Linking the long white cloud

Why New Zealand's small and isolated communities need to secure the future of their airports and air links

A position paper

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NZ AIRPORTS ASSOCIATION

Message Shapers
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Linking the long white cloud

Why New Zealand's smaller airports and their communities need a national infrastructure fund

Prepared by Message Shapers Public Affairs for the New Zealand Airports Association

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Contents

Foreword 2

Executive summary 3

- Smaller airports in crisis 3
- The solution 4
- Recommendations 4

1. The problem 5

- 1.1 Commercial imperative 5
- 1.2 An uncertain future 6
- 1.3 Funding inconsistency 6
- 1.4 Disproportionate burden 7
- 1.5 Complex operations 7

2. The impact 8

- 2.1 Loss of airline service 8
- 2.2 Poorer disaster response 9
- 2.3 Connectivity decrease 9
- 2.4 Ageing aircraft 10
- 2.5 Lack of interconnectivity 10

3. Who’s affected? 12

- 3.1 The airports at risk 12
- 3.2 Communities at risk 13
- 3.3 Tourism at risk 13

4. Global benchmark 14

- 4.1 Route subsidies 14
- 4.2 Fund essential works 15
- 4.3 Fund communities 15

5. The solution 16

- 5.1 Isolated communities 16
- 5.2 National infrastructure 17
- 5.3 Essential services 17
- 5.4 Funding required 18
- 5.5 Revenue source 18

6. Conclusion 19

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Foreword

New Zealand's air links are the only rapid transit option for our long, thin country. Communities up and down our islands rely on air transport to bring in people and supplies, and ensure timely access to healthcare, education and commerce opportunities.

Our airstrips and aerodromes are also an essential part of our disaster response. A functioning airport is necessary to ensure that when emergency hits, our civil defence crews can access isolated areas.

Yet our country's smallest airports are facing an unprecedented funding crisis. The level of investment required to maintain minimum safe standards in this part of the national transport network simply cannot be met from commercial revenues. The shortfall is met by the airport's operators, chiefly local councils.

At a time when local government in New Zealand is looking to prioritise its spending on essential services such as local roads, water and waste, the burden on ratepayers to subsidise airports is becoming too great[1].

NZ Airports is the representative body of New Zealand airports[2].

Collectively we feel that the current statutory framework is no longer fit for purpose for small airports. Specifically, the imperative to operate as a commercial entity simply cannot apply to airports whose passenger numbers are too low to generate necessary revenue.

- We are calling for a change of approach by central government.
- We are calling for a recognition of the social and economic benefits that airports bring to isolated communities.
- We are calling on government to allocate dedicated funding to isolated airports.
- We are calling for equality with other forms of transport in the national funding mix.

In this paper we put forward the rationale and mechanism by which government could fund a national minimum standard of airport infrastructure, and ensure essential services.

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[1] *Local government finance and expenditure*, Local Government New Zealand, Wellington April 2017

[2] New Zealand Airports Association (NZ Airports) members are: Ardmore, Auckland, Chatham Islands, Christchurch, Dunedin, Gisborne, Hamilton, Hawke's Bay, Hokitika, Invercargill, Kapiti Coast, Kaikohe, Kaitaia, Kerikeri, Marlborough, Masterton, Matamata, Motueka, Nelson, New Plymouth, Palmerston North, Queenstown, Rangiora, Timaru, Rotorua, Takaka, Taupō, Tauranga, Wairoa, Wanaka , Whanganui, Wellington, Westport, Whakatāne, and Whangarei.

Fmarier / Creative Commons

If we are to ensure air services to places such as Westport, a new national air infrastructure policy is required

Executive summary

Smaller airports in crisis

New Zealand's smallest airports face a funding crisis. The minimum investment to meet infrastructure requirements cannot be funded from airline landing fees.

The problem is growing, as larger airlines pull out of more of our smaller communities, due to their own commercial imperatives.

This leaves councils with less revenue to fund airport infrastructure. Some also underwrite air services to ensure essential air connectivity to their towns.

But there is no national approach. There is no national policy and there is no national norm.

The Crown is a half share owner of five small airports [3], but similar airports have no government support. Milford Sound Airport is fully owned by the government. There is no consistency to the funding framework.

The lack of fairness is highlighted by the funding of other national transport infrastructure. Road, rail and cycleways all receive government funding. Yet aviation has no national funding system. Instead, councils fund the shortfall to ensure essential upkeep.

New Zealand is alone among developed nations in not providing assistance. In Australia, Canada, the USA and Europe, governments fund airport infrastructure and also underwrite essential air links.

Unless we join these countries and develop a support system for our small and isolated airports, there is a very real risk that we will see further degradation and eventually airport closures. The cost burden on small centres to maintain essential air links is too great, and unfair.

The knock-on effect would be catastrophic for regional New Zealand. Some 120,000 jobs in regional centres depend directly or indirectly on air links. Regional towns rely on air services for business, health, and social links.

