



Civil Aviation Authority

Discussion Document

on the

Funding Framework for Regulatory Services 2015-18



This document is not CAA policy.

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

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A Message from the Authority Chairman

This discussion document outlines the approach that the Civil Aviation Authority (CAA) intends to take in carrying out the triennial fees levies and charges review for the period from 2015 to 2018.

The aviation sector in New Zealand has experienced steady growth, with airline passenger numbers increasing at rates well in excess of population growth; aviation activities evolving to add to visitor experiences; industries gaining international attention; and new initiatives increasingly adding to New Zealand's international reputation. The Authority has contributed to this growth with its core focus on effective safety regulation balanced with an appreciation of the commercial and recreational ambitions of sector participants. As a country, New Zealand is internationally at the leading edge on a per capita basis of the numbers of aircraft registered, and community participation.

The Authority last undertook a funding review in 2011 (after a gap of nearly 15 years) with new charges coming into effect in November 2012. At the time it was noted that a further review would be taken no later than June 2015, with the expectation that this would continue thereafter at three yearly intervals. While that review achieved its goal of returning financial sustainability to the Authority, the complexity of it, and significant time gap, resulted in some areas being – with the benefit of hindsight – not optimal.

The previous review included an extensive examination of the value-for-money style of operation of the Authority, which resulted in significant changes to structure, expertise, and capability. In the intervening period the Authority's Board and management have gained high levels of confidence in the financial and operational process and improvements to the Authority's effectiveness and efficiency have continued.

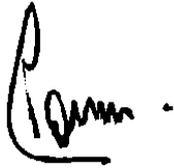
In a similar manner to the review recently undertaken within the Authority's Aviation Security Service operations, this review is being undertaken on a two stage basis. This first stage focuses on the structure of the levies, fees and charges (who pays, and how), while the second phase will focus on the actual level of payment (how much). The latter phase will benefit from the final completion of integration costs within the Authority, together with up-to-date predictions of activity levels within all relevant sectors.

This discussion document explores options for rebalancing sources of revenue between different parts of the aviation sector in a way that meets Government policy; hopefully reduces the direct impost to the sector of its regulatory oversight; and thereby further encourages safe participation within the aviation sector.

Not every part of the sector will be fully satisfied with the outcome. The aviation sector is unique within the transport sector in that it operates almost fully on a user pays basis. Perhaps this reflects its relative youth. With effective consultation it is hoped that the balance ultimately achieved will be accepted and supported. There is an expectation that charges will more closely match costs, in a way that acknowledges the ultimate beneficiary.

This review covers only the basis upon which levies, fees, and charges are struck. The Authority's cost drivers and potential changes within the aviation regulatory system will be captured within the second stage.

I welcome your interest and participation in at least one of the meetings to be held, and look forward to your constructive feedback. It is also an opportune time to thank you for your support during our period of significant change.

A handwritten signature in black ink, appearing to read 'Nigel Gould', with a small dot at the end.

Nigel Gould
Chairman
Civil Aviation Authority

July 2014

Executive Summary

Purpose of the Funding Review

The Civil Aviation Authority (the Authority) is New Zealand's civil aviation regulator. The Authority has a statutory obligation under the Civil Aviation Act 1990 ("the Act") to promote civil aviation safety and security and contribute to an integrated, safe, responsive, and sustainable transport system.

The Authority recovers the costs of its regulatory activities through a mix of Government funding, industry levies, and specific fees. Government funding is determined through an annual budgeting process. Levies and fees are reviewed every three years.

This discussion document marks the first step in the Authority's funding review for the period from 2015-2018. This funding review aims to ensure that the Authority's approach to recovering costs accurately reflects the regulatory activities performed, and that levy and fee levels balance expected costs and revenues over the next three years.

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

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

Framework for Making Funding Decisions

This discussion document presents a framework to make decisions on how the Authority's regulatory activities will be funded. This framework is not new, and draws together central government guidance on public sector charges and approaches currently used by the Authority into a single, consistent way for making funding decisions.

The core steps the Authority proposes to use to set levies and charges are to answer the following questions:

1. **Who should pay?** The Authority identifies the beneficiaries of each regulatory activity to decide who should pay; and
2. **How should they pay?** The Authority then examines whether a levy or fee would best fit the characteristics of each regulatory activity and the way that parties would likely respond through changes in behaviour (both positive and negative).

Funding Objectives

While a clear decision-making framework helps the Authority understand the range of charging approaches that are likely to work, different options still need to be evaluated against specific objectives. The primary objective of the funding review is to set levies and fees in a way that allows the Authority to recover its costs. In achieving this primary objective, the Authority aims to set levies and fees in a way that:

- Promotes civil aviation safety and security. The Act puts aviation system safety and security at the forefront of the Authority's activities, so costs should be recovered in ways that are consistent with this statutory objective;
- Encourages industry participants to compete, invest and innovate. This objective requires levies and fees to be set in a way that encourages the civil aviation system to be used whenever the value of using the system outweighs the cost. More specifically, this objective would weigh against charging approaches that create a compliance burden without an offsetting safety or efficiency gain; and
- Is practical and stable over time. This objective requires that levies and fees are set and changed at regular intervals and in a manner that does not create uncertainty in the industry or for the regulator.

Achieving these funding objectives involves difficult trade-offs. A number of different parties benefit from having a safe, reliable, competitive civil aviation system, but simply charging those parties in proportion to those benefits may not lead to the best outcomes. It becomes a matter of rebalancing sources of revenue between different parts of the aviation sector in a way that better meets Government policy, and which reduces the direct impost to the sector of its regulatory oversight.

Funding options

The Authority has considered a range of options for the levies and fees that will apply from 2015-2018. The options broadly fall into the following three categories for each regulatory activity:

1. Retaining the status quo (from the 2012 review);
2. Changing who pays, either by expanding the scope of fees for activities that are currently funded through a levy or by redirecting current fees to better align with those who benefit from (the beneficiaries) the regulatory activity;
3. Changing how they pay, by changing the way that charges are applied, while potentially recovering the costs from the same parties.

Options currently preferred by the Authority

The Authority considers that the current charging approach is largely supported by the decision-making framework and objectives summarised above. However, the Authority

also believes that there are grounds for considering options to change current levies and fees in some areas. These are not major changes, but would better reflect the costs of regulating New Zealand's safe and secure civil aviation system.

The funding options currently being considered by the Authority are summarised in the table below.

Change Options	
Retaining the status quo (from the 2012 review)	<ul style="list-style-type: none"> Retention of the status quo subject to the modifications below
Changing who pays	<ul style="list-style-type: none"> Establish new levies for commercial aviation activities undertaken under various Rule Parts Establish a freight-only flight levy for domestic freight operations Adjust the fees charged for medical certification Recover cost of external expert technical capability, where that capability is not available within the CAA
Changing how they pay	<ul style="list-style-type: none"> Retain charges for certification and licensing of participants, organisations and aircraft, but with some change to the way in which these charges are applied (aimed at simplification of the charges regime) Funding routine surveillance and audit activity through participation and passenger levies, with follow-up actions attracting a direct charge Combine the current participation levy and aircraft registration fees
Reviewing the CAA's reserves management approach	<ul style="list-style-type: none"> Establish a 'business-as-usual' reserve to provide adequate protection against a modest variation in passenger volumes and mitigate the risk of an 'unscheduled' review being required

Sector Feedback

This document sets out a clear set of principles that will underpin the Authority's future funding approaches, together with a range of problems and opportunities that need to be addressed. This document also sets out a number of options for changing the Authority's current funding approaches. This discussion document is not "finite" and other options, not yet identified, may arise as a result of feedback we receive.

We welcome your feedback on the ideas set out in this document, and will listen carefully to views expressed on:

- Funding objectives
- Who should pay, using what mechanism?

We also welcome feedback on other options that you may have identified but that we have not referred to in this discussion document.

Introduction

1. The Civil Aviation Authority (the Authority or the CAA) is New Zealand's civil aviation regulator. The Authority has a statutory obligation under the Civil Aviation Act 1990 ("the Act") to promote civil aviation safety and security and contribute to an integrated, safe, responsive, and sustainable transport system.
2. The Authority recovers the costs of its regulatory activities through a mix of Government funding, industry levies, and specific fees. Government funding is determined through the Government's annual budgeting process. Levies and fees are reviewed every three years. This discussion document marks the first step in the Authority's review of the levies and fees that will apply from 2015-2018.
3. This funding review process is divided into two stages. The first stage (which is the focus of this discussion document) presents the overall framework for setting the Authority's levies and fees. This framework is directed at answering the questions of who should pay for CAA's activities, and how should they pay (whether through a levy on industry participants or a fee for service). The second stage of the funding review will consider the appropriate level of each regulatory levy and fee.
4. While the basis for current levies and fees is sound, the CAA believes that it can improve how its activities are funded. Feedback from stakeholders is important at both stages of the funding review to ensure that levies and fees are set in a way that promotes the right outcomes for the civil aviation industry.
5. The remainder of this discussion document describes the relevant background to this funding review, presents a framework for making funding decisions, and then presents some options for changing current levies and fees to better achieve industry and regulatory objectives.

Background

6. This section describes what activities the Authority undertakes, how it can recover the costs of those activities, and how the cost of the Authority's activities are currently recovered.

The Authority performs a range of safety activities

7. The role of the Authority is set out in the Civil Aviation Act 1990 (the Act):

“The objective of the Authority is to undertake its safety, security, and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system.”

8. The Authority undertakes four major categories of safety interventions (activities) in pursuit of its statutory objective. These activities are:

- § Education and safety promotion;
- § Certification, monitoring and investigation;
- § Enforcement; and
- § Administration.

9. A range of specific activities are undertaken within each category. These are described in more detail in Appendix 1: Safety interventions and activities.

The authority to charge fees and levies comes from the Act

10. The legislative authority for the CAA to charge fees and levies is contained within the Civil Aviation Act 1990. Fees and levies can only be imposed on aviation document holders, and the funding obtained is used by the Authority to carry out its functions under the Act.

11. The Act authorises the making of regulations that specify fees and charges for the performance of Civil Aviation Authority functions. The Act also lists ways that industry levies might be applied. These are:

- § the quantity of fuel purchased by any person
- § the number of persons able to be carried on any aircraft
- § the number of persons actually carried on any aircraft
- § the amount of freight able to be carried on any aircraft
- § the amount of freight actually carried on any aircraft
- § the distance flown by any aircraft
- § aircraft size or capacity
- § the purpose for which any aircraft or aeronautical product is used
- § any other basis that relates to the use, size, or capacity of any aircraft, aeronautical product or aviation related service.

