



Review points on Cook Islands Economic Development Strategy 2030 consultation draft document

Summary

Kudos to the Government on the facilitating and creating a ten-year strategic document showing some key action points with timeframes and KPI's.

As a whole this is a great effort and covers most of the key strategic points. Air Rarotonga appreciates the government's response to the needs of businesses arising from Covid-19.

We have divided our comments into two areas.

- Where our air services have a direct impact on the success of these strategic goals.
- Aspects of the economy that have an indirect or induced impact on our Company and its personnel

Strategies directly impacting or involving Air Rarotonga Limited

When it comes to development of opportunities for the Pa Enua, Air Rarotonga as a domestic air transport provider is keenly interested as a development partner:

Air services

Air Rarotonga provides a regular reliable air service to most of the Pa Enua, but residents find the passenger airfares expensive. Residents, however, welcomed Air Rarotonga's \$1 per kilogram rate for farm produce air freight to Rarotonga. Concerns were also raised in Penrhyn and Manihiki, for example, about the inability of the airport runways in the Northern Group to service larger, more cost-efficient Air Rarotonga aircraft that would help reduce the cost of airfares.

Historically tourism traffic on the Aitutaki route has formed the financial backbone of all inter-island air services. In the immediate Post Covid market, tourists will mainly come from NZ (A more price conscious market segment). This will limit our ability to cross-subsidise other pa enua services - as we have done in the past - until visitor traffic and higher yields return initially from Australia, followed by the Northern Hemisphere.

The paving of runways in Manihiki, Penrhyn then Atiu will facilitate the operation of Saab 340s on those routes. The superior operating economics and payload particularly on the Northern Group routes will reduce airfares significantly and enhance access for local residents and visitors alike. Progressive paving of Southern Group runways will also improve the economics particularly for event based directional travel, allowing lower fares to be offered.

In response, the Government is planning two interventions. The first is a rolling airport resealing program for the Northern and Southern Groups (Action 1.9). Second, the Government will consider the viability of establishing a Pa Enua Air Discount scheme (Action 1.10). The purpose of the scheme would be to deliver lower air fares for the residents of Cook Islands remote communities – the Pa Enua other than Aitutaki –



whose main 'The high cost of airfares is a problem, especially with no doctor or dentist. There are some things a nurse can't do.'

Under Objective 1: Improving equity & access for all

(1.13) Kaveinga Ora Program (TMO) - Implementation of Te Marae Ora's flying Doctor and Dentist Program (Timeline - ongoing) and (1.14) Pa Enea medical staff incentive scheme (TMO and MFEM) - Assess the merits of introducing an incentives scheme to attract more doctors and dentists to live and work in the Pa Enea (Timeline - 2023)

Air Rarotonga delivers transport logistics for the Ministry of Health to retrieve patients from the pa enua for medical treatment in Rarotonga. At present, the airline provides an aircraft, crew and an approved stretcher installation with MoH providing the medical personnel and medical equipment.

With the recent introduction of the Cessna Citation jet to the fleet, prompt response to the farthest islands of the Northern Group is now possible. The Company has also purchased a Lifeport aeromedical transfer system capable of providing life support for patients in transit. It is impractical and expensive to maintain qualified doctors and life support equipment in each island. However communities in the pa enua require the security of emergency medical services when the need arises. Only Aitutaki has runway lighting at present however relatively low cost emergency runway lighting in the other islands of the pa enua could extend the capability to virtually 24/7.

Air Rarotonga proposes developing its present capability into a full air ambulance service covering the pa enua along with international medevac to Auckland, Papeete or Suva. This would present a quantum improvement in medical security for residents of the pa enua and Rarotonga alike. The Airline already possesses the hardware i.e. aircraft with approved stretchers and life support equipment.

To formalize the operation we require qualified aeromedical/paramedic personnel along with the development of a full service level agreement between the airline and MoH. It would be most practical for the qualified aeromedical/paramedic capability to be developed in collaboration with, and as an extension of Rarotonga Hospital under the auspices of a suitably qualified Medical Director. The service would operate under an MoU and service level agreement between the MoH and the Airline. New Zealand domestic and international air ambulance/medevac services are governed by New Zealand Standard NZS 8156:2019. Operators are accredited and audited to the New Zealand Aeromedical and Rescue Standard v3.0 2018.

It is proposed that the New Zealand Standard be adopted along with the establishment of relationships with accredited New Zealand operators as a source of technical support.

(1.22) Tourism Business Support Pa Enea (CITC) - supplement new small-scale Tourism business development (Timeline - 2022) and (1.23) Pa Enea Package Tour support (CITC) - Support private sector package tours to Pa Enea destinations (Timeline - 2022)

From Air Rarotonga perspective

The Aitutaki route is the principal source of domestic passenger traffic - Pre Covid 19 at 80.0% of the total. Aitutaki accommodation inventory is presently focussed on romance and long haul travellers with the major resorts all restricted to adults only. This contrasts with Rarotonga's extensive family friendly options, particularly suited to the New Zealand market.



