MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

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Information redacted **YES** / **NO** *(please select)*

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Some information has been withheld for the following reasons:

- Confidentiality.
- Confidential advice to government.
- Negotiations.
- Commercial information.

Office of the Minister for Regional Development
Office of the Acting Minister of Transport

Cabinet Economic Policy Committee

Using the Regional Infrastructure Fund to support regional air connectivity

Proposal

1 On behalf of the Regional Development Ministerial Group (RDMG)[1], this paper seeks Cabinet's agreement to progress two targeted investments through the Regional Infrastructure Fund (RIF) to support regional air connectivity:

1.1 Approve up to $30 million in concessionary capital expenditure (loans) to support regional airlines to consolidate and manage debt, and secure vulnerable regional routes with support proportionate to airline scale.

1.2 Approve up to $Conf million in Negotiations to support IT upgrades that enable interlining arrangements between regional airlines and Air New Zealand (Air NZ).[2]

Relation to government priorities

2 The Government's *Going For Growth* plan prioritises infrastructure development and support for innovation, technology, and science. Strengthening regional air connectivity through targeted capital investment directly contributes to this agenda by unlocking the economic potential of regional New Zealand. Improved connectivity enables inclusive and sustainable growth, supporting thriving communities beyond the main centres.

3 Reliable regional air links support tourism and trade, enabling all regions to contribute to a more productive economy and helping achieve the Government's goal to double the value of exports by 2034.

4 The *Tourism Growth Roadmap* supports the dispersal of tourism benefits across regions, helping to reduce pressure on high-traffic destinations and support balanced regional development.

[1] RDMG is comprised of the Ministers of/for Finance, Infrastructure, Local Government, Māori Development, and Regional Development. Due to a conflict of interest, the Acting Minister of Transport substitutes the Minister for Infrastructure for aviation related proposals.
[2] Interlining allows one airline to sell tickets that include flights operated by another airline. For example, a customer can book a single ticket on the Air NZ website that includes a connecting flight operated by a regional airline, with coordinated check-in and baggage handling.

Executive Summary

5 Air connectivity is vital to the economic and social wellbeing of regional New Zealand. It supports access to healthcare, emergency services, and education, and drives regional economies through tourism, trade, and business activity.

6 However, the resilience of the regional air network is under growing pressure. The sector is still adjusting to post-COVID realities while facing broader economic challenges. Rising operational costs, supply chain disruptions, workforce shortages, and market concentration are contributing to short-to medium-term instability.

7 Small regional operators have been hit particularly hard, as they largely operate on lower-demand regional routes and do not have the economies of scale or resilience of larger airlines. They also typically face limited access to capital and are unable to access finance on the same terms granted to larger airlines. As a result, some carriers have already reduced routes or frequencies due to rising costs and limited financial resilience. Inaction could limit access to essential services, weaken economic resilience, and deepen regional disparities.

8 Over the past six months, MBIE and MoT have provided policy advice to RDMG on regional air connectivity, assessing a wide range of options (see **Annex Two**). This paper puts forward two targeted RIF-funded proposals with immediate impact. Other mechanisms such as adjusting levies or regulatory settings were considered but are slower to implement and better suited to medium- to long-term adjustment. They would not address the urgent financial pressures currently facing regional airlines.

9 This paper seeks Cabinet's agreement to proactively support the regional air sector with the RIF. Specifically, we seek approval to use $30 million of RIF capital expenditure to support regional airlines with aircraft acquisition or leasing, procurement of essential components for maintaining or extending the life of aircraft, and debt refinancing on concessionary terms. The proposed $30 million RIF-funding is informed by recent sector requests with the primary objective of stabilising the regional air network, rather than growing or expanding current services.

10 We also seek Cabinet agreement to use up to $Confid [redacted] million of RIF Negotiations [redacted] to expedite and enable interlining with Air NZ, improving customer experience, increasing visibility of regional routes, and ultimately sales. Air NZ has indicated is it open to such arrangements, pending operational feasibility. Conditions will be applied to ensure funding is only provided to support viable interlining proposals.

11 Both proposals fall outside current RIF settings [CAB-24-MIN-0168.02] as they are not 'hard infrastructure', so require Cabinet approval. They reflect sector feedback on the most impactful interventions government can make to support regional air resilience.

