Australasian Tourism Review

PUBLIC VERSION

11 February 2003

TOURISM FUTURES INTERNATIONAL

Contents

Australasian Tourism Review

1. Executive Summary ... 1
2. Background ... 6
   2.1 The Scope and Significance of Tourism ... 8
3. Challenges Facing Tourism in Australia and New Zealand ... 10
   3.1 Overview of Tourism Growth and Forecasts ... 10
   3.2 The Tourist Decision Making Process ... 18
   3.3 Challenges facing the tourism industry ... 20
      3.3.1 Increased Competition for Inbound Tourists ... 20
      3.3.2 Long Haul Market Challenges ... 24
      3.3.3 Travel Safety ... 25
      3.3.4 Maturity of Tourist Source Markets ... 26
      3.3.5 Travel Distribution ... 28
   3.4 Summary of Key Points ... 30
4. Implementation of the Alliance ... 31
   4.1 Impact of Alliance on Tourism ... 31
   4.2 Why These Outcomes Depend on the Alliance ... 33
   4.3 Qantas and Air New Zealand 'Holidays' ... 38
   4.4 The QH/Air New Zealand Proposal ... 39
5. Quantifying the Tourism Impacts ... 41
   5.1 Expansion of Airline Network and Services ... 41
   5.2 The Market for Package Travel ... 44
   5.3 QH Market Penetration ... 46
   5.4 Additional Sales Outlets ... 48
   5.5 Generating Additional Visitors To Australia ... 49
   5.6 Conclusion ... 53
6. Attachments ... 55
   6.1 Attachment 1: Market Share Performance ... 55
   6.2 Attachment 2: Barrier Studies ... 63
   6.3 Attachment 3: QH Plan ... 66
      1. Improved Air Product ... 66
      2. Expanded Land Product ... 66
      3. Increased Promotion ... 67
      4. Expanded Distribution ... 67

5. Specialised Customer Service 68
6. Focus on New Market Segments 68
6.4 Attachment 4: QH Global Structure and Footprint 70

1. Executive Summary

The purpose of this report is to assess the reasonableness of the claim that the proposed Alliance between Qantas and Air New Zealand would generate an additional 50,000 inbound tourists to New Zealand and an additional 18,000 inbound tourists to Australia compared with the future without the Alliance. These form part of the overall tourism impact with other elements – promotional effects, fares and products - assessed in NECG's report on the competitive detriments and public benefits associated with the proposed Alliance[1].

Tourism Context

The assessment of the tourism impacts associated with the proposed Alliance between Qantas and Air New Zealand needs to be considered in the context of the general challenges facing the Australian and New Zealand tourism industries in the coming years. In particular:

- The competition for inbound tourists is intensifying with an estimated 175 National Tourist Offices (NTOs) now competing for a share of the international travel market. The expenditure by NTOs is substantial. For example, in 2003 Thailand's expenditure on tourism is budgeted at some A$280 million, while Malaysia's budgeted expenditure for the same year is close to A$430 million. Annual budget allocations to the Australian Tourism Commission (ATC) and the New Zealand Tourism Board (NZTB) amount to approximately A$90 million and A$58 million respectively and while this expenditure is not directly comparable to that of the other NTO's there has been little change in the level of allocation in recent years. Given the link between marketing expenditure and tourism expenditure, a growing gap between tourism budgets in Australia and New Zealand compared with other countries competing for the same inbound tourists is concerning. In addition, Australia and New Zealand are competing within an international tourism industry that is becoming increasingly sophisticated and integrated, where economic development agencies and destination promotion organisations regularly combine resources to develop a unified approach to marketing a destination.
- Within this increasingly competitive market Australia and New Zealand face a further challenge in that they are both long haul destinations for most international tourists. Long haul destinations require a greater investment of tourist expenditure and time. Linked to the long haul nature of Australia and New Zealand as tourist destinations, is the increasing reliance on repeat visitations from mature origin markets. Short-haul destinations tend to attract repeat visitation much more easily than long-haul destinations due to the much lower level of expenditure and time investment required. However, even for short-haul destinations repeat visitations have tended to plateau over time. Repeat visitations are extremely important accounting for 57% and 44% respectively of all tourists to Australia and New Zealand, in the year 2001/02. While Australia has experienced a steady rise in repeat visitations since the early 1990s, it is likely that the plateau effect experienced in other countries will eventually be reflected in Australia and New Zealand.
- In addition, travel safety has become a challenge for the Australian and New Zealand tourism industries. Unlike previous conflict situations where Australia and New Zealand

[1] Network Economic Consulting Group prepared the Report on the Competitive Effects and Public Benefits Arising from the Proposed Alliance between Qantas and Air New Zealand. (8 December 2002).

benefited from their relative isolation, the Bali bombing has associated Australia in particular more closely with potential conflict and travel safety concerns.

- Travel distribution is also a significant challenge facing New Zealand. Distribution channels are critical to presenting New Zealand tourism product to potential international tourists. However, in the *New Zealand Tourism Strategy* it is suggested that the representation of New Zealand and its products overseas is diminishing. In some cases the level of New Zealand sales has diminished to the point where some offshore distributors may no longer wish to promote New Zealand as a holiday destination.

Implications of the Proposed Alliance

Given these challenges, the proposed Alliance between Qantas and Air New Zealand would have important implications for the tourism industries in both countries.

First, the proposed Alliance would substantially improve the quality of the Australia and New Zealand product offering to international tourists. The international networks of Qantas and Air New Zealand in the absence of the Alliance predominantly operate to and from their respective domestic markets. With the exception of Auckland-Los Angeles, Qantas currently operates no long-haul international flights to and from New Zealand. With the Alliance, Qantas would effectively increase its network coverage between New Zealand and all Asian destinations that Air New Zealand currently operates including Singapore, Hong Kong and Japan, providing tourists with a much improved network quality.

The proposed Alliance would also provide the opportunity for the operation of new flights between Australia and New Zealand and the best opportunity for the airlines to operate new flights to international destinations through the consolidation of demand. In addition, as set out in NECG's report, the flight schedules that the airlines would operate under the Alliance involve the spreading of flight times during the day, rather than the duplication of flight times that would continue to operate in the absence of the Alliance. These improved schedules would be an effective improvement in the quality of service over what the airlines currently provide and would be likely to provide in the absence of the Alliance.

Second, the proposed Alliance provides the incentive for the airlines to promote Australia and New Zealand as a dual destination, and hence provides a product that would otherwise only be provided as an add-on to a tourist's primary destination. In addition, New Zealand on its own will be promoted as a tourism destination by Qantas Holidays (QH) outside Australia, which is a product that is currently offered ex Australia only, and would not be provided by QH in the absence of the Alliance.

Third, it will provide the New Zealand tourism product with a distribution channel of equal strength to that of QH. Currently Air New Zealand through its only offshore international holiday operation in Japan distributes New Zealand as a tourism destination through 500 sales outlets. In contrast, QH operates in the Americas through an agreement with Qantas Vacations, in Asia through QH subsidiaries in Japan, Singapore, Hong Kong, Taiwan, Thailand, Malaysia, Thailand, Indonesia plus 19 general sales agents (GSAs), in Europe via 25 GSAs and through another 42 GSAs in Africa and the Middle East, representing a total of over 37,452 outlets.

Fourth, the Alliance would consolidate the promotion budgets of both airlines, providing a larger budget for the promotion of Australia and New Zealand, which in turn should be translated into higher tourism expenditure. The Alliance would also remove the rivalrous promotion that currently occurs between Qantas and Air New Zealand. This is very important as, instead of competing for inbound tourists to Australia and New Zealand, Qantas and Air New Zealand would coordinate their efforts to attract tourists to Australia and New Zealand.

These implications of the Alliance would assist both Australia and New Zealand in meeting the challenges facing the tourism industries in the coming future. The improvement in the quality of service provided would better allow Australia and New Zealand to compete as tourism destinations as a result of the increased attractiveness of the product the airlines can offer, including the much increased reach of the Qantas network. The enhanced dual destination product of Australia and New Zealand would also assist the tourism industries in both countries to compete in the global market for inbound tourists. The improved attractiveness of the Qantas and Air New Zealand networks and the new products that could be supplied as a result of these improvements, would also assist in attracting repeat visitors.

In crediting the Alliance with these improvements in tourism in both countries, it is important to understand why these outcomes would not occur in the absence of the Alliance. The most important reason is that in the absence of the Alliance QH would have little incentive to sell New Zealand as a tourist destination. This is because QH is a distribution channel for Qantas and is under firm instructions from Qantas not to sell seats on Air New Zealand because Air New Zealand is currently a competitor. Hence, in the absence of the Alliance, Qantas would not sell seats on Air New Zealand. In addition, Qantas currently has a limited network to and within New Zealand which makes many New Zealand related itineraries uneconomical and a combined Australia and New Zealand itinerary too expensive. The Qantas brand is also strongly associated with Australia, making it difficult for QH to sell New Zealand only as a destination overseas.

In contrast, under the Alliance QH would be instructed to and would have the profit incentive to sell Air New Zealand seats, as the accounting arrangements agreed between the airlines makes this profitable for Qantas. The Alliance offers QH an improved product in the region with a larger network, better connections and New Zealand only and dual destination products. The Alliance would also enhance QH's inbound growth strategy by combining two well-aligned inbound markets.

Proposed QH Initiatives

Under the Alliance, QH proposes to implement a number of sales, marketing and promotional initiatives designed to increase tourism to New Zealand and Australia. QH will implement a marketing and sales plan for each world region and will introduce new promotional themes and activities in these regions to better educate international consumers about New Zealand product offerings. QH will offer a greater choice of land products to tourists to New Zealand, which will support multi-destination itineraries. QH proposes to focus on new market segments by introducing new customised packages, including short breaks, 'mystery' packages, and packages for those interested in adventure, nature and outdoor activities such as skiing and snowboarding.

A specialist New Zealand reservations unit within QH would market an expanded and enhanced New Zealand product range. This unit will receive specialised destination and itinerary training for the unit. Customers will receive improved customer support when selecting and creating holiday itineraries for New Zealand, including dual Australia and New Zealand itineraries. QH intends to use its expansive global distribution network to promote and sell the enhanced New Zealand product. It will create connectivity between its booking systems and wholesaler and retailer IT platforms to allow seamless and direct sale to New Zealand air and land product. Large, mainstream distributors would have direct access to New Zealand product through host-to-host connections with QH.

Reviewing the QH Claim

QH believes that the Alliance has the potential to increase the number of visitors to New Zealand by approximately 50,000 and visitors to Australia by approximately 18,000, compared to the future without the Alliance. While it is difficult to quantify the implications of the Alliance in terms of tourist numbers with certainty, it is possible to assess the reasonableness of the estimate made by QH. We have adopted three approaches to do this.

The first approach involves an examination of the sale of packages in Australia and New Zealand. QH sells tourist products as packages. Hence, an indication of the increased level of tourism to New Zealand can be gained by examining the implications of QH achieving the same level of package sales in New Zealand as it achieves in Australia. In Australia, tourist packages accounted for approximately 32% of the Australian inbound tourists in 2001/02. Excluding tourists from New Zealand, packages accounted for approximately 35%. In contrast, packages account for a smaller proportion of tourists to New Zealand. In 2001/02, packages accounted for approximately 21% of the New Zealand inbound tourists. Excluding tourists from Australia, packages accounted for approximately 25%. Therefore, if the Alliance resulted in an increase in package sales by QH that aligned the percentage of inbound tourists accounted for by packages in Australia and New Zealand, there would be 117,000 new tourists visiting New Zealand (excluding visitors from Australia).

The second approach involves examining the impact on the level of tourists visiting New Zealand assuming that QH could achieve the same level of penetration in New Zealand as it has in Australia. In 2001/02 QH accounted for [**confidential**] of the holiday visitors to Australia, excluding tourists from New Zealand. If QH could achieve the same level of penetration in New Zealand then this would result in an additional 73,000 tourists per year to New Zealand.

The third approach involves an examination of the change in the number of sales outlets selling New Zealand product as a result of the Alliance. Air New Zealand currently has 500 sales outlets in Japan, which currently contributes approximately 27,500 visitors annually. This would likely remain unchanged in the future without the Alliance. In the future with the Alliance, QH would sell New Zealand as a product out of more than 37,452 outlets worldwide (excluding Australia). Out of these outlets QH currently makes [**confidential**] sales per year or [**confidential**] sales per outlet. If QH could achieve one-third to one-half this volume of sales per outlet for New Zealand the outcome would be an additional 44,000 to 67,000 visitors (excluding Australians).

All of the approaches we have adopted to assess the reasonableness of the claim for 50,000 new visitors (36,000 excluding Australians) suggest the potential for a larger impact. However it is possible that some of the additional travellers identified in our analyses would have visited Australia and New Zealand through packages other than those provided through the QH network. For this reason a more conservative approach to estimation is appropriate.

The additional 18,000 visitors to Australia as a result of the proposed Alliance are those who stopover in both Australia and New Zealand during their overseas holiday. Excluding Australian residents, the number of dual destination visitors currently amounts to 35% of overseas visitor arrivals to New Zealand. In our view, the Alliance would substantially increase the level of dual destination tourists, as a result of the promotion of such packages by QH. We believe that it is reasonable to expect that the level of dual destination tourists would increase to 50%, which would result in an additional 18,000 tourists visiting Australia as a result of the Alliance.

To put this estimate in context, it represents 4.9% of the annual number of holiday visitors to New Zealand and 2.6% of the total visitors. Based on the Tourism Research Council of New Zealand annual growth forecast of 6% per year for the total visitor market to New Zealand, the 50,000 is equivalent to less than one-half of one year's volume growth.

Overall, we believe that the QH estimate of 50,000 new tourists to New Zealand and 18,000 new tourists to Australia as a result of the Alliance is reasonable.

2. Background

Qantas and Air New Zealand have entered into a conditional Strategic Alliance Agreement (‘the Alliance’) which will, amongst other things, involve the coordination of all Air New Zealand and Qantas flights which operate to, from and within New Zealand. As a pre-condition to the Alliance, Qantas will acquire up to a 22.5% ‘cornerstone’ shareholding in Air New Zealand. The Alliance will include the coordination of all business activities undertaken in respect of the Alliance network, including the scheduling and pricing of all services. Qantas holds a significant shareholding in Air Pacific which will further strengthen the Alliance network throughout the Pacific.

NECG reviewed the potential competitive detriments and public benefits associated with Alliance which are summarised in the box overleaf. NECG’s analysis relied on an estimate from Qantas Holidays (QH) of 50,000 new tourists to New Zealand and 18,000 new tourists to Australia that would be generated as a result of the Alliance.

Tourism Futures International (TFI) has been engaged by Qantas and Air New Zealand to assess the reasonableness of these estimates in the context of the overall projections for the Factual (with the Alliance) and Counterfactual (without the Alliance) scenarios prepared by NECG.

TFI has consulted extensively to industry and government in the areas of tourism market analysis, forecasting and strategy. TFI prepared reports on market prospects and traffic forecasts for the Australian Government as part of its sale of Brisbane, Melbourne and Perth airports and most recently for the sale of Sydney Airport. TFI has also advised investors on other airport opportunities in Australia and New Zealand. TFI provides market assessments and growth forecasts for airports on both sides of the Tasman and worked closely with Sydney Airport on its assessments of potential Olympic impacts.

Assignments have been undertaken in the following areas:

- Airport privatisations.
- Business planning and strategic planning.
- Economic impact assessments and policy studies.
- Patronage forecasts for non-air transport.
- Assessment of visitor travel patterns.
- New airline route evaluation.
- Olympic assessments.
- Market and industry performance reviews.
- Traffic forecasting for airlines and airports.
- Smaller airport and remote region forecasts and policy assessments.
- Accommodation forecasts.

NECG EVALUATION OF ALLIANCE IMPACTS

The Alliance will bring profound changes. Once the proposal is in place, all decisions with respect to the parties' flights affecting New Zealand – that is, either within, or to or from, New Zealand – will be coordinated. Duplication that would otherwise occur would be avoided, so that costs would be substantially lower than in the world without the Alliance. No less importantly, coordinated decision-making would allow better scheduling of flights, as the current incentive the parties have to shadow each other's scheduled times would be eliminated. Further, combining the parties' load would make a wider range of direct services profitable, and hence would provide an incentive for city-pairs to be served that currently are only available through indirect flights. Overall, looking to the next 3 to 5 years, the effect of the Alliance would be to:

- increase capacity, relative to the current situation, though not as compared to the extensive duplication likely to occur in the Alliance's absence;
- improve scheduling and expand the range of direct services; and
- reduce costs relative to the world without the Alliance. Page 23 of NECG Report

NECG has also estimated the net tourism effect as shown in the table below – a net gain of nearly 53,000 for New Zealand and over 27,000 for Australia. Page 156 of NECG Report

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

The Qantas Holidays contribution is the subject of this Report with NECG addressing promotional effects along with the impact of fares and airline services.

The remainder of this section provides background information on the significance of tourism to the Australian and New Zealand economies to provide some context to the rest of this report.

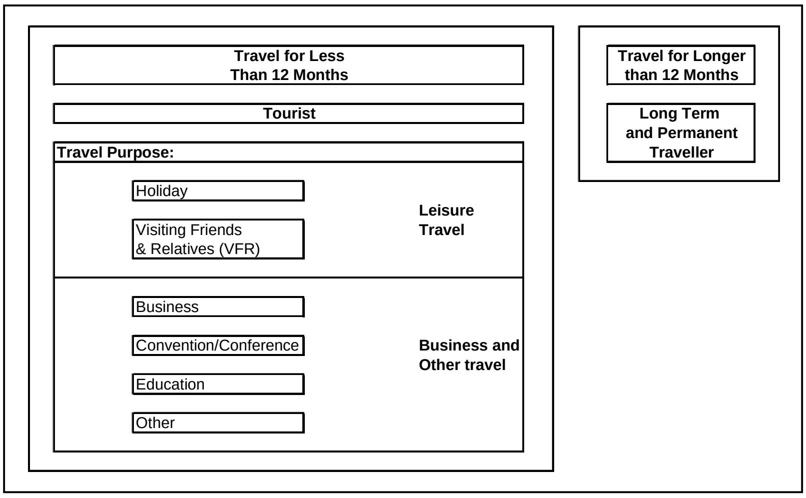
2.1 The Scope and Significance of Tourism

The tourism industry is difficult to define. It comprises a large number of small to large companies that, in whole or part, serve, directly or indirectly, the needs of tourists. These tourists can be domestic or international in origin.

‘Tourists’ are generally distinguished from other travellers by the length of time they spend on a trip. When the trip duration is less than 12 months, the traveller is generally defined as a tourist. For a trip duration of over 12 months, the traveller is defined as long-term or permanent (for work or migration purposes).

There are many reasons why tourists travel. The three main reasons include (1) for holiday and leisure, (2) to visit friends and relatives, and (3) for business purposes. Other reasons include education and employment. **Figure 2.1** summarises the categories of trip purpose. Throughout this report when referring to a *tourist* TFI is referring to all travellers with a trip duration of less than 12 months regardless of travel purpose. Travellers for holiday purposes will be specifically referred to as such.

Figure 2.1: International Visitor Arrivals to Australia, 1996 to 2001



Source: TFI.

Table 2.1 shows the overall number of international visitors and domestic trips to and within Australia and New Zealand. Although domestic tourists generate around 60% to 70% of visitor nights and around 80% of nights spent in commercial accommodation, the focus of this report is the impact of the Alliance on international tourism flows.

