from Brian Mackie at the GAA

Civil Aviation Funding Triennial Review – sounding the death knell of commercial general aviation in New Zealand

For more than 20 years, the aviation industry – including all of its various protagonists and antagonists – accepted that New Zealand's Civil Aviation Authority funding was just about right. The airlines, with more than 95% of the market volume, contributed around 65% of the cost of running the CAA, the Government paid around 18% and the balance came from private and commercial aviators, aviation companies and infrastructure providers.

In 2012, the deckchairs were wildly rearranged. The travelling public, via a reduction in the domestic passenger tax, was given some relief (although we are unsure whether the benefits were passed on by the airlines). The Government's contribution diminished proportionately to around 12%, while direct hourly rate charges increased in a three-step jump to $288 per hour. Licenceholder cost increased dramatically, as did other charges imposed by the CAA.

However, the funding principles did not essentially change.

The Government decreed that CAA charges would be reviewed every three years. In the Cabinet paper seeking approval for the triennial review, Gerry Brownlee – Transport Minister of the day – promised: "*For the period of the next funding review (that is 2015-2018) the Civil Aviation Authority will look to decrease costs so that fees and charges reflect full cost recovery from 2015/16 and the need for further increases is reduced or removed...*"

In 2014, the CAA began the present triennial review, authorised by the Government but also predicated around statements made by general aviation to the Regulations Review Committee hearing back in 2013. GA was outraged over the quality of the consultative process, the massive jump in hourly rate and the introduction of a new medical certificate application fee of $313 per filing, imposed on pilots and air traffic controllers.

The CAA addressed the issue of quality of consultation by convincing ministers that there should be a first principles review of funding, followed by further consultation on the exact scale of the fees (the so-called two-step process). At no stage was Minister Brownlee's undertaking to decrease costs raised by officials with the newly appointed Minister, Simon Bridges. Furthermore, the Ministry of Transport and the CAA acted against Treasury advice in pursuing the two-step consultative process.

Principle One: Government should not pay a dollar more

The CAA maintained - and does so to this day - that the first phase of the consultation was about principles (that is, who should pay) but promptly excluded the Government from any consideration of increasing its own contribution. This is a significant exclusion because the Government purchases significant services from the Authority while still only effectively paying 1997 rates.

Answering a recent Official Information Request by the GAA, the Authority advised that in the 2015-2016 year, it spent 26,227 hours on work classified under policy and regulatory strategy. This work, under the charging guidelines applied to public services, can be directly attributed to the Government's aspiration to deliver a safe and sound civil aviation system. It therefore should be charged out at the same hourly rate that industry pays ($288 per hour). If that happened, the Government's contribution would be around $7.55m rather than the current $3.159m.

The CAA argues that much of the work under policy/strategy directly benefits industry but when you look at the breakdown of work, it's actually about protecting and enhancing New Zealand's reputation as a credible regulator of civil aviation safety.

In New Zealand's maritime environment, the Government pays for these services, not the sea-faring industry. Why is aviation singled out for special treatment? This is patently and blatantly unfair and must be rectified by the MoT/Treasury officials currently preparing Cabinet papers to support increased charges on our most vulnerable general aviation operators.

Principle Two: Commercial GA should pay considerably more – around $2m

The next principle (and one that CAA has maintained throughout the process) is that commercial general aviation should pay more. This is because the CAA claims that GA commercial is cross-subsidised by the airline passenger.

Hello? That is nothing new; general aviation commercial has been cross-subsidised since the inception of CAA charges. The major reason is that GA does not involve all the complexities of the civil aviation system.

It is the nation's desire to have an internationally recognised, "safe" regulatory system to allow our designated carriers to operate in the global aviation environment.

Having a highly credible regulator delivers direct economic benefits to the airlines, airports and airways providers. Commercial general aviation benefits too, but it is more through a trickle-down effect. In other words, if New Zealand was suddenly blacklisted by EASA or the FAA, the major impact would be on New Zealand's designated carriers, our international airports and the Airways Corporation. New Zealand's domestic aviation market would undoubtedly shrink, but it would continue.

This reveals the true beneficiaries of a robust, credible civil aviation system and that fact was recognised when the charging system was established in the mid-1990s.

