

Regulatory Impact Statement

Improving the funding of Civil Aviation Authority regulatory services

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Transport with input from the Civil Aviation Authority (CAA).

It provides an analysis of options to ensure that the funding of the CAA's regulatory activities is being recovered from the most appropriate sources, by the most appropriate recovery mechanism (fee, levy or charge). The changes seek to commence a rebalancing of the CAA's revenue sources so that operators' oversight¹ costs more appropriately reflect their level of activity.

This RIS only covers the key proposals. Other amendments to the funding framework are being proposed but these are not significant.

In developing these proposals, some assumptions have been made.

- The preferred options presented form a package and changing any of them will affect others, particularly in relation to levy rates, fees and charges.
- Data used was the best available at the time of modelling, and has been applied conservatively, particularly with regard to passenger numbers and commercial activity levels. Passenger numbers have been updated with the most recent projections, forecast as a 5 percent increase per annum.
- The CAA's modelling of the proposed activity-based 'Operations Safety Levies' is conservative, based on activity reported by operators in 2013/14. This modelling is based on reporting that operators are already required to submit to the CAA. This information is not currently audited and so if the reporting is inaccurate it may impact the modelling. Auditing of this information is provided for in the options where we propose to use this information for charging purposes.
- The funding review is not an opportunity to increase revenue but is more focused on rebalancing revenue sourced from the various sectors of the aviation system.
- The level of Crown funding for policy, health and safety activity, and Ministry of Transport and Ministry of Foreign Affairs and Trade contract funding (\$4.047 million in 2015/16), is not within the scope of this funding review.

¹Oversight of the aviation system includes the surveillance effort for various categories of operations, a proportion of the oversight of Airways NZ, aerodromes, and maintenance facilities and engineers, and allows for a contribution to the cost of the Aeronautical Information Service. Oversight includes:

- monitoring and investigation
- education and safety promotion
- enforcement
- administration (including some policy and rule-related functions).

- Levies proposed may be adjusted in future if the actual activity for the proposed activity-based Operations Safety Levies differs from the projected activity used to calculate them.
- Additional costs for the CAA arising from the Domestic Aviation Security Review, and from the implementation of the Safety Management Systems and New Southern Sky programmes have been included in the CAA's future budget expenditure forecasts.

All costs mentioned in this document are inclusive of GST, unless described otherwise.

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Executive summary

1. The Civil Aviation Authority (CAA) has completed a review of the fees, charges and levies that are charged to the aviation sector. The previous funding review was completed in 2012.
2. The CAA's current funding framework provides it with sufficient revenue. The aim of the current review is to ensure the CAA's revenue is coming from the right sources and that the right people are paying the right amount.
3. The preferred proposals included in this document would reduce the CAA's total revenue over the 2017/18 to 2019/20 period by \$2.191 million compared to what it would receive under the status quo (total revenue for this period is projected to range from \$41.972 million to \$44.486 million).
4. Two problems have been identified with the CAA's funding framework.
 - *The CAA's use of different cost-recovery mechanisms (fees, charges and levies) for regulatory activities does not reflect the intent of the CAA's regulatory activities* – The current funding system does not appropriately incentivise participants in the aviation system in that it incorrectly characterises some of the CAA's regulatory activities as being private goods of benefit only to the individual, without reflecting the wider benefits to the aviation system of these activities.
 - *The costs of various regulatory activities are not being recovered from the most appropriate sources* – The current system creates an imbalance between the cost of oversight and the revenue sourced from different sectors of the aviation system. In particular, this imbalance means that the airline sector has been paying more than its fair share, whereas other commercial sectors have not been meeting their cost of oversight.
5. The preferred proposals involve:
 - funding routine surveillance from levy revenue, with an hourly charge for follow-up surveillance (for example if non-compliant with the rules)
 - creating new activity-based levies for commercial operations (excluding airlines)
 - reducing the medical certificate application fee so that it only covers costs associated with applications, with Accredited Medical Conclusions longer than 2 hours funded through the hourly charge and other Medical Unit functions funded from levies
 - equalising international and domestic passenger safety levies while retaining a discount for Australian airlines.
6. These proposals move the CAA towards a more appropriate 'user-pays' funding system, while reflecting the aviation sector's ability to pay.

Status quo

The Civil Aviation Authority's role

7. The CAA is New Zealand's civil aviation regulator. The CAA 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 CAA undertakes four major categories of safety interventions (activities) in pursuit of its statutory objective. These activities are:
- Certification, monitoring and investigation
 - Education and safety promotion
 - Enforcement
 - Administration.

Funding the Civil Aviation Authority

8. The legislative authority for the CAA to charge fees and levies is contained within sections 38 and 42A of the Act. Fees and levies can only be imposed on aviation document holders, and the funding obtained is used by the CAA to carry out its functions under the Act.
9. The Civil Aviation Charges Regulations (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002 set out the CAA's funding arrangements.
10. 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. These arrangements are summarised in Table 1.

Table 1 – Summary of Current Levies and Fees

Levy or fee	Description	Revenue 2015/16
Passenger Safety Levies Domestic Passenger Safety Levy International Passenger Safety Levy ANZA Levy	Domestic air passenger operators pay a levy at a set rate for each passenger carried. International air passenger operators pay a levy at a set rate for each departing international passenger. Certain Australian air passenger operators may pay this discounted levy as part of the ANZA agreement in place of the Domestic Passenger Levy.	68% \$27.096m
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.	2% \$0.534m

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, licensing, certification etc. · Approval of manuals, programmes, procedures, equipment etc. 	18% \$8.230m
Crown and contract funding	Crown funding through Vote Transport and Ministry contracts (Ministry of Transport for aviation rule development and Ministry of Foreign Affairs and Trade for Pacific Security Fund activity)	10% \$4.047
Other	Interest and other	2% \$0.577
TOTAL		100% \$40.483m

The previous funding review – 2012

11. The CAA was facing significant funding issues at the time of the previous funding review. While levies had not been amended (other than for changes to GST) since 2002, fees and charges had not been amended since 1997. The aviation sector is dynamic and the CAA was struggling to keep pace with technology change and the increasingly diverse demands for regulatory approval. There were issues with the CAA's approach to safety oversight and gaps in organisational capability.
12. The Value for Money review carried out as a part of the 2012 funding review identified that the CAA was not financially sustainable, was not meeting the needs of the aviation sector and was not being as effective a regulator as it needed to be. The Value for Money Review concluded that "the level of change that was required was unlikely to be achieved without investment in capability".
13. As a result of the 2012 review, the key changes made to the CAA's funding framework were:
 - The hourly rate charged for surveillance and certification services was progressively increased from \$135 per hour to \$284 per hour by 2014/15. This was a significant percentage increase but, in large part, it reflected the fact that fees and charges had not been adjusted since the mid-1990s.
 - The level of a number of fixed fees was increased, reflecting the move to the \$284 per hour rate.
 - A new administration fee of \$313 relating to medical certification was introduced.
 - The existing domestic passenger levy reduced from \$2.05 per passenger to \$1.97 and the international passenger levy increased from \$1.02 to \$1.50. This reflected the intention to merge the two levies into a common levy rate at the next funding review.
14. The additional revenue generated from the 2012 funding review allowed the CAA to invest in its organisational capability, specifically:

- Recruitment of staff to fill vacancies and to build capability.
 - Adopting regulatory practices that are risk based and to improve the focus on aviation safety through improved surveillance and certification processes.
 - Developing and implementing a broader regulatory toolkit to influence safety outcomes.
 - Improved engagement and collaboration with the aviation sector.
15. The CAA also decided to undertake funding reviews every three years.
 16. The level of new and increased fees and charges introduced at the 2012 funding review generated significant opposition from the aviation sector.

The current funding review

17. The CAA's current funding framework provides it with sufficient revenue. The aim of the current review is to ensure the CAA's revenue is coming from the right sources and that the right people are paying the right amount.
18. The preferred proposals included in this document would reduce the CAA's total revenue over the 2017/18 to 2019/20 period by \$2.191 million compared to what it would receive under the status quo (total revenue for this period is projected to range from \$41.972 million to \$44.486 million).
19. The funding review has been carried out in two stages:
 - **Stage One** comprised a review of the principles guiding the setting of fees, levies and charges. This stage did not include consideration of the levels of those fees, levies and charges. Stage One was a crucial step in the review process, and focused on the framework for the recovery of costs of the CAA's regulatory oversight² activities — in other words, the “who pays” and “how they pay” questions. The fundamental principle applied was that the degree of oversight required by each sector would determine the levy applied to that sector.

In June 2014, Cabinet agreed to the release of the CAA's discussion document, Funding Framework for Regulatory Services 2015-18, for the first consultation on the current review [EGI Min (14) 13/3 refers].

- **Stage Two** applied the approach developed as a result of Stage One to adjust the levels of fees, levies and charges. This used the information gathered from consultation meetings with participants, and from written and other feedback to establish the funding framework.

Based on that funding framework, financial models were developed that enabled the actual fees, charges and levies for set levels of service delivery to be calculated and medium-term financial plans to be developed.

² The word 'oversight' is used to describe all activities, aside from certification, associated with the CAA's activities that are focused on the assurance of the safety performance of individual document holders and the civil aviation system as a whole. The amount of oversight varies from year to year, depending on the extent and nature of the activities undertaken to address safety risk within the aviation sub-sector.

In August 2015, Cabinet agreed to the release of the CAA's discussion document, Changes to the Funding of the Civil Aviation Authority's Regulatory Functions 2016-19, for the second consultation on the current review [EGI-15-MIN-0122 refers].

Problem definition

Problem 1: The CAA's use of different cost-recovery mechanisms (fees, charges and levies) for regulatory activities does not reflect the intent of CAA's regulatory activities

20. The current funding system does not appropriately incentivise operators in the aviation system in that it incorrectly characterises some of the CAA's regulatory activities as customer-focused fee-for-service activity, and fails to recover the costs of oversight appropriately from some operators engaged in commercial aviation. In particular, the current costs associated with surveillance and a high cost for medical certification activities creates inappropriate incentives, which may affect safety and participation outcomes.

