

OC220165 – Part One

11 April 2022

Tēnā koe

### **Part One Response and Notification of Extension**

I refer to your request for information dated 13 March 2022 sent to the Minister of Transport Hon Michael Wood. As you are aware, your request was transferred to Te Manatū Waka Ministry of Transport (the Ministry) on 14 March 2022.

Pursuant to the Official Information Act 1982 (the Act), you requested a copy of 21 briefings, which are listed in the document schedule attached as Annex One.

The schedule outlines how the documents have been treated under the Act. We have made a decision on 16 of the documents in your request and are extending the time to make a decision on the remaining five documents, pursuant to Section 15A of the Official Information Act, thus responding to your request in two parts.

#### *Extension*

The Ministry requires an additional 18 working days to respond to five of the documents in your request. Therefore, you can expect to receive a response regarding those documents by 10 May 2022. Note this date takes into account three public holidays – Good Friday, Easter Monday and ANZAC day – which (as outlined in Section 2(1) of the Act) are not working days for the purposes of the Act.

The reason for the extension is that consultations necessary to make a decision on these documents are such that a proper response cannot reasonably be made within the original time limit. Please be assured the Ministry will endeavour to provide you a response sooner than 10 May 2022 if possible.

#### *Part One Response*

With regard to the decision on the 16 documents addressed in this letter (as Part One of our response to your request), nine are being released to you, six are being withheld in full, and

one is being refused. Certain information or full documents have been withheld or refused under the following sections of the Act:

- |             |   |
|-------------|---|
| 6(a)        | as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government   |
| 9(2)(a)     | to protect the privacy of natural persons   |
| 9(2)(b)(ii) | to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information  |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials  |
| 9(2)(g)(i)  | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty |
| 18(d)       | the information requested is or will soon be publicly available.  |

With regard to the information that has been withheld under Section 9 of the Act, I am satisfied that the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

You have the right under Section 28(3) of the Act to make a complaint to the Ombudsman, about the withholding and refusal of information, or this extension. The Ombudsman can be contacted at: [info@ombudsman.parliament.nz](mailto:info@ombudsman.parliament.nz)

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry's website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā



Hilary Penman  
**Manager, Ministerial Services**

## Annex One – Document schedule

| Doc # | Reference Number       | Title of Document  | Decision on request   |
|-------|------------------------|--|---|
| 1     | OC210861               | Enabling Drone Integration   | Withheld in full under Section 9(2)(f)(iv).                                       |
| 2     | OC210916               | Budget 2022 Vote Transport - Initiatives for submission  | Withheld in full under Section 9(2)(f)(iv).                                       |
| 3     | OC210933               | Half-year economic and fiscal update 2021 - forecast of National Land Transport Fund Revenue               | Some information withheld under Section 9(2)(a).                                  |
| 4     | OC210818               | Summary of the review into Road Safety Investment and Delivery   | Extension of time limit under Section 15A.  |
| 5     | OC210966               | Clean Vehicle Bill Targets and Other Matters   | Some information withheld under Section 9(2)(f)(iv).                              |
| 6     | OC210908               | COVID-19- Extension of the Essential Transport Connectivity (ETC) Scheme to 2022                           | Some information withheld under Sections 9(2)(b)(ii), 9(2)(f)(iv) and 9(2)(g)(i). |
| 7     | OC210976               | Auckland Light Rail - meeting with Waka Kotahi Board Chair and Chief Executive                             | Withheld in full under Sections 9(2)(g)(i) and 9(2)(f)(iv).                       |
| 8     | OC210975               | Air New Zealand Licence Variation - Hong Kong  | Some information withheld under Sections 6(a) and 9(2)(a).                        |
| 9     | OC210981               | Air navigation system review- terms of reference and structure   | Some information withheld under Section 9(2)(a).                                  |
| 10    | OC210943               | Programme assessment criteria for Waka Kotahi  | Some information withheld under Section 9(2)(a).                                  |
| 11    | OC210985<br>T2021/2951 | Final approvals for loan facility for Waka Kotahi to support the National Land Transport Programme 2021-24 | Extension of time limit under Section 15A.  |
| 12    | OC210986               | Proposed transport sector amendments under the Covid Protection Framework                                  | Extension of time limit under Section 15A.  |
| 13    | OC210813               | Road Safety Penalties Review - Proposed recommendations for public consultation                            | Withheld in full under Section 9(2)(f)(iv).                                       |
| 14    | OC210988               | Transport bids for 2022 legislative programme  | Withheld in full under Section 9(2)(f)(iv).                                       |
| 15    | OC210991               | Further information on North Shore Airport's application for airport authority status                      | Withheld in full under Section 9(2)(f)(iv).                                       |
| 16    | OC211018               | Update on the alleviation of current supply chain issues   | Some information withheld under Sections 9(2)(a), 9(2)(f)(iv) and 9(2)(g)(i).     |
| 17    | OC210982               | Effective Transport Financial Penalties - Update   | Extension of time limit under Section 15A.  |
| 18    | OC210884               | Setting new objectives for the planning, procurement and delivery of public transport                      | Extension of time limit under Section 15A.  |



| Doc # | Reference Number                           | Title of Document  | Decision on request   |
|-------|--|--|---|
| 19    | OC211016                                   | Research into the use and effectiveness of alcohol interlocks  | Some information withheld under Section 9(2)(a).  |
| 20    | OC211020                                   | COVID-19 - Update on development of MIAC exit strategy   | Some information withheld under Sections 6(a), 9(2)(a), 9(2)(b)(ii), 9(2)(f)(iv) and 9(2)(g)(i).  |
| 21    | OC220011<br>T2022/52<br>BRF21/2201<br>1215 | Auckland Light Rail Board<br>Appointments: confirmation of position<br>description and skills matrix | Refused in full under section 18(d) as the paper is already publicly available on the Auckland Light Rail Project page of our website at:<br><a href="http://www.transport.govt.nz/assets/Uploads/OC220011-ALR-Board-appointments-confirming-approach-and-position-description.pdf">www.transport.govt.nz/assets/Uploads/OC220011-ALR-Board-appointments-confirming-approach-and-position-description.pdf</a> |



2 December 2021

OC210933

Hon Michael Wood

Action required by:

Minister of Transport

Friday, 10 December 2021

## HALF-YEAR ECONOMIC AND FISCAL UPDATE 2021 - FORECAST OF NATIONAL LAND TRANSPORT FUND REVENUE

### Purpose

To update you on the 2021 Half-Yearly Economic and Fiscal Update (HYEFU 2021) forecast for the National Land Transport Fund (NLTF).

### Key points

- In the weekly report provided on 19 November 2021, we advised that HYEFU 2021 predicts a decrease in revenue compared to our previous forecast<sup>1</sup>, Budget Economic and Fiscal Update (BEFU 2021). This briefing note provides more detail on the updated forecast.
- Compared to BEFU 2021, we expect a 3.6 percent decrease in NLTF revenue in 2021/22 and a 2.6 percent decrease, or \$353 million, over the 2021-24 National Land Transport Programme (NLTP 2021).

Table 1: Forecast NLTF revenue for the NLTP 2021.

| Financial Year | BEFU          | HYEFU         | Difference   |             |
|----------------|---------------|---------------|--------------|-------------|
|                | (\$ million)  | (\$ million)  | (\$ million) | (%)         |
| 2021/22        | 4,402         | 4,244         | -158         | -3.6        |
| 2022/23        | 4,511         | 4,404         | -108         | -2.4        |
| 2023/24        | 4,610         | 4,524         | -87          | -1.9        |
| <b>Total</b>   | <b>13,524</b> | <b>13,171</b> | <b>-353</b>  | <b>-2.6</b> |

- The Crown is in the later stages of finalising a \$2,000 million facility to support the delivery of NLTP 2021. This will provide some flexibility to manage any revenue reduction, but if the forecast eventuates, expenditure over the NLTP will be lower than intended. Once the loan facility is confirmed, Te Manatū Waka will monitor and advise on its drawdown, repayment, and its use to deliver NLTP 2021.

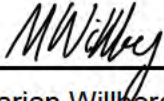
<sup>1</sup> OC210305 refers

**Recommendations**

We recommend you:

1 **refer** this briefing to Hon. Grant Robinson, Minister of Finance

Yes / No

**Marian Willberg**  
**Manager, Demand Management and Revenue**

.....1/12/2021.....

**Hon Michael Wood**  
**Minister of Transport**

..... / ..... / .....

**Minister's office to complete:**☐ Approved☐ Declined☐ Seen by Minister☐ Not seen by Minister☐ Overtaken by events**Comments****Contacts**

| Name  | Telephone | First contact |
|---|-----------|---------------|
| Marian Willberg, Manager, Demand Management and Revenue       | s 9(2)(a) | ✓             |
| James McDevitt, Senior Adviser, Demand Management and Revenue |           |               |

## HALF-YEAR ECONOMIC AND FISCAL UPDATE 2021 - FORECAST OF NATIONAL LAND TRANSPORT FUND REVENUE

### We provide updated National Land Transport Fund (NLTF) forecasts to the Treasury for its six-monthly Economic and Fiscal Updates

- 1 In 2012, Cabinet directed Te Manatū Waka the Ministry of Transport to report to the Ministers of Transport and Finance on actual and forecast NLTF revenue and expenditure<sup>2</sup>. This is to ensure that Ministers are aware of NLTF performance, and that any risks are adequately managed.
- 2 We refresh our forecasts of NLTF revenue based on the most up-to-date data at each of the Treasury's forecasting rounds. These six-monthly forecasts are based on a range of inputs such as fuel price, vehicle kilometres travelled and a range of macro-economic variables. The Half-Yearly Economic and Fiscal Update (HYEFU) 2021 includes Track User Charges in NLTF forecasting for the first time.
- 3 The result of the Treasury's forecasting rounds is the HYEFU in the 2<sup>nd</sup> quarter of each financial year and the Budget Economic and Fiscal Update (BEFU) in the 4<sup>th</sup> quarter of each financial year.

### Compared to BEFU 2021, our updated forecasts predict a decrease in NLTF revenue over the short, medium, and long term

- 4 Our forecasts make the following key assumptions:
  - 4.1 There are no forecast increases to Fuel Excise Duty (FED) and Road User Charges (RUC) rates. This is consistent with the GPS 2021, which states there will be no increases in the next three years.<sup>3</sup>
  - 4.2 There are no further significant travel restrictions due to COVID-19. This is in line with Treasury's assumptions and macroeconomic forecasts for this update.
  - 4.3 The Government's transport decarbonisation policies are revenue neutral. It's unlikely this would be the case, but we need to undertake further work before we can reliably include the impact of these policies in our revenue forecasts.
- 5 Table 2 sets out a summary of the forecast revenue flow to the NLTF over the coming financial year. The drop in revenue is driven by reduced vehicle travel due to the most recent COVID-19 restrictions. The majority (82 percent) of the revenue impact is through decreased FED receipts, reflecting that personal travel significantly decreased while freight, as an essential service, broadly carried on as normal.

<sup>2</sup> EGI Min (12) 17/4 refers

<sup>3</sup> Note that the NLTF does not rise with inflation, only with any increases in travel (currently around x percent per year) and increases to FED and RUC rates, which are set by Government via legislation.

**Table 2: Comparison of forecast NLTF revenue for the 2021/22 financial year.**

|   | BEFU<br>2021 | HYEFU<br>2021 | Difference    |             |
|---|--------------|---------------|---------------|-------------|
|   | (\$ million) |               | (\$ million)  | (%)         |
| Road user charges                             | 1,953        | 1,922         | -31.4         | -1.6        |
| Fuel excise duty                              | 2,227        | 2,084         | -143.9        | -6.5        |
| Motor vehicle registration and licensing fees | 222          | 231           | 9.6           | 4.3         |
| Track user charges                            | n/a          | 8             | 8.0           | -           |
| <b>Total</b>                                  | <b>4,402</b> | <b>4,244</b>  | <b>-157.7</b> | <b>-3.6</b> |

- 6 Over the three-year period of NLTP 2021 (2021-24) our updated forecasts predict a net income to \$13.2 billion, a decrease of \$353 million or -2.6% compared to BEFU 2021 (Table 1). Most of the expected revenue impact is in the current 2021/22 financial year, but we are expecting shortfalls in the following years - \$108 and \$87 million respectively.
- 7 Table 3 shows the forecast revenue for NLTP 2021 compared to the activity class ranges set out in the Government Policy Statement on land transport 2021/22–2030/31 (GPS 2021). Compared to last year's HYEFU, we expect an improved financial position for NLTP 2021. Our low scenario now has \$42 million of flexibility, compared to a \$180 million shortfall we forecast last year [refer OC200912]. Likewise, the HYEFU 2021 medium and high scenarios have an improved margin against the lower funding range of \$177 million and \$130 million respectively.

**Table 3: Impact of Low, Medium, and High volume NLTF estimates on meeting GPS 2021 Lower Expenditure Ranges throughout the NLTP 2021.**

|                 | GPS 2021 Lower<br>Expenditure Range<br>(\$ million) | NLTF<br>Low Scenario<br>(\$ million) | NLTF<br>Medium<br>Scenario<br>(HYEFU<br>2021)<br>(\$ million) | NLTF<br>High Scenario<br>(\$ million) |
|-----------------|---|--------------------------------------|---|---------------------------------------|
| 2021/22         | 4,245   | 4,185 (-60)                          | 4,244 (-1)  | 4,304 (+59)                           |
| 2022/23         | 4,315   | 4,314 (-1)                           | 4,404 (+89)   | 4,496 (+181)                          |
| 2023/24         | 4,320   | 4,423 (+103)                         | 4,524 (+204)  | 4,626 (+306)                          |
| Gap/Flexibility | N/A   | (+42)                                | (+291)  | (+547)                                |

Note: yearly gap/flexibility is denoted in brackets against each scenario as either +/-.

- 8 Across the full 10-year period covered by GPS 2021 we forecast a net reduction in revenue of \$551 million, or -1.2% compared to BEFU 2021. This will place further pressure on the ability to deliver on the objectives of GPS 2021 beyond the current NLTP.
- 9 Despite this, forecast NLTF revenue exceeds the aggregate lower activity class range by at least \$2,771 million (low revenue scenario) to \$4,161 million (medium revenue scenario).



**The gap between revenue and investment can be somewhat mitigated through the planned \$2 billion Crown loan facility**

- 10 In August 2021, the Crown agreed in-principle to address the investment gap in NLTP 2021 by providing a further Crown loan facility of up to \$2,000 million to Waka Kotahi [CAB-21-MIN-0337 refers]. This was requested by Waka Kotahi prior to formally adopting the NLTP 2021 on 1 September 2021.
- 11 A paper outlining the appropriation recommendations for the facility is scheduled to be considered by the Economic and Development Committee on 8<sup>th</sup> December.
- 12 The Crown also provides \$3,909 million of additional debt to Waka Kotahi (\$2,050 million for Public Private Partnerships and the remaining \$1,859 million for other expenditure). These loans are almost fully utilised or unable to be drawn down further, except for \$175 million of the revenue/expenditure component of the revolving facility and \$50 million for management of annual cash flow variation.
- 13 We expect that any reduction in revenue can be partially managed through utilising the \$175 million available in the revenue shock facility (which would need to be repaid within 4 years). Any further reduction can be offset in the short-term by utilising part of the \$2,000 million facility sooner than planned, but this would need to result in reduced expenditure later in the NLTP period (unless revenue later recovers).
- 14 The main risk of using debt to cover NLTF expenditure is that future revenue hypothecated for transport projects will instead be spent servicing debt. The Land Transport Revenue Review (being undertaken jointly by the Te Manatū Waka, Treasury, and Waka Kotahi) will look at how this debt is best managed and repaid.

**We will continue to monitor NLTF revenue and our next forecast will be completed in May 2022**

- 15 We will continue to monitor the actual NLTF revenue received on a quarterly basis and we will update you through the weekly report. We will also regularly assess the impact that any reduced revenue is having or forecast to have on expenditure under the NLTP 2021.
- 16 The next NLTF revenue report will be provided to your Office in May 2022 as part of the BEFU 2022 process. This will advise if there is any significant deviation between actual revenue received and our NLTF forecasts.

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**In Confidence**

Minister of Transport

Cabinet Economic Development Committee

**Clean Vehicle Bill Targets and Other Matters****Proposal**

- 1 This paper seeks agreement to amend Clean Vehicle Standard (the Standard) carbon dioxide (CO<sub>2</sub>) targets following submissions on the Land Transport (Clean Vehicles) Amendment Bill (The Bill) and revise exclusions on some vehicle types.

**Relation to Government priorities**

- 2 In December 2020 this Government declared a climate emergency and the Clean Car Programme, including the Standard and the Clean Car Discount scheme (the Discount), is one of a number of actions the Government has taken in response. The Clean Car Programme also gives effect to the commitment in the Labour Party's Clean Energy Plan to accelerate the electrification of the transport sector and to our Cooperation Agreement with the Green Party of "increasing the uptake of zero-emission vehicles".
- 3 The Clean Car Programme will be one of a number of transport policies to be included in the Government's first Emissions Reduction Plan (ERP), which will be published by 31 May 2022. The ERP, led by the Minister of Climate Change, will outline the strategies and policies that will be used to achieve the first emissions budget for 2022–2025, and will be built on to deliver the second and third budgets (over the 2025–2030 and 2030–2035 periods).

**Summary**

- 4 The Bill will implement the Standard and the Discount as agreed by Cabinet in February and June 2021<sup>1</sup>. A draft Bill was introduced to Parliament in September 2021 and was referred to the Transport and Infrastructure Select Committee (the Committee). In November 2021, officials reviewed the 135 written submissions made on the Bill and 28 oral submissions made to the Committee<sup>2</sup>. Submitters represented the motor vehicle industry, local government, individuals, and others.
- 5 Among the key issues raised in submissions were concerns about the ability of vehicle importers to achieve the CO<sub>2</sub> reduction targets that the Bill proposed to legislate in years 2025, 2026, and 2027. Concerns were particularly raised for years 2026 and 2027. In response to these concerns, I am seeking Cabinet's decision on whether to relax the 2026 targets and to set the 2027 target by regulation at a later time. These changes would seek to strike a balance between calls from many in the vehicle industry to ease these targets so they can achieve them with less difficulty, against the Government's, and of many other submitters, priority to rapidly decarbonise transport.
- 6 Adjusting the 2026 target will acknowledge the increased uncertainty, relative to earlier this year, about the availability of supply of low emissions commercial

<sup>1</sup> Refer CAB-21-MIN-004 and CAB-21-MIN-181.1, and CAB-21-MIN-316 to introduce the Bill.

<sup>2</sup> Submissions are published and available at [https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL\\_115766/tab/submissionsandadvice](https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_115766/tab/submissionsandadvice).

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vehicles, including utes, and ongoing disruption in the supply chain and availability of key vehicle components. Deferring setting the 2027 target will mean industry is less able to plan for that year, but will allow this target to be finalised when there is better information about supply and in the wider context of our Emissions Reduction Plan which will be adopted in mid 2022. The Emissions Reduction Plan is also expected to clarify the Government's intentions with regard to a timeline for phasing out import of internal combustion engine vehicles; this will support industry planning and mitigate deferral of setting the 2027 target.

- 7 Cabinet has already agreed to review the targets in 2024 (CAB-21-MIN-004 refers). This means that whether we choose to keep the current targets in the Bill, or relax them, their levels will be still be reviewed, and can adjusted up or down if necessary, in 2024.
- 8 Some of the other issues raised in submissions on the Bill relate to exclusions, which are not in the scope of the Bill. Instead, the exclusions are in scope of the regulations I will be making separately for the Discount and the Standard in 2022. In this paper I recommend Cabinet agree to changes to policy it has previously agreed [CAB-21-MIN-004; CAB-MIN-21-181.1 refer]. These exclusions would address concerns raised about disability vehicles, motorsport vehicles, and scratch-built and modified vehicles.

s 9(2)(f)(iv)

#### **We should consider whether to retain the current 2023, 2024, and 2025 targets, but relax the 2026 target**

- 10 Many submitters on the Bill commented on the CO<sub>2</sub> targets proposed as part of the Clean Vehicle Standard. Thirteen submitters wanted the targets to be more ambitious, with some, such as Auckland and Wellington City Councils, seeking the targets phase out the importation of petrol and diesel vehicles altogether. The VIA, representing used vehicle importers, noted the challenge of the targets however broadly supported the ambition of the Bill.
- 11 Seventeen submitters, mostly comprising distributors of brand new petrol and diesel vehicles, including the Motor Industry Association (MIA), stated that the targets, mostly in years 2026 and 2027, were unachievable.
- 12 Targets are integral to how the Standard will work. The Standard will require importers to increase the supply and variety of zero and low emissions vehicles available for purchase in New Zealand. Annually strengthening CO<sub>2</sub> targets on importers of new and used light vehicles will reduce the emissions from light vehicles entering our fleet over time, to help us meet our 2050 net-zero carbon emissions target.
- 13 The legislated emissions targets which are set out in this Bill need to strike the right balance. They should not be so strict that importers cannot supply the low emissions vehicles required at an acceptable price, but they must be strong enough that New Zealand is prioritised in global markets for supply of the most efficient models of vehicles. In oral hearings on the Bill, many local vehicle distributors noted that having

regulated targets provided leverage to secure zero and low emission vehicles from their parent companies.