Beyond Aitutaki, the remaining Southern Group islands account for 17.5% of passenger traffic. The islands in this segment do not have international wholesaler grade accommodation. Runways are unpaved restricting services to the smaller Bandeirante aircraft with these two factors limiting the potential for significant visitor traffic. Passenger traffic to these islands is predominantly local VFR, Government personnel and NGO's. Visitor dispersal to Islands apart from Atiu is presently very small.

In a bid to increase the percentage of visitor dispersal to the pa enua (outside Aitutaki) we are involved with Cook Islands Tourism as a development partner, in creating the Island Host programme to assist pa enua accommodation and service providers develop a brand along with consistent service provision. Island Host will also manage the visitor expectation, be instrumental in training human resources, and building capacity in those Islands. Enhancement of locally owned and operated guest houses along with the development of expedition style tour products will increase visitation without the need for larger scale capital intensive resort development. This style of development is also most compatible with community expectations.

We propose the Island Host programme be developed as a priority with work covered under 1.22 and 1.23 and starting in 2021 not 2022.

Developing the brand, service delivery and HR needs of Island Host is one plank of this initiative. The other is the enhancement of existing small scale guest houses and the addition of further inventory in this category. Access to a combination of grant funding and low interest finance would fund these improvements. Land tenure and the isolated risks in the pa enua render conventional bank finance restrictive or not available at all. The availability of grant funding through the CIT Destination Development Programme and some form of revolving fund or other low interest finance facility will be pivotal to the success of this initiative.

Upgrading of guest houses and small scale accommodation in Aitutaki to suit the families market could also be included in the Island Host programme.

(1.9) Northern Group airport sealing (ICI) Tar sealing of selected Northern Group runways to permit larger aircraft operations (Timeline 2021-2024) Southern Group airport sealing (ICI) Tar sealing of selected Southern Group runways to permit larger aircraft operations (Timeline 2023-2026) and (1.10) Pa Enea Air Discount Scheme (MFEM) Assess the viability of establishing a Pa Enea Air Discount scheme to deliver lower air fares for the residents of Cook Islands remote communities (Timeline - 2023)

From Air Rarotonga's perspective

Paved runways allow us to fly larger, more cost efficient aircraft and hence reduce the cost of fares for local travelers. The average one way fare differential being in the order of \$50-\$70 when comparing fares available to Aitutaki compared with the other Southern Group Islands.

Paving of Manihiki will reduce average one fares to around \$650

The progressive paving of runways allowing the operation of larger more cost effective aircraft will reduce average air fares over time. The decision to subsidise fares for pa enua residents is a social one for the Government. As an example, the Queensland government operates a scheme where subsidised air fares are available to residents of isolated communities . <https://www.tmr.qld.gov.au/LocalFareScheme>



Under Objective 2: Transforming our economy

Nothing directly related

Under Objective 3: Developing our people and culture

(3.2) Population Study (OPM) - Study to increase the understanding of the driver behind population movements (Timeline - 2022) and (3.3) National Population Strategy (OPM) - Research and development of a national population strategy for the Cook Island (Timeline - 2022)

From Air Rarotonga Limited and Paradise Island Limited perspective

Our Companies are proactive in the training and development of Cook Islanders across all technical and commercial disciplines and have achieved a good deal of success. The outcome is a stable, deep and broad range of local expertise bringing stability for our airline technical operations. This policy also has cross-cutting benefits in the public perception of the Airline.

There is no doubt that the retention of qualified and experienced Cook Islanders in our workforce relates directly to the availability of training and career development pathways along with regionally competitive terms of employment.

Under Objective 4: Investing in our Islands

(4.9) Revenue Strategy (MFEM) - Develop and implement a new Revenue Strategy (Timeline - 2021), (4.12) Business Start up support (Chamber of Commerce) - Establish a mentoring and assistance mechanism for business start-ups (Timeline - 2021) and (4.16) Cook Island Tourism Business Partnership Program (CITC) - A newly restructured tourism accreditation scheme aimed at improving the quality of Cook Islands tourism products and services (Timeline - 2021)

From Air Rarotonga's perspective

The Pa Enea need mentoring, guidance and assistance with business start ups at a much more intensive level than in Rarotonga. The availability of targeted schemes tailored to each islands circumstances will be needed to achieve any measurable growth in private sector activity in the Pa Enea. In some islands the population is so small that a single motivated individual or a family can provide the energy and initiative to significantly benefit economic activity.

In our opinion the immediate priority is the preservation of existing businesses in the pa enua.

This could include:

Support for business hibernation and survival.

Apart from wage subsidy, mortgage repayment holiday with 70% interest subsidy, and electricity subsidy, many existing businesses need a cash loss or cash burn grant and further low interest loans to allow them to survive the border closure.



