



**Submission to the  
Civil Aviation Authority (CAA)  
on the  
Changes to the Funding Arrangements  
for the CAA's Regulatory Functions 2016-19;  
Phase Two Consultation**

**Date: 19 February 2016**

## EXECUTIVE SUMMARY

1. The Tourism Industry Association New Zealand (TIA) welcomes the opportunity to comment on the proposed changes to the funding arrangement for the CAA's regulatory function 2016-19.
2. TIA is concerned about the proposed changes in the way safety charges are charged to the 'Other Commercial Operator Sector' which include tourism aviation operators such as helicopter operators providing sightseeing services and skydiving operators.
3. We are concerned to see that the CAA Funding Arrangement proposals do not provide enough transparency or information for operators to easily assess the impact on their businesses. Due to the significant risks these proposals may have on operators, combined with our concerns that there is a lack of awareness in the sector, we are requesting a halt to the consultation until more transparent information is available.
4. In its effort to reduce and ultimately eliminate the current cross subsidy in CAA funding, the proposal creates a whole new regime of cross subsidies.
5. The proposed changes in CAA funding – no doubt inadvertently – would remove incentives for commitment to safety. TIA is of the opinion that this could lead to a lessening of investment in safety. This goes against CAA's aim of encouraging the industry to improve safety performance and security.
6. TIA is of the opinion that a larger part of CAA funding should be met by government funding.
7. There are some clear concerns regarding CAA's current level of expenditure and CAA should do an efficiency review. This should occur before the CAA funding review, not after.
8. TIA is of the opinion that the tourism sector is being perceived as an easy target for government revenue gathering and that the tourism sector is being unjustifiably targeted to subsidise the fees of other operators and/or sectors. We are very concerned that operators are being called upon to pay for increased regulator costs.
9. CAA has indicated that it does not intend the changes to place an "undue burden" on any operators, but that is precisely what the current proposals would do.

## RECOMMENDATIONS

10. Due to the significant risks the CAA proposals may have on operators, combined with TIA's concerns that there is a lack of awareness in the sector, we are requesting a halt to the consultation until more transparent information is available.
11. Based on the comments from our members, we feel that the status quo of CAA funding needs to be maintained while CAA consults with the Aviation Community Advisory Group (ACAG) and the

industry on what it needs, what it will deliver and what the most equitable and economic efficient funding model will be.

12. The proposed changes, which will lead to some tourism aviation operators seeing an estimated increase in annual costs of \$10,000-\$60,000 by year 3, are unacceptable.
13. CAA should closely review how it goes about its core work and develop a higher quality of output and efficiencies that do not require the agency to overtly burden operators with such a significant increase in additional costs.
14. TIA is of the opinion that a larger part of CAA funding should be met by government funding as the aviation sector is paying significantly more to fund its safety authority than other sectors.

## INTRODUCTION

15. The Tourism Industry Association (TIA) is the peak body for the tourism industry in New Zealand. With around 1,500 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and activities, attractions and retail, airports and airlines, as well as related tourism services.
16. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive, Chris Roberts.
17. Any enquiries relating to this paper should in the first instance be referred to Steve Hanrahan, TIA Advocacy Manager at [steve.hanrahan@tiaanz.org.nz](mailto:steve.hanrahan@tiaanz.org.nz) or by phone on 027 912 2624.

## COMMENT

### Tourism 2025

18. Tourism 2025 ([www.tourism2025.org.nz](http://www.tourism2025.org.nz)), an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching \$41 billion in annual tourism revenues by 2025. To achieve that, the industry must grow international tourism at a rate of 6% year on year and domestic tourism at a rate of 4% year on year. The industry's focus is on growing value faster than volume.
19. The Tourism 2025 framework is based around five key themes which are:
  - Connectivity - focusing on growing sustainable air connectivity is critical for an island nation that relies on 95% of its visitors arriving on a commercial aircraft.
  - Insight - this is at the core of the framework recognising that having timely, accessible and relevant insight is what will help tourism businesses with the information they need to support operational and strategic decision making.

- Productivity - making more money from the investments we already have but finding new solutions to seasonality (the tourism industry's perennial challenge) and regional dispersal.
- Visitor experience - we can derive more value by creating outstanding visitor experiences that meet the needs of a changing visitor mix and recognising the end to end visitor experience, the need to improve facilitation and be measuring dissatisfaction.
- Target for Value - the identification of targeted opportunities that, if taken up, will deliver the greatest economic benefit.

#### Our understanding of the issue

20. We understand that this CAA funding review aims to:
  - a. Address the inequalities in the funding of safety oversight of aviation operators
  - b. Encourage improved safety performance and security
21. According to CAA, there are two underlying problems:
  - a. Revenue cross-subsidisation: an imbalance between the cost of oversight and the revenue sourced from different sectors of the aviation sector
  - b. The current framework does not incentivise willing compliance by aviation operators
22. The review proposes a \$2.28m reduction in CAA revenues as a result of removing hourly rate charges for audit/surveillance and reducing medical fees. However, by the end of Year 3 (2019), this reduction will be offset by \$1.7m in funds received by way of levies on commercial general aviation activities.
23. TIA is concerned about the proposed changes in the way safety charges are charged to the 'Other Commercial Operator Sector' which include tourism aviation operators such as helicopter operators providing sightseeing services and skydiving operations.

