



09 August 2013

Review of Essential Skills in Demand List

Comments by the Aviation Industry Association Inc trading as Aviation New Zealand

Thank you for the invitation to make a submission which is made in two parts:

- Part A comments in respect of the PIER of June 2013
- Part B additional considerations

Part A

We note the PIER of June 2013 in regards to "Aeroplane Pilot" found the application by PwC on behalf of Air New Zealand:

- Met the skill level requirement
- Met the scale requirements
- Demonstrated strong evidence that there were few suitable job seekers
- Demonstrated weak evidence in respect of demand
- Produced weak evidence in respect of visa approvals
- Produced strong evidence of employment growth
- Produced the conclusion that evidence of skill shortage was lacking

We comment on those areas where the evidence was inconclusive or lacking. Part B will cover in more detail factors which should be considered in support of Air New Zealand's application.

Jobs Online Index

This industry does not use traditional online advertisements as the preferred means of hiring labour. This is because the community of employers is relatively small, the flight schools are well connected to the employing community and there are very clear career



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pathways governed by regulated hours prescriptions, which determine how persons move from one career to another.

The only employer of substantial numbers of pilots operates its own careers portal and we note they have been advertising for persons to fill regional first officer roles for at least two years. Pilots both within New Zealand and New Zealanders living abroad are well aware of this career portal.

Other employers fill job vacancies by word of mouth or via their own intelligence networks developed with flight schools who train in the proximity to the employer.

Our survey is indicating that turnover levels are increasing and there is almost continuous movement between “hour building roles” i.e. positions which assist in bridging the hours gap between 200 and 750-1000 hours.

Visa approvals

Most pilots returning to New Zealand are New Zealand citizens and therefore do not need visa approvals. This pool of pilots is critical for staffing the third level regional operations i.e. outside the Air New Zealand group.

There is a clear career pathway which has existed for many years. Because of our regulatory constraints and limited job opportunities on shore to build their hours from the 200 they graduate with from a flight school to the 750 to 1000 hours traditionally demanded by regional and scheduled operators in New Zealand, many pilots proceed off shore for a period of time and return when they have built hours.

Working off shore also presents the opportunity to build hours more quickly. These pilots of course become equally attractive to foreign off shore carriers. During upswings in demand these qualified pilots can secure positions off shore just as readily as within New Zealand.

For these reasons we are not surprised that very few visa approvals are granted.

Additional shortage Information



Length of training – the analysis in this section is factually not correct relative to the position “Aeroplane pilot”. Air New Zealand’s application is for persons who meet the regulatory minimum i.e. 500 hours including 100 hours Air Operations and 25 hours night flying.

There is a gap between the pilot graduating from a flight school and the regulatory minimum for entry into a CAR 121 operation in New Zealand. The gap can represent up to 3-4 more years of training. Therefore, the training time required should be a minimum of 4 or potentially even five years.

If the CAA was prepared to remove its regulated minima then it would be possible to graduate pilots directly into an “Aeroplane pilot’s” role. However, we are not aware of any push to have this regulated minimum removed.

United Kingdom Occupational List and the Australian Skill shortage list.

The environment in New Zealand differs to Australia and the United Kingdom. The UK does not have the same minimum regulatory requirement – a pilot can graduate from a flight school and join an airline directly. Thus there is much great ability to match supply and demand.

Australia is graduating increasing numbers from flight school whereas New Zealand is producing fewer pilots. Australia’s production is directly related to market conditions whereas ours is constrained by government determinations of numbers to be trained.

Part B - evidence as to skill shortage

Our preference is the promotion of New Zealanders into the role of “aeroplane pilot” – the qualification being that they must be competent. Airlines assess competency from a variety of perspectives and thus a pilot can be quite competent to discharge his/her responsibilities in one airline but not in another.



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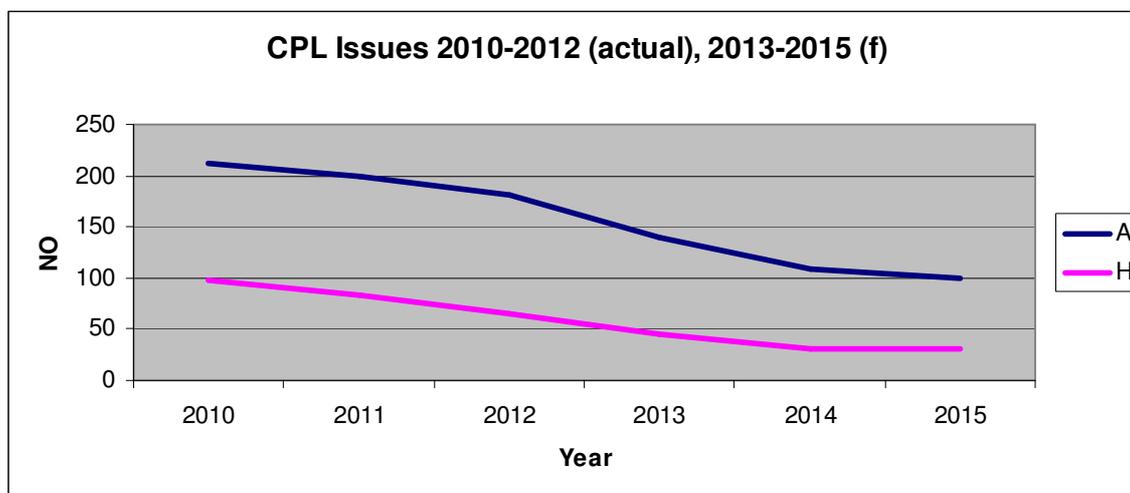
To determine whether or not there is a skill shortage we submit it is also relevant to consider:

