

**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 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 2000/01). 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* visitors²². 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 packages²³. 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%

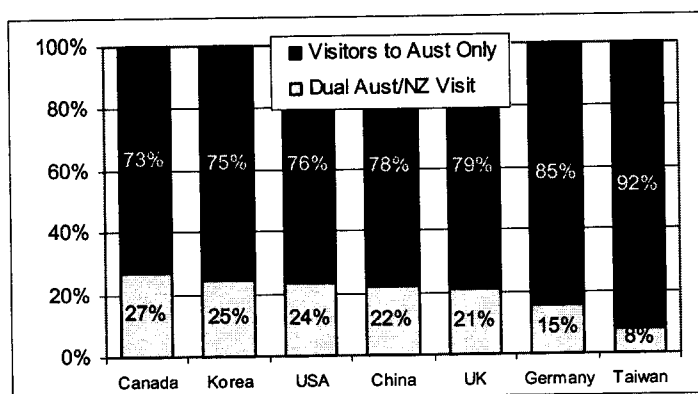
Source: NZTB, International Visitors Survey (Conducted by Statistics New Zealand).
N.A. Not available due to small sample sizes.

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.