

COVID-19 Response – Essential Transport Connectivity

Reason for this briefing	The Minister of Transport requested that officials develop a framework for assessing requests from transport operators and advise if any bespoke measures would be appropriate.
Action required	Forward the briefing to the Minister for discussion. Consider the proposed framework for assessing requests from transport sector operators for financial support and the proposals for addressing the gaps we have identified, including: <ul style="list-style-type: none"> • a budget bid for support for essential transport connectivity (non-aviation) • seeking urgent Cabinet approval to reallocate funding from the Government's aviation relief package for essential aviation connectivity.
Deadline	27 April
Reason for deadline	Budget bids are due to be submitted at 10am on 28 April.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Kirstie Hewlett	Deputy Chief Executive, System and Regulatory Design, Ministry of Transport	9(2)(a)	✓
Tom Forster	Manager Economic Regulation, Ministry of Transport	9(2)(a)	
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MINISTER'S COMMENTS:

Date:	25 April 2020	Briefing number:	OC200312
Attention:	Hon Phil Twyford	Security level:	In Confidence

Minister of Transport's office actions

- | | | |
|--|--|---|
| <input type="checkbox"/> <i>Noted</i> | <input type="checkbox"/> <i>Seen</i> | <input type="checkbox"/> <i>Approved</i> |
| <input type="checkbox"/> <i>Needs change</i> | <input type="checkbox"/> <i>Referred to</i> | |
| <input type="checkbox"/> <i>Withdrawn</i> | <input type="checkbox"/> <i>Not seen by Minister</i> | <input type="checkbox"/> <i>Overtaken by events</i> |

Purpose of report

1. This report proposes a framework for assessing requests from transport sector operators for financial support; identifies gaps for which additional assistance would be appropriate; and proposes a process for seeking funding to address those gaps.

Executive Summary

2. Transport is a key enabler of social and economic wellbeing. Maintaining essential connectivity for both the COVID-19 response and recovery period. Following requests from transport sector operators, we have developed the attached framework for assessing where additional financial support might be appropriate beyond the Government's current economic support package. The framework has three steps:
 - 2.1. **Principles:** Operators (non-aviation and aviation) have to meet the principles to be considered "essential transport connectivity" for social and/or economic reasons.
 - 2.2. **Financial criteria:** The criteria are designed to ensure all other available and reasonable levers have been exhausted, including:
 - accessing the general support measures available under the Government's COVID-19 support package;
 - taking available and reasonable operational and commercial measures;
 - taking available and reasonable non-government funding; and
 - "right-sizing" the business for the relevant alert level and the likely "new normal".
 - 2.3. **Consideration of potential interventions:** We propose that, if the Ministry and Treasury assess a proposal meets both the principles and the criteria, it could be considered for government intervention.
3. We assess that bespoke support is justified in some cases, including i) where an essential transport service is operating below cost because of movement and social-distance restrictions; and ii) where a transport service will be essential to the recovery and is viable longer term, but requires support to ride out the economic impact of COVID-19 until "normal" operations resume.
4. We currently do not have the ability to provide funding to these operators. We are seeking your agreement to:
 - support a COVID-19 budget bid to enable financial support to non-aviation transport participants of \$20.3 million, comprising \$5 million for grant funding, \$15 million for commercial relief (loans), and \$300,000 to contact commercial expertise to support assessment and engagement on commercial issue.
 - seek Cabinet approval to enable joint Ministers to agree new policy initiatives under the underspend of the \$600m aviation relief package, to enable financial support to aviation sector participants (loans and grants)
5. We are separately providing you briefings on the urgent requests from 9(2)(b)(ii) [REDACTED].