Table 2.1: Domestic and International Travel - Australia and New Zealand, 2001

AUSTRALIA	**Domestic**	**International**	**Total**	**International Share**
Trips/Visitors ('000s)	74,585	4,871	79,456	6%
Nights ('000s)	289,644	119,900	409,544	29%
NEW ZEALAND	**Domestic**	**International**	**Total**	**International Share**
Trips/Visitors ('000s)	16,560	1,909	18,469	10%
Nights ('000s)	50,330	36,300	86,630	42%

Source: New Zealand & Australia International and Domestic Visitor Surveys.

Economic Significance of Tourism in Australia[2]

Tourism directly accounted for 4.7% of expenditure of Gross Domestic Product in 2000-01. (*Tourism Satellite Account*).

- In 2000-01, tourism was directly responsible for employing 551,000 people, or 6% of total employment. Australia's Bureau of Tourism Research (BTR) believes that if direct and indirect employment are added the tourism industry contributes 10% of employment.
- In 2000-01, international tourists to Australia consumed $17.1 billion worth of goods and services. This represents 11.2% of total export earnings.
- In the year ending 30 June 2002 Australian residents spent a total of 289 million nights away from home and took 142 million day trips, resulting in $50.1 billion being spent on domestic tourism.

The largest contributors to output (value added) within the tourism industry are: air and water transport (15%), accommodation (11%), cafes, restaurants and other food outlets (10%) and retail trade (9%). These services account for almost half of tourism output. *(Tourism Satellite Account).*

Economic Significance of Tourism in New Zealand[3]

The New Zealand tourism industry is made up of 10 major public-listed companies, a significant proportion of the New Zealand share market and of market capitalisation. It also includes between 13,500 and 18,000 small to medium enterprises.

Tourism supports more than one job in ten in New Zealand, with over 94,000 full-time equivalent jobs provided directly through tourism and an estimated 69,000 indirectly.

Tourism plays a key role in the growth of the New Zealand economy through employment, foreign exchange earnings, investment and regional development. Tourism directly and indirectly contributes almost 10% of New Zealand's GDP.

Tourism is one of New Zealand's largest export industries, with international visitor expenditure in 2001 of A$4.5 billion. Domestic tourism generated A$5.5 billion in 2000 (the most recent year available).

[2] Source: Department of Industry, Tourism and Resources website.

[3] Source: NZ Ministry of Tourism Website.

3. Challenges Facing Tourism in Australia and New Zealand

There are a number of important challenges facing the tourism industry in Australia and New Zealand over the coming years:

- Intensified competition for inbound tourists from an increasing number of countries.
- Long-haul characteristics of Australian and New Zealand tourism source markets.
- Concerns about travel safety which impact upon long haul destinations and Australia and New Zealand particularly because of Bali.
- Maturity of many tourist source markets for Australia and New Zealand.
- Distribution of New Zealand tourism product.

The impact of these challenges are already being reflected in declining market shares for New Zealand and a downgrading of tourism forecasts in Australia.

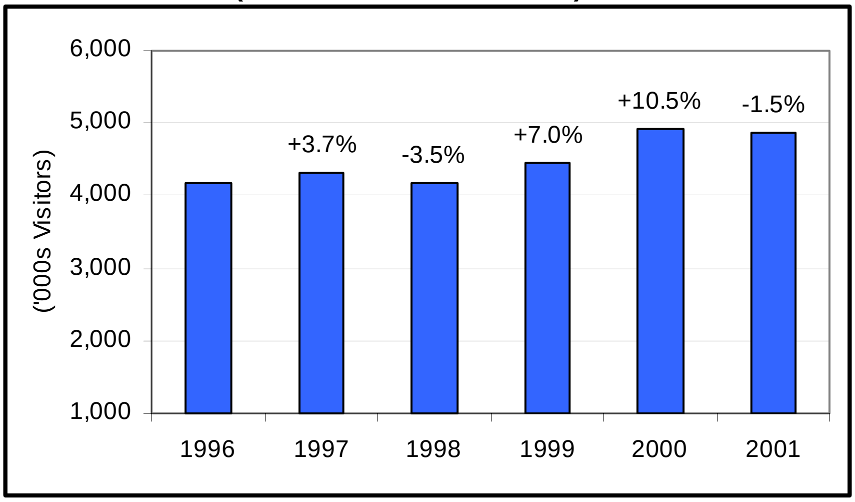
This section first provides an overview of the trends in international travel in Australia and New Zealand and then identifies the process that by which potential travel is converted into actual travel. Each of the challenges identified above are then discussed.

3.1 Overview of Tourism Growth and Forecasts

International Travel to Australia

Figure 3.1 shows international visitation and the related annual percentage change over the period 1996 to 2001. The strong growth during 2000 was in part associated with the Olympics. The decline in 2001 represents an expected slowing following the Olympics, an unexpected decline following September 11, and the slowing of growth in the world economy.

Figure 3.1: International Visitor Arrivals to Australia, 1996 to 2001
(Years ended 31 December)



Source: Australian Bureau of Statistics, TFI.

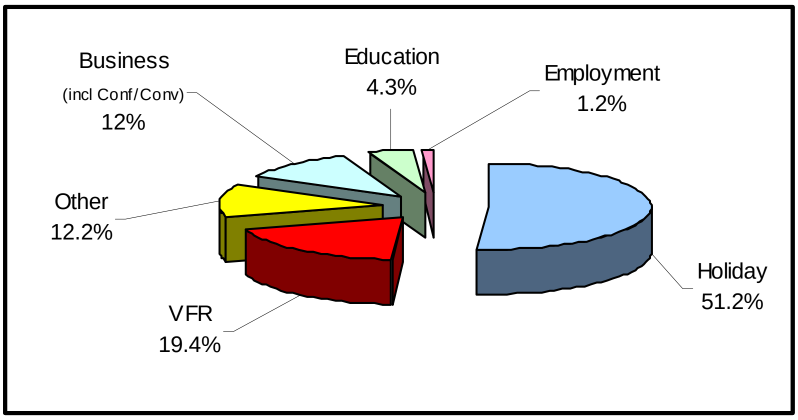
The Australian Tourism Forecasting Council (TFC) produced its latest forecasts of visitor arrivals to Australia in December 2002. Visitor arrivals to Australia are forecast to grow by an average annual 4.3% over the period 2001 to 2008. This is a substantial reduction in the previously forecast growth – down from the 6.9% annual growth in the forecasts published in

April 2002 by the TFC. The impact of these lowered growth rates is to reduce the 2008 forecast level of visitor arrivals from 7.7 million to 6.5 million.

International visitation will become more important over time relative to domestic travel with forecast domestic growth at less than 1% per annum.

Travel for holiday purposes accounts for 51% of all visitors to Australia. Travel to visit friends and relatives accounts for 19% and business travel for 12% (**Figure 3.2**).

Figure 3.2: Visitor Arrivals to Australia, 2001 by Purpose of Travel



Source: Australian Bureau of Statistics, TFI.

New Zealand is the major visitor source market for Australia accounting for 17% of visitors (**Table 3.1**). New Zealand, along with Japan, the UK, USA and Singapore, account for 59% of all visitors to Australia.

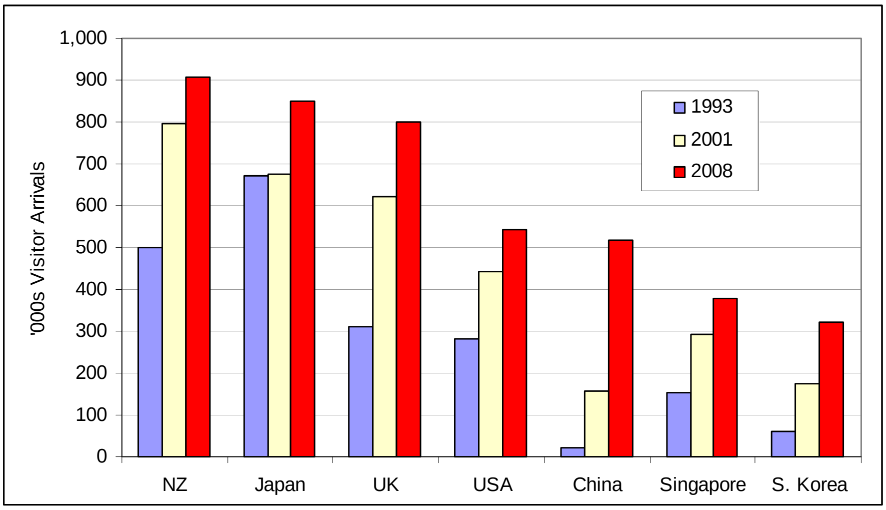
Table 3.1: Major Visitor Markets to Australia, 2001

Source Market	Number of Arrivals	Share
New Zealand	814,906	16.8%
Japan	673,560	13.9%
UK	617,190	12.7%
USA	446,450	9.2%
Singapore	296,007	6.1%
Korea	175,628	3.6%
China	157,994	3.3%
Hong Kong	154,147	3.2%
Malaysia	149,415	3.1%
Germany	147,628	3.0%
Taiwan	110,096	2.3%
Indonesia	97,882	2.0%
Canada	93,139	1.9%
Thailand	79,964	1.6%
Other	841,906	17.3%
Total	**4,855,912**	100.0%

Source: Australian Bureau of Statistics, TFI.

Figure 3.3 shows the major markets that contribute to the TFC forecasts of December 2002. Between them the seven markets shown account for around two-thirds of all visitors in all years shown. China and Korea represent the major growth markets for 2001 to 2008 of those shown with average annual growth forecast at 18.5% and 9% respectively.

Figure 3.3: TFC Visitor Arrivals Forecasts for Australia

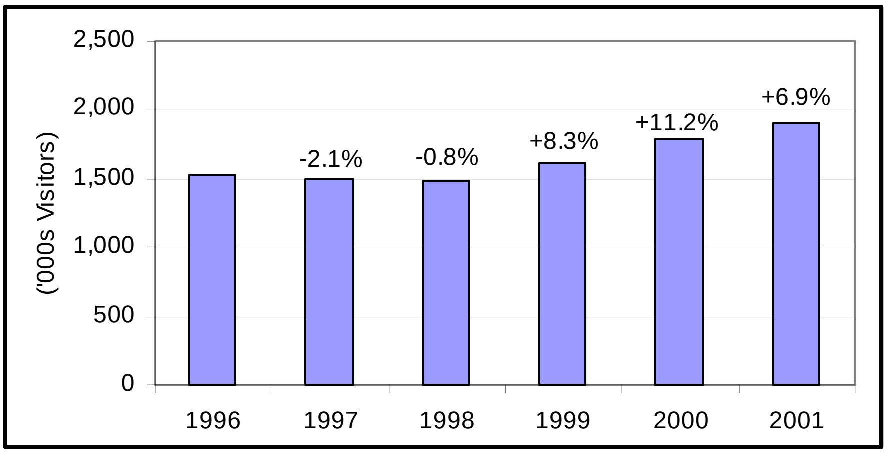


Source: TFC, TFI.

International Travel to New Zealand

Figure 3.4 shows the annual percentage change in visitor arrivals to New Zealand over the period 1996 to 2001. Following the declines associated with the Asian economic crisis in 1997 and 1998, New Zealand has experienced strong growth.

Figure 3.4: International Visitor Arrivals to New Zealand, 1996 to 2001

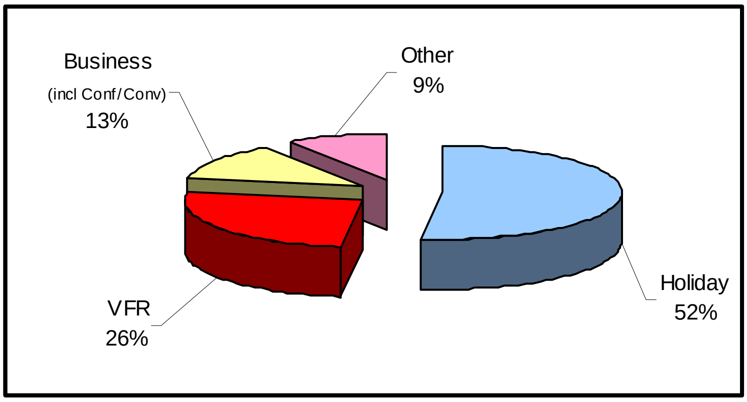


Source: Statistics New Zealand, TFI.

The New Zealand Tourism Research Council (TRC)[4] published its visitor arrival forecasts in August 2002. The TRC forecasts an average annual growth from 2001 to 2008 of 6%. At this rate of growth visitor arrivals to New Zealand will reach 2.9 million by 2008.

The shares of visitor arrivals to New Zealand by travel purpose are provided in **Figure 3.5**. Travel for holiday purposes accounts for over one-half (52%) of all visitors. This is similar to the Australian share. Travel to visit friends and relatives accounts for a further 26% (compared to 19% for Australia) and business travel for 13% (compared to 12% for Australia).

Figure 3.5: Visitor Arrivals to New Zealand, 2001 by Purpose of Travel



Source: Statistics New Zealand, TFI.

[4] Tourism Research Council New Zealand International Visitor Arrivals to New Zealand 2002-2008 (August 2002).

Table 3.2 provides the number of visitors to New Zealand in 2001 by source market. Australian residents accounted for one-third of visitors to New Zealand during 2001.

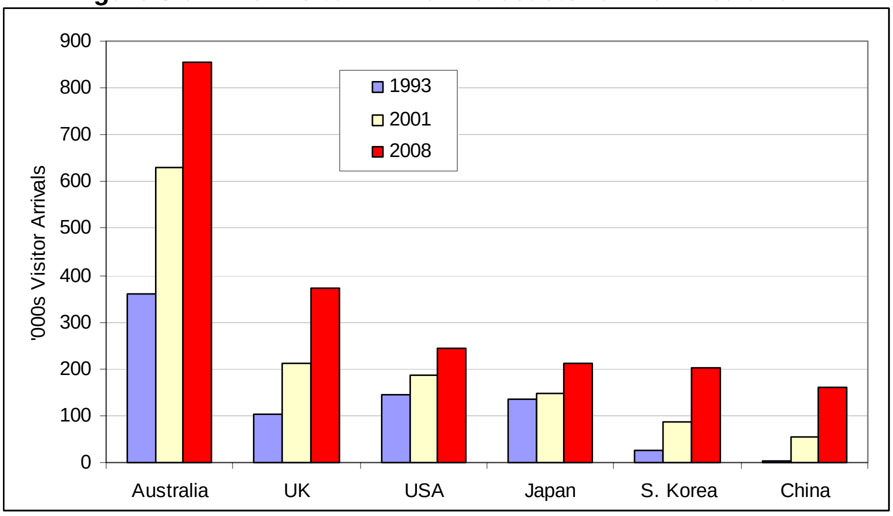
Table 3.2: Major Source Markets to New Zealand, 2001

Source Market	Number of Arrivals	Share*
Australia	630,549	33.0%
UK	211,646	11.1%
USA	187,381	9.8%
Japan	149,085	7.8%
Korea	87,167	4.6%
China	53,174	2.8%
Germany	52,482	2.7%
Canada	36,694	1.9%
Taiwan	36,188	1.9%
Singapore	32,808	1.7%
Hong Kong	30,439	1.6%
Netherlands	25,164	1.3%
Malaysia	21,074	1.1%
Thailand	20,814	1.1%
Other	334,716	17.5%
Total	**1,909,381**	100.0%

Source: Statistics New Zealand, TFI. *Note: Slight discrepancies due to rounding.

Figure 3.6 shows the major source markets that contribute to the TRC forecasts for New Zealand. The six markets shown in the figure account for around 72% of all visitors to New Zealand in 2008. China and Korea represent the major growth markets for New Zealand with average annual growth forecast at 17% and 13% respectively.

Figure 3.6: TRC Visitor Arrival Forecasts for New Zealand



Source: TRC, TFI.

Assessment

The recent revision of Australia's visitor arrival forecasts represents a considerable reduction compared to the previous forecasts. Various factors contribute as inputs to tourism forecasts, many of which are hard to process, or model, in a quantitative manner. This is a widely acknowledged limitation of tourism forecasting. The downgrading of the forecasts, however, clearly reflects an awareness of the challenging tourism environment in which Australia operates.

New Zealand's visitor arrival forecasts, last released in August 2002, could not consider the events in Bali (October 2002) nor would they have been able to consider the impact of the growing likelihood of armed conflict with Iraq. Moreover, the post September 11 impact only becomes clearer as time goes by. It remains to be seen whether the New Zealand forecasts will be adjusted to reflect recent market conditions. TFI's assessment is that it will be harder to achieve the forecast growth in the face of increasingly difficult market conditions.

That there exists a large potential pool of visitors to Australia and New Zealand is not in dispute. TFI has reviewed the market research studies conducted by NZTB in eight countries. These studies track consumer intentions regarding travel to New Zealand.

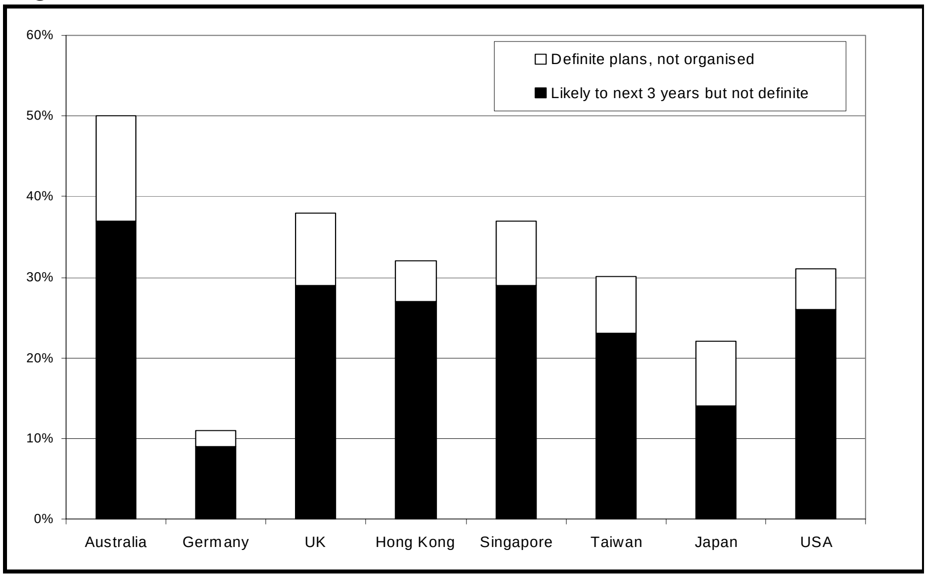
The samples are selected on the basis of a history of, or interest in, long-haul travel. For example, the US research surveyed 300 travellers in ten states aged 18 years and over who:

- had travelled six or more hours away by air and outside mainland USA, on vacation or to visit friends or family in the past three years; and/or
- are likely to do so in the next three years.

The total pool of potential travellers in the eight countries covered by this market research is 68 million people. This does not include potential travellers outside the survey areas.

Figure 3.7 shows the percentage of each market surveyed which (a) are likely to travel to New Zealand in the next 3 years (but not definite) and (b) have definite plans to travel (but not yet organised).

