

26 February 2021

Ministry of Transport
PO Box 3175
WELLINGTON

By Email: airservices@transport.govt.nz

To whom it may concern:

Application to the Minister of Transport: Qantas and JAL Joint Business Agreement

Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the application from Qantas and Japan Airlines Co Ltd (JAL) to establish a Joint Business Agreement to enable them to establish air capacity on the Japan/Australia/New Zealand routes.

Tourism Industry Aotearoa

TIA is the peak body for the tourism industry in New Zealand. With around 1,400 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions, retail, airports and airlines, transport, as well as related-tourism services.

TIA established and supports on an ongoing basis the tourism industry's strategic document, *Tourism 2025 & Beyond – A Sustainable Growth Framework*. This has the Vision of '*Growing a sustainable tourism industry that benefits New Zealanders*'.

The Tourism 2025 framework has a number of elements, including '*Connections: New Zealand tourism is deeply connected to the world, and is aligned and connected as an industry. The pipeline of aviation capacity provides the flow of competitively-priced seats to get to, from and around New Zealand*'.

In practice, TIA has a clear and practical interest in New Zealand being well serviced by quality aviation services to connect it to key markets. Our stance is very much oriented to encouraging the range and quality of air services to New Zealand.

Connectivity for COVID-19 recovery

COVID-19 has dramatically stopped international visitor flows to and from New Zealand. This has been an unprecedented disruption to the tourism system, for inbound tourism

and equally for outbound travel by New Zealanders. Pre-COVID, total tourism expenditure was \$42 billion per year, of which \$17.5 billion was from international tourism, or 20.1% of New Zealand's export earnings. Tourism is an important part of New Zealand's economy and society, and so it is important that it is functioning well.

Now, the critical question is when, and how, international aviation will return to any sort of normalcy? At this point we do not know the answer to this question, and there are lots of variables in play that the industry has no control over – effectiveness of vaccines, speed of vaccination within New Zealand and overseas, and many more. Also, we do not know the ability of the aviation industry to re-establish its services – routes, frequency, capacity, etc. Some commentators are picking a rapid return based on pent-up demand, whereas others believe it may be a much more gradual recovery process.

In this environment, TIA has a clear interest in all efforts that will deliver new and better air links post-COVID. For this reason, we are supportive in principle of this application.

Nature of the Agreement

The agreement puts in place arrangements that will establish a range of routes between New Zealand, Australia and Japan. This includes linking Auckland, Wellington, Christchurch and Queenstown via Melbourne, Sydney and Brisbane with Osaka, Sapporo and Tokyo. Qantas will operate the trans-Tasman services, with the Australia/Japan links provided by both Qantas and JAL.

Overall, New Zealand is relatively poorly served with air capacity from Japan. Air New Zealand provides the only direct services, and other airlines have less-clear routes and connections. JAL has not flown directly to New Zealand for around 20 years.

The Agreement makes the case that it would increase the level of marketing to promote New Zealand as a destination which will likely assist in stimulating demand. Japan achieved peak visitation levels to New Zealand in 2002 which were considerably higher than the pre-COVID level (173,567 in 2002 compared to 97,682 in 2019) which indicates potential for market growth. We are interested in whether the agreement can hold the airlines to this increased marketing commitment.

We note that the proposed conduct set out in the agreement permits the applicants to coordinate on capacity and pricing (excluding the point to point journeys between Australia and New Zealand). Normally we would have some concern particularly on pricing coordination, but we note that such arrangements are already in place with other agreements so this is a lesser concern in relation to the wider benefits that will potentially be delivered by this Agreement. We also note that the Australian Competition and Consumer Commission will be looking into this agreement from a competition

perspective and so will explore the potential impacts on the consumer. The New Zealand process under the Civil Aviation Act 1990 does not have a direct consumer test, but it does have a public interest test. We are interested in how MOT considers this point.

Another point emerges about whether the Qantas/JAL agreement will have preferential landing rights to those of Air New Zealand, particularly to Haneda Airport. Can the consideration of this agreement be a way to reconsider the air services agreement that New Zealand has with Japan with a view to gaining equivalent landing rights?

TIA position

TIA **supports** the Joint Business Agreement between Qantas and JAL.

We consider that there are clear potential benefits that will emerge from this agreement once borders open, including increasing the flow of Japanese visitors to New Zealand. In the year to March 2020, Japanese visitors spent \$254 million in New Zealand.

This position is consistent with the *Tourism 2025 & Beyond – Sustainable Growth Framework* that places considerable importance on air connectivity as a key determinant of visitor flows which will be more important than ever as and when we recover from the COVID-19 period.

The three specific points that we request the Ministry of Transport to consider are:

1. How to ensure that the cited marketing effort is put in place to support the suggested growth in the Japanese inbound market to New Zealand.
2. The implications of capacity and price coordination on competition as part of the consideration of the public interest test.
3. Whether New Zealand's air service agreement with Japan should be looked at with a view to establishing equal airport landing rights for New Zealand operators as enjoyed by Qantas and JAL.

Please do not hesitate to contact me if you have any queries about our feedback.

Ngā mihi,



Bruce Bassett

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Tourism Industry Aotearoa