



Border Processing Levy

Cost Recovery Report

for the six months to 30 June 2016

Prepared by the New Zealand Customs Service and Ministry for Primary Industries

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1 EXECUTIVE SUMMARY

The Border Processing Levy, also known as the Border Clearance Levy (the Levy), came into force on 1 January 2016. During the first six months higher than expected traveller numbers have led to increased revenues. Although costs are also higher than expected due to the volumes, both the New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) have closely managed costs.

As a consequence, memorandum accounts are in surplus as at 30 June 2016, with the Customs balance of \$1.47 million and MPI balance of \$1.12 million. As a percentage of total revenue, these surpluses equate to 4.6% for Customs and 3.2% for MPI.

This report projects increasing revenue driven by further significant traveller growth. MPI is anticipating some additional associated expenditure with increases to personnel to manage the forecast traveller growth; while Customs has technology costs including Smartgate, to cope with handling the greater numbers of travellers at the border.

Consideration is currently being given in both Ministries to the implications of the ongoing level of traveller growth, combined with the changing risk profile as the flow of travellers becomes increasingly diverse - this may demand further technology investments and other changes in the operating model to improve the customer experience. Key priorities to investigate include:

- Clearance of luggage before the baggage carousel
- Accredited passenger programmes
- Implementation of new detection technology
- Facilitation of passengers of high biosecurity risk
- Pre-clearance of passengers (joint process with airlines)

Both Customs and MPI exceeded all non-financial performance measures despite significant growth in traveller numbers in 2015/16. Travellers in this period were more than 6% higher than previously anticipated, at 12.1 million travellers.

The Levy is scheduled for review and reset prior to 1 July 2018.

2 INTRODUCTION

2.1 PURPOSE OF THIS REPORT

This Cost Recovery Report provides information on the performance of the Levy and contains:

- Information about cost recovery arrangements for the Levy.
- Actual financial results for the period 1 January to 30 June 2016 and forecasts for the 2 years to 30 June 2018.
- An initial framework for reporting on the Levy's financial and non-financial performance in the future.

This report and future reports are one of the ways in which MPI and Customs will provide transparency and accountability for the performance of the Levy. It will be supplemented by regular meetings with key stakeholders to discuss Levy performance and to consider further opportunities to work in co-operation to enhance services, manage risk and continue to provide value for money.

MPI and Customs intend to provide this report annually. This report covers financial reporting for the first six months of the Levy's operation to 30 June 2016 and reporting on non-financial performance for the full 2015/16 year. Customs and MPI will work with stakeholders over time to further enhance reporting to provide additional transparency and accountability of the performance of the levy.

MPI is currently undertaking a First Principles Review of all its cost recovery arrangements, which includes work on improving transparency of service performance to industry. This report will continue to evolve as the First Principles Review progresses and Levy stakeholders will continue to be engaged throughout the review.

Customs also intends to commence a review of their cost recovery arrangements during 2016/17 which will incorporate the Levy. The outcome of the review will inform the new levy rates which are due to commence from 1 July 2018.

2.2 BACKGROUND

2.2.1 Funding for Border Clearance Services

Customs and MPI are the border agencies that are primarily responsible for processing individuals (both passengers and crew) that arrive in New Zealand. Customs has primary responsibility for processing individuals departing from New Zealand.

MPI and Customs work together, along with other border agencies, to manage risk at the border.

MPI and Customs activities for processing travellers are funded via the Passenger Border Processing Levy authorised by section 288B of the Customs and Excise Act 1996 and section 140AA of the Biosecurity Act 1993. The Levy is given effect by the:

- Biosecurity (Border Processing Levy) Order 2015.
- Customs and Excise (Border Processing Levy) Order 2015.
- Levy orders also set out a number of exemptions to paying the levy Crown or other third parties for non-levy funded travellers are described in appendix 2, table 8.

Customs and MPI use memorandum accounts to manage fluctuations in Levy revenue and expenditure in any given year, with account balances expected to trend to zero over time. Levy costs and revenues are monitored by Customs and MPI on a monthly basis.

The Levy came into force on 1 January 2016. Levy rates were set for a 30 month period (1 January 2016 – 30 June 2018) and must be reset by notification in the gazette before 1 July 2018.