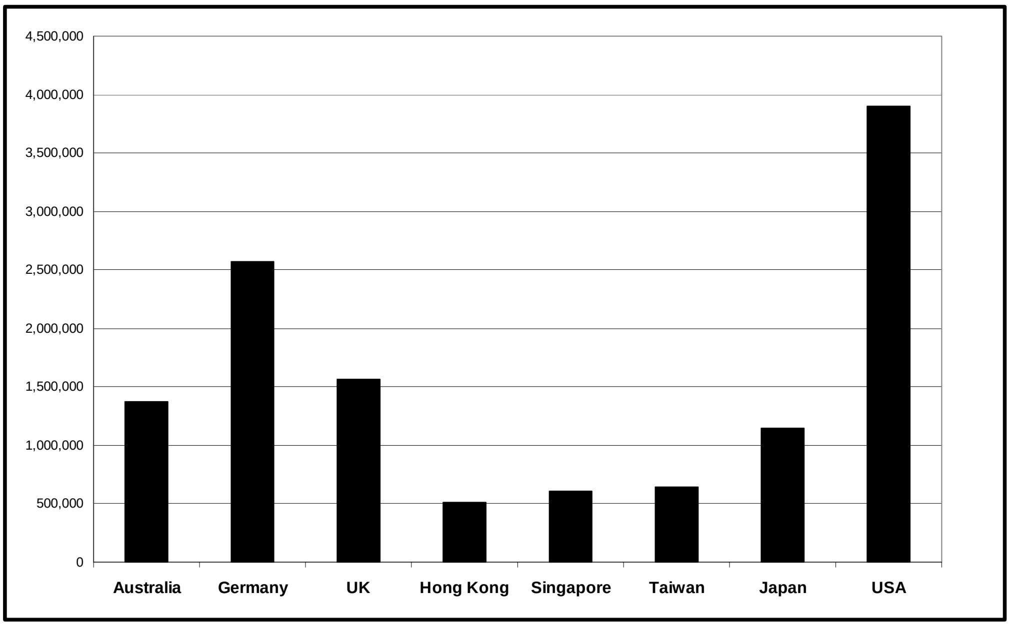
Figure 3.7: New Zealand Travel Intentions From Overseas Markets



Source: NZTB, January 2001, Tracking Studies.

These markets show high interest in New Zealand and strong intention to visit. Research respondents who indicated they were likely to visit in the next three years (but not definite) ranged from 9% (Germany) to 37% (Australia). The average score across the eight markets on this measure was 24.3%. Combined with the potential traveller population of each survey area, the total in the category "likely to visit in the next three years but not definite" is 12.3 million people. The market breakdown of this figure is shown in **Figure 3.8**.

Figure 3.8: Potential Travellers In Key Markets:
"Likely to Visit New Zealand in the next three years but not definite"



Source: NZTB, Tracking Studies, January 2001.

A more conservative estimate of potential can be derived from respondents who indicate definite plans to visit New Zealand but at this point have not organised the trip. Responses in this category ranged from 2% (Germany) to 13% (Australia). The eight-market average on this measure was 7%. The pool of "definite travellers" across the eight markets was 3.4 million.

Given the correlation between intention and actual travel, the research results indicate a sizeable pool of likely visitors. A conservative element is built into the estimates given the potential population figures do not include potential travellers outside of the survey areas. This applies in all markets apart from Singapore where the research sample can be seen as representative of the total population.

For reasons explained in the following sections the achievement of the forecasts and conversion of the substantial potential into actual visitors represent a growing challenge.

3.2 The Tourist Decision Making Process

Before turning to the challenges that face the tourism industries of Australia and New Zealand over the coming years, it is first useful to understand the process by which potential travel is converted into actual travel. To do this it is necessary to understand the process by which consumers choose – or do not choose – destinations. In the context of Australia and New Zealand it is, in particular, necessary to understand how long haul destinations are selected (given the different forces at work in these decisions compared to short haul destination decisions).

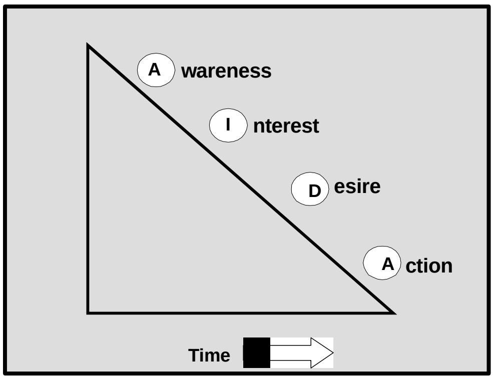
All strategic determinations that are made in the arena of tourism must ultimately relate to the “buying process” of consumers (i.e. travellers/visitors). Without a consumer-oriented process as a backdrop, tourism determinations have little chance of being optimal in terms of their market relevance and – ultimately – their impact.

Travel decision-making is a complex process. Complexities include the intangible nature of the product, the range of influences at work during various stages of the decision making process, and the timeframe over which purchase considerations may span. For holiday travel especially, the destination decision can be particularly complex and drawn out, with the potential traveller drawing upon many information sources to help make decisions. Complexities are further compounded by the geographical remoteness of the product from the point of decision-making, which prevents product sampling and trial.

These characteristics make the purchase of travel high risk compared to other goods and services. The actions of potential travellers during the decision making process therefore amount to one of risk-reduction. This helps to explain the wide range of information sources used in the decision-making process and – in particular – the importance of ‘word of mouth’ derived information. The risk-reduction motive increases in line with the level of investment required (measured in both time and money.) This explains the high element of risk in deciding on long haul destinations.

Whilst in reality the process of destination choice is complex, for the purposes of providing a backdrop to the proposed Alliance, the process has been simplified by the Awareness, Interest, Desire, Action model (A.I.D.A.). In this basic model (see **Figure 3.9**) destination awareness leads interest; without awareness there can be no interest. Without interest, desire to travel to a destination will not arise, and without desire, action (travel to the destination) cannot occur.

Figure 3.9: Simplified Version Of The Destination Sales Process



There are many forces at work at all stages of the decision-making process including destination images acquired from the news media and the impact of natural or man made events such as natural disasters or political unrest. The tourism industry is responsible for several inputs to the decision making process within the origin or source market. These industry inputs include:

1. Image-level destination promotion (to help position and brand the destination – create awareness, interest and desire).
2. Destination access factors (satisfactory capacity, routing, frequency and cost – necessary for a destination's inclusion in the early destination consideration set and its later conversion ultimately leading to the actions of booking and product consumption).
3. Price/product (tactical) promotion (accommodation, tours, attractions, activities, experiences) – influences the overall image of the destination, helps build desire, and is necessary for the conversion of desire to action.)

These inputs are primary or fundamental inputs. The supply of less than optimal input levels of any one of these components will result in a breakdown, or gap, in the decision making process and serve to discount the industry inputs into other components. For example, satisfactory image-level destination promotion is heavily discounted in the absence of satisfactory access conditions such as air capacity, routing or frequency. In effect, a portion of the expenditure on image-level promotion is wasted.

The effective co-ordination and management of the various organisations that contribute to the "sale" of a destination is rapidly becoming a major force that contributes to destination competitive advantage. The recent efforts in New Zealand by way of its tourism strategy and the efforts underway towards this end in Australia acknowledge the need for better co-operation and co-ordination between the private and public sectors and the related management of destination development. Thailand has already put increased management into practice with the establishment of a new Ministry of Tourism charged with overseeing all aspects of the tourism sector.[5]

In summary, the success of tourist destinations is linked to the degree to which this tourist decision making process is acknowledged and managed. Gaps and breakdowns in the process

[5] Far Eastern Economic Review; January 16, 2003.

not only reduce the level of tourism benefit to a destination but also generate costs by virtue of the discounting effect upon other inputs to the process.

3.3 Challenges facing the tourism industry

3.3.1 Increased Competition for Inbound Tourists

The marketplace in which both Australia and New Zealand and their resident airlines compete for a share of the global visitor market is becoming increasing competitive and sophisticated. Failure to compete effectively will have negative consequences upon the destination sales process and ultimately the economies of both countries. Market share is a strong indicator of how destinations are faring in a competitive context. As an indicator, market share is arguably more powerful than visitor numbers given the latter may show increases despite an underlying deterioration in performance relative to competitor destinations.

Market Share Performance

The NZTB launched the 'New Zealand Tourism Strategy 2010' in August 2001. It quotes research undertaken by NZTB suggesting that between 1995 and 1999 New Zealand's market share declined in seven of its top nine visitor source markets. It was estimated that if New Zealand's 1995 market share position had been held, a further 295,000 international visitors would have visited New Zealand in 2000. This would have added a further $1.12 billion in foreign exchange.

"New Zealand captures a relatively small proportion of the global tourism market and we are struggling to hold this share." (New Zealand Tourism Strategy 2010, page 5).

To assess this further TFI has compiled visitor arrival figures for 1997 to 2001 to the following countries: Australia, China, Hong Kong, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand (these countries will be referred to as 'the Region'). TFI has selected these countries because they share the Western Pacific Rim with Australia and New Zealand and regularly publish visitor arrival data.

The Australian and New Zealand shares (as destinations) of arrivals to this Region from each of the major source markets to the Region are shown in **Attachment 1**. A summary is provided below. This analysis provides a different perspective than that which compares visitors to Australia or New Zealand with the *total outbound travel* from a source market. For example just 1% of UK trips abroad are to Australia and New Zealand combined.

- Australia: New Zealand attracted nearly one in four Australian visitor arrivals to the Region in 2001.
- New Zealand: As a destination Australia accounted for nearly seven out of every 10 New Zealand visitor arrivals to the Region.
- UK: In 2001 Australia accounted for 20% of arrivals from the UK to the Region (up from 18% in 1997). New Zealand's share is 7% and reasonably stable.
- USA: Australia increased its share of US arrivals to the Region during the 1997 to 2001 period, from 7.4% to 8.2%. New Zealand's share has been maintained at around 3.5%.
- Korea: Both Australia and New Zealand have experienced large falls in their share of Korean visitor arrivals to the Region following the Asian economic crisis in 1997. Such

crises generally encourage a transfer from longer to shorter haul travel destinations and so it was following the 1997 shock. Australia's share fell from 6.6% in 1997 and has recovered only part of its lost share to achieve 3.5% in 2001. For New Zealand the share reduction was from 3.1% in 1997 to 0.8% in 1998. By 2001 the New Zealand share had partially recovered to 1.8%.

- Germany: Australia and New Zealand attracted 10% and 4% respectively of all German visitor arrivals to the Region in 2001, and the shares have increased marginally for both countries over the period.
- Japan: Over recent years both Australia and New Zealand have seen declines in the number of visitors from Japan. Japanese visitor arrivals to Australia are down from an 8.8% share in 1997 to 6.1% in 2001. New Zealand's share of Japanese visitor arrivals to the Region has also fallen, from 1.7% to 1.4%, over this period.
- Canada: Australia attracted 8.7% of all Canadian visitors to the Region in 2001 compared to 7.7% in 1997. New Zealand attracted 3.3% Canadian visitors to the Region in 2001 marginally down on 1997.
- China (excluding Hong Kong): Both Australia and New Zealand have been increasing their share of the Chinese visitor arrivals to the Region. By 2001 Australia accounted for just below 6% of visitor arrivals to the Region and New Zealand for just below 2%.
- Singapore: Australia accounts for around 14% of all visitor arrivals from Singapore to the Region and New Zealand for around 2%.

Two issues are highlighted by this review of Regional shares:

(a) The challenge for Australia and New Zealand in maintaining their shares in most of these visitor source markets, given a trend towards travel to shorter haul destinations and other factors identified in the next section.

(b) The large difference between the Australian and New Zealand shares in a number of these source markets.

Destination Promotion Competition

There are an estimated 175 National Tourist Offices (NTO's) competing for a share of the international travel market. In addition to NTO's, most States and provinces have destination promotion organisations in the form of State Tourism Offices (STO's). STO's can and typically do compete directly in the international marketplace. A brief review of Government tourism budgets[6] provides an indication of the level of competition faced by Australia and New Zealand:

- Hong Kong – A$113 million[7]
- Hawaii – A$109.7 million[8]
- Thailand –A $280.5 million[9]
- Malaysia –A$428.8 million[10]

---

[6] The various budgets are not directly comparable as they include different functions.
[7] 1999/00 expressed in A$ using the relevant exchange rate as at 31/12/99 (5.0771)
[8] FY 2001 expressed in A$ using the relevant exchange rate as at 31/12/00 (0.5540)
[9] Budget for 2003 comprising Baht 3,311 million (marketing) and 3,575 million (development) expressed in A$ using current exchange rate (24.5475)

- US STO expenditure on advertising alone - A$292.3million[11]

Total expenditure in the United States during 2000 by international destinations competing for a share of the US international travel market was A$245.6million[12] and, in the first half of 2001, A$188.1million.[13]

It is clear that promotion will figure as a major expenditure item in the future. Tourism Malaysia, for example, recently indicated that allocations for promotions in targeted visitor source countries would increase by more than 100% compared to the previous year.[14] Promotions by Malaysia in Europe will focus on the UK and Germany, while targets in the Asia region include Singapore and Thailand. It is inevitable that these targets clash with those of Australia and New Zealand.

Since the mid 1990s, destination promotion has entered a new era. This era has been characterised by sophistication, innovation and integration with overall location marketing (where, for example economic development agencies and destination promotion organisations combine resources and develop a unified approach to marketing the ‘place’).[15] This increase in sophistication coincides with the shift by promotional organisations to a brand management approach to their destinations. Research has played a major role in underpinning these developments. Clearly the better the understanding of the marketplace the more effective the destination marketing strategies developed.

The ATC and NZTB have made numerous references to this competition and their budget levels in relation to it.

The ATC is allocated around A$90million annually from the Australian Government. Additional funding of A$6 million for 2002/03 and A$4 million for each the next three years is to be provided by the Australian Government in recognition of the challenge to tourism following September 11 and the Ansett collapse and to take advantage of the Olympic Games publicity.

Table 3.3 shows the ATC’s budget for 2000 to 2003. The budget for 2003 is virtually identical to that of 2000.

Table 3.3: ATC Budget 2000 – 2003 (excludes special additional funding)

Year ended 30 June	A$ '000s
2000	$89,952
2001	$91,948
2002	$97,906
2003	$89,617

Source: ATC Annual Reports, Australian Government Budget Papers – various issues.

The ATC expenditure on consumer marketing represents around 70% of the total budget.

[10] Budget for 2003 comprising RM314 million (development); RM200 million (infrastructure); RM400 million (special tourism fund) expressed in A$ using current exchange rate (2.13214)
[11] Projected for year 2000-2001 expressed in A$ using exchange rate as at 30/6/00 (0.5986)
[12] Source: Somerset R. Waters; ‘The Big Picture’; expressed in A$ using the exchange rate as at 30/6/00 (0.5986)
[13] Source Somerset R. Waters; ‘The Big Picture’; expressed in A$ using exchange rate as at 30/3/01 (0.4890)
[14] As quoted at the following URL: www.neac.gov.my
[15] See, for example, the efforts of Britain to integrate the dissemination of messages that influence the image of Britain in the global marketplace.

Table 3.4 shows the NZTB's marketing budget for the years 1997 to 2002 and forecasts to 2006.

Table 3.4: Tourism New Zealand Budget

Year ended 30 June	NZ$ '000s	A$ '000s
1997	$57,908	$50,380
1998	$58,252	$50,679
1999	$66,369	$57,741
2000	$69,009	$60,038
2001	$58,135	$50,577
2002	$66,066	$57,477
2003 Allocation	$66,824	$58,137
2004 Forecast	$61,516	$53,519
2005 Forecast	$61,716	$53,693
2006 Forecast	$61,716	$53,693

Source: NZ Government Budget papers - various issues.

These budgets should be assessed in the context of increasing media costs throughout the world, which hampers the ability to achieve an adequate "share of voice" in markets.[16]

The increasing level of competition, increasing sophistication, and increasing cost of establishing a destination presence in the market for visitors present a solid rationale for greater collaboration and co-operation between long haul destinations such as Australia and New Zealand.

In the early 1990s a major review was carried out of the effectiveness of international destination marketing in relation to key markets of the ATC.[17] Within this overall evaluation, econometric analysis undertaken indicated that the "return of investment" from international marketing was in the order of 30:1. In other words, each $1 spent by the ATC was associated with $30 in visitor expenditure. This analysis was subject to scrutiny in 1993/94 by the Department of Finance, Treasury and the Australian Bureau of Statistics who where members of a multi-agency review of the impact of tourism on the Australian economy and funding options for the ATC. The overall evaluation was also reviewed by an independent panel of tourism academics from around the world (independently selected). The panel endorsed the overall evaluation.

This and other more recent evidence indicate the value of destination promotion and the negative consequences at stake of sub-optimal destination promotion.

As indicated above, much of the sophistication in destination marketing is underpinned by market research. This research, however, is expensive. It is also very challenging in countries such as China where large compromises must be made in the sample definition. Much of the current China research relates to a very limited number of locations within China – a compromise due purely to the expense of research and the size of the market.

[16] "Share of Voice" refers to the percentage of total foreign destination marketing in a country. Any destination promotion amounts must be assessed in the context of what amount of media this budget is able to buy.

[17] Department of Finance, Department of the Arts, Sport, the Environment Tourism and Territories & The Australia Tourist Commission Evaluation of the Australian Tourist Commissions Marketing Impact 1991 (ISBN 0 7305 8599 9).

3.3.2 Long Haul Market Challenges

Australia and New Zealand are long haul destinations for tourists in most source markets. Long haul destinations have a far more difficult task to attract visitors to their shores, especially when those countries are relatively little known or understood (despite the performance of both countries over the past decade there is still widespread ignorance about their respective tourism offerings). Long haul destinations require a greater investment in terms of airfare compared to short haul destinations. They also 'require' longer trip durations to justify the distance travelled. Long haul destinations represent the highest investment by travellers in terms of time and money. These characteristics increase the "risk" associated with destination purchase. As the value of leisure time continues to increase, the risk-averse behaviour of consumers will increasingly make the task of attracting visitors to our shores even more challenging than it has been in the past. Destinations which depend upon long haul markets will benefit from the co-operation and co-ordination of tourism industry stakeholders far more than destinations that are in close proximity to origin markets.

Barriers Research

As long haul destinations, Australia and New Zealand will always have to overcome fundamental barriers that come with this status (including cost and time). Specific 'barriers to travel' research has recently been undertaken in key source markets in a bid to develop strategies to overcome these hurdles.

The 'UK Barriers Study' (ATC, September 2002) identifies and explains barriers preventing UK potential travellers from visiting Australia. The study identified the barriers such as:

- Not having the right information held people back.
- There was a lack of knowledge about options.
- The decision making process was made difficult by the sheer size of Australia and the low level of knowledge that considerers and non-considerers had about it.
- Communicating 'ONE Australia' for people to digest left them exhausted.
- Australia's perceived sameness reduced its desirability.
- Australia demanded a procedural approach to planning and experiencing a holiday.
- The picture of Australia was static – fixed in place by its familiar icons.

The requirement for the distribution of information and knowledge about Australia is a consistent message from this research.

The NZTB has identified barriers to travel from the UK to New Zealand including tangible limitations such as the distance and therefore the price, and the perception that New Zealand requires at least a three-week holiday. The NZTB considers it important to recognise that New Zealand may not be the main destination for a holiday, but one of several destinations within one holiday trip. For example, it may be combined with Australia, or chosen as a destination on a round-the-world ticket. On the backpacker route, New Zealand may be the working part to fund further travel.

A summary of this research in key source markets appears in **Attachment 2**.

3.3.3 Travel Safety

Cooperation will be particularly important in the current travel environment where travel safety concerns have risen to unprecedented highs. In previous conflict situations (for example, the Gulf War) both Australia and New Zealand benefited from their relative isolation and level of detachment from the conflict. The past 18 months have resulted in Australia being much more closely associated with potential conflict. Recent alerts relating to potential incidents within Australia have further damaged the 'safe haven' status.