Regional New Zealand also depends on serviceable airfields in times of natural disaster. As illustrated in the 2016 Kaikōura earthquake, air links are essential when roads are cut off.

Unless we act now, isolated communities will become more isolated.

[3] The government has agreed to transfer the sixth joint venture, New Plymouth Airport, to full local ownership

Eastland Group

Gisborne Airport provides an economic and social lifeline to the East Coast

The solution

After an extensive review of global regional and isolated community assistance schemes, NZ Airports believe that the model most applicable to New Zealand is a grant scheme available to isolated communities.

An isolated communities aviation fund would comprise two elements: first, a national airport infrastructure fund applicable to any eligible airport to ensure it continued to meet a national set of minimum standards; second, an underwriting scheme for air services to eligible airports.

Together these two elements would ensure our smaller airports remain open and viable. They would ensure that aerodromes around the country are accessible to civil emergency services. They would ensure that our smaller communities continue to get their sick to larger hospitals, their kids to universities, and their business people and visitors to and from larger cities.

The national fund could be established through a reallocation of existing revenues. We as an industry are not seeking additional money. Crown investments in Christchurch and other airports provide significant returns, which should be added to existing joint venture airport funding. The fund should be self sustainable for at least 20 years.

Recommendations

We need a new, coordinated and national approach to airports and air links.

Our recommendations are as follows:

1. Government to amend the statutory requirement on smaller airports to operate as commercial enterprises

2. Government to approve a minimum set of standards for aerodrome infrastructure, to mandate core navigation aids, lighting, runway/taxiway and passenger facilities

3. Ministry of Transport to oversee a list of non-commercial small airports in need of assistance to meet these requirements

4. Government to create a sustainable fund, perhaps from re-prioritisation of its existing investments in, or returns from, larger commercial airports

5. Government to replace joint venture airport funding with an expanded grant scheme open to all eligible small airports for infrastructure upkeep and replacement

6. Government to establish a grant scheme for local councils[4] to underwrite essential air services under a contestable tender process

[4] Or other appropriate bodies e.g. Tuuta Airport is owned by the Chatham Islands Enterprise Trust

Liam Fullerton / Foxtrot November Zulu

Kaitaia Airport serves one of New Zealand's most isolated regions and and air links face an uncertain future

1. The problem

Small airports face disproportionate costs.

As in other highly developed countries, New Zealand's smaller airports face high costs to maintain infrastructure which cannot be fully recouped from their low traffic volumes.

Aviation globally is a highly-regulated industry in terms of both safety and security. For smaller airports, the cost of meeting these requirements cannot reasonably be borne by the lower number of passengers and flights.

Although airports set their own landing fees, there is little scope to increase charges to meet capital and maintenance requirements, and to maintain safe standards.

Often the result is that local government[5] steps in to fill the breach. However, councils have many competing priorities for ratepayers' money and should not be required to divert funds to national transport infrastructure.

No where is this more stark than in the provision of aerodrome facilities (such as landing lights) at smaller airports, many of which have 1960s-era equipment.

1.1 Commercial imperative

Part of the problem stems back to the progressive economic policies of the 1990s. New Zealand led the world in corporatising its airports in the 1960s. A clause obliging airports to be "operated or managed as a commercial undertaking" was later inserted[6]. This is understood to mean that a normal commercial approach is required to funding capital and operating costs from airfield activities.

Yet the commercial sustainability of the air services using our airports (and associated air navigation services) is in question in many small airports. The service decisions by major airlines are made purely on commercial grounds, forcing a downward pressure on airports' ability to recoup costs.

New Zealand legislation is out of step with that of other countries, where the social benefits of air links to regional towns is recognised (see section 4). For example, Australia invests at both the national and state level in regional aviation to ensure social cohesion and connectivity.

[5] Or an appropriate local enterprise such as the Chatham Islands Enterprise Trust

[6] *Airport Authorities Amendment Act 1997*, section 4(3), Parliamentary Counsel Office/Te Tari Tohutohu Pāremata

KiwiRail

Rail projects received almost $100 million in funding in the last Budget

1.2 An uncertain future

The historic trend is for the government to withdraw from airport ownership. Central government remains a 50% owner of Taupō, Westport, Whakatāne, Whanganui and Whangarei airports. Under these joint ventures, the Ministry of Transport contributed $670,000 between 2011/12 and 2013/14 as half shares in infrastructure refurbishment.

Agreement has recently been reached to transfer the financially viable New Plymouth Airport to full local ownership[7].

There is no recent policy commitment regarding divestment or otherwise of the remaining JV airports[8]. As all of them —with the exception of Whangarei— made an operating loss in 2014-15[9], local councils are unlikely to initiate change.

The JV airports are the fortunate ones - other small airports have no such support from government, despite similar circumstances.