- 14 New Zealand's average vehicle carbon dioxide emissions are among the highest in the world, and as a consequence, the rate of improvement New Zealand needs to achieve will be much faster than other automotive markets, such as Japan, Europe, and North America, which have regulated for vehicle emission reductions for decades.
- 15 I am confident about the achievability of our targets over the 2023 to 2025 period. The introduction of rebates on electric vehicles in July 2021 led to a significant and sustained increase in EV uptake, meaning, we are already close to reaching the 2023 CO<sub>2</sub> reduction target for new passenger cars. Our CO<sub>2</sub> target for 2025 has already been achieved by major global markets including the UK and Europe. Our largest vehicle distributor by volume, Toyota, supports our 2025 target.

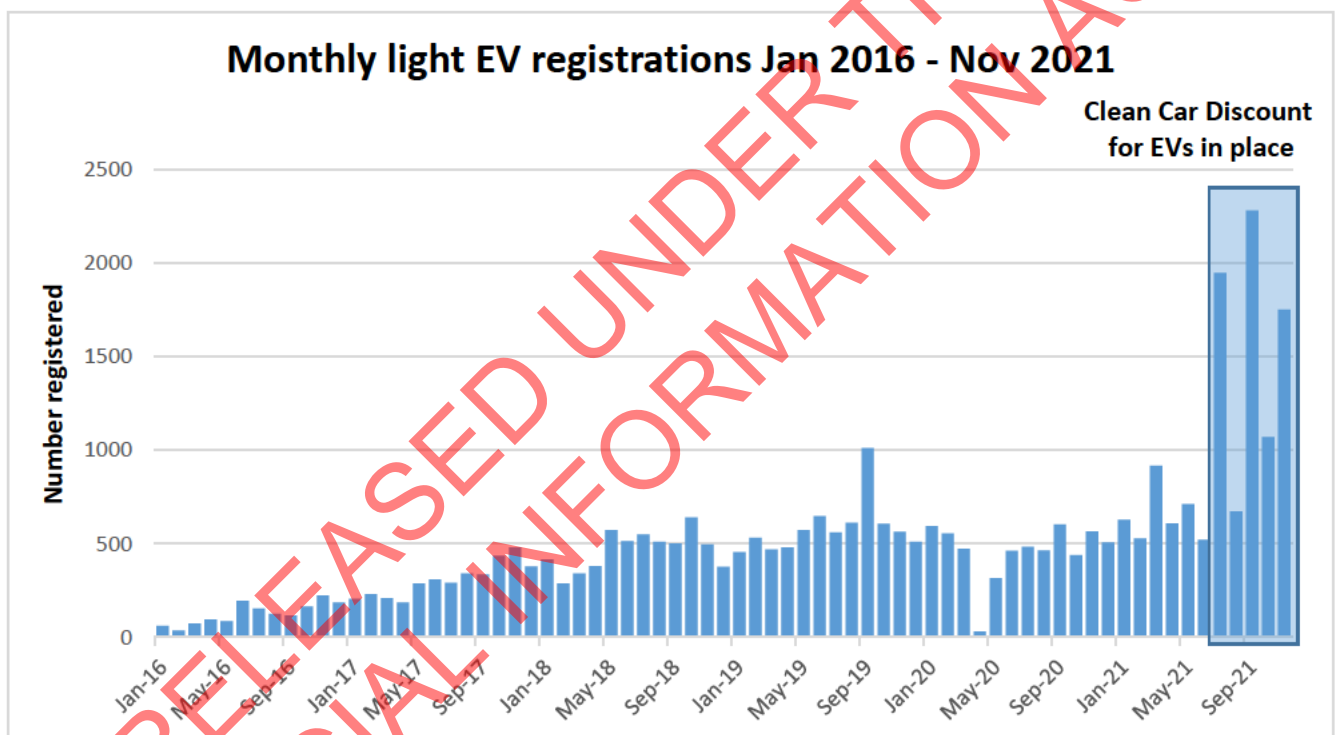


Figure 1: Monthly light electric vehicle (EV) registrations. Note that COVID-19 has contributed to limiting sales in some months.

- 16 The key uncertainty with reaching the 2026 targets is the potential lack of availability of zero and low emitting utes. Utes vehicles make up a significant proportion of vehicle sales today however there is presently no electric (zero emission) or hybrid (low emission) ute for sale in New Zealand, despite earlier industry indications that these would be available locally by now. The MIA, representing distributors of new vehicles, suggests there will be at least 10 models of electric or hybrid utes by 2025, which is promising, but uncertainties over volume and vehicle capability remain.
- 17 Established brands such as Toyota and Ford are predicted to offer electric utes to New Zealand but are yet to make commitments around dates or volume. Ford has begun selling hybrid and electric utes in the US, and has announced it will do



likewise by 2024 in Europe<sup>3</sup>, including that New Zealand's top-selling ute, the Ford Ranger, will eventually be 'electrified'. Toyota has announced by 2030 it will offer 30 electric models globally by 2030, comprising over 3 million sales annually, though has not currently announced the timing of an electric ute within that framework.<sup>4</sup>

- 18 Over the past decade, utes have doubled from 6 percent of newly imported vehicle sales in 2010 to 13 percent in 2021. The Bill will place pressures on the vehicle market that will likely cause some reversal of this growth trend, and will encourage the substitution of high emission utes with lower-emission vans and 4WD SUVs. However, achieving the Bill's CO<sub>2</sub> targets will likely rely on electric utes being supplied to our market, especially from 2026.
- 19 There are already hybrid and electric cars, SUVs, and vans in both the new and used markets, so target achievability in those segments, in comparison to utes, is less of a concern.
- 20 Where importers sufficiently overachieve their passenger vehicle target, they can underachieve their commercial target by the same amount, to avoid charges. This offsets the pressure to supply low emissions utes in the short term, to a degree.
- 21 Through submissions to the Bill, the MIA and a number of vehicle importers proposed that New Zealand lag two years behind the vehicle CO<sub>2</sub> targets currently enacted in the EU. This would represent a significant reduction in ambition and would risk New Zealand missing out on low and zero emission vehicles.
- 22 The EU Parliament is currently in the process of negotiating a new set of much stronger targets that would also phase out petrol and diesel vehicles entirely by 2035<sup>5</sup>. The UK has announced it will also set targets stronger than current EU regulations from 2024, leading to the phase out of petrol and diesel vehicles in 2030, and phase out of hybrids in 2035, leaving only zero emission vehicles from 2035<sup>6</sup>.
- 23 Whilst these foreign targets have not yet been enacted, brands that are significant both to Europe and our local market have announced positive responses. Ford intends to sell only zero emission cars in Europe from 2030<sup>7</sup>, and Toyota likewise for all vehicles sales in Western Europe by 2035<sup>8</sup>; noting both intend to continue to sell petrol and diesel vehicles in other markets where CO<sub>2</sub> regulations are less strict.
- 24 Striking a balance between feedback from submitters seeking variously that ambition be increased or decreased, uncertainties regarding future zero and low emission ute supply, and announcements that vehicle emission targets are being strengthened in key overseas jurisdictions, I recommend we give consideration to relaxing the 2026 targets.

<sup>3</sup> <https://media.ford.com/content/fordmedia/feu/en/news/2021/02/17/ford-europe-goes-all-in-on-evs-on-road-to-sustainable-profitabil.html>

<sup>4</sup> <https://global.toyota/en/newsroom/corporate/36428993.html>

<sup>5</sup> <https://www.euractiv.com/section/electric-cars/news/eu-signals-end-of-internal-combustion-engine-by-2035/>

<sup>6</sup> <https://www.gov.uk/government/publications/transitioning-to-zero-emission-cars-and-vans-2035-delivery-plan>

<sup>7</sup> <https://media.ford.com/content/fordmedia/feu/en/news/2021/02/17/ford-europe-goes-all-in-on-evs-on-road-to-sustainable-profitabil.html>

<sup>8</sup> <https://www.reuters.com/business/autos-transportation/toyota-says-all-europe-sales-will-be-zero-emission-cars-by-2035-2021-12-03/>

25 I do not agree with the proposal from the MIA to lag two years behind the enacted European targets as this would not see New Zealand make the progress we need in our light vehicle fleet in the near term, to contribute to our national emissions reductions targets. Instead, I propose the change would be based upon figures in the existing EU targets referenced in the MIA's submission<sup>9</sup>. This change is expected to increase the likelihood of achieving the CO<sub>2</sub> targets in the Bill by allowing different ratios of vehicle types. For example:

25.1 The 2026 Type A (cars and SUVs) target could be achieved with a 35% mix of petrol vehicles rather than 30%. It still relies on a significant proportion of electric (20%), plug-in hybrid (15%), and hybrid (30%) car sales. The change in ambition is small.

25.2 The Type B (utes and vans) vehicle target can be achieved with a 60% mix of diesel vehicles instead of 40%. It relies on 20% electric and 10% plug-in hybrid ute/van sales in 2026. This is a reduction in ambition and responds to the uncertainty about the supply of electric and hybrid utes noted earlier.

#### It may also be preferable to defer setting the 2027 targets

26 I have considered whether it would be appropriate to reduce the level of ambition for the 2027 targets to address the concerns of vehicle importers. However, I do not advise this at this time.

27 I consider that it may be preferable for the Bill to remain silent on the 2027 target. The EU is actively negotiating stronger long-term targets, as are the UK and US, and there will be a wider range of low and zero emission utes available in a few years' time.

28 The Bill currently provides that initial targets be set in primary legislation, and that later targets, from 2028 be set by regulation. Therefore, I consider the 2027 target should be set at a later date by regulation. This will be informed by updated information regarding the vehicle market and supply closer to that time (addressing current uncertainties). The 2027 target could be set later in 2022 through Order in Council, in the context of the final Government's Emissions Reduction Plan

s 9(2)(f)(iv)

Government could set the 2027 target in 2023 if it wanted. Deferring setting the 2027 target beyond 2023 may compromise manufacturers' ability to plan and order stock.

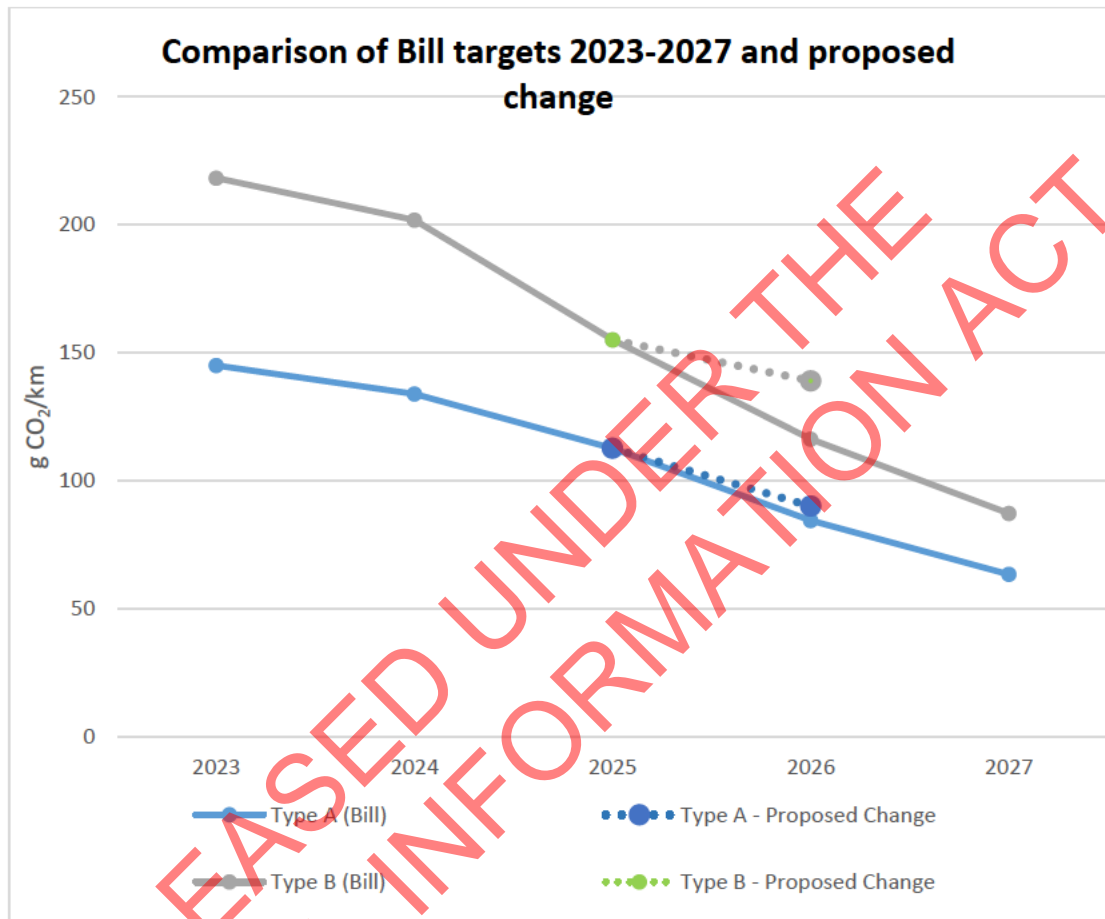
29 A strong 2027 target, when set, will be needed in order for New Zealand to remain on course to decarbonise transport in line with our domestic CO<sub>2</sub> targets/budgets and international commitments.

30 If agreed, I propose to introduce these amendments by Supplementary Order Paper at the Committee of the whole House stage of the Bill. The following table and graph detail the changes I am proposing for 2026 and 2027.

|      | Type A Vehicle (Cars and SUVs)                     |  | Type B Vehicles (Vans and utes)                    |  |
|------|--|--|--|--|
| Year | Target Proposed by Bill<br>(g CO <sub>2</sub> /km) | Change proposed<br>(g CO <sub>2</sub> /km) | Target Proposed by Bill<br>(g CO <sub>2</sub> /km) | Change proposed<br>(g CO <sub>2</sub> /km) |
| 2023 | 145  | No change                                  | 218.3  | No change                                  |

<sup>9</sup> Figures supplied by the MIA. As the EU regulations are based on a different emissions test measurement system, they cannot be used verbatim.

|      |       |                         |       |                         |
|------|-------|-------------------------|-------|-------------------------|
| 2024 | 133.9 | No change               | 201.9 | No change               |
| 2025 | 112.6 | No change               | 155.0 | No change               |
| 2026 | 84.5  | 90.0                    | 116.3 | 139.0                   |
| 2027 | 63.3  | Set by regulation later | 87.2  | Set by regulation later |



- 31 Cabinet has already agreed to review the targets in 2024 (CAB-21-MIN-004 refers). This means that whether we choose to keep the current targets in the Bill, or relax 2026 and defer 2027 as I propose, their levels will still be reviewed, and can be adjusted up or down if necessary, in 2024.

**I recommend that disability vehicles and motor sport vehicles be excluded from some charges set by the Clean Car Programme**

- 32 Submissions to the Bill proposed that various groups be excluded from paying charges that arise from individual vehicles exceeding the thresholds in the Clean Vehicle Discount scheme and/or Clean Car Standard. The request for exclusions included utes, campervans, motorsport vehicles, and disability vehicles. I do not consider it appropriate to provide exclusions to utes or campervans, as, due to their high emissions, and especially in the case of utes, their high sales volumes, reducing emissions from these vehicles is key to decarbonising our fleet. There are however some areas where I propose changes. I am seeking agreement to these matters now in order for decisions to be reflected in regulations that must be drafted early in 2022.

*Motor sport vehicle exclusion*

- 33 According to a submission made by the Low Volume Vehicle Technical Association (LVVTA) there are between ten to fifteen motor sport vehicles imported into New Zealand annually. These vehicles are captured incidentally by the Discount and Standard schemes, as the vehicles are required to be road-registered to travel on sections of public roads that are legally closed for rally racing. These motor sport vehicles are already exempted from requirements in a number of land transport rules. I recommend they also be excluded from both the Standard and the Discount Scheme. This exclusion would have a very minor effect on emissions.

*Disability vehicles exclusion*

- 34 Approximately 500 vehicles a year are modified for disability purposes, either in New Zealand or overseas (primarily Japan) and then imported. Modifications are to make the vehicle able to be operated with different controls (such as hand only controls), to support disabled drivers, or enable passengers to be carried while seated in wheelchairs. Most vehicles that are modified in New Zealand for disabled users are vehicles that are already in the fleet, purchased second hand. Only a few hundred vehicles<sup>10</sup> are imported each year either intended for modification or already modified, and so would be subject to the Standard or the Discount. I propose that these imported vehicles would not be subject charges under the Discount.
- 35 Officials do not have data on the emissions for the imported modified vehicles, but it is likely that larger vehicles, such as vans used for the carriage of wheelchairs, would often incur a charge under the Discount. Those modified for hand controls could, however, be almost any kind of vehicle.
- 36 Submitters on the Bill, representing the disability community and importers of disability vehicles, noted that in particular, it is difficult to modify electric vans to support wheelchairs given the underfloor position of batteries. They considered it would be unfair to penalise the sector, if there were no viable alternatives.
- 37 Because they are modified<sup>11</sup>, disability vehicles are required to be issued certificates to show that they conform to a modification defined as "LV3A" or "LV3B". These certificates are issued through the Low Volume Vehicle system that is overseen by the LVVTA<sup>12</sup>, which is an independent organisation that is recognised in transport legislation. I recommend that vehicles that are issued with certificates for these codes are excluded from charges under the Discount, though such vehicles could still be eligible for rebates if they were relevant. It is not possible under the scheme to exempt vehicles from fees if they are modified after the vehicle is registered.
- 38 Although I propose to remove disability vehicles from the Discount, I propose that such vehicles should remain in the Standard. This is because there are low and zero emission options for at least some vehicle types adapted for non-wheelchair related modifications. Importers can also offset any fees for high-emitting vehicles by also importing low-emitting cars and vans. If any concerns arise following the

<sup>10</sup> A review of data for 2021 year to date shows that 200 of the 449 disability vehicles were modified prior to, or within 60 days of, being first registered.

<sup>11</sup> 'Modified' is a legally defined term in the Land Transport Vehicle Standards Compliance Rule 2002.

<sup>12</sup> Code LV3A defines non-structural disability vehicle modifications (388 registrations Jan-Oct 2021) and LV3B defines structural disability vehicle modifications (34 registrations Jan-Oct 2021). Most of these were second-hand vehicles that would not have had charges imposed on them. Refer [https://www.lvvt.org.nz/documents/supplementary\\_information/Limitations\\_of\\_LVV\\_Certifier\\_categories.pdf](https://www.lvvt.org.nz/documents/supplementary_information/Limitations_of_LVV_Certifier_categories.pdf)



implementation of this policy, it can be reviewed as part of the planned review in 2024.

*Modified vehicles exclusion*

- 39 I also recommend that an issue relating to excluding modified vehicles from the Standard, which was raised by the LVVTA in its submission on the Bill is addressed. Cabinet agreed that ‘scratch-built’ vehicles and modified vehicles certified by the Low Volume Vehicle Technical Association Incorporated” are excluded from the Standard (CAB-21-MIN-004 recommendation 48.5). An exclusion for scratch-built vehicles remains acceptable. It relates to only 5 to 10 vehicles a year and there is no facility in New Zealand that can measure the emissions of such vehicles using the WLTP<sup>13</sup> test procedure, required for testing imported vehicles. For the same reason, I would seek that this exclusion be expanded to the Discount.
- 40 However, I am concerned that the vehicles covered by the term “modified” would include vehicles subject to routine modifications such as those made to taxis or the addition of optional extras such as bull-bars on utes. That could create an opportunity for vehicles to escape the policy that is unintended and unfair. I recommend that the exclusion be narrowed to scratch built vehicles only.
- 41 The VIA, which represents used vehicle importers, proposed that importers should be able to import petrol cars and convert these to be EVs. They asked that once they were converted, these vehicles should be able to receive the full benefit of selling a used-import electric vehicle under the Standard and Discount.
- 42 I recommend that Cabinet agree that vehicles that are converted to be EVs before they are certified for entry into service be eligible for any discount under the Discount, and that these vehicles would be treated as having zero emissions for the purposes of calculating their contribution to an importer’s targets in the Standard. This would be on the proviso that such vehicles would need to be: modified before they are entry certified (as this is the point at which the Standard applies); operate exclusively as a zero emission vehicle; and the modification would need to be certified under the LVV standard for electric vehicle conversion<sup>14</sup>.

