



# Cabinet

## Minute of Decision

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### COVID-19: Proposal to Address Shortfall in Airfreight Capacity

Portfolio                      Transport

On 23 March 2020, Cabinet:

- 1        **noted** that the ability to move air freight in and out of New Zealand is significantly impacted by the planned reductions in air passenger services as a result of COVID-19;
- 2        **noted** that there is up to \$330 million available to support maintaining airfreight capacity, but that these funds should be allocated to a mix of services that will most cost effectively deliver the government's objectives;
- 3        **agreed** to establish a market-led funding scheme that will provide financial support to airlines and other aviation carriers to ensure capacity is provided on key routes;
- 4        **agreed** that recipients would then offer that capacity to users of the freight, subject to conditions set out in the funding agreement;
- 5        **agreed** that a funding scheme be established that would set out:
  - 5.1      the primary objectives of the scheme: to ensure the supply of critical imports (particularly medical supplies) and maintain the economic benefits of high value exports;
  - 5.2      the secondary objectives of the scheme: to maintain future tourism capacity, international relations, and the competitiveness and sustainability of the aviation sector;
  - 5.3      an indication of the routes where capacity shortfalls have been identified and that are critical to maintain to meet the objectives;
  - 5.4      the indicative time period during which grants would be provided (at least 6 months, but the period will depend on the costs and the availability of funds);
- 6        **agreed** that applications for funding would be required to cover:
  - 6.1      the proposed routes, frequency and capacity the person proposes to be funded;

- 6.2 how it proposes to allocate funded capacity, including:
  - 6.2.1 how it will prioritise critical imports and high value exports;
  - 6.2.2 what arrangements the applicant already has in place to fill the capacity;
  - 6.2.3 how the applicant proposes to sell and the price it will charge for any unfilled capacity;
- 6.3 any other benefits from the proposal (how it supports the main and secondary objectives);
- 6.4 the funding sought (likely to be \$/per tonne carried, but with scope to consider other funding approaches if they were more effective and aligned with the government's objectives);
- 6.5 the counterfactual (the impact of funding not being provided) at the level sought, and any scaling options;
- 7 **noted** that for the next phases of this work, the Ministry of Transport will work closely with the Treasury;
- 8 **noted** that proposals will be assessed against criteria by the Ministry of Transport, supported as required by the Treasury, the Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, the Ministry for Primary Industries, Ministry of Health and Pharmac, and that officials would identify the best combination of applications within the funding available and recommend these to Ministers;
- 9 **agreed** that:
  - 9.1 the first round of applications would be offered as a conditional grant scheme in order to secure the routes and provide confidence for parties to get involved;
  - 9.2 other funding approaches (eg cost-recovery underwrites or loans) may be approved;
- 10 **agreed** that criteria include that there is a high likelihood that, but for the funding, the capacity would not be provided or would only be available at a cost that undermined the objectives;
- 11 **agreed** that following advice from officials, the Minister of Finance and Minister of Transport would decide which applications would be funded under a short form funding agreement prepared in advance;
- 12 **directed** the Ministry of Transport to administer the scheme;
- 13 **agreed** that the maximum cost of the scheme be \$330 million;
- 14 **authorised** the Minister of Transport and the Minister of Finance, acting jointly, to:
  - 14.1 take decisions on and allocate funding to address immediate urgent issues in the airfreight sector;
  - 14.2 reallocate funding between different parts of the aviation sector relief package, within the maximum funding envelope of \$600 million, including any changes to appropriations;

- 15 **agreed** to funding of \$1.5 million for the Ministry of Transport to administer the scheme, which is in addition to the \$600 million for the aviation relief package;
- 16 **agreed** to establish the following new multi-year appropriation, to run from 24 March 2020 to 30 June 2021:

Vote	Appropriation Minister	Title	Type	Scope
Transport	Minister of Transport	Maintaining Airfreight Capacity	Non-departmental Other Expense	This appropriation is limited to expenses incurred in supporting airlines and other aviation carriers to maintain air freight capacity

- 17 **approved** the following change to appropriations to give effect to the scheme, including providing funding for the Ministry of Transport to administer the scheme:

Vote Transport Minister of Transport	\$m – increase/(decrease)		
	2019/20	2020/21	2021/22 & Outyears
Non-departmental Other Expenses: Maintaining Airfreight Capacity	330.000		-
Multi-Category Expenses and Capital Expenditure: Policy Advice and Related Outputs MCA Departmental Output Expenses: Policy Advice (funded from revenue Crown)	1.000	-	-
Departmental Output Expenses: Transport – Policy advice, ministerial servicing, governance, and other functions (funded from revenue Crown)	-	0.500	-

- 18 **noted** that the indicative funding profile for the new multi-year appropriation described in paragraph 17 above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)		
	2019/20	2020/21	2021/22 & Outyears
	200.000	130.000	-

- 19 **agreed** that the changes to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

- 20 **noted** that expenditure associated with the economic response to COVID-19 is currently being managed outside of Budget allowances and that, as such, it will have a direct impact on fiscal indicators such as OBEGAL and net core Crown debt.

Michael Webster  
Secretary of the Cabinetp

*Secretary's note: This minute has been reissued to update the financial table in paragraph 16.*

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**Hard-copy distribution:**

Prime Minister  
Deputy Prime Minister  
Minister of Finance  
Minister of Transport

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Office of the Minister of Transport

Chair, Cabinet

**COVID-19- Proposal to address shortfall in international airfreight capacity**

**Proposal**

- 1 This paper seeks agreement to create a financial support scheme to support airlines to ensure that critical air freight capacity is maintained.

