29 airline members and 3 associate members. Some members may make their own submissions.
4. BARNZ's contact person for this submission is:

Ian Ferguson  
Manager – Pricing and Policy  
021 120 6810  
[ian@barnz.org.nz](mailto:ian@barnz.org.nz)

## Summary

5. With the unprecedented forecast growth of international travel, New Zealand is faced with a once in a generation opportunity to capture the benefits for our people, places and economy.
6. Done right, we can significantly grow our tourism earnings while also growing our jobs, infrastructure amenities and attractions such as our conservation estate. Overall this will improve the quality of life for all New Zealanders. Airlines want to play their part in helping to realise this opportunity.
7. At nearly \$15b, tourism is now our number one foreign exchange earner, and airlines bring 99% of our international visitors to our shores.
8. The International Air Transport Association predicts the number of air travellers worldwide will double by 2036. This growth in tourist numbers won't just turn up, NZ has to win its share of this growth. Airlines want our Tourism strategy to achieve this outcome by focusing on the following objectives:
  - a. keep the cost of getting here low so we remain a competitive destination; this means moderating and controlling the cost increases for airlines and their passengers for border and air navigation services
  - b. deliver visitors the best possible New Zealand experience, *including the border* – airports are most visitors' first impression of New Zealand, we want that first impression to be memorable for all the right reasons. The government has direct control of border services (eg biosecurity) so a focus on driving a high-class border experience should be a core part of the tourism strategy

- c. win the right to grow – this means sharing the benefits of tourism growth by investing in improvements that benefit local communities in tourism hotspots. Importantly, the visitor levy should not be focused on locations where international tourism is light (the fund is paid for by international tourists so should be spent in areas they visit in large numbers)
- d. spread tourist demand and grow our off-peak season to deliver year-round tourism benefits.

## The draft tourism strategy identifies key problems and is a solid basis for improvement...

9. BARNZ supports the government's efforts to ensure New Zealand's tourism growth is productive, sustainable and inclusive.
10. We agree with the draft tourism strategy that tourism is crucial to New Zealand's economy, as our largest export earner, and helps grow our economy, bring prosperity to the regions and lift our quality of life. We also agree that the sector is experiencing some challenges: congestion pressures in some areas, costs and benefits of tourism not always falling in the right places and under-investment in infrastructure that is needed to support visitors to New Zealand.
11. We support proposals to take a coordinated approach to tourism and to increase investment in tourist infrastructure and offerings, particularly in regional New Zealand. We think the strategy is a good first step in this regard, but more detail will be needed on how investment options will be prioritised and selected.
12. Airlines particularly support the focus on growing our tourist demand in the shoulder and off-peak seasons and we are keen to see the development of credible off-peak tourist propositions. Airline seat capacity to New Zealand falls by around 30% in the off-season when aircraft are shifted to northern hemisphere routes; we would like to turn this around and build up capacity in the off-peak season.

## ... but should focus more on maintaining and growing our tourist numbers

13. The strategy has an important focus on the quality of the attractions that bring people to New Zealand and the supporting infrastructure. But it is silent on the cost of getting here. Airlines strongly believe the strategy must be more than an investment plan to address localised infrastructure and tourism offering constraints (although these are very important).
14. BARNZ believes the draft strategy places too much faith in the forecasts that international tourists will continue to come here and numbers will continue to grow. We do not disagree with the forecasts of continued growth. However, as international tourism is New Zealand's biggest foreign exchange earner, we cannot afford to be complacent but must make sure we are doing everything possible to maintain and strengthen our tourism competitiveness, to ensure we retain the economic benefits of the tourist product.

15. New Zealand must compete globally for tourists. We have stunning scenery and can offer great experiences and cultural heritage that we are rightly proud of. But other global destinations have similar offerings. Feedback from many of our airlines is that NZ needs to broaden its proposition for tourists, so we are pleased that the draft strategy is considering the development of new tourist options.
16. Also, New Zealand is further from its main inbound tourism markets than many other countries and, given the distance, flights here are more susceptible to fluctuations in the oil price and this can drive up the cost of getting here.
17. In this context, we believe it is crucial to make sure we do not price ourselves out of the tourism market, such that New Zealand is seen as too expensive to visit relative to other countries with similar offerings. Airlines, although heavily affected by oil price fluctuations, are doing their bit to find cost efficiencies – as Figure 1 shows, airline non-fuel costs per passenger have been steadily declining over the last decade, by around \$80 per passenger. Others must also play their part so we don't "price ourselves out of the market" through a rising tide of costs for travellers as they cross the border.

