



Cabinet Economic Development Committee

Minute of Decision

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COVID-19 Response: Essential Aviation Connectivity

Portfolio Transport

On 6 May 2020, the Cabinet Economic Development Committee:

- 1 **noted** that on 23 March 2020, Cabinet agreed to a \$600 million aviation relief package comprising financial support to the aviation sector [CAB-20-MIN-0131];
- 2 **noted** that the government has received requests from the aviation sector for additional support, including from 9(2)(b)(ii) [REDACTED], and is expecting to receive more requests from airports and regional airlines;
- 3 **noted** that officials have developed a framework for assessing requests in a consistent and robust way, with a focus on maintaining essential transport connectivity, which is attached to the paper under DEV-20-SUB-0071;
- 4 **noted** that the Ministry of Transport has submitted a Budget initiative relating to non-aviation transport;
- 5 **noted** that the aviation relief package referred to in paragraph 1 above is likely to be underspent;
- 6 **noted** that Cabinet agreement is required for new funding initiatives under the aviation relief package;
- 7 **authorised** the Minister of Finance, Minister of Transport and Minister for Regional Economic Development to jointly approve new initiatives for the aviation sector from within the aviation relief package (including any consequential changes to appropriations), in line with the principles and criteria in the framework for maintaining essential aviation connectivity.

Janine Harvey
Committee Secretary

Present: (see over)

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon Dr Megan Woods
Hon David Parker
Hon Stuart Nash
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Damien O'Connor
Hon Kris Faafoi
Hon Shane Jones
Hon Willie Jackson
Hon James Shaw
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Office of the Minister of Transport
Cabinet Economic Development Committee

COVID-19 Response - Essential Aviation Connectivity

Proposal

- 1 This paper seeks agreement to enable the Minister of Transport and the Minister of Finance to jointly approve new aviation policy initiatives which provide essential aviation connectivity within the \$600 million aviation relief package.

Relation to government priorities

- 2 This proposal supports the COVID-19 Response and Recovery work programme.

Executive Summary

- 3 Maintaining an aviation network that can deliver effective regional connectivity is important for the social and economic wellbeing of New Zealanders and its regions, and will be critical for the COVID-19 recovery.
- 4 Airlines and airports in New Zealand have faced significant reductions in volume throughout the different Alert Levels. Many will continue to do so while domestic travel slowly increases and the border remains closed.
- 5 Aviation sector participants have drawn on the Government's economic response package and financial support from local Government or investors. However, many are beginning to face significant financial pressures. The Government has received requests from the aviation sector for additional support, including 9(2)(b)(ii) [REDACTED], and further requests are expected, including from the 9(2)(b)(ii) [REDACTED].
- 6 The \$600 million aviation relief package recognised the sector was facing significant pressures. It has provided some relief relating to fees and charges; as well as funding to support the movement of international air freight. Some smaller airlines have also received short-term funding for the movement of air freight (e.g. Air Chathams). However, a range of airlines and airports do not qualify for any support under the package.
- 7 The aviation relief package is projected to be underspent. I am seeking agreement to enable the Minister of Finance and me to repurpose any underspent funding from the package to provide financial support for new initiatives relating to maintaining essential aviation services (including any consequential changes to appropriations).
- 8 Any requests for funding would be considered against clear principles and criteria, as set out in the attached framework, to enable robust, efficient and consistent decision-making on a case-by-case basis.

- 9 I am not proposing that the aviation relief package fund tourism-related aviation. These businesses should be considered alongside any support measures for other tourism operators to ensure a fair and equitable approach.
- 10 I also note that operators that meet the requirements of the Economically Significant Business Funding Scheme should be dealt with through the Treasury process for those firms.

