Submission to the

Primary Production Select Committee

on the

Airports (Cost Recovery for Processing of International Travellers Bill)

7 October 2010

Comment

Introduction and Overview

1. This submission from the Tourism Industry Association New Zealand (TIA) comments on the Airports (Cost Recovery for Processing of International Travellers) Bill currently being considered by the Primary Production Select Committee. While TIA does not wish to appear before the Committee to be heard on the Bill, it supports and endorses the submission made by the New Zealand Airports Association who it understands will be appearing on 21 October 2010 to speak to Committee members. The Airports Association is also best placed to comment on the technical aspects of the Bill.

2. By way of initial comment, the Association believes the timeframes for consultation on this Bill have been unusually (and unfortunately) short compared to most Select Committee processes. This has given TIA little time in which to gather the views of its members affected by the Bill. For example, more time would have allowed the Association to gather useful feedback and insights from not only airport and airline members, but other key industry operators.

3. At a general level, TIA understands there must be a mechanism for the Crown to recover costs arising from the processing of travellers. This is particularly the case for regional airports where airline services can start and terminate at very short notice. However, when establishing the right cost recovery model, it is important that the Government consider the real and wider economic benefits to be gained from international visitors against the relatively low cost of providing aviation security, bio-security and customs services.

Delivering Value

4. Tourism is big business for New Zealand as the country's second largest export sector. Below is a snapshot of the economic value provided by tourism to the New Zealand economy:

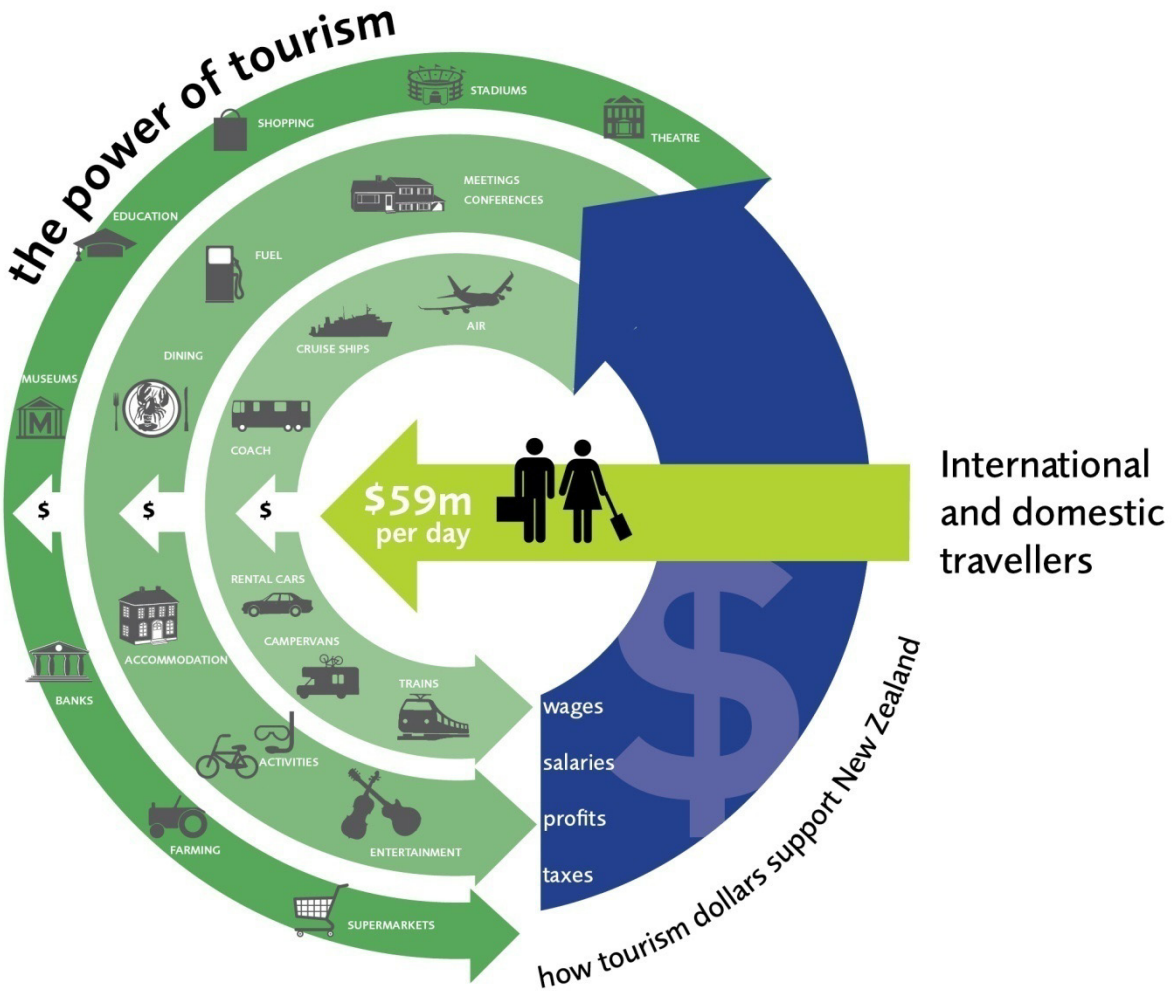
    - Tourism contributes more than 9.1% of gross domestic product (GDP) for New Zealand as well as directly and indirectly employing one in ten New Zealanders.

