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This submission is made by the Aviation Industry Association of New Zealand trading as Aviation New Zealand. The Association has not been consulted in respect of the development of the papers. In our view, whilst we accept the major users and BARNZ plus the Airport Association have been involved and heavily engaged, the views of the wider aviation community in respect of security charges have not.

Aviation New Zealand is particularly interested in the efficiency of frameworks as this is a critical component of determining the competitiveness of New Zealand's aviation sector. To that degree we are critically interested in matters of public, private and community good. Our conclusion is that a further model should be developed which:

- Recognises the club good of having a strong and robust Civil Aviation Safety system. Presently, in our view, the levy does not contribute adequately to that club good derived from the operation of a robust civil aviation authority
- Addresses the over contribution of the domestic passenger levy (albeit reducing) to the level of reserves
- Addresses the under contribution of the international passenger levy to the reserves
- Establishes a reserve which reflects the different volatilities of the domestic and international passenger market. In our view, a reserve of \$6m split \$4m international \$2m domestic, provided more frequent reviews become an integral feature of aviation security passenger levy setting.

## Proposal 1

**Question 1 A/B/C** – we largely agree with the proposal however we consider that with the effective merger of CAA and Av Security that overheads of the merged entity should be prorated across all employees.

- Without a strong and robust CAA, Aviation Security would not have the credibility and functional resources to operate as it does. What has highlighted this point to us is the massive disparity between the hour rates of Av Sec (\$90.30-\$121.90 per hour). We think such an allocation would be consistent with the CA Act Section 38 (2) and could be sustained under the Treasury guidelines on pricing for public sector goods
- Such a pricing strategy would be consistent with other users of the Civil Aviation system who are having to pay for CAA services
- Prorating the overheads of the entity across the total organisation would remove some of the cost pressures on the parent
- The apportionment of what are effectively overheads in this manner is consistent with private sector practice.

## Proposal 2

Questions 2 A Agree

## Proposal 3

Question 3 A/B/C - No. We think this will just end up being passed onto the consumer with a margin placed on top. This is totally inefficient. The services provided to airports are minimal. However we do think work should be directed towards what are inefficiency costs at airports and these should be made transparent. For example, what is the cost to the consumer of operating additional service channels at Auckland and Wellington and of screening some customers unnecessarily? We think the cost of screening customers unnecessarily is minimal unless the numbers drive the need for additional Av Sec personnel, however, we believe the "inefficiency" costs due to design are significant at Auckland and Wellington airports. Putting a cost to those inefficiencies may assist in airport redesign. We do not think these costs should be passed onto

airports. All that will happen is the costs plus a rate of return margin will be added to the price airlines will have to pay.

#### **Proposal 4**

**Question 4** – Agree. We think if more frequent reviews remove some of the clear volatility that Av Sec are exposed to, then this makes sense. We perhaps think there should be a separation between the domestic trigger mechanism which is largely a growth or contraction in GDP, from the on off international shocks that occur. It is unclear from the papers how much of the increased contingency is needed to cater for potential international shocks relative to domestic shocks. Our perception is that the domestic environment is less volatile, however, as we have not been consulted on the underlying figures, it is difficult to ascertain this and thus answer the question.

#### **Proposal 5**

**Question 5 A** - Disagree. In our view a reserve of \$12m is excessive, although we agree the present level of reserve for international shocks is unacceptably low.

Our preference would be for the domestic reserve account to never exceed \$2m and for the international reserve never to exceed \$4m. We think it unfair that domestic passenger charges are essentially cross subsidizing the international charge and we note that it takes well over four years to build up the reserve again. This rebalancing should take place immediately by leaving the international at \$11.98 for the next two to three years. The domestic passenger charge should reduce more quickly.

#### **Proposal 6 A/B/C** - disagree

Before this consultation proceeds any further, we would like to see the impact of a proposal which leaves the international rate of \$11.98 and the domestic rate reduced further from that proposed to eliminate the excessive reserves build up. In both scenarios we do not believe that airports should pay for any services, as in our view, this would simply result in a cost plus price being paid by all users of airports.



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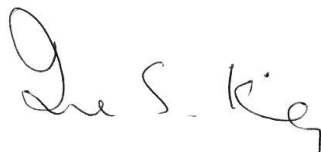
## **Additional comment**

**Customer Service of Aviation Security** – the service should be congratulated on its performance with a high degree of professionalism being displayed with the right amount of common sense and friendliness. For foreign travelers this is a real bonus and something that distinguishes New Zealand's aviation security.

**Devolution of issuance of security cards** – we think the rate of \$64.45 (GST inclusive) is competitive but ask whether any comparable benchmarking exercises have been undertaken. Our question is not a comment on the service provided as we believe customers are very satisfied.

**Opportunity to export** – there is opportunity to grow this through the export of our training capability, systems and procedures. We would welcome Aviation Securities participation in our Training and Research Division as we see many opportunities emerging through various initiatives that are underway. This could have the potential of providing Aviation Security with a valued income stream and contribute to the government's overall goal of growing exports from 30-40% of GDP.

Yours sincerely



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