Essential Transport Connectivity

6. Transport is a key enabling sector and it plays an important role in New Zealand's social and economic wellbeing. It is important that essential transport services keep operating through the COVID-19 response to ensure people can access the services they need to undertake important work and to make essential trips. It is also critical that these services are available for the recovery period.
7. Many transport providers have been significantly impacted by COVID-19 because of restrictions on people movement by air, sea and land, and/or physical distancing requirements that make services uneconomic. In some cases, the Government's broader economic package is sufficient to address some of the issues these operators are facing.
8. Several transport operators have approached the Ministry seeking government support for delivering transport services. In considering these requests, it is important that there is a clear policy framework and criteria for assessment that provides a justification as to why a transport operator and service may warrant support over and above the current Government economic support package, particularly given the number of firms facing financial challenges in New Zealand.
9. For this reason, the Ministry, with the support of Treasury, has developed a draft framework to manage these requests [**Attachment 1**]. We are seeking your agreement to the framework to support robust and efficient decision-making.
10. As part of this work, the Ministry has considered the approach to financial support for aviation beyond the immediate short-term relief and freight packages already announced, given the significant disruption to the sector.

Our focus is on maintaining essential transport connectivity, not saving individual businesses

11. The focus of this work is on maintaining "essential transport connectivity", rather than supporting individual businesses to survive. We want to avoid creating anomalies between transport sector companies and other companies across New Zealand – including tourist operators – that are experiencing financial and liquidity issues as a result of COVID-19. The Government has been clear that it will not be able to save every business.
12. We want to ensure:
 - essential transport services can continue to move workers and freight and allow people to take essential trips, despite physical distancing requirements and restrictions on movement under the Alert Levels.
 - the transport system is well-positioned to support a swift and effective social and economic recovery and life in the "new normal". This includes considering longer-term resilience and competition issues.
13. The framework has three steps:
 - 13.1. **Principles:** Operators have to meet the principles to be considered "essential transport connectivity" for social and/or economic reasons. As detailed below, the principles are differentiated for aviation and other services, but based on the same underlying rationale.
 - 13.2. **Financial criteria:** The criteria are designed to ensure all other available and reasonable levers have been exhausted.

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- 13.3. **Consideration of potential Interventions:** We propose that, if the Ministry and Treasury assess a proposal meets both the principles and the criteria, it could be considered for additional government intervention.
14. The assumptions underpinning this framework are:
- 14.1. We expect support to transport operators will be by exception, given the general measures available or under development as part of the Government's COVID-19 economic response package.
- 14.2. We recognise that transport networks, particularly those primarily serving tourist markets, may need to be leaner in the short to medium term.
- 14.3. Crown support should always be viewed as a last resort rather than a first port of call.
- 14.4. We should not be supporting a business to survive that was already facing financial issues prior to COVID-19.
- 14.5. Notwithstanding the above, it important that the Government is in a position to respond urgently in cases where there would be significant negative outcomes if a service was not available, either now, in the recovery phase, or as part of the "new normal".

Step One: The Ministry, in consultation with Treasury, assesses the request against the Principles for "Essential Transport Connectivity"

Essential Transport Services – non-Aviation

15. The requests we have received, and are likely to receive, can be grouped into two broad categories:
- 15.1. Transport operators seeking support to maintain essential services during the lockdown period and subsequent periods of restricted activity.
- 15.2. Transport operators seeking support now (e.g. loans) to enable them to ride out the economic impact of COVID-19 until "normal" operations resume.
16. As set out in Attachment 1, the Principles for determining if a service represents "essential transport connectivity" are framed around the service's role in enabling:
- economic activity during the response and recovery period, including moving critical goods and people;
 - inclusive access to social and economic opportunities such as work, education and healthcare; and
 - resilience and security, e.g. to manage risks from natural and human-made hazards.
17. The principles also include a test of whether a service could be readily substituted, or if the market could be expected to respond to fill the gap.
18. The proposed principles and criteria set a high bar for eligibility. Based on the requests received to date, we do not expect many businesses would fall into this category. However, we consider it important to be able to respond quickly, where a service is essential to the transport network and its failure would have significant negative outcomes.

19. Requests we are currently considering include:

19.1. 9(2)(b)(ii) [Redacted]

19.2. 9(2)(b)(ii) [Redacted]

19.3. 9(2)(b)(ii) [Redacted]

19.4. 9(2)(b)(ii) [Redacted]

20. At this stage, we are not expecting to receive many additional requests that would meet the proposed principles and criteria, given the time that has lapsed and the move to Alert Level 3. In particular, with the recent clarification that all freight can move, we are no longer expecting a large number of requests from the road freight or rail sectors. However, other transport operators may come forward if they are aware of support provided to others, particularly from the freight sector in cases where goods would usually be transported alongside passengers.

