
Australasian Tourism Review: Update

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T TOURISM FUTURES
INTERNATIONAL

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1. Introduction

As noted elsewhere, the tourism benefits of the proposed Alliance are covered in detail in the TFI report of February 2003 and the Qantas Holidays (QH)/Air New Zealand business plan sent to the commissions on 6 March 2003.

A number of respondents to the ACCC have commented on the tourism case. Those comments are briefly discussed in this Update. This Update does not deal with submissions to the Commerce Commission because TFI understands that the material matters raised in those submissions have already been addressed in the TFI report and the QH/Air New Zealand business plan.

Before dealing with specific issues, it is worth making a few general comments, namely:

- the Alliance will not result in a refocussing of the whole QH business;
- the Alliance will instead result in a large number of additional tourists to New Zealand, a significant proportion of which will also visit Australia (see summary below);
- there will be new products facilitating enhanced tourism (eg. triangulation); and
- this will enable Australia and New Zealand to compete better for international tourists- as noted in the TFI report, both countries are finding it an increasing challenge to maintain their share of worldwide tourism.

The tourism case comprises:

- The impact of changes to fares and airline product – the net loss of 10,333 visitors to New Zealand and 10,771 to Australia.
- The impact of an effective increase in promotion – an increase of 13,277 visitors to New Zealand and 20,383 to Australia.
- The impact of an expansion of the QH activity – 50,000 additional visitors to New Zealand and 18,000 to Australia.

As is shown in **Table 1.1** below this amounts to a net 52,944 visitors for New Zealand and 27,612 for Australia.

Table 1.1: Tourism Impacts of the Alliance

Estimated net impact on tourism of the Alliance, year 3 (persons)				
	Qantas Holidays	Increased Promotion Effect	New fares & products	Total
New Zealand	50,000	13,277	-10,333	52,944
Australia	18,000	20,383	-10,771	27,612

Source: NECG Report, Table 24 page 156

In this note TFI focuses primarily on the comments that relate to the QH figures and TFI's previous report.

2. Review of Tourism Responses

2.1 Summary of Issues

TFI has reviewed a number of the responses related to tourism. These include the:

- Australian Tourist Commission (ATC)
- The Australian Department of Industry, Tourism and Resources (DITR)
- The Tourism Task Force (TTF)

This section presents the views as expressed by these entities. Some general thoughts are provided here, additional material related to point (1) is provided at **Section 3**.

In summary there appear to be six issues in relation to the tourism analysis.

1. Potential overall loss of yield/export earnings for Australia from dual destination visits (raised by the ATC). There are two associated issues also raised. The first raised by DITR is whether the increased level of dual destination travel might come at the expense of growth in mono-destinational travel to Australia. The second raised by TTF is the justification for believing that by QH selling stopover packages the propensity for joint visitation to both destinations will jump from the current 35% to 50%.
2. Completeness of forecasting arrivals (ATC).
3. Impact on the US inbound tourism market (ATC).
4. Dispersal of tourists around Australia (ATC and DITR).
5. Implications for the ATC of the Alliance promotion of joint marketing of Australian and New Zealand tourism (ATC).
6. Why Qantas Holidays would not undertake the additional (and profitable) promotional expenditure without the alliance

2.2 Australian Tourist Commission (ATC)

The ATC suggests that the Alliance should be supported in the national interest *subject to important additional protections for Australian inbound tourism for the next five years*. However it also suggests that some *negative consequences to the national interest have been overlooked, the analysis and modelling reviewed only a small range of the inbound tourism impacts*. The ATC raises five issues in relation to the tourism analysis.

- Potential overall loss of yield/export earnings for Australia from dual destination visits.
- Completeness of forecasting arrivals.
- Impact on the US inbound tourism market.
- Dispersal of tourists around Australia
- Implications for the ATC of the Alliance promotion of joint marketing of Australian and New Zealand tourism.

Issue 1: Loss of yield/export earnings for Australia from dual destination visits

ATC Comment

The first key issue is that the Alliance's shift in marketing will result in many more third country tourists to Australia dividing their holiday weeks and budget between Australia and New Zealand.

... [M]ore generally, Qantas Holidays is being refocused to sell joint country itineraries or New Zealand rather than just Australia.

TFI Response

These statements appear to overstate the extent of the focus on dual destination promotion. It is not the case that *Qantas Holidays is being refocused to sell joint country itineraries or New Zealand rather than just Australia*. In fact the QH activity is being expanded rather than being 'refocused'. It will continue to see Australia as its primary focus. It is adding two areas to its portfolio (1) New Zealand as a stand-alone destination and (2) Australia and New Zealand as joint destinations.