**Executive Summary**

- 2 80% of air-freight is carried in the belly-hold of passenger aircraft, with the remaining 20% being carried by air freight. The 20% of air-freight is moved by four air cargo only operators, and the 80% of belly hold passenger is largely carried by the following airlines: Air New Zealand (50% of belly-hold), Singapore, Qantas, Emirates, and Chinese airlines. 86% of air freight operates from Auckland International Airport, with most of the remainder from Christchurch International Airport. Key international ports for the movement of high value exports and critical imports are Sydney, Singapore, Hong Kong, Los Angeles, Dubai, and China (various).
- 3 Prior to COVID-19 there were approximately 550 international passenger flights into New Zealand per week. Current estimates are for approximately 12 passenger flights per week. Border restrictions have meant the most international airlines will reduce passenger services to limited or no services. Air New Zealand will also run only very limited services to international destinations.
- 4 Air freight currently moves high export goods (like seafood, cut flowers, and time-sensitive agricultural produces) that cannot be moved by sea. Reduced airfreight capacity due to border restrictions is having an immediate impact on these export jobs and businesses.
- 5 Critical imports also move by air freight, in particular, medicines and medical devices. New Zealand is highly dependent on imports of these goods and shortages or unavailability of them could have severe public health consequences. New Zealand also relies on air freight for importation of time sensitive machinery which is important for key industries. It is critical that these imports continue to move to New Zealand, and we are already seeing difficulties with these goods moving to New Zealand.
- 6 Some cargo only airlines may be able to offer a few more services, but they will be in high demand and prices have significantly increased, with limited capacity. These services and the remaining services left by Air New Zealand will not be sufficient to address the significant capacity gap and meet critical export and import needs.
- 7 Passenger planes have some freight capacity, but this is only about half the freight capacity of a dedicated air freighter. Using empty passenger aircraft just to transport freight, therefore, is inefficient for airlines.



- 8 This means Government intervention is required to address the impacts of the border restrictions and to ensure we have at least minimum levels of critical imports and exports.
- 9 I am recommending the set up of an air cargo financial assistance package that will be funded out of the aviation financial assistance package of \$600m already announced by the Government.
- 10 Under the scheme, airlines and other air freight businesses will be invited to submit proposals for funding assistance to deliver freight capacity on key specified routes. Applications would be required to cover: routes; how they will prioritise critical imports and high value exports; what arrangements the applicant already has in place to fill the capacity (i.e. they need to show they have skin in the game) and how the applicant proposes to sell and the price it will charge for any unfilled capacity (to prevent price gouging).
- 11 In developing proposals, applicants would be expected to work collaboratively with importers, exporters, and airports. Proposals will be assessed against key criteria. Movement of critical exports and imports will be the primary criteria, secondary criteria will also be considered relating to: access to tourism markets, international relations and delivering a competitive and sustainable aviation system. Opportunities to re-patriate New Zealanders will be taken into account.
- 12 The Ministry of Transport will work closely with the Treasury throughout the process and assessments of proposals will be made by officials from the key Government agencies including MFaT, MPI, NZTE, MBIE and Transport. I am proposing that recommendations will be made to Ministers of Finance and Transport, who will make final decisions.
- 13 I believe this approach encourages the aviation sector participants to come up with market solutions and supports efficiency and collaboration. It will also mean less administration burden and time that would have been required for officials to broker a number of one off deals. A quick process is required, to ensure potential airlines do not leave the New Zealand market and we loose options. Some airlines and airports have already signalled a willingness to consider this kind of proposal.

### **Background**

*The ability to move air freight in and out of New Zealand is significantly impacted by the planned reductions in air passenger services as a result of COVID-19*

- 14 Air freight is only 0.3% by volume of imports and exports, it represents 13% of the value of all freight – air freight is typically used for our highest value imports and exports. Goods that travel by air freight are a mix of perishable and time sensitive goods. For our key high value exports that currently move by air freight sea freight is not an option.
- 15 More than 80% of air freight is carried in the belly-hold of passenger aircraft with dedicated cargo aircraft moving the remaining 20% of air freight.
- 16 In light of increased border restrictions around the world we expect that by 1 April 2020 no foreign airlines will be operating passenger carrying flights into New Zealand. Air New Zealand are likely to only offer very limited services.

- 17 This will make it difficult for key imports to make it to New Zealand, like medicines or time sensitive machinery parts that are needed to keep things like farming and other production machinery working. It will also have significant impacts on exporters, many who could potentially shut down, and find it difficult to recover positions in international trade markets.
- 18 Maintaining services will be economically unsustainable for these airlines until border restrictions are removed, confidence and certainty returns, and free movement of people globally is possible.
- 19 Some international carriers operating to Auckland Airport will not return post COVID-19, because they will have closed operations and it will be economically unattractive to reopen them.
- 20 A small number of key airlines may be interested in discussions with Government around providing services carrying primarily freight. This would help keep our links to some key markets and allow the airlines to keep some presence in the New Zealand market. It would also improve our ability to reopen tourist markets early in the recovery and would have long term benefits for the competitiveness and sustainability of our aviation system.
- 21 Current dedicated freight operators have indicated that they will maintain current services at this stage for the foreseeable future, but there is a risk that some freighter capacity could be lost to other routes if the operators are offered higher rates.
- 22 9(2)(b)(ii)  
[Redacted text]

**New Zealand imports**

*Medical supplies are the key critical imports*

- 23 One of the key critical imports are pharmaceutical goods – both medicines and medical devices. Medical goods valued at around \$15 billion were imported last year. New Zealand is highly dependent on imports of these goods and shortages or unavailability of them could have severe public health consequences. It is also possible that there will be increased demand for some medical products if COVID-19 becomes widespread in New Zealand.
- 24 Most medicines are produced in India or China. However, both production and distribution chains are long and complex, involving different steps being carried out by different organisations, and sometimes in different countries. Medical supplies will frequently not come directly from the country of manufacture.
- 25 The largest single source of pharmaceuticals are Air New Zealand flights from Australia. Australia is the largest source of pharmaceuticals delivered by air overall, although as noted above much of this is likely to originate elsewhere in the world, with Australia acting as a distribution centre. Qantas and Singapore also fly these goods from Australia. Apart from Australia, pharmaceuticals also come from the US, Singapore and Hong Kong. Some pharmaceuticals come from UAE which are not available from other jurisdictions: these relate to blood toxins, skin, and other cultures.