(4.13) Banking Taskforce (FSC/MFEM) - Explore the future direction of the domestic banking sector, including sustainable options to reduce the cost of credit (Timeline - 2022), (4.15) Consumer protection (MFEM) - Assess options to improve consumer protection for holiday prepayments (Timeline - 2022), (4.17) Review of Airline underwrite (MFEM/CITC) - Commission expert review of the net benefits of the underwrite to inform a decision on its future (Timeline - 2022) and (4.18) Commercial agricultural support (MOA) - Support to local commercial agricultural suppliers to meet local tourism demand by implementing the Agriculture Sector Plan 2020-2025 (Timeline - 2021 and ongoing)

From Air Rarotonga's perspective

There will be massive shrinkage in revenue and visitation numbers that will be first experienced when the border opens with slow build up while the whole world opens and gets used to the new norm of Post Covid 19 travel. Existing tourism businesses will find recovery slow and extremely competitive. Many businesses' debt/equity positions after a whole year of closure will have deteriorated between 15 to 25%. This will be as a result of declining equity through losses carried forward, depreciated asset values and higher debt balances. Ongoing reduced visitor numbers and increased competition the returns for the businesses will be a double/triple whammy.

Post-Covid the immediate financial challenge facing businesses will be payment of principal and interest as soon as the mortgage repayment holiday finishes and the interest relief program ends.

Many businesses will not be in a position to increase lending particularly with the cost of bank financing between 7.5% to 12.5%.

Urgent priority could be given to the banking sector review to examine present commercial banking architecture for its cost and efficacy. With interest rates at near zero around the World, commercial recovery in the Cook Islands will be greatly hampered by the continuance of present high interest rates.

Re-establishing non-stop air links with Australia and North America will take time and a large investment.

Non-stop to Australia has commercial potential for both Air New Zealand and Jetstar as they look for post Covid short and medium haul destinations. North America is more problematic. Air Rarotonga is presently modelling a potential East-West air link with a regional jet to re-open access to North America and Asia through the gateways of Fiji and Tahiti. This proposal will be presented to the Government in the near future.

Under Objective 5: Greening our economy

(5.4) Low carbon transport incentives (MFEM) - Consider introduction of tax and licencing arrangements that support the importation and use of low carbon transport (Timeline - 2023), (5.8) Economic Crisis Management Plan (MFEM) - Develop a comprehensive Economic Crisis Management Plan (Timeline - 2022), (5.10) Sanitation Master Plan (MFEM/PMU) - Finalise the draft Masterplan (Timeline - 2021) and (5.11) Solid and Hazardous Wastes Bill (ICI) - Finalise and promulgate the Bill (Timeline - 2021)

From Air Raro's and Paradise Island's perspective



The dual challenges of global warming and climate change loom large for the airline industry. Reducing reliance on fossil fuels for aircraft awaits solutions however carbon offsets provide a means of compensating in the meantime. There are opportunities to reduce our footprint through electrification of ground equipment, installation of solar charging stations and incentivizing staff acquisition of electric vehicles.

Air Rarotonga is working on documentation and a timeline for the introduction of environmental SOPs covering the management of black water/grey water waste, use of plastics etc.

Rather than simply taxing carbon emissions we believe Government could further incentivise people's behaviour as a more inclusive way to green our economy.

CITC's Mana Tiaki program is an example of a proactive approach in the tourism sector.

Other areas of Strategies which has an indirect or induced impact on Air Rarotonga Limited

Business Survival

Survival of the top 50 tax paying businesses is critical for economic recovery and the rebuilding of Governments revenue stream. Their survival is based on the three important support mechanisms:

Wage subsidy support - allows business to retain their staff ready for when border opens

Cash burn support - This is supercritical now as businesses will not be able to hibernate and keep open

Business Debt structure. - As we mentioned earlier, the Businesses debt equity position with a whole year closure would have gone up between 15 to 25%. This would be as a result of declining equity (Loss carried forward), Depreciated asset values and higher debt balances). In addition due to reduced visitor numbers and increased competition the returns for the businesses will not be as much.

Education

A comprehensive review of our education system is needed. At present we see the majority of young people leaving school with no obvious pathway to acquiring marketable skills relevant to today's employment opportunities.

The 2016 census data shows that around 70-75% of the working age population:

1. Did not progress beyond year 11 at school
2. Do not have a formal vocational qualification of any sort
3. Earn \$25,000 or less per annum

While firm conclusions cannot be drawn on such a narrow range of statistics however our experience as an employer generally corroborates the situation shown above.



Some suggestions to consider:

Create the Tereora National Campus incorporating the present college, TSA, and Stadium and

1. CITTI Trades School
2. Hospitality Training School
3. An Agriculture School
4. Expand the Technology Centre to include digital media and food technology
5. A Business school focussed on sole traders and small enterprises

The Campus would build sufficient boarding houses to accommodate secondary/tertiary students from the pa enua.

Curriculum to extend to Level 4 with co-respondent arrangements though NZ institutions such as AUT and Manukau Tech.

Place the Campus under the direction and management of a Board of Governors

Attracting people back

Offer a return of service payment to Cook Islanders who attain qualifications in New Zealand to service their student loans.

Remittances make up a significant contribution to GDP in countries like the Phillipines and closer to home in Tonga and Samoa.

Well educated and trained overseas based Cook Islanders who do not return are likely to do the same.

Renewable Energy

It is apparent that the developed World could move more aggressively on climate change in the near future. A development strategy to 2030 needs specific goals reducing reliance on fossil fuels.