Some funding is also provided by the Crown or other third parties for non-levy funded travellers as described in section 3.3.

2.2.2 Review of the Levy

MPI is conducting a First Principles Cost Recovery Review, which will include a review of the Biosecurity (Border Processing Levy) Order 2015 which will consider the mix of services and activities funded by the Levy remains appropriate and will assess and update the levy rates if required. Consultation will be undertaken with interested and affected parties in accordance with the requirements of Section 140AA (4) of the Biosecurity Act 1993. At this stage MPI anticipates consultation in late 2017.

Customs also intends to commence a review of their cost recovery arrangements during 2016/17 which will incorporate the Levy. The outcome of the review will inform the new levy rates which are due to commence from 1 July 2018.

2.2.3 Activities the Levy funds

Levy revenue provides funding for the following activities which are carried out by Customs and MPI at the border for the purposes of clearing travellers:

Table 1: Activities funded through the levy

Stage of the process	Customs	MPI
Pre-border activities	• Identification of persons of interest from advanced information • Planning processes for significant operations/events • Intelligence/information sharing with other agencies and administrations to inform risk identification and operational activity • Forecasting and supporting analysis • Provision of co-ordination functions (including for ad hoc arrivals)	• Screening for targeted interventions - identifying travellers of biosecurity interest • Co-ordination of resourcing and tasking of border activities • En-route biosecurity clearance - where possible • Management of craft applications for arrival at non-approved Places Of First Arrival
At border activities	• Primary-line processing (manual and via SmartGate): validation of identity, completion of immigration processes, identification of persons of interest • Secondary activities and processes i.e. interaction with persons of interest, questioning and search activities • En-route and alongside processing of cruise passengers • On-site support to secondary and verification activities and processes (i.e. more involved questioning and intervention with persons of interest, assistance around examination of electronic devices) • Customer service functions	• Assessment of arrival documentation against biosecurity requirements • Verification of compliance to biosecurity requirements of travellers • Application of intervention tools e.g. communications, searches, detector dogs, x-ray • Collection of information relating to pathways and effectiveness of interventions
Post-border activities	• Investigative activity (including surveillance and monitoring of persons of interest once they move beyond the border process) • Processing of the reporting that is completed (i.e. activity and information reports) including review and management of entities/alerts/profiles • Post-seizure analysis (including supporting frontline briefing processes) • Debriefing processes for significant operations/events • Information-sharing with other agencies/administrations • Storage and disposal of seized goods • More involved analysis and intelligence processes (i.e. strategic assessments, analysis and refinement of profiles and alerts)	• Review and management of high-risk travellers • Verification of the process for the disposal of risk goods seized from travellers • Investigations into non-compliance • Compliance monitoring and analysis to measure performance of pathways

3 FINANCIAL PERFORMANCE

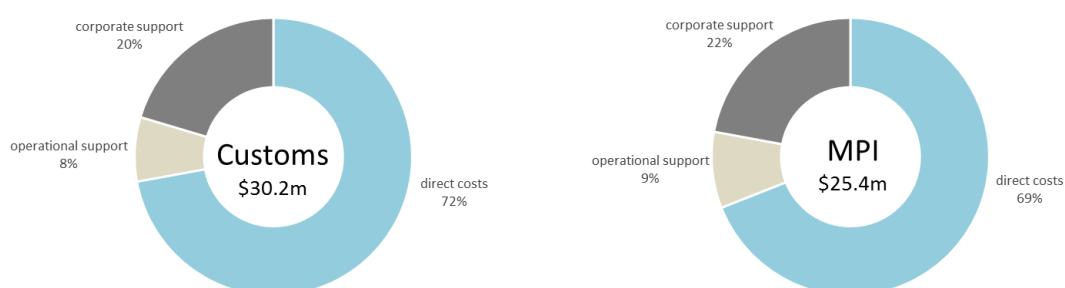
3.1 COSTS OF ACTIVITIES

The three broad categories of costs for processing travellers are:

- Direct Costs - frontline operational costs, including those relating to border clearance staff (Quarantine Officers and Customs Officers), intelligence staff, equipment (e.g. Smartgate) and detector dogs.
- Operational Support Costs - costs of all operational support areas, including planning, scheduling, and operational management.
- Corporate Support Costs - the attributable share of corporate services costs that are allocated across the whole of Customs or MPI, including Finance, Legal, IT and HR.