**I recommend that Waka Kotahi be enabled to refund charges in two specific scenarios**

- 43 There is currently no explicit provision where charges under the Clean Car Discount Scheme that are paid to Waka Kotahi relating to high emitting vehicles can be refunded. There are two obvious cases where this should be permitted:
- 43.1 In the case that an error has resulted in excess charges being paid. In this situation, Waka Kotahi should refund the excess or the amount paid in error.
- 43.2 In the case that the first registration of the vehicle has been reversed. There are limited grounds for reversing the first registration of a vehicle<sup>15</sup>, including that the customer does not take possession of the vehicle, and that the reversal occurs within 28 days of registration. In such a situation, Waka Kotahi should refund the charge paid. When the vehicle is subsequently then

<sup>13</sup> Worldwide Harmonised Light Vehicles Test Procedure.

<sup>14</sup> <https://www.lvvt.org.nz/documents/standards/LVVTA STD Electric and Hybrid Vehicles.pdf>

<sup>15</sup> See conditions of the MR2D vehicle registration reversal process at <https://www.nzta.govt.nz/vehicles/motor-vehicle-traders/buying-and-selling/>

registered by someone else, the applicable charge would then be imposed on the new buyer.

s 9(2)(f)(iv)

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### **Financial Implications**

52 There are no financial implications from the recommendations in this paper.

### **Legislative Implications**

53 I propose to introduce amendments to the 2026 and 2027 targets in the Bill by Supplementary Order Paper at the committee of the whole House stage of the Bill.

- 54 The excluded vehicles for the Clean Vehicle Discount scheme will be prescribed in the Land Transport (Clean Vehicle Discount Scheme) Charges Regulations, which I will recommend once the Bill is passed. The excluded vehicles for the Clean Vehicle Standard will be prescribed in regulations for the Standard, later in 2022.
- 55 The Bill is currently being considered by the Transport and Infrastructure Committee and is scheduled to be reported back to the House on 2 February 2022.

## Impact Analysis

### *Climate Implications of Policy Assessment*

- 56 The cumulative CO<sub>2</sub> abatement provided by targets and policy proposed by the Bill for the period 2022-2030 is expected to be 1.8 to 7.2 mega tonnes, which is an improvement on the range of 1.5 to 6.3 mega tonnes that had been modelled prior to the factoring of the 2026 and 2027 CO<sub>2</sub> targets into the Bill. The more relaxed vehicle targets for 2026 have not been modelled but would shift the abatement to between those two ranges.

### Population Impact

- 57 There are no significant gender, disability, or other population implications from the policy. The policy is forecast to save households at least \$6,800 per vehicle through fuel savings.
- 58 Over 70 percent of annual vehicle sales are of vehicles already in the New Zealand fleet. These vehicles will not be subject to the Standard. This minimises the likelihood that groups such as lower income households and younger workers and students would be negatively affected by the Standard.
- 59 The proposal in paragraphs 33-37 to remove disability vehicles from the discount scheme will, if agreed, reduce potential negative cost impacts for the disability community.
- 60 People and businesses who require vehicles such as utes, where low emissions options are limited, could face an increase in vehicle prices in the early years of this policy.

### Consultation

- 61 This paper was provided to the following agencies for consultation: Waka Kotahi NZ Transport Agency, Ministry for the Environment, Ministry for Primary Industries, Inland Revenue, Ministry of Business Innovation and Employment, Energy Efficiency and Conservation Authority, Ministry of Foreign Affairs and Trade, and the Treasury. The Department of Prime Minister and Cabinet has been informed.

### Proactive Release

- 62 I intend that this paper be proactively released, subject to any necessary redactions consistent with the Official Information Act 1982, within 30 business days of decisions being confirmed by Cabinet.

### Recommendations

The Minister of Transport recommends the Cabinet Economic Development Committee:

- 1 **note** vehicle CO<sub>2</sub> targets in the Bill should be set so as to maintain affordable supply and ensure New Zealand is prioritised in global markets for supply of low emission vehicles
- 2 **note** that due to a lack of firm commitments by manufacturers about supplying zero emission vehicles to New Zealand, there is uncertainty about the achievability of our 2026 and 2027 targets
- 3 **note** that Cabinet has agreed in 2024 to review Clean Car Standard CO<sub>2</sub> targets, allowing targets to be relaxed if they are too challenging, or tightened if that is appropriate (CAB-21-MIN-004 refers).
- 4 **agree** that for the 2026 target in the Land Transport (Clean Vehicles) Amendment Bill  
EITHER
  - 4.1 Retain the 2026 targets currently in the Bill
  - OR
  - 4.2 Amend the Type A vehicles target from 84.5 grams to 90 grams (CO<sub>2</sub> per km, 3-phase WLTP); and
  - 4.3 Amend the Type B vehicles target from 116.3 grams to 139 grams (CO<sub>2</sub> per km, 3-phase WLTP)
- 5 **agree** that for the 2027 target in the Land Transport (Clean Vehicles) Amendment Bill  
EITHER
  - 5.1 retain the 2027 targets currently in the Bill
  - OR
  - 5.2 the 2027 targets be removed from the Bill and instead set by regulation at a later date
- 6 **agree** that I propose these amendments by Supplementary Order Paper at the Committee of the whole House stage of the Bill
- 7 **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to draft a Supplementary Order Paper to give effect to recommendation 4.2, 4.3 and 5.2
- 8 **authorise** the Minister of Transport to make any minor, technical, or consequential changes that arise consistent with the policy intent of recommendation 4.2, 4.3 and 5.2
- 9 **rescind** CAB-21-MIN-004 recommendation 48.5 which excluded “scratch built vehicles and modified vehicles certified by the Low Volume Vehicle Technical Association Incorporated” from the Clean Vehicle Discount
- 10 **agree** to the following changes to exclusions in the Clean Vehicle Discount and Clean Vehicle Standard, as specified in each case:



- 10.1 that motor sport vehicles, as defined in the Land Transport Rule: Frontal Impact 2001, are excluded from the Clean Vehicle Standard and the Clean Vehicle Discount;
- 10.2 that disability vehicles that have a modification that are issued a "LV3A" or "LV3B" certificate through the Low Volume Vehicle process prior to being registered are excluded from paying charges under the Clean Vehicle Discount, and that they are otherwise included in the Clean Vehicle Standard and Clean Vehicle Discount, including being eligible for rebates;
- 10.3 that scratch-built vehicles certified through the Low Volume Vehicle Technical Association Incorporated's processes are excluded from Clean Vehicle Discount and the Clean Vehicle Standard;
- 11 **agree** that any vehicle that is imported and converted to zero emissions before it is entry certified can be treated as though it was manufactured as a zero emission vehicle for the purposes of the Clean Vehicle Standard and Clean Vehicle Discount
- 12 **note** that the list of excluded vehicles will be prescribed in regulations for the Clean Vehicle Discount and Clean Vehicle Standard
- 13 **agree** charges paid under the Clean Car Discount Scheme may be refunded
- 13.1 where Waka Kotahi is satisfied that an error has resulted in excess charges being paid and that any refund will be to the extent of the excess or the amount paid in error, or
- 13.2 where the first registration of the vehicle has been reversed.
- 14 **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the policy proposals in recommendations 10 and 13 in regulations relating to the Clean Vehicle Discount and Clean Vehicle Standard, as applicable, including any necessary consequential amendments, savings and transitional provisions
- 15 **authorise** the Minister of Transport to make any minor, technical, or consequential changes that arise consistent with the policy intent of recommendations 10 and 13

s 9(2)(f)(iv)



s 9(2)(f)(iv)



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## COMMERCIAL IN CONFIDENCE

**Commercial in Confidence**

Office of the Minister of Transport

Cabinet Economic Development Committee

**COVID-19- Extension of the Essential Transport Connectivity (ETC) Scheme to 2022****Proposal**

- 1 This paper seeks agreement to extend the Essential Transport Connectivity (ETC) Scheme to 30 April 2022 to align with the proposed commencement of Step 3 of Reconnecting New Zealanders. It also informs Cabinet of the proposed approach to maintaining interregional connectivity in the South Island in the absence of international tourists.

**Relation to government priorities**

- 2 This proposal supports the Government's economic response to COVID-19 through its efforts to cushion the financial blow to whānau and families, workers, businesses and communities from the impacts of COVID-19, position New Zealand for recovery, and reset and rebuild our economy.

**Executive Summary**

- 3 The Essential Transport Connectivity Scheme (ETC) supports the continued operation of essential transport routes and services in the face of COVID-19 travel restrictions and reduced passenger demand. The ETC is due to expire on 31 December 2021.
- 4 I recommend Cabinet agree to extend the ETC scheme to 30 April 2022 to align with the planned Step 3 of Reconnecting New Zealanders and to ensure essential transport services are maintained while domestic travel recovers from the impact of the current, and any future, COVID-19 restrictions. Extending the ETC scheme ensures that transport connections can be maintained despite the uncertain impact of COVID, and places New Zealand and its transport operators in a strong position for recovery. Given the proposed staged approach to Step 3, I will come back to Cabinet closer to the time if passenger numbers do not look sufficient and further extension is necessary.
- 5 Extending the ETC does not automatically commit the Government to providing funding for services. ETC funding agreements are generally short term to ensure that the ETC is not locked into providing support for longer than is necessary. s 9(2)(b)(ii)  
 [REDACTED] The level of support provided decreases as passenger numbers increase. The ETC being available to provide support does not mean that it will always do so.
- 6 I expect the extension to cost an average of s 9(2)(b)(ii) per month s 9(2)(b)(ii)  
 [REDACTED] The actual spend may in fact be much lower as passenger travel increases, and the amount of support required declines. The extension does not require any new funding as there is sufficient funding remaining within the existing ETC appropriation. s 9(2)(b)(ii)  
 [REDACTED]

- 7 I also recommend Cabinet agree that funding for South Island interregional bus services be available through to 30 June 2022 (i.e. beyond the 30 April 2022 end date set out above). This will enable the Ministry of Transport to run an open market procurement for these services. s 9(2)(b)(ii)

As with the ETC's current funding model, if the new operator is able to operate commercially, then no support will be provided. The Ministry of Transport will also work with regional councils to investigate ways to transfer responsibility for these services away from the ETC and central Government from 30 June 2022.

**The ETC was established to ensure essential transport connections were maintained despite the impacts of COVID-19**

- 8 From March 2020, the COVID-19 lockdowns and Alert Levels resulted in local and domestic travel restrictions which significantly impacted the operation of some transport routes and services. These routes were either unable to be operated or operated at reduced capacity due to social distancing requirements. Additionally, New Zealand closed its borders to international travellers. These closures saw the disappearance of the international tourism market overnight and resulted in a marked decrease in domestic travel.
- 9 The dramatic decrease in passenger demand and revenue placed some transport operators and service providers under immense pressure, causing services to be cancelled, threatening the viability of some operators, and exposing potential gaps in regional connectivity. It also created a risk that the ability of New Zealand's transport services to recover post-COVID-19 would be significantly impacted.
- 10 The ETC scheme was established by Cabinet on 11 May 2020 to provide support to maintain these essential routes and services negatively impacted by COVID-19 [CAB-20-MIN-0219.28]. The scheme enables the government to respond quickly where the failure of a transport service would have significant negative social and economic outcomes and would impact New Zealand's post COVID resilience and recovery. The ETC scheme's funding comprised:
- 10.1 \$20 million to enable support for non-aviation essential transport operators [CAB-20-MIN-0219.28]; and
- 10.2 \$30 million to fund aviation initiatives under the scheme from the underspend of the \$600 million aviation relief package. This was subsequently reduced to \$10.7m to fund an extension of the International Airfreight Capacity scheme in September 2020.
- 11 The Ministry of Transport and the Treasury completed a review of the ETC scheme in April 2021 and recommended that the scheme be extended to 30 September 2021. Cabinet agreed to this extension and authorised joint Ministers<sup>1</sup> to extend the scheme for a further three months (up to 31 December 2021) if Ministers assessed that there is an ongoing need for support [CAB-21-MIN-0180].

<sup>1</sup> The Minister of Transport, Minister of Finance, Associate Minister of Finance responsible for aviation matters, and the Minister of Economic and Regional Development.



- 12 In response to the August 2021 COVID-19 outbreak in Auckland and the return to Alert Level 4 across New Zealand, joint Ministers agreed to extend the ETC to 31 December 2021. Cabinet agreement is required to extend the ETC beyond this date.

**The current Delta outbreak has lengthened the impact of COVID-19 on New Zealand's domestic transport services**

- 13 On 17 August 2021, New Zealand returned to Alert Level 4 nationally as a result of community cases of the COVID-19 Delta variant. Auckland remains at Alert Level 3 with the rest of the country at Alert Level 2. Since the emergence and taking hold of the Delta variant, the Government has signalled a shift away from its elimination strategy and move to a COVID-19 Protection Framework. The new framework is not expected to come into effect across the country before mid December (at the earliest) and may not apply to all of New Zealand equally (particularly in the event that local restrictions are required to protect the healthcare system or vulnerable population groups).
- 14 New Zealand's vaccine rollout has progressed at pace and there is expected to be a general relaxation of New Zealand's domestic COVID-19 settings under the COVID-19 Protection Framework. However, there is still significant uncertainty about what New Zealand's border settings and domestic restrictions will look like over the coming weeks and months. While it is possible that under the COVID-19 Protection Framework some services quickly become commercially viable, we do not expect this to be the case for all routes and services – particularly for those services which traditionally relied on international tourists to subsidise services for New Zealanders. There is a risk that:
- 14.1 In the immediate term, interregional travel settings remain in a state of flux with the return of some restrictions necessary to protect the healthcare system or high risk groups;
  - 14.2 In the short term, even with high vaccination rates and few to no travel restrictions, there is continued travel hesitancy and low passenger demand. If this occurs, then some essential transport routes and services may continue to be unviable;
  - 14.3 In the medium term, as a result of new variants of concern, a significant domestic resurgence, reduced vaccine effectiveness, or other unforeseen events, New Zealand faces a return to regional lockdowns and domestic travel restrictions. These events would mean that the ETC was once again needed to quickly stand-up support to ensure essential connections are maintained; and
  - 14.4 In the longer term, international tourists, which are an important source of revenue for many services which are also relied on by New Zealand travellers, may take some time to return as the Reconnecting New Zealanders strategy is implemented.
- 15 We know that even last summer, when there were no domestic transport restrictions or COVID-19 cases in the community, many essential transport services were unable to cover their costs of operating. It is a reasonable assumption that passenger demand over the coming months will be lower than last year. The emergence of the Delta variant in New Zealand, an unfamiliar COVID-19 alert framework, and increased travel hesitancy as a result of recent lockdowns are likely to mean that

fewer New Zealanders will be willing to travel long distances or rely on transport outside of a private vehicle over summer.

**I propose that the ETC scheme be extended to 30 April 2022 to ensure that essential transport connections are maintained while domestic travel recovers**

- 16 I consider it prudent to keep the ETC scheme in place until 30 April 2022. This would ensure that essential transport connectivity can be maintained while domestic travel increases and changes to New Zealand's COVID-19 settings are implemented. An extension of the scheme ensures that domestic transport operators have the confidence they need to schedule services, and passengers know that those services are not going to be cancelled on them at short notice if they might operate at a loss.
- 17 The 30 April end date aligns with the anticipated Step 3 of Reconnecting New Zealanders. At this point, eligible fully vaccinated travellers would be able to return to New Zealand in accordance with the staged approach proposed to be taken under step 3. Coupled with the earlier steps of Reconnecting New Zealanders (which will see an increase in New Zealanders wanting to travel to overseas departure points which boosts demand and the viability of essential transport services), it is hoped that demand for domestic services will be such that ETC support is no longer required.  
s 9(2)(f)(iv)
- 18 Extending the scheme also means that the ETC remains in place to provide rapid support in the event there are future lockdowns or unanticipated COVID-19 events. We have recently seen the value in being able to quickly respond to the impact of domestic travel restrictions. When New Zealand returned to Alert Level 4 in August 2021, the ETC was able to rapidly provide support to ensure that critical supplies continued to flow to isolated communities. For example, from 17 August to 4 November 2021, the ETC enabled over 190,000kgs of critical supplies (including fresh food and COVID-19 vaccines) to reach the residents of Great Barrier Island who would have otherwise been cut off.
- 19 I recommend Cabinet agree to extend the ETC scheme to 30 April 2022. This extension can be fully funded within the ETC's existing funding allocation. The ETC currently spends an average of ~s 9(2)(b)(ii) per month. We expect the amount of support required from operators to slowly decrease as passengers return. However, even if the ETC continues to provide support at its historic rate for the entire extension period, only s 9(2)(b)(ii) would be required. I expect the ETC to have s 9(2)(b)(ii) m remaining at 31 December 2021 to fund the extension (assuming no unexpected, large funding applications are received and approved between now and 31 December).
- 20 Extending the scheme does not mean all the support agreements currently in place would be automatically extended or funding provided. The Ministry of Transport would continue to enter into agreements under which s 9(2)(b)(ii) As passenger numbers increase, the cost to the Government automatically decreases. Support arrangements would continue to be regularly reassessed to determine whether support was still required.

**I recommend that Cabinet delegate some future funding decisions to the Secretary for Transport**

- 21 If Cabinet agree to extend the ETC scheme to 30 April 2022 then I recommend delegating some future, low value, funding decisions to the Secretary for Transport. For all other funding decisions, the current delegation of decisions to joint Ministers would continue to apply. The following framework sets out the limits of the proposed delegation to the Secretary.

- 21.1 approvals are delegated until 30 April 2022;
- 21.2 the applicant meets (or still meets) the eligibility criteria;
- 21.3 the funding agreement does not extend beyond 30 April 2022;
- 21.4 the approval or extension is within a funding envelope of up to \$0.500m per agreement;
- 21.5 the Treasury agrees that an application or extension should be put to the Secretary for consideration; and
- 21.6 the Secretary for Transport may delegate his authority to a Deputy Chief Executive of the Ministry of Transport.

- 22 As under previous delegations, the Ministry would continue to seek joint Ministers' approval where decisions are outside of the delegation to the Secretary for Transport, are considered sensitive, or where the Secretary determines that seeking Ministerial approval is appropriate.

**Regardless of a relaxation of domestic COVID-19 restrictions, I do not expect some interregional bus services in the South Island to be viable until international tourists return**

- 23 s 9(2)(b)(ii) [REDACTED] These regions have a low population density and have traditionally relied on international tourists to make transport services for residents viable. s 9(2)(b)(ii) [REDACTED]

- 24 s 9(2)(b)(ii) [REDACTED]

- 25 s 9(2)(b)(ii) [REDACTED]

s 9(2)(b)(ii)

- 26 Joint Ministers have agreed that should Cabinet agree to extend the ETC scheme, the Ministry of Transport will run an open market procurement to seek other operators who could stand up services on the West Coast and Christchurch to Queenstown (inland) routes. 9(2)(g)(i)

here is no guarantee that any operator would be willing to stand up new services in the current environment without some Government support – even if just to cover any losses while a new service is established.

- 27 s 9(2)(b)(ii), s 9(2)(g)(i)

While more international visitors are expected from 30 April under step 3, the return of these travellers is likely to be staged. A meaningful increase in passenger numbers is unlikely to happen overnight.

- 28 I propose Cabinet agree that funding for South Island regional bus services be available to 30 June 2022 to allow a worthwhile procurement to take place (i.e. funding would be available beyond the 30 April 2022 date proposed for all other routes/services). s 9(2)(b)(ii)

This funding is already included in the cost estimates for the ETC, so no new funding is required to support the procurement.

