STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND

JOINT AUSTRALIA – NEW ZEALAND PRODUCTIVITY COMMISSIONS STUDY

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TTF AUSTRALIA
Tourism & Transport Forum

Membership of Tourism & Transport Forum

The Tourism & Transport Forum (TTF) is the national peak advocacy body for the tourism, transport, and aviation sectors. It is a CEO forum representing the interests of 200 leading Australian institutions and corporations in the private and public sectors.

TTF uses its experience, and networks to influence public policy outcomes and business practices and to assist the delivery of major tourism, aviation and transport-related infrastructure projects. Our members' interests include tourism, major events, aviation, investment, hotel, property development, land and maritime transport, finance, retail, hospitality and education.

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TTF AUSTRALIA Tourism & Transport Forum

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Introduction

Tourism & Transport Forum (TTF) is an Australian member-funded CEO forum, advocating the public policy interests of the 200 leading corporations and institutions in the Australian tourism, transport, aviation and investment sectors. TTF develops and advocates policy for the sustainable long-term growth of tourism in Australia.

The Tourism Industry Association (TIA) New Zealand is the largest representative body of tourism operators in New Zealand. It is a membership-based and private sector trade organisation with about 1700 members - from small operators through to large companies - who collectively make up 85 per cent of the country's tourism turnover.

We commend the Australian Government Productivity Commission and New Zealand Productivity Commission for having jointly published the issue paper on the topic of *Strengthening economic relations between Australia and New Zealand*. In this spirit TTF has collaborated with TIA in the writing of our response.

Fundamentally we believe that the visitor economy, both in terms of tourism and business travel, has been overlooked in previous debates into the closer economic relationship between Australia and New Zealand. The barriers to entry in this industry are not hypothetical but real frontier checks.

Border formalities between Australia and New Zealand have tightened significantly since the signing of the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) as international standards have been imposed on top of what was previously a lighter regulatory regime for trans-Tasman flights. We believe this to run contrary to both the spirit and the letter of the treaty. Our nations' customs, quarantine and border security measures make no distinction in law for arrivals from each other's countries, although in practice these flights are treated as lower risk.

TTF and TIA believe streamlining border formalities between Australia and New Zealand should be a priority for governments on both sides of the Tasman Sea. We are already each other's number one source of visitors, but there is still huge latent potential to travel that is being supressed by the current border formalities.

This is can be most clearly seen in the disparity between the volume of either Australian or New Zealand domestic flights and the volume of trans-Tasman flights. Border restrictions place an artificial barrier to the tourist trade.

There is also a fiscal barrier erected by Australia that could be in breach of both ANZCERTA and International Civil Aviation Organization treaty obligations in levying a tax on travel (the passenger movement charge) that exceeds its contribution towards civil aviation costs.

There is some important work being carried out to automate passport control at our major airports through the common use of SmartGate kiosks. This is to be commended, but misses the point of the joint prime ministerial commitment of 2009 to work towards a common border. If Australia and New Zealand are to work as a single economic market, then free travel must exist.

Key observations

1. The trans-Tasman potential

New Zealand is the single largest visitor source market for Australia, with almost 1.2 million visitors from New Zealand into Australia last year. Flights from New Zealand bring over one-fifth of total arrivals into Australia. On the New Zealand side the facts are even starker: more than four out of ten arrivals into New Zealand originate in Australia.

But there remains huge latent market potential, which has been most clearly identified in a report written by consultants GHD for the Australian Department of Resources, Energy and Tourism, a draft of which was released in November 2011. The report found that were Australia and New Zealand to operate as a common economic and migratory zone, with no internal border controls, trans-Tasman visitation would grow by at least 14 per cent. Airline estimates go further: the trans-Tasman market is roughly half that of equivalent domestic traffic in both countries, despite very similar traveller profiles. The implied assumption is that traffic could double under a completely free movement regime.

2. The Passenger Movement Charge is a tax on trade

As the Tasman is already a very mature market, stimulation can only be achieved by new routes or a reduction in fares.

The Tasman is already served by seven airlines with Air New Zealand, Jetstar, Qantas Airways and Virgin Australia competing with Aerolíneas Argentinas, Emirates and Chile's LAN under the Common Tasman Aviation Area, which permits fifth freedom and international cabotage between the two countries. The result is a fiercely competitive landscape that has reduced prices significantly for Australians and New Zealanders.

For example, an analysis of real ticket prices paid in economy class from Sydney show that an average fare paid on the Auckland route was A$437 return Christchurch was only slightly more expensive with an average of A$478 (see Table 1, below). This compares to the New Caledonian capital Nouméa, which averages A$1066 for a return ticket in economy cabin despite its shorter distance from Sydney than New Zealand. New Caledonia has restricted aviation capacity and only two airlines, Aircalin and Qantas, who code share on each other's services.