Background

- 11 Good regional air connectivity is important to the social and economic wellbeing of New Zealanders and its regions. Connectivity provides opportunities for domestic business and social travel, trade and tourism. Air connectivity is also important for resilience and emergency management. Maintaining an aviation network that can deliver effective regional connectivity will be critical for the COVID-19 recovery.
- 12 Airlines and airports in New Zealand have faced significant reductions in volume throughout the different Alert Levels. Many will continue to do so while domestic travel slowly increases and the border remains closed.
- 13 In March 2020, the Government announced a \$600 million aviation relief package comprising financial support to:
 - 13.1 airlines to pay passenger-based government charges for the next 6 months (with an estimated value of \$163 million GST exclusive);
 - 13.2 airlines to pay Airways fees for the next 6 months (with an estimated value of \$37 million);
 - 13.3 Airways of up to \$70 million to help mitigate the risks to the business as a going concern; and
 - 13.4 \$330 million available to support maintaining airfreight capacity. [CVD-20-MIN-0010 and CAB-20-MIN-0131 refer.]
- 14 Apart from the Crown loan to Air New Zealand and the Government's general COVID- 19 economic response package, no other support has been provided to the aviation sector.
- 15 The \$600 million aviation relief package recognised the sector was facing significant pressures. However, a range of airlines and airports do not qualify for any support under the package. Aviation sector participants have drawn on the Government's economic response package and financial support from local Government or investors. However, many are beginning to face significant financial pressures.
- 16 The following aviation entities have submitted, or are expected to submit, requests for Government support:
 - 16.1 9(2)(b)(ii) has approached the Government for urgent funding.

16.2 9(2)(b)(ii) has sought an urgent loan. It would not be eligible for existing – or likely future – Crown-supported loan mechanisms, because of its local government ownership interests.

16.3 9(2)(b)(ii)

Officials have developed a framework for assessing requests for support to maintain “essential transport connectivity”

17 Following requests from aviation and other transport sector operators, officials have developed the **attached** framework for assessing where additional financial support might be appropriate beyond the Government’s general economic support measures. The focus is on maintaining “essential transport connectivity”, rather than supporting individual businesses to survive. The framework is designed to support robust, efficient and consistent decision-making on a case-by-case basis.

18 The framework has three steps:

18.1 **Principles:** Operators (non-aviation and aviation) have to meet the principles to be considered “essential transport connectivity” for social and/or economic reasons. The principles are differentiated for aviation and other transport services, based on the same underlying rationale.

18.2 **Financial criteria:** The criteria are designed to ensure all other available and reasonable levers have been exhausted, including:

- accessing the general support measures available under the Government’s COVID-19 support package;
- taking available and reasonable operational and commercial measures to reduce costs;
- seeking funding support from all available and reasonable non-government funding sources; and
- “right-sizing” the business for the relevant alert level and the likely “new normal”.

18.3 **Consideration of potential interventions:** If the Ministry and Treasury assess a proposal meets both the principles and the criteria, it could be considered for government intervention.

19 The assumptions underpinning this framework are:

19.1 Support to transport operators will be by exception, given the general measures available or under development as part of the Government’s COVID-19 economic response package.

19.2 Transport networks, particularly those primarily serving tourist markets, may need to be leaner in the short to medium term.

19.3 Crown support should always be viewed as a last resort rather than a first port of call.

- 19.4 The Government should not in general support a business to survive that was already facing financial issues prior to COVID-19.
- 19.5 Notwithstanding the above, it is important that the Government is in a position to respond urgently in cases where there would be significant negative outcomes if a service was not available, either now, in the recovery phase, or as part of the “new normal”.
- 20 Any transport sector-specific funding agreed under this would be temporary and include regular reviews to test if the funding is still required, based on the change of Alert Levels and resumption of activity levels.
- 21 I am proposing the fund only be provided for airlines offering scheduled passenger regional services, and those providing essential transport services. I am not proposing that the aviation relief package fund tourism-related aviation. These businesses should be considered alongside any support measures for other tourism operators, to ensure a fair and equitable approach. The Ministry of Transport and Treasury are engaging with the Ministry of Business, Innovation and Employment (MBIE), which is developing proposals for tourism industry support as part of the COVID-19 response.
- 22 The Ministry of Transport has also submitted an “Essential Transport Connectivity” COVID-19 Budget initiative to enable support for non-aviation essential transport operators.
- 23 I also note that transport operators that meet the requirements of the Economically Significant Business Funding Scheme should be dealt with through the Treasury process for those firms. Future measures targeting the medium-sized businesses may also be relevant to transport sector operators.