The overall breakdown of costs across these three categories is as follows:

Figure 1. Recoverable border clearance costs by category – 1 January to 30 June 2016

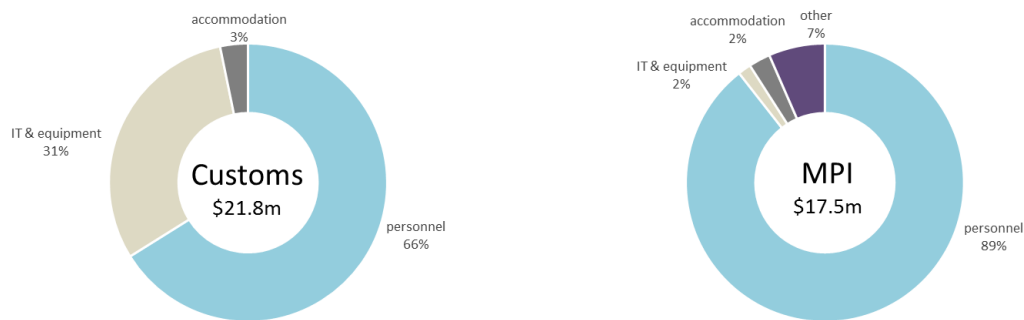


3.1.1 Direct Costs

Direct costs components are:

- Personnel – frontline and intelligence staff, contractors, and detector dog handler costs
- Equipment and IT – including X-ray equipment, Smartgates, other equipment and IT & communication costs.
- Accommodation – direct property occupancy costs.
- Other direct operating costs – including travel & vehicles, consumable materials, uniforms and clothing, financial costs, legal costs, and other operating costs.

Figure 2. Levy direct costs by category – 1 January to 30 June 2016



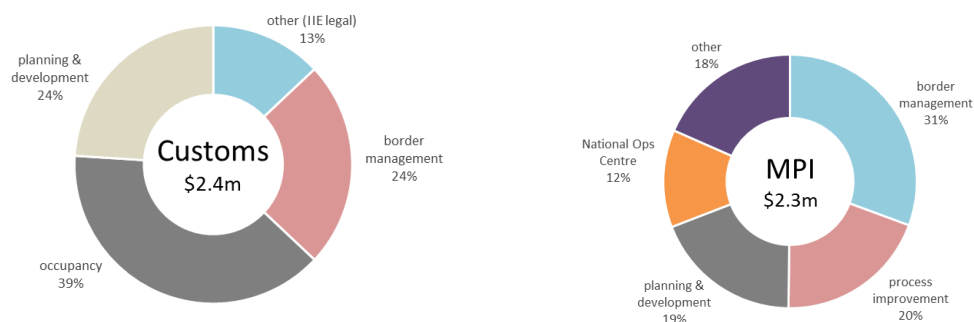
3.1.2 Indirect Costs

Indirect costs comprise both Operational Support Costs and Corporate Support Costs (defined in 3.1 above).

Operational support costs largely comprise pre-border costs, and include:

- Border clearance management
- Intelligence & operations
- National Operations Centre
- Operational planning & development
- Operational process improvement

Figure 3. Operational support costs by category – 1 January to 30 June 2016



Corporate support costs include attributions of the following corporate functions:

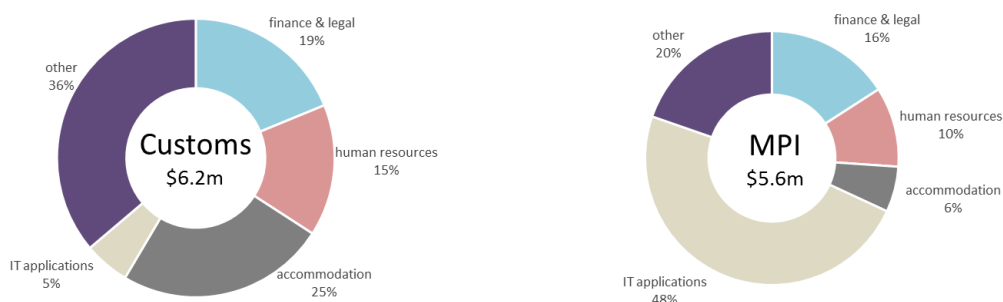
- Human Resources
- Finance & Legal
- Accommodation
- IT Applications & Support

- Other – including Communications, Strategy & Planning, Ministerials & Business Support

Corporate support cost allocation drivers include direct full time equivalent (FTE) employees delivering border clearance services, property (space) demands, and IT usage.