**Figure 1: Airline non-fuel costs per departing passenger**



Source: IATA analysis

18. Airlines are currently facing a New Zealand environment of cost escalation where the government border agencies, our major airports and the air traffic control service are all increasing their per-passenger charges at around the same time. Additional costs, such as the cost of visas and, soon, the electronic travel authority (ETA) and the international visitor levy, will be added on top for many visitors. These increases all seem to be happening in silos – there is little appreciation of the total effect of these increases, combined with volatile fuel prices, on the viability of New Zealand air connections.
19. Figure 2 shows the impact of each of the border agency costs being added over time on the cost to visit New Zealand, plus the forecast impact of the visitor levy and ETA from FY20 (the figure excludes air traffic control charges, which are themselves expected to increase by 19% over the next three years). The increase in government charges, now approaching \$80 a visitor, will have largely wiped out the benefits to passengers of the

airline cost savings that were shown in Figure 1. It is a very poor outcome when efficiency gains by airlines do not get realised by passengers but instead, in effect, are gobbled up by government department charges.

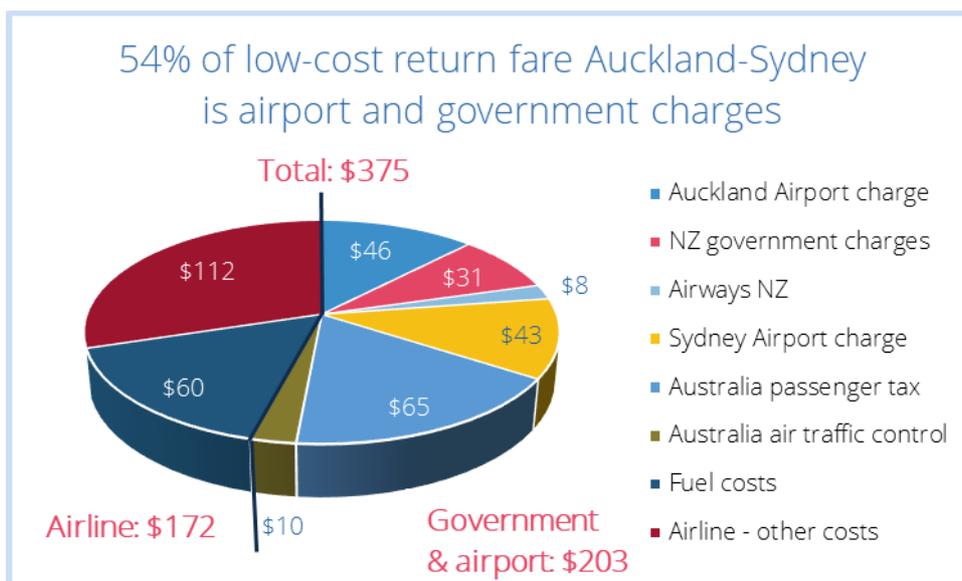
Figure 2: Historical and forecast fees to cross the New Zealand border by air, FY07-FY21



Source: BARNZ analysis. This is total fees charged per international passenger by the Aviation Security Service, Biosecurity NZ, Customs and the Civil Aviation Authority since 2007, and forecast charges and the visitor levy and ETA from FY20, all excluding GST.

20. As shown in Figure 3, already around half of a low-cost trans-Tasman fare can be made up of airport charges, border levies and taxes.

Figure 3: Cost components in low-cost trans-Tasman fare



Source: BARNZ analysis

21. This all matters because airlines are continually monitoring their route viability and will change schedules if New Zealand no longer presents a sensible commercial offering. We

have already seen worrying signs of retrenchment in recent months with Air Asia X announcing that it will exit the New Zealand market in March 2019 and other airlines cutting some routes or reducing the frequency of flights on some routes. These facts should give pause to the view that we can continue increasing the cost of crossing the border without reducing tourism demand.

22. Airlines' vision is to keep the costs of operating services to New Zealand as low as they can be. We need to play smart, which means keeping airport, border, air navigation and security costs as efficient as possible. We must avoid the temptation to charge consumers ever increasing prices every time they move to a different stage of the border crossing process.
23. BARNZ recommends that a key component of the tourism strategy should be a programme that ensures any decisions on cost increases by government agencies are looked at collectively and considers the broader impact on New Zealand's tourism sector and wider economy (so the full impact of any change is recognised before it is made).