- 26 The main airlines that move pharmaceuticals are Air New Zealand, Singapore Airlines, Qantas Airlines and Emirates.
- 27 Indications from Pharmac are that pharmaceutical volumes are relatively small compared to total air freight imports. However, the significant reduction in capacity could still see pharmaceutical suppliers unable to freight them to New Zealand. Prioritisation of these goods over other imports is critical.
- 28 If COVID-19 causes disruptions further up the supply chain (eg a factory in India is closed), then that is not a transport logistics problem we can solve. Similarly, if a transport issue arises further up the distribution chain – eg a reduction in freight capacity from India to Sydney – then it would be more difficult for us to address that issue. It might be that this would be addressed by the first destination (in this case Australia), but it might seek to prioritise its own supplies rather than those for other countries.
- 29 Key for us is ensuring we have enough services to key destinations that medical supplies come from, and we are not reliant only Australia.

*Other critical imports include*

- 30 New Zealand also relies on air freight for some time sensitive machinery parts, mainly from the US. In some instances these will be important to ensure that key industries (agriculture and other production) can continue to operate and supply goods and services to New Zealanders, supporting local communities and the domestic economy. For example, Christchurch airport is a key gateway for supply of imported components, and exported products, for Canterbury manufacturers (for example Hamilton Jet and Tait, each of whom employ 300 – 400 workers in Christchurch). Without dedicated airfreight capacity between Christchurch to the rest of the world, it is likely that many South Island firms will be adversely impacted.

**Key exports that move by air freight – mostly high value primary sector**

- 31 The average annual values of primary sector air freight exports over the past five years are:
- seafood: 30% by air (NZ\$580M airfreighted per annum)
  - meat (this is normally high value product like NZ lamb): around 4% by air (NZ\$360-400M)
  - horticulture (includes a significant cut flower market): around 4% by air (NZ\$200M)
  - dairy: less than 1% by air (NZ\$100-150M)
  - other primary sector: 19% by air rising to NZ\$625M in 2019)
  - arable: 6% by air (NZ\$15M).
- 32 We are entering a period of heightened importance for airfreight in some export sectors over the next three months, most notably, live and chilled seafood, meat and the arable sector.
- 33 The impacts of COVID 19 flight disruptions to air freight services for New Zealand's primary sector exports are multifaceted and serve to restrict, strip value, increase risk or even prevent trade in certain products. There are some products where trade is



only viable by airfreight (day-old chicks, live bees, fresh milk, cut flowers) or where the premium value is only available by airfreight (chilled seafood, cherries, urgent orders). Airfreight costs have risen 5-7 times in the past month due to limitations in capacity and routing to key markets. The back log of freight at key hubs and longer transit times have made air freight of perishable goods more difficult. There is also a risk that air charter and air freight capacity will be further syphoned off routes between Asia and New Zealand to more lucrative routes between Europe and the US. The fragmented and highly competitive nature of the freight forwarding industry in New Zealand is also making coordination of loading on what space that is available more challenging. We are also aware that any collapse in demand for some food products may ripple through into export volumes, for example lobster into China.

*There are a lot of small to medium businesses exporting a wide range of products to diverse markets which will be adversely impacted by the reduction in air freight capacity.*

34 New Zealand exporters rely on key airfreight hubs such as Sydney, Singapore, Los Angeles, Shanghai and Dubai to ship a wide variety of goods to destinations around the world. Users of airfreight range from small firms with 2-3 employees exporting a few cartons a month, through to our largest seafood and manufacturing firms employing 100s of workers in manufacturing and processing, with weekly shipments heading both into and out of New Zealand.

35 Many of these businesses are 100% reliant on airfreight for their business model, both for import of parts/components and for timely export of fresh/live produce, finished goods and parts for maintenance. Reduced airfreight capacity will have an immediate impact on jobs, as stocks of imported components deplete, and overseas orders cannot be filled. These impacts could range from downsizing of factory workforce, through to full closure of businesses. With limited cash on hand for many of these businesses, NZ Trade and Enterprise have advised that the impact to jobs could occur within days.

36 9(2)(b)(ii) [Redacted]

**Freight capacity will be significantly reduced by the Border Restrictions**

*Auckland*

37 Auckland airport is the largest and busiest airport in New Zealand, with over 21 million passengers in the year ended March 2019. Auckland airport's share of the New Zealand's international air freight trade in 2019 was 86%: 176,382 tonnes.

38 With 83% of Auckland's capacity on passenger flights (17% are on freighters), freight capacity is, and will continue to see drastic reductions following travel restrictions. The Auckland airport precinct is home to approximately 800 business and over 20,000 workers. Most of this business activity is connected to air services and will be materially impacted by the current restrictions.