TABLE 1

Analysis of ticket prices from Sydney to selected destinations, October 2010-June 2012

AIRFARES			
DESTINATION	AVERAGE	HIGHEST	LOWEST
Auckland	$436.49	$1,310.30	$265.70
Christchurch	$477.72	$2,289.40	$260.30
Cairns	$578.31	$2,520.80	$344.70
Nadi	$855.71	$2,334.50	$563.00
Nouméa	$1,065.86	$2,622.00	$621.30
Port Vila	$779.89	$2,165.00	$357.90
Melbourne	$264.21	$459.90	$137.10
Source: TTF analysis based on CAPA Centre for Aviation, ITA software			

Thus, it can be reasonably argued that competition has been successful for consumers on the Tasman air routes. But the low fares now expose the sheer scale of taxes and charges applied either directly or indirectly by governments on both sides, although disproportionately so by the Australian government.

The passenger movement charge, levied at a flat rate of A$47 (rising to A$55 on July 1, 2012), presents around 19 per cent of the total ticket price on a return, or almost 30% of the one-way fare out of Australia. Compare this to the 10% levied as goods and services tax on a similar stage length to Cairns. This direct tax on international travel is a discrimination against New Zealand destinations when compared with Australia and as such is a breach of the treaty obligations.

A comparison with other jurisdictions shows Australia to be out of step not only with other nations within Asia-pacific, most of whom (including New Zealand) charge no government departure tax, but also with other developed countries. Australia's tax on short-haul travel is the highest in any member of the Organisation for Economic Co-operation and Development (including the UK, whose air passenger duty was recently condemned by both Australian and New Zealand governments).

Furthermore, those European countries with high departure taxes (Austria, France, Germany and the UK) recognise the intrinsic connection between air travel and trade and levy a reduced rate for European Union flights.

In line with the prime ministerial commitments of 2009, the assumption should be that the PMC will eventually cease to be levied for New Zealand flights, once a common border is achieved. Treasury needs to plan accordingly and reduce the PMC for New Zealand departures. By halving the current rate, to A$27.50, there would be a recognition both of the lower risk associated with passenger facilitation of New Zealand flights and also of the goals of the CER.

3. Reduce costs to airlines

The other charges imposed on trans-Tasman passengers that do not apply to those travelling on domestic city pairs in either country relate to security charges at international airports. International airports in both countries legitimately pass on the additional charges associated with security to airlines, who in turn pass them on to passengers in the form of airport passenger charges (at roughly A$25 in Australia and NZ$25 in New Zealand). However, there are efficiencies that can be made in terms of security measures that could lead to a lowering of charges for security costs at airports.

For example, there is a model proposed to Customs ministers in both countries of further automation of the passport control system. The model is proposed in a report by technology consultants Capgemini entitled "Trans-Tasman Travel: Desired Future State Passenger Processing". The model is a sound extension to existing SmartGate processing, as it extends to third country citizens and integrates outbound passport control into the check-in procedure.

However, streamlined passport control does nothing to address several fundamental barriers to bringing trans-Tasman air activity in line with domestic travel in the two countries. Crucially, as presently constructed, the model explicitly rules out passing on any resultant efficiency gains to airlines despite imposing additional costs on airlines. The reliance on having expensive computer kiosks will further restrict trans-Tasman flights to major airports through infrastructure burdens.

The GHD report for DRET estimates the likely increase in traffic attributable purely to a perception of greater ease of travel to be around one per cent. Thus streamlined passport control without more fundamental change would only lead to increases of this magnitude.

4. Quarantine a real barrier

The most obvious conflict between Australia-New Zealand treaties and the situation at Australian airports is the situation surrounding quarantine control.

New Zealand and Australia are not foreign destinations as viewed from each other's countries. This is not a contentious view within the political sphere of either country. Yet the border agencies are bound by legislation to treat trans-Tasman arrivals with the same degree of caution as from any other overseas jurisdiction. As customs and quarantine agencies in both Australia and New Zealand move towards risk-based intervention, the great flexibility shown on the ground by these agencies is not reflected in the regulations by which they are bound.

There is a high level of concern over food safety in both countries, which is appropriate to keep agriculture industries pest- and disease-free. However, it is inconsistent with the *Food Standards Australia New Zealand Act 1991*, the Australia, New Zealand and ASEAN free trade agreement of 2010 and the *Trans-Tasman Mutual Recognition Act 1997* as well as running contrary to the spirit of the Closer Economic Relations compact of 1983.

The potential blights to the Australian agro-alimentary industries from New Zealand pests (and vice versa) are so few as to make the list of exemptions prohibitively long.

Again, the current situation runs contrary to international best practice. The UK and Ireland, for example, are outside the Schengen harmonised immigration zone of the rest of the European Union, but treat arrivals from EU airports more leniently from a quarantine point of view. This is based on the fact that, like Australia and New Zealand, the entire EU has common food standards and phytosanitary controls.