The following points indicate the most recent situation in relation to Australia as a travel destination:[18]

- **Japan Ministry of Foreign Affairs** issued a travel update as a precautionary measure to Japanese tourists and residents in Australia.
- **Taiwanese Ministry of Foreign Affairs** has placed information of the Australian Government's security warning on their web site.
- While the **US State Department** is not planning to issue travel advice in relation to Australia at this stage, their worldwide caution was updated on 20 November alerting US citizens to remain vigilant regarding personal safety and the potential targeting of US interests overseas.

Australian and New Zealand cannot expect to benefit from their relative political and geographical isolation to the same extent as they have in the past.

[18] ATC Security Warning: Industry and Media Feedback as of 28 November 2002 from ATC web-site.

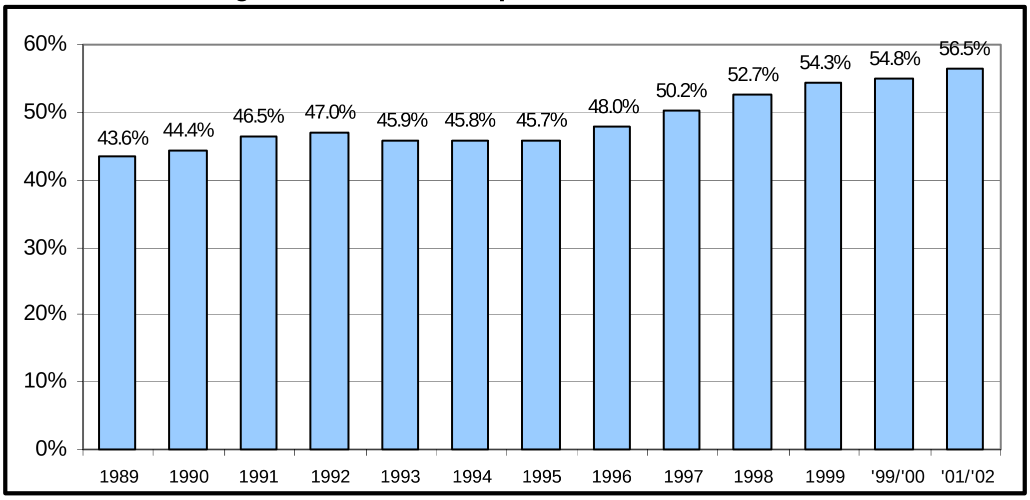
3.3.4 Maturity of Tourist Source Markets

Whilst it is clearly not an easy task to attract "first timers" to visit a destination – particularly to a long haul destination – convincing them to become repeat visitors may be even more difficult. First time visitors are often driven by curiosity and the 'novelty' of visiting a new destination. Tourists of today are also driven by a desire to see as many places as possible – in contrast to tourists of yesterday who were prepared to visit the same place time and time again. Consumers acquire status and 'bragging rights' from visiting numerous destinations (especially if they are exotic and 'off the beaten track'). Hence, the challenge is to encourage repeat visitation.

Short haul destinations do not face this challenge by virtue of proximity and associated relatively low time and cost factors required for multi-visitation. The Taiwan/Hong Kong relationship is an example of an origin/destination pairing where repeat travel occurs due to proximity and specific product offering. Taiwanese residents may undertake a number of short breaks to Hong Kong throughout the year for shopping or entertainment. As indicated above, long haul travel requires greater time and monetary investment. In this context, attracting repeat visitation becomes harder and harder (exponentially) as the destination must continually provide new experiences and product.

Figure 3.10 shows the overall level of repeat visitation to Australia over the period 1989 to 1999, and for the financial years 99/00 and 01/02.

Figure 3.10: Overall Repeat Visitors to Australia



Source: Bureau of Tourism Research, International Visitor Survey, CD Mota.

The steady increase in repeat visitors is clearly evident. The question which will be answered over the next few years is when will the repeat level plateau? There is some evidence in data in the later years of this time series that this has already occurred in several origin markets where repeat visitation levels have fallen (see **Table 3.5**). Some markets also show signs of static repeat levels. This poses a considerable challenge that compounds the other challenges documented in this report.

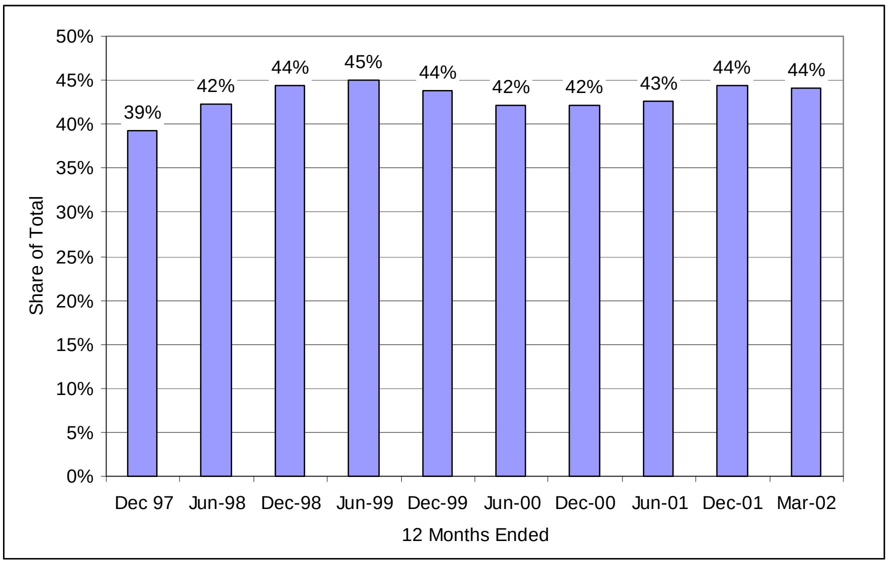
Table 3.5: Repeat Visitors to Australia

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	99/00	01/02	Avg
NZ	81.1%	82.2%	83.2%	86.2%	88.4%	88.6%	84.6%	87.1%	88.8%	90.5%	91.9%	91.8%	90.2%	87.3%
Japan	19.5%	24.8%	21.5%	24.6%	17.8%	21.7%	21.7%	24.5%	23.6%	22.7%	26.3%	28.2%	30.7%	23.7%
Hong Kong	44.4%	45.7%	51.1%	57.3%	54.2%	54.7%	61.7%	57.2%	62.8%	61.2%	69.7%	67.2%	71.8%	58.4%
Taiwan	31.2%	9.6%	36.8%	45.7%	31.0%	31.2%	30.4%	26.7%	31.6%	32.0%	35.0%	37.6%	44.2%	32.5%
Thailand	34.3%	59.4%	54.2%	50.7%	47.0%	38.7%	40.1%	50.3%	53.0%	62.4%	57.1%	55.2%	60.1%	51.0%
Korea	31.9%	35.8%	31.1%	41.1%	42.3%	26.2%	29.9%	24.8%	24.2%	46.0%	39.2%	37.3%	40.3%	34.6%
Malaysia	56.9%	54.6%	55.2%	58.3%	56.9%	61.0%	60.7%	56.2%	62.6%	73.0%	64.1%	62.0%	69.9%	60.9%
Singapore	48.6%	50.2%	52.0%	51.8%	56.6%	57.9%	65.1%	62.0%	67.4%	74.2%	73.6%	73.2%	78.9%	62.4%
Indonesia	45.8%	35.2%	54.6%	57.8%	45.7%	53.4%	52.6%	51.5%	62.8%	76.2%	76.9%	81.5%	82.1%	59.7%
China	13.6%	22.2%	31.6%	50.9%	26.8%	33.6%	25.7%	36.3%	40.6%	38.9%	42.6%	48.1%	45.2%	35.1%
USA	30.2%	34.0%	36.3%	35.3%	34.4%	37.0%	36.7%	40.5%	42.9%	42.0%	43.4%	42.0%	46.7%	38.6%
Canada	42.4%	38.3%	39.8%	34.1%	39.9%	37.4%	41.1%	44.2%	46.1%	47.9%	45.2%	51.3%	41.7%	42.3%
UK	34.4%	39.4%	42.5%	44.8%	49.5%	47.0%	47.7%	50.5%	52.0%	49.5%	51.3%	51.3%	52.0%	47.1%
Germany	25.7%	34.0%	35.1%	33.4%	40.4%	38.0%	38.0%	39.6%	41.1%	41.2%	43.8%	42.1%	38.7%	37.8%
Other Asia	45.0%	35.7%	40.4%	52.5%	48.8%	43.1%	44.3%	40.4%	44.3%	46.1%	52.6%	54.7%	52.5%	46.2%
Oth. Europe	30.7%	31.4%	36.9%	35.7%	36.8%	37.2%	35.5%	38.3%	38.9%	39.3%	38.0%	39.5%	40.1%	36.8%
Other	58.5%	65.9%	65.6%	61.2%	58.1%	64.0%	61.8%	64.9%	68.0%	66.8%	67.1%	67.2%	65.5%	64.2%
Total	**43.6%**	**44.4%**	**46.5%**	**47.0%**	**45.9%**	**45.8%**	**45.7%**	**48.0%**	**50.2%**	**52.7%**	**54.3%**	**54.8%**	**56.5%**	**48.9%**

Source: Bureau of Tourism Research, International Visitor Survey, CD Mota.

Figure 3.11 shows the proportion of repeat visitors to New Zealand. It already appears to have reached a plateau.

Figure 3.11: Repeat Visitors to New Zealand



Source: New Zealand IVS, May 2002.

3.3.5 Travel Distribution

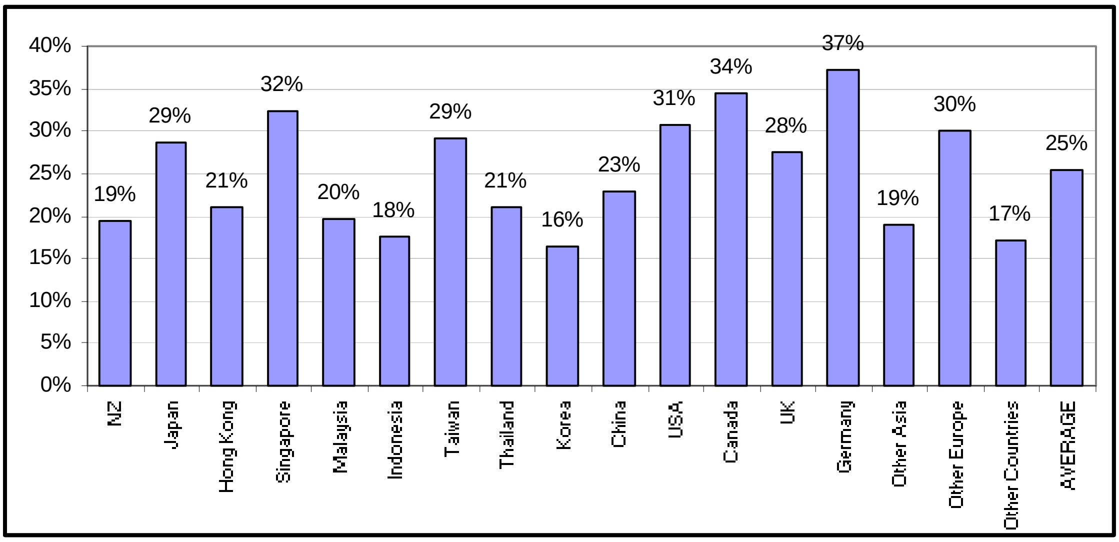
Considerable discussion has taken place over recent years concerning the changes to travel product distribution channels. By and large, this relates to the potential role of the Internet and the related - predicted - decline of travel agents (the main traditional intermediary between product supplier and consumer).

In any consideration of this subject, it is necessary to distinguish between the different potential changes on a product-by-product basis. There exists an infinite variety of travel products which have very different purchase processes. A day trip, for example, is 'bought' in a very different way to a short-break which, in turn, is bought in a different manner compared to longer holidays. Similarly, the purchase process for an air-ticket has different characteristics compared to the process related to the purchase of a complex package tour. This segmented approach to the subject is rarely performed in work carried out on the distribution channel.

However, it is becoming clearer that the 'disintermediation' predicted in 2000 and 2001 has not happened to the extent expected. Rather, commentators now explore the way that the Internet is being adopted by the traditional intermediaries to enhance their services. The weight of evidence is currently supportive of the continued importance of travel agents.[19]

In 1999 the Australian Bureau of Tourism Research (through its International Visitors Survey) commenced tracking the role of the Internet for international visitors to Australia. As shown in **Figure 3.12**, the Internet features only modestly as an information source for international visitors.

Figure 3.12: Use of the Internet to obtain information: International Visitors to Australia, 01/02



Source: Bureau of Tourism Research; International Visitor Survey, CD Mota.

[19] See for example: Baloglu S; Mangaloglu M; 'Tourism destination images of Turkey, Egypt, Greece and Italy as perceived by US-based tour operators and travel agents'; *Tourism Management 22 (2001) 1-9;* Poon, A; The Future of Travel Agents; *Travel and Tourism Analyst*; No.3 2001; Law R; Law A; Wai E; The Impact of the Internet on Travel Agencies in Hong Kong; *Journal of Travel and Tourism Marketing* Vol.11 (2/3) 2001.

Travel agents have played, and seem set to continue to play, a vital role in the success of Australia and New Zealand as destinations. This significance is more important for destinations seeking to attract long haul markets such as the case with Australia and New Zealand. This role is even more significant in the case of long haul first time visitors. Whereas repeat visitors are in a position to apply previous experience knowledge to destination choice decisions, first time visitors are not in this position and must rely more upon remote information sources. The legitimacy of this information is vital – hence the importance of the advice of travel agents.

The 'New Zealand Tourism Strategy 2010' (page 37) indicates that distribution channels are seen as key to getting New Zealand brand and product in front of potential domestic and international visitors in the global marketplace. New Zealand is facing a number of challenges with regard to distribution channels, including:

- Changes are occurring in the way that visitors gather information and book travel and not all operators within the sector understand the strategic impact of this.
- There are a number of amalgamations of large offshore distributors providing an increased power to a number of providers of these services.
- There is no common agreement on the role that the public sector and the private sector have to play in distribution channels.
- The amount of "noise" in distribution channels is growing as more tourist destinations emerge and operators find new ways to communicate to their target markets about products.
- The representation of New Zealand and its products offshore is diminishing, in some cases to levels where the volume of business may mean that offshore distributors may no longer wish to promote New Zealand. (Source New Zealand Tourism Strategy 2010).

Generating and maintaining a distribution network, however, is a significant and expensive task. Within the United States, for example, there are approximately 30,000 travel agency outlets and more than 2,100 wholesalers. QH has established a foothold in this distribution network via its US wholesale operation. It currently produces four marketing brochures for the USA. In Japan, QH distributes directly to consumers via the retail agency network (approximately 450 retail agencies). Land product is also distributed though general sales agent (GSA) agreements with several Japanese travel companies. In the United Kingdom, the QH wholesale operation supplies product to consumers via the major travel agencies.

Other challenges highlighted in the 'New Zealand Tourism Strategy 2010' include:

- Branding and Marketing – the need to invest more in product development, marketing and branding to hold market share. "New Zealand as a tourism destination has a small voice, market share and level of awareness even in key target markets".
- Strategies are required to leverage limited tourism marketing expenditure more effectively given a recognition that the TBNZ is not the largest international marketer of New Zealand. Air New Zealand and trade agencies also invest heavily in marketing New Zealand off-shore.

An Australian tourism strategy is currently being prepared. The '10 Year Plan For Tourism: A Discussion Paper'[20] points to the competition for inbound visitors. The challenge is seen as developing new and innovative tourism products targeted to meet the needs of an increasingly time poor and discerning clientele.

3.4 Summary of Key Points

- In Australia, tourism accounts for almost 5% of GDP and 6% of total employment (10% of direct and indirect employment). In New Zealand, tourism directly and indirectly contributes almost 10% of GDP and supports more than one job in ten.
- Forecasts of Australian inbound travel volume have been downgraded in recent months but nonetheless suggest increasing importance of inbound tourism to Australia (4.3% average annual growth 2001 – 2008 compared with forecast domestic tourism growth of just over one half of one percent).
- There appears to be more than adequate travel potential for Australia and New Zealand to increase visitor arrivals. However, the problem of converting potential into actual travel is growing in magnitude in line with increasing competition.
- Strategies which affect overall destination outcomes need to be assessed with relevance to the decision-making process which consumers follow in choosing where to travel.
- Destination management – encompassing the co-ordination of the activity of several input organisations – is becoming a source of destination competitive advantage.
- Destination competition is strong and appears to be increasing. Evidence from Asia suggests substantial boosts to government spending on tourism promotion and development. This will make Australia's and New Zealand's battle for market share more difficult than in the past. Australia and New Zealand need to do all that is possible to compete effectively with the hundreds of other destinations vying for the same potential visitor pool.
- Australia and New Zealand (with the exception of each other as origin markets) are dependent upon long haul travel. Barriers to long haul travel are more substantial than short haul.
- As the level of repeat visitors as a portion of total travellers rises, so does the challenge to motivate these visitors to repeat their visitation.
- "Traditional" intermediaries such as wholesalers and travel agents will continue to play a major and irreplaceable role in the travel-decision making process – especially for long haul travellers. This importance will co-exist with the rise of the Internet. Indeed, traditional intermediaries are adopting the Internet as a mechanism to aid their development.

[20] Department of Industry, Tourism and Resources Australia (2002).

4. Implementation of the Alliance

Given the challenges discussed in the previous section, it is TFI's view that the proposed Alliance between Air New Zealand and Qantas would have a significant impact on tourism in Australia and New Zealand. In crediting the proposed Alliance with positive tourism impacts, it is important to identify why such outcomes could not be achieved absent the Alliance.

In TFI's view, (1) the profit-sharing arrangements that would exist under the proposed Alliance but not without it, and (2) the improvement in the Qantas network reach as a result of the Alliance, are critical to demonstrating why this is the case. By leveraging off the improved network that the Alliance provides, QH plans to implement a number of sales, marketing and promotional initiatives designed to increase tourism to New Zealand.

In this section we discuss the likely impacts of the proposed Alliance on tourism in Australia and New Zealand and how these would assist in meeting the challenges facing the tourism industry in both countries that lie ahead. We then identify the reasons we believe that such outcomes could not be achieved absent the Alliance and outline some of the initiatives that QH plans to implement under the Alliance that will assist in attracting new additional tourists to Australia and New Zealand.

4.1 Impact of Alliance on Tourism

As indicated earlier the Alliance will include the coordination of all business activities undertaken in respect of the Alliance network, including the scheduling and pricing of all services. A number of benefits are expected to flow to tourism from this Alliance.

Network

TFI's assessment is that the traffic consolidation associated with the Alliance will facilitate a number of airline network developments:

- Expanded service offerings due to the integration of the airline networks covering domestic Australia and New Zealand, the trans Tasman and the Pacific. This expanded network reduces existing barriers to travel such as the need to "back-track" on a journey involving both Australia and New Zealand. This will reduce total trip time.
- The emergence of additional direct city pairs across the Tasman available to international tourists.[21]
- Potential expansion to, or in some cases, the maintenance of existing operations in, emerging markets overseas.
- Cost savings to the airlines as a result of the Alliance and the potential to return some of this benefit to the tourism industry through service improvements, lower fares, and/or a greater commitment to marketing.