Surveillance

21. Surveillance is the term used to describe the CAA's monitoring of adherence to safety and security standards by participants in the aviation system. Surveillance is carried out to give the Director of Civil Aviation (DCA) assurance that participants are meeting their obligations under Civil Aviation Rules. The amount of surveillance activity carried out is determined by the DCA on a number of factors including the assessed risk level and the safety performance of operators both collectively and individually in each of the sectors that undergo surveillance.
22. The current hourly charge for surveillance may incentivise operators and CAA staff to reduce surveillance time, in order to reduce the financial impost of an audit or inspection, particularly for smaller operators. CAA staff may reduce the inspection and auditing time, whilst the operator may attempt to conceal known safety compliance issues to avoid a detailed assessment and follow-up on findings. This is not consistent with the purpose of the intervention, and may reduce the scope to identify safety concerns.
23. Alternatively, an hourly charge may incentivise the CAA to use surveillance as a budgeted revenue stream, by unnecessarily increasing the amount of inspection time in order to increase the revenue generated by hourly charge. This is also not consistent with the purpose of surveillance activity. The CAA is of the view that this is not currently occurring and that CAA inspection staff are more likely to reduce surveillance time. The CAA has not met its surveillance revenue budget in any of the last three years.

Contribution to oversight costs by Other Commercial³ operators

24. The contribution by Other Commercial operators to the costs of oversight is severely limited by the current funding arrangements. Other Commercial operators currently

³ The 'Other Commercial' sector comprises commercial aviation organisations other than airlines. Aviation system participants can be considered airlines, other commercial or recreational.

meet some of their surveillance costs by way of an hourly charge, and pay the same participation levy as private recreational operators.

25. For example, an airline flying in excess of 20,000 passengers annually would contribute about \$34,000 towards CAA oversight activities through passenger levies (apart from surveillance and certification costs, which are billed separately). A smaller Other Commercial airline flying 19,000 passengers would contribute about \$1,200 (on the same basis) depending on the number and type of aircraft in its fleet.
26. The CAA is aware of operators under-reporting their activity to avoid increased costs.

Medical certification

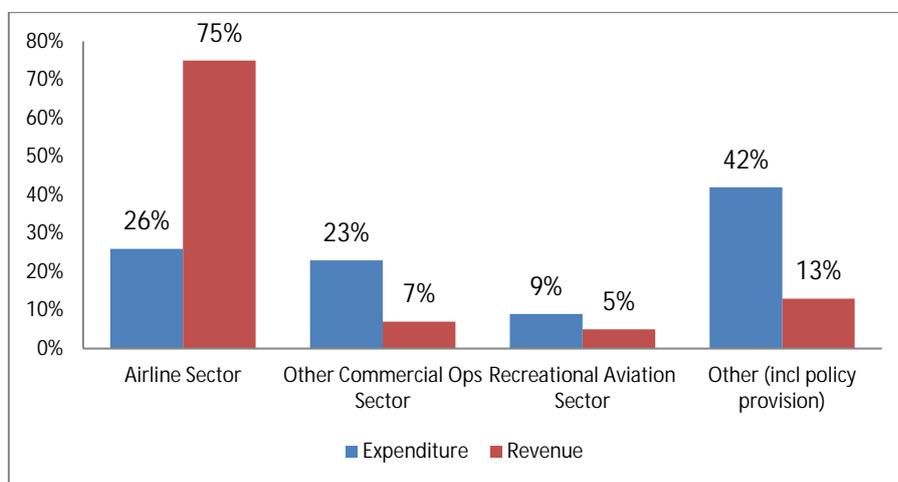
27. Medical certification is required for private pilots, commercial pilots, tandem parachute jumpmasters and air traffic controllers. Medical certification is a safety intervention that aims to ensure that people operating in high risk aviation environments are fit to do so. The cost to operate the CAA's medical aviation system is funded through the medical certification application fee. This approach was adopted in the 2012 funding review, as medical certification was considered to be a private good because it enables the holder to earn a living or follow a recreational pursuit.
28. However, the medical certification system also provides 'club' benefits, as the intervention provides assurance to passengers that they will not be harmed on the aircraft in which they are travelling due to medical incapacitation of the pilot, jumpmaster or air traffic control. In this regard, the current cost recovery mechanism for medical certification does not align with Treasury Guidelines⁴.
29. Feedback from within the aviation community suggests that the current medical certification fee of \$313 has resulted in some participants not renewing the medical certification required for a Private Pilot License (PPL), and to use the Recreational Pilot License (RPL) instead. An RPL only requires a doctor's certificate similar to that used for a motor car licence. Some others have chosen not to seek a pilots' license at all.
30. Since the medical certification fee was introduced in 2012, PPL's have reduced 28 percent from 3,479 to 2,492, while RPLs have increased 187 percent from 222 to 401. The people that have dropped their PPL but have not received an RPL will have either exited the aviation system or have advanced to a Commercial Pilots License or Air Transport Pilot License.
31. The commercial aviation sector has identified that there is possibly a number of older, more experienced and knowledgeable pilots withdrawing from the aviation system or, at least, the commercial sector, because of the cost barrier for medical certification (particularly where an operation is essentially a seasonal activity).

⁴ The Treasury (2002) *Guidelines for Setting Charges in the Public Sector*.

Problem 2: The costs of various regulatory activities are not being recovered from the most appropriate sources

32. Currently, the CAA recovers its costs for regulatory activities in the following ways:
- Certification fees and charges pay for specific deliverables with an easily identifiable beneficiary (such as an agricultural aviation company paying to apply for an agricultural aviation certificate).
 - Surveillance fees, paid hourly, cover part of the cost of audit and inspection of operators.
 - Participation levies contribute partially to meeting the balance of surveillance and other forms of regulatory oversight.
 - Passenger levies pay for airlines oversight and all that is not funded by the other fees, charges and levies.
33. This current system creates an imbalance between the cost of oversight and the revenue sourced from different sectors of the aviation system, as opposed to individual participants. In particular, this imbalance means that the airline sector has been paying more than its fair share and the Other Commercial sector has not been meeting its costs. This has ultimately resulted in cross-subsidisation. This imbalance is illustrated in Figure 1.

Figure 1: Civil Aviation Authority revenue versus expenditure by sector



34. Arguably, the key imbalance in the current system is the fact that the Other Commercial sector pays the same levies as the recreational sector. This means that an operator that is flying every day for their business pays the same amount of participation levies as a recreational pilot with a similar sized aircraft that flies a couple of hours a week. The Other Commercial operation is flying as a money-making activity and is spending more time in the air, increasing the potential risk created by the operation.
35. The CAA spends approximately \$8.6 million a year on activities related to the Other Commercial sector, but only recovers approximately \$2.7 million of revenue from this sector. The CAA aims to recover an increased contribution (of about \$0.8 million) to

the oversight costs of the Other Commercial sector to reduce the reliance on passenger safety levies.

36. This amount is not a full rebalancing of costs between the airline and Other Commercial sectors. The CAA Board recognises that it is not feasible to move to full cost recovery at this time as it would place a significant burden on the Other Commercial sector that may be beyond many operators' ability to pay. It is possible; however, to send price signals to operators to incentivise appropriate behaviour.
37. The 'Other (incl. policy provision)' category in Figure 1 includes the following functions and activities:
 - i. oversight of non-flying aviation organisations such as airports, Airways Corporation, MetService, Aircraft Maintenance Organisations etc
 - ii. policy and regulatory strategy, international liaison, regulatory investigations, safety intelligence, investigation and promotion, security oversight, legal services and corporate business services.
38. These are funded by a mix of levy revenue, Crown funding via Vote Transport, and other (e.g. interest). In the context of rebalancing the sources of regulatory funding, the difference between expenditure and revenue for the 'Other (incl. policy provision)' category is not considered a significant issue. In comparison with the cost of the activities in paragraph 37.ii above, and the cost of oversight of the airline and Other Commercial sectors, the cost of oversight of aerodromes, Airways Corporation, MetService, Aircraft Maintenance and Flight Training Organisations is small.
39. In addition, such organisations are an integral part of the aviation system, and their oversight costs would be passed through to the flying participants that use their services.

Objectives

40. The Terms of Reference for the funding review identified three primary issues to be addressed:
 - Are the costs for various regulatory activities being recovered from the most appropriate sources?
 - Is the revenue sourced from levies appropriately balanced with that sourced from fees and charges, and aligned to the logic of the interventions applied by the CAA?
 - Is the revenue generated matched to that required by the CAA to discharge its obligations, including meeting the Government's policy intentions of minimising the impost on participants in, and users of, the aviation system (where possible)?
41. To reflect the above questions, the following criteria have been chosen to assess the options.
 - **Efficient and effective** – the right price signals create appropriate supply and demand and the system leads to appropriate safety outcomes
 - **Equity** – the right sector is paying the right amount to a reasonable extent

- **Practical** – the system is administratively efficient, the funding sources are sustainable and sufficient for the CAA to cover costs, and operators have the ability to pay.

Options and impact analysis

42. The options and impact analysis is divided into four sections.
- Surveillance
 - Additional levy revenue (if changing surveillance to be levy funded)
 - Medical certification processing
 - Passenger levies
43. It is important to note that the proposed fee and levy rates for the preferred options are based on the assumption that all of the preferred options are implemented as a package. The fee and levy rates would be different if not all of the preferred options are adopted.