    - Tourism in New Zealand is a $59 million per day industry. The New Zealand tourism industry delivers $25 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another $34 million in economic activity every day.

    - Tourism expenditure reached $21.7billion for the year ended March 2009. International visitor expenditure accounted for $9.3 billion or 16.4% of New Zealand's foreign exchange earnings, with tourism second only to agriculture as the country's largest export industry.

    - Importantly, and despite more challenging times in the past two years, tourism remains one of New Zealand's largest foreign exchange earners and its contribution is felt at national, regional and local levels.

5. While these statistics demonstrate the direct value (in terms of $ spent) that visitors bring to the economy), the diagram below shows how visitor spending filters down to many other areas of the economy beyond money spent solely with tourism businesses.



Airlines are New Zealand tourism's pipeline

6. Airlines are responsible for generating significant economic benefits to the regions and communities of New Zealand. In a country that is geographically isolated, these airlines are the tourism industry's pipeline and without accessible and affordable route options, visitors just won't come here.

7. While the larger airports like Auckland, Wellington and Christchurch are responsible for around 90% of all international arrivals and departures, regional airports have grown in significance in recent times. Queenstown and Rotorua highlight the importance smaller airports have made to regional economic development.

8. As pointed out by the NZ Airports Association in its submission, the extra value to the Rotorua economy from the introduction of twice weekly Sydney services is estimated at between $8 million and $12 million annually. Meanwhile in Queenstown, an expansion of services (there are now four international airlines flying in and out of the town) has generated more than $50 million annually to the regional economy.

9. While appreciating the need for cost recovery, TIA thinks the Government (and Committee) should be mindful of the broader economic benefits derived from visitors. It is therefore of some concern that new airlines and new services, which are generally positive for the economy, are considered in some respects under this Bill to be a burden.

Don't turn off the tap

10. The biggest risk that may result from this Bill is the potential for customers (via their airline or airport) being faced with hefty passenger charges of the sort that many European governments are now imposing. The New Zealand government has been strong in its opposition, for example, to the United Kingdom's Air Passenger Duty (APD). Meanwhile, Germany is about to introduce a significant tax on departing international passengers. Taxes of this nature can impact on travellers' decisions and the last thing New Zealand would want to do is to create a system that not only created clutter but also turned people off coming here.

11. As noted in its submission, the NZ Airports Association says an increase in airport charges could result in fewer international travellers visiting New Zealand. "NZ Airports notes that the total annual cost to the Crown for providing processing services across all airports is $70 million". The potential loss of visitors through disproportionately high passenger charges could incur a much greater cost to the economy.

12. International airlines also operate on tight margins, margins made even tighter in the current recessionary environment. In assessing whether to start (or cease) a new route, local regulatory settings such as those proposed this Bill, can and do influence airline route decisions. Worldwide liberalisation of air routes is giving airlines many more destination options and New Zealand's relative geographic isolation makes the decision to operate to or from this country even more marginal.

Conclusion

What are we saying?

13. TIA supports a consistent policy framework for cost recovery arising from the processing of international passengers. The Association believes it is right for the Crown to fund the cost of customs and bio-security services and for passengers and airlines to meet the cost of aviation security services (although TIA has consistently said AVSEC's reserves are too high for a Crown agency, especially as the reserves have been accumulated from increased passenger charges and airline payments).

14. There needs to be a balance struck between what are acceptable charges for passengers and airlines to pay for Crown provided services against the potential to lose airline connectivity due to a regulatory environment that deters such airlines from coming to New

Zealand.

15. Any changes to the cost recovery regime should be communicated with affected parties ahead of time to allow for airlines and airports to put in place contingency plans. At the same time, it would be useful if respective Crown agencies worked with industry partners, including airlines and airports, so strategies can be developed to entice new airlines to the country as well as retain those that might be considering ceasing their New Zealand operations.

16. Finally, TIA supports the technical recommendations made by the NZ Airports Association in Appendix A of its submission.

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7 October 2010

Background

A bed-rock of New Zealand's economy

17. Tourism for New Zealand is big business. It is a major contributor to the New Zealand economy that will always be here – and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. Thanks to our 100% pure positioning, New Zealand is recognised as one of the most beautiful, unspoiled and scenic places on earth. 100% Pure signifies pride in our country, pride in our people and culture, and pride in the unique environment and experiences that New Zealand offers.

18. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean, green, pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

19. If New Zealand Inc. is to continue to prosper, to attract investment and to raise its position in OECD rankings, then it is vital the tourism industry, and the positive image it projects, remain strong.

About TIA

20. TIA has been the lead association that represents the interests of about 1,700 tourism businesses in New Zealand. The Association was first established in 1955 and the businesses TIA represent cover a range of tourism-related activities – hospitality, transport, accommodation, adventure and activities, attractions and retail as well as related tourism services.

21. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events and membership and business services. The TIA team is based in Wellington and led by Chief Executive Tim Cossar.