1.3 Funding inconsistency

Rail, road and maritime infrastructure all receive public funding in New Zealand. Most state highways are Crown assets and due to the strategic importance of national road connectivity, are built and maintained under the National Land Transport Fund, made up of fuel excise duties, road user charges and motor vehicle registration fees[10].

There are regular injections of equity into KiwiRail for network upgrades[11] while Auckland and Wellington commuter services both recently scored major funding[12].

Local airports are not for local trips, they link regional centres with the main cities - the same as state highways, but without a national funding system.

This highlights a clear inconsistency between transport modes in New Zealand. Air transport is being unfairly discriminated against.

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[7] *New Plymouth Airport asset transfer in the pipeline*, Media Release, Hon Simon Bridges MP, Wellington, April 2017

[8] *Future of joint venture airports decided* , Media release, Minister for Transport, October 2006

[9] *Local government: Results of the 2014/15 audits*, Controller and Auditor-General of New Zealand / Tumuaki o te Mana Arotake, Wellington 2015

[10] *National Land Transport Programme 2012-2015,* NZ Transport Agency / Waka Kotahi, Wellington, 2016

[11] *Government Policy Statement on Land Transport 2015-25*, NZ Transport Agency / Waka Kotahi, Wellington, 2016

[12] *$4b in new capital investment in Budget 2017*, Media Release, Hon Steven Joyce MP, Wellington, May 2017

Airports are complex assets for local governments to manage, especially as they face competing financial demands

1.4 Disproportionate burden

Airport infrastructure is tightly regulated to maintain high safety standards, and must be regularly maintained and closely managed. Many of the costs are irrespective of activity levels.

In addition to runways, taxiways and terminals, airfield and approach lighting is a responsibility of the airport operator, which may contract the service provision to Airways NZ, or arrange the facilities itself.

Due to the low volume of aircraft movements, and its obligation to act commercially, Airways has withdrawn from most of our smaller airports[13]. In some instances this has involved selling the ageing assets to the airport owner.

In contrast to larger airports where investment in new technology is funded by Airways NZ and its airline customers, small airports with fewer users struggle to keep up-to-date.

The outcome is that equipment is often old, out-dated, less reliable, and hard to maintain. Ongoing costs are therefore high, and the replacement of capital assets (or major repairs) is disproportionately costly.

1.5 Complex operations

Airport owners, usually councils, must not only financially cross-subsidise their airports, they also face a complex task in maintaining and operating the assets.

Staffing a basic airport with no pressing maintenance issues can run to $250,000 per annum. Much of this cost is associated with 2-3 dedicated staff - ensuring the airport meets all operational and safety regulatory requirements.

The costs of compliance are proportionately greater for regional airports than for major airports – often by a factor of three (12 per cent versus four per cent, on average)[14].

Airports with less than 2000 regular passenger flights each year are ruled out of Airways' national service levels and pricing structures. They must reach separate agreements (including payment) with Airways or, more commonly, ensure maintenance of the specialised infrastructure themselves.

This comes at a time when local governments face multiple and competing demands on their limited financial resources.

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[13] Airways NZ services can include approach lights, landing lights, runway lights, stand-by power, and airfield signs

[14] *Economic contribution and challenges of regional airports in Australia*, ACIL-Allen report for Australian Airports Association, Canberra, September 2016

Deposit Photos

Air New Zealand has pulled out of many of New Zealand's smaller airports due to upgrades in its fleet

2. The impact

The withdrawal of Air New Zealand from some regional routes over the past three years has prompted questions on the resilience of the transport links that connect our regional populations and economies[15].

New Zealand now has a two-tier national airport network, split between the haves and the have-nots[16].

Larger regional airports, together with the international airports they feed into, have sufficient revenue to fund their operations. But over the past two decades, smaller regionals and isolated airports have slipped into the realm of being non-viable as commercial entities.

This has broad ramifications for the economic and social outcomes for our regions as well as an impact on the national economy.

Unlike road and rail, there is no specific policy framework or funding support mechanisms for regional aviation in New Zealand.

2.1 Loss of airline service

In recent years, the national carrier has withdrawn or decreased the frequency of services to many smaller airports across New Zealand due to low yields and fleet changes.

Many of the airports have found replacement air services provided by independent regional airlines. These tendered services are often underwritten by local councils, who guarantee a minimum income per flight or fixed fares[17]. In the case of Westport, funding was provided by the regional development agency[18].

Regional carriers not franchised by Air New Zealand are unable to offer their customers frequent flyer points, baggage interline or international connections. This lessens their attractiveness to the business community and reduces international promotion.

A constant concern is the timing of services, with business-friendly flights preferred by enterprises in smaller communities.

