

<b>Invercargill Airport Air Cargo and Terminal Development PGF Application</b>		<b>For: Approval</b>	
<b>Tier:</b>	<b>1 - Regional</b>	<b>Sector:</b>	<b>Transport - Airports</b>
<b>Background &amp; context:</b>		<b>Recommendation(s):</b>	
<p><b>Applicant Organisation:</b></p> <ul style="list-style-type: none"> <li>Invercargill Airport Limited (IAL)</li> </ul> <p><b>Location:</b></p> <ul style="list-style-type: none"> <li>Invercargill, Southland</li> </ul> <p><b>Proposal:</b></p> <ul style="list-style-type: none"> <li>Air New Zealand is resuming scheduled jet services from Auckland to Invercargill on 25 August 2019. As an Airbus A320 service, it will operate five days per week and while it is a 12-month pilot initially, there appears to be confidence that it will become a permanent route being underpinned by air freight.</li> <li>Not one dollar of PGF funding will go to Air New Zealand, but will instead, assist Invercargill Airport Limited (IAL) to rapidly deliver urgent airside and non-airside upgrades to handle scheduled jet services; the first such scheduled jet services since 1995.</li> </ul> <p><b>Funding Sought:</b></p> <ul style="list-style-type: none"> <li>Total project cost: \$<small>Commercial Information</small></li> <li>PGF grant funding: \$500,000 (<small>Comm</small>%)</li> </ul> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>This project will support the return of scheduled jet services to IAL for the first time in 24-years; a major opportunity for Southland and Central Otago. Because time is short there are financial and time pressures to complete all necessary works ahead of Air New Zealand's maiden A320 flight from Auckland to Invercargill on 25 August (the start of the 12-month trial).</li> <li>IAL will become the only non-international airport in New Zealand where Air New Zealand will operate scheduled jet services.</li> </ul>		<p><b>We recommend that the SRO's:</b></p> <p>a) <b>Note</b> the PGF Grant will go into physical works required to accommodate scheduled Air New Zealand Airbus A320 services from 25 August.</p> <p>b) <b>Note</b> this application accords with both Tier 1 and Tier 2 investment criteria, accords with the regional development strategy and has inter agency support, including the Ministry of Transport, which notes that there are credible and significant benefits from the application.</p> <p>c) <b>Note</b> that the PDU has developed a draft set of investment principles for PGF investment in airports, and that these principles will be presented to Ministers for review at the next Regional Economic Development (RED) Ministers' meeting on 2 May 2019.</p> <p>d) <b>Note</b> that an assessment of this proposal against these draft principles is attached as Appendix 1.</p> <p>e) Note the applicant has signaled to the PDU that they intend to apply for loan funding for works to the terminal and permanent equipment, if Air New Zealand looks likely to confirm the route as a permanent one.</p> <p>f) <b>Approve</b> Grant funding of \$500,000 from the PGF fund, subject to:</p> <ol style="list-style-type: none"> <li>That Preliminary Budget Estimates provided for in the application become confirmed quotes</li> <li>An undertaking that no money from this project will go to Air New Zealand as a subsidy</li> <li>That this grant be paid in <small>Commercial I</small> installments matching the schedule provided for in IAL's application.</li> </ol>	

- PGF support will enable IAL to deliver what's needed to operate scheduled passenger/freight jet services at IAL. These requirements are needed even for a 12-month pilot. The PGF's contribution will part fund completion of the design and construction of passenger and air freight/cargo handling facilities. Current facilities are limited to turboprop aircraft that do not require the same level of screening or support facilities. The PGF will help IAL to deliver:
  - Facilities to manage increased freight volumes and specialised loading;
  - Introduction of security screening for baggage and passenger;
  - Hardstands suitable for A320 and A321 aircraft;
  - Security designation changes including enhanced physical security arrangements; and
  - Increased emergency response support.
- Venture Southland and IAL have worked with Air New Zealand over a number of months to validate the project's feasibility. Additionally, Air New Zealand has conducted its own research (passenger but especially freight) to validate the business case for the trial and the size of the future market
- This 12-month Air New Zealand trial accords with the Southland Regional Development Strategy (SoRDS), which viewed the establishment of air freight as a key contributor to further economic progress and job creation. SoRDS specifically notes: "The timetable and cost of air access to the region is regarded as an obstacle to development". This project counteracts the perceived isolation of Southland to New Zealand's largest city and New Zealand's major international gateway.

