

**Submission to Ministry of
Transport: International Air
Transport Policy Review**

**New Zealand Air Line Pilots'
Association**



Ministry of Transport - International Air Transport Policy

Objective of NZ international transport policy

Policy Proposal 1.

To provide NZ based and foreign airlines opportunities to provide their customers with better access to global supply chains and NZ's key passenger and goods markets.

Yes, it is important for NZ to retain legal entities domiciled in NZ as employees who are directly and indirectly employed in the transport industry provide significant revenue to the country.

Furthermore NZ companies potentially may operate flights which may not be so profitable but are of utmost importance to a local community where a foreign owned company may chose to close down a non profitable sector.

Branding is also important for New Zealand's credibility internationally, Air NZ is a well respected brand and is a powerful marketing tool to promote tourism in NZ and by extension reflects the 'economic power' of the country itself. The recent Rugby World cup and the painting of the aircraft is a good example.

Policy Proposal 2.

New Zealand will pursue a policy of putting in place reciprocal open skies arrangements except where it is not in the best interests of the country as a whole. Where the other party will not agree to open skies agreements, we will seek to put in place the most open package that is in New Zealand's overall best interests, both in the short and long term.

In doing this we will recognise the benefit to New Zealand of new or additional services by overseas airlines, while ensuring that New Zealand airlines have a fair and equal opportunity to compete.

We will consider extra-bilateral approvals pending the putting into place of new or expanded arrangements. These will be provided on the basis that such authorisation may be withdrawn if New Zealand airlines are denied opportunities to offer services to, or through, the home market of the foreign airline in question.

It depends of the size of the country with which an open sky is signed. If you take the example of European companies after the integration of the European market, companies belonging to 'small' countries are disappearing. The small countries realize now how important their airlines were in terms of bringing revenues. The Hungarian government for instance has been looking into creating a new company to replace Malev.

Furthermore it depends of the scope of the open skies agreement. If an Open Skies Arrangement is signed with a big country or group of countries (eg: an Asian /Pacific region), NZ companies may disappear and the local population will not enjoy the same intra NZ services. A restriction of the competition may also leads to higher prices for passengers.

Extra-bilateral services: overall benefit for NZ should very much be taken into consideration.

Policy Proposal 3.

New Zealand's policy with regard to third-country investment in foreign international airlines will be to:

- ***continue to seek to negotiate agreements that provide for the link between airlines and the designating state to be based on principal place of business, place of incorporation and effective regulatory control***

This is critical otherwise New Zealand may accept an open sky policy with country x but their airlines are owned and controlled by investors of country Y who are just people or governments with unlimited liquidities thus creating an inequitable situation. The airline of country x should be owned and controlled by nationals of country X. The principal place of business (meaning something similar to "Principal place of business") means the head office or registered office of an air carrier in the Party within which the principal financial functions and operational control, including continued airworthiness management, of the air carrier are exercised;

- ***continue to consider, on a case-by-case basis, not exercising the discretion to withhold authorisation from airlines that do not fully meet the designation criteria of the relevant ASA, where there is no overt circumvention of other bilateral agreements or detriment to future liberalisation with the states involved***

NO, this is not a preferred model, however if NZ Government was to go ahead it would be important to investigate the real owners of the company to which authorization is being considered.

- ***continue to monitor the work by ICAO on the MCFIA with a view to acceding to such an agreement should an acceptable outcome emerge***

Yes

Policy Proposal 4.

The policy on designation of New Zealand airlines (other than Air New Zealand) will include:

- ***removal of the policy limits of 25 percent ownership by any one foreign airline or 35 percent by foreign airlines in total.***

NZ national should keep at least 51% of ownership and control. Otherwise any competitor may buy the company to dismantle it and sell off the assets which may result in situation where local employees lose their jobs, communities go un-serviced and the airline does not adhere to the safety and airworthiness requirements of New Zealand carriers.

The importance of Air NZ operating in “fair market conditions” should not be ignored within this policy. Air NZ is essential to the New Zealand economy. Many of its routes are cross subsidizing other routes which are essential to small district economies both within New Zealand and overseas notably the Pacific Islands.