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[15] Mobilising the regions: the role of transport infrastructure in achieving economic success across all of New Zealand , Castalia Strategic Advisors for LGNZ, Wellington, August 2015

[16] *Case Study: New Zealand*, Air Transport Bureau, International Civil Aviation Organization, Montreal, 2011

[17] *Bookings open for new air service provider*, Media release, Taupō District Council, Taupō, May 2015

[18] *DWC Helps to Retain Westport Flights*, Development West Coast / Te Ohu Whakawhanake o Te Tai Poutini, April 2015

NZ Defence Force

The New Zealand Urban Search and Rescue unit relied on air links following the 2016 North Canterbury earthquake

2.2 Poorer disaster response

The national contingency plans pulled together in the aftermath of the 2011 Christchurch earthquake assume access to all current airports, airstrips and aerodromes in the event of a future natural disaster[19].

Frequent runway maintenance is essential to ensure access for heavier lift aircraft that can be used to move earth lifters into place rapidly in the event of natural disasters[20].

There is a fear that once small airports lose their regular passenger service, runway, taxiway and apron maintenance programs could be defunded by local councils. Experience in Australia has shown that those aerodromes not receiving federal maintenance grants have fallen into disrepair[21].

The government recognised the link between disaster response/recovery and regular air services to smaller towns in its talks with Air New Zealand to resume services to Blenheim following the 2016 Kaikōura earthquake[22].

2.3 Connectivity decrease

It its recent Business Growth Agenda, the government recognised the need for strong regional economies.

> *"We need the businesses in each region to be successful, delivering high quality products and services that contribute to the national economy and that generate jobs and good living standards for local people"*[23]

With a decrease, or cessation, of air services regional businesses face a higher barrier to essential national and international connectivity.

The entire national economy relies on policies that can foster a viable, competitive and safe aviation industry across the entire country.

Experience from other countries shows net returns on gross domestic product from regional aviation infrastructure investments.

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[19] *National Capability Assessment 2015*, Ministry of Civil Defence & Emergency Management / Te Rākau Whakamarumaru, Wellington, September 2015

[20] Julia Moline, *Cargo Operations in Humanitarian Response*, Airport Planning and Design Fall 2013, Massachusetts Institute of Technology, Cambridge MA, October 2013

[21] Annabel Hepworth, *Cash-strapped regional airports facing a 'crisis'*, The Australian, Sydney, 21 April 2017

[22] Elena McPhee, *Government will talk to Air New Zealand about Marlborough return*, Stuff.co.nz, 26 November 2016

[23] *Business Growth Agenda - Building Export Markets*, Ministry of Business, Innovation and Employment / Hīkina Whakatutuki, Wellington, August 2012.

Colin Hunter /Planespotters

The 1950s-designed Convair CV-580's used by Air Chathams are among the oldest aircraft in regular passenger use

2.4 Ageing aircraft

Normal commercial pressures have led Air New Zealand to rationalise its fleet and phase out the aircraft more suited to serving smaller centres. Its successors on regional routes are faced with little choice in aircraft as there is a lack of suitable replacements being manufactured in the sub-50 seater category.

New Zealand has some of the oldest commercial aircraft in regular passenger use in the developed world flying on regional routes, but in practice most are still supported by manufacturers and can be operated indefinitely.

However the airlines serving small towns face the problems of funding fleet replacements, and/or retro-fitting older aircraft with new avionics for satellite navigation. This requires reasonable financial returns - which places pressure on councils to underwrite the services.

At the smaller end of the scale, operators can use modern single engine turboprops for regular passenger transport under instrument flight rules, such as Sounds Air using the 12-seat Pilatus PC-12 for some services[24].

2.5 Lack of interconnectivity

The shift from national carrier to independent regional airlines is an important commercial factor in today's regional aviation environment.

Other countries have found the removal of a major carrier from regional routes can have longer term negative impacts, due to the lack of interconnectivity between airlines.

In airline terms, interlining agreements cover baggage transfer, ticketing and customer service between regional and domestic service operators.

However, as tourism industry associations in Australia and Europe have found, interline agreements are also crucial to ensuring the national and international marketing of regional destinations by major airlines[25].

Today's interline agreements also commonly feature special pro-rate agreements, codesharing and direct connections at hub airports that are important to regional business travellers. Unfortunately, these benefits have been lost with the withdrawal of Air New Zealand from regional routes.

