

10 November 2010

Mr Werner Gatzler
State Secretary of Finance
Bundesministerium der Finanzen
Wilhelmstrasse 97
10117 Berlin
Germany

Dear Mr Gatzler

German Air Travel Tax

On behalf of the Tourism Industry Association of New Zealand (TIA), the Inbound Tour Operators Council (ITOC), and the New Zealand Airports Association (NZ Airports) we write to you concerning the air travel tax that your government is planning to introduce on 1 January 2011.

TIA is the lead association that represents the interests of thousands of New Zealand tourism businesses that cover a range of activities in the hospitality, transport, accommodation, adventure and activities sectors. ITOC, a member of TIA, represents the many inbound tour operators who bring visitors to New Zealand and NZ Airports, also a TIA member, represents New Zealand's commercial airports including the international airports.

Background

Tourism is a major contributor to the New Zealand economy, contributing 9% of gross domestic product (GDP) as well as directly and indirectly employing one in ten New Zealanders. In the year ended March 2010, visitor expenditure reached \$22.4 billion (EURO 12.73) with international visitor expenditure accounting for \$9.5 billion (EURO 5.40) of this. The money that visitors spend supports thousands of small to medium businesses and many thousands of jobs at all levels of New Zealand society.

The German market is a highly valuable one for New Zealand as illustrated by the following statistics.

- Germany is New Zealand's sixth largest inbound visitor market.
- In the year to September 2010, more than 65,000 Germans visited New Zealand.
- The German visitor stays longer and spends more while in New Zealand. The average length of stay for a German visitor is 43 days and the average expenditure for each German visitor is NZ\$4400.00 (EUR 2500). This compares with an average length stay for all visitors of 20 days and an average expenditure of NZ\$2610.00 (EUR 1484) per

visitor.

- The combined spend of German visitors is NZ\$270 (EUR148) million per annum.
- More than 81% of German visitors travel beyond New Zealand's main tourist centres (Auckland, Rotorua, Christchurch, Queenstown) to the regions of the country and through their spending and activity support and enhance the communities and businesses in these regions.

In short, German visitors travel more widely around the country and because they stay longer, they engage and interact with "Kiwis" in a way that many other visitors don't. Visitors from Germany also value and want to experience a natural and unpolluted environment and have a strong conservation ethic.

So why is the New Zealand tourism industry concerned about the German air travel tax?

While the German air travel tax at EUR 45 (NZD56) for long haul destinations, may be modest compared to the United Kingdom's air passenger duty (APD), the tourism industry in New Zealand is concerned that once these charges are introduced they will become embedded and increase year by year. Furthermore, long haul destinations like New Zealand and Australia are disadvantaged by both the German (and UK) air travel tax regimes with the charge twice that of short haul European routes. The tax is a punitive one as far as long haul destinations are concerned.

The tourism industry in New Zealand is worried that the imposition of air travel taxes such as these could be the catalyst for other European states to do the same. The practice may become the norm throughout the European Union (EU). For example, only a few weeks ago, Austria announced plans to introduce a similar tax to Germany's which could also take effect in 2011.

TIA, ITOC and NZ Airports believe that air travel taxes of the type being used by Germany (and the UK) are using travellers as an easy target for tax purposes to meet debts faced by their respective jurisdictions. In the case of the UK, it appears that the APD in that country is not being ring-fenced for environmental purposes as originally proposed. Even New Zealand Prime Minister (and Minister of Tourism) Rt Hon John Key last week called the tax a "revenue-collecting exercise".

The imposition of the German air travel tax comes at a time when the tourism industry not only in New Zealand, but in many parts of the world, has been facing challenging times. It is well established that the volume of leisure air travel is affected by fare levels, and while this tax on its own may not be a deterrent to travel to a long haul destination, it is a deterrent when combined with exchange rate impacts, increased fare prices and less discretionary spending in the economy. The tax will also have a cumulative negative impact on the aviation industry which is already under pressure to manage carbon-related taxes. New Zealand has introduced an emissions trading scheme (ETS) and from 2012 aviation will enter the EU ETS, a cap and trade

scheme where the industry will have to pay for any emissions over its cap.

As with industry players in Europe and elsewhere, the New Zealand tourism industry is urging the German government to consult with the tourism industry to discuss other options before introducing this tax. Already British based carrier Ryanair has announced 30% cutbacks in its European schedule and a loss of jobs because of Germany's air travel tax. Inevitably, this will flow through to job losses in aviation and tourism-based businesses both in Germany and beyond.

From a New Zealand perspective, the tourism industry is concerned that a drop off in German visitors to the country may threaten the viability of the many small businesses. These businesses are geared to, and dependent on the activities that German visitors like to undertake when in New Zealand.

TIA, ITOC and NZ Airports, as representatives of New Zealand's inbound visitor industry, urge the German government to reconsider the air travel tax proposal with a view to either abolishing it or deferring its planned introduction from 1 January 2011.

Yours sincerely

Tim Cossar
Chief Executive
TIA

Paul Yeo
Chief Executive
ITOC

Kevin Ward
Chief Executive
NZ Airports

cc Rt Hon John Key, Prime Minister and Minister of Tourism
cc Hon Murray McCully, Minister of Foreign Affairs and Trade