12 MBIE will apply its existing robust assessment and monitoring framework to ensure accountability and appropriate use of funds. Any loans would be secured against the airline's asset base, where feasible. We propose that future investment decisions be delegated to RDMG.

Background

13 On 20 May 2024, Cabinet agreed to establish the RIF to accelerate infrastructure projects with significant impact for regions. Cabinet agreed high-level settings for the RIF, noting it will prioritise funding:

13.0 resilience infrastructure that improves a region's ability to absorb, adapt and/or respond to stresses and shocks

13.1 enabling infrastructure that ensures regions are well-connected, productive and resilient.

14 As the proposed initiatives do not fall within RIF settings, i.e. they are not 'hard infrastructure', agreement from Cabinet is required [CAB-24-MIN-0168.02].

MBIE and MoT have advised on a range of options to RDMG on this matter since the second half of 2024

15 The first airline applications to the RIF were received in August 2024 from [redacted] and Sounds Air. Both airlines sought support for full debt refinancing to modernise their fleets, citing the most severe economic conditions in their 35 plus years of operation. Each airline requested about $[redacted] million in concessionary loans, which were declined as ineligible.

16 However, the operating environment for regional airlines has deteriorated further since the initial applications were declined. MBIE and MoT have jointly provided advice to RDMG on the current state of regional air connectivity, potential government interventions, and existing initiatives supporting the sector (see **Annex Two**)[3]. This paper builds on that advice and proposes two options to stabilise regional air services and maintain connectivity in the short to medium term.

Airports and air services are vital to regional transport systems and economic development, particularly in regional New Zealand

17 In large urban settings, the transportation of people, goods, and services is mostly done via land transport, with air transport providing faster connections for higher-value travel and goods. Regional air connectivity enables economic development (including facilitating tourism, business travel and trade), social equity (such as access to advanced healthcare services) and supports transport network resilience when roading is affected by adverse events.

[3] This reflects advice provided to RDMG in the first half of 2025. Given the passage of time, some initiatives listed under 'work underway' have since progressed or concluded.

Together, regional airlines operate over 600 flights per week across the country.

18 While land transport plays an important role in regional connectivity, it is not a viable substitute for air travel over longer distances. Other modes are generally slower, less practical, and offer limited coverage in many regions. Air connectivity remains essential for connecting remote communities to urban centres, particularly where timely access to healthcare, education, and economic opportunities is critical.

The case for intervention

19 New Zealand's regional airlines continue to face significant challenges post-COVID-19. Sector engagement confirms widespread disruption, driven in part by ongoing global supply chain constraints. These challenges are detailed in **Annex One.**

20 In summary, there is a need to support regional carriers in the short to medium term to ensure they can continue serving regional communities until the current conditions subside. Without government intervention, there is a risk that regional airlines will further scale-back services by exiting routes or ceasing operations altogether. Once fleet capacity is lost, it will be difficult and costly to recover. This will have long-term structural consequences for connectivity and regional economies, and adversely affect tourism.

21 The Crown provided $602.7 million in aviation support during COVID-19, including $14 million for regional airlines through the Essential Transport Connectivity scheme. While this helped maintain services during low demand, it did not resolve the immediate financial pressures regional airlines now face. Targeted, short-term support is needed to safeguard essential connectivity.

22 Recent service withdrawals highlight the fragility of regional air connectivity. Sounds Air discontinued its Westport–Wellington and Taupō–Wellington routes in December 2024, followed by Air New Zealand's exit from the Wellington–Invercargill route in January 2025. While Originair briefly picked up both Westport and Taupō routes, it has since withdrawn from Taupō. Sounds Air has also announced it will end its Blenheim–Christchurch and Christchurch–Wānaka services in September 2025 due to unsustainable operating costs. Air Chathams has signalled a review of its route network in response to mounting financial pressures.

23 These recent developments underscore the immediacy of these risks and the need for targeted support to maintain stable regional air connectivity.

Strategic objectives for regional air connectivity support

24 Given that airlines operate commercially in a dynamic environment, government support should be targeted and aligned with long-term market realities. The key objectives of intervention are to:

24.1 **Stabilise current service levels** by supporting regional airlines to maintain existing routes and frequencies, rather than expand or grow operations.

24.2 **Enhance regional economic resilience** by ensuring continued access to tourism, trade, and business travel opportunities.

24.3 **Improve social equity and access to services** by preserving air links to healthcare, education, and emergency services for remote communities.

