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# **Australasian Tourism Review**

## **PUBLIC VERSION**

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**T** TOURISM FUTURES  
INTERNATIONAL

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## 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<sup>1</sup>.

### **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

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<sup>1</sup> 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.

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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.

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	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.

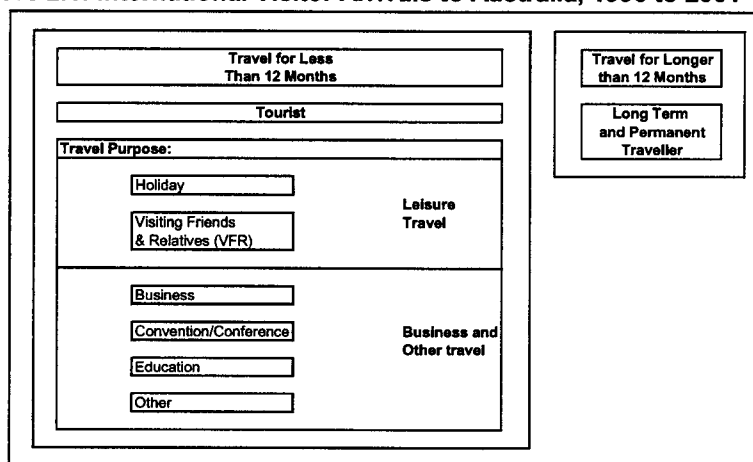
## 2.1 The Scope and Significance of Tourism

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<sup>2</sup>***

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<sup>3</sup>***

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).

<sup>2</sup> Source: Department of Industry, Tourism and Resources website.

<sup>3</sup> 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.

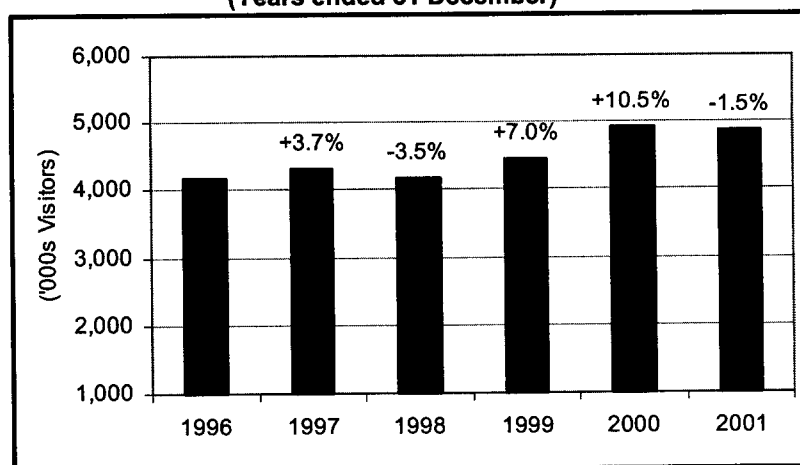
This section first provides an overview of the trends in international travel in Australia and New Zealand and then identifies the process that by which potential travel is converted into actual travel. Each of the challenges identified above are then discussed.

#### 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.

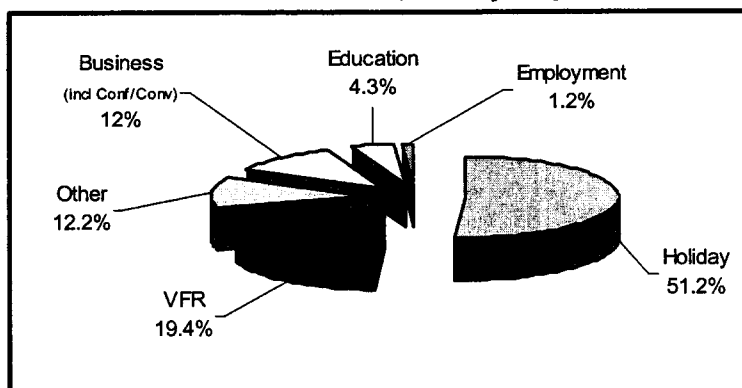
The Australian Tourism Forecasting Council (TFC) produced its latest forecasts of visitor arrivals to Australia in December 2002. Visitor arrivals to Australia are forecast to grow by an average annual 4.3% over the period 2001 to 2008. This is a substantial reduction in the previously forecast growth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

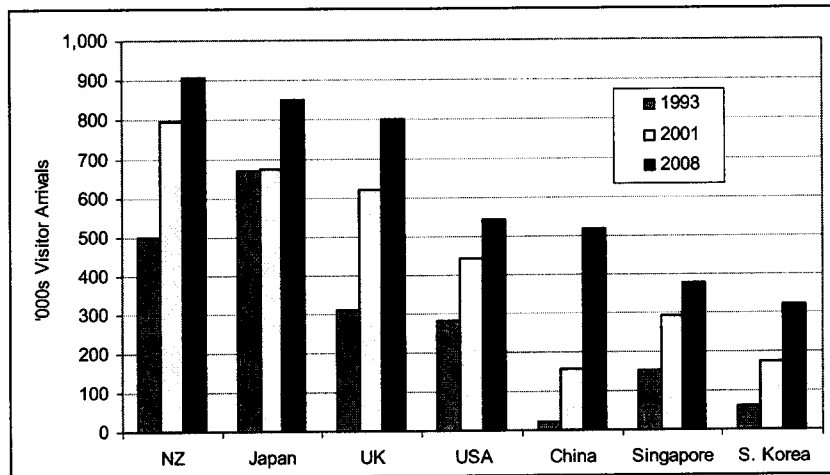
**Table 3.1: Major Visitor Markets to Australia, 2001**