Essential Transport Connectivity Principles – Aviation

21. Cabinet agreed [CAB-20-MIN-0131] to an aviation relief package of \$600 million comprising financial support to:

- airlines to pay passenger-based government charges for the next 6 months (with an estimated value of \$163 million GST exclusive);
- airlines to pay Airways fees for the next 6 months (with an estimated value of \$37 million);
- Airways of up to \$70 million to help mitigate the risks to the business as a going concern; and
- \$330 million available to support maintaining airfreight capacity.

22. Aside from the above and the Crown loan to Air New Zealand, no other support has been provided to the aviation sector.

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23. We have received the following requests in addition to requests for funding from the air freight package:
- 23.1. 9(2)(b)(ii) has approached the Government for urgent funding. We are concurrently sending you a briefing with our advice on this request.
- 23.2. 9(2)(b)(ii) has sought an urgent loan, on which it has provided information yesterday. It would not be eligible for existing – or likely future – Crown-supported loan mechanisms, because of its local government ownership interests.
- 23.3. 9(2)(b)(ii)
24. As with the non-aviation transport operators, we consider there needs to be clear guidance for the sector on what principles would need to be met before funding is provided. We recommend that an aviation operator must meet the principles in one of the four categories below to be eligible for further consideration of government intervention:
- i. The airport or airline is strategically and nationally significant*
25. Strategically and nationally significant airports, are those that:
- are defined by the CAA as the Main Trunk for Resilience purposes; and
 - are critical business hubs, which also provide a key centre for air-freight (critical imports and HV exports); and
 - provide significant benefit to the national economy; and
 - play a critical role in domestic (through large population hubs) and international connectivity.
26. The airports that are likely to satisfy the criteria above are Auckland, Wellington and Christchurch airports. If any of these entities seek support they are likely to be considered under the Economically Significant Business Funding Scheme [see paragraph 40]. At this stage, none of these airports have sought Government funding and have instead gone to the market of investors to enable them to get support to manage through COVID -19.
27. To be a **strategically significant airline**, an airline would need to:
- provide significant national and regional connectivity across New Zealand;
 - deliver benefits to the national economy;
 - play a critical role in international connectivity; and
 - provide a key role in the delivery of air- freight,
28. It is clear only Air New Zealand would meet this criteria. As you aware, Air New Zealand has made its own commercial arrangements with the Government.
- ii. The Airport supports New Zealand to achieve sufficient basic regional connectivity across New Zealand and is key to recovery of domestic and/or international aviation*
29. The three nationally strategic airports will not be sufficient to ensure there is good base level regional air connectivity across New Zealand to enable regional economic development and

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social connection, and to position us to return to delivering a successful tourism sector. We consider airports in this category would need to meet most of the following criteria. The airport:

- plays a key role in the national domestic aviation network by ensuring sufficient geographic coverage/spread of regional air connectivity across New Zealand;
- is well-positioned for recovery as they move large numbers of passengers (between 300,000 and 700,000 people per annum);
- is commercially viable within normal conditions; and
- is a key contributor to the tourism sector.

30. We note the NZ Airports Association has previously indicated that an airport needs at least 200,000 passengers a year to be operated commercially.

31. A couple of examples of airports that could potentially meet these principles are Dunedin and Queenstown.

32. If airports in these categories request funding support, the Ministry will work with the Treasury to find the appropriate mechanism. Support for these airports will depend on their ownership interests and how much money is required. As most of these airports were commercial pre-COVID-19, support would likely to be in the form of a loan on commercial terms. However, in a few cases where it might be difficult for the airport to repay the loan, grants could be considered [see discussion below from paragraph 43].

iii. The airport or airline supports geographically-isolated communities

33. Some airports, regardless of their size and commercial viability, may constitute essential transport connectivity as they enable services to geographically-isolated communities that are not within easy distance of medical and other important services; or because of their geographic isolation are important to maintain for resilience. In some cases, it is also important that air freight can be moved from, and to, these communities. An example of an airport that could potentially meet these principles is Chatham Islands.