The breakdown of corporate support costs is as follows:

Figure 4. Corporate support costs by category – 1 January to 30 June 2016



Corporate support costs are allocated based on best practice cost recovery principles. Customs and MPI allocate indirect costs based on each agency's underlying operating models and cost structures. The basis on which corporate support costs are allocated, is audited annually and meets requirements set by The Treasury.

3.2 COST DRIVERS

The main cost drivers for both agencies are traveller volumes and the level of risk that those travellers pose. The level of risk determines the nature of the risk management activities that must be undertaken to manage this risk. The higher the risk profile of travellers, the more activity is required to manage the risk such as x-rays, bag and personal searches, which increases the cost per passenger of clearance. While this may lead to future costs increasing at a greater rate than the traveller numbers, the current level of risk has been assumed in the forecast levy costs.

Forecast passenger and crew volumes are outlined in Table 2, Section 4.1.

Traveller facilitation across the border is also a driver of cost. In general, faster facilitation of travellers requires more resources which will cost more for a given level of risk profile. The future facilitation service delivery model is assumed to remain unchanged in the forecast costs.

3.3 REVENUE

Revenue from the Levy is related to traveller volumes and the scope and number of any exemptions in place.

The activities funded by the Levy will be part funded by the Crown for the first 30 months' cycle. There are two components to this Crown funding:

- Meeting the levy contributions of passengers that have fully paid for their tickets for 2016 travel before 1 January 2016. This is a temporary transitional arrangement that will cease from the start of the 2017 calendar year.
- Crown funding to top up the capped rate paid by cruise ship passengers – this will remain in place until 1 July 2018.

The costs of additional functionality at the border that is required by other Government agencies will not be borne by Levy payers (e.g. information matching for student loan holders leaving the country for Inland Revenue). These costs will be recovered from the agency requesting it.

Additional services negotiated with and provided by Customs or MPI remain subject to separate cost recovery arrangements.

These arrangements will also be reviewed as part of MPI's First Principles Cost Recovery review of the Levy in 2017/18.

4 FORECAST PERFORMANCE

4.1 TRAVELLER VOLUMES AND REVENUE

The demand for border clearance services is linked to traveller volume forecasts. Forecast models are collated by Customs and incorporate the inputs as set out below.

Commercial air passengers

Forecasts are based on the growth rates provided by:

- The Ministry of Business Innovation Employment's Tourism Forecasts¹
- The Ministry of Transport projections for New Zealand travellers (using the low growth scenario)²

Cruise passengers

Forecasts are based on Cruise New Zealand forecasts for 2015/16 and 2016/17³, with an assumed 8% growth rate from 2017/18.

Table 2. Actual and forecast travellers subject to the Levy (000's)

		2015/16 Jan-Jun	2015/16 Full Year	2016/17 Forecast	2017/18 Forecast
Commercial air	Arrivals	2,933	5,917	6,505	6,849
	Departures	3,036	5,838	6,442	6,784
Cruise	Arrivals	133	189	201	217
	Departures	132	175	202	218
Other Marine & Air	Arrivals	2	2	3	3
	Departures	3	2	3	3
Total	Arrivals	3,069	6,108	6,708	7,069
	Departures	3,171	6,014	6,647	7,005
	Total	6,240	12,122	13,355	14,074
Year on Year Change				+10.2%	+5.4%
Revenue	Crown	22.72		5.74	3.55
	Levy	35.42		121.27	129.26
	Total	58.14		127.01	132.81

¹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts>

² <http://www.transport.govt.nz/research/othertransportresearch/transport-demand-modelling/>

³ <http://cruisewzealand.org.nz/data/>

In the 2015/16 year MPI and Customs risk assessed and processed 12.1 million arriving and departing air and sea travellers, including crew. This is 6.2% higher than forecast in the Interim Cost Recovery Report of December 2015.