ATC Comment

A key constraint in visiting a long haul destination like Australia is the limits on leave time and holiday budgets available. If increasingly New Zealand is also to be visited on trips to Australia, then total visitor nights in Australia and spending in Australia will fall unless there is a significant growth in overall arrivals to due to increased Alliance marketing.

TFI Response

TFI's view is that whilst this statement might be true for short haul markets, evidence suggests that for longer haul markets consumers who add New Zealand to an Australian holiday (or vice versa) stay longer overall.

Furthermore the ATC has assumed a "switch of between 5% and 15%" of Qantas passengers from an Australian to an Australian/NZ visit, which presupposes a substantial refocus of the entire Qantas

international operation. It also assumes that all of these ‘switched’ travellers will halve their trip time in Australia. Both of these assumptions appear unrealistic.

ATC Comment

Existing Government data highlights that for Australia’s two fastest growing inbound markets of China and Korea, there is a dramatic difference in average nights in Australia if the sole destination as against if New Zealand is also visited on the trip.

TFI Response

The comment that there is a difference between nights spent in Australia by visitors from China and Korea depending on whether or not they also visit New Zealand is correct. The data quoted by the ATC was in our report (**Table 5.11**).

However, the reason for the fall in visitor nights relates largely to those travelling for Employment, Education and Other reasons. QH is unlikely to sell to these travel segments.

In fact the reduction in trip time between those visiting just Australia for holiday and those visiting Australia and New Zealand for holiday is substantially less than the reduction for the whole market.

➔ **Issue 2: Completeness of forecasting arrivals.**

ATC Comment

The proponents’ expectation of an additional 28,000 arrivals in the third year of the Alliance, is worryingly small – being only about half of one per cent of Australian inbound arrivals.

TFI Response

Whilst 28,000 arrivals might appear a relatively small contribution the TTF submission suggests that it would be welcome given the possible low growth possible over the next couple of years.

Throughout the analyses Qantas/Air New Zealand have adopted a number of conservative assumptions with respect to growth and have not fully assessed the benefits of, for example, the improvements in service.

It should be noted that the QH figure of 50,000 was based on the achievement of assumed increments to markets due to QH activity. These increases were applied to 2001/02 levels of visitor performance with no allowance for growth. The growth in the number of holiday visitors to New Zealand in 2005 over 2002 levels, is forecast by the Tourism Research Council (TRC) to be around 19%. The QH figure of 50,000 estimated on the basis of 2005 visitor levels could then be expected to amount to almost 60,000.

Issue 3: Impact on the US inbound tourism market

ATC Comment

There is a real prospect that routes between Australia and the USA will only be offered by the Alliance partners, with non-stop flights only by Qantas.

TFI Response

Given the cyclical nature of the industry, the traditional importance placed on the South Pacific and Australia by US carriers and the fact that any withdrawal by US carriers is likely to result in a liberalisation of Australian air services agreements, this concern is unwarranted.

Issue 4: Implications for inbound tourist dispersal with the AllianceATC Comment

The Alliance promises to complicate ATC achievement of its objective for encouraging dispersal of inbound tourism spending.

TFI Response

There is no reason why Qantas would stop pursuing profitable opportunities on the *non-Eastern seaboard areas of Australia that are less suitable for promotion in joint campaigns with New Zealand*. As noted above, QH is not being refocussed; it is adding new areas to its portfolio- New Zealand standalone and Australia and New Zealand as joint destinations.

Further, and this point is made by DITR, the airlines' commitment to introduce new direct services to Adelaide, Hobart and Canberra will assist dispersal. The longer haul markets offer the greatest opportunity for dispersal as they have the longest stay in Australia.

Issue 5: Implications for the ATC of the Alliance promotion of joint marketing of Australian and New Zealand tourism.ATC Comment

Inevitably the Alliance will encourage more joint promotion of Australia and New Zealand. While there are forces pushing Australia and New Zealand to market their destinations jointly, the global push toward short-break travel encourages competition with New Zealand rather than co-operation. Dual country campaigns make much less sense for short break markets.

The ATC is already working with the New Zealand Tourism Board (NZTB) when it makes sense to do so. However, the expectation is that joint promotion of Australia and New Zealand is likely to be less productive for the Australian national interest than promotion of a more focused Brand Australia message. Inevitably joint promotion of Australia and New Zealand will entail political pressures from both sides of the Tasman, complicating campaign design, management and evaluation.

TFI Response

TFI's expectation is that Qantas will sell Australia and New Zealand jointly to some market segments and Australia specifically to others when it makes commercial sense to do so. As noted above, the Alliance does not represent a complete refocus of Qantas/QH promotion.

For shorter haul travellers it may be commercially sensible to promote the single destination. However for longer haul markets the promotion of an Australian/New Zealand holiday would assist in (1) encouraging repeat visitors, and (2) to encourage first time visitors that there is sufficient range

of attractions/appeal in Australia/New Zealand to warrant the substantial commitment of time and money necessary to visit this part of the world.