*Christchurch*

- 39 Christchurch airport covers the majority of the South Island exports. These are primarily agricultural products or processed food, often time sensitive perishable products such as flowers, stone fruit, meat and seafood. The main ports freight goes to are Sydney (around 50%), Singapore (around 35%), Dubai (around 15%) and are carried by Qantas, Singapore and Emirates respectively.
- 40 Maintaining connectivity of freight and passenger flow to the east coast of Australia is seen as the most critical focus for Christchurch both for servicing current needs as well as ensuring recovery post COVID-19.

*Overview of capacity reductions to key destinations*

- 41 The following table sets out information about our key routes, their imports and exports and the impact of the current restrictions.

Key routes	Significance (2019 data)	Air freight capacity <sup>1</sup> (weekly)
Auckland – Sydney	<p><i>Exports</i> Monthly: \$125m, 1,191 tonnes Key products: Seafood, blueberries, clothing, horticultural products, horses. <i>Sydney is a key trans-shipment port for exports to wider markets.</i></p> <p><i>Imports</i> Monthly value: \$151m, 1,100 tonnes Key products: Books, clothing, food preparations. <i>Sydney is also a key hub for delivery of medical supplies to New Zealand.</i></p>	<p><i>Auckland</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>• 118 passenger flights</li> <li>• 15 freight flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>• Potentially 1 - 3 passenger flights (AirNZ)</li> <li>• 15 freight flights</li> </ul> <p><b>Reduction in Auckland – Sydney weekly capacity - minimum 115 passenger flights</b></p> <p><i>Christchurch</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>• 47 passenger flights</li> <li>• 5 freight flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>• 5 freight flights</li> </ul> <p><b>Reduction in Christchurch – Sydney weekly capacity- 47 passenger flights</b></p> <p><i>Wellington</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>• 44 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Wellington – Sydney weekly capacity- 44 passenger flights</b></p> </p></p></p>
Auckland – Singapore (74%)	<p><i>Exports</i> Monthly value: \$106m, 500 tonnes Key products:</p>	<p><i>Auckland</i> pre-COVID-19:</p>

<sup>1</sup> This assumes that all passenger flights will cease by 1 April 2020, with the exception of some Air New Zealand flight – although there is some uncertainty around route and frequency. It also assumes that the existing dedicated freight services will continue to operate.

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<p>Christchurch – Singapore (24%)</p> <p>Wellington – Singapore (2%)</p>	<p>Lamb, lobster, fresh milk &amp; cream, milk powder, jet engines</p> <p><i>Imports</i> Monthly value \$120m, 500 tonnes</p> <p>Key products: Machinery and vehicle parts, jet engines <i>Singapore is also a key hub for delivery of medical supplies to New Zealand</i></p>	<ul style="list-style-type: none"> <li>• 19 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• Potentially 1 - 3 passenger flights (AirNZ)</li> </ul> <p><b>Reduction in Auckland – Singapore weekly capacity - <i>minimum</i> 16 passenger flights</b></p> <p><i>Christchurch</i></p> <p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 5 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Christchurch – Singapore weekly capacity - 5 passenger flights</b></p> <p><i>Wellington</i></p> <p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 4 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Wellington – Singapore weekly capacity - 4 passenger flights</b></p>
<p>Auckland – Hong Kong</p>	<p><i>Exports</i> Monthly value: \$33m, 287 tonnes</p> <p>Key products: Infant formula, food preparations, lamb, eggs</p> <p><i>Imports</i> Monthly value \$41m, 208 tonnes</p> <p>Key products: Clothing, electronics, vehicle parts</p>	<p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 14 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• possibly 3 passenger flights – but could go to mainland China instead (AirNZ)</li> </ul> <p><b>Reduction in Auckland – Hong Kong weekly capacity – <i>minimum</i> 11 passenger flights</b></p>
<p>Auckland – Perth</p>	<p><i>Exports</i> Monthly value: \$31m, 91 tonnes</p> <p>Key products: Blueberries, clothing, horses, iron &amp; steel</p> <p><i>Imports</i> Monthly value \$2.7m, 38 tonnes</p> <p>Key products: Tools, plastics, food preparations, machinery and vehicle parts</p>	<p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 18 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Auckland – Perth weekly capacity - 9 passenger flights</b></p>
<p>Auckland – Los Angeles</p>	<p><i>Exports</i> Monthly value: \$30m, 356 tonnes</p> <p>Key products: Fish, seafood, lamb</p>	<p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 11 passenger flights</li> </ul> <p>post-COVID-19:</p>

**IN CONFIDENCE**

	<p><i>Imports</i> Monthly value \$52m, 122 tonnes Key products: Vehicle &amp; machinery parts</p>	<ul style="list-style-type: none"> <li>potentially 3 passenger flights (AirNZ)</li> </ul> <p><b>Reduction in Auckland – Los Angeles weekly capacity – 8 passenger flights</b></p>
<p>Auckland – Melbourne</p> <p>Christchurch – Melbourne</p> <p>Wellington – Melbourne</p>	<p><i>Exports</i> Monthly value: \$28m, 500 tonnes Key products: Fresh fish, blueberries, clothing, tomatoes</p> <p><i>Imports</i> Monthly value \$51m, 851 tonnes Key products: Sugar, clothing, books, vehicle parts</p>	<p><i>Auckland</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>89 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>0 passenger flights</li> </ul> <p><b>Reduction in Auckland – Melbourne weekly capacity - 89 passenger flights</b></p> <p><i>Christchurch</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>37 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>0 passenger flights (AirNZ)</li> </ul> <p><b>Reduction in Christchurch – Melbourne weekly capacity – 37 passenger flights</b></p> <p><i>Wellington</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>23 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>0 passenger flights</li> </ul> <p><b>Reduction in Wellington – Melbourne weekly capacity - 23 passenger flights</b></p> </p></p></p>
<p>Auckland – Brisbane</p> <p>Christchurch – Brisbane</p> <p>Wellington – Brisbane</p>	<p><i>Exports</i> Monthly value: \$14m, 330 tonnes Key products: Tomatoes, blueberries, plastics</p> <p><i>Imports</i> Monthly value \$18m, 281 tonnes Key products: Melons</p>	<p><i>Auckland</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>68 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>0 passenger flights</li> </ul> <p><b>Reduction in Auckland – Brisbane weekly capacity - 68 passenger flights</b></p> <p><i>Christchurch</i> pre-COVID-19:  <ul style="list-style-type: none"> <li>27 passenger flights</li> </ul>                     post-COVID-19:  <ul style="list-style-type: none"> <li>0 passenger flights</li> </ul> <p><b>Reduction in Christchurch – Brisbane weekly capacity – 27 passenger flights</b></p> </p></p>