#### Transparency and lack of information

24. The CAA Funding Arrangement proposals do not provide enough transparency or information for operators to easily assess the impact on their businesses. There are no case studies or analysis to show what the likely costs to operators are under a range of typical scenarios. Due to the significant risks these proposals may have on operators, combined with our concerns that there is a lack of awareness in the sector, we are requesting a halt to the consultation until more transparent information is available.
25. Furthermore, the proposals do not discuss the dollar value of costs CAA is seeking to cover, how they are allocated across the various regulatory functions, what will be done for these costs and whether they represent value for money.
26. It is imperative that the issues and concerns raised during this consultation phase are fully considered.

### Cross subsidisation of CAA funding sources

27. The majority of our members interviewed for this submission are not necessarily for or against a review of the current cross subsidisation of CAA funding sources. However, in its effort to reduce and ultimately eliminate the current cross subsidy, the proposal creates a whole new regime of cross subsidies.
28. A number of participants who currently pay hourly charges for auditing/surveillance will make a minimal contribution to CAA operating revenues in the future. This group includes Airports, Airways, Aircraft Maintenance Organisations, flight training and certificated UAV operators. Currently, this group accounts for 43% of total CAA funding expenditure, while contributing only 13% of revenue. In comparison, the 'Other commercial operator' sector, which includes medium to larger sized tourism aviation operators, accounts for 23% of CAA funding expenditure while contributing 7%.
29. CAA's focus should be on the safety of the travelling public and as such, the majority of CAA's safety oversight must be focussed in that area. However, the proposals suggests moving costs away from that area and increasing costs on medium to larger sized tourism aviation operators and private operators. In its effort to reduce cross-subsidisation, CAA significantly increases the costs for medium to larger sized tourism aviation operators.
30. Currently, CAA's revenue naturally grows with the growth in numbers travelling. If CAA were to not change its funding regime, it would still achieve the desired amount of funding of \$43m by 2019 based on current traveller growth projections.

### Costs on the tourism aviation sector

31. Medium to larger sized tourism aviation operators, such as skydiving businesses and helicopter businesses, will be seeing a significant increase in costs. Several of the members we spoke to for this submission are estimating they will see an increase in costs of \$50,000-60,000 per annum by Year 3. Overall, medium to larger sized tourism aviation operators expect to see an increase of annual costs by year 3 of between \$10,000-60,000.
32. Although the costs to medium to larger sized tourism aviation operators will increase significantly, these operators will not see any benefits from these changes.
33. In comparison, for 2016-19 Airways proposed a 3.6% price increase over the three years and estimates that it will deliver an extra \$84m of new benefits to industry. What new benefits will CAA deliver to our tourism aviation operators? Price increases are always seen as unwelcome, but the ability to measure new benefits to industry improves its acceptance. There is no evidence of benefits.
34. The New Zealand Parachute Industry Association (NZPIA) indicated that the parachute industry's future contribution to CAA funding will be \$194,000. Currently, this sector contributes \$26,356. This shows that the parachute industry will see an increase of costs of more than 630%.

35. The proposals indicate a clear intent to further increase commercial general aviation contribution. The NZPIA estimates this could cost the parachute industry a further \$100,000.
36. The proposals discuss how some suggestions from the Phase One Consultation were dismissed as *“it was regarded as simply a pass-through of costs that would move through those organisations to operators and ultimately on to passengers and other end-users of aviation services. As such it would be economically inefficient.”* TIA does not see how tourism aviation operators can carry this significant cost increase without passing it on to the end user, and as such, TIA sees this cost increase as economically inefficient. This goes against our Tourism2025 themes of productivity for profit and of driving value through an outstanding visitor experience.
37. CAA says that the process behind the proposed levies has been reviewed by Castalia Strategic Advisors and that the cost of the levies to individual operators will be low (*“not place an undue burden on other operators”*). The feedback of our members clearly shows that the cost of the levies will place a significant burden on tourism aviation operators and that the tourism sector will be hit hard by the proposed CAA funding.

