Board of Airline Representatives NZ
6 Leonard Isitt Drive, Auckland Airport
Auckland 2022

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Consultation: Review of Civil Aviation Authority fees, levies, and charges 2024
Civil Aviation Authority on New Zealand
PO Box 3555
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By email: pricingconsultation@caa.govt.nz

Re: Consultation: Review of CAA fees, levies, and charges 2024

Introduction

Thank you for the opportunity to be consulted on the review of Civil Aviation Authority (the Authority) fees, levies and charges. We would also like to acknowledge the level of detailed information presented by the Authority in the various consultation documents.

The Board of Airline Representatives of New Zealand (BARNZ) represents some 25 member airlines who fly to, from and within New Zealand. It also represents businesses reliant on air connectivity such as ground handlers, catering companies and waste management businesses. We ensure connection of New Zealanders domestically and with the world and facilitate critical import and export trade. This submission presents the consolidated middle ground of views of BARNZ members. Individual member airlines may choose to provide their own submissions to reflect their specific situations.

BARNZ members rely on the activities of other aviation system participants independently regulated by the Civil Aviation Authority (CAA – the regulator) and the services provided by the Aviation Security Service (AvSec) to ensure the safety and security of their flights. Recognising this, we support the need for a strong and appropriately resourced CAA, and that for AvSec to be an effective and efficient security service provider.

The need for the Authority to return to a sustainable funding model is also recognised, along with the time since fees, levies and charges were last adjusted, as are the consequences of sustainable funding not being forthcoming – as identified

in the consultation material. Acknowledging these factors **the need for efficient increases in the Authority's fees, levies and charges is not disputed**.

Before providing responses on the specific consultation questions, we provide the following commentary that is both relevant to and informs our responses to those questions.

A very challenging cost environment

The Minister of Transport, in his foreword to the consultation document, notes that New Zealand's aviation system plays a vital role in supporting the economy. It is pleasing to see this is recognised.

BARNZ supports the Government's overall economic and fiscal objectives, in particular the desire to increase export growth, of which tourism should be a big contributor. Tourism demand supported by aviation is both key in creating the international aviation connectivity we need and in supporting our wider economic prosperity. This connectivity is also critical in unlocking international air cargo capacity and the transport of high value exports that must reach markets quickly.

However, the current cost environment is very challenging, with airlines and their passengers seeing cost increases coming from many directions. In this regard we note recent decisions by Government to significantly increase visa fees and the International Visitor Levy. We also note cost pressures on airlines arising from pricing decisions at Auckland Airport.

Our member airlines are concerned New Zealand is becoming an increasingly high cost destination. Growing costs across multiple agencies and airports puts New Zealand's tourism industry and our resulting economic prosperity and international connectivity at risk.

Domestically, communities across New Zealand rely on airlines for social connectivity, to bring in people and goods, and for timely access to healthcare, education and business opportunities.

Restoring the Authority to a sustainable funding position must not inappropriately impact this critically important international and domestic connectivity.

We are conscious this messaging on our part is not new. However, in the current environment, whereby New Zealand's passenger numbers have not yet returned to pro-COVID levels and recovery is lagging that of other markets we compete with for international tourists, **it is more critical than ever that New Zealand does not price itself out of the market.**

We note the results of the elasticity analysis by the Ministry of Transport provided in the consultation material, which suggests a relatively modest impact on passenger numbers in response to the proposed levy increases. However, any such impact must be considered in the context of the wider cumulative cost increases and pressures airlines and their passengers are facing.

The proposed increases to CAA's fees and charges, will also add additional costs to airlines for certification and, for example, any necessary exemption related processes. Individual airline members who may choose to provide their own submissions are best placed to comment further on this aspect.

Airlines are also operating within global cost pressures. Supply chain concerns exacerbated by global conflict are an ongoing challenge, and decarbonisation requirements are increasingly bringing with them increased costs in offshore markets.

Against the backdrop outlined above, it must also be recognised that international airlines have highly mobile assets and, in the New Zealand context, have considerable choice to relocate aircraft from routes to and from this country in the event of pricing pressures impacting on the viability of those routes – with the potential for investment 'flight' and market competition distortions and resulting less choice and higher prices for consumers. To put it simply, higher costs have the real potential to lead to a spiralling cycle of still higher costs for travellers and New Zealand pricing itself out of the international tourism market.

The continuing cycle of increased costs airlines are seeing from multiple sources risks this situation becoming all too real – to the detriment of Government's overall economic and fiscal objectives, and the economic prosperity and wellbeing of all New Zealanders.

Responses to individual questions

Question 1: Which option to recover costs for the CAA and Avsec do you prefer?

For both the CAA safety and AvSec security levies it is problematic for BARNZ to point to a specific preference among the options presented. This is noting the material levels of increase each option involves and acknowledging the challenging cost environment that airlines are facing, as outlined above.

We also note that given levies will be applied from July 2025, some BARNZ members have noted that tickets sold prior to pricing decisions being taken will not be able to account for increasing fees – meaning airlines will not be able to avoid losses.