Limited quarantine intervention trials are planned for Gold Coast Airport for arrivals from New Zealand. Under this risk-based screening model, officers would interview only those arriving passengers identified as at risk. Typically this would include anglers, farmers and connecting traffic from third countries. This would leave over 96 per cent of arrivals free to exit the airport without further screening or interrogation.

This could be encapsulated in a 'Tasman Arrivals' direct exit lane, or ANZAC Express Path.

A further step would be to include New Zealand in the Australian quarantine zone, thus delegating quarantine responsibilities for incoming flights to state agencies, as happens for domestic flights into Tasmania.

5. Secondary airports

The single largest step change in the trans-Tasman market will come from the opening up of non-traditional international gateway airports in Australia to flights from New Zealand.

The tourism industry is suffering in both Australia and New Zealand. Our traditional source markets of Europe and North America are being replaced by new emerging source markets in Asia. However, many of these new markets have little geographic knowledge of either country and are thus more inclined to stick to either large cities or well-defined tourist destinations. In contrast Australians and New Zealanders have a reasonable grasp of each other's countries and are happy to go off the beaten track. This presents a lifeline to regional tourism operators in both countries.

Despite this the number of airports in Australia from which to depart on a trip to New Zealand is fewer than vice versa. The status of international port of entry has associated with it very high infrastructure and staffing costs that are prohibitively high for smaller regional airports.

There is very real latent demand for direct flights from secondary airports. This has spurred Air New Zealand to trial direct flights from Auckland to the Sunshine Coast from June. Initial load factors show a ratio of almost 50:50 between Australian residents travelling to Auckland and vice versa.

There are several other airports too, chiefly Canberra, Hamilton Island, Hobart, Newcastle and Townsville, that could support direct flights, but are deterred by the cost and bureaucracy involved in obtaining and maintaining full international airport status.

In New Zealand, by contrast, the airports of Dunedin, Hamilton, Palmerston North, Queenstown, Rotorua and Wellington are all designated by the New Zealand government as limited international airports, with flights only to Australia. Due to the lower risk associated with trans-Tasman flights, border agencies operate at lower staffing levels at these ports, but thanks to New Zealand's model of cost recovery for processing of international travellers, the services are still feasible. By contrast, airports such as Canberra and Sunshine Coast have to pay an additional levy to have international services, despite the Australian government having a surplus of some $300 million in passenger movement charge receipts, whose stated purpose is to fund passenger processing.

Furthermore, the list of requirements at these smaller airports in terms of border agency infrastructure is disproportionate to the risk and, as such, is prohibitively expensive.

There is already a cultural shift from within the border agencies towards differentiated risk assessment, leading to far greater flexibility in accommodating the requests from smaller airports to operate international services. This spirit of closer cooperation with non-traditional airports is to be congratulated.

Another recommendation would be to replicate in Australia the New Zealand model of limited status international airports, together with the cost-recovery model. This new category of airport should start with flights from New Zealand as a priority, to boost the regional tourism.

This new category could also allow airlines to operate flights from domestic terminals at major airports, if that were in the commercial interests of that carrier. Most, carriers however, would opt for international terminal connections.

Conclusion

To conclude, current border formalities between Australia and New Zealand are a barrier to trade. They take no account of the reduced risk associated with trans-Tasman flights and are inconsistent with the goals of the CER compact.

Both governments are committed to working towards a "domestic-like passenger experience between" Australia and New Zealand. However, at present these plans hinge only on simplifying passport controls.

The prime ministerial level commitment of 2009 to work towards a common border envisages much more than an automated passport processing system. Indeed, as examples around Asia show, this kind of system for border processing will be the norm in five years' time. The trans-Tasman border processes need to go further than Australia and New Zealand will go with other countries.

The special Tasman relationship, based on mutual trust, numerous treaties and shared common interest, should be reflected in future policy.

Longer term, the aim must be the establishment of an Australasian Frontiers Agency to coordinate policies between the border agencies in both countries. Australia and New Zealand are increasingly seen as one destination in long-haul tourism source markets and thus combined entry visas will be expected by future tourists.

Australia's departure tax, the passenger movement charge, is also potentially a tariff on trade. It is almost certainly illegal under ICAO's policies on taxes and charges. But more importantly in the context of this review, it discriminates against short-haul travel as the flat tax is a disproportionality high percentage of total airfare compared with long-haul routes. Equally, as the New Zealand government levies no tax on Australians visiting New Zealand, it is contrary to the CER treaty for Australia to tax visiting New Zealanders.

Both TTF and TIA would welcome the opportunity to discuss the barrier to trade that current border formalities pose. Tourism is the third largest export earner in both countries and thus these barriers present a real barrier to further developing this trade.