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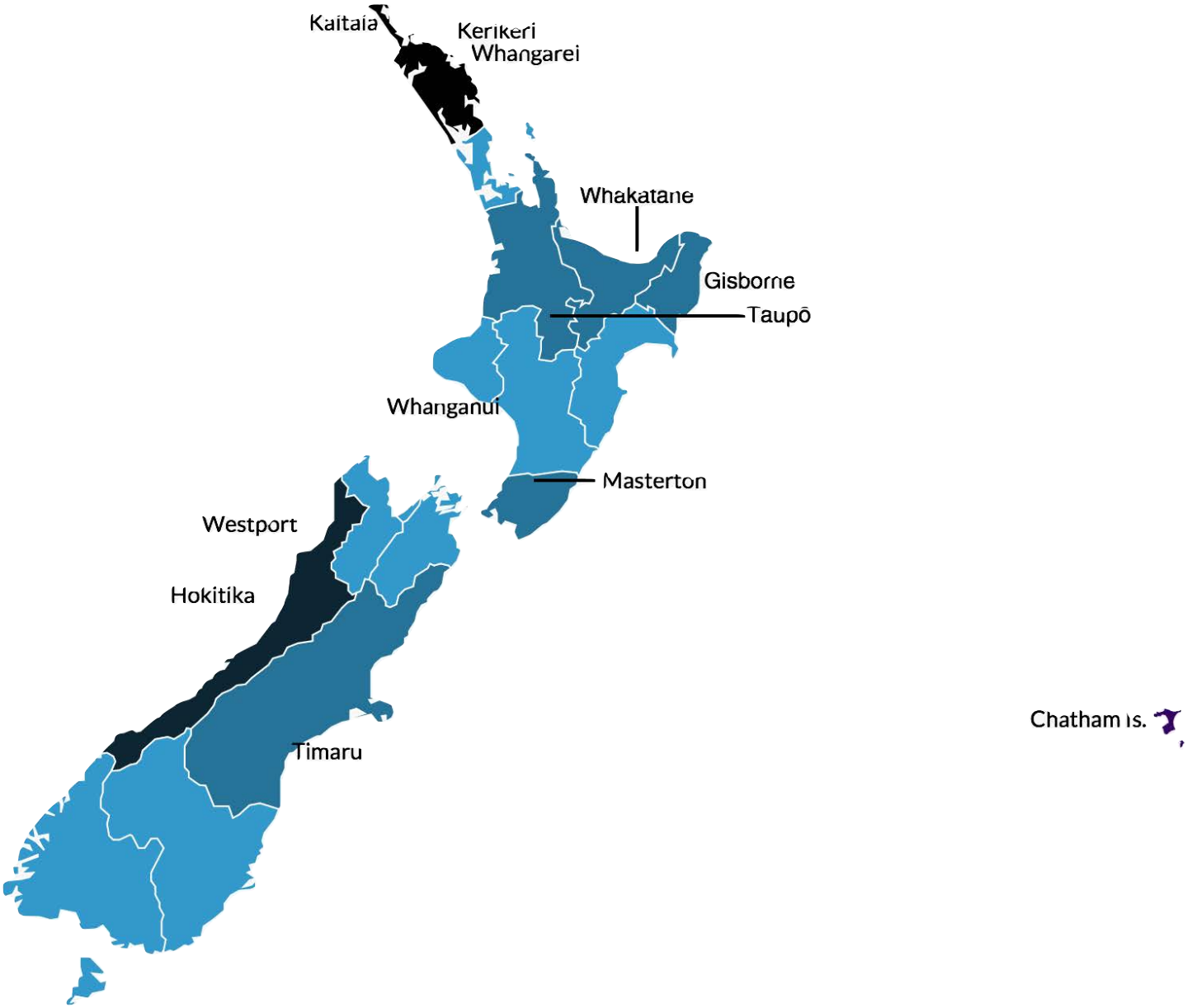
[24] *Type Acceptance Report TAR 13/21B/28 Rev 1 Pilatus PC-12 Series*, Aircraft Certification Unit, Civil Aviation Authority of New Zealand / Te Mana Rererangi Tūmatanui o Aotearoa, Wellington, June 2014

[25] *Tourism & Aviation - Submission to the State Aviation Strategy*, Tourism Council of Western Australia, Perth, 2015

Regions with essential but non-commercial airports

Map shows regional airports that require ratepayer funds for essential upkeep.



Category	Isolated	Regional	Large Regional	International
Typical features	Sole scheduled air service funded or subsidised by local council for social service reasons	Limited number of commercial operators, serving a small number of destinations	Multiple commercial operators, serving multiple domestic destinations	Multiple commercial operators, serving multiple destinations, including domestic and international
Examples	Chatham Is Hokitika Kaitaia Westport Whakatāne Whanganui	Invercargill Marlborough Hamilton New Plymouth Rotorua Tauranga	Dunedin Hawkes Bay Napier Nelson Palmerston North	Auckland Christchurch Queenstown Wellington
Passengers	<200,000	>200,000	>500,000	>1 million
Status	**Non-commercial**	**Viable**	**Strong**	**Very strong**

3. Who's affected?

We have analysed the financial performance, patronage and funding available to New Zealand's smaller airports to establish a list of airports at risk. Their communities are equally at risk of a diminution of air connectivity and the associated economic and social loss that accompanies a reduction in air links.

We have classified airports broadly into four categories, with different levels of commercial viability (see table above).

Our international gateways, Auckland, Christchurch and Wellington, are in robust health. Similarly, trans-Tasman airports Queenstown and Dunedin perform well.

Among the regional airports, there are a number with multiple daily flights to a number of destinations. These airports, such as Nelson and Napier are also able to fund their own infrastructure upkeep.

However, it is a fourth tier of airport, which we have classified as isolated, which faces a funding crisis. At least 12 airports do not fit a commercial model, and depend on ratepayer funding which is increasingly unsustainable.

