

22 June 2012

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

Dear Bruce,

Submission on International Air Services Policy

Thank you for the opportunity to comment on the Ministry's international air services policy discussion paper (May 2012). This submission is made on behalf of the Association's member airports and in particular the international airports. It should be read in conjunction with submissions provided by individual airports.

In our earlier submission to the Ministry (October 2011) we briefly set out the context for New Zealand's air services policy, including international aviation and market trends. That outline remains relevant.

New Zealand tourism, travel and trade are heavily reliant on air transport connectivity. International air services are critical to the economy strategically, and as drivers of inbound tourism, trade, export earnings and employment. New Zealand needs to be more internationally competitive, and must therefore be more internationally connected. Growth in connectivity is directly correlated with improved economic performance.

New Zealand is at a competitive disadvantage: we are distant and small (in economic, population and home-based airline terms) and there are many competing destinations. Our air transport connections and passenger volumes are growing more slowly than those of comparable nations – including Australia. If our air service policy settings are essentially the same as those of our tourism and trade partners and competitors it is inevitable that we will fall further behind.

In recent months we have noted several events that emphasise the fragility of New Zealand's international air connections:

- The withdrawal of Air Asia X from Christchurch
- The announcement that United Airlines will not proceed with its Houston-Auckland service plans

- Qantas withdrawing from the Auckland / Los Angeles route, and
- Aerolineas Argentinas deciding to drop its Buenos Aires / Auckland service.

At the same time there is an unparalleled convergence of opportunities:

- Significant growth in markets new to New Zealand, and a shift in the centre of gravity in aviation towards Asian economies
- Extensive fleet growth outside New Zealand, with new aircraft types providing improved operating economics and capabilities
- Global airline alliances and joint ventures which challenge traditional regulatory regimes
- Growth of low cost carriers, and
- A trend towards open skies policies internationally, including Asia and the Middle East.

We reiterate our October 2011 conclusion that New Zealand is obliged by its circumstances to adopt a policy framework that removes as many unnecessary constraints as possible, opens the door to as many opportunities as possible, takes advantage of the full range of stakeholder input, and is supported by effective and efficient implementation. Foreign carriers already provide over 60 percent of our international air capacity, and offer the greatest opportunities for future growth. Our air services policy has the potential to provide a much needed 'edge' in a highly competitive world.

CAPA Consulting report

NZ Airports has commissioned an independent analysis from leading specialist consultancy CAPA Consulting (CAPA). The CAPA report (June 2012) is enclosed with this submission for your consideration. We support the CAPA recommendations. The report draws on the earlier CAPA report and economic analysis by Tourism Futures International which accompanied our October 2011 submission.

The objective of the policy

We consider the core of the proposed objective, i.e. to provide opportunities for better access, lacks ambition and is too passive. The provision of opportunities may well be an appropriate functional description, but the lack of urgency and drive in this statement takes all the wind from the sails of the second and most important part of the Ministry's proposed objective – to help grow the economy and deliver greater prosperity, security and opportunities for all New Zealanders.

We welcome the second part of the proposal: NZ Airports strongly supports a policy goal of the greatest benefit to New Zealand. Likewise the inclusion in the proposed policy objective of the reference to foreign airlines is appropriate and welcome as it reflects the realities of our international air services.

The statement of the policy objective is an opportunity to capture the urgency and the national significance that must drive implementation. New Zealand needs to be and to promote itself as an air services market whole-heartedly committed to connectivity, growth and innovation, and capable of expediting access while maintaining high safety standards and market fairness.

NZ Airports also supports the CAPA recommendation (page 6 of the CAPA report) that there should be clear articulation of the components of the Government's role in international air transport policy, specifically:

- Assisting economic growth as a whole
- Facilitating the development of the aviation, trade and tourism sectors in particular
- Supporting a more competitive and productive business environment, and
- Providing for improved market access and global connectivity.

Approach to air services liberalisation

In our October 2011 submission we concluded that the best outcomes for New Zealand would be achieved through:

- A policy of non-reciprocal open skies agreements, but including safeguards and defined criteria to ensure New Zealand-based carriers are not unfairly disadvantaged
- Relaxation of the foreign ownership limits for New Zealand international airlines to enhance access to external capital and investment opportunities
- A whole-of-government approach to ensure air services policy and strategy is aligned to achieve economic goals through connectivity, tourism and trade.
- Transparency and stakeholder participation in government priority-setting and decision-making
- A focus on the opportunities that will provide the greatest benefit to New Zealand – currently these include China, South East Asia and Latin America
- Responsive and effective implementation of air services policy, including the development of key performance indicators for air services developments and the associated benefits (or otherwise) brought to New Zealand.