Principle Three: Some parties should pay considerably less, if anything at all

This principle doesn't sit at all well with the Government guidelines on user charges, but it does with those groups in industry who will pay little, if anything. On this occasion, the CAA has articulated a very persuasive case to some in the aviation business: that safety will be enhanced if industry no longer has to pay for audit. The effect of this change is that only GA commercial will now make a proportionate contribution to audit and surveillance through the proposed new levies – all other certificated organisations will contribute nothing for this service.

The change in this principle has significant implications for all government agencies. But for commercial GA, it singles them out and says: "You must pay for this service while we let some of the major economic beneficiaries of a safe, robust, internationally recognised regulator (many of whom are government-owned) get off scot-free".

Principle Four: The CAA is responding to industry pressure to ensure that costs apply where they fall

Government guidelines on user charges say cross-subsidisation should be eliminated as much as possible – hence the vast array of hourly rate and other charges. However, there are many services provided by government agencies for which no individual user or beneficiary can be identified.

General aviation was up in arms about the introduction of the medical certificate application fee. This was the imposition of a charge where there had previously been none, plus the enormity of it. If a charge was to be imposed, they said, it should be broadly in line with Australia – that is, around $75 – but not the startling $313 imposed by the CAA.

The charge, of course, highlighted how grossly inefficient the CAA was (and still is) in this area of activity.

The triennial review is proposing a "reduction" in this charge with the rest to be funded through the imposition of new and existing levies [see sidebar].

General aviation clients were also angered to be charged some of the world's most exorbitant hourly rates for regulatory services. The UK CAA, by comparison, charges around $100 an hour. These excessive regulatory charges are probably one of the most significant barriers to enhanced/improved aviation safety in our country's GA community. Instead of spending $60,000-plus on new in-plane technology, it can now cost $60,000-plus in CAA red tape charges for an operator to bring a new aircraft type into its fleet.

While Minister Brownlee assured industry and his Cabinet colleagues that CAA costs would be brought under control, there has been almost no demonstrable effort to do so. In fact, we are told that stand-alone CAA costs would be much higher if an $8 million internal transfer from Avsec to CAA for services rendered had not been made.

Principle Five: Ensure the consultative process meets the Regulations Review Committee's threshold

The CAA was only too well aware that some of its proposals in stage two of the consultative process would be controversial. To address the consultative test, a more than 90-page document was developed and distributed widely to the industry; the Director led industry-wide meetings in a small number of key locations; and an extended period of response from the industry was provided.

However, the massive document provided no disclosure of detailed financial information. (Yes, you could ask for it, but how many in industry actually knew that?) The consultation document lacked transparency of information – this was particularly relevant to the proposal to introduce new levies for commercial GA. Some parts of the document were incoherent and lacked clear description of the changes. This is not surprising, because matters of charging and how much parties pay are very difficult for us common folk to understand (and can be made more so).

The GAA knows that information was disclosed to some parties and not to others. This is unfair and inequitable. Some submissions were written on the basis of having much greater information than other parties, and we believe those "informed" submissions have impacted on the final recommendations to the Minister.

GA operators were told that there would be no extension to any deadlines for submission. This was challenging, because the submission period was conducted during the busiest activity period. More seriously, we understand that a submission received two to three weeks after submissions closed was taken into account in the final summary of submissions. This summary was the basis upon which recommendations went from the CAA management to the Board.

ACAG – the Aviation Community Advisory Group – was the primary conduit through which the CAA received and garnered additional advice. No member of ACAG was a representative of any of the commercial general aviation businesses to be impacted by proposed changes. Worse, ACAG members were barred from sharing with constituent members any information they had received "in confidence".

This was a deeply flawed process. No member of ACAG had been previously involved in pricing consultations, which is a specialist field demanding specialist knowledge.

Put plainly, the CAA knowingly consulted with a group which was largely in no way involved in the imposition of levies on commercial general aviation or had any understanding of the specialist financial matters associated with government charges.

Was ACAG set up to fail? Of course it was.

Has the CAA done enough to justify its claim that imposing new levy charges on GA commercial is fair and equitable?

Some in the aviation industry seem to think so, but even the most strident of advocates for the airlines has said it is not appropriate to impose new charges on vulnerable operators serving vulnerable communities.