#### Implementation

- 29 I propose that following agreement from the Cabinet, the Ministry of Transport:
- 29.1 Reassess all operators, at the time their next extension, against the ETC eligibility criteria;
  - 29.2 Continue operation of the scheme until 30 April 2022 (and 30 June 2022 for the South Island interregional bus services);
  - 29.3 Begin initial market engagement on the procurement for South Island interregional bus services; and
  - 29.4 Prepare advice for joint Ministers on whether the staged approach to step 3 of Reconnecting New Zealanders means the scheme needs to be extended beyond 30 April 2022, and provide this advice to joint Ministers in March 2022 so that I can return to Cabinet for a further decision if required.



### Financial Implications

- 30 No new funding is required to support this initiative. The ETC scheme has sufficient funding remaining in the current financial year (s 9(2)(b)(ii) is expected to remain at 31 December 2021) to keep the ETC operating at the same, or a reduced level, well beyond 30 June 2022. s 9(2)(f)(iv)

- 31 There is a risk that new applications are made for the ETC which reduce the amount of funding available. For example, the Ministry recently received an application for support s 9(2)(b)(ii)

The risk of there being an overspend from the ETC or new funding required in the current financial year is low.

### Risks and mitigations

- 32 s 9(2)(f)(iv) and s9(2)(g)(i)

### Legislative Implications

- 33 There are no legislative implications.

### Regulatory Impact Statement

- 34 No Regulatory Impact Statement is required as this proposal does not introduce or change any legislation.

### Climate Implications of Policy Assessment

- 35 A Climate Implications of Policy Assessment (CIPA) has not been prepared for this paper. The proposal recommends providing financial support for transport operators and services, which creates greenhouse gas emissions. Even with this support it should be recognised that the total number of domestic flights and road/sea transport services provided per week would still be materially less than the number which operated prior to COVID-19. As part of the procurement of South Island interregional bus services we may consider the age of an applicant's fleet and emissions profile as part of the assessment process.

- 36 More broadly I am looking at how to reduce emissions from the transport sector as part of the 'Hikina te Kohupara – Kia mauri ora ai te iwi - Transport Emissions: Pathways to Net Zero by 2050' work programme.

### Population Implications

- 37 This proposal has the following anticipated population impacts.



**Table 1. ETC extension population implications**

| Population group                         | How the proposal may affect this group  |
|--|---|
| Remote/rural populations                 | Many regions cannot justify transport services based solely on domestic population and they continue to be unviable without international tourists. Many more remote communities and individuals do not have nearby access to essential services (such as health and welfare services) and may not be able to travel to the nearest essential service without a transport connection. |
| Elderly, vulnerable, and disabled people | Many of the services support by the ETC scheme to date disproportionately support the elderly, vulnerable, and disabled people. These groups often have limited access to private vehicles, struggle with standard transport options, or have complex needs which require regular transport to a main centre to access.   |

**Human Rights**

38 There are no implications for human rights.

**Consultation**

39 The Treasury has been consulted on this paper.

**Communications**

- 40 I do not intend to make a formal public announcement of the extension of the ETC scheme as those transport operators and services that are expected to require support are already under the scheme or have been offer the opportunity to apply and have either been declined or chose not to submit an application. The Ministry of Transport will communicate directly with affected parties.
- 41 I do not intend to formally announce the procurement opportunity for South Island interregional bus services. However, the opportunity will be posted on GETS and the Ministry will engage directly with the affected regional councils and potential operators as part of initial market engagement.


**Proactive Release**

- 42 Not proposed due to the extensive discussion of matters which are commercially sensitive.

**Recommendations**

I recommend that the Committee:

- note that on 11 May 2020 Cabinet established the Essential Transport Connectivity (ETC) Scheme to provide support to maintain essential transport routes and services negatively impacted by COVID-19 [CAB-20-MIN-0219.28].
- note that the ETC scheme is due to end on 31 December 2021 and Cabinet agreement is required to extend the scheme further.
- note that we expect there to be s 9(2)(b)(ii) in unallocated ETC funding remaining at 31 December 2021.

- 4 note that the impact of the current COVID-19 outbreak is likely to be felt for some time and it is likely that ETC support will be required for the first part of 2022 as passenger travel begins to recover from the impact of recent COVID-19 restrictions.
- 5 note that Step 3 of the Reconnecting New Zealanders approach would see fully vaccinated eligible travellers able to enter New Zealand from 30 April 2022, under a staged process.
- 6 agree that the ETC Scheme be extended to 30 April 2022 to align with Step 3 of Reconnecting New Zealanders and to allow time for domestic travel to recover from the impacts of the recent Alert Level increases.
- 7 s 9(2)(f)(iv) 
- 8 delegate authority to the Secretary for Transport to enter into funding agreements in accordance with the delegation framework set out in paragraph 21.
- 9 note that the extension of the ETC scheme to 30 April 2022 does not require any new funding and can be funded through the existing ETC multi-year appropriation.
- 10 note that subject to Cabinet agreeing to extend the ETC scheme, joint Ministers intend to run an open market procurement for the interregional South Island bus services currently supported by the ETC scheme (West Coast and inland services from Christchurch to Queenstown).
- 11 agree that funding for the South Island interregional bus services referred to in recommendation 10 be available to 30 June 2022 (i.e. regardless of the 30 April 2022 end date for the ETC scheme set out in recommendation 6).

Authorised for lodgement

Hon Michael Wood

Minister for Transport



8 December 2021

OC210975

**Hon Michael Wood**  
**Minister of Transport**

## **AIR NEW ZEALAND LICENCE VARIATION – HONG KONG**

### **Purpose**

Air New Zealand has applied for a Licence variation to operate unlimited non-stop only services to Hong Kong. You are the licensing authority for New Zealand international airlines.

### **Key points**

- Air New Zealand Limited has applied for a variation to its Scheduled International Air Service Licence to reflect these open capacity arrangements with Hong Kong.
- This allows the basic international service between two countries.
- The proposed licence variation not only reflects the air services arrangements with Hong Kong, but would enable Air New Zealand to respond to future market demand for increased frequencies without having to go through the license application process at such time.

### **Recommendations**

We recommend you:

- |   |   |          |
|---|---|----------|
| 1 | <b>sign</b> the attached replacement Scheduled International Air Service Licence in the name of Air New Zealand Limited, providing for unlimited non-stop only services between New Zealand and Hong Kong | Yes / No |
| 2 | <b>sign</b> the attached notice for publication in the New Zealand Gazette, advising that you have made the variation to Air New Zealand's Licence.   | Yes / No |



Tom Forster  
**Manager, Economic Regulation**

8 / December / 2021

Hon Michael Wood  
**Minister of Transport**

..... / ..... / .....

**Minister's office to complete:**

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

**Comments**

**Contacts**

| Name   | Telephone | First contact |
|--|-----------|---------------|
| Tom Forster, Manager, Economic Regulation        | s 9(2)(a) | ✓             |
| Ana Clark, Graduate Adviser, Economic Regulation | s 9(2)(a) |               |




## AIR NEW ZEALAND LICENSE VARIATION – HONG KONG

### Air New Zealand has requested a variation to its licence

- 1 Air New Zealand's Licence currently provides for nine own-aircraft frequencies per week between New Zealand and Hong Kong. Air New Zealand has requested that its licence reflect the fact that there are no limits on the number of non-stop only services that can be operated between New Zealand and Hong Kong.
- 2 The proposed licence variation would enable unlimited, non-stop only services, between New Zealand and Hong Kong. The variation appears at page 9 of the Annex to the attached Licence.
- 3 You are the licensing authority for New Zealand international airlines holding a scheduled international air service licence.
- 4 You are required to take into account matters specified in section 87F of the Civil Aviation Act 1990 ('the Act'), when considering an application to vary a licence held by a New Zealand international airline when the variation is for an increase in capacity (as this one is). These matters are:
  - 4.1 any relevant international agreement, convention, or arrangement to which New Zealand is a party
  - 4.2 the safety and security requirements of the Director of Civil Aviation
  - 4.3 the financial ability of the applicant to carry on the proposed service
  - 4.4 the likelihood of the applicant carrying on the proposed service satisfactorily
  - 4.5 any written representations received by the Minister in relation to the application
  - 4.6 such other matters as you see fit.

### Relevant international agreements, conventions, or arrangements

- 5 s 6(a) 
- 6 Cathay Pacific's Scheduled International Air Service Licence already includes this open capacity provision.

### Safety and Security Requirements

- 7 Air New Zealand holds a current Air Operator Certificate issued by the Director of Civil Aviation. The Certificate authorises the operation of international air services to/from New Zealand and is valid until 26 May 2025.

### **Financial ability and likelihood of carrying on proposed services**

- 8 Air New Zealand, which is majority owned by the New Zealand Government, is a long-established international carrier, has appropriate financial resources and is clearly capable of carrying on the services covered by its licence satisfactorily.

### **Written representations**

- 9 Public notice of Air New Zealand's application for the licence variations in relation to Hong Kong was given in the *New Zealand Gazette* on 10 November 2021. The period for the receipt of representations expired on 2 December 2021.
- 10 No representations were received.

### **Notice in the *New Zealand Gazette***

- 11 Section 87J(6) of the Act requires that where you have agreed to vary Air New Zealand's Licence, notice of this should be published in the *New Zealand Gazette*. A notice is attached for your signature, if you agree to the licence variation.

### **Other matters**

- 12 We consider there are no other matters that need to be taken into account in assessing Air New Zealand's application.

## NOTICE OF VARIATION OF A SCHEDULED INTERNATIONAL AIR SERVICE LICENCE

Further to a notice in the *New Zealand Gazette* of 10 November 2021, and pursuant to section 87J(6) of the Civil Aviation Act 1990, I, Michael Philip Wood, Minister of Transport, give notice that, having received an application from Air New Zealand Limited, I have varied the Scheduled International Air Service Licence held by that airline to provide for it to operate unlimited non-stop only services between New Zealand and Hong Kong.

The variation took effect from the date of signature below.

Signed at Wellington/Auckland this      day of      20 .

Michael Wood  
MINISTER OF TRANSPORT

## SCHEDULED INTERNATIONAL AIR SERVICE LICENCE

I, MICHAEL PHILIP WOOD, Minister of Transport, pursuant to section 87J of the Civil Aviation Act 1990, VARY and REPLACE the Scheduled International Air Service Licence first granted on 19 August 1997 to **Air New Zealand Limited** ("the licensee") of Auckland, New Zealand, a designated airline of the Government of New Zealand, for the carriage of passengers, cargo and mail. Such carriage is to be in accordance with the conditions specified in this Licence.

### 1. Replacement Licence

This Licence replaces the Licence issued on 30 July 2020.

### 2. Routes and Capacity

- (a) The licensee may carry on international air services in both directions over the routes listed in the attached Annex and with the capacity stated therein.
- (b) Despite clause 2(a), if the Secretary for Transport is satisfied that capacity constraints are necessary in the public interest for the purposes of ensuring that managed isolation or quarantine (MIQ) passengers entering New Zealand will not exceed New Zealand's MIQ capacity, the Secretary for Transport may give the licensee a notice providing for temporary constraints on the number of MIQ passengers that the licensee may:
  - (i) carry on any or all scheduled international services that terminate in New Zealand
  - (ii) permit to disembark from a service that will transit through New Zealand.
- (c) Any notice under clause 2(b) must be:
  - (i) in writing
  - (ii) given to the licensee no later than 5 days before the relevant capacity constraint first applies
  - (iii) subject to review by the Secretary for Transport on a fortnightly basis.
- (d) A notice under clause 2(b) may provide for MIQ passenger constraints to be:
  - (i) applied by flight, period or on any other differential basis
  - (ii) notified from time to time by or on behalf of the Secretary under the notice, provided that any constraint must be notified to the licensee no later than 5 days before the relevant constraint applies.
- (e) The licensee must comply with any MIQ passenger constraint notified under clause 2(b) to 2(d).

- (f) In clauses 2(b) to 2(e):

**MIQ** means isolation and quarantine facilities managed by or on behalf of the New Zealand Government for the purposes preventing the spread of COVID-19 in New Zealand.

**MIQ passenger—**

- (i) means a passenger who is required under the COVID-19 Public Health Response Act 2020 to enter managed isolation and quarantine on entry into New Zealand; and
  - (ii) excludes a passenger transiting to a service leaving New Zealand without entering New Zealand.
- (g) Clauses 2(b) to 2(f) come into force on 1 August 2020 and expire when the COVID-19 Public Health Response Act 2020 is repealed.

**3. Nature of service filings**

- (a) The licensee shall file with the Secretary for Transport:
- (i) a statement of the nature of the services proposed to be operated for each IATA schedule period, and
  - (ii) any proposed amendment to that statement, not less than 30 days ahead of their effective date, or at such shorter notice as the Secretary may allow.
- (b) Nature of service filings shall include, in respect of each service to be operated:
- the period of operation, with dates;
  - the points to be served and the route to be followed;
  - the aircraft type to be used and, for passenger services, the seating configuration;
  - the capacity to be purchased on any code-shared services using the aircraft of another airline, and the name of that airline;
  - the frequency of the service per week; and
  - the flight numbers of the service.
- (c) The Secretary for Transport shall either acknowledge such a filing in respect of each air service or refer such a filing to the Minister of Transport for consideration.
- (d) The Minister of Transport may either disallow a nature of services filing so referred or direct the Secretary for Transport to acknowledge such a filing.
- (e) The Minister of Transport shall advise the licensee of the reasons for disallowing such a filing and may invite the licensee to lodge an amended filing with the Secretary for Transport.



- (f) No new or amended nature of services filing shall take effect unless and until it is acknowledged by the Secretary for Transport.
- (g) The Minister of Transport may at any time disallow, in whole or in part, an existing nature of services filing referred to the Minister by the Secretary for Transport.

#### **4. Insurance**

The licensee shall maintain insurance to cover liability that may arise out of or in connection with the air services provided by the licensee pursuant to the provisions of this licence in respect of the death of or bodily injury to any person, and in respect of loss of or damage to any property.

#### **5. Tariffs**

The licensee shall file passenger and cargo tariffs when requested to do so by the Secretary for Transport.

#### **6. Financial and statistical returns**

The licensee shall file with the Secretary for Transport such financial and statistical returns and statements as the Secretary requests.

#### **7. Inter-Governmental Arrangements**

- (a) Where the Government of New Zealand has entered into arrangements relating to air services with the Government of another country or territory, the scheduled international air services between New Zealand and that country or territory authorised by this Licence shall be conducted in compliance with those arrangements.
- (b) Whether or not there are such arrangements in force, to exercise the rights granted by this Licence, the licensee must be substantially owned and effectively controlled by New Zealand nationals.

#### **8. Operational and Safety Standards**

Except for code sharing or wet-leasing capacity arrangements involving the use of the aircraft of another airline that holds the appropriate operating authorisation, the licensee shall operate the international air services authorised by this Licence in accordance with the appropriate operating authorisation issued to the licensee by the Director of Civil Aviation of the Civil Aviation Authority of New Zealand.

#### **9. Validity Period of this Licence**

This Licence, issued to Air New Zealand Limited, shall take effect from 1 August 2020 and shall, unless suspended or revoked, remain in force until and including 1 May 2027.

DATED at Wellington this                      day of                      2021.

Hon Michael Wood  
**Minister of Transport**

## Annex

### Route and Capacity Entitlements for Air New Zealand Limited

#### Argentina

##### *Route*

Points in New Zealand, optionally via intermediate points in the South Pacific and South America, to Buenos Aires, and optionally beyond to any point or points.

##### *Capacity*

As filed with and acknowledged by the Secretary for Transport.

##### *Note*

With regard to the beyond points, Rio de Janeiro and Sao Paulo are available for own-aircraft or code-share services. All other beyond points are available on the basis that Air New Zealand is the marketing carrier in a code-share arrangement with another airline as the operating carrier.

#### Australia

##### *Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to any point or points in Australia, and optionally beyond.
2. As a Single Aviation Market airline: between points in Australia.
3. For all-cargo services only: between Australia and any point or points.

##### *Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

#### Austria

##### *Route*

Points in New Zealand to any point or points in Austria, optionally via any point or points.

##### *Capacity*

As filed with and acknowledged by the Secretary for Transport.

##### *Note*

Fifth freedom traffic rights may not be exercised between points in Austria and the intermediate points of Bangkok, Hong Kong and Singapore.

**Belgium***Route*

Points in New Zealand via any points to points in Belgium and beyond to any points.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

*Note*

Fifth freedom traffic rights may not be exercised between points in Belgium and either the intermediate or beyond points.

**Brazil***Route*

Points in New Zealand, optionally via intermediate points, to points in Brazil and optionally beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Brunei  
Darussalam***Route*

Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to Brunei Darussalam, and optionally beyond.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Cambodia***Route*

Points in New Zealand, optionally via intermediate points, to Cambodia, and optionally beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Canada***Route*

Points in New Zealand, via intermediate points, to a point or points in Canada, and to points beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

## Chile

### *Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to a point or points in Chile, and optionally beyond.
2. Between Chile and any point or points.

### *Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

## China

### *Route*

1. For combination services: points in New Zealand to points in China.
2. For code-shared services where Air New Zealand is the marketing carrier in a code-share arrangement with a Chinese operating carrier: points in New Zealand, optionally via intermediate points, to points in China and optionally to points beyond China.
3. For code-shared services where Air New Zealand is the marketing carrier in a code-share arrangement with a third-country operating carrier on the sector further from New Zealand: points in New Zealand to points in China and beyond to Abu Dhabi.
4. For cargo-only services: points in New Zealand, via intermediate points, to points in China and beyond.

### *Capacity*

For combination services: up to twelve services per week with any aircraft type.

For code-shared services where the licensee is the marketing carrier in a code-share arrangement with a Chinese operating carrier or third-country operating carrier: as filed with and acknowledged by the Secretary for Transport.

For cargo-only services: as filed with and acknowledged by the Secretary for Transport.

### *Note*

Points in China do not include the Hong Kong Special Administrative Region and the Macau Special Administrative Region.

## Colombia

### *Route*

Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to a point or points in Colombia and optionally beyond.

**Colombia (cont.)***Capacity*

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

*Note*

Fifth freedom traffic rights may not be exercised.

**Cook Islands***Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to a point or points in the Cook Islands and optionally beyond.
2. Between the Cook Islands and any point or points.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Denmark***Route*

Points in New Zealand, via intermediate points, to a point or points in Denmark, and to points beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Fiji***Route*

Points in New Zealand to Nadi, and optionally beyond to Rarotonga, Papeete, Tokyo or Osaka, two other points in Japan, Seoul, Honolulu, Los Angeles, Vancouver, Toronto.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

*Note*

Services beyond Nadi to Osaka may only be operated pursuant to a commercial agreement between Air New Zealand and the designated airline of Fiji.

**France***Route*

1. From any points behind New Zealand, optionally via any intermediate points, to any points in French Polynesia, and optionally beyond to any points.
2. Points in New Zealand to Noumea.



**France (cont.)***Capacity*

For Route 1: As filed with and acknowledged by the Secretary for Transport.

For Route 2:

For own-aircraft services: up to three return services per week, with aircraft not exceeding 350 seats;

For code-share services (where the licensee is the marketing carrier): as filed with and acknowledged by the Secretary for Transport.

*Notes*

For Route 1: Points in the French Republic (including New Caledonia) are not permitted as points behind New Zealand, or as intermediate points or as beyond points.

**Germany***Route*

1. Points in New Zealand, optionally via any intermediate points, to points in Germany, and optionally beyond.
2. For all-cargo services only: between Germany and any point or points.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Hong Kong***Route*

1. For own-aircraft services:
  - A. : Points in New Zealand to Hong Kong.
  - B. Points in New Zealand, optionally via Melbourne, to Hong Kong, and optionally beyond to London.
2. For code-shared services: Points in New Zealand, optionally via any point/s (excluding mainland China and Taiwan), to Hong Kong, and optionally beyond to any point/s (excluding Mainland China and Taiwan).

*Capacity*

For Route 1A: as filed with and acknowledged by the Secretary for Transport.

For Route 1B: up to nine frequencies per week with any aircraft type.

**Hong Kong (cont.)**

For code-shared services (where the licensee is the marketing carrier): as filed with and acknowledged by the Secretary for Transport.

**Note**

For code-shared services, fifth freedom and stopover traffic rights may not be exercised between Hong Kong and either the intermediate or beyond points.

**India****Route**

Points in New Zealand, optionally via Singapore, Hong Kong, Bangkok and two points in Australia, to Bangalore, Chennai, Hyderabad, Kochi, Kolkata, Mumbai and New Delhi.