We have deemed these airports non-commercial.

3.1 The airports at risk

The 12 districts in regional New Zealand that we believe to be of highest risk of further isolation are as follows:

Airport	District(s)
Chatham Is.	Chatham Islands
Gisborne	Gisborne
Hokitika	Westland
Kaitaia	Far North
Kerikeri	Bay of Islands
Masterton	Wairarapa
Taupō	Taupō/Ruapehu/Taumaranui
Timaru	Timaru/Waimate/Waitaki
Westport	Buller
Whakatāne	Whakatāne/Kawerau/Ōpōtiki
Whanganui	Whanganui/Taranaki/Ruapehu
Whangarei	Whangarei/Kaipara

Many of these are already sparsely populated - Buller in particular has a population density of only 1.3/km^2. Additionally, many of the regions in which these districts sit have higher than average proportions of Māori residents (such as the Chathams and the Far North).

Taupo Airport Authority

Taupō Airport provides a vital service to its community and the tourism economy, but faces spiralling infrastructure costs

3.2 Communities at risk

Each small airport serves communities in their catchment that are among the most vulnerable and isolated. These population centres are most in need of air access to larger centres and the facilities, such as hospitals, they provide.

The air link that services Chatham Island / Rēkohu and neighbouring Pitt Island / Rangiaotea, for example, is essential to the survival of the Chatham Islands' community.

In Northland, Kaitaia and Kerikeri Airports serve small towns from Cape Rienga to Hokianga. Gisborne is 3 hours drive to the next airport. On the West Coast of the South Island, Hokitika and Westport airports provide vital links for inhabitants from Karamea to Fox Glacier.

The other small airports all serve isolated towns and rural populations.

It is an inequitable for our nation to leave small numbers of ratepayers to shoulder this responsibility.

3.3 Tourism at risk

A recent report for the Tourism Industry Aotearoa (TIA) found airport infrastructure to be a key hurdle to attracting more tourists to New Zealand regions. Once again, Northland and West Coast were highlighted as the regions for issues in airports and related facilities, alongside Gisborne[26].

In West Coast and Northland, respondents to the TIA survey of potential tourists cited unattractive flight options at Westport and Kerikeri airports. Limited flight options make it harder for visitors, particularly domestic and business visitors, to access the regions.

As services shift from Air New Zealand to independent regional airlines, there is a loss of international and national marketing of smaller destinations. There is also an associated loss of interline services and baggage transfers, making domestic transfers to smaller airports more difficult for travellers.

Any downgrading of air services will have a further detrimental affect on the ability of these regions to grow tourism, a key economic driver.

[26] *National Tourism Infrastructure Assessment*, Tourism Industry Aotearoa, Wellington, April 2017

The Canadian Federal government supports essential maintenance at remote airports like Trail, British Columbia

4. Global benchmark

Many governments around the world support regional air services. Either through underwriting seats, direct route subsidy or through the application of market mechanisms that manage competition.

Some also directly fund the infrastructure requirements of regional airports.

In the US, for example, a direct subsidy applies to air services deemed essential to small communities' survival. Today there are 163 rural communities eligible for the Essential Air Services route subsidy, whose budget is now US$261 million[27].

In Brazil, meanwhile, an R$7.3 billion (NZ$3.4 billion) ten-year programme of regional airport upgrades is underway. The Programa de Aviação Regional has as its aim that 95% of Brazilians should live within 100 km of an airport to ensure economic growth[28].

Of more direct application to New Zealand, however, are the schemes in place in the European Union (including the United Kingdom), in Australia and in Canada.

4.1 Route subsidies

In the European Economic Area (The European Union plus Iceland, Liechtenstein and Norway), the Public Service Obligation (PSOs) scheme is a legal framework that permits national governments to offer air routes up either as monopolies or as subsidised monopolies. The system operates as a reverse auction, with airlines bidding for route rights.

PSOs were introduced to lessen the impact of the liberalisation of air transport within the EU in 1992 . Today there are over 300 air PSOs.

In Scotland the use of PSOs has led to major increases in regional air service. Patronage on the route between Inverness on the mainland and the island of Lewis grew by 136% between 1983 and 2006, for example[29].

In New Zealand we believe most services from small airports should terminate at Christchurch, Wellington or Auckland, where passengers can transfer to main trunk (or international) services if required.

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[27] Kris Van Cleave, *Is Essential Air Service Wasting Taxpayer Money?* CBS News, February 24, 2015

[28] *Aviação regional - Conectando o Brasil*, Secretaria de Aviação Civil, Brasilia, 2015

29 Svein Bråthen, *Air Transport Provision in Remoter Regions,* Routledge, London 2016

Highlands and Islands Airports Limited

Scotland's use of the European Union public service obligation scheme has parallels in the New Zealand context

4.2 Fund essential works

Self-funding airport operations and essential infrastructure from aeronautical charges alone is unrealistic for small airports.