- It is air freight from Southland that is a key attraction for Air New Zealand. Current estimates put this at between 16 and 70 tonnes every week, increasing by 16 tonnes a week during the Oyster season. This does not include potential cargo arising from Central Otago either (high value horticulture).
- Intra MBIE consultation shows that if this trial is confirmed as a permanent route, it could beneficially reshape tourism pathways in the lower South Island. IAL is about 2.5 hours by coach from Queenstown, whose airport is limited by a short runway compounded by its alpine elevation. It has potential in the long term to become a secondary gateway into Queenstown and Central Otago. Studies have shown a leakage of Southland originating business passengers to Queenstown airport; this project will reduce this and thus free up more seats into Queenstown for tourist traffic. It will also reshape tourism patterns in the lower South Island (a key PGF driver).
- This application further relates to and directly supports a number of PGF funded priorities/projects, such as Commercial Information and Commercial Inform  
**Commercial Information**  
Commercial Information and even Commercial Information  
Commercial Information.

PGF criteria that this proposal supports:		
PGF Criteria	Assessment Commentary	Rating (1✓ to 5✓)
<b>Link with fund and government outcomes</b>		
Creates permanent jobs	<ul style="list-style-type: none"> <li>The 12-month trial (subject to an ongoing Task Resource Analysis (TRA)) has potential to generate:               <ul style="list-style-type: none"> <li>Comme FTE roles (Comme IAL; Comme Air New Zealand and Comme in the café);</li> <li>Commerc part-time/casual roles for the Aviation Security Service (AvSec), Air New Zealand and the café.</li> </ul> </li> <li>If the route becomes permanent and subject to the TRA, it could generate:               <ul style="list-style-type: none"> <li>Commerc FTE roles (IAL; Air New Zealand and café),</li> <li>Comme C part-time roles for the Aviation Security Service (AvSec), Air New Zealand and the café.</li> </ul> </li> <li>Comm design and build jobs will be come during construction to deliver the project (preceding the 25 August maiden flight).</li> <li>The real impact of this trial and the potential permanent route lies in generating FTE roles off the back of airfreight, logistics and from inbound passenger numbers helping to change tourism flows in the lower South Island.</li> </ul>	✓✓✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> <li>Air New Zealand is returning jet services to Invercargill for the first time since 1995 (24-years) and connects Southland with New Zealand's largest city, the country's main international gateway and its centre of commerce.</li> <li>This project will help to eliminate Southland's perceived isolation by making Invercargill as close to Auckland's CBD as Hamilton currently is (90-minutes).</li> <li>The air cargo dimension enables value-add processing to support aquaculture, noting the PGF supported Commercial Information and a recently submitted Commercial Information.</li> <li>By slashing times to market, it will also support lucrative live rock lobster exports from Southland (largest quota management allocation).</li> </ul>	✓✓✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> <li>Papatipu Runaka ki Murihiku (mana whenua entities) are shareholders of IAL owning jointly and equally 2.8%.</li> <li>Airfreight options from Invercargill provide opportunities for Ngai Tahu Seafood for their</li> </ul>	✓✓✓✓