**Capacity**

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

**Notes**

1. Rights to New Delhi may be exercised only by way of a code-share arrangement with Air India.
2. Fifth freedom traffic rights may not be exercised.

**Indonesia****Route**

1. Points in New Zealand to Denpasar.
2. Points in New Zealand, via Singapore, to Balikpapan, Denpasar, Jakarta, Medan and Surabaya.

**Capacity**

For Route 1: up to seven return services per week, using aircraft with a maximum of 400 seats.

For Route 2: code-share only, with the licensee to be the marketing carrier - as filed with and acknowledged by the Secretary for Transport.

## **Ireland**

### *Route*

From points behind New Zealand via New Zealand and intermediate points to and between points in Ireland and beyond.

### *Capacity*

As filed with and acknowledged by the Secretary for Transport.

### *Note*

Fifth freedom traffic rights may not be exercised between points in Ireland and either the intermediate or beyond points.

## **Italy**

### *Route*

Points in New Zealand, optionally via intermediate points, to points in Italy and optionally to points beyond.

### *Capacity*

Code-share only, with the licensee to be the marketing carrier: as filed with and acknowledged by the Secretary for Transport.

### *Note*

Fifth freedom traffic rights may not be exercised.

## **Japan**

### *Route*

Points in New Zealand, optionally via intermediate points, to points in Japan and optionally to points beyond.

### *Capacity*

For own-aircraft services to and from Haneda Airport: up to three return services per week, with any aircraft type.

For own-aircraft services to and from points in Japan other than Haneda Airport: as filed with and acknowledged by the Secretary for Transport.

For code-share services, as the marketing carrier: as filed with and acknowledged by the Secretary for Transport.

### *Notes*

1. Fifth freedom traffic rights may be exercised to and from points in Japan, other than Tokyo.
2. Own stopover traffic may be carried.
3. Co-terminal rights may be exercised at any point in Japan.

**Korea***Route*

Points in New Zealand, optionally via intermediate points, to points in Korea.

*Capacity*

For own-aircraft services: up to five return services per week with any aircraft type.

For code-share services, as the marketing carrier: as filed with and acknowledged by the Secretary for Transport.

**Laos***Route*

Points in New Zealand, optionally via intermediate points, to points in Laos and optionally beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Malaysia***Route*

Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to any point or points in Malaysia and optionally beyond.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Mexico***Route*

Points in New Zealand to a point or points in Mexico, optionally via any point or points and beyond to any point or points.

*Capacity*

For third/fourth freedom services: as filed with and acknowledged by the Secretary for Transport.

*Note*

Fifth freedom traffic rights may not be exercised at the intermediate or beyond points, but own-stopover passengers may be carried.

**Netherlands***Route*

Points in New Zealand, via any intermediate point, to Amsterdam.

**Netherlands (cont.)***Capacity*

For code-share services: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

*Note*

Fifth freedom traffic rights may not be exercised.

**Niue***Route*

Points in New Zealand, optionally via Tonga, to Niue.

*Capacity*

Up to two return services per week.

**Philippines***Route*

1. Points in New Zealand, optionally via Singapore, to points in the Philippines.
2. Points in New Zealand to Manila.

*Capacity*

For route 1: code-share only, with the licensee to be the marketing carrier - as filed with and acknowledged by the Secretary for Transport.

For route 2: up to three services per week with any aircraft type.

*Note*

Fifth freedom traffic rights may not be exercised, but own-stopover passengers may be carried on route 1.

**Russia***Route*

Points in New Zealand, optionally via Singapore, to Moscow and optionally beyond to Stockholm.

*Capacity*

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

**Samoa***Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to a point or points in Samoa and optionally beyond.
2. Between Samoa and any point or points.



**Samoa (cont.)***Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu***Route*

Points in New Zealand to a point or points in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, optionally via any point and beyond to any point.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Singapore***Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to Singapore, and optionally beyond.
2. Between Singapore and any point or points.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**South Africa***Route*

Points in New Zealand, optionally via points in Australia, and separately Singapore, to any point in South Africa.

*Capacity*

For code-shared services: as filed with and acknowledged by the Secretary for Transport.

**Spain***Route*

Points in New Zealand, optionally via any intermediate point/s, to two points in Spain and optionally beyond to any point/s.

*Capacity*

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

*Note*

Fifth freedom traffic rights may not be exercised.

**Sri Lanka***Route*

Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to Sri Lanka, and optionally beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Sweden***Route*

Points in New Zealand, via intermediate points, to a point or points in Sweden, and to points beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Switzerland***Route*

Points in New Zealand to a point or points in Switzerland, optionally via any point and beyond to any point.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**Thailand***Route*

Points in New Zealand, optionally via intermediate points, to points in Thailand, and optionally beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

*Notes*

1. There is unlimited capacity for the exercise of third and fourth freedom traffic rights.
2. Fifth freedom traffic rights may be exercised on up to 21 frequencies per week, with any aircraft type.

**Tonga***Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to a point or points in Tonga and optionally beyond.
2. Between Tonga and any point or points.

**Tonga (cont.)***Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Turkey***Route*

Points in New Zealand, via any intermediate points, to any point or points in Turkey and beyond to any point.

*Capacity*

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

*Note*

Fifth freedom traffic rights may not be exercised.

**United Arab Emirates***Route*

Points in New Zealand, via intermediate points, to points in the United Arab Emirates and beyond.

*Capacity*

As filed with and acknowledged by the Secretary for Transport.

**United Kingdom***Route*

Points in New Zealand, via intermediate points, to points in the United Kingdom and beyond.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**United States of America***Route*

1. Optionally from points behind New Zealand, via New Zealand, and optionally via intermediate points, to any point or points in the United States of America, and optionally beyond.
2. For all-cargo services only: between the United States of America and any point or points.

*Capacity*

As filed with the Secretary for Transport for either acknowledgement or information purposes in accordance with section 3 of this Licence.

**Vanuatu***Route*

Points in New Zealand to points in Vanuatu.

**Vanuatu (cont.)***Capacity*

For own-aircraft services: up to four return services per week with any aircraft type.

For code-shared services: as filed with and acknowledged by the Secretary for Transport.

**Viet Nam***Route*

1. Points in New Zealand, optionally via Hong Kong, to Ho Chi Minh City.
2. Points in New Zealand, optionally via Singapore, to Da Nang, Ha Noi and Ho Chi Minh City.

*Capacity*

Code-share only: as filed with and acknowledged by the Secretary for Transport, with the licensee to be the marketing carrier.

*Notes*

1. Fifth freedom traffic rights may not be exercised between Hong Kong and Ho Chi Minh City.
2. Fifth freedom traffic rights may not be exercised between Singapore and each of Da Nang, Ha Noi and Ho Chi Minh City.

**Other***Route*

Such additional routes as may from time to time be approved by the Minister of Transport subject to any conditions that may be imposed by the Minister in respect of those additional routes.

*Capacity*

Such additional capacity as may from time to time be approved by the Secretary for Transport subject to any conditions that may be imposed by the Minister in respect of that additional capacity.



8 December 2021

OC210981

**Hon Michael Wood**

**Action required by:**

**Minister of Transport**

Friday, 17 December 2021

cc Hon David Clark

Minister of State Owned Enterprises

## **AIR NAVIGATION SYSTEM REVIEW- TERMS OF REFERENCE AND STRUCTURE**

### **Purpose**

Seek your approval of a draft terms of reference and structure for a review of the air navigation system.

### **Key points**


- In February 2021 you agreed to a high level, first principles review of the air navigation system involving all parties in the sector, to address persistent issues with the regulatory, institutional, and funding settings for the air navigation system.
- There is no overarching statement of the principles and objectives for the air navigation system, making it difficult to determine if the current settings are appropriate now and for the future.
- We have the drafted terms of reference to identify the objectives and ideal characteristics for the system, assess the current situation, and provide recommendations for strengthening the system settings in the three key areas.
- We recommend a Ministerially-appointed independent panel to provide a strong signal of independence, and a high level mandate to address contentious issues across multiple agencies and sector groups.
- Because of the contentious nature of the issues and a high level of interest in the review, we recommend sharing the draft terms of reference with targeted stakeholders for transparency, and to manage expectations of the scope of the review.



## Recommendations

We recommend you:

- 1 **approve** the draft terms of reference for targeted stakeholder review Yes / No
- 2 **agree** that the review will be conducted by a Ministerially-appointed independent panel Yes / No
- 3 **refer** this paper to the Minister of State Owned Enterprises and discuss it with him Yes / No
- 4 **forward** this paper to the Ministers of Finance, Defence, Research Science and Innovation, Tourism and Regional Development, and Health for their information Yes / No
- 5 **note** that (pending your agreement) following targeted stakeholder engagement, we will provide you with a revised terms of reference and a proposed list of Panel members in February 2022 Yes / No
- 6 **indicate** if you would like to meet with officials to discuss the terms of reference and the structure of the review. Yes / No



Tom Forster  
Manager Economic Regulation

8 / December / 2021

Hon Michael Wood  
Minister of Transport

..... / ..... / .....

Minister's office to complete:

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

## Comments

### Contacts

| Name  | Telephone | First contact |
|---|-----------|---------------|
| Bronwyn Turley, Deputy Chief Executive                | s 9(2)(a) |               |
| Tom Forster, Manager Economic Regulation              | s 9(2)(a) | ✓             |
| Brigid Borlase, Principal Advisor Economic Regulation | s 9(2)(a) |               |

## AIR NAVIGATION SYSTEM REVIEW: TERMS OF REFERENCE AND STRUCTURE

### Background

- 1 In February 2021 you met with the Minister of State Owned Enterprises and officials to discuss the air navigation service provision and issues with regional connectivity [OC210132 and OC210078 refer].
- 2 You agreed to a first principles review, taking a broad scope and including all relevant stakeholders, to:
  - define what New Zealand needs and wants from the air navigation system now and into the future
  - assess suitability of the regulatory, institutional, and funding settings for the air navigation system to deliver the outcomes we want
  - focus on the regulatory, institutional and funding settings that influence the air navigation system.

### Setting the scene: the proposed terms of reference

- 3 The draft terms of reference are attached at Annex 1.

### *Scoping the review*

- 4 The air navigation system is a critical part of our national infrastructure. It exists to enable aviation operations that in turn deliver services and benefits across a wide range of communities and sectors within and outside aviation.
- 5 The air navigation system is made up of a series of components that provide for safe operation of aircraft from take-off to landing. Not all flights need all parts of the system, however, we need a comprehensive system to provide for the full range of airborne operations. These include recreational flights by small private aircraft, remotely piloted and autonomous aircraft (drones), rocket launches and re-entries, defence operations, emergency medical services, business aviation, and scheduled flights ranging from regional routes to international passenger and cargo flights.
- 6 Aviation now includes business models and global partnerships not envisaged when current aviation system safety and security policies were established.
- 7 The terms of reference recognise the wider context in which the air navigation system supports outcomes such as social connection, economic development, emergency response, and accessing healthcare services.
- 8 Appendix 1 to the terms of reference describes the breadth of the review. We propose that the review considers and may make recommendations on the system component providers, users, funders, and agencies in the authorising environment as appropriate.

- 9 The terms of reference proposes that the review should not generally make recommendations on the parties that are dependent on or benefit from the system (the outermost ring on the diagram) but will consider the implications of its recommendations on those groups.
- 10 The draft terms of reference exclude consideration of technical, specific operational or tactical matters; or recommending that regulators make or amend rules for a particular purpose. The focus would be on ensuring that the high level settings enable the system to deliver on its objectives.
- 11 For example, the review may consider whether the policy and regulatory settings are agile enough to integrate new technology in a safe and efficient way, without stipulating the exact types of technologies or the particular ways the rule set might be adjusted.

*Air navigation system components and characteristics*

- 12 Delivering outcomes relies as much on *how* the system works as to what it includes. The system components – the physical and digital infrastructure – need to be matched with identified characteristics, for example that it is safe, secure, reliable, sustainable, comprehensive, and efficient. The system principles and characteristics will be defined in phase 1 of the review.

*Initial stakeholder feedback*

- 13 We spoke with a range of stakeholders while preparing the terms of reference (see Annex 2). All supported the proposal for a review.
- 14 Common themes emerged from those discussions:

*What do we want from the system?*

- 14.1 The lack of a national view of the expectations on the air navigation system, making it difficult to determine what the network should comprise, the services it should support and where, and how it should be funded.
- 14.2 The need for a system-based review of the settings, including areas where the expectations and incentives appear to be competing or contradictory.
- 14.3 A broad approach that considers how the air navigation system contributes to social and economic outcomes that occur outside the aviation system.
- 14.4 The need to ensure the regulatory system is agile and responsive to new technologies to deliver safe integration and the realisation of potentially significant economic, social, educational, environmental and reputational benefits.

*How is the system structured?*

- 14.5 Questions about Airways' and MetService's obligations as state-owned enterprises, and perceptions that their commercial obligations do not align with broader government objectives.
- 14.6 The impacts of COVID-19 on the Civil Aviation Authority (CAA), operators, MetService and Airways, highlighting vulnerabilities in the system funding models and causing concern about the impacts of short-term cost reductions on the long-term strength and safety of the system.
- 14.7 Perceptions that the current settings do not support collaborative relationships and do not support comprehensive, long term planning for the air navigation system.

*Who pays? Where do costs and benefits fall?*

- 14.8 Some of Airways' services are not commercially viable; however, service users have no choice of providers and Airways has limited alternative means of recovering costs.
- 14.9 The long-term viability of regional aviation connections alongside concerns about the potential community and regional impacts if those air connections were reduced or removed.
- 14.10 The user pays model does not reflect that some parts of the air navigation service are provided as a public good.
- 14.11 The challenge of balancing investment in new technologies and future opportunities, and at the same time maintaining the current system.
- 15 Several stakeholders were of the view that this should be a review of Airways. Others, including Airways and Treasury, felt there is a risk the review could easily become too focused on the institutional model and not consider the system needs and desired outcomes from a national perspective.
- 16 We agree with Airways and Treasury. While a strong focus on Airways – as the sole provider of air navigation services – is necessary, it would not be useful to consider the company and its work in isolation. We strongly recommend a systems-based approach to the review as described in the terms of reference.

**Proposed structure for the review**

- 17 We recommend that you appoint a three-person independent advisory panel to conduct the review, supported by a Secretariat hosted by Te Manatū Waka - Ministry of Transport (the Ministry) and responsible to the panel.
- 18 We assessed three options for the structure of the review and considered independence, resourcing, and mandate to address the types of issues signalled to you in previous advice and expressed by stakeholders.

19 We also recommend:

- 19.1 the establishment of two reference groups: one of sector stakeholders, and one comprising government agencies with an interest in the review, to provide system-wide views, ensure ongoing engagement and coordination, and to provide access to specialist technical advice when required
- 19.2 appointing international expert peer reviewers to assess the recommendations from both phases of the review from an objective standpoint, and to assess our system in the context of international best practice.

#### *Cost of the review*

20 The review, including Panel members' fees, would be funded from within Ministry baselines. Panel members' fees have been estimated using the Public Service Commission guidelines.

*Table 1: Analysis of options for structure of the review*

|  | Benefits  | Costs and risks  |
|--|---|--|
| <b>Recommended option</b><br>Option 1:<br>Ministerially-appointed independent review panel with Secretariat hosted by the Ministry of Transport<br><br><i>Indicative cost: \$817,150 in total (across 2021/22 and 2022/23 years)</i> | Strongest signal of independence and objectivity, reporting to the Minister directly<br><br>Strong indication of the importance of the review<br><br>Well positioned to make recommendations on controversial issues and/or those that relate to the Ministry, the agencies it monitors, and on other government agencies | Significant requirement on Ministry resources if the Secretariat is drawn from current staff<br><br>The Minister and Ministry have a lower level of oversight of the review  |
| Option 2: In-house review conducted by the Ministry of Transport<br><br><i>Indicative cost: \$658,100</i>  | Lowest cost<br><br>Ministry has high level of oversight of the project  | Weak signal of independence<br><br>Significant requirement on Ministry resources<br><br>Limited mandate to make recommendations on other agencies<br><br>May be difficult to demonstrate objectivity if making recommendations on the Ministry or the agencies it monitors |
| Option 3: Contracted external provider reporting to the Secretary of Transport<br><br><i>Indicative cost: \$858,050</i>  | Stronger signal of independence compared to option 1<br><br>Ministry retains oversight<br><br>Lower requirement on Ministry resources   | Highest cost option<br><br>Dependent on availability of a suitable provider<br><br>A weaker position if making recommendations on the Ministry of other agencies<br><br>Weaker indication of the importance of the review  |



## Process and timing for the review

- 21 The terms of reference set out a two phase process, focusing first on what New Zealand wants and needs from the air navigation system, and then assessing the current settings and recommending changes (if any) to achieve the agreed objectives.
- 22 The review would report to you at the end of both phases.
- 23 Stakeholder engagement is a central feature of the review process. We are working with Te Arawhiti to establish engagement with Māori, and the review will be conducted in accordance with Hei Arataki, the Ministry's Māori Strategy. The air navigation system has an as-yet unquantified role in providing Māori with access to essential services (e.g. specialist and emergency healthcare), economic opportunities through tourism and production, and maintaining whānau, hapu, and iwi connections.
- 24 This review is highly anticipated as a means of directly dealing with several long-standing issues. There is a risk that delays to the review would impact the aviation sector's confidence in the government's commitment to a safe and sustainable aviation system.
- 25 The sector, including the regulator, Airways, MetService, and airlines continue to respond to the impacts and ongoing uncertainties associated with COVID-19. The review will need to be mindful of the sector's capacity, noting that there is general support for the review from these organisations.

## Next steps

- 26 Should you agree, the next steps and indicative timeframes would be:

| Timing              | Terms of reference   | Panel selection and appointment  |
|---------------------|--|--|
| By 22 December      | Revise the terms of reference to reflect your preference for the review structure                  | Draft position descriptions for Panel members  |
| Mid-January 2022    | Share terms of reference with targeted stakeholders (see Annex 2)                                  | Identification of potential Chair and panellists<br>Begin establishment of the Secretariat |
| Early February 2022 | Revise the terms of reference based on stakeholder feedback  | Initial discussions with potential panellists  |
| Mid-February 2022   | Seek your approval of the proposed final terms of reference and recommended panel members          |  |
| Late February 2022  | Request approval of the terms of reference from the Cabinet Economic Development Cabinet committee |  |
| Mid-March 2022      |  | Request approval of the Panel from the Cabinet Appointments and Honours committee          |
| End March 2022      | Initiate the review  |  |

## ANNEX 1: DRAFT TERMS OF REFERENCE

# REVIEW OF NEW ZEALAND'S AIR NAVIGATION SYSTEM

## Terms of reference

### Purpose

New Zealand does not have a current high level statement of the principles and national level objectives for the air navigation system. Without that foundation, it is difficult to determine if the current approach is the strongest option for meeting our current and future needs.

The purpose of the review is to take a high-level, first principles approach to establishing agreed objectives for the air navigation system, assess the current policy and regulatory, institutional and funding settings against those objectives, and recommend options for strengthening the system now and thirty to fifty years to the future.

### Background

The air navigation system exists to enable aircraft operations. The system works as an integrated whole, providing the information and infrastructure for aircraft from take off to landing.

The air navigation system is a key part of New Zealand's transport infrastructure. The system contributes to New Zealand's economic growth and prosperity, social connectivity, resilience, and our role as a participant in regional and global fora. As a remote island nation, we rely almost exclusively on air transport to connect our people to the world.

We have international obligations and opportunities. We are a member state of the International Civil Aviation Organization. New Zealand is responsible for the world's largest search and rescue region which stretches to the Antarctic and provides aviation safety and security support to our Pacific neighbours. This country is also home to innovators in aviation and space activities, with significant potential for growth. We export our aviation knowledge and expertise around the world.

### Context for the review

The most recent national policy statement on aviation is the *National Airspace Policy of New Zealand*, published in 2012.

In the intervening decade the demands on and expectations of the air navigation system have continued to change, presenting challenges and opportunities, such as:

- new technologies: airframe materials, autonomous and remotely piloted aircraft, artificial intelligence, alternative fuels, and new propulsion systems
- drives for the decarbonisation of aviation
- demands for different design and use of airspace, including low altitude and urban airspace, and providing for aircraft transiting to and from space
- emergence new business models and alternative providers for some components of the air navigation system
- emerging threats and management of risks around cyber security and security of physical infrastructure
- movement to performance-based regulation and other regulatory responses to rapidly changing technology.