There is currently no ability to provide sector-specific support for essential aviation connectivity

- 24 Some sector-specific support is likely to be justified for some airports and airlines, as well as some entities that provide critical services to keep the aviation sector running (e.g. ground handlers). However, there is no ability to provide funding to these operators, beyond general support measures and the urgent airfreight support provided for under the aviation relief package.
- 25 As set out in the framework, the high-level principles for assessing essential aviation connectivity are:
- 25.1 The airport or airline supports New Zealand to achieve essential regional connectivity, and is key to the recovery of domestic and/or international aviation.
- 25.2 The entity provides a significant essential service to the operation of the aviation sector. Without it, the operation and recovery of the aviation system would be significantly impeded.
- 26 I propose to repurpose any underspend from the aviation relief package to enable joint ministers to agree new aviation initiatives that meet the criteria.

- 27 The \$600 million aviation relief package is unlikely to be fully spent on the components set out in paragraph 13. In particular, the \$163 million for relief to airlines to pay passenger-based government charges for six months (until 30 September) could be underspent by up to 50 percent, due to the low numbers of flights resulting from border restrictions and domestic restrictions on travel. Even if the timeframe were to be extended, this allocation is expected to be underspent.
- 28 Cabinet agreed that joint Ministers could move funding between the allocations under the aviation relief package, but there is currently no ability to move funding for new initiatives.
- 29 I am seeking Cabinet's approval to enable the Minister of Finance and me to repurpose any underspend in the aviation relief funding package to provide financial support for new initiatives related to maintaining essential aviation services (including any consequential changes to appropriations). The proposal will allow Ministers flexibility to respond to requests from the aviation sector on a case-by-case basis, within a consistent and robust framework.

Risks and mitigation

- 30 We do not have a full picture yet of the requests that may come in for support. There is a risk that additional funding may be required, particularly to support the needs of regional airports. A large number of requests may come forward, particularly if funding is made available in response to the requests already received. In assessing requests, it will therefore be important to apply the framework in a consistent way, taking account of precedent issues. Officials will continue to monitor funding projections and endeavour to work within the funding available under the aviation relief package. If additional funding were to be required, I would revert to Cabinet to seek approval for this.

Implementation

- 31 The Ministry of Transport is working with Treasury to develop a process for assessing proposals, with support from external commercial experts. Proposals would then be forwarded to the Minister of Transport and the Minister of Finance for their joint approval.

Financial Implications

- 32 The proposal does not request additional funding, but to repurpose some of the \$600 million aviation relief package that is not required under the existing appropriation.

Legislative Implications

- 33 There are no legislative implications.

Impact Analysis

- 34 In the time available a regulatory impact analysis has not been prepared. The proposal is a direct COVID-19 response and does not involve regulatory change.

Human Rights

- 35 There are no human rights implications.

Consultation

- 36 Formal interagency consultation has been limited in the time available. The Ministry of Transport has consulted with the Treasury and engaged closely on the framework. As set out above, the Ministry has also engaged with MBIE on its work targeting the tourism industry as part of the COVID-19 response.
- 37 Although the Ministry has not consulted the sector on the specific proposal in this paper, it follows engagement with aviation participants to understand the needs of the sector, including through the work on air freight funding and the requests it has received.

Communications

- 38 The funding is primarily intended to enable the Government to respond where justified, rather than actively seeking requests from the aviation sector. I propose to make information available on the Ministry of Transport's website about the ability to provide support from within the aviation relief package to airports and airlines that provide essential connectivity, and aviation services that support essential connectivity. This will include clear messaging about the principles and financial criteria that would have to be met to be considered for additional support.

Proactive Release

- 39 I intend to release this Cabinet paper proactively within 30 days, minus information relating to specific requests and other commercially-sensitive or Budget-sensitive information.