24.4 **Strengthen network integration** by enabling digital interlining with Air NZ, improving customer experience and increasing regional route visibility and uptake.

24.5 **Avoid incentives for long-term dependency on government support**, by providing support on a time-limited basis and making provision for a clear exit strategy.

25 These objectives align with the RIF's purpose of enabling infrastructure that supports regional productivity and resilience. They also reflect the Government's broader goals under the *Going For Growth* plan and the Tourism Growth Roadmap.

Proposal overview

26 To address structural and operational challenges facing regional airlines, we propose two targeted interventions: immediate concessionary capital support and long-term integration with the national aviation network. While several ongoing initiatives aim to improve market conditions (see **Annex Two**), the proposed options are designed for rapid impact, reflect regional airline feedback and broadly align with proposals for government intervention included in the NZ Airports Association Industry Action Plan.[4]

27 We note that, in the absence of a Budget bid, this work cannot proceed as the RIF is the only accessible funding option with the appropriate structures in place to support and manage it.

Proposal 1: Stabilise current service levels via $30 million in concessionary RIF capital to support regional airlines

28 We propose Cabinet approve up to $30 million in capital expenditure from the RIF to support regional airlines with aircraft acquisition or leasing, procurement of essential components or spare parts to maintain or extend aircraft life, and debt refinancing on concessionary terms.

[4] The Airline Industry Collaboration, Challenges and Opportunities Action Plan is a sector-led initiative coordinated by the New Zealand Airports Association. It outlines collaborative actions to strengthen the aviation sector, including the development of interline agreements between carriers and exploration of alternative funding models to support regional airline infrastructure and capital needs.

29 Funding would be proportionately capped per airline to ensure broad sectoral support. Regional scheduled passenger airlines are eligible: Air Chathams, Barrier Air, Golden Bay Air, Originair, Sounds Air, Stewart Island Flights, and Sunair. Charter-only airlines are ineligible as well as the larger airlines providing regional routes – Air NZ and Jetstar – as the initiative is targeted at regional operators with limited access to affordable capital.

30 The $30 million figure reflects a balance between sector demand and fiscal responsibility. It is informed by recent loan requests from Commercial Information [redacted] and Sounds Air, and sector engagements. Confidentiality [redacted]. Smaller operators carry much lower debt levels and are more likely to seek support for essential components and life-extension upgrades, rather than refinancing or replacement aircraft acquisition.

31 Regional airlines are currently paying between Commercial In [redacted] percent Commercial Information [redacted] Commercial In [redacted] percent share of revenue. Due to low profitability margins, there is limited financial headroom to absorb further shocks or invest in fleet maintenance and renewals without external support. RIF concessionary loans typically offer a minimum interest rate of Commerci [redacted] percent.

32 Negotiations [redacted]

33 The proposed amount is not intended to fully meet all capital needs, but to stabilise the sector and maintain route security in the short to medium term, in line with the objectives above. Given that a single replacement turboprop aircraft can cost between NZ$3.5–6 million, a $30 million pool – allocated proportionately – could support fleet renewal, life extension, and financial restructuring across multiple operators.

34 The proposed intervention would support fleet renewals and address maintenance-related disruptions, improving service reliability and financial stability. This targeted capital support is intended to safeguard essential regional air services and strengthen economic resilience in the short-to medium-term.

35 The RIF is only open for applications until the end of the current Government term. This proposal does not commit the Crown to long-term financial obligations, recognising that the challenges facing regional airlines are expected to be temporary.

36 MBIE will apply its existing robust assessment and monitoring framework to ensure accountability and appropriate use of funds. As part of this process, the airline's governance structure and financial position will be tested to ensure it is capable of responsibly managing a Crown loan. This includes assessing solvency, long-term financial viability, and the need to mitigate the

risk of default. Any loans would be secured against the airline's asset base, where feasible.

37 Support will be available to regional airlines that demonstrate financial need, prudent financial management, and risk of service loss. A range of other factors will be considered such as the nature of the air routes provided by applicants, the degree of community remoteness, limited viable alternative transport options, and distance to essential services. Funding agreements will include an expectation that overall service levels are maintained for the duration of support. This approach balances public value with commercial flexibility. Duplication of services will be avoided to ensure broad regional coverage. We propose that the design of further criteria and investment decision-making be delegated to RDMG.