Stakeholders have raised questions about the current settings for the air navigation system, including:

- clarifying and addressing the expectations on the system from aviation participants, and a range of other sectors such as civil defence and emergency management, health, economic development, and defence
- the effectiveness of the user pays model for funding air navigation services
- identification of and funding for air navigation services provided as a public good
- the characteristics and performance of the market for the air navigation system components
- the role of the aviation system in regional development, connectivity, and resilience
- the cost of service provision
- planning to enable timely investment in new air navigation system technologies
- the impacts of COVID-19, including reliance on passenger volume as the primary funding source for air navigation service provision.

## Method of work

The review will be conducted in accordance with these terms of reference, and in a way that demonstrates:

- transparency
- independence and impartiality
- timely and open engagement
- consideration of the full range of stakeholders' views
- a systems-based approach
- timely and open engagement
- partnership with iwi and Māori in good faith and in accordance with the principles of Te Tiriti o Waitangi (CO(19)5, Te Tiriti o Waitangi / Treaty of Waitangi guidance
- commitment to an enduring approach to continuous improvement of the air navigation system, taking a multi-generational view.



The review methodology and the findings and recommendations from both stages will be subject to review by international experts in air navigation system policy, design, regulation, funding, and delivery.

## Assumptions

The review includes the following working assumptions:

- Safety is the primary objective.
- The current system is safe.
- The air navigation system is an essential part of New Zealand's national infrastructure.
- A safe, efficient, sustainable, innovative, and responsive air navigation system helps New Zealand flourish.
- New Zealand meets its international obligations.
- The system is resource limited and there will be competing demands and tensions.

## Scope

### *Description of the air navigation system and the scope of the review*

Appendix 1 illustrates the air navigation system components, the providers of the components, and the connections to the wider economy and society. The diagram also references the source of the rules and guidance that determine how the system should operate.

### *Air navigation system components and characteristics*

The review will consider the air navigation system components: those elements that are essential for the aviation system to operate and to deliver on user and national expectations. The scope will include consideration of how the settings influence the provision and maintenance of the system components.

In the context of the review, characteristics refers to how the system should operate, for example it should be safe, efficient, secure, integrative, future-focussed, resilient, and responsive to emerging opportunities and threats

### *Air navigation system providers, users, and authorising environment*

The review will consider the role of air navigation system provider and user needs, including consideration of how the settings facilitate or act as barriers to achieving the objectives for the system.

### *Dependents and beneficiaries of the air navigation system*

Several sectors and agencies depend on and/or benefit from the provision of the air navigation system, though are not providers or direct users of the air navigation system components.

### *Matters for consideration*

The review may consider the following:

- policy settings that influence the air navigation system

- roles, functions, obligations and duties of the agencies and organisations involved in the provision use, and monitoring of the components of the air navigation system
- the relationships between those roles, functions, and duties
- the monitoring and evaluation of the performance of those roles and functions
- revenue, funding, and pricing mechanisms in the system
- the impact that the air navigation system (and any recommended changes to the applicable settings) has on the wider ambitions for New Zealand society, economy, environment, and our global profile and participation
- the system and its objectives and outcomes in the context of Te Tiriti o Waitangi, and a te ao Māori view
- the influence of the system on regional connectivity
- the operation of the air navigation system in the New Zealand Flight Information Region and the Oceanic Flight Information Region<sup>1</sup>.

The review will give due consideration to:

- international models of policy and regulatory, institutional, and funding for air navigation system planning, delivery, and assessment of system performance
- other work relevant to this review, including but not limited to the Civil Aviation Bill, the review of the Outer Space and High Altitude Activities Act 2017, the Aerospace Strategy, Airways pricing round and Civil Aviation Authority funding review
- the impact of COVID-19 on the aviation sector.

## Matters out of scope

The following are generally out of scope of the review:

- technical and operational matters, for example technical standards for air navigation system components; operational procedures and rules; methodology for the designation and use of airspace; or application of operational policies in particular instances or locations<sup>2</sup>
- detailed examination of specific commercial agreements between parties, though the review may consider the influence the system settings have on how commercial agreements are generally developed and applied, and the results of those methods
- COVID-19 response and recovery support measures.

The review will not make recommendations that:

- directly create obligations on sectors that depend on or benefit from the air navigation system (see Appendix 1)

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<sup>1</sup> The New Zealand Flight Information Region is our domestic airspace. The Oceanic Flight Information Region is airspace over the high seas that New Zealand manages under an International Civil Aviation Organization Regional Air Navigation Agreement.

<sup>2</sup> The review may use case studies but will focus its recommendations on system-wide matters.



- relate directly to operational, tactical, or procedural matters regarding the operation of the air navigation system components, or use of the system by aviation participants
- refer to amending or creating specific Civil Aviation Rules, notices, or guidance, though it may consider the regulatory system settings with respect to the agreed system objectives.

The review will, however, consider how its recommendations would impact on matters and sectors outside its scope.

## Process and outputs

The review will focus on the policy and regulatory, institutional, and funding settings for the air navigation system and conduct its work in two phases.

### Phase 1

In its first phase the review will:

- identify the base principles and objectives for the air navigation system
- identify the components and characteristics of an optimally performing air navigation system for New Zealand, considering:
  - national objectives
  - providers and users of the air navigation system
  - those sectors dependent or and/or benefiting from the operation of the system
  - international standards, guidance, and obligations.

#### Phase 1 output:

Recommendations to the Minister of Transport on establishing an agreed set of principles, characteristics and desired outcomes for the air navigation system now and 30 to 50 years into the future.

### Phase 2

The second phase of work will focus on assessing the current system, including all parties and how they operate, against the principles and outcomes identified in Phase 1.

#### Phase 2 output:

Recommendations to the Minister on options to strengthen the air navigation system's ability to meet the agreed principles and objectives. The recommendations will focus on the policy and regulatory, institutional, and/or funding settings.

Recommendations will consider possible impacts on aviation safety.

Given its high level nature, the review may make recommendations for further detailed examination of specific aspects or issues.

## Engagement

The [Panel] [Ministry] will report to the Minister at the end of each phase, and on a case-by-case basis by agreement. The Minister of Transport may consult with colleagues responsible for portfolios that are involved in and/or potentially affected by the review.

The review will engage with other stakeholders as appropriate. The Ministry will provide a web page with information about the review, and an email address for stakeholders' use.

The review will provide regular updates to stakeholders and their constituents through the reference groups and direct communications.

## Structure

[The review will be conducted by a Ministerially appointed independent advisory panel.

## Independent advisory panel membership

[Name] – Chair

[Name]

[Name]

### *Term of appointment*

[to be confirmed]

### *Secretariat*

Secretariat services will be hosted by the Ministry of Transport. The Secretariat will provide research, analytical, project coordination, communications, and technical subject matter expert input as required.]

## OR

[The review will be conducted by the Ministry of Transport.]

### *Stakeholder engagement*

The review will establish two reference groups:

- an interagency group comprising agencies with an interest in the air navigation system.
- industry and sector stakeholders.

The review be guided by an engagement plan to ensure all relevant stakeholders are involved and can present their views.

## Timeframe

The review will start in [March 2022].

Phase 1 will be completed by [30 July 2022].

Phase 2 will be completed by [16 December 2022].

Timeframes for the implementation of recommendations from the review will form part of the advice to the Minister of Transport at the end of Phase 2.



## Appendix one: air navigation system – scoping map

This version represents feedback to date. It will be further refined as part of the review with stakeholders.



The review will not generally make recommendations on dependents and beneficiaries of the system; however, will consider the impacts of its recommendations on these actors.

This diagram shows the system components.

The characteristics of the system (e.g., safe, secure, viable, efficient) will be identified as part of phase 1 of the review and are not shown here.



## **ANNEX 2: STAKEHOLDER ENGAGEMENT FOR SCOPING AND REVIEW OF THE DRAFT TERMS OF REFERENCE**

### **Involved in both scoping and review**

- Civil Aviation Authority
- Treasury
- Airways
- MetService
- Ministry of Business, Innovation and Employment – Innovative Partnerships and the New Zealand Space Agency
- New Zealand Defence Force
- Department of Prime Minister and Cabinet: National Security Group; National Emergency Management Agency
- Land Information New Zealand
- Air New Zealand
- Aviation New Zealand
- Aviation Federation
- New Zealand Airlines Pilots Association
- New Zealand Airports Association
- Individual airports:
  - Auckland
  - Wellington
  - Christchurch
  - Queenstown

### **Airports involved in scoping and will be represented by the Airports Association for the review of the draft terms of reference**

- Hawkes Bay
- Westport
- Whakatāne
- Whangārei
- Whanganui
- Marlborough
- Dunedin
- Invercargill



10 December 2021

OC210943

**Hon Michael Wood**  
**Minister of Transport**

**Hon Grant Robertson**  
**Minister of Finance**

## **PROGRAMME ASSESSMENT CRITERIA FOR WAKA KŌTAHI**

### **Purpose**

Seeking your approval of criteria proposed by Waka Kōtahi to adopt a programme-level assessment of combinations of projects, where appropriate, to inform National Land Transport Fund (NLTF) funding decisions. However, a separate assessment for each individual project within a programme remains the default requirement.

### **Key points**

- The Government Policy Statement on Land Transport (GPS) 2018 requested Waka Kōtahi to develop criteria for deciding when programme-level assessments should take place, where this is essential to deliver on the GPS strategy priorities of safety or access.
- Cabinet Minute CAB-18-MIN-0293.02 instructed the Ministers of Transport and Finance to assess and approve the criteria proposed by Waka Kōtahi for adopting a programme-level assessment.
- The main risk of adopting a programme-level assessment is that it might hide the fact that certain projects are included whose benefits do not exceed their costs, or that these projects do not meaningfully contribute to or complement the rest of the programme.
- Officials from Te Manatū Waka Ministry of Transport and the Treasury are satisfied that the criteria proposed by Waka Kōtahi will avoid any risks of inappropriately adopting a programme-level assessment approach.

## Recommendations

We recommend you:

- |   |  |          |
|---|--|----------|
| 1 | <b>Note</b> that Cabinet Minute CAB-18-MIN-0293.02 authorised the Minister of Finance and Minister of Transport to approve criteria by which Waka Kōtahi would consider whether it is appropriate to utilise a programme-based economic assessment framework.  | Yes / No |
| 2 | <b>Note</b> that Waka Kōtahi has developed criteria for having the flexibility to undertake programme-level assessments, to help inform decisions on whether to invest. Officials of Te Manatū Waka and the Treasury are comfortable with these criteria.  | Yes / No |
| 3 | <b>Approve</b> the following criteria for Waka Kōtahi to adopt programme-level assessment where appropriate, rather than the default of project assessments: <ul style="list-style-type: none"> <li>• There is a well-defined grouping of projects or activities which would best contribute to outcomes if delivered as a programme; and</li> <li>• The programme is supported by a business case, which establishes that the benefits of the programme exceed the costs; and</li> <li>• Programme funding is approved for standard activities only<sup>1</sup> (any complex or novel activities require their own detailed business case); and.</li> <li>• Mechanisms are in place to manage changes in cost, scope, additions and removal of activities.</li> </ul> | Yes / No |

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Hon Michael Wood  
**Minister of Transport**

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Hon Grant Robertson  
**Minister of Finance**

..... / ..... / .....

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Joanne Leung  
**Chief Economist and Manager, Domain  
 Strategy, Economics and Evaluation**

10 / 12 / 2021

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<sup>1</sup> Activities for which there is a good understanding of the cost and benefits and their contribution to outcomes.



**Minister's Office to complete:**☐ Approved☐ Declined☐ Seen by Minister☐ Not seen by Minister☐ Overtaken by events**Comments****Contacts**

| Name   | Telephone | First contact |
|--|-----------|---------------|
| Joanne Leung, Chief Economist and Manager: Domain Strategy, Economics and Evaluation | s 9(2)(a) | ✓             |
| Geoff Parr, Principal Economist: Domain Strategy, Economics and Evaluation           | s 9(2)(a) |               |

## PROGRAMME ASSESSMENT CRITERIA FOR WAKA KŌTAHI

### Purpose

- 1 This briefing seeks your approval of the criteria developed by Waka Kōtahi for assessing and making decisions on combinations of activities or projects<sup>2</sup> that require funding approval under the NLTF.
- 2 To enable the decision, we also outline how programme-level assessment supports GPS 2021 and decision-making, and we explain the assessment criteria, how they apply, and the funding pathways.

### Context

- 3 Waka Kōtahi can approve NLTF funding for projects or combinations of projects. Assessing and making decisions at a programme level means that combinations of projects are assessed together for funding purposes as part of an integrated proposal for delivering targeted outcomes.
- 4 GPS 2018 requested Waka Kōtahi to develop criteria for deciding when programme level assessments should take place:  
  
*“It is expected that evaluations will normally occur at the project level, however there is flexibility for programme level evaluations to take place where this is essential to deliver on the GPS strategic priorities of safety or access. The NZ Transport Agency will develop criteria for deciding when programme level evaluations should take place, and will transparently report when and why programme level evaluations have taken place.”*
- 5 The approach to funding programmes reflects an increased focus on the need to achieve value for money and that programmes (combinations of projects) can potentially support better delivery, and hence value for money, by providing an integrated solution that manages risk at the appropriate level and supports efficiency in procurement.

### How does a programme approach support GPS 2021 and Decision-Making?

- 6 Waka Kōtahi currently approves funding for certain ongoing programmes, such as the road policing programme and maintenance programmes, which are supported by a business case or activity management plan.
- 7 To support the achievement of outcomes through a programme, Waka Kōtahi has developed a programme-level assessment approach and a set of criteria to support transparency in process, fairness to all approved organisations and to improve efficiency and effectiveness in delivering outcomes. This approach works with the business case process, but is designed to:
  - Support assessment of cumulative investments

<sup>2</sup> For the purposes of this Briefing, ‘activities’ are the same as ‘projects’.

- Reduce administrative and transaction costs (time and costs of developing business cases) for funding approval of a collection of projects
  - Increase funding certainty to support better planning, programming and delivery of projects
  - Provide better procurement opportunities in the delivery of programmes.
- 8 The ability to undertake a programme-level assessment will help the transport sector target outcomes through integrated solutions and combinations of projects to tackle significant challenges. This will allow the public and partner organisations to have visibility on the outcomes being addressed and how the responses to the challenge will be delivered.
- 9 In addition to supporting the GPS 2021 strategic priorities of Safety, the programme-level assessment also supports Climate Change interventions, Improving Freight Connections and Better Travel options, and facilitates government commitments in relation to the Auckland Transport Alignment Project (ATAP), Let's Get Wellington Moving, and Road to Zero.
- 10 The criteria, approach and funding pathways for programmes are set out below.

### **Eligibility criteria for adopting a programme-level assessment**

- 11 To ensure consistency in application, the following criteria have been developed and proposed by Waka Kōtahi, for funding a programme.
- There is a well-defined grouping of projects or activities, which would best contribute to outcomes if delivered as a programme; and
  - The programme is supported by a business case, which establishes that the benefits of the programme exceed the costs; and
  - Programme funding is approved for standard activities only<sup>3</sup> (any complex or novel activities require their own detailed business case); and
  - Mechanisms are in place to manage changes in cost, scope, additions and removal of activities.

### **How does programme-level assessment apply?**

- 12 Assessment is of the programme as a whole, rather than individual projects or activities.
- 13 To ensure each programme selects elements that deliver on the targeted outcomes, Waka Kōtahi developed the following conditions to deal with projects with benefit/cost ratios of less than one (BCR<1):
- any project with BCR<1 with low alignment to the GPS priorities targeted by the programme must be excluded from the programme

<sup>3</sup> Activities for which there is a good understanding of the cost and benefits and their contribution to outcomes.

- a project with  $BCR < 1$  may be included<sup>4</sup> if it:
  - has high or medium alignment to GPS priorities; and
  - is required for the integrated delivery of the programme; and
  - does not have a material impact on the overall value for money of the programme.

### **Funding pathways for an approved programme of activities**

- 14 Waka Kōtahi has developed two pathways for funding an approved programme of activities.

#### Single business case

- 15 This pathway is suited to a programme where there is a good understanding of the costs and benefits of the component activities and contribution to outcomes. An overall assessment of the programme via a single business case is sufficient for a decision to approve the entire programme.
- 16 A programme could span several years, but funding approval would be limited to the three-year period of a National Land Transport Programme (NLTP).
- 17 The programme would consist of “standard” activities that are consistent with the outcomes to be achieved by the programme. Standard activities are activities that are not complex and for which there is a good understanding of the cost and benefits and their contribution to outcomes.
- 18 The business case to support funding for the programme would need to define what activities are included in the programme, how changes to scope and costs would be managed, the costs and benefits of the programme, its contribution to outcomes, the procurement approach and a monitoring plan.
- 19 For example, a programme of standard speed management interventions can be funded under this pathway. In this case, we have a good understanding of what speed management involves, the contribution to road safety outcomes, what the benefits and costs are, and that this intervention could be applied consistently across New Zealand.

#### Multiple business cases

- 20 This pathway requires utilising the existing programme business case approach to consider strategic approaches for addressing complex problems. Detailed business cases would need to be developed for activities or groups of activities within the scope of the programme business case.
- 21 The Auckland Supporting Growth Programme is an example of a programme suited to this pathway.

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<sup>4</sup> Examples, in the context of the Road to Zero programme, are intersection solutions which commonly have a  $BCR < 1$  in isolation but are integral to the programme delivering safe outcomes.

## Investment planning involving programmes

- 22 A programme is prioritised in the NLTP as a whole (rather than separately for the individual projects within it). However, the level of funding approved is limited to a maximum of three years or the remainder of the relevant NLTP period so as not to unduly pre-empt a subsequent GPS.
- 23 Waka Kōtahi may indicate expected expenditure on a programme in future years. This does not provide funding approval but is intended to provide transparent forecasting of NLTF cashflows to enable greater alignment of longer-term programmes and NTLF funding availability.
- 24 Publishing investment funding targets will be appropriate where there is strong expectation that an amount of funding is likely to be provided. This is particularly the case where, through GPS 2021, Government has indicated long-term (10 years) funding targets, e.g. the Road to Zero and ATAP.

## Risk analysis

- 25 The main risk of adopting a programme-level assessment is that it might hide the fact that certain activities are included whose benefits do not exceed their costs, or that these activities do not meaningfully contribute to or complement the rest of the programme.
- 26 Officials at Te Manatū Waka and the Treasury are satisfied that the requirements to check for strategic alignment and other factors for projects with a BCR<1 as outlined in paragraph 13 will help to alleviate this risk.

## Consultation and Monitoring

- 27 Waka Kōtahi worked with officials from Te Manatū Waka and the Treasury to develop the programme approach to advance investment decision making. The criteria for adopting a programme-level assessment have been reviewed and endorsed by officials of Te Manatū Waka and the Treasury. Waka Kōtahi will monitor the implementation and use of any programme-level assessment as well as international research to support further development or improvements over time.



OC211018

## Minister of Transport

cc Hon Grant Robertson

Minister of Finance

## UPDATE ON THE ALLEVIATION OF CURRENT SUPPLY CHAIN ISSUES


## Purpose

To outline the Government's ongoing response to help alleviate current supply chain disruption brought on as a result of the COVID-19 pandemic and next steps to address supply chain resiliency issues with Small and Medium-sized Enterprises (SMEs).

## Key points

- The Ministry, alongside other agencies, continues to work on short term measures to help alleviate supply chain issues. This includes minimising regulatory barriers, clarifying information, providing advice, and working collaboratively with industry to help facilitate and ease disruption flashpoints, where appropriate.
- Officials are of the view that Government is best placed to shape the long-term supply chain horizon. Policy work also continues on developing those long-term interventions, including the National Freight and Supply Chain Strategy.
- In addition to these long-term interventions, officials are also looking at exploring interim measures that can be implemented in the new year to better support SMEs identify supply chain risks and opportunities. SMEs are most at risk in terms of weathering the impacts of supply chain disruption.
- Officials plan to develop options in early 2022 on next steps for supporting SMEs to better identify supply chain risks and opportunities. s 9(2)(f)(iv) and s 9(2)(g)(i)  
[REDACTED]  
[REDACTED] This has met with successful results in test cases such as break-bulk shipping.
- s 9(2)(f)(iv)  
[REDACTED]  
[REDACTED]
- Officials intend to report back to Ministers on potential options for progressing this work in due course.