### ... and to be a complete strategy should focus on the full tourist journey

24. The government's tourism strategy needs to look at the entire tourist journey and identify ways to make each point of the tourist journey exceptional.
25. The draft strategy, as written, has a focus on the visitor attractions and the local infrastructure providing access to the attractions. But a tourist's impression of New Zealand and their experience here starts as soon as they arrive. If the airport infrastructure or border processing experiences are not up to standard, this will colour the visitor's experience and make them less likely to come again or recommend New Zealand to friends and family.
26. This is a particularly noticeable gap as it is an area where the government has direct control of some areas and strong levers it can pull in others. The border agencies – Customs, Biosecurity NZ and the Aviation Security Service – are either government departments or crown agencies. The government therefore has control over whether these agencies are sufficiently focused on ensuring tourists have a good experience crossing the border. This is an area where the government can have an explicit objective to deliver a great visitor experience.
27. Delivering a great visitor experience at the border can be done in two ways:
  - a. Making sure border agencies have the resources, both staff and equipment, to both protect the border and process passengers quickly at current traveller volumes and in the near future.

The government can deliver this outcome by ensuring the agencies are efficiently resourced and are focused on the importance of maintaining positive passenger experiences as well as their border protection and aviation safety objectives.
  - b. Making sure the agencies harness new technology options (such as biometrics) to transform the airport experience to make it a much more seamless experience –

where passengers can travel through the airport and only need to provide their travel information once. This will require data sharing between agencies and privacy restrictions may need to be reviewed to make sure data can be transferred between government agencies to keep the passenger journey smooth.

The government can deliver this outcome by ensuring that the agencies work with airlines and airports to implement the new technology and by ensuring that privacy laws do not unduly restrict the sharing of data between government agencies.

Innovation like this will be essential to enable us to manage increasing traveller numbers while still delivering a great experience at the border.

28. Less directly, but still importantly, the Commerce Commission oversees the pricing and service quality of Auckland, Christchurch and Wellington airports. Through the Commission, the government has a role in promoting a quality of service at our major airports that travellers deserve.

### ... and connectivity is also vital

29. Connectivity (ie air connections between New Zealand and the rest of the world) is crucial to a strong tourist sector as it is how our visitors reach New Zealand. So we are concerned that connectivity is not mentioned once in the draft tourism strategy. We believe the strategy needs to consider and include steps to maintain and grow our international air connections so getting here is a relatively easy step.

### The 'value over volume' focus may be misplaced

30. The draft strategy supports a focus on 'value over volume'. We have not found a clear definition of this term. If it refers to an objective of growing the revenue New Zealand receives from tourists at a higher rate than the growth in tourist numbers, then we agree this is a sensible focus (although of less importance than spreading demand to shoulder and off-peak seasons and around our regions).
31. However, if it refers to a clear effort to reduce or hold flat the total number of visitors while increasing the number of "higher value" visitors, then we think it is fundamentally flawed and will harm our tourism sector which relies on the volume of tourists to succeed.
32. In any case, a focus on prioritising high value tourists in our marketing efforts should not mean that we disregard the importance of keeping New Zealand affordable for the many tourists who are price sensitive and could conceivably take their business elsewhere.

### International Visitor levy investment

33. The International Visitor Levy (IVL) provides a great opportunity to invest in New Zealand's tourism offering to drive growth and the social licence of tourism here. But the funds available will not be enough to cover all initiatives and it is important to prioritise it carefully.
34. BARNZ considers that IVL investment should:

- a. Be targeted on infrastructure and services that are going to unlock tourist growth
  - b. Be evidence-based; where there is known demand outstripping capacity
  - c. Be supported by sound business cases for all investments
  - d. Be supported across the full tourism offering for an area – transport, accommodation, utilities and attractions
  - e. Be the subject of follow-ups and reviews to measure results and identify lessons learned for future investments.
35. The investment made using the IVL fund should reflect the interests of those who pay it. The fund is paid for by international visitors, excluding citizens of Australia and most Pacific Islands.
36. Expenditure from the fund should be prioritised towards existing tourism destinations with proven attractions and capacity constraints – these are areas where the investment will most benefit both the tourists and the local communities.
37. It would be inappropriate for the IVL to be used to fund investments in regions where current and forecast tourism is mainly or entirely made up of domestic tourists. Instead the funds raised from international tourists should be directed to the locations that they currently visit or can reasonably be expected to visit in large numbers in the near future. In other words, international visitors pay the levy and they should receive the majority of the direct benefits from the levy (which of course will benefit New Zealand over time as we are able to offer our international visitors an improved experience, boosting our tourism sector).
38. A consequence of this is that the government should not direct IVL funds to embryonic tourism regions in most cases. The draft strategy says that embryonic tourism regions could receive investment in order to lift the overall economic performance of those regions. This implies that investment in embryonic tourism regions will not be to address concerns of congestion or lack of infrastructure because of an influx of international tourists, but to grow a regional economy. As such, alternative funding methods such as the Provincial Growth Fund are more appropriate for the development of tourism capability in embryonic regions.