In Canada, there is an obligation on the part of the federal government to ensure residents in isolated communities have access to air links, especially in times of medical or natural emergency. The Airports Capital Assistance Program assists local councils with safety-related capital infrastructure through a series of grants[30].

In the New Zealand context, a national fund for regional airports could have the dual goals of national connectivity/cohesiveness and also natural disaster preparedness. Without the injection of government funds, councils and rate payers face enormous pressure to maintain airport minimum standards.

Air navigation reliability and safety may improve for regional airports in New Zealand. We understand that the transition to satellite based navigation and surveillance services will be implemented by Airways NZ on a national basis, but individual airlines must equip their own fleets - a significant cost barrier.

4.3 Fund communities

Norway leads Europe in the number of PSOs, chiefly to ensure social cohesion[31]. In Australia, both state and federal funding is available to isolated communities to ensure aviation infrastructure meets the national standard and to subsidise thin routes.

In the New Zealand context, a regional communities fund could be established by central government to underwrite air services. This is the mechanism used by NZAid to fund international air links to the Cook Islands and to Niuē[32]. It is also similar to the approach adopted within New Zealand by Development West Coast, but this mechanism is not replicated in other regions.

Eligibility criteria could be established to ensure fair access to the fund, and service providers would need to meet relevant goals such as ensuring emergency response capability and passenger services. Interested airlines would then bid for routes.

The scheme would also allow the Ministry of Transport to fund infrastructure upgrades, such as runway reseals and airport lighting, to maintain a baseline national standard.

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30 *Reforms to ACAP, infrastructure eligibility for small NAS airports,* Canadian Airports Council, Ottawa, July 2016

31 Harald Thune-Larsen, Svein Bråthen, Knut Sandberg, *Forslag Til Anbudsopplegg for Regionale Flyruter I Sør-Norge*

32 *Request for Proposal for Evaluation Services - Underwriting of direct air services*, New Zealand Aid Programme / Nga Hoe Tuputupu-mai-tawhiti, Wellington, January 2016

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The Bay of Islands Airport in Kerikeri is one of three airports in the Northland region facing an uncertain future

5. The solution

In New Zealand, using national and local funding jointly, a mechanism can be found that addresses the minimum infrastructure requirements of our airports and also guarantees essential air links remain.

The clearest way forward is for the Ministry of Transport to define a set of criteria (social, economic and geographic) against which small regional airports could be measured. These criteria might include distance from the nearest major airport, road transport options, medical and educational links and commercial imperatives.

NZ Airports can recommend a fit-for-purpose national minimum acceptable standard of aerodrome infrastructure and service levels.

A Crown fund could then be open to any isolated community that met the criteria when upgrading or maintaining its airport to meet national minimum standards. To ensure regular use and to maintain a minimum level of air service, a second part of the fund can be set aside for underwriting essential air services under a matched funding basis between tiers of government. The airports also contribute by meeting operating costs.

5.1 Isolated communities

Many of the global examples in section 4, have defined criteria for communities eligible for assistance. In the New Zealand context, we recommend the following factors be considered:

- Road distance/time to the next airport
- Access to centralised medical services
- Access to tertiary education
- Passenger numbers through airport
- Size of the council ratepayer base
- Population components with high needs or barriers to national services
- Required access for emergency services personnel during civil emergencies

District Health Boards, ACC and the Ministry of Health all utilise and fund client air travel for health services, where necessary[33]. The Ministry of Transport should work with the regional development agencies, the Department of Internal Affairs, the Ministry of Health and the Ministry of Education to ensure national policy priorities are captured.

[33] *National Travel Assistance Scheme guidelines*, New Zealand Ministry of Health – Manatū Hauora, 2017

Airways New Zealand

New Zealand has a national network of navigational aids provided by Airways NZ and funded by airlines

5.2 National infrastructure

NZ Airports would be happy to work with the Ministry of Transport / Te Manatū Waka to define minimum national standards for New Zealand aerodromes.

These should enable scheduled passenger flights and 24-hour aeromedical access.

Examples of minimum standards include:

- Precision approach lighting
- Lit wind socks
- Taxiway lights
- Airport beacon
- Runway lights
- Apron lights
- Remote switching for lights
- Stand-by power
- Traditional navigation beacons or support for satellite navigation
- Instrument flight procedures
- Sealed and marked runways of appropriate dimensions

Similar minimum standards are applied in Australia for small airports[34]

5.3 Essential services

Defining essential air services will also be necessary under the isolated communities aviation fund.

Drawing parallels with the European public service offering (PSO) scheme and the Queensland licensed air routes scheme, we would recommend that the following be the basis of underwriting funding:

- Routes put out to competitive tender
- Protected sole operator on route
- Guaranteed frequency of service
- Cooperative marketing support
- Incentive to overnight aircraft
- Incentive to service economically disadvantaged communities

Many other developed nations have developed matrices that address all or some of these aspects. An example can be found in the Canadian province of Québec, where seasonality and indigenous access is overlaid with the needs of farmers to get to major cities to market their crops and dairy[35].

