

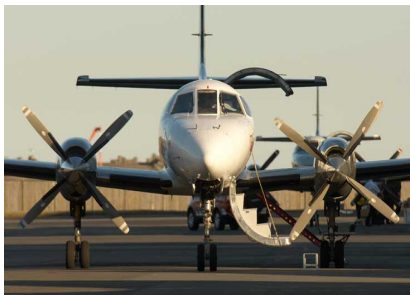


# Civil Aviation Authority

## Summary of Issues Raised at Seminars

on

## Stage One of the Funding Framework for Regulatory Services 2015-18



This document is not CAA policy.

It has been created to enable discussion on various options for change to the [Civil Aviation \(Safety\) Levies Order 2002](#), and the [Civil Aviation Charges Regulations \(No 2\) 1991](#), for the period from 2015 to 2018.

## Summary of Issues Raised During Stage One Seminars

### Introduction

The CAA discussion document the Funding Framework for Regulatory Services 2015-18 was available for public consultation between 14 July and 25 August 2014. This discussion document marked the first step in the Authority's funding review for the period from 2015-2018.

The funding review aims to ensure that the Authority's approach to recovering costs accurately reflects the regulatory activities performed, and that levy and fee levels balance expected costs and revenues over the next three years. The funding review process is divided into two stages.

The first stage (which is the focus of this discussion document) presents the overall framework for setting the Authority's levies and fees. This framework is directed at answering the questions of who should pay for CAA's activities, and how should they pay (whether through an industry levy or a fee for service). The second stage of the funding review will consider the appropriate level of each regulatory levy and fee.

Feedback from stakeholders is important at both stages of the funding review to ensure that levies and fees are set in a way that promotes the right outcomes for the civil aviation industry.

The discussion document was made available to members of the aviation community and the general public through the Authority's website, and emails regarding the discussion document and the consultation were sent to over 29,000 addressees. The Discussion Document is available at: [http://www.caa.govt.nz/funding/2014\\_Funding\\_Discn.pdf](http://www.caa.govt.nz/funding/2014_Funding_Discn.pdf)

### This document

This document provides a summary of the issues raised and views expressed during a series of seminars conducted by the CAA between 6<sup>th</sup> and 15<sup>th</sup> August, 2014. Two seminars were held in each of Nelson, Christchurch, Queenstown, Auckland, Palmerston North and Wellington, and over 170 people attended the seminars.

Following analysis of the written responses, a further issues document will be added to the CAA Funding Review website.

### The feedback

The feedback received has been grouped into a number of distinct categories.

### Policy approach

- Some asked about the fundamental policy principles that are applied during this process, commenting that it is hard to respond to the questions of the principles when cost implications are unknown. Some asked how the "balancing" process is going to be mediated (e.g. how will the CAA ensure that the competing elements of the sector will agree on the balance).
- Some commended the CAA for their efforts in this review process, commenting that the list of options is reasonable. However they noted that the CAA hasn't stated that "equity in funding sources" is one of its objectives, and that there is very little ability for the CAA to influence behaviour through fees and charges, because there are really only two choices - pay and stay in the system, or don't pay and get out.

- Some asked about the CAA's commitment to act on the input provided during the consultation, and whether the results of the consultation will be made public. A few queried whether the industry will have access to the funding model that gets used to calculate the fees and charges in round two, and whether the review of the current schedule of charges for public/private/club goods will be made public. There was a general concern that the industry is not being listened to.
- While promotion is not a CAA objective, safe flight enabling economic development and social connection is the objective. Whether the CAA has taken a macro look at the aviation environment to determine the cost impacts that already influence the industry was raised.

### International/Domestic/ANZA Passenger levy

- Due to the levy structure, domestic passengers are paying significantly more than international passengers. Some asked why there is a difference in levy rates, and others strongly urged the CAA to equalise the ANZA and international passenger levy rates with the domestic passenger levy rate.
- Levies should be used more to provide revenue to the CAA in order to pass the cost on to the passengers, and attendees appeared generally quite comfortable "hiding" a levy within a passenger fare. There is a perception that because the proportion is small, and because it is not clearly transparent, it will go un-noticed and is therefore somehow acceptable. Passenger levy is seen as a pass-through cost and if the passengers knew the actual cost of the levy they probably wouldn't react.
- Many from the General Aviation (GA) sector would like to see an increase in passenger levies on airlines in order to cross-subsidise GA operations, suggesting that such levies pass the cost on to the airlines via levies because they have lots of passengers and the rest of the industry isn't able to pass the costs on. This is preferred to passing the fee on to individual aviation participants.
- Other issues raised included whether the passenger levy should be decreased and a levy based on seat availability should be introduced; and the huge gap between the minimum amount paid for the passenger levy and someone who simply pays a participation levy for a commercial operation.
- Others observed that the participation levy appears to be the opposite of the passenger levies in that the participation levy is applied to the operator, but the other levies apply to the passengers. There was a suggestion that there should be a "sector distance" levy that is prorated on the weight of the aircraft - in other words, a "distance levy".
- Some asked how the passenger levies have changed over time.