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		<p><i>Wellington</i> pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 19 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Wellington – Brisbane weekly capacity – 19 passenger flights</b></p>
Auckland – Shanghai	<p><i>Exports</i> Monthly value: \$14m, 320 tonnes Key products: Lobster, fresh milk &amp; cream, milk powder</p> <p><i>Imports</i> Monthly value \$20m, 213 tonnes Key products: Clothing, plastics</p>	<p>pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 14 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• potentially 3 passenger flights to Shanghai, Hong Kong or another mainland China destination (AirNZ)</li> </ul> <p><b>Reduction in Auckland – Shanghai weekly capacity - <i>minimum</i> 14 passenger flights</b></p>
Auckland – Dubai (73%)  Christchurch – Dubai (17%)	<p><i>Exports</i> Monthly value: \$13m, 375 tonnes Key products: Sugar, lamb, yoghurt</p> <p><i>Imports</i> Monthly value \$26m, 193 tonnes Key products: Pharmaceuticals, machinery parts, iron &amp; steel</p>	<p><i>Auckland</i> pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 14 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Auckland – Dubai weekly capacity</b></p> <ul style="list-style-type: none"> <li>• 14 passenger flights</li> </ul> <p><i>Christchurch</i> pre-COVID-19:</p> <ul style="list-style-type: none"> <li>• 7 passenger flights</li> </ul> <p>post-COVID-19:</p> <ul style="list-style-type: none"> <li>• 0 passenger flights</li> </ul> <p><b>Reduction in Christchurch – Dubai weekly capacity - 7 passenger flights</b></p>
<p>Other destinations of between \$5m and \$1m export value per month are (in order) San Francisco, Honolulu, Tokyo, Chicago, Guangzhou, Beijing, Houston, Shenzhen, Chengdu and Adelaide. Fish, seafood, and agricultural products are the primary exports. Changes leave these routes with little or no freight capacity.</p>		

**Potential solutions are emerging, but won't fix the capacity gap**

*A number of New Zealand based dedicated freight carriers have indicated that there may be opportunities to provide additional support*



42 9(2)(b)(ii) [Redacted]  
[Redacted]  
[Redacted]

43 [Redacted]  
[Redacted]  
[Redacted]

44 [Redacted]  
[Redacted]  
[Redacted]  
[Redacted]

45 9(2)(b)(ii) [Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]

46 9(2)(b)(ii) [Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]

*Preserving Christchurch airport's freight capacity*

47 Christchurch Airport has been in early discussions with its key airlines about a strategy to address the loss of its freight capacity as a result of the cancellation of passenger flights. It has developed the following approach (not yet agreed with airlines):

- 9(2)(b)(ii) [Redacted]  
[Redacted]  
[Redacted]
- [Redacted]
- [Redacted]  
[Redacted]

48 Christchurch Airport's view is that this ought to be able to be achieved with government support of between 9(2)(b)(ii) [Redacted]. However, it has stressed the importance of proceeding quickly with making the financial support available, so that the capacity can be secured.

*Support from Government will be needed*

49 The freight capacity and support offered above will not be sufficient to meet our import or export needs. Nor will the remaining services left on the Air New Zealand network.

50 Where options are being explored, like the Christchurch example, they require support from Government.

- 51 We understand international air cargo movers are in high demand and prices have significantly increased, with limited capacity.
- 52 We also know that while passenger planes have some freight capacity, they have only about half the freight capacity of a dedicated air freighter. Using empty passenger aircraft just to transport freight is inefficient and likely to be relatively expensive.
- 53 Early signals from airlines are that the gap between the cost to operate a passenger flight and the revenue from the carriage of hold goods only (based on the market price of tonnage and the cost to fly an aircraft) for Asia and Dubai would likely be \$250,000 - \$350,000. This would be less for Australia and more for the US.
- 54 This means Government intervention is required to address the impacts of the border restrictions and to ensure we have at least minimum levels of critical imports and exports.

**Objectives for why we might want to support air freight**

- 55 I have identified the following objectives in considering a response to this issue:

Primary objectives

*Ensuring imports which are important for health (medicines and medical devices), business operations (machinery) and other critical tasks are still brought to New Zealand.*

- 56 The social impact of a shortage or unavailability of medicines and medical devices would be extremely serious. An inability to keep some machinery and equipment operational would further increase the economic impacts of COVID-19.

*Maintaining key export markets*

- 57 Ensuring our high value exports that travel by air freight still make it to their markets (even at reduced capacity, including because of a drop off in overseas demand).