34. It is also critical that there are air services that go to these remote locations. We therefore also consider there may be merit in supporting air services that:

- service geographically-isolated communities that are not within easy distance of medical and other important services; or because of their geographic isolation are important for resilience; and/or are important for moving air freight from, and to, these communities,
- represent value for money, and
- have an operator that has knowledge and experience in flying the route and a good safety record.

iv. The entity provides essential aviation services

35. We consider there may be times where there is value in providing financial support to keep entities that provide a key service in the aviation system operating, to maintain key skills and capability. This would be a high bar. The entity would need to demonstrate not only that it performs a significant essential service to the operation of the aviation sector, but can show

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that without support to maintain the essential services it provides, there would be significant impacts to the operation of the aviation system and recovery of the system will be impeded.

36. We consider there would be few firms that would meet that threshold. However, the support for Menzies through the urgent and immediate airfreight package to ensure we maintained the capacity in ground handling to manage passenger and air cargo movement is a good example.

Step Two: The request is assessed against the Financial Criteria

37. Once a transport operator has shown they have met the principles to be deemed essential, it will need to demonstrate it has:
- made effective use of the Government announced support packages;
 - taken all available and reasonable internal operational and commercial strategies to support it to exist through the COVID-19 crisis (e.g. use of cash on its balance sheet, deferral of non-essential capital expenditure, deferral of any dividend payments, considered sale of non-essential assets, has cut costs and made efficiencies commensurate with its current and likely future level of activities, taken steps to manage employee costs (e.g. leave without pay).
 - taken all available and reasonable external commercial strategies to exist through the COVID-19 crisis (e.g. bank loans, investors, shareholders (including local government shareholders)); and
 - identified and taken into account the capabilities and capacity needed not just through the COVID-19 phase but to enable it to recover operation (i.e. right sizing itself for the future and not expecting that its form post-COVID-19 will necessarily be similar to pre COVID-19).
38. Not all of these criteria will be appropriate in some cases where an essential service is unable to run economically in the short term (i.e. where grant funding is likely to be appropriate, as discussed below).

Step Three: If the requests meets Principles and Criteria, Government intervention can be considered

39. If an operator makes it through Steps 1 and 2, the Ministry and Treasury, would consider potential support under the following interventions:
- i. Economically Significant Business (ESB) Funding Scheme*
40. The ESB targets large (greater than \$50 million turnover per annum) economically-significant businesses. There is a high threshold for consideration for this scheme, with most businesses expected be considered likely to be above \$200 million turnover per annum. Under this programme, bespoke commercial funding solutions will be developed with the entity. These entities are identified by reference to the network effects or externalities associated with their activities, or their importance to the recovery from COVID-19.
41. As set out above, support for 9(2)(b)(ii) is being considered under this scheme; and some of the strategically significant airports could fit within this scheme if they decided to pursue Government funding.

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ii. General support measures for medium-sized businesses

42. Treasury has been developing commercial support options targeting medium-sized businesses (i.e. turnover between \$20 million and \$200 million per annum, which are expected to be put forward for the Minister of Finance's consideration in the next few weeks. Any such measures might be appropriate for economically-viable businesses, including the airports identified as important for basic regional connectivity.

