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New Caledonia Market Overview

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INTRODUCTION

New Caledonia is the third largest island in the South Pacific, behind New Zealand and Papua New Guinea, located approximately 1,500 kilometres east of Australia and 2,200 kilometres north of New Zealand. The island's reputation as a tourism destination resides in the unique blend of Melanesian and French cultures amid the beauty of the world's second largest lagoon.

Map of New Caledonia

Source: World Atlas

New Caledonia enjoys a semi-tropical climate, with temperatures ranging from 23^{O}C to 27^{O}C, favourable to the development of the island as a year-round tourism destination. Together with French Polynesia, New Caledonia is France's other 'overseas country' in the South Pacific. Home to over 230,000 people, of which 91,000 reside in Noumea, the island's capital, New Caledonia presents an eclectic mix of cultures between the local Melanesian or 'Kanaks', the 'Caldoches' who are descendants of French convicts and settlers and the 'Metros', who are from Metropolitan France but come and live on the island for a definite period of time.

The country covers a land area of 18,500 km^2 and is bounded by 16,000 km of coral reef. The main island, referred to as 'Grande Terre', is 400 km long and surrounded to the east by the three Loyalty Islands - Lifou, Mare and Ouvea, to the south by Ile des Pins and to the north by the Belep archipelago together with small coral islands. The unusual geography of Grande Terre offers a diverse environment, including nickel mines and large cattle properties on the west coast, tropical rainforests and beaches on the east coast, mountains and dense forests in the north and lakes in the south.

POLITICAL AND ECONOMIC BACKGROUND

New Caledonia went through a period of relative political instability following WWII, as the island changed its status from colony to a French overseas Territory. Following the 1988 Matignon Accords, which were a first step towards recognising the Kanak culture and establishing new government bodies, New Caledonia is now governed by a Territorial Congress made up of three Provincial Assemblies (North Province, South Province and Loyalty Islands), which act as local parliaments with independent budgets and administrations. The signing of the Noumea Accord in May 1998 marked another turn for the country, with France transferring most economic and financial powers to New Caledonia for 20 years but retaining some of the main sectors of society such as the territory's defence and justice system, law and order, immigration, secondary and higher education and currency.

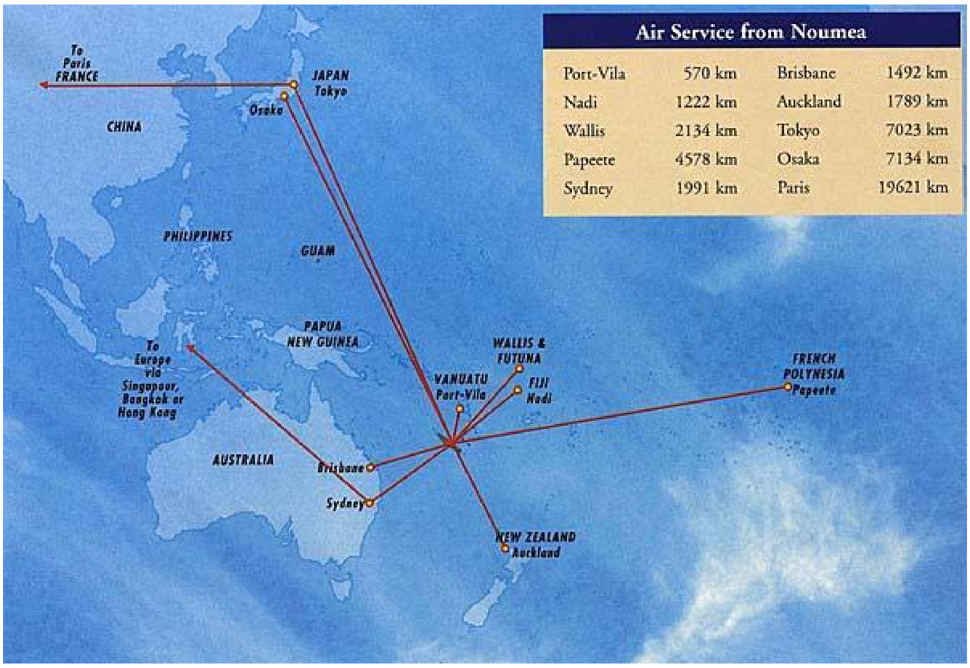
The new government, elected in May 2004, seems willing to encourage the development of tourism as a means to diversify the territory's economy and its historic reliance on the nickel industry, which directly contributes 6.9% to the country's economy. New Caledonia's economy stands to continue benefiting from the nickel industry in the ensuing years with the proposed development of two plants located in Goro in the Southern Province and Koniambo in the Northern Province.