We comment on the Ministry's proposed approach in relation to each of these points.

Reciprocity

The Ministry's proposed approach continues to favour the status quo and reciprocal bilateral agreements, seeing them as providing equality of opportunity and competitive balance for New Zealand-based airlines. "*Reciprocal open skies except where this is not in the best interests of the country*", as proposed, begs the question of the options that might be available with a more open approach to the best interests of the country. As explained in the CAPA report New Zealand's dependence on the support of overseas airlines and the capacity for growth and market reach which they bring means that reciprocity in bilateral agreements will often act against New Zealand's economic interests. This is a case where the overall objective of the policy (the greatest benefit to New Zealand overall – as submitted by NZ Airports) should guide the individual components.

We agree that New Zealand should seek open skies as the ideal and, where this is unavailable, the most open package in New Zealand's overall best interest. With a view to eliminating potential barriers to open skies outcomes in cases where the partner country has a more conservative approach, CAPA has identified a pragmatic multi-stage strategy (see page 14 of the CAPA report) which we commend to the Ministry.

We continue to support the role of New Zealand-based carriers. Air New Zealand has a significant vested interest in New Zealand as a destination and, along with its alliance partners, the ability to forge wider service linkages. Compared to overseas airlines, however, the New Zealand-based carriers' capability to contribute to the objectives of the policy is limited. The Ministry's proposed wording "*ensuring that New Zealand airlines have a fair and equal opportunity to compete*" must therefore be seen in the context of international airlines which may be far from equal in scale or the ability to source visitors from the far larger overseas markets. This is a further case where the overall objective of the policy should guide the individual components.

We note with interest the concept of extra-bilateral rights, which have the potential to provide greater flexibility and responsiveness outside the constraints of the bilateral system through the allocation of additional access in certain circumstances. This is a welcome innovation, but the potential benefits may be at risk of being outweighed by the proposed default setting of reciprocity. The processes and decision-making criteria around extra-bilateral approvals are likely to be critical to capturing the benefits. We therefore endorse the CAPA recommendations on page 11 of the attached report.

Foreign airline ownership limits

We support the Ministry's proposals to maintain a liberal approach to the designation of foreign airlines.

New Zealand Airline ownership criteria

We support the Ministry's proposed approach to designation of New Zealand airlines (and we note that ownership policy affecting Air New Zealand is subject to separate consideration). We also draw the Ministry's attention to the CAPA analysis (page 13 of the CAPA report) which recommends consideration of equity structures (such as differentiated economic and voting share ownership) which may allow greater off-shore capital support without jeopardizing air service agreements.

Transparency/whole of government

NZ Airports welcomes the policy statement regarding stakeholder input to priorities and approaches. We think mechanisms for systematic engagement from interested sectors will add considerable value to the air services programme and enhance transparency to stakeholders. With regard to Government mandates for specific negotiations, we encourage the Ministry to design the process so that stakeholder input can be made prior to Cabinet consideration. Stakeholder input is also appropriate following the determination of negotiation objectives, at the point when negotiation tactics and specific issues are being considered.

NZ Airports has greatly valued the opportunity to be involved in two important negotiation rounds this year, and we look forward to making further contributions in the future.

In our October 2011 submission we advocated an enhanced all-of-government approach to ensure the alignment of government policies and programmes across affected sectors. This remains an essential ingredient in the national interest, and should be factored into the proposed government mechanisms for wider engagement and prioritisation. We remain of the view that the development of key performance indicators for air services developments and the associated benefits (or otherwise) will be an important part of the successful implementation of the revised policy.

Negotiation programme

We support the Ministry's proposed approach to the negotiation programme, and in particular the need to have air service capacity arrangements in place ahead of demand. This is a key factor in the ability of airports and airlines to develop and expand routes, and attract new airlines to service New Zealand. We also support CAPA's recommendation (page 15 of the CAPA report) that growth among ASEAN nations, and the development of an ASEAN single market, requires the development of a specific strategy to leverage the benefits for New Zealand.

We will be happy to answer questions regarding this submission and the CAPA report.

Best regards,

A handwritten signature in blue ink, appearing to read 'Kevin Ward', is positioned above the typed name.

Kevin Ward
Chief Executive
NZ Airports

Enclosed:

Independent Submission: New Zealand International Air Services Policy Review, CAPA Consulting, June 2011