Fees Charges and Levies defined

12. The third party funding payments collected by the Authority are called *fees*, *charges* or *levies*. This is regardless of the nature or purpose of the payment. However, a levy differs from a fee or charge for a specific good or service; it is more akin to a tax, but one that is charged for a specific purpose and to a specific group. It is usually compulsory to pay a levy.¹
13. Common definitions established by the Legislation Advisory Committee, the Office of the Auditor-General and the Treasury together result in 'fees and charges' and 'levies' meaning as follows:²
 - § Fee or charge (money for product or service): A cost-recovery payment for a specific product or service provided by a public entity to an individual where there is a direct connection between the cost, the product or service and the benefit to the individual; and
 - § Levy (money for specific purpose): A cost-recovery payment for a specific purpose, for example - a function or an area of activity (rather than a product or service) provided by a public entity to a group where there is an indirect connection between the cost, the purpose and the benefit across the group.

There is a range of levies and fees currently in place

14. The Authority currently charges four types of levy³, and a range of fees⁴. These are summarised in the table below:

Table 1: Current Fees and Levies

Levy or fee	Description	% of Revenue
Domestic Passenger Levy	Domestic air passenger operators are required to pay a set fee for each passenger carried	68
International Passenger Levy	International air passenger operators pay a levy at a defined rate for each departing international passenger	

¹ Office of the Auditor-General (OAG) Good practice guide: Charging fees for public sector goods and services June 2008

² Legislation Advisory Committee (LAC) Guidelines on Process and Content of Legislation 2001 (2012 edition); Office of the Auditor-General (OAG) Good practice guide: Charging fees for public sector goods and services June 2008; and the Treasury Guidelines for Setting Charges in the Public Sector Dec 2002

³ Refer to [Civil Aviation \(Safety\) Levies Order 2002](#)

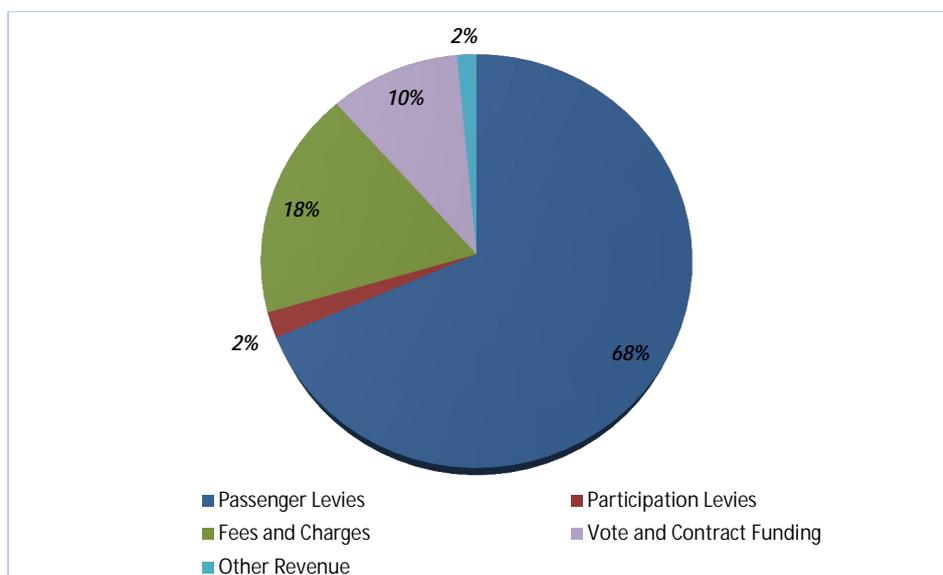
⁴ Refer to [Civil Aviation Charges Regulations \(No 2\) 1991](#)

Levy or fee	Description	% of Revenue
ANZA Levy	If an operator holds an Australian AOC with ANZA privileges; and conducts or intends to conduct a regular air transport passenger service under the Australian AOC with ANZA privileges; and has complied with section 11B of the Act then the operator must pay to the Authority a levy per passenger carried by the operator on each domestic sector of a regular air transport passenger service flight	
Participation Levy	Every aviation operator who does not pay the domestic passenger levy must pay an annual participation levy. The owner of each New Zealand registered aircraft is levied an amount based on the maximum certificated take-off weight of the aircraft. Neither passenger levy nor specific activity-based levy is applied to any of adventure aviation; or agricultural aviation; or ballooning or gliding.	2
Fees and Charges	A range of fees and charges for aviation activities and services, including: <ul style="list-style-type: none"> Medical certification application Charges for surveillance, certification, etc. Approval of manuals, programmes, procedures, equipment, etc. 	18

Most funding comes from passenger levies

15. The bulk of funding is received through the passenger levy with a significant contribution from fees and charges. Funding sources as a percentage of total funding for 2012/13 are shown in the figure below:

Figure 1: Funding Sources 2012/13



16. Reliance on passenger levies means that the Authority's funding levels in any given year fluctuate with volatility in passenger numbers. At present the CAA is permitted to hold contingency reserves to manage revenue fluctuations over time, and to cover the following financial requirements:
 - § Business-as-usual working capital to deal with seasonal and business cycle fluctuations in passenger volumes; and
 - § Funds to enable CAA to operate following external shocks.
17. Three equity reserve funds are used by CAA, and are reported upon annually in the Authority's Annual Report:
 - § Fixed Fee Reserve
 - § Hourly Charges Reserve
 - § Other (Vote Transport and MOT Contract) Reserve

Review of Existing Fees, Charges and Levies

18. The Civil Aviation Charges Regulations (No 2) 1991 provides for 90 specific fees and charges, and the Civil Aviation (Safety) Levies Order 2002 provides for nine separate levies.
19. The CAA has reviewed each of these fees, charges and levies against its funding principles and the guidance provided by the Treasury and the Office of the Auditor General. Some areas for potential change have been identified and these options are discussed later in this discussion document. The Authority is open to considering other options for changing fees, charges and levies.
20. In carrying out the review of the fees, charges and levies, the CAA has observed that the benefits from some of the interventions may fall differently from that presumed currently. For this reason, the CAA seeks advice on alternatives, particularly in relation to surveillance activities.
21. In this discussion document the CAA explores options for rebalancing sources of revenue between different parts of the aviation sector in a way that better meets Government policy, and which reduces the direct impost to the sector of its regulatory oversight, thereby helping to encourage participation in the aviation sector.

A Two Stage Process

22. The Funding Review is being carried out in two stages:
 - § **Stage One** comprises a review of the basis upon which fees, levies and charges are struck. This stage does not include consideration of the levels of those fees, levies and charges. Stage One is a crucial step in the review process, and focuses on the framework for the recovery of costs of the

CAA's regulatory oversight activities — in other words, the “who pays” and “how they pay” questions. Determining “who pays” and “how they pay” are prerequisites for the “how much is paid” question which is addressed in the next stage.

§ **Stage Two** will apply the approach developed as a result of Stage One to adjust fees, levies and charges for the 2015 to 2018 triennium. This will use the information gathered from the regional meetings, and from written and other feedback and establish the Funding Framework. Based on that funding framework, sound financial models will be developed that enable the actual fees, charges and levies for set levels of service delivery to be calculated and medium-term financial plans to be developed.

23. This is expected to occur in late 2014 or early 2015. The proposals arising from Stage Two will be made available to the sector and consulted upon prior to recommendations being made to the Government.

Service Charter and Standards of Service

As required by section 72G of the Civil Aviation Act 1990, the CAA has prepared a Service Charter⁵, and made it available to the public (through the CAA website and as a printed document). The charter currently sets out:

- the general standards of service which those we interact with can expect us to provide in carrying out our functions;
- the steps those we interact with can take if they consider that these standards have not been met;
- what we will do to “put it right” where both parties agree that these standards have not been met; and
- the options for resolving the matter if agreement cannot be reached.

CAA management and staff, while carrying out day to day functions, use their best efforts to achieve the standards of service which include: treating everyone with courtesy and respect; providing timely, accurate and useful responses to all inquiries; acting in a helpful, co-operative and professional manner. This includes, for example: acknowledging all written inquiries within 10 working days, and providing progress reports where matters proceed over a period of time, that is, if a full response cannot be completed within 10 working days.

Efficiency in Service Delivery

The CAA is acutely aware of the need for efficiency in the delivery of its regulatory services. As the scope of those services covers a wide range of disciplines, the fees and charges also take into account the great variety in terms of nature, size and complexity

⁵ The standards of service, Service Charter complaints procedure, and remedies set out in the Service Charter do not apply to the exercise of statutory powers, or to the exercise of discretionary decision making pursuant to the Civil Aviation Act 1990.

of the various regulatory activities including surveillance, (audit and inspection) and certification.

Consistent with the approach taken in the Service Charter is the expectation that CAA's clients will be provided with services at a cost which is not only fair, but also reflects adequate compensation for the CAA to enable good quality service.

The CAA charges only for the time of professional and technical staff engaged in the regulatory activity. The time-based fees applied reflect the size and/or complexity of the regulatory activity required. It is important to note that, because of scale, proportionately greater effort is required to provide an acceptable level of service on a smaller project when compared with a large one.

The CAA's Approach to the Regulatory System

24. It is the CAA's surveillance oversight of the aviation system, and subsequent administrative and regulatory compliance action that enables the Director, the Board, the Minister and ultimately the New Zealand public and international visitors, to be assured of the integrity of the civil aviation system in New Zealand.
25. The aviation safety regulatory system has, since 1990, been subject to a number of external reviews. There is no evidence to suggest that the regulatory system requires change. During that time, however, the CAA has implemented many changes in the way it carries out its regulatory responsibilities, all with a view to increasing the levels of safety in New Zealand aviation, and increasing the effectiveness of aviation regulatory activity.

This review does not include consideration of possible changes to the aviation regulatory system, or the Civil Aviation Act 1990.

Risk Management Approach

26. The Authority has implemented a combined Assurance, Quality and Risk framework which provides the CAA with the tools to obtain a forward-looking perspective on our risk landscape. The framework also gives us a view on the design and effectiveness of our internal control and quality management system. The framework is used to ensure that risk management, quality systems and assurance drive efficiencies and resource allocation. This approach is consistent with the CAA's ongoing implementation of a risk-based regulatory approach.

CAA's Role As A Risk-Based Regulator: The Civil Aviation 'Life-Cycle' Approach

27. The civil aviation system in New Zealand is a "closed system". Participants enter the system by being granted privileges under the Civil Aviation Act 1990, and Civil Aviation Rules, which sets out a 'life-cycle' approach to regulating civil aviation.
28. The life-cycle approach⁶ has three stages: entry, operation or participation, and exit. Under this approach, once participants have entered the regulated system, they must take responsibility for ensuring their operations meet these minimum standards. Failure to do so renders the participant liable for administrative and/or regulatory compliance action which may include penalties under the Act and, potentially, exclusion from the system.

Risk Based Regulation and 'Safety Management Systems'

29. Taking a risk-based approach to regulation allows the CAA to its target resources more effectively, enabling it to mitigate the risks in the civil aviation system better and to apply the most appropriate intervention.