- ***considering, on a case-by-case basis, designating New Zealand-based airlines whose ownership and control structure is consistent with the bilateral arrangements with all the markets it proposes operating to or where the risk of operating authorisations not being accepted is assessed as small***

As long as appropriate control mechanisms are in place.

- ***considering, on a case-by-case basis, applying a more liberal policy for cargo-only airlines***

No, in Europe for instance the EU-US agreement for cargo-only operations is more liberalized than for passenger operations but also unbalanced according to some aviation industry commentators. European cargo carriers routes are declining while the US cargo carriers are taking European market share. Trans-Tasman cargo operations could be a potential niche market for New Zealand operators due to lower infrastructure costs. However if there are no New Zealand operators in this business niche perhaps it is inconsequential.

Policy Proposal 5.

Where open skies is determined to be in the countries' best interest, New Zealand will continue to seek to put in place agreements that provide for:

- ***no restrictions on routes or capacity (including 7th freedom services and cabotage (8th and 9th freedom))***
- ***no regulation of tariffs***
- ***open investment provisions***

In other cases, or where the other party will not agree to full open skies, the provisions that are in New Zealand's best interest (taking into account the overall package on the table will be agreed for each Article.

Economic drivers will always be in the best interest of New Zealand Government policy developments or changes, it is difficult to think of scenarios where an arrangement without full reciprocal provisions are in the best interest of New Zealand. However, it is worthy to note, open skies policies may, in reality, create regional distortions which are not necessarily identified in the 'big picture' of national economics but still have a significant effect on the viability of regional businesses and local employment opportunities.

It is arguable that Airlines such as those originating from the Middle East have dumped capacity into the Tasman market with little benefit to New Zealand. Where there is evidence of "dumping" or a lack of real reciprocal interest restrictions should be in place.

Policy Proposal 6.

Negotiation Programme

- ***The negotiation programme will prioritise relationships where unavailability of rights is preventing airlines from offering services. The aim will be to have arrangements in place ahead of demand.***
- ***A short and medium term focus will be on negotiations within East Asia and South America in line with negotiating mandates already granted by Cabinet.***
- ***Other mandates will be progressed over the medium term. We will also continue to monitor developments in Europe with a view to assessing when resumption in negotiations with the European Commission might prove desirable.***
- ***Longer term negotiating priorities will shift in line with commercial and aeropolitical developments. The Ministry of Transport will also monitor air transport policy changes in other countries to identify liberalisation opportunities.***

Stakeholder input on negotiation priorities

The government will develop mechanisms to allow more systematic engagement with a wider range of stakeholders, including airlines, airports, and tourism and freight interests, on determining priorities and approaches in future years.

South Pacific

New Zealand is aware of the particular air transport needs of the Forum Island Countries, and in particular the need for further development of air transport links and infrastructure, and will continue to maintain a flexible and positive attitude in the negotiation and implementation of air services arrangements with them.

Multilateral and plurilateral negotiations

The New Zealand government intends to continue to engage in multilateral and regional initiatives where these are consistent with the thrust of this policy.

It is important for the government to consult with and receive stakeholders submissions and comments. Stakeholders should include the New Zealand Air Line Pilots' Association as they have first-hand experience and understanding of the safety of the operations and in the 'doing business' issues encountered in some third countries. Additionally they are very much affected by the outcome and the scope of the air transport negotiations. Therefore their input is of

upmost importance while addressing some aspect of the Open Skies Agreements such as the commercial, safety, security etc issues.

A good example of stakeholder engagement occurs in Europe where the EU commission consults regularly with aviation associations like the European Cockpit Association.

Final comment

Negotiation mandates already agreed by Cabinet so why ask for comment?

However, as a significant voice in the Aviation Industry, the New Zealand Air Line Pilots' Association appreciated the opportunity to comment on the above proposals and looks forward to being included in any future policy proposals of the Ministry of Transport.

Yours faithfully

Virginia Mudie
General Manager

Phone: +649 255 4041
Mobile: +6421 747 557
Fax: +649 255 1501
Freephone: 0800 692 572
Skype: NZALPA
Website: www.nzalpa.org.nz