Surveillance

44. The surveillance system ensures that:
- people and organisations operating within the system remain fit and proper
 - aviation technologies are operated and maintained in an appropriate manner so as to ensure safety of passengers and participants, and those on the ground underneath the flight path.
45. The 2012 funding review considered that surveillance activity was a private good of benefit to the operator. Based on this, surveillance activity is currently funded through an hourly charge (\$284 per hour) paid by operators for the time CAA staff are auditing their operation.
46. Aviation stakeholders have argued, and the CAA now agrees, that all aviation system participants and users benefit from the safe aviation system that is provided as a result of the CAA's surveillance activity. The principal beneficiary of surveillance activity is the Director of Civil Aviation and not the participant undergoing audit or inspection. This suggests that surveillance activity is a club good rather than a private good. Accordingly, an hourly charge is inappropriate, and surveillance activity funding from levy sources is more appropriate.

Option 1 – Status quo – maintain hourly charge (not the preferred option)

We do not recommend this option as an hourly charge for surveillance is not effective as it incentivises minimising surveillance time, with potential negative safety impacts.

Effective and efficient

47. The hourly charge system is quite efficient as there is a direct cost associated with the work that is undertaken. However, the hourly charge is not effective as it incentivises the CAA to minimise the financial impact on operators (particularly smaller operators) by reducing surveillance time. Pressure to minimise surveillance

time has a negative impact on aviation safety as it makes it more difficult for the CAA to complete sufficiently comprehensive inspections.

48. Another reason it is not effective is that it incentivises operators to hide issues that may lead to increased inspection time. The CAA's Regulatory Operating Model, aims for operators to comply willingly with regulatory requirements. Lack of engagement between the CAA and operators removes the opportunity for both parties to learn from one another about compliance issues in a collaborative relationship.

Equitable

49. The hourly charge is reasonably equitable for individual operators as the amount of surveillance time (and therefore cost to operator) is based on the CAA's interpretation of the level of risk of the operator.
50. However, as surveillance is a tool used to provide assurance to the Director of Civil Aviation, equitability becomes less of an issue for individual operators and more about equitability between sectors. For this purpose, a levy is more appropriate than an hourly charge.

Practical

51. The hourly charge is practical as this system is already in place. While there are no administration costs associated with setting up the system, there are some already existing administrative costs associated with recording and billing surveillance time.
52. However, the hourly charge for surveillance does not recover all of the costs associated with surveillance activity. The CAA also routinely under-recovers its surveillance cost as it absorbs surveillance-related expenditure such as travel and accommodation and some administrative support which is funded from levy revenue. In addition, in 2015/16, the CAA budgeted \$2.2 million for surveillance activity but only recovered \$1.7 million.

Option 2 – fund routine surveillance from levy revenue with a follow-up hourly charge (preferred option)

We recommend this option as it creates a positive safety benefit by incentivising operators to avoid the need for follow-up surveillance and reflects the wider safety benefits of surveillance activity.

53. This option would fund 'routine' surveillance from levy revenue. This means that the CAA would no longer apply hourly charges to surveillance that does not identify issues requiring attention and follow-up by the CAA.
54. In circumstances where an operator is not compliant and remedial action is required, the CAA would recover the cost of any necessary follow-up surveillance, oversight and advice from the application of a direct hourly charge (as at present).
55. The current amount of follow-up surveillance being undertaken is estimated to be approximately 250 hours per annum across all sectors, compared to total surveillance time of about 8,900 hours.

Effective and efficient

56. This option is efficient as it provides more appropriate signals to operators, compared to the status quo. Funding routine surveillance from levy revenue clearly identifies surveillance activity as a club good, of benefit to all users of the aviation system. There is also a clear signal for non-compliant operators to incentivise compliance in order to avoid the hourly charge for follow-up surveillance.
57. Removing hourly charging for routine surveillance is effective as it ensures the focus of surveillance is on achieving safety outcomes rather than cost. Compliant operators no longer need to be concerned about the amount of time being taken for an audit. This would encourage greater engagement with the audit and extend the possibility of CAA staff being able to both educate, and learn from, the participant. Similarly, it enables auditors to audit without worrying about the potential financial impost on the participant.
58. The pricing signal sent by charging for additional work for non-compliant participants encourages them to achieve, or return to, compliance, and reduces the levy burden on compliant participants.

Equitable

59. This option is the most equitable method at a sectoral level for recovering surveillance costs. Again, given that surveillance is a tool used to provide assurance to the Director, equitability becomes less of an issue for individual operators and more about equitability between sectors.
60. Compliant, and more than compliant, operators are not risk-exacerbators and so do not place an additional cost burden on the aviation system. Levy funding is the most appropriate tool for recovering surveillance costs from these operators. Appropriately, those operators that are risk-exacerbators and generate extra cost for the CAA will be charged for that additional work, thus contributing to the increased cost of their oversight.
61. There is one equity issue associated with recovering surveillance costs through levies. There are some aviation entities that undergo surveillance by the CAA but do not pay levies. This includes all of the organisations that do not fly, such as airports, air traffic management and maintenance, design and manufacturing organisations. These organisations currently pay for surveillance through the hourly charge but would make no contribution to surveillance costs if surveillance were to be levy-funded.
62. As noted in paragraph 38, this is not considered to be a significant issue as these organisations, if charged, would simply pass through the levy costs to the users of their services (the other aviation operators). This makes this approach quite inefficient. The CAA's analysis did not reveal an obvious (or practical) basis for an activity type levy that could be collected efficiently from these non-flying organisations. Accordingly, the costs of oversight for these organizations have been included in the Passenger, Participation and Operations Safety Levies for this option.

Practical

63. This option has a similar level of practicality as the status quo. While this option removes the administration costs associated with an hourly charge and invoicing

regime, it would have to be replaced by a levy process with a quarterly invoice per operator, leading to similar administration costs being borne by the CAA.

64. The CAA does not expect to completely rebalance its funding sources so that, for example, the Other Commercial sector contributes all of the costs related to the sector's oversight. The CAA is confident that moving to full cost recovery at this time would be beyond the ability to pay of many in the Other Commercial sector. This option provides an alternative method of recovering the current amount of surveillance revenue and makes a greater contribution to the overall cost of oversight for the Other Commercial sector.
65. Sustainability of this option depends on the levy source that is used to replace the hourly charge. The overall cost impact on operators is discussed under the 'Additional levy revenue' section, but in general there should be no difficulty for levies to recover the appropriate amount of revenue.

Option 3 – all surveillance is levy funded (not the preferred option)

We do not recommend this option as, although it reflects the wider safety benefits of surveillance activity, it is inefficient as there is little incentive for operators to maintain compliance with the rules.

66. This option is similar to option 2 and would fund surveillance from levy revenue; however, follow-up surveillance would be covered by levies, rather than an hourly charge.

Effective and efficient

67. This option has the benefit, as in option 2, of removing the hourly charge so routine surveillance activity can focus on safety outcomes, rather than cost. The use of levy funding for all surveillance activity means that there are no price signals being sent to operators with regard to surveillance.
68. While lack of an hourly charge may incentivise operators to be more engaged with the surveillance process, compared with option 2 there could be less incentive for operators to maintain compliance with the Civil Aviation Rules. If participants are not charged for follow-up surveillance, there is less incentive for them to achieve improved compliance, with the potential safety consequences that may arise.
69. Not charging for follow-up surveillance would also increase the costs for compliant operators. Follow-up surveillance due to non-compliance is a clear example of an operator acting as a risk exacerbator. Treasury guidelines promote targeting risk exacerbators with a direct fee or charge.

Equitable

70. This option is not seen as fair as there is no additional cost for those that generate additional cost. This additional cost is distributed among all operators.

Practical

71. The practicality of this option depends on how the levies are recovered. Administration costs would be the lowest of all options if it uses existing levy sources.
72. As mentioned in option 2, the sustainability of this option would depend on what source of levy funding is used.

Additional levy revenue (if adopting options 2 or 3 for surveillance above)

73. Ceasing the recovery of surveillance costs from the hourly charge would create an approximately \$2.2 million revenue shortfall that would need to be recovered from levy and medical certification revenue sources. As noted earlier, levy revenue is currently sourced from passenger levies for the airline sector and participation levies from all other aircraft owners. To generate this additional revenue the options are to increase the existing levies or introduce new levies.
74. There is no 'status quo' option as this section assumes the introduction of a new levy-funded framework. The options below consider alternative methods for recovering the revenue foregone from changing the funding of surveillance activity from an hourly charge to levy funding, the proposed reductions in the medical certification fee, and increasing the contribution from the Other Commercial sector to better meet the costs of their oversight.
75. The option of increasing the participation levy for all operators has not been included. This is because this option is similar to the option of increasing participation levies for Other Commercial operators, but is not as equitable. As noted earlier, one of the main problems the funding review is trying to address is the under-recovery of revenue from the Other Commercial sector. Accordingly, the funding review aims to address the under-recovery of revenue from the Other Commercial sector, compared to that sector's oversight costs. For that reason, the below options primarily aim to increase the levy revenue collected from the Other Commercial sector.

Option 1 – introduce an increased participation levy for commercial operators (not the preferred option)

We do not recommend this option as the basis of the levy (aircraft size) does not reflect an operator's risk or their ability to pay.

76. This option considers increasing the participation levies currently paid by Other Commercial operators, while holding the participation levy paid by recreational operators at the current level. Participation levies are paid per aircraft on an annual basis by aircraft owners. The levy rate varies depending on the size of the aircraft.
77. Table 2 illustrates the increase in participation levies that would be necessary to recover the appropriate amount of revenue. The table assumes that passenger levies are held at the current rate.

Table 2 – Required increase in commercial participation levies

Aircraft category	Current participation levy (\$)	Approximate required participation levy for Other Commercial operators (\$)
Heavy (exceeding 100,000kg)	13,685	106,743
Medium Heavy (13,600 – 100,000kg)	3,335	26,013
Medium (5,700 – 13,600kg)	1,380	10,764
Medium-light (2,730 – 5,700kg)	552	4,306
Light (1,000 – 2,730kg)	115	897
Very light (below 1,000kg)	81	628

Efficiency and Effectiveness

78. Using a participation levy based on aircraft weight (MCTOW⁵) is inefficient as there is no direct linkage between the risk exacerbation and the levy applied. This option does not enable scalability of the levy on the operator based on the complexity of the operation, or the exposure to the aviation system.
79. As the participation levy would be paid for each aircraft based on its MCTOW, it may incentivise operators to operate fewer or smaller aircraft, maximising utilisation of existing aircraft. While this is beneficial for efficiency, over-utilisation of aircraft may have negative safety impacts.