38 Crown Regional Holdings Limited (CRHL), the Crown's regional investment entity, has engaged with the options analysis presented in this paper. CRHL expressed support for the use of loans as a tool to assist regional airlines.

39 This approach compares favourably to other government interventions in the transport sector. For example, the $30 million coastal shipping fund, designed to support resilience in the domestic freight system, which provides direct grant funding to applicants.

40 While this represents a significant intervention in a traditionally market-led sector, it is a targeted and proportionate response to structural challenges facing regional connectivity. Although the airlines are privately owned, they provide a public good by maintaining access for regional communities. With appropriate safeguards and repayment expectations in place, this modest but meaningful proposal is justified to help prevent significant disruption to rural communities, should services cease.

Proposal 2: Provide $Conf million of RIF Negotiations *to support digital integration through interlining capability*

41 In addition to capital support, there is an opportunity to improve the viability and customer experience of regional air services through digital integration with Air NZ's booking platform. This aligns with the Government's *Going For Growth* agenda by promoting smarter, more integrated travel systems using digital platforms and data-sharing technologies.

42 International experience shows that interlining can significantly enhance regional air services. Cape Air, a small U.S. regional airline, reported a 20 per cent increase in bookings following an interline agreement with United Airlines. A 2023 McKinsey report identified interlining as a key enabler for reversing the decline in regional airline market share and unlocking new growth opportunities.

43 We therefore propose that Cabinet approve up to $Confid million in Negotiations to enable and accelerate interlining implementation for regional carriers. Early engagement with Air NZ has

indicated it is open to interlining where customer value is clear and operational complexity is manageable.

44 We understand that interlining has not progressed due to limited commercial incentives for Air NZ and the high upfront costs for regional airlines. Air NZ has prioritised investment in its own network and systems, while smaller carriers lack the capital to self-fund integration. Government support would expedite a process that is otherwise unlikely to occur at pace, if at all.

45 Interlining would allow passengers to book multi-leg journeys involving regional airlines and Air NZ on a single ticket, improving convenience, boosting regional seat uptake, and strengthening network resilience. More broadly, interlining supports network integration and economic resilience by improving customer access and boosting regional route viability.

46 For example, a traveller flying from Auckland to Westport currently must book separate tickets, typically flying with Air NZ to Wellington, then transferring to a regional airline such as OriginAir. Without interlining, this requires manual baggage transfer, separate check-ins, and no protection in the event of delays. With interlining in place, the traveller could book a single ticket from Auckland to Westport on Air NZ's website, enjoy seamless baggage handling, and benefit from coordinated scheduling.

47 As an example of the expected cost for one airline, Air NZ estimates interlining with Air Chathams would cost them $Commercial Information - $Commercial Information, with Air Chathams indicating their costs to be around $Commercial Information - $Commercial Information. Air Chathams noted they are facing a one-off cost of $Commercial Informatio just to meet a required safety audit. Costs for other airlines will vary based on system compatibility and integration needs. We propose that funding be made available to both Air NZ and regional airlines to support the development of interlining.

48 Funding would support upgrades to reservation, ticketing, and baggage systems, including compatibility with passenger service systems (PSS) and one-off compliance costs. Integration with Global Distribution Systems (GDS) would also be explored to improve the visibility of regional airlines on international booking platforms (e.g. Expedia, travel agents). A phased rollout would aim to include all eligible and willing airlines, coordinated with Air NZ to ensure technical and operational alignment.

49 MBIE and MoT will coordinate with Air NZ to ensure technical and operational alignment, while also monitoring measurable improvements. The immediate priority is integration with Air NZ's systems, given its dominant position in the domestic market. While Qantas/Jetstar have a more limited domestic footprint, there is also merit in exploring interlining with these carriers – subject to sufficient funding – to reduce reliance on a single provider. This is particularly relevant given Australia is New Zealand's largest tourism market, with approximately 1.5 million passenger arrivals annually.

50 Given the modest cost and potential to significantly enhance regional connectivity, this represents a high-value investment to strengthen regional air connectivity.

Both options come with risks, but sufficient mitigations are in place

51 While the proposed interventions are targeted and time-limited, they represent a significant departure from the traditionally market-led approach to regional aviation. The following risks and corresponding mitigations have been identified:

51.1 **Risk of market distortion, moral hazard and precedent-setting:** Direct support to private airlines may set a precedent and be seen as distorting the market. Moral hazards may arise as a result of airlines taking on excessive risks in response to government support. **Mitigation:** Funding will be contestable with clear eligibility criteria. The support is structured as concessionary loans, not grants, and applicants must demonstrate financial need, sound governance and commit to maintaining service levels. These safeguards are designed to ensure the intervention is targeted, temporary, and does not create ongoing expectations of future government support.