⁶ The life-cycle approach is explained more fully in a publication available on our website: *Civil Aviation in New Zealand* at http://www.caa.govt.nz/about_caa/Civil_Aviation_in_NZ/caa-profile.html

30. The CAA is proposing to implement Safety Management Systems (SMS) requirements for certificated organisations in many parts of the civil aviation system. A Safety Management System is defined as 'a systematic approach to managing safety, including the necessary organisational structures, accountabilities, policies and procedures'. It is more easily described as a series of defined, organisation-wide processes that provide for effective hazard identification and associated risk-based decision-making related to organisations' daily business.
31. Participant organisations establishing (or enhancing a current) SMS may have to develop and implement a more systematic approach to managing risks which at least: identifies safety hazards; ensures that remedial action necessary to maintain an acceptable level of safety is implemented; considers actual and potential safety hazards; provides for continual monitoring and regular assessment of the safety level achieved; creates a safety culture; and aims to continually improve the overall level of safety.

Risk Profiling

32. Increasingly sophisticated risk profiles are being developed for the different aviation sectors, such as agricultural aviation and commercial adventure aviation. These will enable the CAA to better identify specific risk factors and apply more targeted and proactive responses.
33. Factors such as participant organisational culture, attitudes and behaviours, skills, business systems and resources are considered when the CAA assesses participant risk, and are rated against a standard performance scale. Assessment is based on information gathered from audits, investigations and incident reporting.
34. A key factor the CAA considers when allocating regulatory resource to compliance activity is the potential consequence of a safety failure. For example, while a failure in passenger-carrying operations is very much less likely than a failure in other aviation activities, the consequences of such a failure are more likely to be significant. The CAA therefore places a higher emphasis on regulatory activities for passenger-carrying operations.

Behavioural aspects of regulatory oversight

International research

35. Evidence from international research in regard to regulatory compliance behaviour⁷ shows that intrinsic organisational characteristics (e.g. size, nature of business activity, etc.) can be linked, directly or indirectly, with willingness, or ability, of a business to exhibit compliant behaviours.

⁷ Evidence Review on Regulation Culture and Behaviours: 2010; Institute for Employment Studies and Cardiff Work Environment Research Centre

36. Organisations that demonstrate features of an effective safety culture are likely to be more compliant. These features include manager commitment, peer group support, good staff communication and consultation, recognition that everyone has a role to play, and provision of high-quality training.
37. Risk perception is regarded as an important determinant of safety behaviour. If the regulatory regime is perceived as fair, trusted and co-operative, this is likely to lead to greater compliance, although sanctions are still needed to back up a co-operative approach. There is evidence that sustained compliance is more likely to be achieved when driven internally (i.e. from within the organisation) than externally (i.e. directly through regulatory action). Ideally risk control measures should be embedded in routine processes and systems so that they are perceived as an automatic part of the job rather than as a time-consuming add-on.
38. Reputation is a driver for compliance with regulations. Businesses are motivated more to comply if they fear that their legal duty would make them responsible for an accident, which could damage their reputation or make them financially liable.
39. There is also evidence that imposition of a sanction or penalty (administrative, compliance or financial) during an audit or inspection can impact on participant behaviour, and do so irrespective of the size of the penalty.

Achieving a safety-conscious industry

40. The CAA seeks to encourage a safety-conscious industry which takes responsibility for its own and its passengers'/users' safety. Rules, by their very nature, imply enforcement and consequences. Responsibility implies **willing compliance** and **self-correcting, self-directed behavior**.
41. Supporting and developing a responsible aviation sector involves the CAA encouraging increased compliance beyond the minimum determined by Civil Aviation Rules, and disincentivising or deterring behaviour which would increase risk to participants, their passengers and users, and the general public. In some instances, the use of fees and charges is a component of this incentivisation or dis-incentivisation.
42. The spectre of incurring high levels of, or repeated, compliance cost can be seen as a deterrent to non-compliant behaviour, particularly when compliance may be cheaper than a second or subsequent regulatory intervention.
43. Most participants are willing to comply with the Civil Aviation Rules, especially if they can see the potential to improve their business and reap the resulting commercial benefit. While only a small percentage of participants try to avoid their legal obligations, it's the reluctant few that 'drag down' the reputation of the majority.

44. The CAA's current "willing compliance" approach identifies and rewards participants who consistently meet or exceed agreed safety standards and focuses attention on those failing to meet legal requirements. In some instances, administrative action is taken to encourage a participant to improve compliance. Such an approach seeks to improve the safety performance of participants and the CAA ensures that its activities, whether administrative or compliance, are focused on the most effective way of achieving safety.
45. This does not mean the CAA has "gone soft". The willing compliance approach has not, and will not, eliminate administrative or compliance enforcement actions. There will always be people who don't comply - they still need to be given attention and, if necessary, penalised but that should be a last resort. In fact, the willing compliance approach enables the CAA's effort to be concentrated more on those few participants who do not comply.

Framework for Making Funding Decisions

46. This section presents a framework for the Authority to make decisions on how the regulatory activities will be funded. This framework draws together Central Government guidance on public sector charges and approaches currently used by the Authority into a single, consistent method for making funding decisions.
47. The intention in developing this framework is to develop a sustainable approach to funding that can be applied at future funding reviews. The CAA's aim is to build a consensus within the civil aviation industry about who will pay for regulatory activities, and how regulatory costs will be recovered.

Funding Objectives

48. While a clear decision-making framework helps the Authority understand the range of charging approaches that are likely to work, different options still need to be evaluated against specific objectives. The primary objective of the funding review is to set levies and fees in a way that allows the Authority to recover its costs. In achieving this primary objective, the Authority aims to set levies and fees in a way that:
 - i. Promotes civil aviation safety and security. The Act puts aviation system safety and security at the forefront of the Authority's activities, so costs should be recovered in ways that are consistent with this statutory objective;
 - ii. Encourages industry participants to compete, invest and innovate. This objective requires levies and fees to be set in a way that encourages the civil aviation system to be used whenever the value of using the system outweighs the cost. More specifically, this objective would weigh against charging approaches that create a compliance burden without an offsetting safety or efficiency gain; and
 - iii. Is practical and stable over time. This objective requires that levies and fees are set and changed at regular intervals and in a manner that does not create uncertainty in the industry or for the regulator.
49. Achieving these funding objectives involves difficult trade-offs between objectives. A number of different parties benefit from having a safe, reliable, competitive civil aviation system, but simply charging those parties in proportion to those benefits may not always lead to the best outcomes.

Feedback Question 1

- Do you agree that these are the right objectives for the Authority's funding framework?
- Are there any others you think are worth considering?

50. The Authority proposes to use two steps to set levies and charges. They are to determine:
- § Who should pay? and
 - § How should they pay?
51. We consider each of these in turn below.

Who Should Pay?

52. Government guidance on fees and charges recommends that the party who should be charged should be some combination of:
- § **Beneficiaries:** Parties who benefit from the provision of the good or service, including those who would be adversely affected if the output were not provided; and/or
 - § **Risk or cost exacerbators:** Parties that cause the cost of providing the good or service to rise, or who, through their actions cause an increase in risk in the system.

Beneficiaries of the Authority's activities are a potentially diverse group

53. Beneficiaries of regulatory activities are not always straightforward to identify. Beneficiaries could include a number of different groups or individuals or combinations of groups and individuals, depending on the activity. Regulatory activities will often affect multiple beneficiaries, and in many cases the benefits will be diffuse.
54. When determining beneficiaries, the Civil Aviation Rules are taken as given. For example, the rule requiring a particular participant to hold a document means that the participant will benefit from being able to undertake an activity that would not otherwise be legal. Although the rule may have been originally put in place to ensure the safety of users (rather than the document holder), once the rule is in place, issuing the document confers benefits on the document holder.
55. The costs and benefits of regulating the aviation sector will fall on one or more groups:
- i. Industry participant/subject of the intervention
 - ii. The consumers of the services provided by the participant; including:
 - Passengers of commercial airlines
 - Freight customers
 - Purchasers of specialist aviation services
 - iii. The Government/CAA itself

- iv. The public at large (when distinct from i-iii above).
- 56. Passengers and other end-users are the most significant beneficiaries of the core safety activities of the Authority. Participants such as air transport operators and aviation service providers also receive significant benefits from a safe, commercially sustainable civil aviation sector. There are a number of cost and risk exacerbators in the system including, for example, applicants for documents and participants who do not comply with safety regulations.
- 57. For example, aviation consumers might benefit from regulatory services through a lower risk of accident or death and more reliable services through minimum operator standards being met while facing costs of increased prices from levies and fees. Examples of participant costs and benefits are provided in Appendix 2: Examples of costs and benefits.

Risk and cost exacerbators are drawn from the same groups of participants

- 58. Parties (e.g. participants) that exacerbate risk generally also cause more cost to be incurred by the consumer or regulator (or both) as a consequence of their actions. Like beneficiaries, risk and cost exacerbators can be drawn from a range of groups that interact with the aviation system. They could be:
 - § Individuals seeking certification or assessment
 - § Participants who do not comply with rules
 - § The CAA itself through choosing to undertake activity
 - § Users of the system including passengers
- 59. A decision should be made in each circumstance as to who is best to charge based on the balance of beneficiaries, the extent to which they can be identified and whether risk or cost exacerbators exist and can be identified.

Feedback Question 2

- Do you think there are any other parties that might benefit from civil aviation regulation?
- Are there any other risk or cost exacerbators that need to be included and considered?

How Should They Pay?

- 60. There are three main ways that beneficiaries and cost exacerbators might pay for CAA services. They are:
 - § General Taxation
 - § Levies
 - § Specific Fees
- 61. We consider each of these in turn below.

General taxation is a special case not covered by this framework

62. The CAA provides a range of services for the government. These are funded by appropriations from Central Government. The services include:
- § Health and Safety oversight for aircraft in operation;
 - § Policy Advice;
 - § Services to the Government and Minister(s);
 - § Services to the Pacific; and
 - § Service delivery carried out under Memoranda of Agreement with other parties, both within and outside New Zealand.
63. These activities are funded from a variety of government sources, including transport funding, direct cost recovery for services provided, and funding from various programmes operated by the Ministry of Foreign Affairs and Trade.
64. The funding that these services attract is outside of this review as it occurs through a separate process. The CAA will from time to time seek appropriations for public good activities or increase or decrease the extent of public good activities as a result of the annual government funding and budgeting process.

Deciding levies and fees is the primary task of this framework

65. This framework is intended to determine the nature and extent of levies and fees to fund the balance of the Authority's funding requirements. The Authority must decide in this first part of the funding review on:
- § The basis and coverage of each levy it imposes; and
 - § Whether a levy or a fee would be a better fit for a given regulatory activity.
66. We see three ways that funding options could better achieve the objectives set out above:
- § Identifying and matching beneficiary groups with charging mechanisms;
 - § Better behavioural responses of users to a specific levy or fee; and
 - § Reducing the costs of implementing different charging options (to CAA and to users).
67. This section considers how these factors determine the design and coverage of levies and when either, specific fees is a better option to fund the activity.