### Participation Levy

- While there was support for combining the participation levy and the register maintenance fee, some observed that combination may lose some transparency for the CAA.
- Others observed that, under the current system, someone flying a Cessna 206 (for example) privately is paying the same participation levy as another person operating the same aircraft commercially. This was seen as inequitable. A few asked whether the CAA can suspend the participation levy when an aircraft is not able to fly.
- Some observed that there are 312 certificated organisations that don't actually operate any aircraft, and thus don't pay any participation levy, suggesting that these organisations would

be getting a free ride. Others queried whether, outside of aircraft owners, other people (e.g. students) are paying their share.

### Medical Certification charge

- There was extensive comment and discussion around the medical application fees, the operation of the Medical Certification Unit. Some commented that the option on medical certification presented in the discussion document seemed quite logical.
- The policy reason for pilots fully paying for medicals as though they were a private good was viewed as contrary to the objective of enabling economic growth, speakers indicating that the actual beneficiaries of a medical certificate include airports, Airways, and the public. Identifying medical certification solely as a private good is an oversimplification. Many considered that the CAA got the private/club/public good assessment for the current medical regime wrong so the fee was not calculated properly. Many indicated that the method used for calculation of medical certification fees during the last review was completely unrealistic.
- The cost of the CAA Medical Unit, at \$2.2M million, was considered too high. A comparison with the CASA Medical Unit was frequently made, and some asked whether the CAA has liaised closely with CASA on the issue of medical certification. Another asked whether it had ever been considered that the medical unit functions be outsourced in the same way that pilot examinations are.
- The question of whether there should be more than an administrative fee for medical certification was raised, asking why the CAA needed anything more than that when the actual exam is being conducted by an ME. Others asked why the CAA double-checking process is necessary.
- Some observed that the problem with the medical certification system could be corrected by an electronic system, and there was proposal to implement such a system from the Aviation Community Medical Liaison Group, but the CAA has deferred implementation.
- The question of recognising overseas medical certificates was raised, some commenting that there are large numbers of NZ pilots and engineers who have abandoned their NZ licences in favour of overseas licences.

### Surveillance charges

- There was general support for funding surveillance (audit and inspection) activity by a levy, noting that currently the industry pays not only for audit and inspection, but also for follow-up surveillance. This was seen as unfair, and one person noted that putting in place a charge for follow-up surveillance activity may create an incentive for operators to avoid reporting to the CAA.
- In regard to payment for travel costs, the CAA is seen as a government imposed authority based in Wellington, so the industry should not have to pay for travel costs, which should be paid for by the government.

### Fuel levy

- AOPA, Aviation Federation and others indicated that they will be making submissions in support of a fuel levy to fund all CAA regulatory operations. AOPA doesn't see any difficulties in collection of a fuel levy, commenting that, in theory, the cost of recovering a full fuel levy would be the least expensive option, and that a fuel levy option is a natural driver towards efficiency (e.g. reducing emissions).

- A fuel levy, as promoted by AOPA, would replace pilot licence, medical certification and participation levies for GA activity, and could replace passenger levies and surveillance and certification costs, etc., for air transport. It would need to be a fuel levy that covers 100% of the people in the industry, rather than passenger levies, etc.
- Many indicated they were fully supportive of fuel levy, commenting that the GA and recreational sector consider the fuel levy to be the only "fair" way of balancing the costs in the system and that it would be easier to charge everyone a small amount and spread it over a large group.
- While there is a growing acceptance, by some, of the idea of a fuel levy, there are also concerns - is it going to be ring-fenced, and will it actually get to the CAA? There are also many aircraft that operate using *Mogas*, and this system wouldn't recover from them. Other comments referred to there being no regulatory incentives for operators to stay in compliance with a fuel levy, and that while a fuel levy may have advantages, it doesn't force the regulator to demonstrate efficiency. Some noted there were 312 certificated organisations that did not operate aircraft and they would not be paying a fuel levy.
- If a fuel levy was to be applied to all operators in all sectors, there would be no competitive advantage to anyone. If it wasn't applied in full, it would likely have a disproportionate impact on smaller operators. There would be no really equitable way to recover costs, and there will always be someone who is dissatisfied.
- An Aviation NZ representative indicated that Aviation NZ would oppose the introduction of a fuel levy.

### Freight Levy

- There was discussion on why there is currently no levy on freight-only flights. There was some suggestion that a freight levy should be established as freight-only operators should pay their way.