Equitable

80. A participation levy based on aircraft size is not equitable as aircraft size is not a very good proxy for risk, or the benefit operators are receiving from the system.
81. As described in the problems section, there is a need to recover a greater proportion of revenue from the Other Commercial sector. While increasing the participation levy is one way to do that, to be fair it needs to be undertaken in a way that reflects the level of activity and potential risk to the aviation system (rather than just charging based on aircraft weight).

Practical

82. This option would be relatively simple and practical; however, it would require introducing a new levy (commercial participation levy). Given the large size of the levies involved, billing would probably have to be carried out on a quarterly basis to reduce the lump sum cost on operators. These would introduce additional administrative costs.

⁵ MCTOW – Maximum Certificated Take-off Weight.

83. A benefit of this option is that the levy amount is predictable for the operator and the CAA and can be budgeted for. An operator's ability to pay depends on the size of the levy, and the characteristics of the operator.

Option 2 – create new activity-based levies for Other Commercial operations (preferred option)

We recommend this option as basing levies on operator activity is the best available proxy for risk and also reflects the operator's ability to pay.

84. This option proposes a range of new Operations Safety Levies to address the revenue forgone from the hourly charges currently associated with routine surveillance. The proposed new levies would also present an opportunity to reduce the Other Commercial/airline imbalance in revenue contribution (see Figure 1) to some degree by increasing the contribution of Other Commercial operators to the cost of oversight of that sector of the aviation system.
85. However, to do this by any significant amount would raise questions about the Other Commercial sector's ability to pay. Indeed, the degree to which the revenue/expenditure imbalance between the airline and Other Commercial sectors can be redressed without harming the Other Commercial sectors is limited in the short term.
86. The underlying principle for the proposed Operations Safety Levy framework is that a grouping (such as the agricultural aviation sector or the commercial adventure aviation sector) should, as much as reasonably practicable, pay the cost of the oversight the CAA exercises over that sector. In addition, consideration should be given to the administrative cost and burden of collection of both data regarding sectoral activity, and the revenue itself.
87. The proposed changes to the safety levy framework are focused on commercial aviation operations not subject to passenger safety levies. For commercial operations currently paying passenger safety levies, the existing passenger levy structures would be retained. In addition, the current participation levy system would remain unchanged.
88. Key considerations for the establishment of new Operations Safety Levies have been the:
- means by which a levy can be calculated (that is, the measure that can be used to calculate the amount of revenue collected from each source)
 - complexity of different types of operations – do the proposed measures reflect complexity such as flight hours, number of aircraft operated etc. determining the quantity/cost of CAA resource required to undertake effective safety oversight
 - activity data that is already collected by the CAA that could be utilised in the assessment of levies
 - degree to which the revenue/expenditure imbalance between the airline and the Other Commercial sectors can be redressed without undue impost on those sectors in the short to medium-term through the use of a managed transition in levy rates.

89. The operation categories and proposed levies are shown in Table 3.

Table 3 – Proposed Operations Safety Levies

Aviation sector	Proposed levy (GST incl.)
Rule Part 115 operations: (Commercial Adventure Aviation) – Flight operations using New Zealand Registered Aircraft (other than those involved in parachute deployment operations)	(1) Very light aircraft – applied at \$4.03 per hour flown (2) Light aircraft – applied at \$6.33 per hour flown (3) Medium light aircraft or heavier – applied at \$9.78 per hour flown.
Rule Part 115 operations: (Commercial Adventure Aviation) – Launches or Descents (Tandem Parachute, Hang Glider, Paraglider)	\$1.84 per launch or descent.
Rule Part 137 operations: (Agricultural aviation) – Agricultural operations dropping product	(1) 0 to 10,000 tonnes per annum applied – \$1.00 per tonne (2) 10,001 to 50,000 tonnes per annum applied – \$0.84 per tonne (3) 50,001 tonnes and over per annum applied – \$0.75 per tonne.
Cargo-only operations under Rule Parts: <ul style="list-style-type: none"> • 121 (Large aeroplanes) • 125 (Medium aeroplanes) • 129 (Foreign air transport operator) • 135 (Helicopters and small aeroplanes) 	(1) 0 to 10,000 tonnes per annum carried – \$3.45 per tonne (2) 10,001 to 50,000 tonnes per annum carried – \$2.99 per tonne (3) 50,001 tonnes and over per annum carried – \$2.30 per tonne.
Commercial aircraft operations, excluding any of the above areas of operations and passenger transport services of more than 20,000 passengers per annum under Rule Parts: <ul style="list-style-type: none"> • 121 (Large aeroplanes) • 125 (Medium aeroplanes) • 135 (Helicopters and small aeroplanes) 	(1) Rule Parts 121 and 125 – \$6.33 per hour (2) Rule Part 135 – \$7.48 per hour.

90. Under this option the levy rates are based on the cost of oversight of the different aviation sectors, which in turn reflects the activity levels within the sector, the diversity of operations within the sector and the risk profile of the sector.

Effective and efficient

91. This option is efficient as it sends the right signals to operators based on benefits and risks. For this option, the amount of activity undertaken by an operator is a proxy for the amount of risk they pose to the aviation system. This is the best proxy for risk that is currently available and is based on the conclusion that the more you use the aviation system, the higher your exposure to risk, and the more you should contribute towards maintaining the safety of the aviation system.

92. The effectiveness of this option depends on the safety impacts that result from increased cost pressures placed on operators. If costs are too high, it could incentivise operators to cut corners to reduce costs, with potential negative safety impacts.
93. It is unlikely that cost pressures from this proposal will lead to negative safety outcomes. This is discussed further in the 'Practical' section.

Equitable

94. This option is the fairest method of recovering costs from the Other Commercial sector as it bases cost to the operator on the amount of activity undertaken by the individual operator and hence the risk posed by that operator.
95. While it is equitable to base levy costs on the amount of activity undertaken by an operator, a key equity consideration is how the levy rates for the different aviation sectors are calculated.
96. The proposed levy rates set out in Table 4 above were calculated by assessing the cost to the CAA of oversight of each of the sectors and spreading those costs over the estimated levels of activity in each of the sectors.

Practical

97. Introducing new activity-based levies involves more complexity than the alternative options such as hourly charges, basing levies on aircraft size or increasing passenger levies. The main administrative cost results from the fact that the information on which the levies are based (flight hours, tonnes of fertiliser dropped, freight carried and parachute descents) would need to be audited by the CAA to ensure accuracy. This data is already reported to the CAA by operators for statistical purposes, but is not audited for accuracy as it is not currently used for charging purposes.
98. As noted earlier, one of the key aims of this funding review is for the Other Commercial sector to make a more appropriate contribution to the funding of the CAA's oversight costs. This raises the question as to whether the Other Commercial sector could afford to pay more than it currently does.
99. Basing levies on activity levels reflects operators' ability to pay. This means that an operator that sees a downturn in business activity will also receive a reduction in levy costs.
100. The proposal also has less of an impact on smaller operators. Under the proposals, 38 percent of operators would pay less and 62 percent would pay more than they currently do. Of the small operators⁶ in the Other Commercial sector, 29 percent would pay more and 71 percent would pay less.
101. It is expected that most operators that will incur increased costs will be able to pass these increased costs to their customers with little significant impact. This is because the proposed levies are a very small proportion of the overall costs faced by end users (customers), and the affected sectors appear relatively strong. This is described further in Table 4 below.

⁶ Small operators are those that appear as the lowest quartile of the safety levies paid and the lowest quartile of fleet size.

Table 4 – Impact of the proposed levies

Aviation sector	Impact on the sector of proposed activity-based levies	Current status of the sector
<p>Adventure aviation</p> <p><i>Very light aircraft – \$4.03 per hour</i></p> <p><i>Light aircraft – \$6.33 per hour</i></p> <p><i>Medium-light aircraft or heavier – \$9.78 per hour</i></p> <p><i>Launches or Descents – \$1.84 per launch or descent</i></p>	<p>From the customer’s perspective, the levy represents a 0.42–0.74% increase in the cost of a parachute jump (if it is passed on to the end user in full).</p> <p>This should not reduce New Zealand companies’ competitiveness with Australian companies. The price of a parachute jump in New Zealand ranges from about \$249 to \$439, depending on the altitude of the jump. Similar jumps in Australia range from AU\$249 to \$450 (approximately NZ\$269 to \$486).</p>	<p>The number of aircraft holding adventure aviation certification has risen from 29 to 37 since 2013. At least one operator has announced the purchase of new aircraft for their tandem parachute operations.</p> <p>The number of parachutes commercially in use (under Rule Part 115) has increased from 183 to 204 since 2013. The number of descents has increased from 83,000 in 2013 to an estimated 123,392 in 2015.</p> <p>The number of international visitors to New Zealand continues to grow strongly⁷. Data from the International Visitor Survey suggests that, of international visitors on holiday in New Zealand, about 8% engage in an adventure aviation activity.</p>

⁷ The Ministry of Business, Innovation and Employment’s International Tourism Forecast expects visitor arrivals to grow 5.4 percent a year, reaching 4.5 million visitors in 2022.