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Harriet Shelton  
**Manager, Supply Chain**

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Hon Michael Wood  
**Minister of Transport**

..... / ..... / .....

**Minister's office to complete:**

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

**Comments**

**Contacts**

| Name                                      | Telephone | First contact |
|---|-----------|---------------|
| Harriet Shelton, Manager, Supply Chain    | s 9(2)(a) |               |
| Chris Barber, Senior Adviser Supply Chain | s 9(2)(a) | ✓             |

## UPDATE ON THE ALLEVIATION OF CURRENT SUPPLY CHAIN ISSUES

- 1 The Ministry has provided regular briefings and situation reports on the ongoing supply chain disruption brought on as a result of the COVID-19 pandemic. While the acuteness of supply chain disruption has abated somewhat, officials still anticipate that congestion issues will continue throughout 2022.
- 2 Previous briefings from the Ministry have also outlined a range of levers at the government's disposal to address continued supply chain disruption, including **(i) investment levers; (ii) regulatory levers; (iii) economic incentives & education; (iv) influencing the international environment; and (v) monitoring, oversight & persuasion.**
- 3 Agencies are already implementing a range of feasible short-term interventions, but these are limited to mitigating the impacts of supply chain congestion and cannot resolve the underlying drivers of congestion itself. Further proposals for short term interventions have been explored by agencies but deemed infeasible or impractical due to the scale of the global supply chain problem (para 10 refers).
- 4 The conclusion was that Government intervention was more likely to be effective in the medium to longer term – as such, for example, investment in freight infrastructure and review of policy settings around labour markets. Some of these longer-term settings are being investigated under the National Freight and Supply Chain Strategy.

### Officials continue to work on short term measures to help alleviate supply chain issues

- 5 In the short term, the Government's response is focussed on minimising regulatory barriers, clarifying information, providing advice, and working collaboratively with industry to help facilitate and ease disruption flashpoints, where appropriate.
- 6 Measures undertaken to date include facilitating the Ports of Auckland's applications to bring in skilled workers to raise productivity, and granting international shipping lines exemptions from cabotage laws to allow more operational flexibility.
- 7 Officials have also facilitated critical imports, reported on global developments, and provided businesses access to supply chain management experts. The Government has also brought industry together to discuss potential collaboration to address congestion challenges.
- 8 For example, a break-bulk shipping workshop led by MPI and Seafood NZ in August 2021 resulted in industry collaborating on joint bulk charters. This was done by industry stakeholders themselves, with their feedback stating that no Government interventions were required or appropriate given that industry had found its own solutions.
- 9 Other agencies are working to assist importers and exporters as part of their 'business as usual' work programmes:
  - 9.1 MPI continues to facilitate border clearance of urgent or essential goods (where appropriate), assist primary sector businesses to navigate immigration and MIQ processes, provide updates on overseas market access requirements arising

from COVID-19, and help shipping and forestry companies understand New Zealand's biofouling regulations.

- 9.2 MFAT and NZTE continue to provide practical assistance to exporters through their overseas networks.

10

s 9(2)(f)(iv) and s 9(2)(g)(i)

[Redacted]

10.1

s 9(2)(f)(iv) and s 9(2)(g)(i)

[Redacted]

10.2

s 9(2)(f)(iv) and s 9(2)(g)(i)

[Redacted]

10.3

s 9(2)(f)(iv) and s 9(2)(g)(i)

[Redacted]

### **Officials continue to progress work on medium to longer term measures**

- 11 As previously mentioned, officials are of the view that Government is best placed to shape the long-term supply chain horizon. In addition, to progressing the business-as-usual work identified above, policy work also continues on developing those long-term interventions.

- 12 This includes exploring options to improve supply chain resiliency and efficiency through coastal shipping. Waka Kotahi recently released the Coastal Shipping Investment Approach State-of-Play report, the first of three reports to assist Waka Kotahi on how best to invest the \$30 million in funding that has been allocated to coastal shipping. It is intended to provide Waka Kotahi with an up-to-date view of the sector's shape and the key challenges and opportunities.

- 13 The Ministry is developing an issues paper, identifying long term policy options to improve supply chain resiliency under the National Freight and Supply Chain Strategy.

14

s 9(2)(f)(iv)

[Redacted]

### **Officials are exploring medium term options to support Small and Medium-sized Enterprises (SMEs)**

- 15 As officials develop these longer-term options, the Ministry, alongside a range of agencies, are also looking at exploring interim measures that can be implemented in

the new year to better support SMEs identify supply chain risks and opportunities. SMEs are most at risk in terms of weathering the impacts of supply chain disruption.

- 16 Recently, Maersk, the largest shipping line operating in New Zealand, announced that it will no longer accept long-term contracts from freight forwarders in any of their global markets, forcing them to rely on the spot price for shipping rates.

s 9(2)(g)(i)

- 17 Work is already underway in this space. In engaging private sector external supply chain expertise, NZTE has undertaken supply chain reviews that have been well received by customers in its focus portfolio.<sup>1</sup> NZTE is currently uploading supply chain content onto its myNZTE website and is expanding this online offering to provide regular updates, information, and practical tools and resources applicable to a customer's export stage.

- 18 Officials plan to develop options in the new year through interagency consultation on next steps for supporting SMEs to better identify supply chain risks and opportunities.

s 9(2)(f)(iv) and s 9(2)(g)(i)

- 19 Officials intend to report back to Ministers on potential options for progressing this work in due course.

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<sup>1</sup> NZTE's "Focus" cohort of approximately 1400 exporters are those who receive the most intensive level of support.



22 December 2021

OC211016

**Hon Michael Wood**

**Minister of Transport**

## **RESEARCH INTO THE USE AND EFFECTIVENESS OF ALCOHOL INTERLOCKS**

### **Purpose**

Update you on research into the use and effectiveness of alcohol interlock sentences.

### **Key points**

- Since the introduction of mandatory alcohol interlock sentences for serious and repeat drink driving offenders in 2018, the number of these sentences imposed by the courts has increased significantly.
- However, research conducted by the Automobile Association (AA) shows that only around a half of those offenders eligible for the sentence actually receive it. Of those, only around two-thirds go on to have an alcohol interlock device installed in their vehicles.
- Responsibility for installing an alcohol interlock device rests with the person subject to the sentence. There is no legal timeframe in which the device must be fitted. If the person does not apply for an alcohol interlock licence and get the device installed, they remain disqualified from driving.
- Unlike other sentences imposed by the courts, the alcohol interlock sentence requires offenders to pay costs associated with the installation and monitoring of the alcohol interlock devices. Subsidies are available through Waka Kotahi NZ Transport Agency for those who meet the financial eligibility criteria, but monthly fees of around \$110 - \$150 must still be paid by the individual.
- A number of aspects of the alcohol interlock sentence warrant further work. From Te Manatū Waka's perspective, the biggest risk lies with the fact that no agency has responsibility for following up with offenders that do not get the device installed in their vehicle. We will raise this issue with Waka Kotahi in the first instance, to determine what response can be taken to strengthen oversight of the regime. We will report back to you in early 2022.
- Given that alcohol consumption is a contributing factor to a large number of deaths and serious injuries on our roads, we will consider including a review of the alcohol interlock sentence regime in the 2021 – 2025 *Road to Zero* Action Plan. Work on this



Action Plan is currently under development, and a draft will be provided to you in May 2022.

## Recommendations

We recommend you:

- 1 **note** that Te Manatū Waka will consider a review of the alcohol interlock sentence regime in the 2021 – 2025 *Road to Zero* Action Plan, with a particular focus on strengthening the accountability and oversight of the regime.



Robert Anderson  
**Manager, Mobility and Safety**  
22/12/2021

Hon Michael Wood  
**Minister of Transport**  
..... / ..... / .....

**Minister's office to complete:**

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

**Comments**

## Contacts

| Name   | Telephone | First contact |
|--|-----------|---------------|
| Robert Anderson, Manager Mobility and Safety | s 9(2)(a) | ✓             |
| Jo Gould, Principal Adviser                  | s 9(2)(a) |               |



## RESEARCH INTO THE USE AND EFFECTIVENESS OF ALCOHOL INTERLOCKS

### Alcohol interlock sentences became mandatory for repeat and serious drink driving offenders from July 2018

- 1 From 1 July 2018, the Land Transport Act 1998<sup>1</sup> was amended to make alcohol interlock sentences mandatory for anyone convicted of two or more drink driving offences within a five-year period. The sentence also became mandatory for anyone convicted of driving with alcohol in their system that exceeded a certain threshold (800 micrograms per litre of breath or 160 milligrams per 100 millilitres of blood, which is over three times the legal limit).<sup>2</sup>
- 2 A person subject to an alcohol interlock sentence can only drive a vehicle that has had an alcohol interlock device fitted. The device acts like an in-vehicle breathalyser. If the device detects alcohol on the driver's breath, the car will not start. The driver also needs to provide a breath sample at random times while the vehicle is in use. The device must be installed for at least 12 months in every vehicle the driver has access to.
- 3 When Cabinet agreed to make the alcohol interlock sentence mandatory, Cabinet noted international literature that showed these devices can reduce reoffending by an average of around 60 percent while the devices were fitted. The literature also pointed to the devices having a small residual effect on reducing reoffending once the device is removed, particularly when the sentence is integrated with rehabilitation measures.

*There are limited exceptions set out in legislation which can result in the alcohol interlock sentence not being imposed*

- 4 The court does not have to impose an alcohol interlock sentence in certain circumstances, even when the offender has been convicted of the qualifying offences. These include where the offender:<sup>3</sup>
  - has a medical condition that means they are incapable of providing a valid breath sample to activate an alcohol interlock device
  - does not have lawful possession of a motor vehicle, or
  - usually lives in a "non-serviced area"<sup>4</sup> and is not prepared to drive to a serviced area for the alcohol interlock to be installed.

<sup>1</sup> Land Transport Act 1998, section 65AB.

<sup>2</sup> The alcohol limit for drivers aged 20 years and over is 250 micrograms of alcohol per litre of breath and the blood alcohol limit is 50 milligrams per 100 millilitres of blood.

<sup>3</sup> Land Transport Act 1998, section 65AB (2).

<sup>4</sup> A non-serviced area is defined in the Land Transport Act 1998 (section 2) as being 70 km or more from an approved provider's service centre.

*For those sentenced to an alcohol interlock, there is no legal timeframe in which the interlock device must be fitted*

5 Under the relevant provisions in the Land Transport Act 1998:<sup>5</sup>

- an alcohol interlock sentence disqualifies the person from obtaining a driver licence for a period of at least 28 days
- after the disqualification period, the person is *authorised* to apply for an alcohol interlock licence. This licence requires the person to only drive a motor vehicle that has an alcohol interlock device fitted
- if the person does not apply for the alcohol interlock licence, they will continue to be disqualified from holding or obtaining a driver licence.

*The offender must pay for the installation and ongoing monitoring of the alcohol interlock device*

- 6 A person sentenced to an alcohol interlock sentence must pay to have the device installed. There are currently two approved providers that can install the devices (the third provider is currently inactive due to global COVID-19 restrictions). These providers have agents in most towns and cities.
- 7 The offender must also pay monthly service and rental fees to the installer, as well as the cost of removing the device at the end of the sentence.
- 8 These fees collectively amount to between \$2,000 to over \$2,500 per annum, depending on the provider and the complexity of the fitting. This must be paid in addition to any fine imposed by the court for the underlying offence.
- 9 In making the sentence mandatory, the extra financial burden was acknowledged by Cabinet and it was agreed that a subsidy would be made available. The subsidy is funded through the Road Safety Activity class of the National Land Transport Fund. Those eligible for the subsidy still have to pay part of the rental and servicing costs of around \$110 to \$150 per month (depending on the provider).
- 10 The subsidy is available for a 15-month period, which allows the offender time to meet the exit criteria for the alcohol interlock sentence. After the 15-month period, an offender is liable for the full cost of the monthly rental.
- 11 Requiring offenders to pay the costs associated with a sentence is unusual. Offenders sentenced to imprisonment, community sentences or home detention are not required to contribute to the costs of their sentences.

## **Recent research on the use and effectiveness of alcohol interlocks**

*Research shows that while the number of alcohol interlock sentences has increased significantly, only around two-thirds of offenders have the devices installed*

- 12 The Ministry of Justice publishes annual statistics on the number of people who received an alcohol interlock sentence. The sentence was first introduced in

<sup>5</sup> Land Transport Act 1998, section 65AC(2).

September 2012. Annual data is currently available for the financial years from 2012/13 until 2020/21.

- 13 As indicated in the table below, the number of people who received an alcohol interlock sentence in 2020/21 was over 10 times greater than the number of people who received the sentence in 2017/18. This shows the impact of the legislative change that made these sentences mandatory from July 2018 for repeat and serious drink driving offenders:<sup>6</sup>

Table 1: Number of people who received an alcohol interlock sentence from 2012/13 to 2020/21

| 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 151     | 251     | 260     | 364     | 303     | 371     | 3,563   | 3,575   | 4,138   |

- 14 The Automobile Association (AA) has published two research reports into alcohol interlock sentences.<sup>7</sup> The research shows that just over half of those eligible for the mandatory sentence actually receive the order. Of those sentenced to an alcohol interlock, only around two-thirds install an alcohol interlock device in their vehicles.
- 15 The following graph from the AA research illustrates these trends, covering the six months following the introduction of the mandatory sentence in July 2018.

Graph: Number of people eligible for an alcohol interlock sentence from July 2018 – December 2018, and the number that went on to be sentenced to an alcohol interlock and had the device installed



<sup>6</sup> From *Driving under the influence data tables*, available at: [www.justice.govt.nz/justice-sector-policy/research-data/justice-statistics/data-tables/](http://www.justice.govt.nz/justice-sector-policy/research-data/justice-statistics/data-tables/)

<sup>7</sup> Waters, Gerald (2019) *The Mandatory Alcohol Ignition Interlock Sentence in New Zealand* and Waters, Gerald (2019) *The New Zealand Alcohol Interlock Programme – A Process Review*, both available at [www.aa.co.nz/about/aa-research-foundation/programmes/driver-impairment/](http://www.aa.co.nz/about/aa-research-foundation/programmes/driver-impairment/)

- 16 In a press release issued earlier this month, the AA highlighted that in 2020 alcohol interlocks stopped 37,061 attempts to use a vehicle because alcohol was detected on the breath of the driver.<sup>8</sup> This amounts to around 100 attempts per day.
- 17 While highlighting the success of the devices in preventing those potentially over the legal alcohol limit from driving, the AA also pointed to the fact that around one in three people sentenced to an alcohol interlock did not end up with a device installed in their car. The AA criticised the lack of follow-up in the current system to ensure that the devices were fitted into vehicles.

*Research into the effectiveness of alcohol interlocks will be published in early 2022*

- 18 Te Manatū Waka has commissioned an evaluation of the impact of the alcohol interlock sentence on reoffending. The evaluation is expected to be published in early 2022. The evaluation compares reoffending data for those given an alcohol interlock sentence with those who were eligible but did not receive the sentence between 2013 – 2017 (before the sentence became mandatory). The Ministry of Justice provided the data, which included sample matching and reoffending analysis.
- 19 While there are some limitations with the data, the draft report shows that the group subject to the alcohol interlock sentence had lower reoffending rates for drink driving and disqualified driving over a two to four-year period. It is not possible to verify, however, whether those subject to the sentence actually had an interlock device installed.

### **Some aspects of the alcohol interlock sentence warrant further work**

- 20 There are some aspects of the alcohol interlock sentence that require further consideration:
- The responsibility for installing an alcohol interlock device rests with the offender. Some offenders may be unable to afford to install the device, or may be struggling with other issues (including alcohol addiction) so do not complete the sentence. While they remain disqualified from driving, a number may continue to drive. There is no follow-up with the offenders by any agency. In Te Manatū Waka's view, this poses a significant risk. Accountability and oversight of the regime should be strengthened. We will raise this issue with Waka Kotahi in the first instance, to determine what response can be taken to strengthen oversight of the regime. We will report back to you in early 2022 on next steps.
  - When Cabinet approved the introduction of the mandatory alcohol interlock sentence, officials were directed to monitor uptake rates and identify any barriers to the sentence. Officials were also directed to review the regime's effectiveness, including whether the mandatory sentence should be extended to further groups of offenders, once three years of data become available after the legislative changes came into force. Although the three-year timeframe has now been reached, this review has not yet commenced.

<sup>8</sup> Available at: [www.aa.co.nz/about/newsroom/media-releases/safety/alcohol-interlocks-prevent-near-40000-attempts-to-drive/](https://www.aa.co.nz/about/newsroom/media-releases/safety/alcohol-interlocks-prevent-near-40000-attempts-to-drive/) [7 December 2021]

- The level of uptake of the alcohol interlock device subsidy has been lower than expected. The Waka Kotahi Board has recently approved an annual subsidy of \$0.7 million for the next three years. Work on developing a business case for the subsidy will continue, which could include consideration of whether the current subsidy level is sufficient. While an increase in the subsidy amount could lead to an increased installation rate by those who receive the sentence, there is a question about whether the financial eligibility thresholds should also be reviewed. Having offenders pay a portion of the cost was considered to be an appropriate incentive when the scheme was designed.
- Waka Kotahi has raised a number of technical issues with some of the alcohol interlock provisions in the Land Transport Act 1998 that need to be worked through to ensure that the legislation is effective and fit-for-purpose. These issues include looking at whether the sentence's objective should be included in the legislation, and looking at the criteria that offenders must meet to progress off the alcohol interlock sentence.

**We will consider including a review of the alcohol interlock sentence in the next Road to Zero Action Plan**

- 21 Given that alcohol consumption is a contributing factor to a large number of deaths and serious injuries on our roads, we will consider including a review of the alcohol interlock sentence regime in the next *Road to Zero* Action Plan for 2023 – 2025.
- 22 We have just started work on the development of the 2023 – 2025 *Road to Zero* Action Plan. As outlined in our recent briefing on the Action Plan (OC211004), we propose to seek the approval of the draft Action Plan at the June 2022 *Road to Zero* Ministerial Oversight Group meeting. We will provide you with the draft Action Plan in May 2022.





22 December 2021

OC211020

**Hon Michael Wood**

**Minister of Transport**

## **COVID-19 - UPDATE ON DEVELOPMENT OF MIAC EXIT STRATEGY**

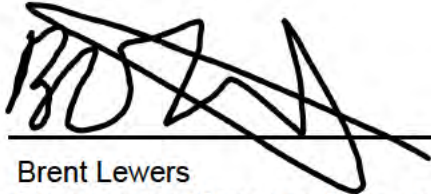
### **Purpose**

The purpose of this briefing is to provide you with an update on the development of the exit strategy for the Maintaining International Air Connectivity (MIAC) scheme. The briefing sets out the work completed to date and provides an overview of the current thinking and options for the development of the exit framework.

### **Key points**

- The Ministry of Transport has developed a Terms of Reference for the MIAC exit strategy work in consultation with the Treasury and the Department of Prime Minister and Cabinet. A range of other agencies are also involved in the development of advice for the exit strategy.
- The Ministry considers that Reconnecting New Zealanders creates a good opportunity to put in place a smooth exit framework from the MIAC scheme. Advice will be provided to Ministers which contains a range of options and trade-offs.
- A key determinant of MIAC exit strategy decisions will be the forecast passenger numbers, based on the Reconnecting New Zealanders strategy. Given the significant uncertainty in timing of Reconnecting New Zealanders, and the further uncertainty in how these decisions will impact passenger travel demand; the Ministry anticipates recommending an exit framework that is capable of managing this uncertainty with exit being determined by actual passenger numbers.

This is a noting briefing and has no recommendations – but please advise us if you wish to discuss further.



Brent Lewers  
**Programme Manager, Reconnecting  
 New Zealanders**  
 22 / 12 / 2021

Hon Michael Wood  
**Minister of Transport**

..... / ..... / .....

**Minister's office to complete:**

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

**Comments**

**Contacts**

| Name  | Telephone | First contact |
|---|-----------|---------------|
| Brent Lewers<br><i>Programme Manager, Reconnecting New Zealanders</i> | s 9(2)(a) | ✓             |
| Hayden Berkers<br><i>Senior Advisor, Transport Connectivity</i>       | s 9(2)(a) |               |

## COVID-19 - UPDATE ON DEVELOPMENT OF MIAC EXIT STRATEGY

### Background

- 1 MIAC was established in May 2021, with current MIAC contracts with airlines set to expire on 31 March 2022 (with the exception of the trans-Tasman routes which are funded separately, and currently expire in January 2022<sup>1</sup>).
- 2 On 22 September 2021 [DEV-21-MIN-0186], Cabinet invited the Minister of Transport to report back to Cabinet in February 2022 with a strategy for exiting the MIAC scheme, incorporating the Reconnecting New Zealanders approach and forecast traveller scenarios.
- 3 This briefing provides an update on how the exit strategy is being developed, including an overview of key considerations that will frame the exit strategy.