2.3 Department of Industry, Tourism and Resources (DITR)

DITR Comments

DITR suggests that:

The study (by TFI) does not make an entirely convincing case, however, that the increased level of dual destination travel might not come at the expense of growth in mono-destinational travel to Australia (that would have occurred in the counterfactual anyway). There would seem to be some potential for a reduction in average lengths of stay...

TFI Response

There are two issues raised here. The first relates to the possibility that the increased level of dual destination travel might come at the expense of growth in mono-destinational travel to Australia. The TFI analysis suggested that the joint QH and Air New Zealand activities could generate over 36,000 non-Australian visitors. TFI indicated that if QH/Air New Zealand could achieve a penetration of 7.2% of the New Zealand overseas holiday market – the level QH has achieved in Australia - this would amount to 73,000 overseas visitors. By 2005, using the TRC forecasts, the same share would result in nearly 90,000 visitors. Thus the estimate of an additional 50,000 visitors is a conservative estimate for year 3. This allows for the possibility that some of the additional visitors may have visited Australia in the absence of the Alliance. It is also important to note that the Alliance, and the QH/Air New Zealand business plan, proposes unique tourism product opportunities not previously available. Our expectation is that these will attract new visitors particularly from long haul markets.

The second issue is the reduction in average lengths of stay. This has been commented on in the context of the ATC submission.

2.4 Tourism Task Force Australia (TTF)

The TTF notes that:

In a flat market, an additional 18,000 extra tourists per annum will provide a fillip to softening demand. This is where the alliance delivers real benefits to the Australian economy.

However:

TTF are not convinced with the arguments put forward by TFI that, by Qantas Holidays selling stopover packages the propensity for joint visitation to both destinations will jump from the current 35% to 50%.

TFI Response

TFI's notes that currently 35% of all non-Australian visitors to New Zealand also visit Australia. These visitors travel to New Zealand with a number of airlines for a number of purposes.

The 36,000 extra visitors to New Zealand (generated by QH/Air New Zealand from markets other than Australia) will be carried by Qantas and/or Air New Zealand and will have purchased a QH/Air New Zealand holiday package. For this reason TFI considers it reasonable to assume that a higher proportion of the 36,000 will also visit Australia.

It is important to note that TFI's assumption of the move from 35% to 50% relates only to the 36,000 additional non-Australian visitors to New Zealand.

3. TFI Response to Yield Issues

Some submissions have raised the concern that dual (Australia/ New Zealand) destination travellers will spend less time in Australia than those who visit Australia alone (“mono” destination travellers). TFI summarises its views with respect to these comments as follows:

- As noted elsewhere, the dual destination passengers referred to are incremental, that is they are tourists which would not otherwise have visited either country – consequently there can be no “loss” in respect of these passengers;
- Further, there is no reason to believe that tourists which would otherwise have visited either country (ie. would visit Australia / New Zealand with or without the proposed Alliance) would necessarily change their itinerary because of the availability of additional QH/Air New Zealand packages;
- In any event, some of the figures provided to the ACCC significantly overstate the potential difference in length of stay for the two types of traveller (ie mono and dual). TFI’s analysis shows that:
 - while for some shorter-haul markets, the stay in Australia is reduced if a joint Australia/New Zealand trip is undertaken, its overall impact is mitigated by the number of longer-haul markets that have a longer stay;;
 - a comparison of the average stay of those travelling to Australia for the purpose of holiday against:
 - the average stay of those who travel to both Australia and New Zealand; and
 - those who travel only to Australia;
 shows that visitors with an NZ stopover stay in Australia longer on average than those visiting Australia exclusively.
 - overall, the spend for those holiday makers with an NZ stopover is higher than for the overall market of visitors. This reflects the longer stay of visitors particularly from the longer haul markets such as North America and Europe.

4. Tourist Dispersal

TFI has not undertaken a detailed review of the dispersion of tourists issue at this stage. Both the ATC and DITR commented on this issue. The ATC commented that the Alliance may have a negative impact on its dispersal objectives. DITR was more positive and welcomed the commitment to introduce new direct services to Adelaide, Hobart and Canberra.

TFI’s analysis of the proportion of all visitors to Australia visiting each state shows that, compared with each state’s average performance, South Australia performs best in attracting the longer haul markets of USA, Canada, UK and Europe. This is true as well for Tasmania and the Northern Territory. In the case of Western Australia there is a strong European performance but also a strong performance by Singapore, Malaysia, Indonesia, Thailand and Other Asia.

These results indicate that, with the stimulus of particularly long-haul traffic as a result of the Alliance, these states will be well placed to benefit from above average growth.