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18 June 2012

Mr Bruce Johnson  
Group Manager, Safety and Security  
Ministry of Transport  
89 The Terrace  
Wellington

Dear Bruce

**Auckland International Airport Limited - Submission on International Air Transport Policy review**

**Introduction**

Auckland International Airport Limited (“**Auckland Airport**”) appreciates the opportunity to respond to and comment on the Ministry of Transport’s (“**MOT**”/ “**Ministry**”) International Air Transport Policy Discussion Paper (“**Paper**”) in which the Ministry puts forward for consultation its proposed changes to the current Government’s International Air Services Policy that was last reviewed in 1998.

The Ministry has invited feedback on the following policy areas:

- a. the objective of the policy review;
- b. approach to air services liberalisation;
- c. airline investment;
- d. elements of agreements, and;
- e. the forward negotiation programme.

**Summary**

Overall Auckland Airport considers that the proposed changes to the international air services policy put forward by the Ministry are a positive step for New Zealand and its tourism and trade aspirations. The changes represent a balanced, responsible and incrementally progressive evolution of the policy framework.

We acknowledge that the policy review is very broad in its scope, and is the product of a comprehensive and well-run process by the Ministry of Transport. In addition, we congratulate the Ministry for balancing the demands of this policy review while continuing individual air-rights negotiations with high-priority markets, and most importantly for the successful negotiations completed, to date, with Japan, and in particular, China.



We believe the proposed framework, with its shift away from a somewhat anachronistic focus on reciprocity and towards maximising the benefits of a more liberalised air-transport policy, where achievable, whilst providing enough flexibility to ensure New Zealand's overall interests and individual circumstances are factored in, appropriately recognises the significant and dynamic changes that are happening in global markets and in aviation trends and decision-making world-wide.

The proposed approach also accommodates the fact that different markets and consumers have different preferences that reflect the loyalty programmes, market reach and distribution networks of carriers based in their market, in the same way that New Zealanders may have an outbound carrier preference when we travel.

However, the policy still proposes some maintenance of the status quo with its requirements for reciprocity under bilateral air services agreements and open skies as the preferred "end game". In our view, this does not remove all potential regulatory impediments to air service growth. Foreign carriers provided 63.7% of New Zealand's international capacity in the year to June 2012, compared with 58.1% five years ago. While a number of these operators maintain partnerships with Air New Zealand, the fact is that New Zealand is becoming increasingly dependent on the support of overseas airlines, especially those with a great capacity for growth.

Aside from mostly greater critical mass and in many cases geographic and aircraft availability advantages, the foreign airlines have access to large population catchments and represent established brands with expansive distribution networks in their home markets. As such, they serve as critical links in the inbound tourism supply chain for New Zealand.

That said, the proposals do create a more robust and flexible policy framework that should enable the Ministry greater scope and flexibility to prepare for and treat each air service negotiation opportunity based on its merits and complexities. This will also provide the Ministry a framework to deliver on the Government's stated objective to maximise economic benefits to New Zealand, including trade and tourism, consistent with foreign policy and strategic considerations.

However, while the current Government has a strong focus on economic growth and development in high growth markets, the highly flexible nature of the proposed policy and the discretionary nature in which it can be applied may prove less effective with successive Governments or in changing economic circumstances.

In addition, the flexibility that the proposed framework offers may have the unintended effect of making the policy subject to intensive lobbying from interested parties on an ongoing case by case basis, introducing additional cost, complexity and time into successive negotiations.

It is not clear in the proposed air-transport review to what extent there is alignment between this policy, and the associated market and economic development policies and activities of MED, Tourism New Zealand, MFAT, NZTE and the private sector. We acknowledge that this may not be the ideal vehicle for outlining that network of policies, initiatives and programmes; however we would like to reinforce that alignment is essential to New Zealand's success in this area.

As with any policy framework, consistency and clarity of application, definition and implementation is important to avoid any unintended consequences or sub-optimal outcomes that may damage New Zealand's interests. The proof of any policy is in the implementation.

## **Context**

Auckland Airport, New Zealand's largest and busiest airport is the key New Zealand hub for the movement of people and goods in and out of New Zealand and as such will experience the greatest impact from proposed policy changes to the International Air Services Policy.

Airports are commercially incentivized to introduce greater air-service capacity and competition, and consequently grow passenger and freight volumes (the lifeblood of New Zealand tourism



and trade) in a way that airlines are not. This commercial imperative puts airports in some strategic misalignment with customer airlines with different commercial drivers.

In recent years, Auckland Airport has made a significant investment and effort on initiatives to grow international passenger volumes, grow tourism, air-freight opportunities and encourage more airlines to fly to Auckland and more frequently. In particular we have had a strong focus on the high growth travel markets of Asia and the Americas.

Auckland Airport believes air-service agreements are a valuable policy instrument that can stimulate air-service capacity and subsequent economic growth. They should be aligned with all New Zealand tourism, trade and economic interests and considered in an economic context alongside other positive influences on travel and trade, such as facilitative visa policy, efficient and seamless border processing, and free trade agreements.

## **The Consultation Paper**

### **Objective of the policy review**

Auckland Airport is in full agreement with the proposed policy objective, that is; “to provide New Zealand based and foreign airlines with opportunities to provide their customers with better access to global supply chains and New Zealand’s key passenger and goods markets”. This objective highlights the critical role of air-services in opening and expanding trade and tourism markets, and in effectively ‘plugging in’ New Zealand to the global connectivity network.