### The Ministry has developed a Terms of Reference in consultation with Treasury and DPMC

*The Terms of Reference sets out the key path for developing the exit strategy*

- 4 In line with Cabinet expectation [DEV-21-MIN-0186], the Ministry of Transport (the Ministry) has developed a Terms of Reference for the MIAC exit strategy. This Terms of Reference has been consulted with the Treasury, the Department of Prime Minister and Cabinet (DMPC) – and was also provided for comment by the Ministry of Foreign Affairs and Trade (MFAT), the Ministry of Business, Innovation, and Employment (MBIE), New Zealand Trade and Enterprise (NZTE), and the Ministry of Primary Industries (MPI).
- 5 The Terms of Reference outline the scope for developing the exit strategy, particularly through the establishment of the problem definition. In particular, the following key settings form the basis for the exit strategy development:
  - Reconnecting New Zealanders will open borders, and that will deliver increased passenger numbers, therefore flights, and freight capacity which can be sold at rates which freight customers can be expected to pay without government support, but not necessarily at pre-COVID levels;
  - Those increased passenger numbers (and the consequences outlined above) will be delivered progressively, over time, with considerable variation between routes; and
  - There is unavoidable uncertainty around the timetable for those border openings and the resultant increased freight capacity.

<sup>1</sup> Note: the Ministry is currently working to gain approval to transfer funding to enable the extension of the trans-Tasman contract in line with the other agreements – this will require Cabinet approval and is the subject of a separate briefing to the Minister of Transport

- 6 Based on the above, the key problem definition for the exit strategy to solve is stated as: *Given the context above, what is the best framework for exiting the MIAC scheme?*
- 7 To support this, the Terms of Reference also outline a set of key questions to be answered in the advice to Ministers. These are:
- What is an acceptable minimum level of connectivity? (Note that this should be considered for each route / market)
  - What changes could or should be expected from the aviation sector? What are the risks, and where does the risk sit?
  - What is the potential impact of a return of widespread passenger travel in the rest of the world on New Zealand's connectivity? In particular, how does the opening of the Australian market impact New Zealand exporters / importers?
  - How does seasonality of passenger demand align with export demand?
  - Are there other important market considerations which are outside MIAC scheme control / influence?
  - Ultimately, what is an appropriate level of government intervention and how and when should the MIAC scheme wind-down?
- 8 Additionally, the Terms of Reference also outline a range of out-of-scope areas for consideration. These areas generally refer to other support options beyond the MIAC, noting that the intention of the exit strategy development is not to undertake a first-principles review of the MIAC, but to outline the framework within which MIAC support is best turned off.

9 s 9(2)(g)(i)

10 s 9(2)(g)(i)

*The Terms of Reference also cover the timeline and expected stakeholder engagement*

- 11 The Terms of Reference provide a clear timeline for the development of the exit strategy. More detail on the timeline and relevant factors is provided at the end of this briefing.
- 12 There is a wide range of agencies who will be consulted in the development of the exit strategy. Comments from each agency are expected to be included in the final advice provided to Ministers. Additionally, the Ministry will engage, in a limited manner, with industry participants as needed to inform the exit strategy.

- 13 In line with this approach, the Ministry has already commenced engagement with the key agencies – including through a workshop to provide a base understanding to each agency of the current situation of the MIAC scheme (particularly noting recent trends and projections in the airfreight / air passenger markets). This workshop was also designed to test some early Ministry thinking regarding key considerations of the framework.

14 s 6(a)

### Ensuring the exit strategy can respond to complexity and uncertainty is a key focus for the Ministry's advice

*The MIAC scheme has needed flexibility to operate effectively*

- 15 The MIAC has focussed on ensuring a minimum level of airfreight connectivity is maintained with key markets for New Zealand exports and imports. While difficult to objectively determine the Ministry estimates that this level is around 10-20% of pre-COVID flight levels. This is the current level of air freight availability<sup>2</sup>, of which the MIAC scheme is responsible for supporting approximately 50% (the remainder is provided by operators outside of the MIAC scheme).

16 s 9(2)(b)(ii)

As borders are opened and passenger demand increases (passengers provide significantly more revenue to operators), we would expect to see a significant reduction and then elimination in funding required on MIAC routes.

17 s 9(2)(b)(ii)

- 18 These mechanisms provide a good ability for the MIAC to manage volatile market conditions and ensure that where support remains in place as passenger numbers start to recover, the Crown is not at risk of paying support for flights that are commercially viable.. s 9(2)(b)(ii)

Flight capacity was able to be maintained in the following period when Quarantine Free Travel was suspended.

*Passenger recovery will differ across different markets*

- 19 While the MIAC utilises a core set of principles and similar contractual terms across every supported market, each market is highly complex and impacted by its own set

<sup>2</sup> Note: due to the much lower availability of airfreight, there is currently significantly higher freight rates than pre-COVID – around 2-3 times the pre-COVID prices.



of external factors. In particular, the passenger demand for each market depends on both the New Zealand border settings and dynamics (e.g. willingness to travel) and the border settings and dynamics within the other market.

- 20 This is likely to lead to significant discrepancies in the return of passenger travel between different markets. For example, given the priority of Australia under the Reconnecting New Zealanders strategy and the significant number of New Zealanders travelling to and from Australia, it is expected that the Australian market will recover rapidly. s 9(2)(g)(i)

- 21 To ensure that sufficient connectivity is able to be maintained overall, the Ministry considers that decision-making regarding MIAC support arrangements is best made on the individual market basis, rather than at the aggregate level. s 9(2)(g)(i)

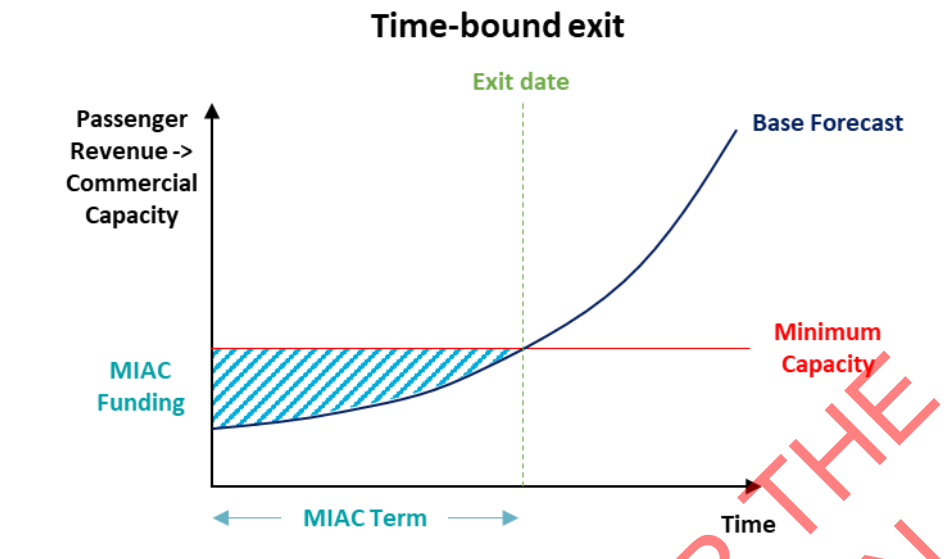
This information will be a key consideration in the advice on the exit strategy.

- 22 s 9(2)(g)(i)

*The exit strategy will provide options to Ministers on how to respond to this uncertainty*

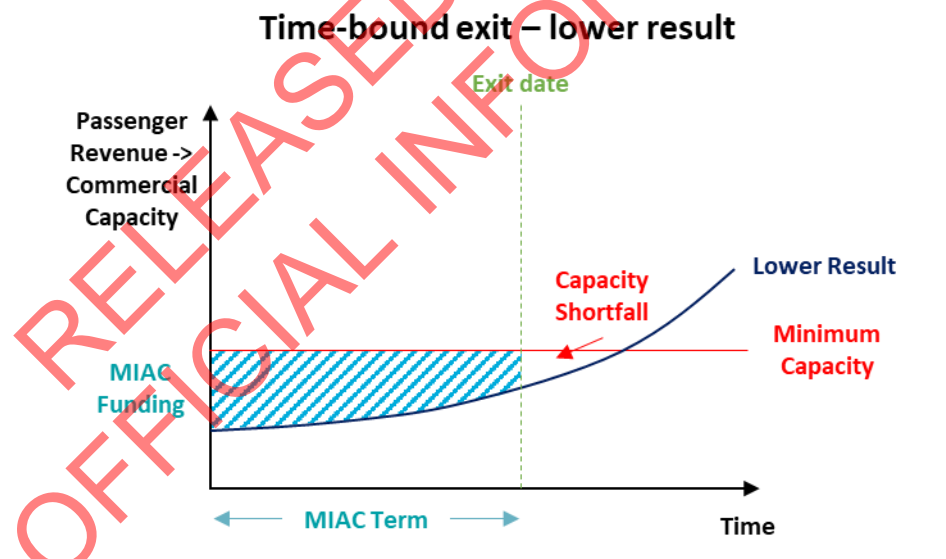
- 23 The Ministry's advice on the exit strategy will outline a framework for exiting the MIAC based on the return of passenger revenue. Within this framework, the Ministry's advice will include a range of options to managing risks across the MIAC exit.
- 24 One key dimension of options within the exit strategy will be whether decisions are based on an exit date or will be 'recovery-driven'. In the absence of a date-based exit strategy, the Ministry will recommend a clear back-stop date, which will allow sufficient time for a further review of MIAC settings and policy objectives. This review will be focussed the management of fiscal risk to the Crown and potential market distortions from long-term government intervention in the air freight market.
- 25 To illustrate the potential differences in these approaches, the Ministry has prepared a collection of theoretical diagrams. These diagrams are conceptual only and do not represent the forecast passenger demand other than reflecting the expectation of a general upward trend. For each diagram, the y-axis represents the level of passenger revenue for a market, and therefore also represents the level of commercial airfreight capacity offered. The MIAC currently provides funding (the shaded area) that adds to the commercial capacity to reach a minimum capacity.

Diagram 1: Time-bound exit



- 26 Under this model, a specified exit date is set at which point MIAC support ceases. The graph above shows that the date aligning perfectly with the increase in passenger revenue / commercial capacity, which means that the exit occurs at exactly the right time. Freight users will see consistent then rising freight capacity, but this is driven by increased passenger numbers so is commercially provided.

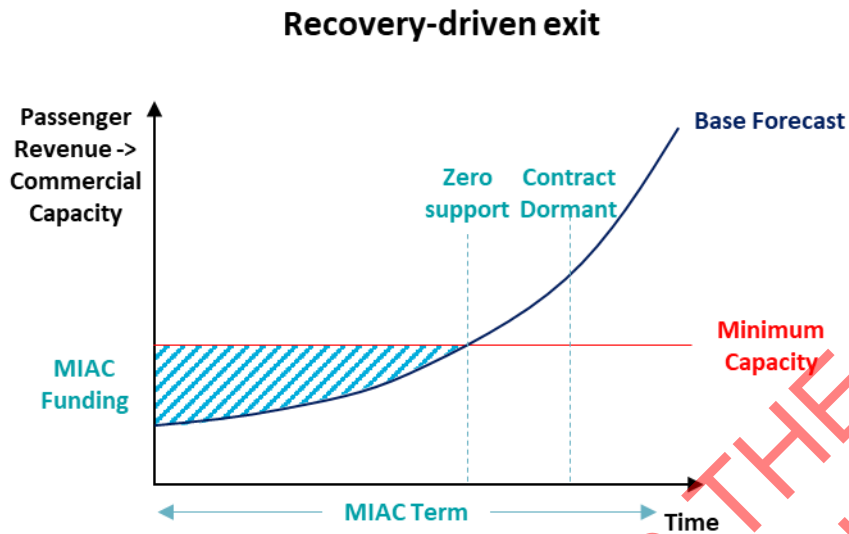
Diagram 2: Time-bound exit – passenger growth lower than forecast



- 27 As with the previous scenario, an exit date was set ahead of time. However, the passenger recovery eventuated later than the specified exit date.
- 28 In this instance, there would be expected to be a capacity shortfall until passenger growth crosses over the previously supported minimum level.

29 s 9(2)(b)(ii)

Diagram 3: Recovery-driven exit



- 30 In this model, instead of an end date set at the expected point that support can be ceased, a 'recovery-driven' exit model is used. Under this model, the contracts are extended beyond the anticipated date of passenger recovery. § 9(2)(b)(ii)

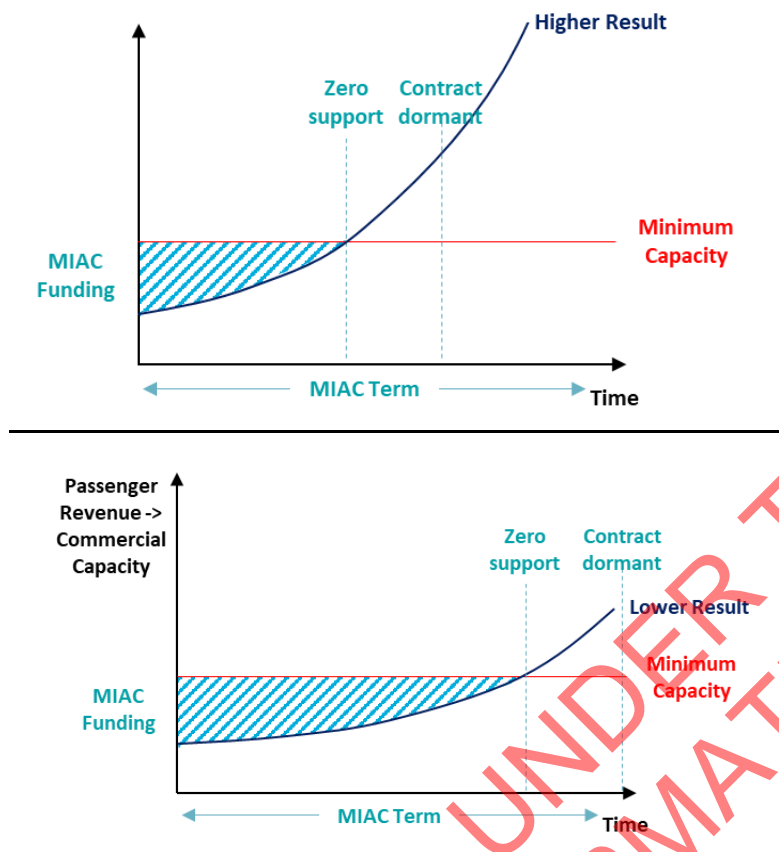
- § 9(2)(b)(ii)

- § 9(2)(b)(ii)

- § 9(2)(b)(ii)

- 31 From freight users' point of view, this model will operate in the same way as the time-bound exit model in diagram 1, where the exit date is predicted accurately. Freight users will only consistent then increasing freight capacity, but that increased capacity will be delivered by the market without government support.

Diagram 4 and 5: Recovery-driven exit – passenger growth above and below forecast



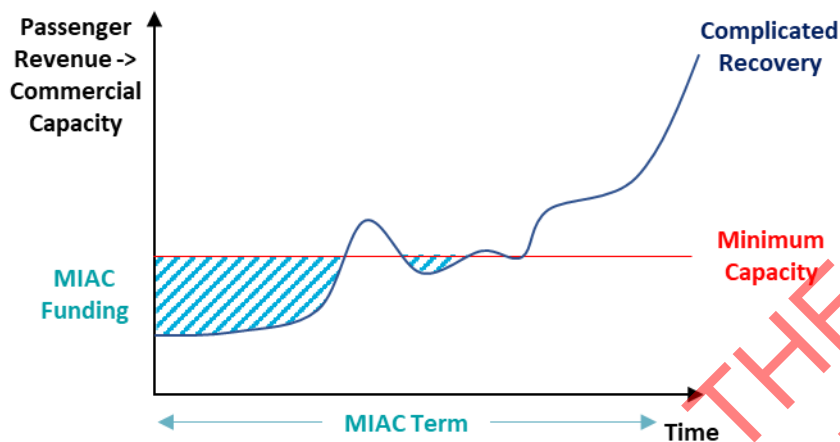
32 These diagrams show the impact of different scenarios using the recovery-driven exit model. They show that under this model:

- if passenger recovery happens earlier than expected (top diagram), the government's payment obligation finishes early, with no unnecessary amount needing to be paid
- if passenger recovery happens later than expected (bottom diagram), the government's payment obligation continues, increasing the scheme's cost, but no capacity shortfall arises.

33 s 9(2)(f)(iv)

34 Other considerations for the exit strategy will include how best to manage the agreements in the likely event that passenger demand is not an easy conceptual growth such as outlined above. For example, the actual passenger revenue curve may look something like this:

Diagram 6: Complex passenger revenue

**MIAC exit – variable recovery**

35 s 9(2)(b)(ii)

36 Overall, the Ministry considers that the development of a suitable exit strategy will be complex and critically will require Ministers to determine the best set of trade-offs, particularly between fiscal cost risk and the risk of sustained capacity shortages.

37 While the Ministry's advice has yet to be finalised, the expected recommendation will be for an exit strategy that utilises the existing contractual mechanisms to respond to the growth in passenger demand, while remaining flexible to support markets in the event of an uneven recovery. This is effectively the 'capacity bound' exit outlined in diagram 3.

38 The Ministry's recommendations will also include specific measures taken to limit fiscal risk from the MIAC scheme, including a contract end date and review period, which can be targeted at markets that have not yet (or will not) recover in the short-medium term.

**Development timeframes are tight**

39 The Terms of Reference also outline the timeline for developing the MIAC exit strategy. This timeline is provided in **Appendix 1**.

40 The development timeline is challenging, driven in part by the summer holiday and the need for engagement with the other agencies. This has resulted in the final briefing and cabinet paper being expected to be lodged on 3 March 2022 – which is slightly beyond the Cabinet expectation of February 2022. However, Ministerial consultation is scheduled to occur in late February 2022.

41 This timeline could be reworked to provide the briefing and cabinet paper earlier, however this would mean that the engagement with the agencies would be more limited. As previous reviews of the MIAC scheme have found, this up-front



engagement with the agencies is critical to ensure robust and consistent advice is provided to Ministers representing all relevant interests.

- 42 If the timeline for the development and agreement of the exit strategy is not able to be met, there may need to be a short-term extension of one to two months to the existing MIAC scheme and contracts. In this situation the Ministry will prepare a brief Cabinet paper to seek agreement to the short-term extension.
- 43 It is important to note that if there are significant changes in the settings of Reconnecting New Zealanders, there will be a likely timeline impact on the development of the exit strategy s 9(2)(g)(i)

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## Appendix 1

Table 1: Exit strategy development timeline

| Activity   | Timing                 | Responsibility             |
|--|------------------------|----------------------------|
| <b>Briefing and Cabinet paper</b>                                |                        |                            |
| Initial workshops with Agencies                                  | Complete               | Ministry of Transport      |
| Develop initial draft briefing                                   | w/e 24 Dec             | Ministry of Transport      |
| Agency consultation on initial draft                             | w/e 21 Jan             | Public Sector Stakeholders |
| Develop final draft briefing and Cabinet Paper                   | w/e 28 Jan             | Ministry of Transport      |
| Final comments from Agencies on briefing and Cabinet Paper       | w/e 4 Feb              | Public Sector Stakeholders |
| Briefing & draft Cabinet paper provided to Minister of Transport | w/e 11 Feb             | Ministry of Transport      |
| Minister advises decision  | w/e 18 Feb             | Minister of Transport      |
| Updated Cabinet Paper provided to Minister's Office              | Contingent on decision | Ministry of Transport      |
| Minister's Office consultation on Cabinet paper                  | Through to lodging     | Minister's Office          |
| Cabinet Paper lodged   | 3 Mar                  | Minister's Office          |
| Cabinet Committee  | DEV 9 Mar              | Minister of Transport      |
| Cabinet decision   | 14 Mar                 | Minister of Transport      |
| <i>If required: Extending contracts</i>                          | 14 Mar – end Mar       | Ministry of Transport      |
| <i>If required: New contractual period</i>                       | From 1 Apr             | Ministry of Transport      |