Identifying and matching beneficiaries with charging mechanisms

68. The chosen charging mechanism should match as closely as possible the identified beneficiaries or cost exacerbators, whether individuals or groups. This implies that the coverage of the fee or levy should be aligned with the identified group, and that if a particular group is identified as benefiting in a similar fashion to another

group or individual then they should be charged the same rate. This fosters fair competition and low rates.

69. Applying this principle will enable the lowest possible fees and levies to be charged which fosters a vibrant aviation industry. In a similar fashion, coverage of a levy should be extended if groups are not completely caught by the levy application when they are in fact benefiting in a similar fashion (subject to the other factors).
70. The economic characteristics of a good may limit the options available for funding through taxes, levies or fees. Pure 'Public Goods' for example should not be funded by fees.⁸ Private goods⁹ and club goods¹⁰ can be funded through fees or levies. General taxation would only be used to fund a club or private good in unusual circumstances when adverse safety behaviour or high transaction costs were paramount.
71. If specific beneficiaries or cost exacerbators of a service cannot be identified then it will not be appropriate to charge a separate fee, compared to a levy on a class, or group, or a broader government tax. In some cases even if individual beneficiaries can be identified, it may still not be appropriate to charge a separate fee – depending on the response of users and the transactions costs below.

How users will respond to the charge

72. A specific fee can send information about the true cost to the consumer of the service. General taxation cannot however as there is little relationship between the level of general taxation and the demand for services.
73. Charging for a service can therefore lead to the best level of demand of the service. This is because the price response can lead to a reduction (or increase) in use. We can say that:
 - § A price too low is likely to lead to wasteful consumption
 - § A price too high is likely to lead to under consumption and safety concerns
74. Safety enhancing behaviour is a key objective of the funding regime and minimizing fees and charges overall is critical to fostering the aviation industry in general.
75. The more targeted the fee the more that it has the potential to influence behaviour - for better or worse. A levy on passengers increases the price of a flight

⁸ Public goods are non-rival and non-excludable which means that you cannot prevent people from benefiting from the service whether you have charged them or not and their consumption does not lower the services available to others.

⁹ Private goods are excludable and rival which generally means that the beneficiary is identifiable at an individual level.

¹⁰ Club goods are excludable but non-rival which often means that a group can be identified as using or benefiting from a service but cost exacerbation is not as clear as consumption does not detract from use by others.

more directly than the level of general tax, for example. The more direct the charge to the user, the more demand is affected.

76. A price too high is an important consideration in safety services. There might be many cases when compliance with a regulation or the provision of information is the primary concern to maintain the intervention logic or safety integrity of the system.
77. This might occur for example when a fee reduces demand but also compliance with a requirement. This could lead to inefficient under-consumption – and it may lead to a need to minimise a fee on the specific cost exacerbators and instead levy a class of beneficiaries.

The costs of implementing and operating levies and fees

78. Fees and charges and the administrative apparatus required to implement them can be costly. Often a general levy, especially if it already exists, will be administratively simple to collect. Minimal transaction cost is a key objective of the funding system. Similarly, if the levy funds a wide range of services then the single levy is less administratively costly than many individual levies or charges.
79. When setting levies and fees there is a materiality test. If the sum total of funds intended to be collected from a single charge is insufficient to cover the fixed costs of maintaining a separate funding stream, a separate charge is unlikely to be warranted.
80. Minimising the costs of interaction for participants is also an important factor. This includes their time and effort in knowing and understanding the rules, making the required payments, and modifying any other behaviour to comply with the rules. These costs are clearly relevant when choosing when and how to impose additional fees.

Feedback Question 3

- Do you agree that changes that better match charges to beneficiaries, get users to respond in the right way, and minimise costs will achieve the objectives of the funding framework described above?
- Are there any other changes to fees and levies that the Authority should be considering?

Proposed Changes to Funding Mechanisms

81. The Authority has identified a number of opportunities to apply the framework to improve the funding mechanisms that it employs. These can be grouped into improvements based on applying each of the framework elements to the current funding base and identifying specific improvements that could be made. These are:
- i. Better Matching Levies and Fees to Beneficiaries: Opportunities to more closely match beneficiaries or risk exacerbators with funding mechanisms;
 - ii. Achieving the Right Behavioural Responses: Opportunities to more closely align the behavioural response to charges with the funding objectives; and
 - iii. Minimising Transaction Costs: Opportunities to reduce transaction costs in raising the necessary funding.
82. We will consider each of these in turn below.

Better Matching Levies and Fees to Beneficiaries

83. This section considers ideas that are primarily designed to more closely align the funding and fees with the beneficiaries and cost exacerbators.

Equalise domestic and international passenger levies

84. In line with the recommendations arising from the 2012 Fees and Charges Review, the Authority is considering whether to equalise the Domestic Passenger Safety Levy and the Departing International Passenger Safety Levy.

Applying the Framework

85. There are currently two passenger safety levies: the Domestic Passenger Safety Levy and the Departing International Passenger Safety Levy. These are levied at different rates, and on different parties, with domestic levies slightly higher than international levies.
86. Passengers, as a group, are the primary beneficiaries of a safe aviation system. Passenger levies fund a wide range of safety activity of the Authority. It is not possible to identify specifically which passengers benefit (domestic or international), nor is it possible to exclude a passenger from benefiting from a safe aviation system. It is appropriate that passenger levies fund a significant portion of CAA activity.
87. The Authority does not, however, consider that there is a material difference in benefits (or cost exacerbation) between international and domestic passenger groups. The CAA performs safety activities on behalf of passengers, without regard to their destination.

88. Combining levies simplifies administration of collection by airline operators and the CAA.
89. The actual levy rate per passenger for both domestic and international flights is low. If this option is adopted, the levy rate for domestic passengers may decrease while for international passengers it may increase. Overall, the international passenger levy is a very minor value when compared with the cost of an international fare.

Feedback Question 4

- Should the CAA seek to equalise the Domestic Passenger Safety Levy and the Departing International Passenger Safety Levy?

Lowering the Passenger Levy Threshold

90. The Authority is considering whether to lower the threshold at which passenger levies become payable from 20,000 passengers per year to 12,000 passengers per year¹¹.

Applying the Framework

91. A domestic air passenger operator must pay to the Authority a levy per passenger carried by the operator on each domestic sector of a regular air transport passenger service flight. But, there is no passenger levy payable on passenger flights if the number of passengers actually carried by that domestic air passenger operator in the immediately preceding 12-month period of operation is smaller than 15,000 on regular air transport passenger service flights¹².
92. At present, all the passenger levy revenue is provided from passengers of the airline sector, while the regulatory oversight workload between the airlines and the commercial general aviation sector is more evenly balanced (if not nearly equal).
93. From a regulatory oversight perspective, the consequences of a safety failure in the commercial general aviation sector are less significant than that of the airlines sector, but the safety risks are higher. Generally speaking, the airlines tend to have better developed safety management systems that can be relied upon to a greater extent by the CAA. This is evidenced by the comparative rates of safety incidents and accidents reported in each sector.
94. The cost exacerbators in the system are higher per passenger in the commercial general aviation sector but higher in total in the airlines. Applying the framework leads to a conclusion that the levies should be recovered at a higher per passenger rate from commercial general aviation than from airlines.

¹¹ Civil Aviation (Safety) Levies Order 2002

¹² *ibid*

95. In practice, the cost of collection can be high if the total activity is low and this limits the extent of coverage that is practical. Most commercial general aviation operators are very small, with ten carrying fewer than 6,000 sectors annually, one carrying about 10,700 sectors annually and one about 18,700 sectors annually.

Feedback Question 5

- Do you think the threshold level should change from 15,000?
- What do you think of 12,000 as an alternative level?
- Is there another threshold that would be more appropriate? Why?

Recovering routine surveillance costs from passenger levies

96. Surveillance activity includes system and participant oversight, routine audits and inspections, and spot checks. Surveillance is funded by a user charge on industry for surveillance activity.
97. The Authority is considering whether routine surveillance and monitoring activity should be funded primarily by passenger levies and other new levies, with a user charge for subsequent activity following a failure to comply or identification of risk.

Applying the Framework

98. The purpose of surveillance is to give assurance that participants are meeting their obligations under Civil Aviation Rules. Previous analysis has focused on the benefits participants gain from surveillance. Consequently, the Authority re-examined the benefits of surveillance to both the system and participants.
99. In this new analysis, the primary beneficiaries are identified as users of the system – including passengers and other users – who are provided with a safe aviation service. Operators and other participants who comply with the rules and meet required standards are not risk exacerbators. Those who do not comply or meet safety standards are risk and cost exacerbators as they necessitate subsequent activity to either become “safe” operators or to exit the civil aviation system.
100. Routine surveillance activity is part of ensuring the system is safe for all users. The last fee review was moving towards full cost recovery focusing on operators and other document holders. This approach did not recognise the benefit to the primary beneficiaries (i.e. the users) of the system.
101. This option would mean that the checking that the aviation system is operating well is paid for by the primary beneficiaries, while an incentive remains for operators and other document holders to not fail to comply or have a risk identified.
102. It is important to note that surveillance does not relate to the regular cyclical certification and re-certification processes necessary for commercial operators to

enter or remain in the aviation system. These will remain chargeable activities as at present.

Feedback Question 6

- Do you agree that the CAA should fund routine system surveillance through revenue from participation/passenger levies?

A passenger levy on ‘unscheduled’ commercial general aviation

103. The commercial general aviation sector carries passengers on ‘unscheduled’ flights. These flights include charter, sightseeing, air transfer/shuttle, and include both point A to point A and point A to point B flights. The number of passenger sectors flown is estimated to be about 233,000 per annum.
104. While participants currently pay participation levies, there are no passenger or activity levies charged for these commercial activities which are carried out under various Rule Parts. However, participants do pay fees and charges for surveillance.
105. The Authority is considering whether to introduce a new levy on the commercial general aviation sector carrying passengers on ‘unscheduled’ flights.

Applying the Framework

106. The table below shows the volume of commercial aviation activity on ‘unscheduled’ flights:

Table 2: Commercial General Aviation Activity Volume – ‘unscheduled’ passenger flights, Small Aircraft and Helicopters

Activity (FY 2012)	Returned Flights	Passenger sectors (est.)	Average Passengers per aircraft (est.)	Average Flight Duration (hrs)
Point A to Point A	20,004	126,831	6.3	0.49
Point A to Point B	16,602	107,532	6.4	0.69

The data in this table are based on the Aircraft Operations Statistics returns¹³ received for small aircraft and helicopters and covers the operational period July 2011 to June 2012 inclusive.