- 58 New Zealand is a highly export-dependent economy, and those exports which are air-freighted are our highest value. There are a number of consequences of those goods not being able to be exported:

- immediate economic impact – loss of export revenue, loss of employment, increased risk of business failure
- long-term economic impact – losing presence in a market may see buyers finding alternative sources of supply and hard-won market presence lost. This would lengthen the adverse economic impact of COVID-19.

Secondary objectives

*Maintaining links to Tourism Markets to enable fast recovery of New Zealand's biggest export*

- 59 In 2019 tourism generated a direct contribution to gross domestic product (GDP) of \$16.2 billion, or 5.8 percent of GDP. Tourism is our biggest export industry, contributing 21% of foreign exchange earnings.

- 60 Keeping some of our key domestic and international carriers operating in New Zealand and delivering to key tourism ports will ensure we can be well positioned for the recovery. Key tourism markets are Australia, Dubai, Singapore, China and Hong Kong, and the US.

*Long-term competitiveness and sustainability of aviation*

- 61 New Zealand is an island nation at the bottom of the world. Aviation is critical for building connections whether for trade (discussed above), supporting travel for business development and education, or connecting people with the world and the world to New Zealand. Travel needs to be affordable and we need to make sure that our aviation sector is still sustainable and competitive when borders open.

- 62 9(2)(b)(ii)
- [Redacted text]

- 63 The aviation sector also provides a number of jobs. Ensuring air freight still moves will support retention of some jobs in the sector.

*Maintain key International relations*

- 64 Trade and tourism stems from New Zealand's political relationships with the wider world. Some relationships are also critical for geo-political reasons. These are supported in a practical sense by aviation connections. The most critical ports from geo-political perspective are Australia, US, China, Singapore, Japan and Dubai.

**I am recommending a market-led approach to provide financial support to airlines and other aviation carriers to ensure capacity is provided on key routes**

- 65 The previous section identifies that there are potential options for maintaining airfreight capacity. There is \$330 million (minus the short term package agreed by Cabinet) left in the aviation package that could support air freight to deliver on the objectives above and to address the capacity gap in the market. There may be more than the \$330 million, given the short term package was based on reduced capacity on the network of 85% for a number of months and it looks like it will be much lower. These funds should be allocated to a mix of services that will most cost effectively deliver the objectives.

- 66 The key things which need to be determined in defining a support package in this sector are:

- 66.1 what routes should be supported
- 66.2 which carriers should be funded to provide those routes
- 66.3 how should carriers prioritise freight space on funded routes (for both imports and exports)
- 66.4 what should the government's funding contribution be, and on what basis.

- 67 While we have information about pre-COVID-19 import and exports and routes, detailed analysis of all of the above factors and then developing it into a fully worked plan would be a difficult and time-consuming task – and would likely get it wrong given the complexities and changing nature of the impacts of COVID-19 on export

and import markets. We might not come up with the most innovative and cost effective approach. Even if we could determine a route and airline we want it would be inefficient for the Government to negotiate with exporters and importers to match them with airlines.

68 Most importantly, we need to move quickly as passenger airlines are reducing their flights on a daily basis. If we do not put something in place quickly we may lose some potential providers of services, and exporters and importers are already seeing challenges on moving items between and to NZ.

69 I recommend that a market-led support scheme be established, including a grant funding scheme as an immediate response measure to preserve market capacity in the near (and possibly medium) term. Under the proposed scheme, the government would set out:

69.1 the primary objectives of the scheme: to ensure the supply of critical imports (particularly medical supplies) and maintain the economic benefits of high value exports,

69.2 the secondary objectives of the scheme: to maintain future tourism capacity, international relations, and the competitiveness and sustainability of our aviation sector.

69.3 an indication of the routes where actual or anticipated capacity shortfalls have been identified and which are critical to maintain to meet the objectives. We believe these are Singapore, Hong Kong, Dubai, Los Angeles, Sydney (and other Australian ports), Shanghai. We are also considering Bangkok.

69.4 the indicative time period during which financial support (including by way of grants) would be provided (at least 6 months, but the period will depend on the costs and the availability of funds and whether alternative approaches to funding or support are identified and developed as substitutes).

70 Suitable providers (including airlines and air freight providers) would be eligible to apply for financial support. In effect, the financial support would provide funding to ensure capacity is provided on the route for an agreed period. Recipients would then sell that capacity to users of the freight, subject to conditions (discussed below).

71 There would be a first round of applications invited by a deadline (likely to be, say, 10 working days after the announcement), which may be augmented by direct contact invitations. If support arrangements left unallocated funding in that round, or more funding for support became available, further applications could be invited on a first come first served or through subsequent rounds. This may also provide insights as to whether further support is required.

72 Applications would be required to cover (at least):

72.1 the proposed routes, frequency and capacity the person proposes to seek support for:

72.2 how it proposes to allocate the capacity for which it receives support, including:

72.2.1 how it will prioritise critical imports and high value exports (including by share of weight/volume capacity made available)

72.2.2 what arrangements the applicant already has in place to fill the capacity (i.e. they need to show they have skin in the game)