Aviation sector	Impact on the sector of proposed activity-based levies	Current status of the sector
<p>Agricultural aviation</p> <p><i>0 to 10,000 tonnes applied per annum – \$1.00 per tonne</i></p> <p><i>10,001 to 50,000 tonnes applied per annum – \$0.84 per tonne</i></p> <p><i>50,001 tonnes and over applied per annum – \$0.75 per tonne</i></p>	<p>The impact on the end user (the farmer) varies as the price per tonne of different agricultural products varies. The agricultural levy represents the following proportions of the cost of having a tonne of the most common agricultural products applied (the cost of the agricultural product plus \$85 per tonne for applying by aircraft):</p> <ul style="list-style-type: none"> • Lime: 0.6 – 0.85% • Superphosphate – 0.16 – 0.22% • Urea – 0.11 – 0.15% • Diammonium phosphate (DAP) – 0.07 – 0.1% <p>This levy should have minimal impact on the dairy industry as in dairy systems; fertilisers are typically applied by ground-based broadcast spreaders, often by spreading contractors. This is in contrast to hill country farming where fertilisers are more generally spread by air.</p>	<p>The number of agricultural aeroplanes has declined from 94 to 79 since 2007. However, the number of helicopters with agricultural operations certification has increased from 224 to 276 in the same period.</p> <p>Of the 3.719 million tonnes of fertiliser and lime applied within New Zealand, 0.714 million tonnes, or 19%, was applied by air (2012, NZ Statistics Dept.)</p> <p>One industry source indicates the number of dairy farmers applying fertiliser is decreasing.</p> <p>The Ministry of Primary Industries' Situation and Outlook for Primary Industries 2016 shows that primary industry exports grew by 3% in the year ended June 2016. The strongest growth was in the horticulture, forestry and seafood sectors, offsetting the stable or weak lamb and dairy sectors. It is forecast that strong growth will continue for horticulture, forestry and seafood sectors, and growth will return to the lamb and dairy sectors.</p>

Aviation sector	Impact on the sector of proposed activity-based levies	Current status of the sector
<p>Cargo</p> <p><i>0 to 10,000 tonnes per annum carried – \$3.45 per tonne</i></p> <p><i>10,001 to 50,000 tonnes per annum carried – \$2.99 per tonne</i></p> <p><i>50,001 tonnes and over per annum carried – \$2.30 per tonne</i></p>	<p>As an example, Air New Zealand's current public freight rates are between \$1,500 and \$12,600 per tonne, depending on the type of freight and its priority. General freight is \$5,000 per tonne.</p> <p>Even if the general freight rate is discounted by 80% for major customers (say to \$1,000 per tonne) the proposed highest levy rate of \$3.45 per tonne is 0.00345% of the freight tariff.</p>	<p>The volume of airfreight carried on internationally-departing cargo-only flights has been relatively stable over recent years, with an average increase of 1.36% per annum since 2000. About 80% of this departed from Auckland.⁸</p> <p>The CAA has estimated that the volume of domestic airfreight is about 87,400 tonnes.</p>
<p>Passenger services (<20,000 pax)</p> <p><i>Large and medium aeroplanes – \$6.33 per hour</i></p> <p><i>Small aeroplanes and helicopters – \$7.48 per hour</i></p>	<p>The CAA estimates that Part 135 aircraft (small aeroplanes and helicopters) would carry an average of three passengers per hour flown, and a Part 125 aircraft (medium aeroplanes), would carry an average in excess of four passengers per hour flown.</p> <p>The proposed levy rates for Part 135 and Part 125 of \$6.50 and \$7.48 respectively is roughly equivalent to the proposed domestic passenger safety levy (\$1.84 per passenger), which would be \$5.52 for three passengers and \$7.36 for four passengers.</p> <p>Smaller operators pose greater risk than airlines and have higher oversight costs per passenger.</p>	<p>The number of helicopters (with Rule Part 119 certificates) has increased by 20% since 2007 to 500.</p> <p>Data from the International Visitor Survey suggests that, of international visitors on holiday in New Zealand, about 15% take a scenic flight.</p>

102. To demonstrate the scale of cost changes for operators, Table 5 below shows current costs (two year average 2012/13 and 2013/14 years) compared with estimated costs under the proposed new levies for some operators. This demonstrates the variability of Other Commercial operators, some of which carry out operations in categories other than their predominant sector category (for example a scenic flight company may also undertake agricultural operations).

⁸ New Zealand International Air Freight, Ministry of Transport, March 2016

103. There is no such thing as a typical operator in any of the levy categories, as operators vary in terms of the size of their operation, the number and types of aircraft utilised, the mix of business activities undertaken and the locations in which they operate. Each of these can affect the level of activity, the degree of risk associated with that operator, and the extent of the oversight required.

Table 5 – Current versus Projected Costs for Example Operators⁹

Predominant activity	Current costs (\$)	Estimated new costs (\$)
Adventure Aviation operation	\$ 2,116.97	\$30,338.57
Adventure Aviation operation	\$ 819.57	\$17,440.00
Adventure Aviation operation	\$ 223.48	\$ 1,172.93
Passenger operation (<20k pax pa.)	\$ 5,702.25	\$ 8,523.80
Passenger operation (<20k pax pa.)	\$ 4,124.38	\$16,944.66
Passenger operation (<20k pax pa.)	\$ 14,831.05	\$10,041.09
Agricultural operation	\$ 2,716.13	\$ 4,589.51
Agricultural operation	\$ 3,054.38	\$ 9,288.58
Agricultural operation	\$ 7,178.33	\$18,930.93
Cargo-only operation	\$ 47,180.51	\$15,122.18
Cargo-only operation	\$ 22,610.71	\$55,712.39
Cargo-only operation	\$ 4,740.92	\$ 7,846.87

104. In order to ease the transition from a no levy state to an activity-based levy state, the CAA has proposed that implementation of Operations Safety Levies is staged. Year one of that levy regime would be charged at 50 percent of the full value levy rate.

Option 3 – increase passenger levies (not the preferred option)

We do not recommend this option as further increasing the revenue burden of the airline sector is inequitable.

105. Another option for recovering additional levy revenue, assuming that surveillance becomes funded by levies and that passenger levies are equalised, is to increase the passenger levies paid by airlines with more than 20,000 passengers. To recover the appropriate level of revenue, passenger levies would need to be increased by about \$0.07, or 3.8 percent.

Effective and efficient

106. This option would have weak and inappropriate pricing signals for Other Commercial operators. The Other Commercial sector would have no signal that the services provided by the CAA have a cost.

⁹ The figures in the table are based on real operators. Details about the individual operations (such as number of aircraft, hours flown or number of parachute descents) are not included as this would make it possible to identify the actual operator.

107. This option would also not comply with Treasury guidance as the Other Commercial sector would not be contributing appropriately to meeting the costs of oversight of that sector.
108. Shifting the burden of funding surveillance activity from the Other Commercial sector to airlines would have minimal impact on the behaviour of Other Commercial operators. However, as there would be no financial cost for follow-up surveillance, there would be less of an incentive to maintain compliance with the rules.

Equitable

109. This is the least equitable option for recovering surveillance revenue. As noted in Figure 1, airlines already provide the bulk of the CAA's funding. Moving the burden of funding all surveillance activity to passenger levies would increase the disparity between the amount of revenue recovered from the airline sector and the level of CAA services required by the sector.
110. The key disadvantage is that the risk exacerbator is not paying. It would be one commercial sector subsidising another commercial sector.

Practical

111. This option would be quite simple as it just requires an amendment to the level of an existing levy.
112. It would be expected that airlines would pass on this levy increase directly to passengers. Arguably, airline passengers would barely notice this increase in ticket price. However, this still represents an additional impost on airlines and is inappropriate considering the other government fees that are included in an airline ticket price. This includes the Border Clearance Levy of \$21.57 per arriving passenger.
113. Also, the CAA forecasts that passenger numbers will increase by 5 percent per annum. Placing so much reliance on passenger volumes for the CAA's funding increases the risk of over and under-recovery of revenue as a result of fluctuations in actual passenger numbers.

Medical certification processes

114. Pilots, tandem jumpmasters and air traffic controllers require a current medical certificate to participate in the aviation system. These participants benefit from the medical application process, as holding a medical certificate enables them to fly (or undertake their duties).
115. Not all medical certificate applications are the same. Some are more complex or comprehensive, with incremental cost incurred by the CAA at two main points:
 - the initial application itself and the associated processing

- when an application is declined and the pilot seeks an Accredited Medical Conclusion (AMC)¹⁰.
116. The 2012 funding review concluded that the services provided by the CAA's Medical Unit¹¹ are a private good and that all costs should be recovered through the medical certificate application fee directly from the applicant. As a result of the 2012 funding review, the CAA introduced a medical certificate application fee (currently \$313) to recover the costs of the CAA's Medical Unit. The aviation sector has voiced strong opposition to the level of this fee.
117. Following further consideration of the medical certification system, the CAA has determined that it is not appropriate to recover all of the Medical Unit's costs through the medical certificate application fee, because:
- not all of the Medical Unit's functions relate to processing applications. The Medical Unit also undertakes some policy work, developing standards and system oversight, which provide benefit to general aviation safety
 - the medical certification process also provides assurance to the Director of Civil Aviation that licensed participants (pilots, air traffic controllers and jumpmasters) are fit to carry out their aviation roles.

Option 1 – status quo – a single medical certificate application fee to recover all Medical Unit costs (not the preferred option)

We do not recommend this option as the current medical certificate application fee does not reflect the wider benefits of some of the functions of the CAA's Medical Unit. The high level of the fee also encourages avoidance or deferral of medical testing.

118. The current system uses the medical certificate application fee (currently \$313) as a flat fee to recover the full cost of medical certification, including the AMC process. The fee also covers functions of the Medical Unit that are not related to the medical certificate application process.

Effective and efficient

119. The high level of the medical certificate application fee may have a negative impact on safety. Feedback from within the aviation community suggests that the current level of the medical certificate application fee has created an incentive for significant behaviour change by pilots in order to avoid cost, including avoidance or deferral of medical certification.
120. It has also been suggested that pilots are intentionally limiting their activities, or even exiting the aviation system due to the cost of medical certification. As the highest

¹⁰ In some cases a Medical Examiner, who is acting for the Director of Civil Aviation, may conclude that the applicant does not meet the medical standards. If this happens, the Medical Examiner has the option to consider the case further by seeking an Accredited Medical Conclusion.