4.2 EXPENDITURE

Table 3. Cost breakdown (excl. GST) actual and estimates for 2015/16 – 2018/19 (\$m)

	Customs			MPI		
	2015/16 Jan-Jun	2016/17 Forecast	2017/18 Forecast	2015/16 Jan-Jun	2016/17 Forecast	2017/18 Forecast
Commercial Air:						
Direct	20.49	50.27	50.72	16.26	33.92	35.26
Operational Support	2.12	1.48	1.48	2.09	4.36	4.53
Corporate Support	5.79	14.05	13.99	5.20	10.85	11.28
<i>Total</i>	<i>28.40</i>	<i>65.80</i>	<i>66.20</i>	<i>23.55</i>	<i>49.13</i>	<i>51.07</i>
Cruise:						
Direct	0.82	1.76	1.76	0.84	1.59	1.49
Operational Support	0.10	0.07	0.07	0.11	0.20	0.19
Corporate Support	0.27	0.65	0.65	0.27	0.51	0.48
<i>Total</i>	<i>1.18</i>	<i>2.48</i>	<i>2.47</i>	<i>1.22</i>	<i>2.31</i>	<i>2.16</i>
Other:						
Direct	0.10	0.20	0.20	0.02	0.03	0.04
Operational Support	0.00	0.00	0.00	0.00	0.00	0.00
Corporate Support	0.00	0.01	0.01	0.01	0.01	0.01
<i>Total</i>	<i>0.10</i>	<i>0.21</i>	<i>0.21</i>	<i>0.02</i>	<i>0.05</i>	<i>0.05</i>
Crown:						
Cruise Cap	0.20	0.41	0.41	0.26	0.77	1.04
Mercantile	0.29	0.60	0.60	0.31	0.66	0.68
<i>Total Crown</i>	<i>0.50</i>	<i>1.01</i>	<i>1.01</i>	<i>0.57</i>	<i>1.43</i>	<i>1.72</i>
Total	30.18	69.50	69.88	25.37	52.91	55.00

MPI anticipates modest cost increases over the forecast period due to some inflationary cost pressures and additional staff at the border to deal with increasing numbers of travellers.

Customs cost increases reflect new technology costs (including Smartgate) in 2016/17, with subsequent increases reflecting inflation pressures.

The cruise cap (see Section 3 above) was set in place for the first 30 months of the levy, with Crown funding for this cap ceasing from the 2018/19 year. At this point we currently anticipate the full cost relating to cruise passengers will be recovered from those passengers.

4.3 MEMORANDUM ACCOUNT POSITION

By the end of 2017/18 the cumulative surplus is forecast to rise to \$15.1 million - \$9.6 million through Customs and \$5.5 million through MPI. As a percentage of total revenue, these surpluses equate to 5.4% for Customs and 4.0% for MPI.

Levies will be re-calculated effective from 1 July 2018, and will reflect latest forecast costs, traveller volumes, any changes required to the operating model to address increasing risk, and any surplus in the memorandum accounts.

Table 4a. Customs financial projections (excl. GST)

(in \$ millions)	2015/16	2016/17	2017/18
	Jan-Jun	Forecast	Forecast
Revenue:			
Crown	12.07	2.84	1.95
Levy	19.58	69.5	73.24
Total Revenue	31.65	72.34	75.19
Expenses	30.18	69.5	69.88
Surplus/(Deficit)	1.47	2.84	5.30
Cumulative Surplus	1.47	4.31	9.62

Table 4b. MPI financial projections (excl. GST)

(in \$ millions)	2015/16	2016/17	2017/18
	Jan - Jun	Forecast	Forecast
<i>Arrivals (million pax)</i>	3.1	6.7	7.1
Revenue:			
Crown	10.65	2.90	1.60
Levy	15.84	51.77	56.02
Total Revenue	26.49	54.67	57.62
Expenses	25.37	52.91	55.00
Surplus/(Deficit)	1.12	1.76	2.62
Cumulative Surplus	1.12	2.88	5.51

Strong growth in passenger numbers is forecast to continue, and both Customs and MPI will continue to explore investment opportunities to improve the customer experience. The levy will be reviewed with new rates to take effect 1 July 2018. Any projected surpluses and likely investments will be considered in that review.