- The numbers being supplied into the system from the basic qualification level – is this adequate
- The numbers of pilots in the supply chain waiting for promotion level
- The forward demand for pilots

Numbers entering the supply chain for aeroplane pilot

95% of entrants are student loan funded pilots. The impact of funding reductions in 2012 is now working its way through the system. Not only are their fewer pilots graduating but also, there are fewer pilots in instructor roles and eventually the system will implode as one impacts on the other.

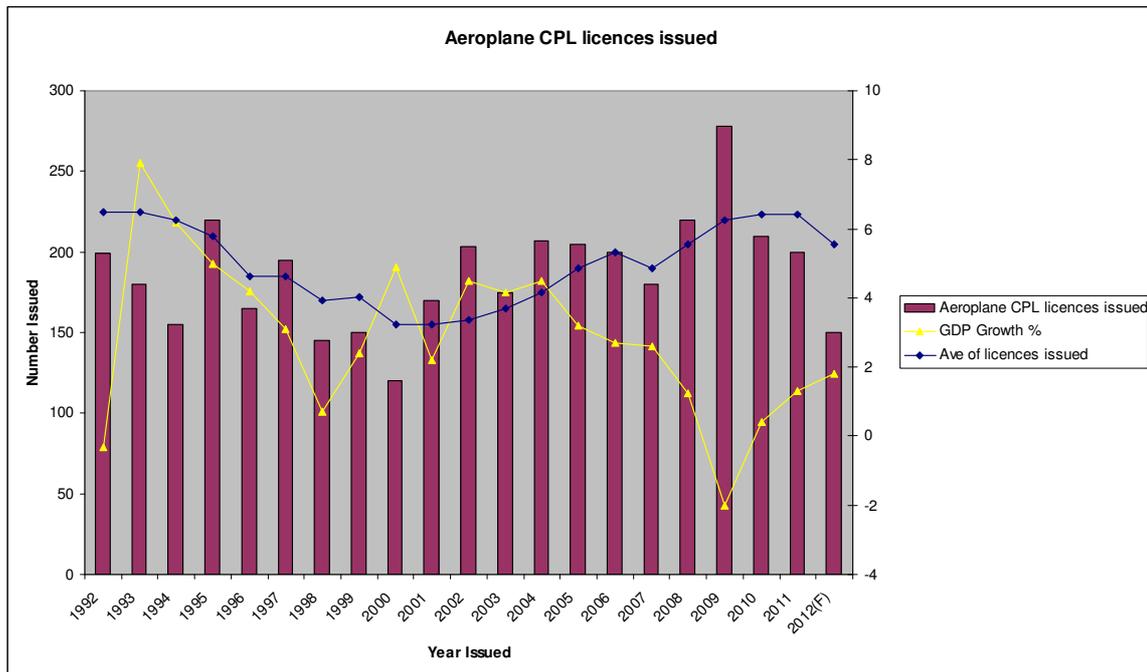
Our best projection based on modelling work undertaken is the following scenario by the end of 2015



Data source – Industry projections from modelling EFTS output.

The pink line can be disregarded as that relates to helicopter pilots. By the end of 2015 we will be graduating around 100 pilots. The effect of the systematic reductions from 2010 (before the student loan policy changes) is that we will have 250 fewer pilots than long term demand trends suggest.

Source CAA data:



These shortages first impact on those employers who recruit from flight schools directly into line operations such as single pilot tourist operators. We have some evidence from the Southern regional bases that the pilots who would normally be there are simply not. Other employers are reporting higher churn and difficulty of retention.

We anticipate it will be another three to four years before these shortages impact across the country and across all operations. Inevitably they will have an impact. Air New Zealand's proposal means that the impact of these shortages is not as significant across the industry.

Numbers in the supply chain waiting for promotion

From the survey work we have undertaken thus far there are shortages evident at four points in the supply chain

- Recent graduates from flight schools in the southern South Island who are competent to fly in the single pilot tourist flight environment
- Flight Instructors with a B cat rating – refer figure One
- Entry into airlines at the FO level, experience levels are at times dipping below their desired 1000 hour level