107. As with commercial adventure aviation and agricultural aviation, commercial general aviation is a risk and a cost exacerbator in the system. Costs for the CAA are higher per passenger/flight/hour in this sector than in the airline sector. Revenue raised from the sector is significantly less than the cost of safety

¹³ This sector returns flights and NOT passengers. Passenger numbers are estimated from seats known to be fitted to each returning aircraft. Returns have been received for only 47 % of the registered fleet in this period. The returned number of flights has not been adjusted as many of the non-returns may well be inactive nonetheless this is a conservative estimate of activity in this sector. The data also assumes that all available passenger seats were occupied, which is not conservative (aircraft in this category range from 3-10 passenger seats). The errors in both these assumptions are likely to counteract each other so that the estimated passenger sector values remain reasonable.

oversight, considering the regulatory oversight costs and the passenger sectors flown. There is a poor match between the volume of activity, the level of risk created, and the funding. A better match could be achieved through a levy on the level of activity that drives risk and cost.

108. Any new basis for charging activity-based levies for 'unscheduled flights' carried out by commercial general aviation operators under these Rule Parts must be simple, clear, and preferably rely upon event counts that are already reported by participants to the CAA, or which could be readily reported from information available to the operator.
109. This option would mean that the regulatory oversight of this part of the aviation system is funded by the primary beneficiaries of that oversight.

Feedback Question 7

- Do you agree that the CAA should introduce a passenger levy on 'unscheduled' flights undertaken by commercial general aviation operators?
- On what metric and at what point should the requirement to pay a passenger levy on 'unscheduled' flights undertaken by commercial general aviation operators be triggered?
- Should there be a minimum number of passenger sectors on 'unscheduled' flights undertaken by commercial general aviation operators below which passenger levies cease to be payable?

Introducing new levies on Rule Parts 115, 135, 137 and 141

110. The Authority is considering whether to introduce new levies for Rule Part 115 - Commercial Adventure Aviation; Rule Part 135 - Helicopters and Small Aircraft; Rule Part 137 - Agricultural Aircraft Operations and possibly other Rule Parts. Such a change might become necessary if the option of funding initial surveillance by way of levy is adopted.

Applying the Framework

111. While participants currently pay participation levies, there are no passenger or activity levies charged for the commercial activities undertaken under Rule Part 115 - Commercial Adventure Aviation; Rule Part 135 - Helicopters and Small Aircraft; and Rule Part 137 - Agricultural Aircraft Operations. However, participants do pay fees and charges for surveillance.
112. The table on the next page shows the volume of commercial activity under these Rule Parts:

Table 3: Commercial Activity Volume (Rule Parts 115, 135, 137 and 141)

Activity (FY 2012)	Flights	Hours
Parachute descents (estimated)	~65,000	n/a
Para-glider flights (estimated)	~11,000	n/a
Hire & reward (including air ambulance, search & rescue, surveying, aerial photography/mapping, aerial lifting, etc.)	375,000	530,000
Agricultural flights (incl. reconnaissance, ferrying, other agricultural activity and training) to apply 946,000 tonnes of agricultural product ¹⁴ to 2.525M hectares.		Aeroplanes 23,800 Helicopters 33,300

113. The possible bases for activity levies for Rule Parts 115, 135, and 137 could be:

Table 4: Options for Levy Basis

Rule Part Applying	Type of activity	Option A	Option B
115	Parachute descents	Per parachute descent	Per flying hour X assumed loading
	Para-glider flights	Per revenue flight	
135	Hire & reward: Includes air ambulance, search & rescue, surveying, aerial photography/mapping, aerial lifting, etc.	Per revenue flight	Per flying hour
137	Agricultural flights	Per tonne of product applied	Per revenue flight

Feedback Question 8

- Should the CAA establish activity-based levies for the commercial activities undertaken under Rule Parts 115, 135, and 137?
- Upon what bases could any such levies be calculated?

A Levy on Freight-only Flights

114. The Authority is considering whether all domestic operators should be required to advise the CAA of the number of dedicated cargo flights and the **maximum certificated take-off weight (MCTOW)** of the aircraft involved. The cargo levy

¹⁴ Tonnes of agricultural product applied by aircraft in New Zealand in year 01 Jan to 31 Dec 2013 (CAA):

	Solids	Liquids	Total
Aeroplanes	371,292	4,481	375,773
Helicopters	514,184	56,004	570,188

Assumes each litre of agricultural liquid products weighs 1 kg (conservative as most agricultural liquids will be heavier than water, (i.e. water plus dissolved substance))

would then be applied only to medium and heavy aircraft (above 5700kg MCTOW).

115. The Authority is also considering whether all international operators should be required to advise the CAA of the number of dedicated cargo flights and the maximum certificated take-off weight (MCTOW) of the aircraft involved. The cargo levy would then be applied only to medium and heavy aircraft (above 5700kg MCTOW). In reality most such aircraft would be in the heavy category (above 13,600kg MCTOW).
116. The previous funding review considered this option and concluded that it was not worth pursuing at that time. The Authority has re-examined the issue and, given the volume and nature of the operations, now wishes to discuss this option further with the sector.

Applying the Framework

117. Currently there are no activity levies on freight-only flights whether they are local or international. The sole source of funding from these activities is through the participation levy. The CAA is considering an option to levy this activity through the introduction of a levy for domestic and international cargo operations.
118. During the 2011 calendar year the numbers of international freight-only flights (of NZ registered aircraft) were:

Table 5: International Freight only Flights

Aircraft Category	Freight-only Hours	Freight-only Flights
Heavy Aeroplanes (NZ reg.)	1015	390
Heavy Aeroplanes (non-NZ reg.)	n/a	n/a
Medium Aeroplanes (NZ reg.)	11	4
Medium Aeroplanes (non-NZ reg.)	n/a	n/a

119. The numbers of New Zealand domestic freight-only flights in 2011 were:

Table 6: Domestic Freight only Flights

Aircraft Category	Freight-only Hours	Freight-only Flights
Heavy Aeroplanes	6932	5024
Medium Aeroplanes	1406	1425
Small Aeroplanes	508	1155
Helicopters	1	2

120. Cargo-only flights, while not carrying passengers, nevertheless create third party aviation risk arising from potential safety failure. It is salutary to note that the only

airframe failures in large aircraft in the New Zealand aviation system in the last 10 years have been freight-only aircraft¹⁵.

121. In principle, there is a strong argument to include freight-only flights within the scope of aviation levies in the same way as passenger services, as this matches risk and cost exacerbators with the funding basis. There is also a need to ensure a level playing field between passenger and freight-only services. To *not* include freight-only flights could be seen as giving a commercial advantage to operators of those flights.
122. The Cargo Levy could be assessed and collected on a similar basis to the current Domestic Passenger Safety Levies (i.e. the basis of monthly carrier returns) based on weight carried.
123. If the MCTOW of freight-only aircraft and the number of flights are used to calculate a notional passenger carry¹⁶, the approximate notional passenger carry would be:

Table 2: Notional Passenger Carry

Aircraft Category	MCTOW	Freight-only Flights	Notional Passenger Carry
Heavy Aeroplanes	Exceeding 100,000kg	5024	~700,000
Medium Aeroplanes (incl. medium heavy and medium)	Exceeding 5,700kg but not exceeding 100,000kg	1425	~750,000

124. Dedicated international cargo flights currently make no levy contribution yet they benefit from, and impose costs on, the civil aviation system.
125. The CAA could introduce a levy for dedicated international cargo operations. This is being considered because a fuel levy cannot be applied to international operations.
126. The Cargo Levy could be assessed and collected on a similar basis to the current Domestic Passenger Safety Levies (i.e. monthly carrier returns) based on weight carried.

¹⁵ In the last 10 years there have only been two fatal accidents involving medium or large commercial aircraft. Both were freighters, operating at night and resulted in the death of 4 crew members (2/aircraft) and the inflight breakup and uncontrolled descent of wreckage over the Kapiti coast and Taranaki respectively.

¹⁶ Using the conversion rate applied internationally in many jurisdictions for such calculations.

Feedback Question 9

- Should the CAA introduce a freight-based levy for dedicated domestic cargo operations using medium and heavy aircraft (above 5700kg MCTOW)?
- Should the CAA introduce a freight based levy for dedicated international cargo operations using medium and heavy aircraft (above 5700kg MCTOW)?

Achieving the Right Behavioural Responses

127. In this section we present ideas intended to ensure that good incentives are placed on participants in the system. We seek ways in which the incentives and expected responses of participants can be better aligned with safety and other objectives.

Continue to raise follow up surveillance from a specific fee

128. The Authority intends to maintain a user charge for non-routine surveillance.
129. Surveillance is currently funded entirely by a user charge on industry for surveillance activity. An option also being considered is the funding of routine surveillance by levies. At issue here is the funding of non-routine surveillance activity and particularly when the actions of those being surveyed necessitate additional work.

Applying the Framework

130. The primary beneficiaries are identified as users of the system – including passengers and other users – who are provided with a safe aviation service.
131. Operators and other participants who comply with the rules and meet required standards are not risk exacerbators. Those who do not comply or meet safety standards are risk and cost exacerbators as they necessitate subsequent activity.
132. Risk exacerbators are those participants or operators whose performance is at the lower end of the acceptable performance range (with consequentially poorer risk-ratings), who require a higher degree of scrutiny than those operators with a more acceptable or good performance (and thus better risk-ratings).
133. For participants with poorer risk ratings and/or less acceptable performance, any intervention subsequent to the initial surveillance activity would be subject to a charge on the participant (as it is at present). This would mean, for example, that interventions for those operators would be charged for at the applicable charge-out rate determined by the regulations.

Feedback Question 10

- Do you agree that non-routine (subsequent to routine) surveillance action should continue to be charged at cost to the participant?

Continue to raise application costs from a specific medical fee

134. The Authority is considering whether the medical application fee should target cost recovery of only those functions of the medical unit that are related to or supporting the application process (with the balance funded by levies).
135. A two stage fee could be applied for medical certification in which:
 - The applicant pays a fee for their initial application. If their certificate is granted straight away then that will be the only fee paid; and
 - The applicant will also pay an additional charge representative of the incremental cost of an AMC process only if that is required.