We believe that this policy objective could go even further, and consider the role of the country’s air-transport policy in actively positioning New Zealand against competitor destinations, such as the eastern seaboard of Australia, as the preferred global ‘hub’ for movement of people and goods between Asia, Australasia and the Americas. This should be a major strategic long-term goal for New Zealand. It is essential that we remain ‘plugged in’ to global connectivity networks, and avoid becoming a satellite to a global hub based in Australia.

### **Approach to air services liberalization**

In general, we are supportive of the proposed approach to air-service liberalisation, with its stated preference for open-skies arrangements and the pursuit of what is best for New Zealand’s interests. This does raise the question of exactly how the interests of New Zealand will be defined and evaluated where the policy application of this criterion will occur.

We do note however that the proposed maintenance of reciprocity within bilateral agreements is not in the wider interests of the New Zealand economy or the nation’s competitiveness. Our preferred position remains one of opening up markets on a unilateral basis, particularly where NZ-based carriers are either not interested or capable of serving a particular route.

We are particularly supportive of the proposed mechanism for the potential use of extra-bilateral services, which is an important consideration for New Zealand’s tourism and trade interests with large markets or air-traffic hubs that are connected to those large source markets, where their massive scale and wealth is such that it can lead to a significant demand imbalance. The potential growth in one market (and the subsequent global demand to do business with that market) will vastly outweigh the potential growth in, and demand for, New Zealand. However, we would prefer to see greater clarification and definition of how this consideration would be applied in practice.

Paragraph 49 of the policy indicates that some countries have proposed packages where access to regional airports is given. We are also aware that a number of smaller New Zealand airports have indicated that they would like to see a form of market intervention to give preference to regional airports at the potential expense of larger airports.

We hold a similar view on preferential rights as we do on enforced reciprocity, in that while this sort of intervention may spread benefits at a national level in the short-term, at an international



level it artificially distorts markets, constrains the route options that offer the strongest appeal to global airline customers, does not reflect the realities of airline decision-making or offer much leverage on their decision, and is likely to lead to sub-optimal outcomes for New Zealand as a whole if international airlines are unable to make their route destinations on sound economic and network reasons. In addition to artificially constraining airline decision-making, it also acts as a barrier to the larger airports market development efforts, which we would submit are crucial to New Zealand's ongoing success in this area. In the absence of infrastructural capacity constraints at a main airport which might reasonably motivate regionalisation of any type, we consider that the promotion of regionalisation by New Zealand in an air-services negotiation would create overwhelmingly negative outcomes and unnecessarily and inefficiently distort the market for air-services. It is crucial that consumers are able to travel to the destination of their choice efficiently.

### **Airline investment**

We are generally supportive of the policy proposal for third-country investment in foreign airlines. We would note that, as a publicly listed company ourselves, our preference for any investor, wherever they come from, is that they add value. We hold a similar view for airlines, noting that cross-border mergers and consolidations are increasingly common in the industry and are rapidly blurring the notion of what is 'foreign' or not.

Indeed we have seen Air New Zealand recently buy a stake in Virgin Blue, which enables the two airlines, with their head operations located in different countries, to collaborate on routes and on network connectivity, with a view to maximising economic benefit and value to the two airlines. As the aviation industry increasingly globalises and airlines 'internationalise' we believe the relevance of ownership arrangements will be reduced and the importance of value-adds, connectivity and access to large traffic flows will increase.

With regards to ownership of New Zealand airlines, we note that the proposed policy, ring-fencing of the only New Zealand based carrier of significant size notwithstanding, appears to provide for greater liberalisation of ownership. We believe this offers New Zealand based carriers more options to tap into global capital and optimize their businesses.

### **Elements of agreements**

We are supportive of the proposed policy in relation to the elements of agreements, which if implemented would amount to unrestricted access, however we note that in practice, the reality is that many countries are unlikely to agree to 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> freedom rights.

We believe the inclusions of 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> freedoms are key to full liberalisation and true open skies agreements. This also opens opportunities both for our domestic market and the potential of a third carrier (it at least leaves it for the market to decide if there is room for a third, fourth domestic carrier rather than restrictive government agreements) and for Air New Zealand to potentially compete in foreign domestic markets. We believe at a minimum the Ministry should be putting 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> freedom rights into ASA's with an open invitation to discuss these elements at a future date even if the actual rights are not fully granted. This should also be done on a unilateral basis if it can't be agreed/written in on a bilateral terms.

### **The forward negotiation programme**

We believe the primary consideration of the forward negotiating programme ought to be a market's current and projected importance to New Zealand tourism & trade. Relevant to this has to be an analysis of the scale and economic potential of each market and its strategic importance. Also relevant is New Zealand's ability to play a role as a very efficient link or hub between this key market and another key market.

**A** The proposed focus on Asia makes absolute sense and we agree completely with this emphasis.

We believe that an appropriate balance between resource expenditure and economic return for New Zealand must be maintained. The more valuable the market opportunity the more resource should be applied. Commercial drivers for airlines can very quickly change.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C Spillane', with a long horizontal flourish extending to the right.

Charles Spillane  
**General Manager – Corporate Affairs**

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