An Accredited Medical Conclusion is a conclusion reached by experts, who are acceptable to the Director, to consider the case of that particular applicant. The purpose of the Accredited Medical Conclusion is to determine whether, despite not meeting the medical standards, the applicant's condition is such that it is not likely to jeopardise aviation safety.

¹¹ The CAA unit that processes medical certificate applications as well as other aviation medical-related functions.

costs are faced by older pilots (who require more frequent medical certification) this may represent a significant loss of aviation knowledge and experience.

121. Since the medical certificate application fee was introduced in 2012, the number of operators with a Private Pilot License (PPL)¹² has reduced by 987 while the number of Recreational Pilot Licenses (RPL)¹³ has increased by 179. An RPL only requires a doctor's certificate similar to that required by the NZ Transport Agency in some circumstances, but significantly restricts the activity that can be undertaken by the pilot.

Equitable

122. The status quo is not fair as it uses a direct fee to recover the costs for Medical Unit functions that are of general benefit to the aviation system. These functions have the characteristics of a club good and would be more appropriately recovered from a levy.
123. Another element of inequity is that, although all applicants pay the full cost of their initial application, the AMC costs for applicants with complex medical issues are distributed to all applicants.
124. However, the AMC process provides an important avenue for applicants to receive a 'second opinion' on an unfavourable application outcome (at the Medical Examiner's discretion). Providing this service without an additional cost to the applicant promotes an aspect of flexibility and transparency in the medical certification process.

Practical

125. This system of charging a single fee to recover all of the costs of the Medical Unit is very simple and easy to operate. The cost recovery process for the CAA is sustainable as the application fee is paid upfront.
126. The key weakness is the applicant's ability to pay. As noted earlier, it is believed some aviation operators are actively limiting their flight activity to avoid the fee. This is particularly apparent for some operators (such as those over the age of 40) who require twice-yearly medical certification.

Option 2 – Medical certificate application fee for application processing costs, with other Medical Unit functions funded from levies (not the preferred option)

We do not recommend this option as it is not appropriate for all applicants to fund the Accredited Medical Conclusion system.

127. Under this option, the medical certificate application fee would only target cost-recovery of those functions of the medical unit that are related to, or support, the application process (including the AMC process). Medical Unit functions unrelated to medical certification would be funded by levies.
128. This means that some regulatory activities such as suspension, revocation and cancellations, medical convenor activities, and general administrative functions such

¹² A PPL enables the pilot to carry passengers but cannot fly for remuneration. The PPL is recognized overseas.

¹³ A RPL enables a pilot to carry one passenger in an aircraft of limited size. The pilot cannot fly for remuneration and the RPL is not recognised overseas.

as the maintenance of manuals, systems and records would be funded by levy revenue as a club good.

129. This option would reduce the medical certification application fee from \$313 to \$210.45.
130. The CAA identified this as its preferred option during public consultation.

Effective and efficient

131. Compared to the status quo, this option sends more appropriate pricing signals, as the medical certificate application fee only reflects the costs associated with processing applications. It could be expected that this would lead to an improvement in operator behaviour and safety as there would be less incentive for operators to avoid medical certification. However, discussions with aviation industry representatives have suggested that the reduction is unlikely to be sufficient to reduce the number of operators attempting to avoid or defer medical certification on financial grounds.
132. This option maintains the benefit for applicants with complex medical conditions, as they do not need to fully fund the AMC process themselves.

Equitable

133. This option is more equitable than the status quo as Medical Unit functions that are of benefit to the wider aviation system are recovered from levy revenue. However, consultation demonstrated that aviation industry stakeholders remain concerned that the medical certificate application fee is too high. They would prefer AMC costs to be recovered from the applicant that seeks an AMC, rather than distributed amongst all operators.

Practical

134. This option is easy to operate and administratively efficient. However, the split between the levy and fee portions would require some minor administrative changes.
135. This option improves operators' ability to pay compared to the status quo as applicants only directly pay the costs associated with the application process. It also maintains affordability for applicants with complex medical conditions, as AMC costs are distributed among all applicants.
136. This option provides a relatively stable source of revenue for the CAA's medical certificate application system as most costs are recovered upfront through the application fee.

Option 3 – Medical certificate application fee for application processing costs, with Accredited Medical Conclusions funded through the hourly charge, and other Medical Unit functions funded from levies (not the preferred option)

We do not recommend this option as charging for all Accredited Medical Conclusion activity would create an incentive for operators to hide medical conditions.

137. This option would introduce a two-stage application fee for medical certification.
 - The initial application fee would be reduced from \$313 to \$80.50.

- Complex medical conditions that require an AMC would be charged at the current hourly rate (\$284 per hour).

138. Other Medical Unit costs would be recovered from levy revenue.

Effective and efficient

139. The low application fee could encourage people without medical conditions to apply for medical certification. This may also encourage operators to apply for higher levels of pilot license (Private Pilot License, Commercial Pilot License and Air Transport Pilot License) and for operators that converted to an RPL to return to a PPL.
140. While lowering the application fee will likely remove the disincentive to engage with the medical certification system, charging for all AMC activity is likely to have negative safety outcomes for those that require an AMC. The cost would likely act as an incentive for applicants and potentially the Medical Examiner to conceal medical issues to prevent the applicant being referred to AMC (as was identified in the Scott-Gorman report¹⁴) or discourage people that may have a medical condition from applying for medical certification.

Equitable

141. This option may be the most economically 'pure'; as each applicant pays for the services they receive. However, the cost impact on applicants with medical conditions would be significant.

Practical

142. This option is practical and could be done without significant difficulty or cost. However, it would require some additional administrative change to introduce the mix of fee, levy and hourly charge and so would have a higher cost than the current system.
143. It is likely that, for applicants with complex medical issues, this option would raise costs beyond their ability to pay. Approximately 750 applicants access the AMC system each year. Of these, about 60 people have an AMC longer than 2 hours. The average amount of time spent on an AMC for those 60 people is about 20 hours (costing about \$5,000). Some of these applicants that require large amounts of AMC time would likely leave the aviation system entirely rather than pay the AMC costs.
144. This option would provide a relatively sustainable source of funding for the CAA as application costs would be recovered upfront. However, charging for AMC's introduces the risk of people not paying their AMC bills, particularly as the bills could be quite high.

¹⁴ Professor Sir John Scott and Professor Des Gorman; (20 February 2001) *The Process of Determining Fitness to Fly Aeroplanes in New Zealand: A Review of Current Practice and Recommended Changes*.

Option 4 – Medical certificate application fee with Accredited Medical Conclusions (over 2 hours) funded through the hourly charge and other Medical Unit functions funded from levies (preferred option)

We recommend this option as it provides a balance of ensuring each applicant pays for the services they receive, while minimising cost for applicants without complex medical conditions.

145. This option uses the same funding framework as option 3, but the first 2 hours of an AMC are not charged for (this cost is covered by the medical certificate application fee).
146. The medical certificate application fee would be reduced from \$313 to \$120.75.

Effective and efficient

147. This option sends positive safety signals as lowering the medical certificate application fee compared to options 1 and 2 will provide less disincentive to engage with the medical certification system. In particular, this option would encourage people without medical conditions to apply for medical certification.
148. This option is efficient as it is likely to keep people in the aviation industry. Not directly charging for the first two hours of AMC time would avoid some of the disincentive in option 3 for people with complex medical conditions to apply for certification. As noted earlier, of the approximately 750 applicants that are referred to an AMC each year, only about 60 have AMC's that last longer than 2 hours.

Equitable

149. This option is highly equitable but not as equitable as option 3 as applicants are not directly charged for the first two hours of an AMC.
150. Discussions with aviation industry bodies suggested that this approach is supported by aviation stakeholders, as it is seen as more fair compared to options 1 and 2. This approach would reduce the medical certification costs for most people in the aviation system. Only those applicants that require more than two hours spent on an AMC will incur additional cost, meaning an increase in costs for operators with complex medical conditions.

Practical

151. This is the most complex option to implement as it would require administrative change to introduce the mix of fee, levy and hourly charge. It would also require records to be kept by applicants for potential AMC billing purposes. These costs would not be significant and are justified, given the benefits to the equitable distribution of costs.
152. Most applicants' ability to pay would be greatly improved compared to the status quo. There would be a significant cost increase for applicants that require more than two hours of time spent on an AMC. However, this would only affect a small number of people (estimated at 60 per annum).
153. This option would provide a relatively sustainable source of funding for the CAA as application costs would be recovered upfront. However, charging for AMC's longer

than two hours introduces the risk of people not paying their AMC bills, particularly as the bills could be quite high.

Passenger levies

154. Passengers, as a group, are the primary beneficiaries of a safe aviation system. Passenger levies fund a wide range of the CAA's safety activity. 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 our activity and this is supported by the various passenger levies being the primary funding mechanism provided for in the Civil Aviation Act 1990.

Option 1 – status quo – maintain difference between international, domestic and ANZA passenger safety levies (not the preferred option)

We do not recommend this option as it maintains a distinction between levy types that is unwarranted. The CAA prefers to equalise international and domestic passenger safety levies, rather than increase levies at differing rates by a set amount or percentage.

155. There are currently two passenger safety levies paid by airlines: the Domestic Passenger Safety Levy and the International Passenger Safety Levy. These are levied at different rates, and on different parties, with domestic levies slightly higher than international levies (the domestic levy is \$1.97 per passenger and the international levy is \$1.50).
156. This difference in levy rates is an artefact of history with the levies being introduced at different times. There seems to be no policy reason behind having them different.
157. Australian airlines operating domestic services within New Zealand on an Australian operating certificate pay a reduced Domestic Passenger Safety Levy (called the ANZA¹⁵ Levy), currently set at 90 percent of the full Domestic Passenger Safety Levy. This reflects the fact that these operators pay charges to the Civil Aviation Safety Authority (CASA) in Australia rather than the New Zealand CAA for their direct safety oversight.
158. The Cabinet paper accompanying the 2012 funding review noted the intention to equalise the passenger levies at the next funding review.