Applying the Framework

136. The CAA Medical Unit undertakes a number of functions. The key function is to perform the Director's functions and responsibilities for the New Zealand medical certification regime as set out in Part 2 of the Civil Aviation Act 1990. This ranges from providing advice to the Director and to the Ministry of Transport, developing medical policies, appointing medical examiners, monitoring enforcement, exercising the Director's powers, and answering inquiries. The medical unit also makes clinical and regulatory decisions about an individual's medical certification.
137. There is at present a fee charged to the applicant that is intended to recover the costs of the unit from all applicants at the time of application.
138. Pilots and others requiring medical certification benefit from holding a medical certificate as it enables them to fly. Pilots and others are the cost exacerbators through making an application (given the requirement to hold a certificate if they wish to fly). They are therefore the cost exacerbators for the medical certificate application process. However, the medical certification process also provides assurance to the Director that the population of licensed participants (pilots, air traffic controllers, etc.) are fit to carry out their aviation roles.
139. Cost recovery could focus only upon the costs of managing and carrying out the oversight of the medical certification process. Overhead costs that can be attributed to the certification process should also be allocated to the cost recovery target.
140. However, the total cost recovery target sought from fees might not be the full cost of the unit. The other overheads and other functions of the unit (input to policy and rules changes, etc.) are part of a general regulatory system and funding by levies is appropriate.
141. The current approach is to average the cost recovery target across all applicants at the time of application. However, not all applications cost the same amount - some are more expensive, with incremental cost incurred at two main points:

§ the initial application itself – and the associated processing; and

§ when an application is declined and the pilot seeks an AMC.

142. Administrative simplicity needs to be traded off when considering a move to this fee structure. In addition, the voluntary nature of a self-reporting system might also provide sufficient justification to impose a single averaged fee in order to avoid any negative incentives to under-report at the margin.

Feedback Question 11

- Should the CAA introduce a two stage fee for medical certification in which:
 - the applicant pays a fee for their initial application. If their certificate is granted straight away then that will be the only fee paid?; and
 - the applicant will also pay an additional charge representative of the incremental cost of an AMC process only if that is required?
- Do you agree that cost recovery from medical applicants should only cover only the costs of managing and carrying out the oversight of the medical certification process? This will mean levy funding will cover the other medical unit costs which are not related to supporting the application process?

Introduce travel charges for remote surveillance

143. The CAA is considering an option where routine surveillance functions would not be chargeable, but any second or subsequent visits for enforcement activities to a participant, would be charged at a prescribed hourly rate. This is because those costs lie more appropriately with that individual participant as the risk and cost-exacerbator as described above.
144. In addition, where a participant is unprepared for a pre-organised onsite visit, then travel **time** will be charged (on a pro-rata basis where a visit is made to more than one site on the same trip).

Applying the framework

145. Audits and inspections of participants, sites and aircraft involve a lot of travel, which varies considerably between individual participants.
146. Where a CAA employee is required to travel outside New Zealand to undertake surveillance or a regulatory compliance activity, all time and disbursements (including travel and accommodation) are recoverable under Clause 21 of the Civil Aviation Charges Regulations (No 2) 1991 as amended.
147. For domestic operations the current regulations enable the CAA to charge actual costs, but not for the time and costs of travel and accommodation. For remote locations, these additional charges may be higher than the cost of the audit or inspection activity itself.
148. Where possible, CAA regulatory staff schedule regulatory and surveillance activities in the same area at similar times to keep these costs to a minimum.

Visits are scheduled in conjunction with the participants (other than for 'spot-checks'.)

149. However, on occasion, CAA staff can travel to a participant's site either for surveillance or to monitor a regulatory intervention, only to be told that the participant is not ready to proceed. There is an expectation that participants will advise the CAA if they are unable to complete surveillance or compliance activity at an agreed time, and most do so. Where the CAA is not notified and the visit takes place as arranged, the CAA has incurred staff time and travel expense for no regulatory return.
150. In order to equalise the costs of travel and accommodation, irrespective of where a participant is located, the CAA could establish differential rates for charging staff hours to participants. For example:
 - § **Rate A** - a rate charged for work carried out for a participant on CAA premises
 - § **Rate B** - a rate charged for work carried out for a participant off CAA premises where travel and accommodation costs will be incurred. (i.e., the rate includes a loading for travel and accommodation costs)

Feedback Question 12

- Should the CAA continue to charge participants subject to any second or subsequent visits or enforcement activities, at the prescribed hourly rate (or pro-rata if more than one participant has triggered the travel)?
- Should the CAA charge for travel time at a prescribed rate (on a pro-rata basis) where a participant is unprepared for a pre-organised and agreed onsite visit?
- Should the CAA charges differentiate between work carried out at participant's premises/location and that carried out at CAA locations?

Minimising Transaction Costs

151. In this section we identify opportunities to make the system of funding simpler and less onerous for participants and the CAA.

Link the ANZA levy to passenger levy rates

152. The Authority is considering whether to link the ANZA levy to the domestic passenger levy as a set percentage (currently 90%).

Applying the Framework

153. Australian operators within New Zealand operating under their own certificates pay a reduced ANZA Levy, currently set at 90% of the full Domestic Passenger Levy. This reflects the fact that these operators pay charges to the Civil Aviation Safety Authority (CASA) in Australia rather than the CAA for their direct safety oversight.

154. At present the holder of Australian AOC with ANZA privileges must pay the domestic passenger levy if the operator holds an Australian AOC with ANZA privileges; and conducts or intends to conduct a regular air transport passenger service under the Australian AOC with ANZA privileges; and has complied with section 11B of the Act; and either has carried more than 20,000 passengers in the previous 12 months; or if the operator is a new operator, intends to carry more than 20 000 passengers in the next 12 months.
155. In the last funding review the CAA proposed retention of the ANZA levy for the next three years on the proviso that the ANZA Levy arrangement be reviewed as part of the next Civil Aviation Authority Funding Review with the intention of removing it or at least narrowing the gap between it and the domestic passenger levy.
156. There is no mechanism provided in the regulations to link the level of the ANZA Levy to a set ratio or percentage of the Domestic Passenger Safety Levy. It requires action to change the value in dollar terms prescribed in the regulations. The CAA is considering setting the level of the ANZA Levy at a prescribed percentage of the prevailing Domestic Passenger Safety Levy, a value which is currently 90%.

Feedback Question 13

- Should the CAA seek a change setting the level of the ANZA Levy at a prescribed percentage of the prevailing Domestic Passenger Safety Levy (currently 90%)?

Combine participation levy and annual register maintenance fee

157. The Authority is considering whether to combine the Participation Levy and the Annual Registration Fee into one annual Aircraft Registration Levy.

Applying the Framework

158. The Participation Levy was introduced to create equity between domestic air operators paying Passenger Levies and those who were too small to administer the scheme (nominally carrying less than 20,000 passengers per year).
159. The Participation Levy is an annual payment based on the size of the aircraft used by domestic air operators. The levy charged is based on the maximum certificated take-off weight (MCTOW) of the aircraft, as set out in the table on the next page.

Table 7: Classification Weights of Aircraft

Classification	MCTOW	Examples of Aircraft
Heavy	exceeding 100 000 kg	<ul style="list-style-type: none"> • Airbus A-380 • Boeing-787
Medium heavy	exceeding 13 600 kg but not exceeding 100 000	<ul style="list-style-type: none"> • Airbus A320-232 • ATR-72-212A • Boeing-737, 767, 777 etc.
Medium	exceeding 5 700 kg but not exceeding 13 600 kg	<ul style="list-style-type: none"> • Cessna-525C • Learjet-35A • British Aerospace-Jetstream series • Beech-B200
Medium light	exceeding 2 730 kg but not exceeding 5 700 kg	<ul style="list-style-type: none"> • Britten-Norman-2A series • Pacific Aerospace-750XL • Piper-PA31 series • Bell-222B (helo) • Sikorsky-S-55B (helo)
Light	exceeding 1 000 kg but not exceeding 2 730 kg	<ul style="list-style-type: none"> • Cessna-172M, 172-RG, 180, etc. • NZ Aerospace-FU24-950 • Piper PA-25, PA-28, PA-34, etc. • Aerospatiale AS350B2, etc. (helo) • Bell 206B (helo) • Eurocopter AS-350 B3 (helo) • Hughes 369D, 369F, etc (helo) • Robinson R44 (helo)
Very light	not exceeding 1 000 kg	<ul style="list-style-type: none"> • Auster J1B • Cessna 150M, A152 • PiperPA18A-150, PA 38-112, etc. • PZL Swidnik PW-5 "Smyl" (glid) • Schemp-Hirth Cirrus (glid) • Robinson R22 Beta (helo) • All microlights and paragliders

160. In addition to the Participation Levy a fee is charged in respect of:

- § Initial registration
- § Maintenance of the Register
- § Change of registration
- § Change of ownership
- § Allocation of a particular registration mark
- § Reservation of a particular registration mark
- § Registration of irrevocable deregistration and export request authorisation ("Cape Town registration")
- § Foreign owner deregistration

161. In order to reduce the number of fees and levies charged, amalgamating the Participation Levy and the Annual Registration Fee into one annual Aircraft Registration Levy is being considered.

162. Such an approach would reduce the number of fees and levies that an aircraft owner would be required to pay on an annual basis, with consequential benefits for the CAA in processing time. It would result in a single levy, little different from that charged currently as the participation levy and would include maintenance of the Register.
163. This approach also ensures that those commercial operations that do not pay passenger levies contribute appropriately to the cost of aviation safety systems.
164. A participation levy regime is already in place so compliance costs are low.
165. On occasion an airframe may be undergoing significant maintenance or rebuilding, or may be withdrawn from service, for a period in excess of a year. The owner has a choice in such circumstances:
- § Deregister the aircraft and lose the mark, but pay no participation levy; or
 - § Pay a full participation levy, keeping the mark, but in effect funding regulatory oversight that may not be used.
166. While an issue that is neither frequent nor economically significant, it is one that causes much angst in the General Aviation sector among recreational participants whose aircraft are in restoration or repair, or which have been temporarily de-commissioned.
167. If the change to the Aircraft Annual Registration Fee proceeds, then a mechanism would be necessary, similar to that applying for motor vehicle registration, for registration to be suspended for up to two years (upon payment of a small fee to cover administrative costs).

Feedback Question 14

- Should the CAA charge a single registration levy that incorporates the current Participation Levy and the Aircraft Registration Fee?
- Should the CAA provide a mechanism to pay the registration levy, reserving the mark. that does not incur a participation levy?

Penalties for late payment of fees

168. The Authority is considering a mandatory requirement to pay late fees when levies and fees are not paid on time.

Applying the Framework

169. The CAA has not imposed a penalty for late payments in the past. The CAA does not have the authority to decline to process a new application if prescribed fees and charges for previous work are not paid¹⁷. However, if the CAA has approved

¹⁷ This authority was revoked, on 1 November 2012, by regulation 14 of the Civil Aviation Charges Regulations (No 2) 1991 Amendment Regulations 2012 (SR 2012/305).

arrangements requiring payment in advance, then the penalty provisions may apply if the fees and charges are not paid at the appropriate time. Ultimately, the Director may suspend or revoke an aviation document.

170. Cost exacerbators are those who do not pay on time. A fixed requirement to pay a late fee may reduce the behaviour.
171. There will be a minor improvement to cash-flow resulting from late fees.

Feedback Question 15

- Should the CAA enforce the provision that entities that are late in paying their assessed fees **will be** charged an additional penalty in line with the requirements of the Civil Aviation Act and the Civil Aviation Charges Regulations (No 2) 1991?