iii. Transport-sector specific support

43. We have identified transport services across both the aviation and non-aviation sectors that may meet the proposed principles for defining "essential transport connectivity" and the criteria, but for which the interventions described above would not be appropriate. These examples are predominantly – but not exclusively – smaller players.
44. The primary case for considering additional support is where a service is deemed to be essential, but which is unable to operate economically because of the drop in passengers and/or freight volumes, e.g. ferry services to geographically-isolated communities. This is inconsistent with the advice that businesses should use all operational commercial levers to reduce costs and give them the best chance of surviving the economic impact of COVID-19. The risk is that operators will cease to be able to operate essential transport services, or make a commercial decision to not run them, to protect the longer-term viability of their businesses.
45. In relation to aviation participants, some smaller airlines (Air Chathams, Fly My Sky, Barrier Air and Island Air Charters) have already received grant funding (for up to two months' worth of operations) as part of the short term air freight programme. Decisions will shortly be required as to whether to continue supporting these airlines when the temporary funding runs out in the next four weeks.
46. We propose that grant funding arrangements would be appropriate to address gaps such as these. The nature of grant funding would effectively amount to contracts for service or subsidies to enable services to operate at a break-even rate.
47. In addition, there are some transport businesses that are important for economic recovery and have been hit hard by restrictions that have sought Government support in the form of loans. Without support, these businesses would not maintain sufficient capability and capacity to play the key role they need to in the recovery period. We consider a mechanism to provide bespoke loans, on commercial terms, may be required in some exceptional cases. This may include:
- transport operators for which we have strong policy reasons for supporting based on the principles, but for which existing commercial options are not available or appropriate. One example that may fit into this category is 9(2)(b)(ii)
 - airports that are precluded from general measure because of their ownership structures (e.g. local government interests).
48. Currently there are mechanism through which to provide grant funding for these operators; or the types of loan described above. To address these gaps, we propose:

- 48.1. **For non-aviation essential transport connectivity, to seek funding through the COVID-19 budget bid process (\$20 million).** This would comprise:
- **\$5 million for grant funding arrangements**
 - **\$15 million to enable loans to be provided on commercial terms in exceptional cases**, where existing economic support measures are not available or appropriate.
- 48.2. **For aviation essential transport connectivity, we propose that you seek Cabinet approval to enable the Ministers of Transport and Finance to jointly approve new aviation policy initiatives from the underspend within the \$600 million aviation relief package.** This would enable Ministers to jointly agree to provide grant funding and commercial loans as appropriate for aviation sector participants. It is unlikely that all the money would be spent on the components of the package outlined in paragraph 21. The \$163 million for relief to airlines to pay passenger-based government charges for the next six months (until 30 September) could be underspent by up to 50 percent, due to the low numbers of flights resulting from border restrictions and domestic restrictions on travel. We would also seek to monitor ongoing spend on the short-term relief package and air freight package to see if there are additional savings. Given the significant and ongoing effects of COVID-19 on the sector, we anticipate recommending extensions to these mechanisms, but even so would expect sufficient funding to be available for reallocation.
49. **In addition, we propose to seek \$300,000 as part of the budget bid to contract additional, short-term senior commercial expertise** to support the assessments and engagement with businesses on commercial issues. Both the Ministry and Treasury have limited resource available to respond appropriately to these requests.
50. Any transport sector-specific funding would be time-limited and include regular reviews to test if the funding is still required, based on the change of Alert Levels and resumption of activity levels. Requests relating to these funds would be assessed by the Ministry of Transport, with support from Treasury, and would require your joint Ministerial sign-off.

Next steps

51. COVID-19 budget initiatives for Cabinet consideration on 11 May must be submitted by Tuesday 28 April. We are preparing a bid for submission, subject to your agreement.
52. Cabinet approval is required for new allocations within the aviation support package. We recommend you discuss the proposals with the Minister of Finance and seek to take an oral item to Cabinet within the next week to enable joint ministers to approve new aviation policy initiatives from the underspend in the aviation relief package.
53. We are separately providing you briefings on the 9(2)(f)(iv) [REDACTED]

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Recommendations

54. The recommendations are that you:

- (a) **forward** this paper to the Minister of Finance and discuss its contents with him Yes/No
- (b) **agree** the attached framework for assessing requests for financial support from the transport sector Yes/No
- (c) **agree** to support a budget bid for \$20.3 to enable temporary, short-term support to enable transport operators to maintain essential transport connectivity, where other appropriate funding is not available or appropriate. The bid comprises funding to issue urgent grants and loans, and to contract commercial expertise to support the assessments. Yes/No
- (d) **agree** to take an oral item to Cabinet to seek approval to enable joint Ministers to reallocate funding from the Government's aviation relief package to support essential transport connectivity in the aviation sector, beyond the immediate short-term relief and freight packages that have already been announced. Yes/No

9(2)(a)

Kirstie Hewlett
DCE System Regulatory and Data

MINISTER'S SIGNATURE:

DATE:

COVID-19 Response: Support for Transport Operators

This document sets out our proposed framework for responding to requests from transport sector operators for additional support. Our focus is on maintaining essential transport connectivity, rather than supporting individual businesses to survive.