CAA Safety Levy

We would however note that for the CAA safety levy, Option 3, to increase passenger safety levies to cover all increased costs, with no increase to other fees, levies and charges, is strongly opposed. This would further increase the already inappropriate levels of cross-subsidisation that exist in the current funding model whereby participants other than airlines operating in the New Zealand aviation system are not paying their fair share of costs.

Participation in New Zealand's aviation system is a privilege, not a right, and it is appropriate for all participants to fund the regulatory activity arising from the risks and costs they generate and acknowledging the benefits they obtain through participation. Option 3 would not support this outcome and would result in a yet further unjustifiable situation that is inconsistent with Treasury and Office of the Auditor General guidance on setting charges in the public sector.

Security levy

In the case of the AvSec security levy we note that the Authority's preferred Option 1, raise the domestic and international passenger levies by the same similar/proportion, maintains the current cost appropriation approach between AvSec's international and domestic service delivery functions.

BARNZ does **not support Option 2, raising the international levy only; or Option 3, creating a new single combined (security) levy**.

Regardless of these preferences, BARNZ has significant concerns about the level of increase proposed across all options and whether AvSec is realising all possible efficiencies, and resulting cost savings, in its operation.

Question 2: Do the preferred options (Option 1 for both CAA and AvSec) raise concerns for you and if so, why?

We repeat our concerns previously expressed about the cumulative effect of multiple and not insignificant increasing costs on the attractiveness of New Zealand as a tourist destination – and the real risks this is creating to the achievement of Government's overall economic and fiscal objectives.

In addition to this general concern we note the following specific matters.

CAA safety levy

Application of CPI/Wage Inflation increase component

In the case of the CAA safety levy, it is not clear to us that the 43% CPI/Wage Inflation proposed increase component has not been applied to 100% of CAA's frontline regulatory FTE activity by time and a corresponding 100% of wages. This is noting that a proportion of that frontline activity by time will involve fees and charges related activity, which the proposed 43% increase in the relevant fees and charges should have already accounted for. Clarity is required on this point.

Funding for policy and rule development

Page 52 of the Cost Recovery Impact Statement (CRIS) identifies the levels of passenger levy cross-subsidisation across the CAA's various Output classes. From wider CRIS content it is shown that the Authority's system level policy and rule development (versus participant specific) work is carried out under its Output Class One - System Design and Evaluation. The CRIS identifies this activity as delivering a public good and advises that it should be 100% Crown funded. However it is apparent that it involves extremely high levels of passenger levy cross-subsidisation with only just over 13% of activity making up that Output Class being Crown funded.

This information strongly indicates that the Authority is not adequately Crown-funded. Rather activity intended to deliver a public good, and which should be Crown funded, is heavily and inappropriately cross-subsidised via the passenger levy – a funding source specifically intended to cater for club goods, as stated on page 45 of the CRIS.

Policy and rule development work in support of specific Government objectives and providing policy advice to Government should be Crown funded by Government – not by airlines and their passengers. In this regard we note the recent announcements in the September 2024 New Zealand Space and Advanced Aviation Strategy that include reference to rule development and other potential CAA system level activities in support of that strategy's aim of supporting the growth and development of New Zealand's space and advanced aviation sectors[1]. Any ongoing reliance on airlines and their passengers to financially support this rule development and system level work by CAA is clearly inappropriate - it should be

[1] https://www.mbie.govt.nz/assets/new-zealand-space-and-advanced-aviation-strategy-2024-2030.pdf

Crown funded or alternately funded by those who would seek to extract profit from these specific activities.

Security levy

In the case of the proposed security levy we have a number of questions and concerns which are expanded on below. They primarily relate to AvSec's efficiency – and the degree to which it has taken all possible steps to realise efficiencies, and subsequent cost savings, in its operations.

We do not dispute the validity of the cost drivers identified in the consultation documentation and appreciate the level of detail and transparency provided on these. We also recognise that it is critical that New Zealand fulfills its international aviation security commitments, and that full interoperability with its international aviation partners is supported.

Rather we question if AvSec, in responding to the identified cost drivers, has done so in the most efficient manner possible? It services must be delivered in the most cost effective and efficient manner possible.

As commented on below the KPMG report supplied with the consultation material, while appreciated, does not provide us with assurance in this regard.

Costs for a new security designated airport

We seek to understand how the $0.72 charge for a new security designated airport making up a component of the proposed new levy was calculated. What were the inputs and assumptions costing wise? This is one area where It is not transparent how the proposed cost was calculated.

Additional staffing needs for Non Passenger Screening

BARNZ fully recognises and supports the need for AvSec to conduct effective Non Passenger Screening. However we query to what degree the additional staffing needs identified are a reflection of any remaining excessive number of security enhanced area access points at airports. What efficiency opportunities exist to reduce FTE needs and associated costs, via reductions in the number of access points to a level that still supports efficient airport and airline operations?

Remote screening

We understand that work is underway by AvSec to trial remote screening operations – whereby images of screened baggage at one location can be viewed and assessed centrally, or at another location entirely.

Has the potential or otherwise for staffing efficiencies and related cost savings to be realised via this initiative over the time frame the proposed new levies apply, i.e. until July 2027, been modelled into the proposed levy increases. If so, what is the impact? If not why not?