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- 72.2.3 the commercial terms (including pricing) the applicant will use when selling the capacity it has agreed to make available
- 72.3 demonstrating how their proposal will meet the primary and secondary objectives, whether it is scalable (up or down) and identifying any ancillary benefits for the applicant arising from their proposal
- 72.4 their preferred form of support and the manner in which it would be provided and documented (likely to be a financial grant or other funding per tonne carried, but we would be open to other approaches if they would be more effective and they aligned with our objectives)
- 72.5 the counterfactual position for them - the options/choices the applicant would face if support of the kind proposed in their proposal is not provided at the level sought.
- 73 The first round of applications is anticipated to be offered as a conditional grant scheme in order to secure the routes and provide confidence for parties to get involved. We would, however, have flexibility to accept other approaches and to adjust the scheme as the situation evolves. Alternatives to conditional grants might include cost-recovery underwrites or loans or take or pay commitments.
- 74 In developing proposals, applicants would be encouraged to work collaboratively with importers, exporters, and airports - and may work with each other on joint proposals. We anticipate most applicants will be passenger airlines and specialist air freight carriers, but others may be in a position to put together a proposal or be a member of a consortium that includes an airline or cargo carrier.
- 75 For the next phases of this work the Ministry of Transport will work closely with the Treasury. Proposals would be assessed against criteria to be developed by the Ministry of Transport, supported by air freight import/export expertise and, as required, by the Treasury, the Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, the Ministry of Primary Industries, Ministry of Health and Pharmac. These criteria will recognise that there is a high likelihood that, but for the support, the capacity would not be provided or would only be available at a cost, volume or frequency that undermined the objectives.
- 76 For the first round (and any subsequent rounds), officials would identify the best combination of applications within the funding available for approved support proposals. These would then be recommended to joint Ministers (we propose the Minister of Transport and Minister of Finance). Any immediate grant funding option would be allocated and made available under a short form funding agreement prepared in advance.
- 77 If approved, officials will urgently develop the proposal further, including supporting documentation, administrative and monitoring arrangements and issue out a request for proposals.
- 78 We believe this approach encourages the aviation sector participants to come up with market solutions and encourages efficiency and collaboration. It will also mean less administration burden and time that would have been required for officials to broker a number of one off deals.



- 79 The sector is very concerned about air freight capacity, a number of people have already been thinking about how to solve the issues. We believe they will be focussed on providing a response quickly.

**Implementation**

- 80 The scheme will be designed and managed in accordance with Office of Auditor-General requirements for such schemes and mandatory procurement rules so far as practicable in the circumstances.

Milestone/Activity	Timeframe
Announce initiative and release request for proposals	Week beginning 24 March
Deadline for Proposals	7 days (maximum)
Preliminary recommendations to Ministers	3 days (maximum)
Decisions notified	2 days (maximum)

**Broader Aviation Sector Issues**

- 81 Aviation produces \$17b tourism, \$25b imports and exports through air freight, and one in eight New Zealand jobs are linked to aviation.
- 82 The Government has announced some measures around: deferring all funding review for 12 months and providing relief from fee adjustments and providing relief from border, aviation, and Airways fees and charges for 6 months. This provided a quick response to the impacts on the sector, but the real value in these measures will be encouraging people back to the sector when COVID-19 recovery starts.
- 83 The measures, however, provide little short term relief to the sector, given from late March all airlines operating internationally are saying there will be little to zero international passengers travelling, and as a result international airlines are suspending all passenger services for the next couple of months. It is likely extensions of suspensions will follow.
- 84 Domestic aviation services have reduced to 70% and further reductions are likely as the COVID-19 response evolves.
- 85 We are seeing very real immediate liquidity issues on airlines, airports (large and small), and other aviation companies. Many of these entities have large numbers of employees and the wage subsidy does not support them with staff. Over the week many of these companies will make significant redundancies, and some will close down temporarily or permanently.
- 86 It is unrealistic for the Government to provide support that addresses the financial pressures for all of the aviation sector. If the border closes for a significant period, hard choices will need to be made over which airports and airlines to help or not, and what essential skills and services we need to keep in the sector for recovery.
- 87 The financial assistance package in relation to air freight will provide some revenue to airlines, Christchurch and Auckland Airports, and may allow a few critical aviation

staff to retain roles. However, it is unlikely to deal with this issue, and these airports may need other support in the future.

- 88 It is important that any future consideration of how to support large firms as part economic response package, happens quickly (in days not weeks) for this sector given it is one of the first to be hit. It is also important it is focussed on the key big firms we need to support to ensure recovery of the sector in the future.
- 89 The Treasury will provide advice to the Minister of Finance on Friday 20 March on options to support lending by banks to businesses. This advice will cover the design parameters of any lending facility and decisions from the Minister will inform a potential engagement with banks on this. The advice will also provide advice on any government response to firms facing distress more generally.

### **International**

- 90 With the imposition of tough new border restrictions and quarantine measures around the world, and the Ministry of Foreign Affairs and Trade's (MFAT) advice on SafeTravel urging New Zealanders travelling overseas to come home, we expect an unprecedented number of New Zealanders will now try to return to New Zealand but find it increasingly difficult to do so. MFAT's Consular Division are analysing specific clusters of New Zealanders abroad who may find themselves effectively stranded as flight options close. Further advice from MFAT on which routes are most relevant in this regard will follow.
- 91 Officials will continue to work closely with providers to support opportunities for the repatriation of New Zealand citizens where possible as part of this package.

### **Financial Implications**

- 92 As part of the Government's economic response package, we announced \$600 million in funding for aviation sector relief. The Minister of Transport announced details regarding the first tranche of funding on Thursday 19 March worth up to \$270 million, and this proposal relates to the remaining \$330 million. I note that given the quickly evolving situation around COVID-19, these figures are indicative and there may be a need to reallocate funding between different parts of the aviation sector relief package.
- 93 The Ministry of Transport will require funding to administer the scheme. This funding is in addition to the \$600m for the aviation relief package.
- 94 Expenditure associated with the economic response to COVID-19 is currently being managed outside of Budget allowances. As such, it will have a direct impact on fiscal indicators such as OBEGAL and net core Crown debt.