5 NON-FINANCIAL PERFORMANCE

MPI and Customs have developed non-financial performance measures for the Levy. These measures that both agencies have developed, and the results against them for the 2015/16 financial year are shown in the Table below.

MPI and Customs will further develop these non-financial measures in the three broad areas of risk management (compliance and enforcement), traveller experience, and cost effectiveness/efficiency, and across the commercial airline and cruise ship pathways. This may include joint MPI/Customs measures in the future, and/or measures for other craft. Any further measures will be included alongside existing measures in future reports.

Table 5. Performance measures

Performance Measure	Target		2015/16 Actual
Customs measures:			
% of international passengers who rate their experience of immigration processing as being good or very good	Equal to or more than 85% of those surveyed	✓	91.8%
% of international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently	Equal to or more than 77% of those surveyed	✓	85.7%
% of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival	Equal to or more than 90%	✓	95.5%
% of air passengers and cruise passengers subject to an alert processed in accordance with alert instructions	Equal to or more than 98%	✓	98.8%
MPI measures:			
% of international air passengers that comply with biosecurity requirements by the time they leave the airport	Equal to or more than 98.5%	✓	98.7%
% of cost recovered external stakeholders that rate overall service as 4 (out of 5) or higher	Equal to or more than 80%	✓	82.0%
<i>A number of new MPI performance measures are in development and will be report at 2016/17 year end:</i>			
Number of incursions attributed to the passenger pathway			
Number of complaints per 100,000 passengers			
Average processing time at Auckland Airport for compliant passengers.			

Cruise ship passengers (and companies) that comply with biosecurity requirements

Number of seizures per cruise vessel:

- accredited vessels
- non-accredited vessels

Cargo and passengers who have an alert are appropriately intervened

% of stakeholders aware of biosecurity requirements

% of airlines that undertake disinsection

% of airlines participating in an NZ biosecurity awareness programme

6 KEY DATES AND EVENTS

Date	Event
October 2017	Report for 2016/17
July 2018	Revised rates in place - end of 30 month period (2.5 years).
October 2018	Report for 2017/18

Appendix 1: POLICY AND STATUTORY AUTHORITY TO COST RECOVER

Government policy approval

In April 2015, the Government agreed to introduce the Levy to recover the costs incurred by MPI and Customs in delivering their respective functions in relation to people arriving and departing from New Zealand. This has been given effect through amendments to the Customs and Excise Act 1996 and the Biosecurity Act 1993.

To have effect, the Minister for Primary Industries and the Minister of Customs have issued Levy Orders prescribing key implementation details.

Statutory authority to charge

The statutory authority for the Levy is provided under section 288B of the Customs and Excise Act 1996 and section 140AA of the Biosecurity Act 1993. Under this legislation, all individuals (unless exempted) that arrive or depart from New Zealand from 1 January 2016 are liable for the costs incurred by MPI and Customs in relation to the performance of functions relating to travellers and the goods in their possession or under their control.

The Levy Orders prescribing Levy rates and implementation details have now been made as:

- Biosecurity (Border Processing Levy) Order 2015
- Customs and Excise (Border Processing Levy) Order 2015

Rates for the 1 January 2016 to 30 June 2018 levy period were notified in the New Zealand Gazette on 19 November 2015, in accordance with the provisions of the respective orders.⁴

The rates have been set in the Levy Orders for the first two and a half years (to 30 June 2018) in order to provide Levy payers, collectors, and other stakeholders with certainty on the levy rates payable, and to include the first full year of cost recovery (that is, 2017/18, after which the exemption for travellers who have fully paid before 1 January 2016 for travel during 2016 no longer applies, and Crown funding for this exemption drops away).