Recommendations

- 40 The Minister of Transport recommends that the Committee:
- 1 **note** that in March 2020, Cabinet agreed [CAB-20-MIN-0131] to a \$600 million aviation relief package comprising financial support to the aviation sector;
 - 2 **note** that the Government has received requests from the aviation sector for additional support, 9(2)(b)(ii) and is expecting to receive more requests from airports and regional airlines;

I N C O N F I D E N C E

- 3 **note** that officials have developed the attached framework for assessing requests in a consistent and robust way, with a focus on maintaining essential transport connectivity;
- 4 **note** the Ministry of Transport has submitted a Budget initiative relating to non-aviation transport;
- 5 **note** the aviation relief package is likely to be underspent;
- 6 **note** that Cabinet agreement is required for new funding initiatives under the aviation relief package; and
- 7 **authorise** the Minister of Transport and the Minister of Finance to jointly approve new initiatives for the aviation sector from within the aviation relief package (including any consequential changes to appropriations), in line with the principles and criteria in the framework for maintaining essential aviation connectivity.

Authorised for lodgement

Hon Phil Twyford

Minister of Transport

COVID-19 Response: Support for Transport Operators

This document sets out our proposed framework for responding to requests from transport sector operators for additional support. Our focus is on maintaining essential transport connectivity, rather than supporting individual businesses to survive.

Principles

Step 1	Eligibility for further consideration	Essential Transport Connectivity - Aviation	Essential Transport Connectivity - General
		<ol style="list-style-type: none"> 1. Airports and airlines The airport or airline supports New Zealand to achieve regional connectivity and is key to the recovery of domestic and/or international aviation. 2. Other aviation entities The service is essential to the aviation sector. Without it, the operation and recovery of the aviation system would be significantly impeded. 	<ol style="list-style-type: none"> 1. Economic prosperity: The service supports economic activity, including: <ul style="list-style-type: none"> • maintaining the core transport network to support response and an efficient recovery; and • preserving the supply chain for movement of critical goods for internal (including remote areas) and export markets. 2. Inclusive access: The service enables all people to access social and economic opportunities, such as work, education and healthcare. If the service did not exist, there would be significantly negative outcomes, particularly for: <ul style="list-style-type: none"> • vulnerable people, including people on lower incomes and those without access to private vehicles • people living in geographically-isolated communities. 3. Resilience and security: The service is critical for emergency and resilience purposes. <p>AND</p> <ol style="list-style-type: none"> i. There is no substitutable service now or in the short term. ii. If the service fails, there is low probability of a market resolution within a reasonable timeframe.

Step 2	Eligibility for further consideration	Financial Criteria
		<p>The service provider has:</p> <ul style="list-style-type: none"> • made effective use of the support measures available under the Government’s COVID-19 Economic Response Package • taken all available and reasonable operational and commercial measures to ride-out the impact of COVID-19 • taken all available opportunities to obtain non-Crown funding (e.g. banks, investors, shareholders (including local government shareholders)) to ride-out the impact of COVID-19 • in considering “reasonable” internal and external business strategies, taken into account the essential services, capabilities and capacity needed both during the lockdown and other periods of restricted activity, and to enable it to recover operation for the likely “new normal” (i.e. right-sized)

Step 3	Potential Interventions		
	Economically Significant Business Funding Scheme Target: Subset of businesses > \$50m Treasury lead with MOT input	Potential Measures for Medium-sized Businesses Target: Businesses \$20m–200m Treasury lead with MOT input	Transport Sector-specific Interventions Target: Essential transport services for which other measures unsuitable MOT lead with Treasury input
Support for businesses that fit into this category are managed by Treasury’s new Economically Significant Business Funding Unit. Most businesses are expected to be very large, i.e. >\$200m.	Treasury is developing options for financial support for medium-sized business, e.g. businesses that do not qualify as “economically significant” and for which the Business Finance Guarantee is not enough (maximum loan \$500k).	In some cases transport sector-specific interventions are likely to be appropriate where a service meets the Principles for essential transport connectivity and the Financial Criteria, but for which general measures are not appropriate. We propose a combination of <ul style="list-style-type: none"> • Targeted grant funding, e.g. to maintain transport essential services where it is uneconomical to do so because of movement and physical-distance restrictions; and • Loans on commercial terms, e.g. where a transport service will be essential to the recovery and is viable longer term, but requires support to ride out the economic impact of COVID-19 until “normal” operations resume. 	

The nature of intervention will need to be assessed on a case-by-case basis. This will take into account the ownership interests (e.g. Crown or regional). Any Government interventions will include provisions around how and when that support would end.