	<p>exports of oysters and other seafood from Bluff to global markets where time is of the essence.</p> <ul style="list-style-type: none"> <li>• Building air cargo volumes (and in time passengers), will increase the downstream demand for warehousing, logistics and cold storage. There will also be increased employment opportunities with roles created to support air cargo operations</li> <li>• Finally, the applicant states that Ngai Tahu has expressed an interest in making investment in the airport. Ngai Tahu's letter of support for this application also restates a willingness to support PGF applications that are a direct result of the Southland Regional Development Strategy (SoRDS) action plan.</li> </ul>	
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> <li>• Not applicable to this application</li> </ul>	
Mitigation of climate change effects	<ul style="list-style-type: none"> <li>• The applicant cites UK CAA Freight Weighting, which appears to indicate air transport over short-haul air routes (as Auckland-Invercargill will become) is more carbon efficient than corresponding road transport options.</li> <li>• This UK CAA study shows carbon emissions on the 1,180 kilometres between Invercargill and Auckland returns 95.9gCO<sub>2</sub>/tkm (grams of CO<sub>2</sub> per tonne-kilometre). While this is 7.4gCO<sub>2</sub>/tkm more than an articulated truck with an average 10.93 tonne load, over distance air becomes more efficient given the road route takes not only considerably longer, but covers an additional 127 kilometres.</li> <li>• A new service between Auckland and Invercargill will cut down on the leakage of passengers who drive to Queenstown and Dunedin to access jet services. Conventional private motor vehicles are the least efficient in terms of gCO<sub>2</sub>/tkm.</li> </ul>	✓✓✓
<b>Additionality</b>		
Adding value by building on what is already there	<ul style="list-style-type: none"> <li>• The level of PDU investment is modest compared to the potential jobs gain. There are additional benefits from unlocking commerce, agriculture and tourism, as highlighted in the region's Regional Development Strategy.</li> <li>• IAL was extended in the mid-2000's to become New Zealand's third longest civilian runway. This was carried out on the basis that airlines would use Invercargill as a cheaper curfew free gateway into Queenstown (and for freight). While that never eventuated at the time, it is now with Air</li> </ul>	✓✓✓✓✓

	New Zealand.	
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> <li>• The Southland Regional Development Strategy (SoRDS) noted: “The timetable and cost of air access to the region is regarded as an obstacle to development”.</li> <li>• Direct connectivity for both people and exports to New Zealand’s largest city and from there to the world, makes it easier for Southland to grow business and attract the 10,000 people identified in the Southland Regional Development Strategy.</li> <li>• A cornerstone of SoRDS is diversifying the Southland economy into aquaculture (seen as the single greatest opportunity to create a new comparative advantage for Southland on an international scale). There is potential for Southland Aquaculture to become an internationally significant industry. The Ministry of Transport in its supporting consultation with the PDU specifically notes this.</li> <li>• Rapid and robust access to markets is fundamental to having a reliable aquaculture business. An airfreight option directly out of Invercargill and into our largest air export hub is critical for exporters to gain the maximum advantage from their products in lucrative overseas markets.</li> </ul>	✓✓✓✓✓
<b>Connected to regional stakeholders and frameworks</b>		
Alignment with regional priorities	<ul style="list-style-type: none"> <li>• The application, as previously noted, supports what is a priority action arising from the Southland Regional Development Strategy.</li> </ul>	✓✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<p><i>Majority Owner:</i></p> <ul style="list-style-type: none"> <li>• Invercargill City Holdings Limited (CCTO of Invercargill City Council)</li> </ul> <p><i>Iwi/Hapu (as minority owners):</i></p> <ul style="list-style-type: none"> <li>• Papatipu Runaka ki Murihiku (mana whenua entities) which are the four Southland Runanga who equally hold 2.8% in IAL</li> <li>• Ngai Tahu has endorsed this in respect of Ngai Tahu and the SoRDS process.</li> </ul> <p><i>Local Government:</i></p> <ul style="list-style-type: none"> <li>• Southland Mayoral Forum (Sir Tim Shadbolt)</li> <li>• Mayor of Southland District (writing individually)</li> </ul> <p><i>Regional Development Agency:</i></p> <ul style="list-style-type: none"> <li>• Venture Southland’s Air New Zealand Presentation</li> </ul>	✓✓✓✓✓

	<p><i>Aviation:</i></p> <ul style="list-style-type: none"> <li>Air New Zealand (as the operator)</li> </ul>	
<b>Governance, risk management and project execution</b>		
Robust project management and governance systems	<ul style="list-style-type: none"> <li>In 2014, IAL undertook a <sup>Commercial</sup> project to build a new terminal building at the airport. This was completed on time and within the budget. This project will utilise similar project governance and management processes.</li> <li>IAL's General Manager (Nigel Finnerty) holds a Bachelor of Engineering (Naval Architecture). After the Navy, he worked at the New Zealand Aluminum Smelter in Bluff, holding a number of leadership, management and engineering roles over 14-years.</li> <li>Where possible design/build is being used to speed the process and reduce consultant fees. This applies to Building Mechanical Services, Baggage Handling Equipment, and Temporary Sheds.</li> <li>Due to the fast track and fixed completion date nature of the project, contractors will generally be selected by the independent project manager on a combination of tendered and negotiated basis. An independent Quantity Surveyor <sup>Commercial Information</sup> ( ) is being used to check pricing.</li> </ul>	
Risk management approach	<ul style="list-style-type: none"> <li>Use of a known project manager and consultants who have worked on major IAL contracts within the past five years.</li> <li>The IAL Board reports monthly to the major shareholder, Invercargill City Holdings Limited (ICHL); the CCTO of Invercargill City Council.</li> <li>The major shareholder has been apprised of the project since its inception.</li> <li>The Chair and General Manager of IAL report in person to ICHL every three months.</li> </ul>	
Future ownership / operational management	<ul style="list-style-type: none"> <li>97.2% of the shareholding is held by ICHL, which prior to 2013, held a 55% shareholding but increased it by purchasing the Crown's shares.</li> <li>Apparent interest from Ngai Tahu to explore equity, suggests there could be longer term reduction of ICHL's shareholding back to historic levels. It should be also noted that four Southland Runanga jointly own a minority (2.8%) shareholding in IAL.</li> </ul>	