#### Safety

38. According to some of TIA’s members, in the tourism aviation industry the larger operators tend to be the ones that require the least amount of supervision as, out of necessity and capability, they have the safety systems in place to effectively manage their business.
39. Skydive operations have one of the lowest risk scores in the industry. The proposed changes would have the larger operators subsidising the smaller operators who are currently on a higher risk score and requiring more of CAA’s time for monitoring.
40. Currently, tourism aviation operators that have high safety standards will be rewarded by moving from annual audits to e.g. 5-yearly audits. Because of this, there is a strong cost incentive for tourism aviation operators to invest in safety measures. This shows that CAA’s statement that the current framework does not incentivise willing compliance by aviation operators is incorrect.
41. With the proposed changes, there will be no cost incentive for operators to invest in safety any more. Operators feel they are being penalized for being safe operators. As such, our members have indicated that the proposed changes could lead to fewer investments in safety. This goes against CAA’s aim of encouraging the industry to improve safety performance and security.
42. The medium to larger tourism aviation operators are already AIRCARE or Qualmark certified, and as such already have independent assessments of several aspects including safety.

### Government funding

43. The proposals state that *'MoT indicates that the CAA's funding from the Ministry for policy advice and the rules programme is comparable to that received by other transport agencies'*. The proposals also indicate that no further government funding will be provided to support CAA growth.
44. This claim does not seem to be borne out by the facts. The core functions of Maritime NZ and CAA are comparable. Comparing government funding of Maritime NZ to government funding of CAA shows significant differences.

		<b>Maritime NZ</b>	<b>CAA</b>
<b>Capital injection</b>	2014/15	\$6.78m	0
	2015/16	\$3.10m	0
<b>Policy advice and related outputs</b>	2014/15	\$7.83m	\$2.22m
	2015/16	\$7.24m	\$2.22m

Source: MoT 2015/16 Budget Estimates

Maritime NZ has a \$35.9m budget, CAA a \$115m budget.

45. Since 2005, government funding of Maritime NZ has increased 140%, whereas government's contribution to CAA has not increased since 2006.
46. The aviation sector pays significantly more to fund its safety authority than other sectors contribute to the funding of similar public services.
47. Government is publicly committed to encourage economic productivity and supporting a healthy business environment. The CAA proposed levies are not consistent with these government objectives.
48. TIA is of the opinion that a larger part of CAA funding should be met by government funding.

### Medical Certificate Application Fee

49. TIA welcomes the proposed reduction in the Application Fee for a Medical Certificate. However, we do note that other regulatory authorities such as FAA in the US and CASA in Australia charge a much lower fee for this. As such, we feel that a further reduction of this medical certificate application fee should be considered.

### CAA efficiency

50. We feel that it would be appropriate if, instead of just doing a finance review, CAA should also do an efficiency review of what CAA does and how. As can be read in the submission by Aviation NZ, there are some clear concerns regarding CAA's current level of expenditure.
51. TIA is also surprised to see CAA put out a Request for Proposal (RFP) to improve the way CAA performs its regulatory functions. In TIA's opinion, this review of CAA's performance needs to be done before the CAA funding review, not after.

52. CAA should closely review how it goes about its core work and develop a higher quality of output and efficiencies that do not require the agency to overtly burden operators with such a significant increase in additional costs.

#### Targeting the tourism sector

53. Tourism is one of New Zealand's biggest export industries, earning \$11.8 billion or 17.4% of New Zealand's foreign exchange earnings (year ended March 2015).
54. TIA is of the opinion that the tourism sector is being perceived as an easy target for government revenue gathering and that the tourism sector is being unjustifiably targeted to subsidise the fees of other operators and/or sectors. We are very concerned that operators are being called upon to pay for increased regulator costs.
55. Over the last couple of months, TIA has observed that more and more of these funding reviews or proposed levy changes are targeting the tourism sector. Examples are the Border Clearance Levy, the review of Maritime NZ fees and Maritime Levy 2016-19 and now the CAA Funding Review.
56. All of these funding reviews and/or introduced levies are being introduced with minimal stakeholder and industry engagement.
57. TIA has expressed its concerns about this increase of levies and taxes targeted at the tourism industry with the Prime Minister and Minister of Tourism, Rt Hon John Key.

#### FOLLOW-UP PROCESS

58. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.

#### ENDORSEMENT OF AVIATION NZ'S SUBMISSION AND NZPIA'S SUBMISSION

59. TIA generally supports and endorses Aviation NZ's submission and NZPIA's submission on the proposed CAA Funding review. We agree with the recommendations and general contents of these submissions. We urge CAA to give careful consideration of the recommendations in the Aviation NZ submission and the NZPIA submission and to implement them in an orderly manner.

#### BACKGROUND

60. Tourism for New Zealand is big business as the country's largest export sector. It is a major contributor to the New Zealand economy that will always be here and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity

and a front window for “Brand New Zealand”. Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

61. The tourism industry delivers the following value to New Zealand’s economy:

- Tourism in New Zealand is an \$81.6 million per day and \$29.8 billion a year industry.
- The tourism industry directly and indirectly supports 12.1% of the total number of people employed in New Zealand. That means 295,908 people – one in eight – are working in the visitor economy.
- Tourism is one of New Zealand’s biggest export industries, earning \$11.8 billion or 17.4% of New Zealand’s foreign exchange earnings (year ended March 2015).

End.