[21] This development results from the potential for improved route economics as traffic grows. Direct routes reduce overall travel distance (for the airline and its customers). The direct route reduces the number of seat-kilometres the airline must produce to satisfy customers' demand to travel between their origins and destinations. Evidence of this is provided by changes in Qantas' domestic route structure following the Ansett collapse. In the June 2001-quarter (prior to Ansett's collapse) Qantas operated services on 33 direct Australian city-pairs. Since Ansett's collapse Qantas has added an additional seven direct domestic Australian city pair connections and an interstate service operated by QantasLink from Brisbane to Alice Springs. These eight services represent an increase of around 20% in the number of direct domestic airline services. In addition frequencies have increased substantially across the network.

These network developments provide the platform for the following areas of tourism benefit.

Products

Joint Australia and New Zealand air and land product opportunities emerge to appeal to the segment of the international market that would consider a stopover in both countries. This assists in meeting a number of the challenges identified in the previous section.

A greater product variety and volume increases the prospect of attracting new long haul tourists but is also an important element in attracting the repeat visitor. The greater accessibility offered to tourists wishing to visit both countries reduces time spent backtracking and increases the time available to enjoy the tourism product.

Distribution

Through the Alliance there will be a substantial increase in distribution outlets available for New Zealand product and new opportunities for the development and distribution of the joint tourism product. The assists in meeting another of the key challenges identified for New Zealand tourism.

Promotion

A further challenge identified earlier arises because of the increase in the number of NTOs competing for potential Australian and New Zealand visitors. These NTOs are becoming increasingly sophisticated and their promotional budgets are growing.

The Alliance can assist through the joint marketing of Australia and New Zealand tourism product. When airlines engage in package wholesaling activity they contribute to the supply of three key inputs to the destination choice process (destination level promotion, access factors and price/product level communication) which assists to streamline and minimise the gaps in the travel decision-making process.

Failure to undertake adequate destination level promotion will have negative consequences particularly in emerging markets where a greater investment in image promotion is required to create the foundation awareness and interest required in the earlier stages of the destination sales process.

4.2 Why These Outcomes Depend on the Alliance

An initial question that arises is why QH could not achieve the above outcomes in the Counterfactual scenario ie. without the Alliance.

QH has informed TFI that at present it has little incentive to sell New Zealand land product:

- QH is a major distribution channel for Qantas and currently will not sell seats on Air New Zealand because it is a competitor airline.
- Qantas' limited network to, and within, New Zealand makes many New Zealand related itineraries uneconomical (especially if the itinerary is entirely within New Zealand ie. 'mono New Zealand'), and a combined Australia/ New Zealand itinerary often too expensive.
- The Qantas brand is strongly associated with Australia, making it difficult for QH to promote mono New Zealand itineraries in overseas source countries.

For these reasons, New Zealand is currently promoted and sold by QH overseas only as an add-on destination to Australian itineraries.

Conversely, under the Alliance there is a substantial change to this position:

- Implementation of the Alliance creates the financial incentive for QH to sell Air New Zealand seats also.
- The Alliance offers QH an improved air product in the region, with a larger network, better connections, and new mono New Zealand and multi-destination itineraries.
- Access to Air New Zealand (Holidays) brand enables QH to promote New Zealand as an inbound destination in its own right.
- The opportunity significantly enhances QH's inbound growth strategy by combining two well-aligned inbound markets (Australian and New Zealand).
- Leveraging QH's global distribution footprint delivers a substantial increase in the number of distribution outlets of New Zealand product, considering Air New Zealand Holidays' limited overseas infrastructure.

QH also has an incentive to develop new holiday packages because of the market demand for such product. In a maturing origin market, the addition of another destination to Australian product (ie New Zealand) could assist in converting awareness and interest into desire and, ultimately, action. For many years, Australia has benefited from a certain degree of "novelty" as a destination. As markets mature, this novelty factor inevitably decreases and hence there is a need to expand the product range on offer.

Financial Incentive for QH

This section illustrates the QH incentive to sell New Zealand product under the Alliance. (Note the analysis in this section uses New Zealand dollars.) In 2001/02 overseas visitors spent an estimated NZ$5.7 billion in New Zealand (excluding airfares). This represents an average spend of approximately NZ$3,290 per visitor. Pre-paid international airfares have been excluded from these estimates.

Table 4.1 shows the assumptions underlying the following analysis. It first constructs a total package value based on an average spend for tourists visiting New Zealand, an assumption as to the package component of overall expenditure, and an assumption as to the airfare component.

Table 4.1: Assumptions for Analysis of Qantas/Qantas Holidays Motivation to Sell New Zealand Tourism Product

	Component	Value (NZ$)	Notes:
1	Average NZ spend	3,290	From NZ IVS for 2001/02 - includes prepaid package but excludes airfares
2	Add airfare – assume 50% of average spend	1,645	The assumed 50% is based on the level of airfare as a component of travel to Australia (from Aust. IVS)
3	Total spend	4,935	Row (1) + Row (2)
4	Package as % of Total Spend – assume 70%	**3,455**	70% based on Australian experience that travellers on packages pre-spend 70% of their total expenditure
5	Air as % of Total Package	48%	The outcome of Row (2) divided by Row (4)

Source: TFI.

Table 4.2 provides four cases of tourists travelling to New Zealand on a QH package. In all cases the package of NZ$3,455 includes NZ$1,810 worth of land content and an air component of NZ$1,645.

In the first case the traveller buys a package with land and air content and the airline service is provided by Qantas. [**confidential**] This illustrates the case currently for travel to Australia and travel from Australia to New Zealand and back. But the Qantas network in New Zealand is limited and the Qantas brand is closely associated with Australia. For reasons explained earlier it is considered unlikely that this avenue could produce significant additional overseas visitors to New Zealand.

In the second case the traveller buys a package with land and air content with the airline service provided by Air New Zealand. Because in this case Air New Zealand and Qantas operate as an Alliance the network in New Zealand is extensive and the Air New Zealand brand assists the sale. It is assumed that Qantas can obtain some part of the Air New Zealand margin as ‘profit’ (assumed at one-third to illustrate the case). In this second case, Qantas and QH together achieve a profit of [**confidential**] or [**confidential**] of the package value.

In the third case the traveller again buys a package with land and air content but this time the airline service is provided by a non-related airline. In this case the Qantas/QH profit amounts to [**confidential**] or [**confidential**] of the package value.

In the final case QH sells land content only from which it extracts a profit of [**confidential**].

This analysis suggests a strong profit incentive for Qantas/QH to add New Zealand product with an air component, particularly where the airline service is provided by Qantas or by Air New Zealand in the Alliance context.

The analysis was undertaken with an assumption of a fixed package price. However, with the Alliance comes an enhanced ability to mix and match Australian and New Zealand product. This increases the scope for QH to increase the value both of land and air content, further increasing its profit potential.

Table 4.2: Assumptions for Analysis of Qantas/Qantas Holidays Motivation to Sell New Zealand Tourism product

[**confidential table**]

Source: TFI.

Benefits for Air New Zealand 'Holidays'

There are a number of potential benefits that flow to Air New Zealand 'Holidays' from a relationship with QH. Many of these benefits relate to back-office functions, as well as QH's infrastructure and bookings and reservations platforms:

- ✈ The significant increase of overseas footprint with access to the QH network and global sales team.
- ✈ Leverage of QH's volumes to negotiate improved rates/offers increasing the attractiveness of New Zealand as a destination.
- ✈ Inclusion of Air New Zealand/Air New Zealand Holidays' services in joint marketing operations with Qantas and QH.
- ✈ Benefit from QH strategic marketing capabilities - such as destination strategies and market research.
- ✈ Increased promotional budgets and activities.
- ✈ Access to the QH call centres and travel agent sales support tools (direct access, 'B2B'/Internet).
- ✈ Usage of the QH sophisticated and efficient booking and reservation platform for leisure business as well as access to QH's sophisticated inventory and yield management practices.

4.3 Qantas and Air New Zealand 'Holidays'

Before outlining the initiatives that QH and Air New Zealand Holidays plan to implement under the proposed Alliance, we first provide some background information on both of these operations.

Qantas Holidays (QH)

QH is focussed on three major areas of sales activity; travel within Australia (domestic), travel from Australia to an overseas destination (outbound travel), and travel from overseas to Australia (inbound travel). QH has grown to become a significant division of Qantas Airways Limited with $1.1 billion of revenue in 2002. QH's revenue has grown by an average 7.6% per year 1998 to 2002. The current global structure of QH and a map of the QH 'footprint' are provided as **Attachment 4**.

The QH network can be leveraged to increase penetration in the origin markets where QH's global footprint is strong and the markets for New Zealand visitors are growing. These regions include:

- Australia: QH Australian operations, plus 13 General Sales Agent (GSAs).
- Americas: QH commercial agreement with Qantas Vacations (US).
- Asia: QH subsidiaries in Japan, Singapore, Hong Kong, Taiwan, Thailand, Malaysia, Thailand, Indonesia, plus 19 GSAs.
- Europe: UK subsidiary and 25 GSAs.
- Other: 42 GSAs in Africa and Middle East and 12 GSAs in the South Pacific.

This distribution network represents the outcome of relationship development with the relevant industry members over a period of many years.

[**confidential**] Although QH does currently carry New Zealand product, the product offering is limited, and QH does not have a presence in New Zealand and does not include Air New Zealand carriage within its programmes.

Air New Zealand 'Holidays'

Two parts of Air New Zealand focus on sales of land and air packages:

- Air New Zealand Destinations – a wholesale travel business providing a range of either packaged (air plus land) or individual ground product components. Product is primarily focused on the key destinations of New Zealand, Australia, Pacific Islands and USA. Most sales originate from within New Zealand for either domestic New Zealand or international markets. Only a small proportion of sales originate from offshore markets focussed on selling domestic New Zealand packages and packages for New Zealand outbound travel.

- Blue Pacific Tours – a Japanese wholesale operation 100% owned by Air New Zealand.

4.4 The QH/Air New Zealand Proposal

QH has assessed that it has potential to increase the number of visitors to New Zealand by 50,000. This estimate includes 14,000 visitors from Australia and 36,000 from all other source markets (see **Table 4.3** below for the source markets for these visitors). The estimate stems from a qualitative assessment of the potential to grow the New Zealand inbound holiday market by leveraging QH's global network under a strategic Air New Zealand/Qantas Alliance.

QH's estimate of 50,000 holiday passengers per annum, over and above natural market growth, is derived from the following information sources:

- Expertise and market knowledge of QH's management team in Australia and its overseas network
- New Zealand tourist statistics, Statistics New Zealand.
- QH's positioning and distribution network in each of the markets where it has a presence (Australia, UK, Japan, USA, Hong Kong, Singapore, Thailand, Malaysia, Indonesia, Taiwan, S. Korea and GSA's (over 110 worldwide)).

QH’s assessment is that the additional tourist figures can be achieved through means including:

- Promotion of New Zealand as a major holiday destination in all QH's promotional material of its overseas network.
- Expanding the range of QH's tourist product in New Zealand.
- Introducing New Zealand/Australia combined trips/packages.
- Specifically targeting Australians through the "events" market in New Zealand.
- Increased access to air capacity through a combined network of Air New Zealand and Qantas.
- Establishing a local (New Zealand) presence and delivery capability (eg. Inbound Tour Operator).

A more detailed coverage of QH’s proposed activities is provided in **Attachment 3**.

Table 4.3: Potential for Additional Visitors to New Zealand From QH

Market	Increment to Existing Visitors	Estimated Visitors* (‘000s Visitors 2001/02)	Notes:
Australia	6%	13.5	QH Australian operations plus 13 GSA’s
Asia	5% to 6%	19.0	QH subsidiaries in Japan, Singapore, Hong Kong, Taiwan, Thailand, Malaysia, Thailand, Indonesia, plus 19 GSA’s
Japan	6%	7.7	
S. Korea	5%	3.6	
China	10%	2.7	
Taiwan	10%	2.7	
Singapore	3%	0.6	
Hong Kong	5%	0.9	
Thailand	5%	0.8	
USA	5%	6.2	Americas: QH commercial agreement with Qantas Vacations (US)
Canada	4%	0.8	
Europe	4% to 5%	9.5	UK subsidiary and 25 GSA’s
UK	5%	5.6	
Germany	5%	1.9	
Ireland	10%	0.8	
Other	2% to 3%	1.1	
Other	0.5% to 1%	1.0	42 GSA's in Africa & Middle East and 12 in the South Pacific
TOTAL		**50.0**	

Source: TFI, QH. *Note: Slight discrepancies due to rounding.

Of the 36,000 visitors from markets other than Australia, QH and Air New Zealand consider that one-half (18,000) can be attracted to visit both New Zealand and Australia.

5. Quantifying the Tourism Impacts

5.1 Expansion of Airline Network and Services

It is difficult to assess the level of tourism benefits associated with the network changes that would take place under the Alliance.

Under the Alliance many current limitations on the extent to which tourists travelling to this region can optimise their travel arrangements disappear. For example, because it is not possible for Qantas to fly directly between New Zealand and North Asia, tourists from that region who are travelling on Qantas and visiting both Australia and New Zealand need to cross the Tasman twice.

For illustrative purposes, a visitor from Japan travelling on Air New Zealand could fly:
Tokyo – Auckland – Sydney – Auckland –Tokyo.
But under the Alliance a more direct routing becomes available:
Tokyo – Auckland – Sydney – Tokyo.
With a saving of up to seven hours.

These time savings are likely to increase the opportunity for new package creation and will encourage tourists to participate in additional destination activities. Such benefits are not included in this assessment of tourism benefit. Nor has TFI quantified the impact on tourism of other network developments associated with the Alliance. These include specific frequency and capacity benefits.

One method that could be used to analyse the impact of service changes is the Quantitative Service Index (QSI). The index aims to use airline frequency and capacity to measure the 'quality' of service between two points.

Originally developed by the US Department of Transport, QSI methodology is used for forecasting passenger numbers and market share. The QSI analysis applies a quality 'value' to services between two points and allows the comparison of services by airlines under different scenarios.

The precise values of the different elements the analysis measures vary from airline to airline, and to ensure greater accuracy, are calibrated against individual markets. The criteria typically measured in QSI analysis can be divided into aircraft related and operational elements. The aircraft value is derived from the frequency of flights, and the capacity of the aircraft. Aircraft values typically range from a value of 2 for a Boeing 747 (with 394 seats) to a value of 1 for a Boeing 737 (with 120 seats). Every frequency per week is assigned an aircraft value (for example, seven Boeing 747 trips per week are assigned the value 14).

Operational values also vary, from a non-stop flight with a value of 1, to a two-stop flight with a value of 0.02. Operational values also measure whether the same airline, and aircraft, operates the entire journey, and whether airlines code share on the flight.

The QSI is used here to compare the Counterfactual and Factual airline schedules. The Counterfactual schedule has a greater concentration of capacity on the Tasman route group (as the most intense competition between Qantas and Air New Zealand is focused on these sectors). The focus on vigorous competition on the Tasman is at the expense of other markets such as Japan, which in the Counterfactual has less capacity. As well as more capacity in the Factual schedule, services to Japan are likely to be more co-ordinated between Qantas and Air New Zealand.

Table 5.1 below illustrates an example of the QSI values between Japan and Auckland, and Japan and Queenstown, in the Factual and Counterfactual schedules. Japan – Queenstown services are improved due to connections via Auckland and Sydney. Under the Factual scenario Air New Zealand and Qantas operate three services per week from Sydney to Queenstown, which allows traffic to feed onto these services from Qantas' hub in Sydney. This generates additional connections to Qantas' Japan flights (as well as all Qantas' other international flights).

Table 5.1: Potential for Additional Visitors to New Zealand From QH

	Factual	Counterfactual	Variance
Japan-Auckland	70.41	56.18	25%
Japan-Queenstown	6.36	5.17	23%

Source: Air New Zealand

The 25% increase in QSI value between Japan and Auckland, and 23% increase between Japan and Queenstown predominantly result from the additional capacity between Auckland and Nagoya. However the improved indirect service via Australia also increases the QSI value on these markets. An example of this is the Sydney – Queenstown sector, which has three services in the Factual (two operated by Air New Zealand, and one operated by Qantas) and one service in the Counterfactual. The ability of the airlines to operate a strategic code share arrangement on these services would allow Qantas to sell three one-stop Japan-Queenstown flights per week in the Factual schedule (or just one service in the Counterfactual).

A strategic code share arrangement on all the Tasman services improves indirect services to both New Zealand (from Qantas' international hub in Sydney) and Australia (from Air New Zealand's international hub in Auckland). The QSI for both Australia and New Zealand to Japan is higher in the Factual schedule to due the co-ordination the airlines can achieve by placing their code on each other flights, and the additional flights Air New Zealand operates.

Separate analysis can be undertaken to use this QSI variance to calculate an impact on passenger numbers. Although not quantified here, the service improvements shown by the increase in the QSI will promote a growth in tourism.

There is also considerable opportunity for the development of new air services once Qantas and Air New Zealand operate their networks in an integrated manner. An illustration is of the type of opportunity that arises is provided in the box overleaf. It shows how Cathay Pacific and Dragonair (19% owned by Cathay Pacific) have created an Asia Passport product integrating the two airline networks.

CASE STUDY OF AIR PACKAGE POSSIBILITIES:
CATHAY/DRAGONAIR 'ASIA PASSPORT'

For one price, which includes return travel from Australia to Hong Kong, the Asia Passport offers as many as four cities from a choice of 40 destinations (see below) in the Cathay Pacific and Dragonair networks.

Customers have six flight coupons for the entire journey, including for travel between Australia and Hong Kong and 90 days in which to complete the trip. Each city may be visited once only but customers can stopover in Hong Kong as often as they like.

Economy Class fares from A1,834 Low Season, A$2,137 High Season.

Cathay Pacific Destinations:

Bangkok, Cebu, Colombo, Denpasar, Delhi, Fukuoka, Jakarta, Karachi, Kuala Lumpur, Manila, Mumbai, Nagoya, Osaka, Penang, Sapporo, Seoul, Singapore, Surabaya, Taipei, Tokyo.

Dragonair Destinations:

Beijing, Chengdu, Chongqing, Changsha, Dailian, Fuzhou, Guilin, Haikou, Hangzhou, Hiroshima, Kaohsiung, Kunming, Nanjing, Ningbo, Phnom Penh, Phuket, Qingdao, Sanya, Sendai, Shanghai, Wuhan, Xiamen, Xian.

5.2 The Market for Package Travel

In 2001/02 ten markets accounted for 83% of all visitors to Australia who travelled on a pre-paid package. Japan was the largest with 29% having travelled on a pre-paid package. The other markets (with their share in brackets) include the UK (10%), New Zealand (10%), USA (8%), Korea (6%), China (5%), Singapore (5%), Taiwan (3%), Germany (3%) and Hong Kong (3).

In the same year seven markets accounted for close to three-quarters of all package travel to New Zealand. The seven markets include Japan (25% of all tourists on packages), Australia (15%), USA (11%), South Korea (10%), Taiwan (6%), UK (5%) and Hong Kong (2%).

Table 5.2 shows the trend in packaged travel for visitors to Australia for the years 1995-2001/02. The data indicates that packaged travel has been relatively stable until the most recent periods. Recent periods have been impacted by the Asian economic crisis from 1997/98, the slowing in the USA and world economies in 2001, and the impacts of terrorism.