**Risk Issues:**

- *Project slips delaying the first flight:* This is a low risk given previous projects have run to time but needs to be considered given the build is in winter.
- *Flights fail to reach <sup>Commere</sup>% passenger load and air cargo factors:* This is a low risk due to the research invested by Venture Southland and Air New Zealand on existing flight profiles to Auckland (as well as Queenstown and Dunedin).
- *Cost blowout on the project:* This is a low risk due to the specific and time limited nature of the project (as well as IAL's past track record delivering on time and on budget).
- *ICHL declines to back debt programme:* This is a low risk but ICHL is also partnering with HWP on the much larger Invercargill CBD redevelopment.
- **Commercial Information**  
[Redacted]
- *Economic externalities lead to route cancelation:* A trade war or global financial crisis is a medium risk factor could seriously impact air cargo demand, tourism and business travel equally forcing Air New Zealand to slash routes.

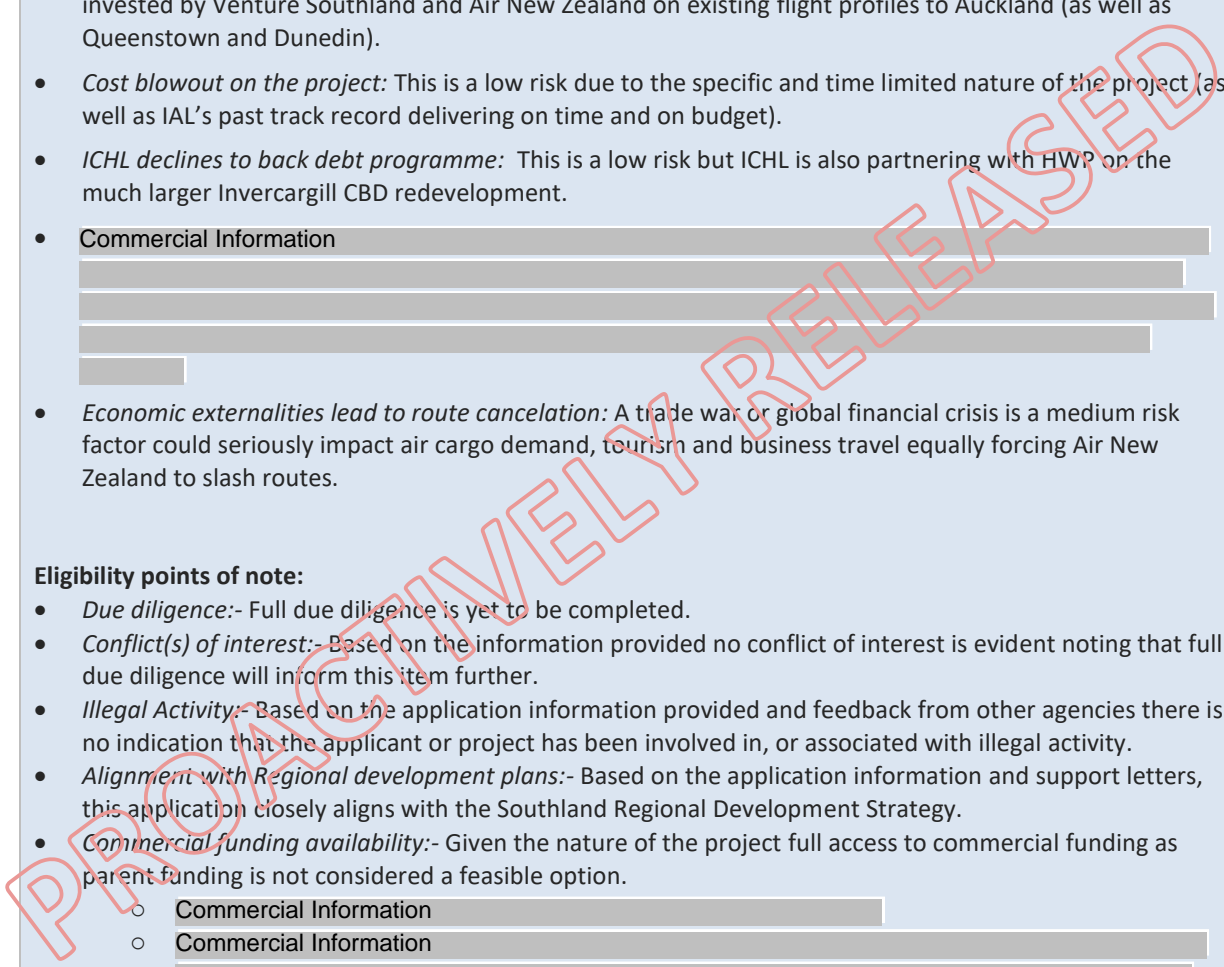
**Eligibility points of note:**

- *Due diligence:-* Full due diligence is yet to be completed.
- *Conflict(s) of interest:-* Based on the information provided no conflict of interest is evident noting that full due diligence will inform this item further.
- *Illegal Activity:-* Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- *Alignment with Regional development plans:-* Based on the application information and support letters, this application closely aligns with the Southland Regional Development Strategy.
- *Commercial funding availability:-* Given the nature of the project full access to commercial funding as parent funding is not considered a feasible option.

- **Commercial Information** [Redacted]
- **Commercial Information** [Redacted]
- **Commercial Information** [Redacted]
- Major airport maintenance is scheduled for the 2021/22 year while there is a runway reseal due in 2023/24 for which no agreement exists with air operators at the moment;
- **Commercial Information** [Redacted]

and