Airlines are the primary beneficiaries of a robust, internationally credible civil aviation authority, followed by international airports and the Airways Corporation. These powerful businesses are most adversely impacted by global events, but they are also the most significant beneficiaries when Destination New Zealand is perceived as safe.

The airlines currently on-charge passengers around $1.97 (per domestic fare). Quite clearly, this should and must be reduced because the growth in passengers is outstripping even the CAA's ability to spend the money - hence its massive reserves accumulation.

We think this problem needs attention because, as passenger numbers increase, the unearned windfall to the CAA rises – along with a greater temptation for it to spend (and waste). Such good fortune, which the CAA benefits from but does not control, requires a State clawback in the form of a windfall tax, based on an agreed passenger levy income cap.

The Government should also pay its fair share of CAA costs. There is no cross-subsidy here – the State is merely paying the CAA rates that are 20 years out of date.

Should commercial GA pay more - and if so, how? There's always the participation levy. This hasn't been adjusted in years and is seen by many as the most equitable way of taxing the productive aircraft unit. But policymakers must always remember that GA is, and will remain, the backbone of our training industry. Undermine GA and you stem the flow of proficient pilots to airlines.

We have already seen how the CAA got user-pays disastrously wrong with its medical application fee – at around the same time that MetService decided to charge general aviators more than $100 a year for weather forecasts (but didn't charge boaties a cent). The CAA lost far more than 1200 pilots applying for Class 2 medicals (they either quit flying or took up RPLs or microlighting) and virtually no one paid the MetService annual fee.

These blunders sent a clear message to the troops: Some publicly funded people care more about themselves and their revenue than they do about safety.

After two years of failure, MetService abolished the charge and now the CAA is grudgingly half-admitting an unforced disaster over Class 2 medicals. It has also announced an investigation into the possible abolition of such medicals, despite recent evidence-based action in the United States and the UK that has scrapped them almost entirely.

Crucially, the GA sector's ability to pay is restricted by its productive capability. Many of the services provided by GA are to other government agencies such as DoC, ACC, DHBs and so on. So while the CAA may get its money, these other agencies will have to go cap-in-hand to Treasury for more funds to meet increased operator charges.

Other GA services lie near the heart of tourism and agriculture, New Zealand's two most internationally competitive sectors. Damage those, and you harm the entire country.

The CAA does not need more of your money. Its 2016 Annual Report shows reserves at more than $11.4m. The Cabinet agreed in 2012 that these reserves should sit at around $4m.

Our call to Minister Bridges is to honour his predecessor's promises by rejecting the current CAA charging proposals and ordering the CAA to reconsider its responsibilities to general aviation - and deliver genuine efficiency and cost control.

Sidebar

161120 GAA funding review sidebar

An increase disguised as a price cut

The so-called reduction in the medical application fee from $313 to $210.45, proposed as part of the current review, is actually a concealed increase.

The GAA, along with AOPA, Aviation NZ and NZALPA, presented the Club/Private Good case when we went to the Regulations Review Committee in March 2013. At the time, the CAA and the MoT strenuously argued that we were incorrect in our assertion that there was a Club Good.

But this time around, they have performed a perfect U-turn - and loftily announced the discovery of an element of Club Good.

The GAA asked for more details of this revelation. The Authority replied:

The CAA finds it difficult to establish where the balance lies between Club Good and Private Good lies. However, based upon on their analysis of the workload of the Medical Unit, their estimate is that the benefits derived from Medical Certification are distributed approximately as below:

Club (passengers): 48%

Private (pilots and air traffic controllers): 52%

The CAA proposes that the Application Fee for a Medical Certificate be set at the rate of $210.45 incl. GST ($183.00 excl. GST).

So we performed some simple arithmetic:

Using the current medical application fee of $313 as the baseline, a reduction to $210.45 sounds like a step in the right direction – though nowhere near a big enough step, considering that our neighbouring regulator CASA charges about NZ$78 for a comparable service.

However, if we take the proposed new figure of $210.45 and say that this represents 52% of the actual medical application fee, we find that it equates to 52% of $404.71.

So the CAA is slyly raising the medical application fee while cunningly disguising it as a price reduction, by using that new inflated figure before applying the 52%.

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