Economically, the linkage of the Euro to the Pacific Franc, New Caledonia's official currency, with a fixed rate of 1,000 F CFP to 8.38 Euros since January 1999, has resulted in the destination being more expensive for some source markets. As a result New Caledonia has become less price competitive than the majority of other South Pacific Islands.

ACCESS

Given its remote location, New Caledonia's tourism industry is almost totally dependent on airlines to provide adequate access for visitors.

Travelling Time to New Caledonia



Source: Air Calin

New Caledonia currently has two principal airports: La Tontouta International Airport, which is the only port of arrival for inbound tourists on the island and Magenta Domestic Airport, which services all domestic flights including access to Ile des Pins and the Loyalty Islands. Most travellers have to overnight in Noumea before continuing their trip to other parts of New Caledonia because of the distance between the two airports and the lack of co-ordination between international and domestic flights.

New Caledonia is predominantly serviced by Air Caledonie International (Air Calin), with approximately 61% of all international flights, of which 47% are code shared with other international airlines such as Air France, Qantas and New Zealand.

The table overleaf summarises current airline services out of Noumea.

International Airline Services, Air Calin – as at August 2005

Destination	No of Weekly Flights	Weekly Total Capacity	Comment
Auckland	4	709	2 flights operated by Air New Zealand on codeshare agreement
Brisbane	3	460	1 flight operated by Qantas on codeshare agreement
Nadi	2	292	
Osaka	3	813	3rd flight started in November 2004
Port Vila	2	292	codeshare agreement with Air Vanuatu
Sydney	7	1,317	3 flights operated by Qantas on codeshare agreement
Tokyo	5	1,355	
Wallis & Futuna	2	292	Operates via Nadi
Total Passenger Capacity		11,060	

Source: HVS International

Notable trends in air traffic in 2004 include the following.

- International passenger traffic to La Tontouta increased by 5.3% to reach over 385,000 passengers, despite a 2.4% reduction in overseas visitation.
- Air Calin introduced a third Airbus A320 in February 2004 and started operating a third flight to Osaka in November 2004.
- Congress adopted a new directive related to air traffic, whereby the Territory has prerogative to manage the airfare and traffic programme of all airlines wishing to service the territory.

Noteworthy, La Tontouta International Airport is expected to undergo extensive refurbishment commencing in early 2006 to provide travellers with a more pleasant and efficient environment, more in line with the expectations of high-end travellers that the island is intending to attract.

Virgin Blue's Pacific area airline subsidiary Pacific Blue was expected to commence a bi-weekly service between Brisbane and Noumea on 12 October 2004. However, the flights never eventuated and negotiations may resume at a later date. Further, indications are that one or more other airlines, possibly out of Asia, have an interest to commence scheduled services to New Caledonia. The failed attempt of Pacific Blue to commence flights to New Caledonia has nonetheless resulted in Air Calin releasing discounted airfares under certain conditions.

VISITATION TO NEW CALEDONIA

Despite a year-round pleasant climate, New Caledonia is subject to seasonal variations based on school holiday patterns primarily from France, Australia and New Zealand. As a result, July and December, which represent the summer and winter holiday periods for France, are the busiest months for this source market. Similarly, April and September are the busiest periods for Australia and New Zealand in line with autumn and spring school holidays. Increased visitation from Japan during the second half of the year may be correlated with Northern Hemisphere travellers looking for a warm escape during the winter period.

New Caledonia currently welcomes less than a fifth of the number of international visitors to Fiji. While the neighbouring island just experienced a record year in 2004 with a 17% increase in visitation, the annual number of inbound arrivals to New Caledonia dropped below 100,000 for the first time since 1999 (99,203 visitors compared with 101,983 in 2003). This relatively constant decline may be attributable to several factors, including:

- the increased competition amongst South Pacific Islands to attract international visitors;
- the dissolution of a combined tourism association for the country ('New Caledonia Tourism') in December 2000, resulting in each of the three provinces having to promote their particular region to overseas markets without any co-ordinated structure;
- the weakened global economy and associated world events, which may have deterred long-haul travel; and
- the relatively poor price competitiveness of New Caledonia compared with other South Pacific Islands.

New Caledonia's primary source markets for visitor arrivals remain Japan and France, which together account for 57% of all arrivals in 2004, followed to a lesser extent by Australia and New Zealand.

However, one tourism sector that has recently been on the increase is the cruise business, which has been actively promoted to various source markets, particularly Australia given its close proximity to New Caledonia. The number of cruise passengers has grown on average by 12.2% annually between 2000 and 2004 to reach a record 77,115 traveller by year-end 2004.

Noteworthy, early visitor indications for 2005 appear positive with international arrivals increasing by 5.2% for the five months to May 2005 compared with the previous equivalent period. This growth is strongly supported by the Japanese market (24.0%), which may be a result of the commencement of a third flight out of Osaka in November 2004.