51.2 **Fiscal risks to the Crown**: There is a risk that a supported airline may subsequently fail or discontinue services, leading to fiscal consequences for the Government if that airline is unable to repay any concessional loans it has received. **Mitigation:** Due diligence will be undertaken prior to any funding decisions. Funding agreements will include appropriate safeguards, performance expectations, and clawback provisions where appropriate.

51.3 **Funding is provided but did not have the intended outcomes:** There is a risk that funding may not deliver the intended outcomes, such as maintaining regional routes or improving long-term service resilience. **Mitigation:** Applicants could be required to commit to maintaining route security for a defined period. Funding will be delivered through a transparent, criteria-based process, with performance monitoring and reporting obligations.

51.4 **Risk of dependence on Air NZ for interlining**: The success of the interlining initiative is contingent on Air NZ's willingness to engage and integrate with regional carriers. **Mitigation:** Officials will maintain close collaboration with Air NZ to ensure ongoing technical and operational alignment and to foster a cooperative approach. Officials are also interested in exploring this opportunity with Qantas group to mitigate over-dependence with Air NZ.

If approved, we propose that RDMG be responsible for decision-making on the funding

52 Confidential advice to Government
, we recommend that

future decision-making authority rest with RDMG comprising the Ministerial portfolios Finance, Infrastructure, Local Government, Māori Development, and Regional Development (noting the Acting Minister of Transport substitutes the Minister of Infrastructure for aviation matters due to a conflict of interest).

53 We consider delegating to RDMG would result in quicker decision-making, as RDMG meets frequently and can agree on matters via round-robin if required. Delegating to RDMG also enables oversight of funding safeguards, including measures to minimise the risk of moral hazard through clear eligibility criteria and performance expectations.

54 If approved, this work will be progressed by MBIE, with support from MoT.

Cost-of-living Implications

55 There are no cost-of-living implications as part of this proposal.

Financial Implications

56 If Cabinet agrees to allocate $30 million in capital expenditure and $[redacted] million Negotiations [redacted]

57 Negotiations [redacted].

58 The $30 million in concessionary loans will also affect OBEGAL, due to the concessional nature of the interest rate offered to airlines. The value of the concession – defined as the difference between the market interest rate and the concessional rate over the life of the loan – is recognised as an operating expense when the loans are drawn down. This impact gradually reduces over time as the loans are repaid.

Legislative Implications

59 This proposal contains no legislative implications, and a Regulatory Impact Statement is not required.

Population and Human Rights Implications

60 This proposal contains no population or human rights implications.

Consultation

61 The following departments were consulted: The Treasury, Te Puni Kōkiri, The Ministry for Primary Industries (Rural Communities), the Department of Prime Minister and Cabinet, The Department of Internal Affairs (Local Government), The Ministry of Business, Innovation & Employment, and The Ministry of Social Development.

Communications

62 Subject to Cabinet's decision, Ministers could publicly announce the Government's support for regional aviation, highlighting regional connectivity and the approved funding. Officials would support Ministerial offices with communications if proposals were agreed.

Proactive Release

63 We intend to release this Cabinet paper and associated minutes within 30 days of an announcement being made. Information that might impact on ongoing commercial negotiations or sensitivities will be redacted.

Recommendations

The Minister for Regional Development and the Acting Minister of Transport recommends the Committee:

1 **Note** regional air connectivity is critical to the economic and social wellbeing of regional New Zealand and is currently under pressure due to structural and operational challenges

2 **Note** the Acting Minister of Transport (aviation) is progressing a range of complementary initiatives to support regional air connectivity, including some of those outlined in Annex Two

3 **Agree** to allocate up to $30 million in capital expenditure from the RIF to support regional airlines with the acquisition or lease of aircraft, the procurement of essential aircraft components and debt refinancing on concessionary terms

4 **Agree** to allocate up to $Confid million in Negotiations from the RIF to support information technology investment to enable interlining arrangements between regional airlines and Air New Zealand

5 **Note** that funding decisions are only available for the life of the Regional Infrastructure Fund, which is to the end of 2026

6 **Note** the two proposals are ineligible under current Regional Infrastructure Fund (RIF) settings as agreed by Cabinet [CAB-24-MIN-0168.02], specifically as neither are 'hard infrastructure'

7 **Agree** to delegate further criteria and investment decision-making to the Regional Development Ministerial Group, which includes the Acting Minister of Transport for aviation-related matters, if either recommendation 2 or 3 are approved

8 **Note** if recommendation 7 is approved, that appropriate safeguards will be agreed by RDMG to minimise moral hazard, including eligibility criteria, performance expectations, monitoring requirements, and access to financial reports as a prerequisite for support.