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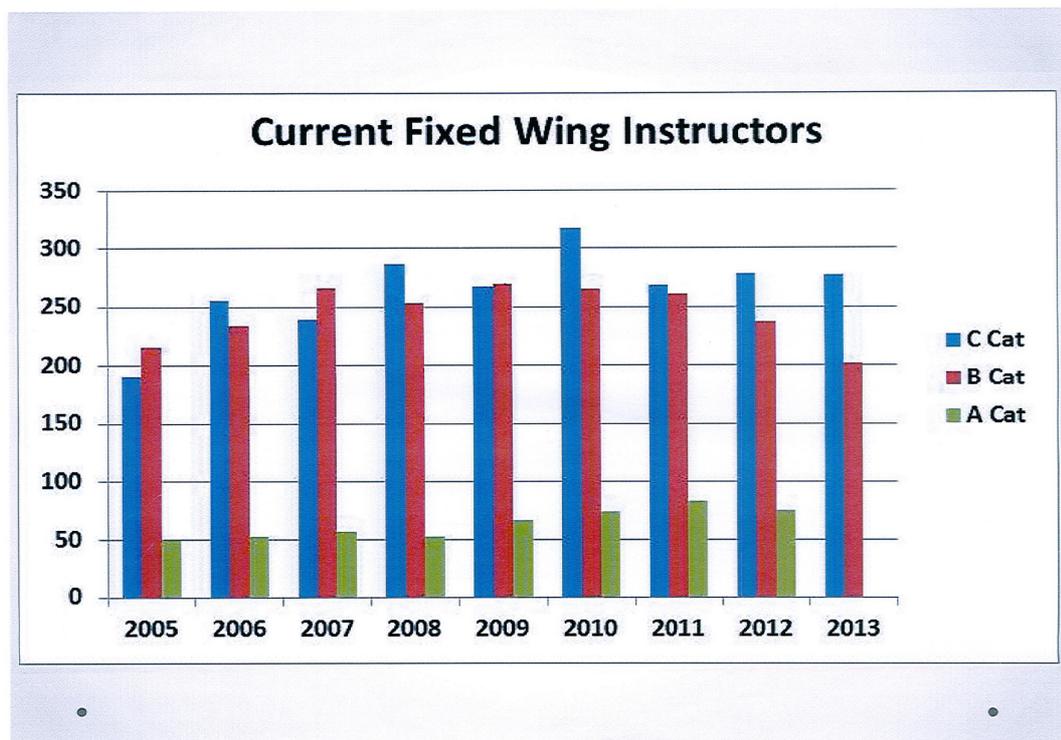


- Pilots to fill senior persons roles in the General Aviation Industry – this is a combination of skill and experience levels

All companies surveyed thus far are experiencing increasing turnover levels with exits to airline careers, although the less experienced, more recently qualified ex flight school pilots, move from company to company, and backwards and forwards across the Tasman to gain experience

The regional commuter airlines outside the Air NZ group appear to have a reasonable pool of CV's of candidates potentially available to crew their operations at FO level. These people replace those exiting to airline positions.

Figure one



Data source CAA – note the absence of the green line in 2013 is an oversight.

Forward growth aspirations

All companies surveyed have growth aspirations of between 10-15% in the next one to two years and some are concerned that with experience levels dropping, crewing aircraft will become more challenging. Equally, some are looking to the slow down in the Australian economy as a potential source of New Zealand pilots returning home.

Projected growth in the aviation industry is from a low 5.5% (IATA projections) to an optimistic scenario of 9% (NZTE New Horizon's report) for the foreseeable future. Based on long run demand over the last twenty years this means that we will need to graduate around 200 pilots every year to sustain the industry. Projections are that we will graduate 150 this year and 100 next year.

In assessing these numbers it also needs to be taken into account that throughout the period 1995-2013 we have experienced a "retirement holiday" as the effect of removing the retirement age was removed. There are 213 active pilots over the age of 60 – data source CAA. This means we will need to replace on average around 40 per year who potentially could retire. This number has averaged around 10 pa in the past five years.

The significance of this is that these pilots are our most experienced and building up the expertise to fill these roles takes many years. Hence replacement personnel are already in the system and must be constantly replaced by pilots moving up the supply chain. In the New Zealand environment once pilots enter the airlines, this movement is very prescriptive and constrained.

Implications for the New Zealand economy

For the New Zealand economy there are five major implications

- The decline in the number of B category instructors constrains the number of foreign and domestic students that can be trained at any one time. At the moment the constraint would be around 600. In past years we have trained upwards of 1000 students. The economic loss to the NZL economy of foregoing training of 400 foreign students is \$176m (440 students x \$100,000 course fees x 4.4 multiplier from New Horizon report)



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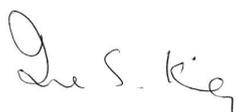


- The decline in the number of B category instructors can only be arrested by either ensuring adequate supply to the airline environment from sources other than flight schools, or increasing the number of students pilots training as Instructors
- Reduced connectivity within the NZL economy
- Constrained growth in the tourism industry
- Insufficient numbers of pilots to undertake aerial applications reducing productivity in the agricultural, horticultural and forestry sectors.

Concluding remarks

Our strong preference is for New Zealanders to fill all pilot positions but this must be weighed up against ensuring appropriate levels of connectivity are maintained within New Zealand and that services, scheduled and non scheduled, can grow along with our flight training industry which has substantial potential (around \$200m pa) to contribute to exports.

Yours sincerely



Irene King

Chief Executive



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