FTEs necessary to respond to passenger growth and flight schedule timings

AvSec is continuing its roll out of Smart Lanes for passenger screening. The consultation document on the 2018/2019 AvSec funding review noted that "*Smart Lanes require less capital investment overall, **fewer staff,** and provide better security outcomes in comparison with regular lanes. **This investment provides Avsec with the capacity to manage future growth in passenger numbers, and maintain security outcomes, without a linear increase in staffing** and equipment costs. It is noteworthy that Smart Lanes also provide the potential for Local Area Network (LAN) and Wide Area Network (WAN) screening that could provide further staff efficiencies as part of future development* [emphasis added]"[2].

Accepting COVID-19 related disruptions to AvSec workforce planning and Smart Lane rollouts, it is not apparent that the staffing efficiencies promised in the 2018/20198 review have been or will be realised during the period covered by this pricing review.

Rather, based on the staffing projections contained in row 2 (tilted 'passenger volumes') in the table on page 17 of the CRIS, and for the period 25/26 and 26/27 only[3], **it appears that AvSec is continuing to rely on linear increases in staff to manage growth in passenger numbers. This is at odds with the assertion in the 2018/2019 AvSec funding review material that this would not be necessary** in a Smart Lane environment. This same concern around an approach of linear increases in staffing applies to the number of staff asserted as necessary for "flight schedule timings" in row 3 of the same table.

[2] https://aviation.govt.nz/assets/about-us/avsec/avsec-funding-review-consultation.pdf at p. 6.

[3] This recognizes the explanation provided on page 16 of the CRIS for the FTE increases up to and including the period 24/25, i.e. AvSec returning to the FTE count approved in the 2018/2019 funding review.

This situation raises questions about the degree to which AvSec is moving over time to realise efficiencies in its operations, versus "doing what it has always done".

On the matter of the staffing efficiencies that LAN and WAN screening could provide, as asserted in the 2018/2019 material, please refer to our comment above under the heading of Remote Screening,

The KPMG report

The KPMG report supplied with the consultation material essentially concludes that the AvSec workforce demand assumptions driving the size of proposed increases in FTE are reasonable. We do not dispute the KPMG findings insofar as they were based on a review of extant operational procedures and the contents of the existing AvSec Operating Manual, along with insight provided via SME context through interviews.

In other words, the KPMG evaluation was based on reviews of the "current way" AvSec operates and its documented operational procedures that support this "current way". Its remit did not extend to considering if AvSec could deliver the same security outcomes in question via alternative operational procedures that may involve staffing efficiencies and associated reduced costs. This is the question we should be asking – what can be changed about how Avsec operates such that efficiencies of scale are delivered. Even further – how can efficiency be incentivised? At present, there is no incentive for efficiency in the settings which recovery levies.

A need for a broad efficiency benchmarking review

The summary of submissions to the 2018/2019 AvSec funding review noted that some submitters suggested that "*AvSec should carry out benchmarking and make this information available to ensure that it is providing an efficient, customer-centric, and secure model for New Zealand*"[4].

Noting the concerns we have outlined above we echo this call and highlight that in the current challenging cost environment the need for efficiency of service delivery is even more acute than it was in 2018/2019.

We would also highlight the need for any such review to be broad in its nature and encompass all of AvSec's activities, not just those involving passenger screening. It should also extend beyond New Zealand's traditional aviation security partners when looking for comparative efficiency opportunities. As passenger growth has continued to burgeon across the wider Asia-Pacific region there may be opportunities to learn from the experiences of a range of States on how they may

[4] https://aviation.govt.nz/assets/about-us/avsec/avsec-funding-review-submission-summary.pdf at p.7.

have ensured the efficiency of their aviation security operations while maintaining effective delivery outcomes.

BARNZ and its members would be willing to support the conduct of this review.

Question 3: Are there any other issues that you think the Authority should be aware of?

We are conscious this review is a pricing one only and is not considering underlying funding methodologies. We also understand a wider funding methodology review will commence in 2025. Notwithstanding this, we do wish to highlight our concerns regarding the manner in which CAA is being increasingly asked to support non-traditional aviation sectors, for example the space and advanced aviation sectors, and how related system development and maintenance level (versus participant specific) CAA costs associated with such activity continue to be passed to airlines and their customers via the passenger safety levy.

It is accepted some level of cross-subsidisation across the traditional aviation sector will always exist, albeit in a manner that needs to ensure participants other than airlines operating in the system are paying their fair share of costs.

However, the increasingly diverse and broad operating nature of the space and advanced aviation sectors clearly no longer supports the argument that airlines and their passengers are both the risk exacerbators and the beneficiaries of all CAA's system level costs in support of those sectors. Rather the risk exacerbators and beneficiaries in question are the organisations and investors seeking to make financial returns through their entry into and involvement in these sectors, and those who specifically benefit from the services provided via them.

We look forward to the signalled wider funding methodology review delivering a more equitable funding approach whereby airlines and their passengers are not continually required to support the business models and financial returns of other participants in the wider and increasingly diverse aviation system.

Yours sincerely

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