9 **Note** that further engagement with Air New Zealand will be required to understand and address barriers to implementing interlining arrangements, and officials are also interested in the opportunity with Qantas/Jetstar to reduce the reliance on a single carrier

10 **Note** that the Ministry of Business, Innovation and Employment, with support from the Ministry of Transport, has the capacity and capability to deliver and administer either or both initiatives

11 **Invite** the Minister for Regional Development and the Acting Minister of Transport to report back to Cabinet on progress of these investments within 12 months of implementation.

Authorised for lodgement

Hon Shane Jones
Minister for Regional Development

Hon James Meager
Acting Minister of Transport

Annex One: Current conditions for regional air network

1 New Zealand's regional airlines continue to face significant challenges post-COVID. Sector engagement confirms widespread disruption, driven in part by ongoing global supply chain constraints.

2 Supply chain constraints have led to shortages of aircraft parts and limited maintenance capacity. Airlines report maintenance cost increases of up to 150 per cent. In some cases, operators have had to purchase entire aircraft solely to access spare parts. One airline cited to 1News that a part that previously cost $26,000 now costs $72,000.

3 Although the Interim Aviation Council is exploring options for workforce development, airlines face immediate pressure due to a shortage of skilled personnel, including pilots and aircraft engineers. Rising costs, including fuel, staffing, government-imposed fees and levies, and airport charges, are negatively impacting financial resilience.

4 Airlines and officials note that access to finance remains a significant constraint for many operators. The recent high-inflation, high-risk economic environment has dampened investment appetite and limited airlines' ability to expand or upgrade their existing fleets to grow their operations.

5 While issues existed prior to the pandemic, officials consider the current challenges to be primarily short-to medium-term, as the sector stabilises post-COVID and prepares for future technological shifts. Emerging technologies, such as electric vertical take-off and landing (eVTOL) aircraft, may transform regional mobility in the longer term, but further development and regulatory approvals are needed before widespread adoption.

Fluctuating demand is causing increased uncertainty for regional airlines

6 Government and business travel – traditionally a key source of demand for many regional routes – has not returned to 2019 levels. On some routes, the absence of government travel has reduced demand by up to 20 per cent.

7 The NZ Airports Association advise that 1.5 million fewer seats were sold in the domestic network in 2024 compared to 2019. This equates to around 29,000 fewer seats and 170 fewer flights per week. As the economy recovers, officials expect that demand for air services will increase in the long-term.

Regional connectivity is challenging due to New Zealand's geography and population

8 Air services are concentrated on high-demand routes, such as Auckland, Wellington, Christchurch, and Queenstown, where larger aircraft and higher passenger volumes enable economies of scale. In contrast, regional routes face lower demand, making them less profitable and more challenging to operate.

9 While demand is the primary driver, the current market structure means regional airlines often lack the financial flexibility to use profits from busier

routes to support less profitable ones, or to invest in improving regional services.

10 These smaller operators, typically with fleets of 10 aircraft or fewer, face the same pressures as larger carriers – rising fuel costs, regulatory compliance, workforce shortages, and weather disruptions – but without the scale or access to affordable capital to manage financial disruptions.

11 Recent route withdrawals and service changes highlight the financial pressure facing regional airlines. Sounds Air has announced it will cease services between Blenheim–Christchurch and Christchurch–Wānaka in September 2025, citing unsustainable operating costs despite strong demand. Earlier, it withdrew from the Wellington–Taupō and Wellington–Westport routes, with Originair briefly picking up both before discontinuing Taupō. Air Chathams is reviewing its network following a $Commercial Information maintenance bill, and Barrier Air has listed a Cessna Caravan for sale to remain financially viable.