### Impact on General Aviation

- Concern was expressed frequently that the current fees and charges are hindering the entrance of new pilots into the system. This was seen as being a negative impact on society, and it was asserted that the CAA will be seen in a negative light as having destroyed the grass-roots level of aviation. Many observed that the smaller end of GA is under enormous financial stress, because - GA has no one to pass costs on to - the current system is pricing people out of the market.
- Some people are leaving sport and recreational flying due to the high costs, and some current GA pilots are moving from PPL to RPL, with the shift driven by cost. The two groups most impacted by costs are seniors and younger people. The possibility of discounts or subsidies, or a way to assist those groups in order to address the cost impact issue, was raised.
- The original discussion seems to presume that everyone is already in the industry, but some GA asked whether there shouldn't there be more emphasis on the private/club/public good balance for people who are coming into the industry.
- The flight training industry is not the same as other part of the industry and therefore should not be covered under the same fees, charges, and levies.
- Some suggested that the Ministry of Transport would need to consider that the full cost recovery approach may not be appropriate for GA.

- The proposed option to consolidate the registration fee is a good idea. Introduction of a Part 139 airport levy would simply result in increased landing fees.
- Many noted that it isn't just the CAA costs that are impacting the GA sector - it is the total cost from Airways, CAA, Metservice, etc. The difference in the treatment of the Metservice's charges between aviation and maritime users was referred to frequently.
- The CAA relationships with Airways and Metservice are not coordinated. Recreational GA sector never gets the opportunity to speak directly with Metservice or Airways, so they rely on CAA to pass on their concerns. Some observed that the CAA could stick up for the industry more.

### Government Funding

- There was discussion about whether there was an appetite within Government to contribute more to CAA funding or to fund it totally, asking whether it would be in the interest of the public good.
- Some commented that levies should be used more to provide revenue to the CAA in order to pass the cost on to the passengers, but if there is a negative impact on the industry, the Government should be prepared to step in and keep the system running.
- The cost of making rules is seen as too high, and that is what is putting pressure on the rules programme. The government should put more money into making rules. The amount funded by Government for aviation HSE activities is too small for the safe operation of the system.

### CAA Revenue

- There was discussion about the CAA's current funding envelope and the CAA Board's view as to its adequacy - questions were asked about whether the CAA has the resourcing required to carry out its work and whether it is currently adequately funded. There was a concern that the CAA is seeking to increase its revenue and its reserves, indicating that it appears that the CAA is setting fees just for the purpose of getting more money. Others asked whether there is any political pressure to reduce the CAA fees and charges, and whether anyone is complaining about the current levies.
- There was a comment that the CAA might have uncontrolled growth and that it would seek to recover costs accordingly.
- There was discussion about whether the CAA is meant to be self-funded, whether the Government expects the CAA to make a profit, and whether the Treasury could at some point instruct CAA to recover more money? Some commented that the airline sector has a disproportionate influence on the type of funding regime the CAA has.
- While the BARNZ view is that Airlines contribute approximately 68% of CAA revenue, but create approximately 25% of CAA costs, that view is disputed by AOPA. The GA view is that the airlines are not contributing 68% of funding to CAA, the passengers are. Passenger levies are seen as a pass-through cost.
- It was noted that the airlines are "quite opposed to cross-subsidising GA". Some questioned whether this funding review intended to look at the issue of cross-subsidisation. GA would prefer that the CAA not try to balance the funding regime by raising their fees and charges.
- Some asked whether the MoT "rubber stamps" the CAA funding recommendations, or whether there more involvement from them, and how often the Cabinet needs to approve other policy and actions proposed by the CAA.



### CAA Efficiency

- Many commented that the industry perceives that CAA is inefficient, and that the Board is not doing enough to ensure that CAA is efficient. Questions included whether the CAA is audited by the Government, how can the industry be assured of VfM, and whether there would be a triennial audit of the CAA efficiency?
- People in the industry want to know that the CAA is actually doing what it should be doing. The question of whether the CAA has investigated any outsourcing of its regulatory activity, or looked outside the CAA to share services arose frequently.
- There was concern about the hourly charge rate, observing that it seems high when compared with other services the aviation industry pays for.
- Questions about CAA's IT infrastructure included whether the costs for CAA IT infrastructure are borne by the Crown, why the CAA doesn't have an IT portal that operators can simply supply passenger number data, or where data and information needed for an audit can be obtained and supplied via the intranet.
- There was concern at the possible cost of recovering the various new levies, and whether that will be acceptable.

### Other agencies

- There was discussion about whether the CAA's current funding model compares with other NZ transport agencies, and whether the CAA is being funded differently from those others. Has the CAA benchmarked against what other NZ regulators do?
- Some asked how the fees charged by other aviation regulators (e.g. CASA, CAA-UK, FAA) compare with the CAA fees.

### Value proposition

- Some asked where does the cost to the consumer get measured against the value of the service, and how the CAA will assess the value of CAA's services in respect to what could be charged if there were equivalent competing services available. Does the CAA do a risk assessment that evaluates the effect of its funding proposals on the industry as a whole?

### Process

- One person noted that February and March are busy for the industry and asked that the CAA give as much notice as possible for the second round of consultation.
- Another noted that there was an administrative issue with implementation timing occurring late in the year for the 2012 changes, asking whether the implementation date would be November 2015.