After this first 30 months period (from 1 July 2018), the Levy Orders provide for the Comptroller of Customs and the Director-General of MPI to set the rates for each Levy period, based on a calculation, and notify the new Levy rates in the Gazette. The calculation is:

⁴ Both notices were published in the 19 November 2015 Edition of the *New Zealand Gazette*, Notice 2015-go6798 (Customs) and 2015-go6800 (Biosecurity).

- a. the estimated annual costs to be incurred by MPI/Customs (taking account of any under- or over-recovery in the preceding period), divided by:
- b. the estimated total number of travellers subject to the Levy in that period.

After the first 30 months, the Customs component will be set on a three year time horizon and is not expected to change year to year (unless there is sustained and material under- or over-recovery). The Biosecurity Act 1993, however, allows under- or over-recovery from only the preceding year to be carried forward. This means the biosecurity component of the Levy will be reviewed annually.

If there is an over-recovery of the biosecurity component in the first 30 months period, this can be carried forward and factored into the rates applying from 1 July 2018. However, if there is an under-recovery during this period, only that pertaining to the 12 months from

1 July 2017 to 30 June 2018 can be carried forward into the new rates. The length of the period for which under- and over-recovery can be carried forward is being considered as part of MPI's First Principles Review of cost recovery.

Both Customs and MPI will use memorandum accounts to manage fluctuations in Levy revenue and expenditure, and inflows and outflows will be monitored on a monthly basis. Customs will monitor and review results for each financial year to ensure that revenue and costing assumptions remain valid, and that the overall balance of the memorandum account is trending towards zero over the three year horizon. As MPI can only transfer surpluses or deficits into the next financial year, it will adjust its component annually to take into account over- or under-recovery from the preceding year.

Appendix 2: Calculation of Levy rates

The rates in Table 6 are calculated by dividing costs by the number of traveller movements to arrive at the per traveller rates.

Expenditure projections are based on a combination of historic costs and future year's budgets, which include some provision for increase in staff and other operating costs.

Traveller volumes have been taken from Customs base data, adjusted for relevant exemptions, and projected using forecast volumes as noted above. MPI used actual 2014/15 traveller volumes (in line with the one year time horizon for the memorandum account). Customs arrival and departure volumes are forecast volumes averaged over 3.5 years.

Table 6: Calculation of Levy rates

Charge component		Estimated volume of travellers	Planned costs	Base year for cost calculation	Rate (excl. GST) Revenue/volume
Biosecurity:					
Air and other		5.3 m	\$44.5 m	2014/15 only	\$ 8.38
Cruise		0.2 m	\$ 2.8 m	2014/15 only	\$17.04
Customs:					
Air and other -	Arrivals	5.8 m	\$42.9 m	Ave over 3.5 yrs	\$ 7.45
	Departures	5.7 m	\$16. 7m	Ave over 3.5 yrs	\$ 2.93
Cruise	Arrivals	0.2 m	\$ 2.0 m	Ave over 3.5 yrs	\$ 9.93
	Departures	0.2 m	\$ 0.8 m	Ave over 3.5 yrs	\$ 3.88
Total		Arrivals	Departures	Total excl. GST (round trip)	Total incl. GST
Air and other		\$15.83	\$ 2.93	\$18.76	\$21.57
Cruise (if not capped)		\$26.97	\$ 3.88	\$30.85	\$35.48

Capping of Levy rates for cruise ship passengers at \$22.80

The Government agreed to cap the amount for cruise ship passengers at the maximum rate consulted on: \$22.80 plus GST. This cap will last until the end of the initial 30 months Levy period.

Updating Levy rates

These Levy rates have been set for a two-and-a-half year period (30 months). Towards the end of this period, Customs and MPI will update expenditure and volume forecasts to determine whether the rates should be reset. Rates may be set within the maxima set prescribed in the Levy Orders (see Table 7).

Table 7: Maximum Levy rates

	MPI	Customs Arrivals	Customs Departures	Total
Air and other	\$ 8.80	\$ 7.80	\$ 3.10	\$19.70
Cruise	\$17.90	\$10.40	\$4.10	\$32.40

Any decisions to reset rates will be undertaken in discussion with stakeholders.

Treatment of exemptions

There are two classes of exempt travellers:

- levy funded travellers: the costs of these travellers are met through the Levy
- non-levy funded travellers: the costs of these travellers are met from alternative sources.