Previous Crown support for aviation

12 During the COVID-19 pandemic, the Crown provided $602.7 million in aviation support. This included $588.7 million to maintain international connectivity and $14.036 million through the Essential Transport Connectivity (ETC) scheme to support regional airlines. ETC funding helped maintain services during periods of low patronage by covering the gap between operating costs and revenue, rather than subsidising growth.

13 Air Chathams received $11.422 million, Sounds Air $1.533 million, Golden Bay Air $0.426 million, Great Barrier Airlines $0.648 million, and Island Air Charters $0.006 million.

Annex Two: Overview of options considered to support regional air connectivity*

Options helping to ensure key regional routes are and continue to be serviced and that regional flights are affordable to New Zealanders.

Overview of work already underway

- **Supporting workforce development** - the Interim Aviation Council (comprising govt agencies and aviation participants), is exploring ways to address workforce issues in the sector. As part of this, the Ministry of Education is working with stakeholders to examine the current tertiary education policy settings for the training of pilots and identify any potential improvements.
- **Monitoring of air services** – the Ministry of Transport is about to commence public reporting on regional on-time performance.
- **Commerce Commission oversight of airport pricing** – $ Minister of Commerce and Consumer Affairs is considering options to improve the oversight regime for airports.
- **Airport and supporting infrastructure** – some projects have been included within RIF proposals, a number of which are focused on improving the financial sustainability of airports by introducing other revenue streams. Only one has been approved to date (Hokitika).
- **Exploration of airfare reporting** – investigating public reporting of airfares on regional routes to enhance transparency in the sector and empower consumers to make informed decisions.

Proposed assessment factors

- Potential impact to address the identified problem
- Deliverability/implementation
- Value for money and effectiveness
- Distortionary impacts on market efficiency
- Scope to transition/exit from intervention

Moderate intervention options

More feasible to implement under current settings

Allocate $40 million of RIF CAPEX to address capital needs for airports, airlines and innovative technology. $ G AP RD MG

This could include:

- capital for airplane leasing/purchasing. Further options may be available to reduce cost of capital for airlines
- Information technology investment to enable the implementation of interlining arrangements
- airport infrastructure upgrades and investment to enable innovative aviation technologies.

Kānoa has received [redacted]irport, aviation and innovative technology applications seeking a total of $[redacted] **million** some of which could be supported through the ringfenced funding.

Engaging with Air New Zealand.

The Shareholding Minister of Air New Zealand (MoF) could engage with Air New Zealand to clarify its long-term plans for regional services. This would need to be tested with MoF.

Engaging with other airline regarding barriers to entering the New Zealand market. RD MG

Engagement could be undertaken with other airlines to understand key barriers to entering the New Zealand market.

Commission work to explore centralised aircraft procurement. RD MG MBIE could explore how central government procurement processes could be leveraged to support central procurement of aircraft for regional airlines .

Extensive intervention options

More complex to implement

Tax exemptions / write-offs. $ AP G Could include depreciation of aircraft and equipment, tax credits for particular routes or GST exemptions. Would require engagement with IRD/Minister of Revenue.

Allocate up to $10 million of RIF OPEX to support one of the following options: $ AP G

- Establish a rebate subsidy scheme to support at risk regional routes.
- Establish an underwrite scheme to support at risk regional routes through the provision of guaranteed revenue, building on approaches adopted overseas e.g. EU PSO schemes.
- Run a tendering process for specific vulnerable routes – involves testing what market could provide.

Market study into competition in the aviation sector. This could investigate airport pricing structures and impacts on competition, barriers to increased competition in regional aviation. (Initial analysis completed by the Commerce Commission though has not identified any obvious solutions that would significantly improve competition.)

Cost relief $ G from agency (and/or airport) charges, e.g. building on experiences with various measures during the COVID-19 pandemic.

Establish an aviation investment attraction fund $ G focused on attracting new airline services, maintaining existing routes, attracting foreign direct investment into the sector (including manufacturing) and invest in innovative connectivity technologies.

Key

- $ Option is a direct financial intervention
- AP Option is aligned with the NZ Airports Action Plan (industry collaboration and challenges)
- G Option may be associated with obligations on recipients to strengthen management/governance
- RD MG RDMG are key decision makers, other options will require engagement with other Ministers or Cabinet agreement

**Note: This summary reflects advice provided to RDMG in the first half of 2025. Given the passage of time, some initiatives listed under 'work already underway' have since progressed or concluded.*