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%
<b>Total</b>	<b>4,855,912</b>	<b>100.0%</b>

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

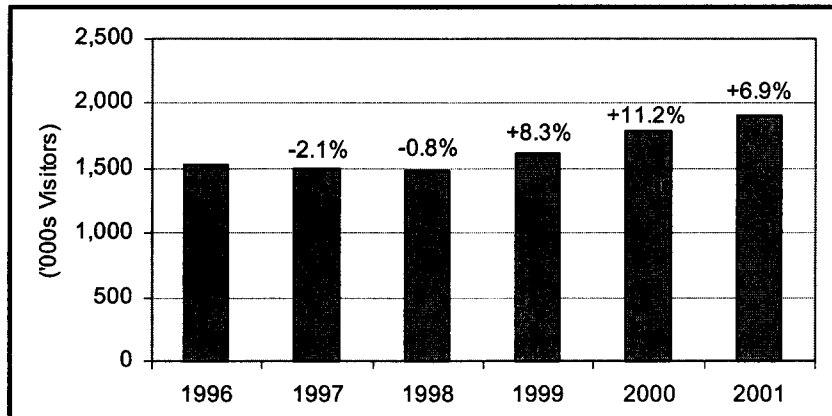


Source: TFC, TFI.

### 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

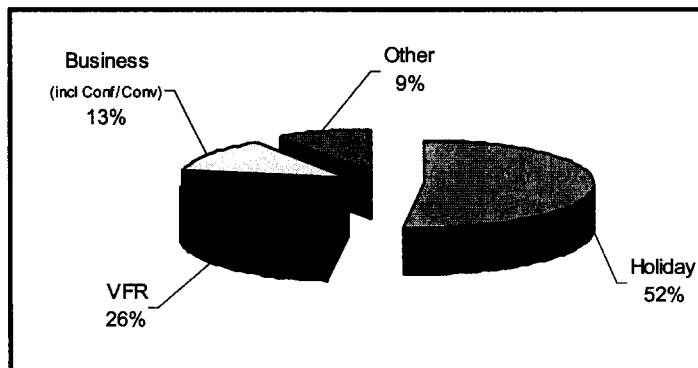


Source: Statistics New Zealand, TFI.

The New Zealand Tourism Research Council (TRC)<sup>4</sup> 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.

<sup>4</sup> 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.

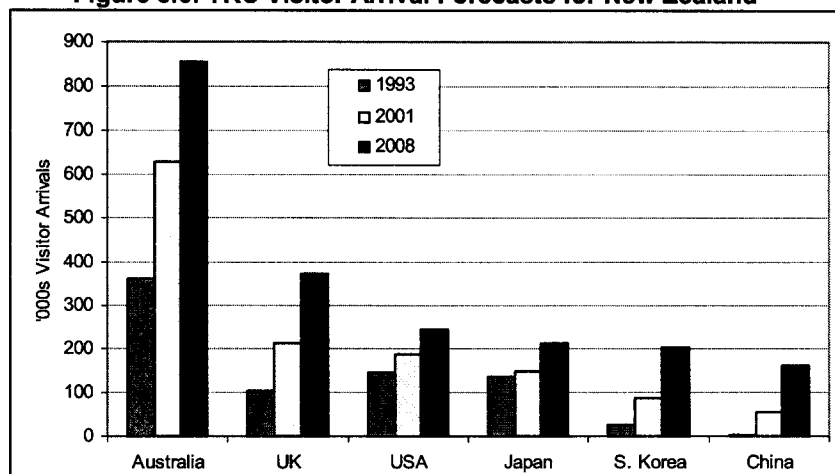
**Table 3.2: Major Source Markets to New Zealand, 2001**

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%
<b>Total</b>	<b>1,909,381</b>	<b>100.0%</b>

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.

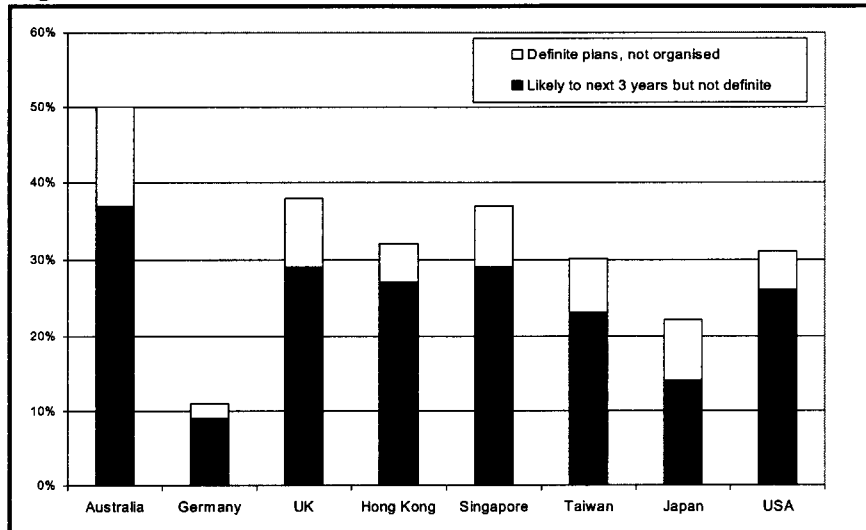
The samples are selected on the basis of a history of, or interest in, long-haul travel. For example, the US research surveyed 300 travellers in ten states aged 18 years and over who:

- ➔ 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.