Table 8. Exempt travellers

Levy funded travellers

- (a) a traveller under the age of 2 years:
- (b) a traveller who arrives in, or departs, New Zealand on an international aircraft otherwise than as a passenger:
- (c) a traveller who arrives in, or departs, New Zealand on a cruise ship otherwise than as a passenger:
- (d) a traveller who—
 - (i) arrives in New Zealand on an aircraft; and
 - (ii) is not required to report to a Customs officer at an arrival hall because the traveller is in transit to a place outside New Zealand:
- (e) a traveller who, having arrived in New Zealand as referred to in paragraph (d), departs New Zealand on an aircraft for the place outside New Zealand without having been required to enter a departure hall:

Non-levy funded travellers

- (f) a traveller who arrives in, or departs, New Zealand on any of the following:
 - (i) a craft being operated by the New Zealand Defence Force or the defence forces of any Government other than that of New Zealand;
 - (ii) a craft being used wholly for diplomatic or ceremonial purposes of any Government;
 - (iii) a craft being used wholly for the purposes of a mission being carried out or organised by any Government that is a humanitarian mission or a mission in response to an emergency or a crisis;
 - (iv) a craft being used for the purposes of an official expedition of a Contracting Party⁵;
 - (v) a non-passenger commercial craft;
- (g) a traveller who arrives in New Zealand after having been rescued at sea;
- (h) a traveller who arrives in New Zealand wholly for the purpose of seeking temporary relief from stress of weather;
- (i) a traveller who, having arrived in New Zealand as referred to in paragraph (h), departs New Zealand as soon as is reasonably practicable;
- (j) a traveller who departs New Zealand on a craft on a journey—
 - (i) that is not intended to go beyond the exclusive economic zone; and
 - (ii) that is not intended to include a meeting with any craft or persons entering the exclusive economic zone from a point outside New Zealand;
- (k) a traveller who arrives in New Zealand on a craft—
 - (i) that has returned to New Zealand after a journey that did not extend beyond the exclusive economic zone; and
 - (ii) that did not meet during that journey with any other craft or persons entering the exclusive economic zone from a point outside New Zealand;
- (l) a traveller who arrives in, or departs, New Zealand before 1 January 2017 on an international aircraft as a passenger being carried on a ticket that was purchased, and fully paid for, before 1 January 2016;
- (m) a traveller who arrives in, or departs, New Zealand before 1 January 2017 on a cruise ship as a passenger on an international cruise and whose place on the cruise was purchased, and fully paid for, before 1 January 2016.

⁵ **Contracting Party** has the meaning given by section 7(1) of the Antarctica (Environmental Protection) Act 1994; **official expedition**, in relation to a Contracting Party, has the meaning given by section 7(1) of the Antarctica (Environmental Protection) Act 1994.

Appendix 3: VARIATIONS TO COST RECOVERY MODEL ESTIMATES

Changes in travel demand

Substantial variance from forecast volumes may result in under- or over-recovery. This volume change can trigger stepwise cost decreases or increases over time, such as additional equipment (e.g. x-rays) and/or additional shifts for smaller ports and ports that are not ports of first arrival.

Mitigation

Managing through use of a memorandum account. Regular monitoring and strengthening forecasting through regular engagement with stakeholders.

Changes in risk profiles

This could be the result of changes in overseas circumstances (e.g. heightened risk of fruit fly incursions), or more travellers with a low understanding of New Zealand requirements. These lead to an increased risk profile which results in increased volumes of bag searches, x-rays and other, higher cost interventions.

Mitigation

Initiatives aimed at reducing the risk profile of passengers are undertaken to better manage the border e.g. social marketing to improve biosecurity awareness and lower the risk profile of arriving passengers.

Changes in service demand

Changes in scheduled services at existing airports may have cost implications for Customs and MPI. Scheduled air services may be established at new airports which will require Customs and MPI to establish a presence.

Mitigation

Active and open engagement with airlines to enable Customs and MPI to plan and respond to changes in schedules. Regulations under the Airports (Cost Recovery for Processing of International Travellers) Act 2014 are being developed. These will support the cost recovery of any costs not covered by the Levy at new and restarting international airports.