Table 5.2: Share of Visitors to Australia Travelling on Tour Packages 1995 – 2001/02

Market	1995	1996	1997	1998	1999	2001/02
Japan	84.1%	84.0%	84.6%	83.3%	80.4%	78.8%
United Kingdom	10.5%	12.4%	16.2%	20.0%	18.1%	22.5%
New Zealand	19.0%	16.5%	21.8%	24.8%	21.4%	18.1%
USA	20.3%	23.8%	21.6%	24.2%	24.2%	27.4%
Korea	70.4%	68.2%	67.9%	25.4%	44.8%	45.5%
China	17.1%	21.4%	19.8%	30.4%	30.2%	39.9%
Singapore	40.3%	39.0%	37.9%	31.4%	35.6%	24.2%
Taiwan	69.4%	65.0%	64.9%	70.1%	61.7%	49.8%
Germany	23.3%	22.8%	31.5%	29.2%	32.5%	33.1%
Hong Kong	23.5%	29.6%	29.6%	29.9%	29.6%	25.6%
Malaysia	31.7%	33.6%	29.6%	18.5%	27.1%	24.3%
Thailand	45.8%	41.3%	31.3%	16.2%	20.4%	27.9%
Canada	15.6%	15.2%	16.1%	12.0%	14.6%	18.7%
Indonesia	31.1%	27.5%	25.2%	9.6%	15.0%	10.7%
Other Europe	14.8%	17.4%	22.5%	21.5%	24.2%	23.3%
Other Asia	8.6%	8.7%	12.6%	11.8%	13.6%	16.7%
Other Countries	7.7%	10.7%	11.3%	14.1%	13.8%	16.7%
Total	**38.2%**	**37.8%**	**38.5%**	**35.2%**	**33.7%**	**32.1%**

Source: Bureau of Tourism Research; International Visitor Survey (1995-1999, 2001/02). Note: data for 2000 unavailable.

Table 5.3 shows the trend in packaged travel for visitors to New Zealand for the years 1998/99-2001/02. The data suggest that a relatively stable pattern is continuing.

Table 5.3: Share of Visitors to New Zealand Travelling on Tour Packages 1998/99 – 2001/02

Market	1999	2000	2001	2002
Japan	60.2%	67.2%	63.4%	60.5%
Australia	9.8%	11.6%	10.8%	10.1%
USA	27.1%	32.5%	28.2%	23.6%
Korea	56.1%	72.4%	57.7%	43.0%
Taiwan	55.3%	47.7%	52.4%	56.6%
UK	7.8%	7.9%	5.8%	7.6%
Hong Kong	41.4%	29.6%	41.9%	29.2%
Germany	n.a.	18.1%	14.8%	n.a.
Singapore	27.8%	31.8%	35.3%	n.a.
Total	**20.6%**	**23.5%**	**21.4%**	**20.6%**

Source: NZ International Visitor Survey (1999-2002). Note: n.a. Not available.

The differences in the penetration of package travel into Australia and New Zealand could reflect a number of issues. Differences in the survey questions and techniques between the Australian and New Zealand International Visitor Surveys, different attitudes to package travel within the source markets and different access to packages through the distribution network could be amongst them. However four conclusions appear reasonable based on this analysis:

- Travel on some form of package continues to account for a significant proportion of overall travel in both Australia and New Zealand.
- Three markets in particular - Japan, the UK and Germany - provide a significant contrast between Australia and New Zealand in terms of package penetration. It is estimated that 79% of Japanese visitors purchase a form of package for travel to Australia compared to 61% for New Zealand. For the UK the comparison is 23% for Australia compared with 8% for New Zealand. For the German market it is 33% for Australia and 15% for New Zealand (note the New Zealand figure for Germany is for 1999/2000, all other figures are for 20001/02). These three markets account for 42% of the 36,000 non-Australian visitors targeted by QH.
- The penetration of package travel by Australians visiting New Zealand is low at 10% compared to 18% for New Zealand visitors to Australia. The higher proportion of package visitors from New Zealand to Australia results in part from the very active promotion of Australian events (such as ‘Phantom of the Opera’) in New Zealand. QH proposes similar marketing of New Zealand events in Australia.
- Overall the tourists on packages account for around 32% of the Australian market and for 21% of the New Zealand market. If travel by Australians and New Zealanders is excluded, packages account for 35% of the Australian market and 25% of the New Zealand market. This suggests additional potential for package travel to New Zealand. If the penetration of package travel to New Zealand (for all visitors excluding Australians) were to increase to 35% this would amount to an additional 117,000 visitors.

5.3 QH Market Penetration

The 50,000 visitors represent 4.9% of the annual number of *holiday* visitors to New Zealand and 2.6% of the *total* visitors[22]. The Tourism Research Council of New Zealand (TRC) forecasts annual growth of 6% per year to 2008 for the total visitor market to New Zealand. On this basis the QH stimulus amounts to just below one-half of one years' growth.

The TRC forecasts imply average annual increments in visitor numbers from 2002 to 2008 of 74,000 holiday visitors, 40,000 VFR, 12,000 visitors with business as their main purpose and 13,000 with other purposes. On this basis the 50,000 visitor estimate is equivalent to two-thirds of the holiday visitors and 44% of what might be considered a total leisure market (holiday plus VFR).

According to the NZTB some 354,141 visitors to New Zealand in 2001/02 purchased tour packages[23]. This amounts to 20% of the total visitor market (and compares with 30% for visitors to Australia). The QH estimate of 50,000 additional visitors represents 14% of the total number of visitors travelling with packages.

If QH could achieve a penetration of [**confidential**] of the New Zealand overseas holiday market – the level it has achieved in Australia - this would amount to 73,000 overseas visitors. Thus the achievement of 50,000 additional visitors to New Zealand implies a lower overseas market penetration in New Zealand than QH has achieved in Australia. Any such levels of penetration for QH in New Zealand are only possible if the Alliance takes place.

TFI has further assessed the potential for QH by examining current shares of holiday visitors to Australia by market. **Table 5.4** shows the market to Australia in 2001/02 and the QH share.

Table 5.4: QH Share of Australian Holiday Visitors, 2001/02

Point of Origin	Holiday Vis FY 2002	Share of Total Vis	[confidential]	[confidential]
Japan	410,429	62%		
Europe	581,485	50%		
Asia (excludes Japan)	656,475	49%		
United States	179,162	42%		
New Zealand	316,348	40%		
Rest of World (excludes Aust.)	152,508	40%		
Total	**2,296,407**	**48%**		

Source: TFI, QH.

Table 5.5 shows the outcome applying the QH Australian market shares to the New Zealand visitor market. The outcome, excluding Australians, is 60,000 visitors compared with the 36,000 in the QH analysis.

[22] Note that not all package travel is purchased by visitors travelling for the purpose of holiday. Packages are also purchased by those who visit friends and relatives or travel for business.

[23] The category 'Total Package Traveller' comprises tour group travellers and package travellers. Tour group travellers have booked their trip and travelled with a tour group. Package travellers are not part of a tour group. They have paid for international airfares, accommodation and at least two other items (e.g. domestic airfares, meals) before arriving in NZ.

The QH analysis also includes 14,000 additional Australian visitors to New Zealand. This represents around 6% of all Australian holiday visitors to New Zealand and 2% of all Australian visitors.

Table 5.5: Volume Achieved in New Zealand if QH were to Achieve its Australian Levels of Market Penetration

Point of Origin	Holiday Visitors FY 2002	Holiday Share of Total Visitors FY 2002	[confidential]	Potential QH NZ Volume
Japan	122,790	82%		24,596
UK/Europe	234,030	59%		12,984
Asia (excludes Japan)	196,646	58%		8,696
USA, Canada	148,335	64%		8,788
Australia	240,609	39%		
Rest of the World	70,281	33%		5,698
Total	**1,012,691**	**52%**		**60,763**

Source: TFI.

5.4 Additional Sales Outlets

A further approach to corroborating the potential 50,000 additional tourists is to examine the additional sales outlets provided by QH and the average number of sales per outlet. This is shown in **Table 5.6** below. The variation in sales per outlet reflects the different market characteristics. Note that this analysis focuses only on the core source markets and therefore marginally understates the total reach of QH.

The first point to note from the data in **Table 5.6** is the large increase in the number of outlets if Air New Zealand 'Holidays' has access to the QH distribution network. For Japan, the increase is from 500 to 860. Outside Japan and for the markets shown in **Table 5.6** the increase in outlets is 36,597.

The number of sales per outlet varies significantly by market but overall QH is achieving [**confidential**] sales per outlet. If it could achieve between one-third and one-half of this performance for New Zealand product, the outcome would range between 44,000 and 67,000 based only on the markets shown in **Table 5.6** (which excludes Australia).

Table 5.6: Annual Sales (Trips), Outlets and Sales Per Outlet for Qantas Holidays and Air New Zealand 'Holidays'

[**confidential table**]

5.5 Generating Additional Visitors To Australia

The support for additional sales to Australia from the QH/Air New Zealand 'Holiday' activity rests largely on the potential for additional joint New Zealand/Australia stopovers. There is currently a market for joint stopovers in Australia and New Zealand as is shown in the tables below.

Table 5.7 shows the number of non-Australian overseas visitors to New Zealand who also visit Australia, by origin country. **Table 5.8** provides these as a share of all visitors to New Zealand. Overall it is estimated that 24% of visitors to New Zealand also visit Australia. When travel to New Zealand by Australian residents is excluded, the number of dual destination visitors amounts to 35% of overseas visitor arrivals to New Zealand.

Table 5.7: Number of Visitors to New Zealand Who Also Visit Australia

Origin Country	1997	1998	1999	2000	2001	2001/02
USA	80,553	83,937	91,075	109,796	90,514	86,305
UK	74,346	68,544	73,610	86,102	83,084	101,354
South Korea	71,409	N.A.	22,612	32,414	41,111	46,069
China	8,464	8,614	9,122	16,061	20,784	N.A.
Canada	14,500	16,586	16,212	18,527	18,185	N.A.
Germany	14,260	16,559	17,735	14,404	14,874	15,767
Japan	16,493	16,588	12,145	9,227	10,527	7,617
Hong Kong	9,468	6,773	N.A.	8,752	N.A.	N.A.
Taiwan	9,539	7,623	N.A.	N.A.	N.A.	N.A.
Thailand	7,522	N.A.	N.A.	N.A.	N.A.	N.A.
Other	112,723	119,416	129,906	124,179	128,144	163,254
Total	**419,277**	**344,640**	**372,417**	**419,462**	**407,223**	**420,366**

Source: NZTB, International Visitors Survey (Conducted by Statistics New Zealand).
N.A. Not available due to small sample sizes.

Table 5.8: Percentage of Visitors to New Zealand Who Also Visit Australia

Visitors from:	1998	1999	2000	2001	2001/02
Japan	11%	8%	6%	7%	5%
Germany	41%	43%	30%	29%	34%
Hong Kong	21%	N.A.	26%	N.A.	N.A.
South Korea	N.A.	71%	72%	56%	56%
Singapore	N.A.	N.A.	19%	N.A.	N.A.
Taiwan	18%	N.A.	N.A.	N.A.	N.A.
UK	48%	49%	49%	45%	48%
USA	56%	57%	60%	51%	50%
Total	**N.A.**	**N.A.**	**N.A.**	**32%**	**35%**

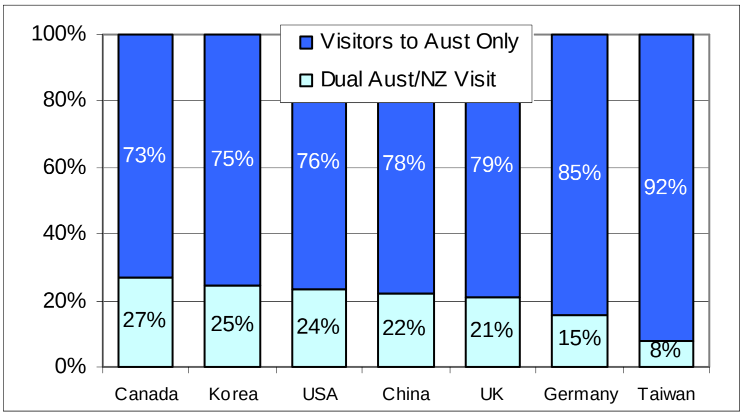
Source: NZTB, International Visitors Survey (Conducted by Statistics New Zealand).
N.A. Not available due to small sample sizes.

The above analysis is based on data from the New Zealand IVS. Analysis based on Australian IVS data published for 2001/02 estimates that 534,000 overseas visitors to Australia also visited New Zealand. This is nearly 15% of all visitors to Australia (excluding visitors from New Zealand). The discrepancy between New Zealand and Australian estimates of stopover traffic (420,366 to 534,000) results from survey differences.

For 2001/02 the UK, USA, Korea, China, Japan, Canada and Germany, were the seven largest markets in terms of the number of international visitors to Australia who stopped over in New Zealand. Approximately 124,300 UK visitors to Australia stopped over in New Zealand during 2001/02. USA followed at 93,600, Korea 40,400, China 36,300, Japan 32,900, Canada 23,600 and Germany 20,400. Between them these markets accounted for two-thirds of New Zealand stopovers.

Figure 5.1 indicates the share of visitors to Australia from these markets who also visited New Zealand. Koreans were amongst those with the highest propensity to visit both countries.

Figure 5.1: International Visitors to Australia by Stopover in New Zealand, Year ended 2002



Source: Bureau of Tourism Research, International Visitor Survey, CD Mota.

Of the total Koreans to Australia, 25% stopped over in New Zealand. Of these 86% were travelling for holiday purposes (**Table 5.9**).

Table 5.9: International Visitors to Australia by Stopover in New Zealand By Purpose of Travel, Year ended June 2002

Origin Country	Holiday	VFR	Business	Employ	Education	Other	Total Visitors to Australia Stopping Over in NZ
UK	64%	21%	6%	1%	2%	6%	124,282
USA	61%	8%	9%	0%	12%	10%	93,563
Korea	86%	3%	5%	0%	1%	4%	40,367
China	73%	3%	16%	1%	1%	6%	36,287
Japan	45%	5%	29%	0%	2%	20%	32,908
Canada	70%	14%	5%	1%	4%	7%	23,648
Germany	66%	14%	1%	4%	6%	10%	20,359

Source: Bureau of Tourism Research, International Visitor Survey, CD Mota.

Given that holiday travel represents the main purpose for those visiting both countries, TFI has examined a number of characteristics of these travellers. **Table 5.10** indicates the proportion of dual stopover visitors travelling for holiday who were first time travellers. The percentage of first time visitors is high for markets such as Korea and Canada. However for markets such as Japan the share is low, certainly by comparison with the total Japanese visitor market to Australia and New Zealand. This suggests that only the most experienced visitors from Japan visit both countries.

Table 5.10: International Visitors to Australia by Stopover in New Zealand, Year ended 2002 Travelling for the Main Purpose of Holiday, by First Time/Repeat Visit

Origin Country	First Time Visit	Repeat Visit	Total "Holiday" Visitors to Australia Stopping Over in New Zealand
UK	59%	41%	79,492
USA	74%	26%	57,260
Korea	80%	20%	34,911
China	78%	22%	26,482
Japan	57%	43%	14,698
Canada	82%	18%	16,533
Germany	51%	49%	13,354

Source: Bureau of Tourism Research, International Visitor Survey, CD Mota.

It is important to assess whether additional visitors stopping in both Australia and New Zealand results in a reduction in average stay in both countries with a consequent fall in average expenditure.

Data in **Table 5.11** suggests that overall this will not be the case. There is not a significant difference in overall average stay in Australia regardless of the New Zealand stopover. This suggests that the intention to stopover in both countries results in a longer overall stay.

The exceptions appear to be Korea and Japan although the gap between the average stay in Australia for total visitors from these markets and those with a New Zealand stopover narrows significantly when just the holiday segment is considered.

Table 5.11: Average Visitor Nights in Australia, 2001/02

Average Nights Per Visitor Spent in Australia by Country of Residence & Travel Purpose

	Holiday	VFR	Business	Employment	Education	Other	Overall Average
UK	38	28	24	152	99	17	37
USA	21	23	13	132	102	6	26
Korea	19	22	8	74	190	27	35
China	11	52	11	90	141	7	32
Japan	8	14	7	92	98	13	12
Canada	45	34	16	168	103	40	40
Germany	38	26	29	173	109	12	41
Other Countries	18	24	10	144	118	14	26
Total	**20**	**25**	**12**	**141**	**119**	**14**	**27**

Average Nights Per Visitor Spent in Australia by Country of Residence, Travel Purpose for Visitors with a NZ Stopover

	Holiday	VFR	Business	Employment	Education	Other	Overall Average
UK	41	19	12	73	185	12	36
USA	19	18	17		89	1	25
Korea	15	30	3		23	1	14
China	5	26	6	4	46	1	6
Japan	7	7	5		202	1	10
Canada	43	17	7	323	24	45	39
Germany	42	9	4	176	79	3	41
Other Countries	25	14	9	95	127	14	26
Total	**26**	**16**	**9**	**101**	**110**	**9**	**26**

Source: Bureau of Tourism Research; International Visitor Survey, CD Mota

Currently around 35% of non-Australian visitors to New Zealand also visit Australia. The generation of an additional 18,000 visitors to Australia assumes that 50% of the 36,000 visitors to New Zealand from markets other than Australia will also visit Australia. TFI considers it reasonable to assume that because these visitors are purchasing a QH package they will have a higher propensity to visit Australia as well as New Zealand.

This suggests that the Factual scenario will result in an increase in the number of tourists engaging in a joint Australia/New Zealand stopover.

There is further potential, not quantified here, for additional New Zealand visitors to Australia as a result of Alliance network and associated service improvements.

5.6 Conclusion

TFI has examined the QH claim of an additional 50,000 tourists for New Zealand (36,000 overseas visitors from markets other than Australia, 14,000 from Australia) and 18,000 visitors for Australia from a number of perspectives:

- Our assessment is that the Alliance will generate a number of airline network and service benefits which will stimulate tourism growth. This impact has not been quantified but its value should not be ignored. The QSI analysis comparing the Factual and Counterfactual schedules illustrates the significant gain in service on the Japan/Auckland and Japan/Queenstown routes.
- The review of the market for package travel found additional potential to develop and market packages for New Zealand. There is evidence that the penetration of package travel to New Zealand from Japan, the UK and Germany is low relative to Australia. If the average penetration of the package market to New Zealand were to reach Australia's level (35%), an additional 117,000 visitors using packages would be generated. This excludes the potential from the Australian market.
- A third element of our review focused on QH's existing market share in Australia. The level of visitation QH would generate were it to match its Australian levels of visitor share in New Zealand, amounts to between 61,000 and 73,000 visitors. Again this excludes visitors from the Australian market.
- Currently Air New Zealand distributes its holiday product through a wholly owned subsidiary in Japan. The operation distributes through 500 outlets in Japan only. QH provides an opportunity to distribute New Zealand product through over 37,542 outlets worldwide. Overall QH is achieving an average [**confidential**] sales per outlet. If QH could produce between one-third and one-half of this performance for New Zealand the outcome would be between 44,000 and 67,000 visitors from overseas markets excluding Australia.

The approaches outlined above all generate well above the 36,000 overseas visitors proposed by QH although it needs to be recognised that some of the gains may be a transfer from other distribution channels. However the significant new emphasis on packaging Australia/New Zealand and New Zealand tourism product and the substantial increase in global sales outlets ensure that a very high proportion will be additional tourists.

Generation of the additional 14,000 Australian visitors to New Zealand rests on the ability of QH to attract Australians to events and activities in New Zealand not currently packaged. There is some evidence of additional potential for such a market. QH has been successful in generating flows from New Zealand to Australian events.

Our overall assessment is that 50,000 is a reasonable estimate of the impact of the network benefits flowing from the Alliance and the associated initiatives of QH to generate additional international visitors.