Ensuring stability of levies, fees and charges

172. The CAA wants to be able to adopt a policy with respect to its reserves that would enable the Board to trigger a review of fees charges and levies. If the Government of the day agreed to the Board's request for a review, then the CAA would seek to:

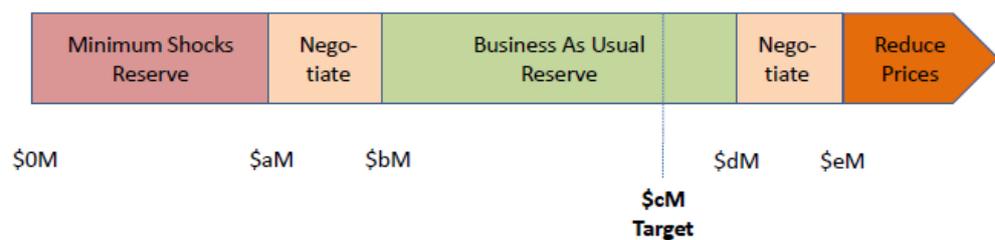
- § increase fees, charges and levies if reserves are too low; and
- § decrease fees charges and levies if reserves are too high.

Applying the framework

173. A three year funding review cycle creates the risk that events occurring within the cycle leave the CAA with too many, or too few, funds to carry out its business. Levies, fees and charges on the other hand need to be stable to minimise transaction costs for participants. To achieve these goals the CAA needs to hold appropriate reserves to both minimise the chance of changes within the cycle while maintaining sufficient funds to carry out its business.
174. At present the CAA is permitted to hold contingency reserves to manage revenue fluctuations over time, and to cover the following financial requirements:
- i. Business-as-usual working capital to deal with seasonal and business cycle fluctuations in passenger volumes; and
 - ii. Funds to enable CAA to operate following external shocks.
175. This business-as-usual reserve would be maintained to minimise the risk of an 'unscheduled' review being required due to changes in passenger numbers within a three year funding cycle. If the business-as-usual reserve reached predetermined upper or lower limits the CAA would consult to increase or decrease prices to maintain the business-as-usual reserve within the limits.

176. The external shocks reserve would be held in the event of a serious external shock impacting passenger numbers. A serious external shock would be defined as an event that impacted passenger numbers in such a way that there is no time to consult and change prices to avoid the situation. This approach has recently been proposed by the Aviation Security Service in regard to the management of its reserve funds.
177. The figure below demonstrates how this option could be applied in practice:

Figure 2: Revised Reserves Approach



In this example an overall reserves target of \$cM is set. Thresholds of \$bM and \$dM trigger consultation with industry to increase or decrease prices as the case may be. CAA would be permitted to utilise a portion of the \$b million shocks reserve as an interim measure while a price increase was being negotiated. However, the shocks reserve would not be permitted to drop below \$a million (except in the case of a significant external shock).

178. The CAA's Board would need to set the reserve levels and the thresholds at which action to increase or decrease some levies could be triggered. For budgeting purposes, the 'targeted' level of reserves would be \$c million (comprising the 'shocks reserve' and 'business as usual reserves' target levels). The target would be set at a prudent risk level to slightly favour avoiding a price increase over a price decrease. The benefit that the CAA receives from holding reserves, however, reduces overall levies, fees and charges.

Feedback Question 16

- Should the CAA introduce a mechanism to enable fee/levy adjustments to occur outside the three yearly Funding Review cycle allowing the CAA to manage the impact of an external financial shock?
- Should the CAA set its passenger safety charge reserve to an agreed target based on analysis of CAA's business and financial needs and forecasted passenger volumes?

Summary of Types of Regulatory Fees, Charges and Levies for Different Operations

OPERATOR TYPE	FEES	HOURLY CHARGES	OPTIONS FOR CHANGE
PILOT	LICENSING Pilot Licence (RPL, PPL or CPL) Instrument rating ATPL MEDICAL (NEW) Medical Certificate Application Exercise of Flexibility Cardiology Assessment Review	N/A	<ul style="list-style-type: none"> Change to basis for calculating medical certificate and AMC fees
PRIVATE AIRCRAFT OWNER	AIRCRAFT REGISTRATION Initial registration Annual fee for maintenance of Register Change of registration Change of ownership Reservation of a particular registration mark	N/A	<ul style="list-style-type: none"> Conflate participation levy and register maintenance fee
GA AIRCRAFT OPERATOR	AIRCRAFT REGISTRATION Initial registration Annual fee for maintenance of Register Change of registration Change of ownership Reservation of a particular registration mark	Yes	<ul style="list-style-type: none"> Initial surveillance funded from levy; follow up charged for. Lower passenger levy thresh-hold Conflate participation levy and register maintenance fee Activity based levies for Parts 115,135, 137 and 141 operations
FLIGHT TRAINING SCHOOL	AIRCRAFT REGISTRATION Initial registration Annual fee for maintenance of Register Change of registration Change of ownership Reservation of a particular registration mark LICENSING Flight Instructor rating: D-category Flight Examiner rating GA flight examiner rating: renewal	Yes	<ul style="list-style-type: none"> Initial surveillance funded from levy; follow up charged for. Conflate participation levy and register maintenance fee

OPERATOR TYPE	FEES	HOURLY CHARGES	OPTIONS FOR CHANGE
GA MAINTENANCE OPERATOR	AME licence (issue plus one category) AME licence: additional category AME licence: maintenance approval Certificate of Inspection authorisation Exchange old AME licence to lifetime equivalent	Yes	<ul style="list-style-type: none"> Initial surveillance funded from levy; follow up charged for.
AIR FREIGHT OPERATOR	AIRCRAFT REGISTRATION Initial registration Annual fee for maintenance of Register Change of registration Change of ownership Reservation of a particular registration mark	Yes	<ul style="list-style-type: none"> Cargo Levy (International & Domestic cargo-only flights) Conflate participation levy and register maintenance fee Initial surveillance funded from levy; follow up charged for.
AIRLINE OPERATOR	AIRCRAFT REGISTRATION Initial registration Annual fee for maintenance of Register Change of registration Change of ownership Reservation of a particular registration mark	Yes	<ul style="list-style-type: none"> Cargo Levy: (International & Domestic cargo-only flights) ANZA Levy: (adapted) Lower passenger levy threshold Conflate participation levy and register maintenance fee Initial surveillance funded from levy; follow up charged for.
OTHER CERTIFICATED OPERATOR e.g. Aerodrome, Maintenance Organisation, Regulated Cargo Agents		Yes	<ul style="list-style-type: none"> Passenger Levy: (International & domestic passengers) Initial surveillance funded from levy; follow up charged for.
OTHER			<ul style="list-style-type: none"> Change the basis for calculating for remote surveillance Charges for sourcing external expertise Penalties for late payment of fees and charges Reserves management approach

Other options

179. We have shown in Appendix 3 some options that we have chosen not to progress at this time.
180. Nonetheless, if you feel we should further examine one or more of these options, or other options that you may have identified but that we have not referred to, please let us know.

Summary and Feedback Process

181. In this section we provide a summary of the options under consideration and describe the process for providing feedback on the change options.

Summary of Options for Change

182. We have summarised the possible changes in the table below:

Table 8: Summary of Options

Options	Outline of Options
Improving Beneficiary Matching	<ul style="list-style-type: none"> • Funding routine surveillance and audit activity through participation and passenger levies, with follow-up actions attracting a direct charge • Changes to passenger safety levies • Establishing new levies for commercial activities undertaken under Rule Parts: <ul style="list-style-type: none"> - 115 — Commercial Adventure Aviation; - 135 — Helicopters and small aircraft operations; - 137 — Agricultural Aircraft Operations. and for commercial 'unscheduled' general aviation operations • Establish the merits (or otherwise) of a freight-only flight levy for domestic freight operations.
Optimal Behavioural Responses:	<ul style="list-style-type: none"> • Adjustments to the fees charged for medical certification • Charges for travel and accommodation of CAA staff in particular circumstances • (Follow up surveillance activity attracts an hourly charge)
Transaction cost minimisation	<ul style="list-style-type: none"> • Combining the current participation levy and aircraft registration fee • Full recovery of CAA costs for expert technical capability where that capability is not available within the CAA • Penalty fees • Establish a 'business-as-usual' reserve to provide adequate protection against a modest variation in passenger volumes and mitigate the risk of an 'unscheduled' review being required.

Feedback Process

183. To help you to understand the options outlined in this discussion document, and to give you an opportunity to provide us with direct feedback we invite you to attend one of our consultation seminars being held in early August. These seminars will be held in Nelson, Christchurch and Queenstown, Palmerston North, Auckland and Wellington. At the seminars, we will explain the options and seek your views on them. The seminars are free of charge.

184. Details of the seminars are provided on the CAA website at <http://www.caa.govt.nz/funding/index.html> . You will need to register your attendance via email at consultation@caa.govt.nz a week prior to the meeting.
185. Interested parties will be able to request additional data from the CAA, to help with their analysis of the underlying issues, and senior CAA managers are also available to discuss or clarify the discussion document during the feedback period.
186. A template has been designed to help you formulate your feedback, and to help us analyse it. This template is available online at the CAA home page: <http://www.caa.govt.nz/funding/index.html>. Please give reasons for your responses, so we can clearly understand your viewpoint, and have suitable evidence to support any eventual decisions.
187. Written responses to this discussion document are sought by **5pm on 25 August 2014**. The responses are to be sent to:

Project Manager –Funding Framework for Regulatory Services Review
Civil Aviation Authority
P O Box 2165
Wellington

OR
Emailed to: consultation@caa.govt.nz

Disclosure of Responses

188. Your response to this consultation, may only be published or disclosed in accordance with the Official Information Act 1982 (OIA). Aggregate information from responses will be published.
189. Confidential information should be clearly marked. Under the OIA this could be treated as grounds for withholding such information, so please explain in your response why any information should be regarded as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

Appendix 1: Safety interventions and activities

190. The Authority performs a range of activities in pursuit of this objective, all of which need to be funded. The table below describes some examples:

Table 10: Safety interventions and activities

Intervention Category	Activity
Education and safety promotion interventions	<ul style="list-style-type: none"> • Development of guidelines • Safety publications • Conduct of safety seminars • Dissemination of safety occurrence trend information and safety reviews • Promulgation of sector safety risks and engagement with stakeholders to develop safety initiatives • Training courses • Conduct of safety investigations for the purposes of determining incident and accident causes and improving safety
Certification, Monitoring and Investigation interventions	<ul style="list-style-type: none"> • Certification (including certificate amendment and certification on re-entry) • Surveillance - safety monitoring activities including audits and inspections • Regulatory interventions - focused special purpose audits and inspections • Reactive monitoring by collection of occurrence information and mandatory reports • Reactive measures including investigations of document holders in response to an identified safety issue or concern • Pro-active risk management and engagement with affected participants
Law Enforcement Action	<ul style="list-style-type: none"> • Investigation of alleged offences • Issuing of infringement notices • Prosecutions
Administrative Actions	<ul style="list-style-type: none"> • Suspension, revocation or imposing conditions on an aviation document • Detention of an aircraft, or seizure of aeronautical products • Imposition of prohibitions and/or conditions.
Other	<ul style="list-style-type: none"> • Rule development and amendment (under contract with the Ministry of Transport)