[34] Aerodrome categories, CASR part 139, Civil Aviation Safety Authority, Canberra, January 2017

[35] *Programme de réduction des tarifs aériens*, Ministre des Transports, Gouvernement du Québec, 2017

NEW ZEALAND ISOLATED COMMUNITIES AVIATION FUND - 5 YEAR PROJECTION						
Capital Projects	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**5 year total**
Air Navigation Services (upgrade/replacement)	$3 m	$3 m	$2 m	-	-	$8 m
Runway Resurfacing	$1.2 m	$1.2 m	$1.2 m	$1.2 m	$1.2 m	$6 m
Terminal Refurbishment	$1 m	$1 m	$1 m	$1 m	$1 m	$5 m
Infrastructure total	**$5.2 m**	**$5.2 m**	**$4.2 m**	**$2.2 m**	**$2.2 m**	**$19 m**
Underwriting Air Services	$1 m	$3 m	$3 m	$3 m	$3 m	**$13 m**
TOTAL FUNDING REQUIRED	**$6.2 m**	**$8.2 m**	**$7.2 m**	**$5.2 m**	**$5.2 m**	**$32 m**

5.4 Funding required

The estimated cost of implementing a national set of standards that would bring infrastructure at non-commercial airports across New Zealand up to a safe, efficient standard is a modest $19 million over 5 years.

There is some precedent to this. The Government already provides a small amount of funding annually[36] as a half share of its joint venture airport capital projects. But other airports receive nothing, and the full infrastructure investment requirement is much greater.

Additionally, essential air services need to be guaranteed by central government underwriting in connection with councils (or other appropriate bodies). The air services component of the isolated communities aviation fund is estimated to be around $3 million per year.

We recommend the initial infrastructure catch-up funding be split over a three year period to bring run-down assets up to standard (see table above). The funding stabilises after five years at about $5.2 million per year.

5.5 Revenue source

The Crown benefits from its ownership of commercial airports. These funds from within the sector could be drawn on to secure the air network.

Returns include around $9 million this financial year through the Crown share of post-tax profits earned by Christchurch Airport[37]. Previous years have recorded similar results.

Smaller net profits are returned from stakes held in Dunedin and Hawke's Bay airports. The government's wholly owned Piopiotahi Aerodrome in Milford Sound is cost-neutral to the government, as it is self-sustaining through aeronautical revenues[38].

We also understand the government will be paid several million dollars as part of the transfer of the New Plymouth joint venture airport to local ownership[39]. This is another valid source for the isolated communities fund.

In NZ Airports' view these revenue sources more than match the requirements of the new isolated communities aviation fund.

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[36] In the three years 2011/12 to 2013/14 four JV airports received a total of eight payments averaging $83,000 each

[37] *Interim Report to 31 December 2016*, Christchurch International Airport, Christchurch, February 2017

[38] *Milford Sound / Piopiotahi Aerodrome Operation and Administration (M72),* Appropriation estimates, Budget 2016, The Treasury / Kaitohutohu Kaupapa Rawa, Wellington June 2016

[39] Tara Shashkey, *Council to spend $3.25m to gain full ownership of airport,* stuff.co.nz*, April 5 2017*

Resdek

New Zealand's regional towns and districts do not want to face a future where airport closure is a possibility

6. Conclusion

The government can guarantee national connectivity and cohesion for a modest investment

Ageing infrastructure and associated operating costs can be a heavy burden to local governments operating New Zealand's smaller airports. Reliance on ageing lighting also leads to poor reliability and high costs.

Yet local councils are obliged to keep airports open for the economic and social wellbeing of their residents, including the frequent air transport of hospital patients and medical specialists to and from small centres.

Unlike other developed countries, New Zealand has no regional aviation assistance scheme. Our airlines and the air navigation service provider run on a purely commercial basis, and all airports are mandated to operate as commercial entities.

But essential small airports are inherently unable to operate commercially without subsidisation. There is a simple option open to the next New Zealand government.

For a modest sum, relative to the millions invested in road and rail projects every year, a new fund could be created to pay for essential airport infrastructure and also to guarantee baseline air services. The fund would be open to any small airport meeting certain criteria.

Some support for airports in small isolated centres already exists, but is too little, patchy and unfair, with no certainty.

The Treasury has regular income in the form of receipts from its part-ownership of some successful commercial airports. Government also funds part of the costs of joint venture airports. These revenue sources more than match the estimated costs.

There is work to do around defining eligibility thresholds and criteria, but the New Zealand airports community seeks commitment now from all sides of politics that our air network can be protected from further deterioration.

For a modest sum, New Zealand can ensure essential air services and fit-for-purpose airport infrastructure the length and breadth of our country.

Join us now in helping to *Link the Long White Cloud*.

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