The claim of an additional 18,000 visitors to Australia rests largely on the potential for overseas visitors attracted to New Zealand to also visit Australia. Achievement of this level suggests that of the 36,000 additional non-Australian overseas visitors to New Zealand 50% will also visit Australia. This compares with 35% currently. TFI considers this increase in the share visiting Australia a reasonable proposition given that the additional 36,000 visitors to New Zealand are assumed to purchase QH packages and travel entirely on the Alliance network. The implication is that the Factual scenario will increase the overall proportion of overseas visitors that add both Australia and New Zealand to their travel itineraries.

6. Attachments

6.1 Attachment 1: Market Share Performance

TFI has compiled visitor arrival figures for 1997 to 2001 for the following countries: Australia, China, Hong Kong, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand (the aggregate of visitor arrivals to these countries will be referred to as 'the Region').

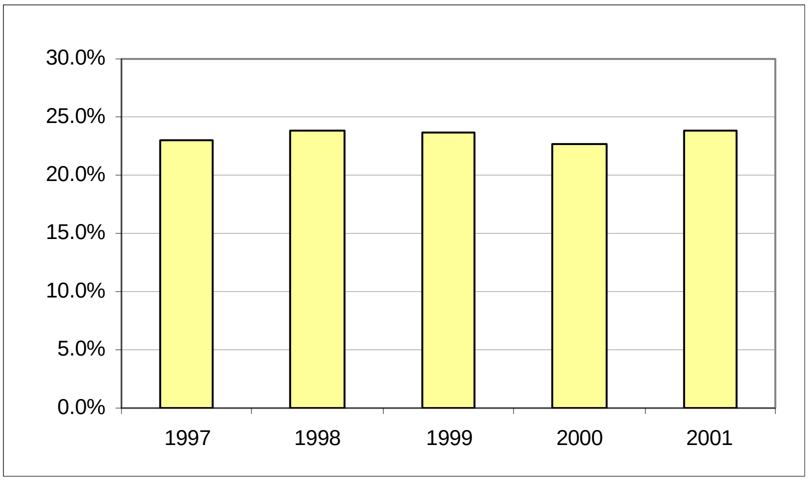
The Australian and New Zealand shares (as destinations) of arrivals to this Region from each of the major source markets to the Region are shown in the following sections.

Australia

In 2001 the Australian market accounted for 33% of all visitors to New Zealand.

Figure A1 shows the New Zealand share of Australian visitors into the Region for 1997 to 2001. As a destination New Zealand attracted nearly one in four Australian visitor arrivals to the Region in 2001.

Figure A1: New Zealand Share of Australian Arrivals to the Region



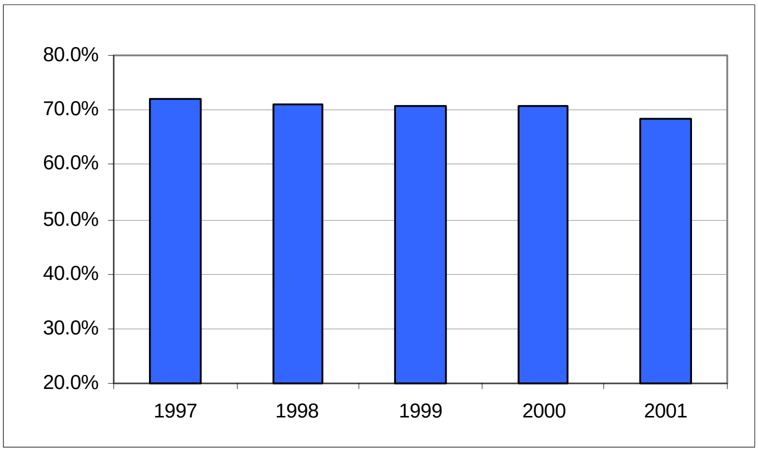
Source: TFI based on selected country government statistical and tourism agencies.

New Zealand

In 2001 the New Zealand market accounted for 17% of all visitors to Australia. It was the largest overseas visitor market for Australia.

Figure A2 shows the Australian share of New Zealand visitors into the Region. As a destination Australia accounted for nearly seven out of every 10 New Zealand visitors recorded as arrivals by countries within the Region.

Figure A2: Australian Share of New Zealand Arrivals to the Region



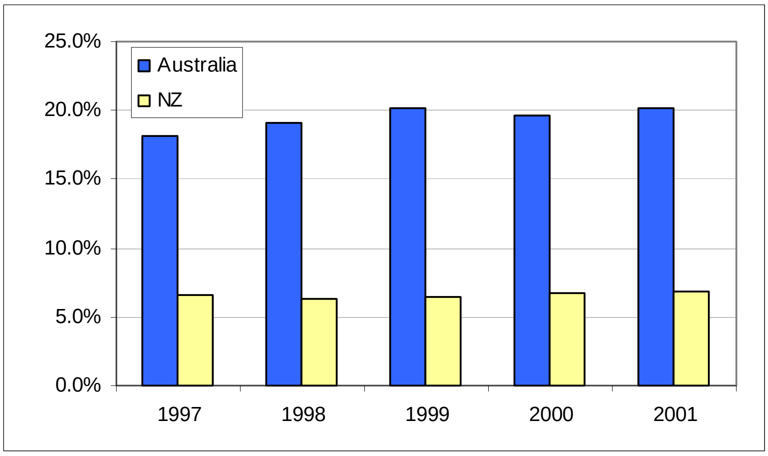
Source: TFI based on selected country government statistical and tourism agencies.

UK

In 2001 the UK represented 13% of visitors to Australia and 11% of visitors to New Zealand. It was Australia's third largest visitor market and New Zealand's second.

As **Figure A3** shows, Australia accounted for 20% of arrivals from the UK into the Region in 2001 (up from 18% in 1997). New Zealand's share is 7% and reasonably stable. This is a relatively large share of the UK visitors to the Region.

Figure A3: Share of Arrivals from the UK into the Region



Source: TFI based on selected country government statistical and tourism agencies.

USA

In 2001 visitors from the USA accounted for 9% of all visitors to Australia and 10% of all visitors to New Zealand. The USA represented Australia's fourth largest visitor market and ranked number three for New Zealand. **Figure A4** shows that Australia has performed well during the 1997 to 2001 period, increasing its share of US arrivals into the Region from 7.4% to 8.2%. New Zealand's share has been maintained at around 3.5%.

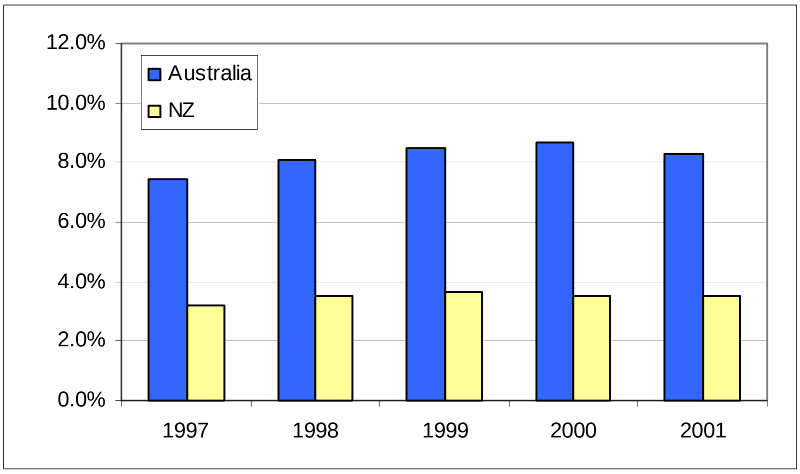
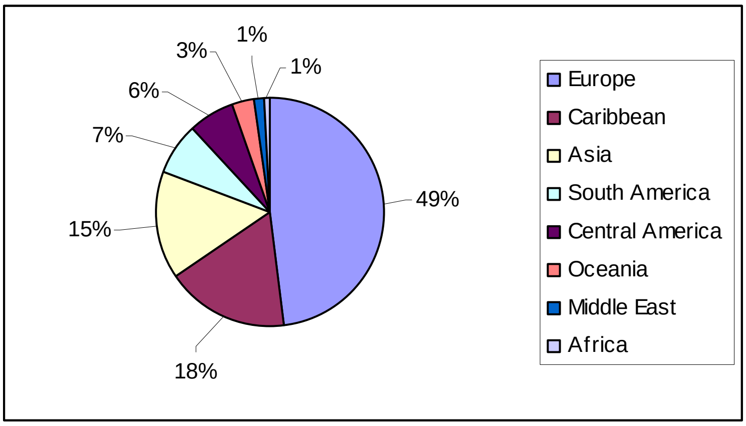


Figure A4: Share of Arrivals from the US into the Region

Source: TFI based on selected country government statistical and tourism agencies.

Figure A5 shows the share of US outbound travel to the Asia and Oceania regions to be around 18%. Thus around one-in-five US travellers visit Asia/Oceania and the Australia/New Zealand share of this is relatively low.

Figure A5: U.S. Citizen Air Traffic to Overseas Regions 2001, Market shares



Source: USA Tourism Industry Association.

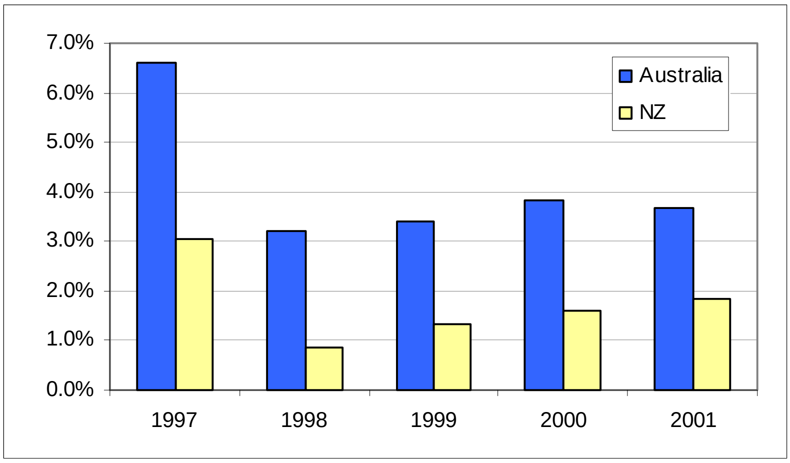
Korea

Korea is a major growth market for both Australian and New Zealand tourism. In 2001 it accounted for 3.6% of visitors to Australia and ranked as Australia's sixth largest source market. It was New Zealand's fifth largest market accounting for 4.6% of visitors.

Figure A6 shows the very large fall in Australia and New Zealand's share of Korean visitor arrivals within the Region following the Asian economic crisis in 1997. Such crises generally encourage a transfer from longer to shorter haul travel destinations and so it was following the 1997 shock.

Australia's share fell from 6.6% in 1997 to 3% the following year and has recovered only part of its lost share to achieve 3.5% in 2001. For New Zealand the share reduction was from 3.1% in 1997 to 0.8% in 1998. By 2001 the New Zealand share had partially recovered to 1.8%.

Figure A6: Share of Arrivals from Korea into the Region



Source: TFI based on selected country government statistical and tourism agencies.

Germany

Outside of the UK the largest European market for travel into Australia and New Zealand is Germany. In 2001 it accounted for 3% and 2.7% of visitors to Australia and New Zealand respectively.

As shown in **Figure A7** Australia and New Zealand attracted 10% and 4% respectively of all German visitors to the Region in 2001. Share has increased marginally for both countries over the period shown.

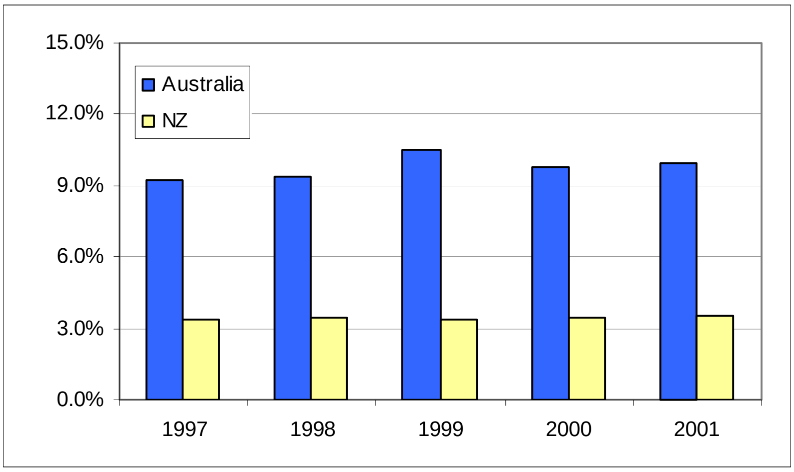


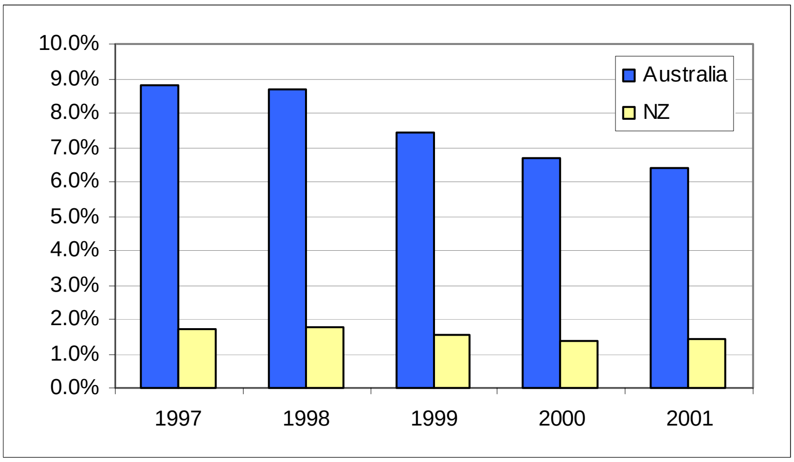
Figure A7: Share of Arrivals from Germany into the Region
Source: TFI based on selected country government statistical and tourism agencies.

Japan

In 2001 Japan accounted for 14% of visitor arrivals to Australia and 8% of arrivals to New Zealand. It was Australia's second largest visitor market and New Zealand's fourth. Over recent years both countries have seen declines in the number of visitors from Japan.

As a share of Regional arrivals, Japanese arrivals to Australia are down from 8.8% in 1997 to 6.1% in 2001 (**Figure A8**). New Zealand's share of Japanese arrivals to the Region has also fallen, from 1.7% to 1.4%, over this period.

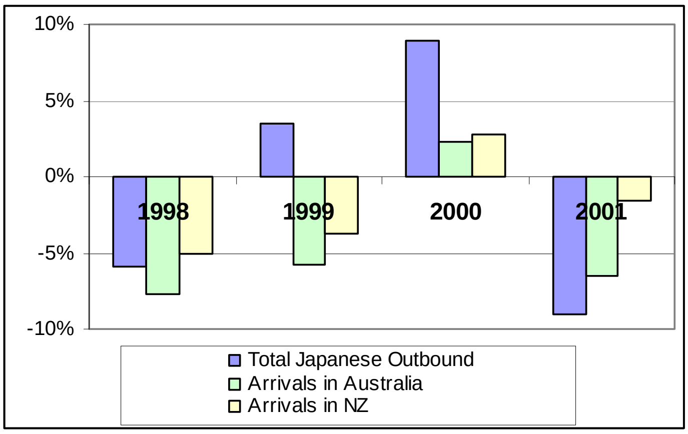
Figure A8: Share of Arrivals from Japan into the Region



Source: TFI based on selected country government statistical and tourism agencies.

Figure A9 shows that the total Japanese outbound market in 2000 grew by 8.9%. While growth of 4.1% was forecast for 2001, the events of September 11 combined with Japanese consumers' unwillingness to spend disposable income during uncertain economic times, resulted in an overall decline of 9.0%. During 1999 and 2000 Japanese arrivals into Australia and New Zealand performed below total Japanese outbound travel. However 2001 saw a reversal of this trend with the decline in arrivals to Australia and New Zealand falling at a lesser rate than total outbound travel.

Figure A9: Percent Change in Total Japanese Outbound Travel compared with Percent Change in Japanese Arrivals to Australia and NZ



Source: JNTO, ABS, NZ Statistics and TFI.

Canada

In 2001 Canada accounted for 1.9% of Australia's visitor market compared to 1.5% in 1996. Canadian visitors to New Zealand accounted for 1.9% of all visitors in 2001 the same level as in 1996.

Both Australia and New Zealand largely maintained their share of Canadian arrivals into the Region as shown in **Figure A10**.

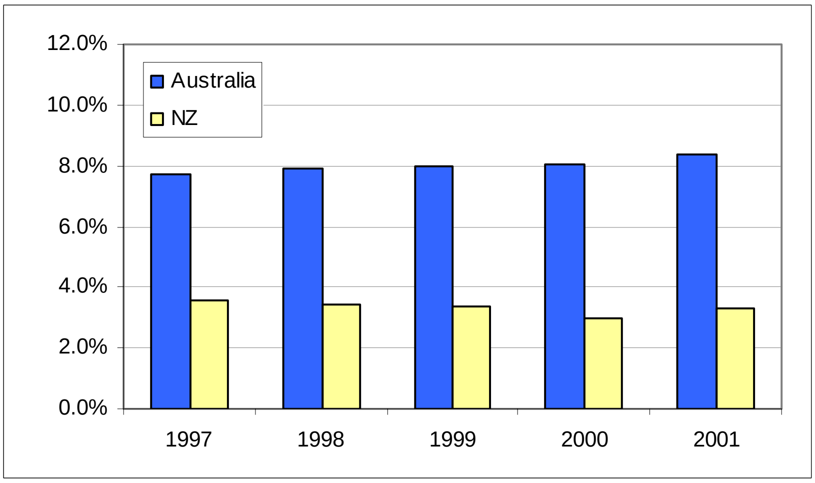


Figure A10: Share of Arrivals from Canada into the Region

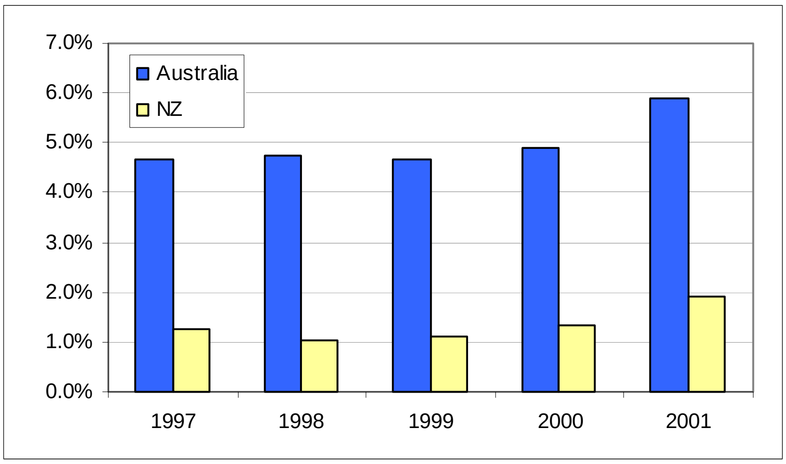
Source: TFI based on selected country government statistical and tourism agencies.

China

China (excluding Hong Kong) is another major growth market for tourism to Australia and New Zealand. In 2001 it accounted for 3.3% of Australia's visitor market (ranked 7th largest) compared to 1.3% in 1996. Chinese visitors to New Zealand accounted for 2.8% of all visitors in 2001 up from 0.9% in 1996. China now ranks as New Zealand's 6th largest market.

Both Australia and New Zealand have been increasing their share of Chinese arrivals into the Region as shown in **Figure A11**.