Principles

Step 1	Eligibility for further consideration	Essential Transport Connectivity - Aviation	Essential Transport Connectivity - General
		<p>Airports</p> <ol style="list-style-type: none"> The airport is nationally and strategically significant. The airport is important to provide for basic regional connectivity across New Zealand and enables the aviation sector to be well-positioned for recovery. The airport addresses issues with geographic isolation (taking into account distance and road conditional to nearest airport/access to critical services). <p>Airlines</p> <ol style="list-style-type: none"> The airline is nationally and strategically significant. The air service connects geographically-isolated communities <p>Aviation Services</p> <ol style="list-style-type: none"> The service is essential to the aviation sector. Without it, the operation and recovery of the aviation system would be significantly impeded. 	<ol style="list-style-type: none"> Economic Prosperity: The service supports economic activity, including: <ul style="list-style-type: none"> maintaining the core transport network to support response and an efficient recovery; and preserving the supply chain for movement of critical goods for internal (including remote areas) and export markets. Inclusive access: The service enables all people to access social and economic opportunities, such as work, education and healthcare. If the service did not exist, there would be significantly negative outcomes, particularly for: <ul style="list-style-type: none"> vulnerable people, including people on lower incomes and those without access to private vehicles people living in geographically-isolated communities. Resilience and security: The service is critical for emergency and resilience purposes. <p>AND</p> <ol style="list-style-type: none"> There is no substitutable service now or in the short term. If the service fails, there is low probability of a market resolution within a reasonable timeframe.

Step 2	Eligibility for further consideration	<p>The service provider has:</p> <ul style="list-style-type: none"> made effective use of the support measures available under the Government's COVID-19 Economic Response Package taken all available and reasonable operational and commercial measures to ride-out the impact of COVID-19 taken all available opportunities to obtain non-Crown funding (e.g. banks, investors, shareholders (including local government shareholders)) to ride-out the impact of COVID-19 in considering "reasonable" internal and external business strategies, taken into account the essential services, capabilities and capacity needed both during the lockdown and other periods of restricted activity, and to enable it to recover operation for the likely "new normal" (i.e. right-sized)
		<p style="text-align: center;">Financial Criteria</p>

Step 3	<p style="text-align: center;">Economically Significant Business Funding Scheme</p> <p style="text-align: center;">Target: Subset of businesses > \$50m</p> <p style="text-align: center;">Treasury lead with MOT input</p>	<p style="text-align: center;">Potential Measures for Medium-sized Businesses</p> <p style="text-align: center;">Target: Businesses \$20m–200m</p> <p style="text-align: center;">Treasury lead with MOT input</p>	<p style="text-align: center;">Transport Sector-specific Interventions</p> <p style="text-align: center;">Target: Essential transport services for which other measures unsuitable</p> <p style="text-align: center;">MOT lead with Treasury input</p>
	<p>Support for businesses that fit into this category are managed by Treasury's new Economically Significant Business Funding Unit. Most businesses are expected to be very large, i.e. >\$200m.</p>	<p>Treasury is developing options for financial support for medium-sized business, e.g. businesses that do not qualify as "economically significant" and for which the Business Finance Guarantee is not enough (maximum loan \$500k).</p>	<p>In some cases transport sector-specific interventions are likely to be appropriate where a service meets the Principles for essential transport connectivity and the Financial Criteria, but for which general measures are not appropriate. We propose a combination of</p> <ul style="list-style-type: none"> Targeted grant funding, e.g. to maintain transport essential services where it is uneconomical to do so because of movement and physical-distance restrictions; and Loans on commercial terms, e.g. where a transport service will be essential to the recovery and is viable longer term, but requires support to ride out the economic impact of COVID-19 until "normal" operations resume.

The nature of intervention will need to be assessed on a case-by-case basis. This will take into account the ownership interests (e.g. Crown or regional). Any Government interventions will include provisions around how and when that support would end.