Effective and efficient

159. There is no known safety issues associated with the status quo.
160. This option sends the wrong pricing signals as it differentiates between aviation activities that have similar risk levels.
161. This option is not consistent with the intention at the 2012 funding review to move to common passenger levy rates.

¹⁵ Under the Australia New Zealand Agreement (ANZA), which is a subset of the Trans-Tasman Mutual Recognition Agreement (a non-treaty arrangement between the New Zealand and Australian governments), the safety oversight of operators is the responsibility of the country in which they are certificated rather than the country in which they operate. The ANZA agreement took effect on 1 May 1998.

Equitable

162. The current system has a lack of equity between the domestic and international airline sectors. The CAA considers that there is no material difference in benefit (or cost exacerbation) between international and domestic passenger groups. The CAA performs safety oversight activities on behalf of passengers, without regard to their destination.

Practical

163. This option is very practical as revenue is collected at very little cost to both the CAA and the airlines, using existing systems.

Option 2 – Equalise International and Domestic Passenger Safety Levies while retaining a discount for Australian airlines (preferred option)

We recommend this option as there is not a clear justification for the current difference in domestic and international passenger safety levy rates.

164. All passengers benefit from a safe aviation system in New Zealand, whether they are travelling domestically or internationally. Equally, an aircraft operator receives the same level of benefit from the CAA's oversight of the system whether on a domestic sector or an international sector.
165. The passenger levy on a domestic flight covers the flight sector from take-off to landing. The international passenger levy should also be based on the combination of landing in New Zealand and taking off again from New Zealand. In short, maintaining a difference between the Domestic Passenger Safety Levy and the International Passenger Safety Levy has no analytical or policy basis.
166. This option would equalise the Domestic and International Passenger Safety Levies at \$1.84 per passenger.
167. The ANZA levy would be set at \$1.80 per passenger, 2 percent less than the domestic passenger safety levy to reflect services provided to the operator by CASA in Australia.

Effective and Efficient

168. This option would have no impact on safety.
169. Equalising the Domestic and International Passenger Safety Levies would send more appropriate pricing signals. This would reflect that there is no material difference in the CAA oversight received by domestic and international airlines.
170. This option is also consistent with the intention at the 2012 funding review to move to common passenger levy rates.

Equitable

167. This option is fair as it signals that domestic and international costs of oversight are essentially the same. It also more accurately reflects the services provided by the CAA to operators under the ANZA arrangement.

Practical

171. This option would make no significant change to collection method or administration costs for these levies.

Summary of the preferred package of options

172. The specific changes proposed to implement the preferred options are included in Appendix 1.

173. Table 6 demonstrates how this will alter the CAA's revenue sources. The increased proportion of levy revenue shown in Table 6 reflects moving surveillance from the hourly charge to being levy funded. It also reflects forecast increases in passenger numbers.

Table 6 – Revenue sources under the existing and proposed funding systems

Levy or fee		Description	Revenue 2015/16	Revenue 2018/19
Passenger Safety Levies	Domestic Passenger Safety Levy	Domestic air passenger operators pay a levy at a set rate for each passenger carried.		
	International Passenger Safety Levy	International air passenger operators pay a levy at a set rate for each departing international passenger.	68% \$27.096m	72% \$31.697m
	ANZA Levy	Certain Australian air passenger operators may pay this discounted levy as part of the ANZA agreement in place of the Domestic Passenger Levy.		
Operations Safety Levies	Agricultural, Adventure, Cargo-only & Passenger services	Commercial operators that do not pay passenger safety levies pay an operations safety levy per unit of activity (tonnes of agricultural product dropped or freight carried, adventure aviation launches or descents, hours of flight time).		4% \$1.586m
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.	2% \$0.534m	1% \$0.524
Fees and Charges		A range of fees and charges for aviation activities and services, including: <ul style="list-style-type: none"> Medical certification application Surveillance, licensing, certification Approval of manuals, programmes, procedures, equipment 	18% \$8.230m	12% \$5.160m
Crown and contract funding		Crown funding through Vote Transport and Ministry contracts (Ministry of Transport for aviation rule development and Ministry of Foreign Affairs and Trade for Pacific Security Fund activity)	10% \$4.047	10% \$4.34m
Other	Interest and other		2% \$0.577	1% \$0.474m

TOTAL

100%
\$40.483m

100%
\$43.786m

Consultation

174. The funding review was completed in two stages with two rounds of consultation. The first stage considered 'who pays' and 'how they pay', with the second stage considering 'how much they pay'.
175. For each of the two stages, the CAA developed a detailed consultation document which was made available to participants in the aviation sector, and the public, either in printed form or as a downloaded document from the CAA website. For each consultation, respondents were invited to respond by letter or email or to use the response templates provided.

Consultation process – Stage 1

176. Twelve consultation meetings were hosted by the Director of Civil Aviation, and were attended by about 130 people. Two meetings each were held in Queenstown, Christchurch, Nelson, Wellington, Palmerston North and Auckland.
177. Consultation meetings were advertised in national newspapers, on the CAA website, and by email to those who had enrolled in the CAA 'what's new' advisory service for the funding review.
178. Feedback was provided in 133 written responses. A summary of feedback can be found on the CAA Funding website.

Consultation process – Stage 2

179. Sixteen consultation meetings were hosted by the Director of Civil Aviation, and were attended by about 120 people between November 2015 and January 2016. Three meetings each were held in Queenstown and Wellington while two meetings were held in each of Christchurch, Nelson, Palmerston North, Hamilton and Auckland.
180. The consultation period for Stage 2 was extended to 13 weeks, albeit over the Christmas period. Additional meetings were held in Queenstown and Wellington as advertising for the initial meetings in these venues was insufficient for some potential attendees.
181. Feedback was provided in 111 written responses. A summary of feedback can be found on the CAA Funding website.

Feedback received

182. Submissions contained a wide spectrum of views about the CAA's proposals, ranging from those substantially agreeing with the proposals to others expressing a view that the review should be halted and the status quo be maintained. A number of submitters changed their position on the 'who should pay' question between Stages 1 and 2 when they saw the proposed result of the 'how much' question.
183. Analysis of the submissions revealed three major themes.

- Criticism of the scope of the review. In particular a number of submissions commented that the adequacy of Crown funding should have been considered.
- Resistance to the proposed new Operations Safety Levies.
- Concerns about transparency and access to information.

The scope of the review was wrong

184. Some submitters argued that the scope of the review was wrong and that it should have included the level of Crown funding received by the CAA. In particular, this point was argued by Aviation New Zealand and the Parachute Industry Association (PIA); both of which have argued for some time that the CAA is under-funded by government.
185. The level of government funding for the CAA was not considered as part of the funding review. The level of government funding for Crown Agencies (including the CAA) is determined through the Government Budget process. Government funding supports the CAA's health and safety functions, rule development and some policy activity.
186. The level of government funding received by the CAA is comparable to that received by Maritime NZ and reflects Treasury guidance.

Resistance to the proposed new Operations Safety Levies

187. A number of submitters strongly expressed views against the proposed new levies and argued that the proposals would replace one problem of imbalance with a new problem of inequity. The argument, particularly from the agricultural, freight and commercial adventure aviation sectors is that the proposed Operations Safety Levies would see bigger volume operators paying considerably more than they currently do through Participation Levies, surveillance charges and other fees and charges; and considerably more than smaller operators in the same sector. Thus, the big players argued they would be subsidising the small players within a sector.
188. Proponents of this view also argued that safe participants would be effectively penalised through the proposed Operations Safety Levies, and thus dis-incentivised to enhance safety performance.
189. These arguments relate to the purpose of the Operations Safety Levies. The levies are designed to charge operators more if they conduct more activity. Amount of activity is being used as a proxy for risk. The argument that 'safe' operators will be penalised ignores the fact that 'unsafe' operators will be charged more as follow-up surveillance will be charged at the hourly rate.
190. Other submitters accepted the levies framework, but disliked the price.

Concerns about Transparency and Access to Information

191. Some submitters, including Aviation New Zealand, the PIA and the Board of Airline Representatives New Zealand (BARNZ, referring to some proposals only), argued that the discussion document did not clearly articulate what the CAA was seeking to achieve; and that the document was light on detail about the CAA's cost structures, or the costs of specific activities. Some (particularly Aviation New Zealand) also argued

that the absence of worked made it difficult to understand the implications of the proposals.

192. The CAA provided full financial disclosure in the discussion document, along with the estimated costs of oversight for various sectors based on timesheet records.

Changes made as a result of consultation

193. The preferred options described in the options analysis section are different from what was publically consulted on. The CAA made several changes to reflect stakeholder comments made during and after the formal consultation period. These changes are described in Table 7 below.

Table 7 – Summary of key changes to funding proposals following consultation

Proposal Consulted Upon	Revised Proposal
Medical Certificate Application Fee	
<ul style="list-style-type: none"> • Set the Medical Certificate Application Fee at \$210.45 • The costs of Accredited Medical Conclusions are absorbed in the Medical Certificate Application Fee (as at present). 	<ul style="list-style-type: none"> • Set the Medical Certificate Application Fee at \$120.75. • Set an hourly charge for Accredited Medical Conclusions that exceed 2 hours review by the CAA at \$284 per hour. E.g. an Accredited Medical Conclusion taking 5 hours would be charged for 3 hours.
Operations Safety Levies	
<ul style="list-style-type: none"> • Introduce an Operations Safety Levy for launches or descents (Tandem Parachute, Hang Glider, and Paraglider) Conducted under Rule Part 115 (Commercial Adventure Aviation). • Set the new levy at \$2.88 per launch or descent. 	<ul style="list-style-type: none"> • Reduce the levy to \$1.84 per launch or descent. This aligns with the combined Domestic and International Passenger Safety Levy. • Phased introduction at 50% in year 1, 100% in year 2 and subsequently.
<ul style="list-style-type: none"> • Introduce an Operations Safety Levy for Commercial Adventure Aviation Flight Operations using New Zealand Registered Aircraft (other than those involved in Parachute Deployment Operations). • Set the new levy at \$14.38 per hour for flight operations using New Zealand registered aircraft, other than those involved in parachute deployment operations. 	<ul style="list-style-type: none"> • Apply the levy in three categories as follows: <ol style="list-style-type: none"> (1) very light aircraft — applied at \$4.03 per hour flown (2) light aircraft — applied at \$6.33 per hour flown (3) medium light aircraft or heavier — applied at \$9.78 per hour flown. • Phased introduction at 50% in year 1, 100% in year 2 and subsequently.