### **Legislative Implications**

- 95 There are no legislative implications.

### **Impact Analysis**

- 96 In the time available a regulatory impact statement has not been prepared.

### **Human Rights**

97 There are no human rights implications.

### Consultation

98 The following agencies were consulted on this paper: The Treasury, Ministry of Foreign Affairs and Trade, Ministry for Primary Industries, Ministry for Business, Innovation and Employment (Tourism and Immigration) and New Zealand Trade and Enterprise.

### Communications

99 Ministers will announce decisions as soon as possible. The Ministry of Transport will distribute the Request for Proposals for funding to the aviation sector participants.

### Proactive Release

100 Not proposed.

### Recommendations

101 I recommend that the Committee:

- 1 **note** that the ability to move air freight in and out of New Zealand is significantly impacted by the planned reductions in air passenger services as a result of COVID-19
- 2 **note** there is up to \$330 million available to support maintaining airfreight capacity, but these funds should be allocated to a mix of services that will most cost effectively deliver the Government's objectives.
- 3 **agree** to establish a market-led funding scheme that will provide financial support to airlines and other aviation carriers to ensure capacity is provided on key routes
- 4 **agree** that recipients would then offer that capacity to users of the freight, subject to conditions set out in the funding agreement.
- 5 **agree** that a funding scheme be established that would set out:
  - 5.1 the primary objectives of the scheme: to ensure the supply of critical imports (particularly medical supplies) and maintain the economic benefits of high value exports,
  - 5.2 the secondary objectives of the scheme: to maintain future tourism capacity, international relations, and the competitiveness and sustainability of our aviation sector
  - 5.3 an indication of the routes where capacity shortfalls have been identified and which are critical to maintain to meet the objectives
  - 5.4 the indicative time period during which grants would be provided (at least 6 months, but the period will depend on the costs and the availability of funds).
- 6 **agree** that applications for funding would be required to cover:

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- 6.1 the proposed routes, frequency and capacity the person proposes to be funded
- 6.2 how it proposes to allocate funded capacity, including:
  - 6.2.1 how it will prioritise critical imports and high value exports
  - 6.2.2 what arrangements the applicant already has in place to fill the capacity,
  - 6.2.3 how the applicant proposes to sell and the price it will charge for any unfilled capacity.
- 6.3 any other benefits from the proposal (how it supports the main and secondary objectives)
- 6.4 the funding sought (likely to be \$/per tonne carried, but with scope to consider other funding approaches if they were more effective and aligned with the government's objectives)
- 6.5 the counterfactual (the impact of funding not being provided) at the level sought, and any scaling options.
- 7 **note** the for the next phases of this work the Ministry of Transport will work closely with the Treasury
- 8 **note** that proposals be assessed against criteria by the Ministry of Transport, supported as required by the Treasury, the Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, the Ministry of Primary Industries, Ministry of Health and Pharmac, and that officials would identify the best combination of applications within the funding available and recommend these to Ministers
- 9 **agree** that:
  - 9.1 the first round of applications would be offered as a conditional grant scheme in order to secure the routes and provide confidence for parties to get involved
  - 9.2 other funding approaches (eg cost-recovery underwrites or loans) may be approved
- 10 **agree** that criteria include that there is a high likelihood that, but for the funding, the capacity would not be provided or would only be available at a cost that undermined the objectives
- 11 **agree** that following advice from officials the Minister of Finance and Minister of Transport would decide which applications would be funded under a short form funding agreement prepared in advance
- 12 **direct** the Ministry of Transport to administer the scheme.
- 13 **agree** that the maximum cost of the scheme is \$330 million

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- 14 **authorise** the Minister of Transport and Minister of Finance, acting jointly, to reallocate funding between different parts of the aviation sector relief package, within the maximum funding envelope of \$600 million, including any changes to appropriations
- 15 **agree** to funding of \$1.5 million for the Ministry of Transport to administer the scheme which is in addition to the \$600m for the aviation relief package
- 16 **agree** to establish the following new multi-year appropriation, to run from 1 April 2019 to 30 June 2021 for the scheme:

<b>Vote</b>	<b>Appropriation Minister</b>	<b>Title</b>	<b>Type</b>	<b>Scope</b>
Transport	Minister of Transport	Maintaining Airfreight Capacity	Non-departmental Other Expense	This appropriation is limited to a funding scheme to airlines and other aviation carriers to maintain air freight capacity.

- 17 **approve** the following change to appropriations to give effect to the scheme, including providing funding for the Ministry of Transport to administer the scheme:

<b>Vote Transport</b>	<b>\$m – increase/(decrease)</b>		
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 &amp; Outyears</b>
<b>Minister of Transport</b>			
Non-departmental Other Expenses:			
Maintaining Airfreight Capacity	330.000		-
Multi-Category Expenses and Capital Expenditure:			
Policy Advice and Related Outputs MCA			
Departmental Output Expenses:			
Policy Advice (funded from revenue Crown)	1.000	-	-
Departmental Output Expenses:			
Transport – Policy advice, ministerial servicing, governance, and other functions (funded from revenue Crown)	-	0.500	-



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- 18 **note** the indicative funding profile for the new multi year appropriation described in the recommendation above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)		
	2019/20	2020/21	2021/22 & Outyears
	200.000	130.000	-

- 19 **agree** that the proposed changes to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
- 20 **note** expenditure associated with the economic response to COVID-19 is currently being managed outside of Budget allowances. As such, it will have a direct impact on fiscal indicators such as OBEGAL and net core Crown debt.

Authorised for lodgement

Hon Phil Twyford  
Minister of Transport