The capital cost of the trial and the permanent facilities that will follow, will impact IAL's redemption of the preference shares from the \$<sup>Commercia</sup> terminal building (on top of IAL's ability to increase turboprop landing fees beyond 2020/21 while factoring in maintenance that falls in 2021/22 and 2023/24).





Consultation undertaken or implications:									
<b>Legal</b>	N/A	<b>HR</b>	N/A	<b>Finance</b>	N/A	<b>MBIE policy</b>	N/A	<b>Other</b>	MBIE Tourism DoC
<b>Supporting proposal:</b>					Yes				
<b>Appendices:</b>					Yes - Applications and supporting letters are as annexes				
<b>Sponsor(s):</b>					N/A				
<b>Manager/Author of paper:</b>					Privacy of natural persons Investment Director				

PROACTIVELY RELEASED





New Zealand Government

**Appendix 1: Assessment of this proposal against the draft PDU investment principles for PGF investment in airports**

Draft principle	Comment
The airport must fit with the relevant region's economic development priorities	The Southland Regional Development Strategy (SoRDS) noted "The timetable and cost of access to the region is regarded as an obstacle to development". Connectivity for both people and exports to Auckland will make it easier for Southland to grow and attract the 10,000 people identified in SoRDS.
The airport investment should be identified as a priority for key sectors in the region	Aquaculture is seen as a priority sector to diversify the Southland economy. Rapid and robust access to markets is fundamental to having a reliable aquaculture business. In addition, the project is expected to help reshape tourism flows in the lower South Island (identified as a key PGF driver).
The investment should support existing growth in other sectors and not attempt to lead growth	Air New Zealand has already made the decision to resume scheduled jet services from Auckland to Invercargill on 25 August 2019. The investment supports investments in emerging sectors in the region, such as aquaculture, and existing PGF investments such as Milford and Stewart Island; Invercargill's CBD redevelopment and Gore's Project Maruawai.
The investment should provide certainty about connection to markets	The project will help eliminate Southland's perceived isolation by making Invercargill as close to Auckland's CBD as Hamilton currently is (90 minutes).