## Recommended changes to the tourism strategy document

39. To make sure the tourism strategy addresses the issues we identify above, BARNZ proposes some amendments to the Tourism Strategy Summary table on page 7 of the draft tourism strategy.
40. Firstly, we would recommend that the Government outcome “Exceptional visitor experiences ensure the sector’s future success” is expanded to read “Exceptional visitor experiences and a competitive visitor product ensure the sector’s future success”
41. Secondly, we would recommend some additional items in the “What does long term success look like?” and “Priority work areas” categories under this outcome, as in the table below.

42. We accept there may be other ways of structuring and capturing these points. However, we think that the strategy must include these points, otherwise it will be incomplete.

Government's tourism outcomes	New Zealand benefits from more productive tourism growth	Exceptional visitor experiences and a competitive visitor product ensure the sector's future success
<p>What does long term success look like?</p>	<p>New text recommended:"</p> <p>New Zealand grows its number of international air and sea connections"</p>	<p>New text for 'exceptional visitor experiences':</p> <p>"Crossing the New Zealand border is a seamless, fast and easy experience for travellers"</p> <p>New text for 'competitive visitor product':</p> <p>"The international visitor levy is primarily invested to benefit those who pay the levy and the communities they visit"</p> <p>"The taxes and levies imposed on tourists, in the country and at the border, do not unduly deter tourists from visiting New Zealand"</p> <p>"Levies charged to international tourists are directed to investments that those tourists are likely to benefit from"</p> <p>"New Zealand maintains and grows its number of connections to the world, making it easier for visitors to reach New Zealand"</p>
<p>Priority work areas</p>		<p>New text for 'exceptional visitor experiences':</p> <p>"Make sure border agencies and airports are able to work together and share data to deliver seamless passenger airport journeys"</p>

Government's tourism outcomes	New Zealand benefits from more productive tourism growth	Exceptional visitor experiences and a competitive visitor product ensure the sector's future success
		New text for 'competitive visitor product':  "Make sure the totality of taxes and levies imposed on tourists are proportionate and do not unduly deter tourists from visiting New Zealand"

## Appendix A – BARNZ profile and member list

# BARNZ IS THE RESPECTED AND TRUSTED VOICE OF THE AIRLINE INDUSTRY IN NEW ZEALAND

We work closely with the Government, regulators, businesses and local communities to provide cost savings and service improvements for our members, and to create an environment that fosters continued, sustainable growth for them in NZ.

Our airline members are a direct enabler of New Zealand’s \$14.5 billion tourism industry and deliver \$20 billion of New Zealand’s imports and exports. They fly us to nearly 50 destinations, connecting us to the world. They bring together families and friends, and encourage the free flow of innovation, ideas and information that only face to face meetings can do.



WE CHAMPION THE AIRLINE INDUSTRY AND ITS CONTRIBUTION TO TRAVEL, TRADE AND TOURISM IN NEW ZEALAND.



WE STRIVE FOR FAIR-PRICED, CUSTOMER-FOCUSSED AIRPORT SERVICES, BORDER AGENCY SERVICES AND INFRASTRUCTURE FOR OUR MEMBERS AND THEIR PASSENGERS.



WE SECURE THE AIRLINE INDUSTRY’S RIGHT TO GROW AND OPERATE IN NEW ZEALAND THROUGH CONSULTATION AND ENGAGEMENT WITH THE WIDER COMMUNITY.

## BARNZ members

Airline Members	
Air Calin	Air China
Air New Zealand	Air Tahiti Nui
Air Vanuatu	Airwork
American Airlines	Cathay Pacific Airways
China Airlines	China Eastern Airlines
China Southern Airlines	Emirates
Fiji Airways	Hainan Airlines
Hong Kong Airlines	Jetstar
Korean Air	LATAM Airlines
Malaysia Airlines	Philippine Airlines
Qantas Airways	Qatar Airways
Sichuan Airlines	Singapore Airlines
Tasman Cargo Airlines	Thai Airways International
Tianjin Airlines	United Airlines
Virgin Australia Airlines	
Associate Members	
Menzies Aviation (NZ)	OCS Group NZ
Swissport (NZ)	