REGIONAL COMPETITIVE PERFORMANCE

In the wider geographic context and given its natural attributes, New Caledonia currently competes for tourists with a number of other regional tourist destinations primarily in the South Pacific, French Polynesia and Hawaii. New Caledonia's location just a few hours away from the Australian and New Zealand markets makes it a very competitive destination in terms of travelling time compared with other short to medium-haul destinations in the South Pacific. Conversely, New Caledonia is considered at a competitive disadvantage for the Japanese market compared with Hawaii, which is a shorter flight time and more sympathetic to the Japanese culture. Similarly, despite the intrinsic link between France and New Caledonia, the fact that travellers must stopover en-route in Asia may result in them favouring closer destinations such as the Caribbean Islands.

INVESTOR SENTIMENT

New Caledonia, in parallel with the French government, values tourism investment and encourages local investment in the creation or extension of tourist hotels through taxation incentives.

The island is subject to a complex tax credit system encapsulated into two legal texts - Loi Frogier enacted by the New Caledonian government in association with the Loi Girardin enacted by the French government – which encourage investment in tourist accommodation facilities by each providing a tax credit equal to approximately 33% of the total investment.

HOTEL MARKET OVERVIEW

The majority of hotel stock in New Caledonia is located in Noumea (63%). Accommodation supply in the capital has remained relatively stable since 2001, with exception of the closure of the Club Med Chateau Royal at the end of 2001. Increases in the total room stock in Noumea came about in 2004 with the opening of two new hotels, the Caledonia and the Coral Palms Island Resort with 28 and 69 rooms respectively. A further increase in room stock in Noumea is expected in 2005 with the opening of the 214-room Ramada Plaza Noumea in October.

Demand for accommodation from international visitors has shown an average annual growth rate of 1.1% between 1999 and 2004. The number of rooms nights sold has steadily improved from 2002 onwards following a drastic drop in demand in 2001, which coincided with an 8.3% decrease in international visitor arrivals from primary source markets. Accordingly, occupancy rates in Noumea reached 59.7% in 2003 and 59.6% in 2004, the best consecutive performance results of the last decade. However, contrary to an increase in tourism visitation numbers, occupancy levels for the five months to May 2005 have marginally dropped from 58.6% to 56.5% compared with the previous corresponding period.

Overseas visitors overwhelmingly stay in transient accommodation rated as three-, four- and five-star (70%). Those premium properties comprise a majority of the total room stock in Noumea (62.2%) or some 854 rooms.

Official data on average daily rate (ADR) is not maintained by the statistical authorities. However, discussions with industry stakeholders indicate that ADR in the Noumea market has shown minimal growth during recent years.

ADDITIONS TO SUPPLY

With few notable exceptions, such as Le Méridien Ile des Pins, New Caledonia lacks good quality hotels managed by international operating companies. The majority of existing stock is dated and tired. Fortunately, the current situation of an aging hotel inventory in New Caledonia is likely to be mitigated by the addition of planned hotel developments, which are of a high international quality levels and standard. The most notable developments are situated in and around Noumea and include the InterContinental Noumea, Sheraton Ilot Sainte Marie as well as a proposed resort development in Baie Maa. This will add up to nearly 1,000 rooms to the high-end resort market by 2010 and dramatically modify the current dynamics of Noumea's accommodation market.

Proposed Addition to Supply

Proposed Property	Number of Rooms	Opening Date	Development Stage
Ramada Hotels & Suites	169	Oct-05	Under Construction
Grand Mercure Apartments	164	2008	Early Development
InterContinental Noumea	360	2009	Early Development
Sheraton Ilot Ste Marie	250	2009	Early Development
Expansion Property	**Number of Rooms**	**Opening Date**	**Development Stage**
Kuendu Beach Resort	20	2008	Early Development
Total Addition to Supply	963		

Source: HVS International

OUTLOOK

New Caledonia's appealing natural and cultural attributes are currently overshadowed by a lack of substantiate points of differentiation and high-cost of its tourism product compared with other South Pacific islands such as Fiji. This situation is reinforced by a lack of coordinating structure endorsing the country to overseas markets with each province promoting their region independently.

However, the significant enhancement of accommodation in conjunction with the introduction of several experienced hotel operators with strong brands may result in a substantial increase in promotional effort in order to attract additional inbound demand to support these facilities. These changes will need to be conducted concurrently with increases in airlift capacity and promotional activities, without which any significant increases to supply are unlikely to be sustainable.

The future of New Caledonia as a growing tourism destination is linked to the establishment of a clear strategy, on which to base future tourism and hospitality-related decisions. As proven by the development of French Polynesia as a high-end destination, New Caledonia has the potential to become another growing force in the South Pacific region.