Proposal Consulted Upon	Revised Proposal
<ul style="list-style-type: none"> · Introduce an Operations Safety Levy for Agricultural Operations. · Set the new levy at \$1.00 per tonne of agricultural product applied. 	<ul style="list-style-type: none"> · Apply the levy in three classes, based on an operator's previous years tonnage applied, as follows: <ol style="list-style-type: none"> (1) 0 to 10,000 tonnes per annum applied at \$1.00 per tonne (2) 10,001 to 50,000 tonnes per annum applied at \$0.84 per tonne (3) 50,001 tonnes and over per annum applied at \$0.75 per tonne. · Phased introduction at 50% in year 1, 100% in year 2 and subsequently.
<ul style="list-style-type: none"> · Introduce an Operations Safety Levy for Cargo-only operations. · Set the new levy at \$3.45 per tonne of freight carried. 	<ul style="list-style-type: none"> · Apply the levy in three classes, based on an operator's previous years tonnage applied, as follows: <ol style="list-style-type: none"> (1) 0 to 10,000 tonnes per annum carried at \$3.45 per tonne (2) 10,001 to 50,000 tonnes per annum carried at \$2.99 per tonne (3) 50,001 tonnes and over per annum carried at \$2.30 per tonne. · Phased introduction at 50% in year 1, 100% in year 2 and subsequently.

Conclusions and recommendations

194. Based on the analysis above, the preferred option is to change the CAA's funding framework by:
- funding routine surveillance from levy revenue with an hourly charge for follow-up surveillance (for example, if non-compliant with the rules)
 - create new activity-based levies for Other Commercial operations
 - reduce the medical certificate application fee so that it only covers costs associated with applications, with Accredited Medical Conclusions longer than 2 hours funded through the hourly charge and other Medical Unit functions funded from levies
 - equalise international and domestic passenger safety levies while retaining a discount for Australian airlines.
195. These options best meet the three criteria for the funding review.

Implementation plan

196. The CAA's fees, levies and charges are set in the Civil Aviation (Charges) Regulations (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002. Implementing the preferred changes to the funding framework will require amendments to these regulations. As the changes are a significant shift from the existing system, these regulations will be re-written to minimise the chance of inconsistencies or inaccuracies in drafting.

197. The changes are proposed to come into force on 1 April 2017. This date has been chosen as it will allow for a simpler transition for the CAA and aviation companies. This date represents the beginning of the new financial year for operators as well as being after the busy summer period for aviation companies.
198. The introduction of Operations Safety Levies to the Other Commercial sector will be phased in over two years. From 1 April 2017 to 31 March 2018, these levies will be set at 50 percent of the final level. These levies will be charged at the full rate from 1 April 2018.

Data collection

199. The introduction of activity-based Operations Safety Levies will primarily use information that operators are currently required, under Civil Aviation Rule Part 12 and 19, to report to the CAA. This information includes flight hours, number of parachute drops and amount of agricultural product applied (in tonnes). Data on the amount of freight carried for the cargo-only levy is not currently collected. Amendments will be made to the Civil Aviation (Charges) Regulations (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002 to ensure the collection of all the data required for billing purposes, including that already provided for under Rule Parts 12 and 19 (which will be updated subsequently).

Audit of data provided

200. The information that is already being reported by operators is not currently audited for accuracy by the CAA. As this information will now be used for charging purposes, it will be necessary for it to be accurate. While the CAA has a general power to audit information provided by participants, a specific power to audit activity return data will be established in both the Civil Aviation (Charges) Regulations (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002 as they are amended. Operators will not be charged for auditing their activity returns.

Penalties for absent, late or incorrect activity returns

201. Penalties for absent, late or incorrect activity returns will be provided for in both the Civil Aviation (Charges) Regulations (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002 as they are amended.

Monitoring, evaluation and review

202. The current expectation of Government, as established by the Cabinet's 2012 funding review decision, is that the CAA will review its levies, fees and charges every three years.
203. We proposed that, having established a framework for setting levies, fees and charges with this funding review, that framework should be reviewed every six years to ensure its fitness for purpose and ongoing compliance with Government policy.
204. Reviews of the rates for levies, fees and charges will be undertaken at the three year point between these comprehensive reviews. These intermediate reviews will not consider changes to the actual funding framework, only the rates of the fees, charges and levies. It is possible that a review of levies, fees or charges may occur more frequently depending on circumstances (for example if there is significant under- or over-recovery of revenue).

205. To monitor the impact of the new funding framework, the CAA will monitor the:
- safety performance of the sectors and the participants in those sectors
 - statistical returns supplied by operators to observe changes in activity, passenger numbers and revenue etc.
 - findings of the audits of the returns supplied by operators
 - costs associated with revenue collection, collection rates, enforcement and collection issues and auditing operator returns.

Appendix 1 – Proposed funding changes

Regulatory Deliverable	Current Levy Rate		Proposed Levy Rate	
	GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are highlighted				
Proposed changes to the schedule attached to the Civil Aviation (Safety) Levies Order 2002				
Schedule: Passenger levies				
Passenger Levy - Domestic	\$ 1.97	\$ 1.71	\$1.84	\$1.60
Passenger Levy - International	\$ 1.50	\$ 1.30	\$1.84	\$1.60
Passenger Levy - ANZA	\$ 1.78	\$ 1.55	\$1.80	\$1.57
Schedule: Operations Safety levies (new)				
Note: Operations Safety levies are proposed to be discounted by 50% for a period of one year from date of implementation				
	Very light aircraft		\$4.03	\$3.50
Category A – Operations Safety Levy – Part 115: Adventure Aviation – per hour	Light aircraft		\$6.33	\$5.50
	Medium light aircraft or heavier		\$9.78	\$8.50
Category B – Operations Safety Levy – Part 115: Adventure Aviation – per launch or descent			\$1.84	\$1.60
Category C – Operations Safety Levy – Parts 121 and 125: Large and Medium aeroplanes services – per hour			\$6.33	\$5.50
Category D – Operations Safety Levy – Part 135: Small aeroplanes and helicopters – per hour			\$7.48	\$6.50
Category E – Operations Safety Levy – Part 137: Agricultural Operations – per tonne of agricultural product applied	Operators applying between 0 and 10,000 tonnes per annum		\$1.00	\$0.87
	Operators applying between 10,001 and 50,000 tonnes per annum		\$0.84	\$0.73
	Operators applying in excess of 50,001 tonnes per annum		\$0.75	\$0.65
Category F – Operations Safety Levy – Cargo-Only Operations – per tonne of cargo carried	Operators carrying between 0 and 10,000 tonnes of cargo per annum		\$3.45	\$3.00
	Operators carrying between 10,001 and 50,000 tonnes of cargo per annum		\$2.99	\$2.60
	Operators carrying in excess of 50,001 tonnes of cargo per annum		\$2.30	\$2.00

Regulatory Deliverable	Current Fees & Charges		Proposed Fees & Charges	
	GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are highlighted				
Proposed changes to the schedule attached to the Civil Aviation Charges Regulations (No 2) 1991				
Part 1: Fees for personnel licensing				
Medical				
Medical certificate application.	\$ 313.00	\$ 272.18	\$ 120.75	\$ 105.00
Accredited Medical Conclusion – the assessment of an application for an Accredited Medical Conclusion <i>in excess of two hours</i> .			per hr	per hr
Part 2: Aircraft-related fees and charges				
Foreign owner deregistration.	\$ 440.00	\$ 382.61	No charge	No charge
Part 3: Air service charges				
The monitoring of the holder of an air operator certificate.	per hour	per hour	No charge	No charge
Part 5: Other aviation-related charges				
The monitoring of a firm or person approved or authorised in respect of the construction, design, processing, or supply of aircraft or aircraft components.	per hour	per hour	No charge	No charge
The monitoring of an approved training and checking organisation.	per hour	per hour	No charge	No charge
The monitoring of the holder of a maintenance organisation certificate issued under rules made under the Act.	per hour	per hour	No charge	No charge
Part 6: Air traffic services, navigation installation, and instrument flight procedure service and registration charges				
The monitoring of an air traffic services provider, an air navigation installation provider, or an instrument flight procedure service provider.	per hour	per hour	No charge	No charge
Part 7: Aviation security				
The monitoring of any provider of aviation security services, any aerodrome security programme or procedure or any other security programme or procedure that is required by or under the Act, or any person or organisation required to establish such a programme or procedure.	per hour	per hour	No charge	No charge
Part 8: Meteorological service providers				
The monitoring of the holder of a meteorological certificate issued under rules made under the Act.	per hour	per hour	No charge	No charge

Regulatory Deliverable	Current Fees & Charges		Proposed Fees & Charges	
	GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are highlighted				
Part 9: Miscellaneous				
Any inspections or monitoring carried out under section 15 of the Act for which a specific charge is not otherwise prescribed.	per hour	per hour	No charge	No charge
Any inspections or monitoring of required actions, following routine audit and inspection, for any purpose under the Act or any rules made under the Act, that is carried out by any employee of the Authority and for which a fee or charge is not otherwise prescribed or fixed.	per hour	per hour	per hour	per hour