Figure A11: Share of Arrivals from China into the Region

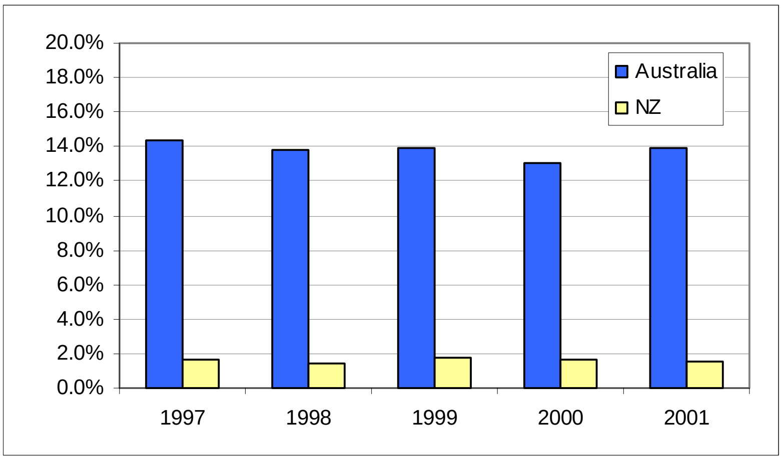


Source: TFI based on selected country government statistical and tourism agencies.

Singapore

Singapore is Australia's largest Asian source market (excluding Japan) accounting for 6.1% of all visitors in 2001. In the same year it was the 10th largest market for New Zealand accounting for 1.7% of all visitors. **Figure A12** shows that Australia accounts for around 13% of all arrivals from Singapore to the Region and New Zealand for around 2%.

Figure A12: Share of Arrivals from Singapore into the Region



Source: TFI based on selected country government statistical and tourism agencies.

6.2 Attachment 2: Barrier Studies

UK Barriers

Recently the ATC along with Australian state tourism bodies commissioned the ‘UK Barriers Study' (September 2002) to identify and explain barriers preventing UK potential travellers from visiting Australia. The qualitative research was based on two market segments (Young Affluents and Empty Nesters). The study found the following barriers:

- Not having the right information held people back. There were many more barriers at work than simply ‘time’ and ‘cost’. Australia demanded more consideration in terms of the commitment that people needed to make in both these dimensions. Cost related to cost to travel to Australia as well as cost while in Australia. Australia was perceived to be expensive with little understanding about the cost of living i.e. cost of food, hotels etc.
- Lack of knowledge about options. While Australia delivered against the main requirement for good weather, perceptions of it were one-dimensional. It was seen as a hot place with lots of beaches and a huge desert. Perceptions of climatic diversity, sub-continental characteristics, seasonal variations & opportunities did not feature.
- People couldn’t form a detailed picture of what it will be like there. The decision making process was made difficult by the sheer size of Australia and the low level of knowledge that considerers and non-considerers had about it. There was a vague sense of what Australia is – a big, hot empty country with populated edges and a number of famous landmarks/destinations. There were empty spaces in potential travellers’ perceptions between the well-known and famous icons – what’s in between? The vastness of Australia made it impenetrable for potential travellers, because they couldn’t break it down into manageable portions.
- Communicating ‘ONE Australia’ for people to digest left them exhausted. You had to fit the Opera House, the Rock & the Reef into one trip. This meant more flying and a lot of packing and unpacking to ‘see it all’. People didn’t want to buy Australia in one, they were eager to know how it could be broken down.
- Australia’s perceived sameness reduced its desirability. People had the sense that Australia is the same wherever you go. There was little understanding of the internal differences and diversity within the vastness. Potential travellers were looking for differences in culture, in people, in landscape, in food, in activities, in climatic diversity, seasonal variations. Australia needed to be broken down into diverse sets of experiences for them.
- It was felt that Australia demanded a procedural approach to planning and experiencing a holiday. This was more than for other long haul destinations – people felt that there seemed to be fewer options available. There appeared to be a need to move on from prescriptive itineraries to incorporate flexible options they can take.
- The picture of Australia was static – fixed in place by familiar icons. Considerers and non-considerers of Australia saw other long haul destinations as more readily accessible - with more options. But there was also more urgency to go to these places – there was the perception that there were destinations out there that will soon change forever. By contrast, Australia will always be there - therefore it can wait - there’s no sense of dynamic change.

The NZTB has identified the following barriers to travel from the UK to New Zealand:

- Tangible limitations such as the distance and therefore the price, and the perception that New Zealand requires at least a three-week holiday.
- Perceptual barriers that New Zealand is a somewhat backward province of the UK, and so similar that it almost feels like a "home away from home".

Travel to New Zealand is considered for duty (to visit family and friends), for special interest (eg walking, mountaineering) and for "real travel" (at least 3 weeks) but is not considered for relaxing in the sun, family entertainment or as a city break.

The NZTB considers it important to recognise that New Zealand may not be the main destination for a holiday, but one of several destinations within one holiday trip. For example, it may be combined with Australia, or chosen as a destination on a round-the-world ticket. On the backpacker route, New Zealand may be the working part to fund further travel.

NZTB research has also shown that:

- New Zealand is seen as the furthest you can go from the UK. This means there is a real sense of achievement and prestige in visiting New Zealand.
- New Zealand's distance means travellers are pressured to make the most of it when they do go.
- New Zealand is seen as a place where you need to stay for longer than two weeks – as a working holiday for young people, or a destination that requires at least three weeks for most holidaymakers.
- New Zealand is often considered a destination worth visiting in its own right – much more so than in the US and Japan.

German Barriers

In its 'German Barriers Research Study' (September 2002) the ATC found the following key barriers to German travel to Australia:

- Logistical impediments of time and cost.
- No sense of urgency to stimulate travel to Australia now.
- Australia's vast size makes it impenetrable.
- Narrow, stereotypical perceptions of Australia.
- Australia viewed as a place to "see" rather than a place to "experience".
- Insufficient knowledge and appeal of the diversity of experiences.
- Need to provide a constant "drip feed" of information about Australia.
- Strong emotional triggers are required to engage consumers and motivate them.

Based on its market tracking research the NZTB found:

- Beautiful scenery and a general curiosity to see New Zealand, appear to be the main motivators for those most likely to visit New Zealand. Secondary motivations are recommendations from friends and family, and New Zealand's diversity of attractions.

- The main challenges for Tourism New Zealand to overcome among those less likely to visit are a lack of knowledge about New Zealand and barriers related to holidays in general.
- Secondary challenges are:
  - Perceptions of the expense of a New Zealand holiday.
  - Other destinations taking priority over New Zealand.
  - Belief that New Zealand is ‘too far away’.

The survey results suggest New Zealand is losing ground as a favoured destination among the German market, and that the interest that remains is becoming increasingly fringe (ie. from the young backpacker market).

Germans are keen long-haul travellers (particularly those who are young and childfree) and tend to seek adventure and culture. They are being increasingly drawn to Central and South America which can offer this type of exciting and unique holiday experience.

New Zealand’s best opportunity is considered to be the holiday market. However, to be competitive New Zealand needs to overcome the perceived barrier of being ‘too far away’. One way to do this is to co-position New Zealand with Asia and the Pacific, offering a trip with maximum cultural variation and excitement.

Germans do tend to have longer annual holidays (ie. six weeks per year) and are likely to be drawn to a multi-destination trip. The research supports such a strategy, showing Australia and Asia currently enjoy much greater popularity than New Zealand. ‘Piggy-backing’ on the success of these countries will allow New Zealand to achieve greater penetration of the German market.

6.3 Attachment 3: QH Plan

Background

This Section provides a summary of the sales marketing and promotional activities that will be carried out across the QH group in support of the additional 50,000 passengers to New Zealand.

The marketing plan builds on the existing Global footprint of the QH group and expands the growth footprint for destinations in New Zealand.

An alliance between the two carriers Air New Zealand and Qantas gives QH the ability to market both countries as one region, and provides accessibility over the two air networks to offer itinerary combinations not easily accessible.

This plan provides the platform to raise the significance, emphasis and resourcing on destination New Zealand in its own right to the same level as the current Australian product range within the QH worldwide network.

QH has developed six marketing key themes for supporting growth of the New Zealand Inbound Leisure Market

1. Improved Air Product

Description:

- Greater flight choice of itinerary.
- Faster and more convenient connections.
- More economical routing.
- The Alliance will result in a combined Air New Zealand/Qantas international network with two New Zealand domestic networks.
- It is envisaged to increase direct routings, frequency and capacity to New Zealand for mono-destination purposes.
- It will offer a more efficient and economical product, and allowing access to more destination combinations than were previously feasible, especially in light of withdrawal of carriers like United.

Consumer Benefits:

- Time savings through direct routings for combined Australian/New Zealand itineraries.
- Direct routes for New Zealand mono destination itineraries.
- Greater choice of routings and stopover options.
- Increased air capacity on international routes.
- Elimination of backtracking on most combined itineraries.
- Greater choice over two New Zealand domestic networks.
- New multi-destinational itineraries (eg. New Zealand, Australia and Fiji combined).

2. Expanded Land Product

Description:

- Expand the New Zealand product range to support a specialist New Zealand reservations unit.
- Increase FIT, pre-booked and 'go-as-you-please' range.
- Introduce new product for specific target markets.
- Develop land product to support multi-destinational itineraries.
- Source best rates from suppliers with allocations.

Consumer Benefit:

- Greater choice of New Zealand product.
- Confidence in QH as New Zealand specialist.
- Product range will meet all customer needs and interests.
- One stop shop for New Zealand holiday purchase.
- Competitive selling prices.
- Instant confirmations from allocations.
- Packages for growing FIT segment.

3. Increased Promotion

Description:

- Dedicated New Zealand marketing and sales plan for each region with structured objectives and outcomes.
- Increase the level of promotion to the overall market.
- New promotional themes / activities to targeted market segments.
- Increase New Zealand "voice" and competitiveness in key source countries.
- Improved promotion effectiveness and levels through leveraging QH's existing promotional spend and purchasing power.

Consumer Benefits:

- Provide more information on destination New Zealand e.g. what to book and how to book.
- Consumers are more educated on New Zealand product offerings.
- Supportive information reduces the effort needed to plan holidays.
- Information sources are readily available and accessible in retail travel agents, on the internet and via multi media channels.
- Consumer is stimulated through highlighting New Zealand when they are not certain of the holiday they want until they see or hear about it.
- New themes, target packages, new multi-destinational itineraries.

4. Expanded Distribution

Description:

- Use QH global network of subsidiaries, affiliate companies, GSA offices and travel agencies to promote and sell New Zealand product.

- Create a host-to-host connectivity between QH's booking systems and key wholesaler/retail distribution platforms to allow seamless and direct sales of QH's contracted New Zealand product (Land and Air).
- Increase the voice/awareness of New Zealand product in distribution points.
- QH B2C sites in source countries to carry New Zealand product.

Consumer Benefits:

- Greater awareness of New Zealand as a holiday destination and therefore provide greater choice.
- Easier and improved access to New Zealand product through expanded distribution network and online channels.
- Host-to-host connections allow mainstream, large distributors in source countries to promote and sell New Zealand product rather than just the smaller specialised, niche wholesalers who typically focus on New Zealand.

5. Specialised Customer Service

Description:

- Specialised destination and itinerary training for reservations units, and where appropriate set-up special, dedicated team.
- Alliance with a New Zealand inbound tour operator to provide local customer service with necessary language skills to service various inbound travellers and groups.
- Dedicated marketing and sales staff that source and package New Zealand product and can educate trade on New Zealand selling features and benefits.

Consumer Benefits:

- Improved customer support around selecting and creating holiday itineraries for New Zealand.
- Local, dedicated "meet" & greet" service in New Zealand.
- Central customer support for dual (Australia and New Zealand) itineraries.

6. Focus on New Market Segments

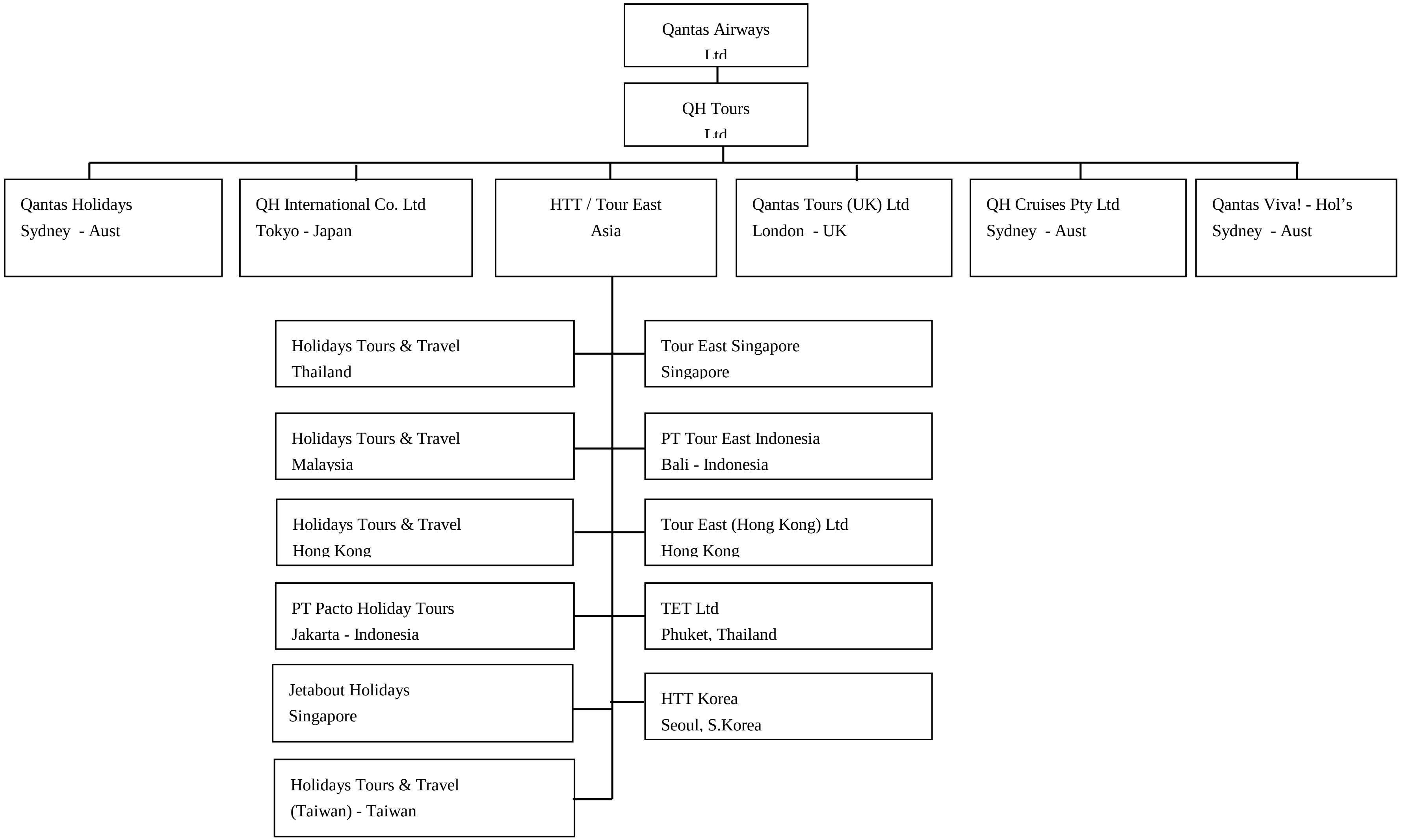
Description:

- Develop specific programs to fit target segments within each region, providing consumers with a more tailor made product offering.
- Use QH's dynamic packaging capabilities to tailor products to growing FIT segment.

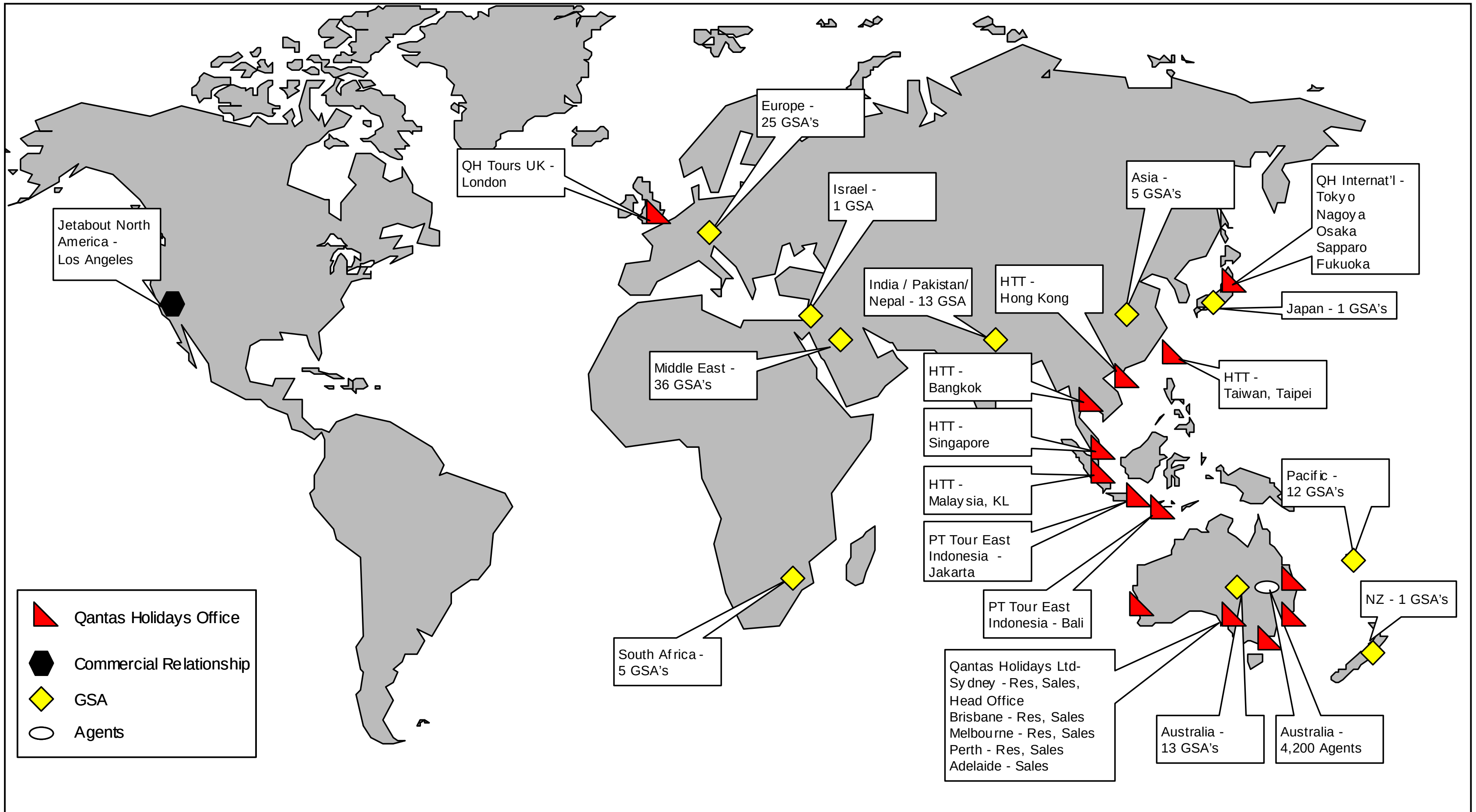
Customer Benefits:

- More comprehensively matches New Zealand product offering to the specific consumer demands.
- Breaks destination into more targeted segments reducing the effort needed to plan and organise.
- Makes consumers aware of experiences available in New Zealand.
- Packages for growing FIT segment.

6.4 Attachment 4: QH Global Structure and Footprint



QH Global Footprint



Source: Qantas Holidays reports