Appendix 2: Examples of costs and benefits

191. In the table below we describe examples of costs and benefits that might accrue to identified groups.

Table 11: Examples of costs and benefits

Affected group	Examples of benefits	Examples of costs
Business/ Participants	<ul style="list-style-type: none"> Confidence in the system of moving people and goods to and from New Zealand by air Market access for the New Zealand aviation sector to international markets Confidence in New Zealand aviation by overseas customers and regulators Engagement by New Zealand aviation sector on the international stage Reductions in accidents, incidents, deaths and injuries; with associated productivity gains Improved availability of market information, hence potential efficiency gains Increased productivity/efficiency due to regulatory prohibitions on anti-competitive behaviours Increased compliance with CARs Removal of unfair competition from operators who are not compliant with the Act or CARs 	<ul style="list-style-type: none"> Costs of familiarising with the CAA Act and CARs, and planning how to comply (may include purchase of external advice) Input costs due to regulatory impacts on the costs of operations and technology Business costs due to changes to operations, personnel or other processes required by the CARs Costs of lost sales due to restricted access to markets arising from non-compliance Licence fees and/or other charges imposed by the regulations Cost of meeting reporting or record-keeping requirements imposed by the CARs Cost of internal inspections, audit fees, etc., to ensure compliance is being achieved
Consumers	<ul style="list-style-type: none"> Improved safety of services Provision of better information about services, leading to better choices being made Increased minimum quality standards for services Confidence in the safety of the NZ aviation sector 	<ul style="list-style-type: none"> Increased prices for products or services Reduced range of products/services available Delays in the introduction of new technology (e.g. due to the need for products to meet regulated technology licensing requirements)
Government/ CAA	<ul style="list-style-type: none"> Fewer deaths and injuries, and reduced property damage, resulting in reduced social costs Improved availability of information to the CAA and the Government, allowing for better decision-making Market access for the New Zealand aviation sector to international markets Confidence in New Zealand aviation by overseas customers and regulators Engagement by New Zealand aviation sector on the international stage 	<ul style="list-style-type: none"> Regulation: includes providing information to participants, recruiting and training regulatory staff, processing licence or technology approval application. Cost of verifying compliance: includes conducting inspections and audits, monitoring etc. Cost of enforcement: includes investigating possible non-compliance and intervening as necessary, and conducting prosecutions

Affected group	Examples of benefits	Examples of costs
Other: including the public at large	<ul style="list-style-type: none"> • Benefits of improved competition – e.g. by regulating to restrict or prohibit anti-competitive behaviour • Distributional benefits – if regulation benefits poorer groups or groups in regional/rural areas disproportionately • Confidence in the system of moving people and goods to and from New Zealand by air 	<ul style="list-style-type: none"> • Costs of reduced competition – e.g. by favouring existing participants and making entry to a market more difficult (leads to both efficiency losses and transfers from participants to consumers through higher prices) • Restrictions on innovation and the ability to develop and market new products and service

Appendix 3: Ideas not progressed to change option stage

192. In the course of developing this discussion document we have considered other ideas that have not progressed to change option stage. Feedback is nevertheless still encouraged on these ideas, which relate to work currently in progress.

Relating levies and other charges to risk

193. Changing participation and passenger levies could utilise the varying degrees of risk encountered by participants in all sectors as a basis for establishing differential levy rates for different activities. Levies could be based upon the extent of the risk inherent in the aviation activity carried out.

194. A risk assessment could be the key link between aviation (and aviation related activities) for which compliance is required, and the degree of regulatory oversight required. This would require an overall integrated sector risk assessment which:

- § assesses the aviation and aviation related major risks and pressures;
- § defines which of these are relevant to aviation sector regulation and to CAA's surveillance and regulatory oversight activities; and
- § prioritises them in an integrated and robust manner, providing a basis to allocate the prioritised risks and impacts across existing regulated participants and activities.

195. Determining the detail of the risk assessment is a significant undertaking in its own right, and would have to be the subject of further policy work, and feedback and development with industry/sector stakeholders. However, it is likely that the risk assessment could build upon the existing CAA approach.

196. The Pros and Cons of this change option are:

	Pros	Cons
Participant	<ul style="list-style-type: none"> • Better links costs of regulatory compliance oversight to the levy applied; • Benefits to other businesses from knowing that poor compliance performers will not compete with them unfairly. 	<ul style="list-style-type: none"> • Potential increases in levy for some categories of operation (e.g. those with higher assessed risk).

CAA	<ul style="list-style-type: none"> • Enables CAA to deploy its resources more flexibly to target particular aviation risks; • Delivers a fairer and more objective basis for the allocation of levies across the system; • Provides for more effective compliance within the system; • Better supports the application of the user/beneficiary/risk-exacerbator pays principle, with those who have the highest potential or actual impact on the aviation system paying most for their participation. 	<ul style="list-style-type: none"> • Requires access to robust risk and safety data and indicators; • Will require CAA to work with industry to have in place by 2018.
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In a high reliability industry where failure has significant consequences, but is a rare event, data that enables us to understand failure becomes rare. Thus the challenge for any agency involved in making decisions that are dependent upon good data becomes finding other data sources and/or indicators that it can rely on sufficiently during decision making.

Charging for Oversight of Air Shows and Displays

197. Aviation Events are covered by CAR 91.703. Authorisation from the Director (or a delegated Part 149 organisation) is required if the aviation event involves more than 500 people, or more than three participating aircraft, or more than one formation of aircraft.
198. If an authorisation is required then application to the Director (or delegated Part 149 organisation) is required at least 90 days prior to the event, or earlier if an exemption or special consideration is required. If restricted airspace is required then application must be made to the CAA Aeronautical Service Unit at least 90 days prior to the event. Even if the Director's authorisation is not required, the recommendations in Advisory Circular AC91-1 should be applied by the event organiser.
199. Once authorised, the event organisers assume responsibility for the operations of the event, including the safety of participants and onlookers. While many CAA staff members attend such events, they generally attend as part of the CAA's educational/outreach programme (which is levy funded) or in the capacity of a private individual. There is no direct oversight or monitoring at such events. However, surveillance activity may be carried out in relation to the event's management and operation. Charges are levied by the CAA for authorisation, or for any exemption or special consideration, under the Civil Aviation Charges Regulations (No 2) 1991, Schedule Part 9, 13, c and j. Over the past 5 years there have been between 15 and 20 such events annually, with charges for authorisation made in all cases. (About 3-4 hrs. for each).

200. The Pros and Cons of charging for direct oversight of aviation events are:

	Pros	Cons
Participant	<ul style="list-style-type: none"> If CAA establishes monitoring and oversight, the Director may assume responsibility for event safety, rather than the organiser 	<ul style="list-style-type: none"> Increased regulatory monitoring Increased costs to event organisers, and thus participants and attendees
CAA	<ul style="list-style-type: none"> Some small amount of additional revenue 	<ul style="list-style-type: none"> Additional workload, possibly for small safety return If CAA establishes direct oversight, the Director may assume responsibility for event safety, rather than the organiser

201. The CAA has decided not to introduce charges for the monitoring and oversight of aviation events that involve more than 500 people; or more than three participating aircraft; or more than one formation of aircraft.

A Levy on Aviation Fuels

202. The CAA is considering imposing a flat rate levy on aviation fuel (airline sector fuel or commercial general aviation sector fuel, or both) through a fuel excise duty (captured through the same mechanism as other fuel levies/taxes and transferred to the CAA by way of an hypothecated appropriation transfer).

203. Given a restrictive international legal framework, few countries have taxed aviation fuel used on international flights¹⁸. Theoretically, signatory countries could re-open existing international conventions and agreements to explicitly permit international aviation fuel taxes. However, this would be time intensive and complex (particularly with bilateral agreements), which makes this highly unlikely in the near or medium-term.

204. Many countries already tax or levy domestic aviation fuel. In practice, the effective rate ranges dramatically across countries. The alternative is to fund surveillance on Rule Parts 105, 115, 135 and 137 through a domestic fuel excise duty (captured through the same mechanism as other fuel levies/taxes and transferred to CAA by way of appropriation transfer).

¹⁸ The legal framework for international aviation largely excludes aviation fuel from items that may be subject to taxation measures. Under the 1944 Convention on International Civil Aviation, signatory states are prohibited from imposing customs duties, inspection fees, or other national or local charges on aviation fuel on board of the aircraft at the time of arrival. (Source: Convention on International Civil Aviation, Dec. 7, 1944, 61 Stat. 1180, 15 U.N.T.S. 295). The Chicago Convention has 188 signatories, which include those countries that account for the majority of international civil aviation. New Zealand's bilateral air service agreements prohibit the collection of fuel tax from international operators. For example, under Section 9 of the Single Aviation Market Agreement (SAM) between New Zealand and Australia - custom duties and charges, fuel tax cannot be levied on carriers from the other country. Furthermore article 24 of the Convention on International Civil Aviation (the Chicago Convention) also restricts the collection of duties on fuel by a signatory State.

205. This change option was raised in consultation around the most recent funding review in 2010. At that time there was little support for the fuel levy option.
206. Some submissions, however, suggested that there would be merit in investigating it further. The organisations representing the bulk of the airline sector and the commercial general aviation sector did not favour this option. For that reason it was not proceeded with in 2012.
207. The Pros and Cons of introducing a partial or complete fuel excise levy are:

	Pros	Cons
Participant	<ul style="list-style-type: none"> Based on flights, not passenger numbers (full CAA revenue for half full plane) Incentivises more efficient aircraft, reducing pollution and use of overseas funds Reduces as aircraft efficiency increases Takes into account aircraft utilization where the annual fixed participation levy does not 	<ul style="list-style-type: none"> Essentially neutral in terms of operator workload Could be distortionary (i.e. cross subsidy) between airlines and smaller general aviation operators
CAA	<ul style="list-style-type: none"> Easy to administer Cheap to administer – collected through Customs & transferred as appropriation More transparent. 	<ul style="list-style-type: none"> Reduces as aircraft efficiency increases Subject to fluctuation due to economic conditions, passenger numbers, etc. Passenger levies are preferred ahead of the fuel levy in that passenger numbers are a better proxy of the social costs that arise when accidents occur Unwieldy means of revenue transfer to CAA

208. The CAA has decided not to recommend a fuel levy for international carriers.
209. The CAA has decided not to recommend a domestic fuel excise duty for the domestic airline sector and/or the commercial general aviation sector.

