

**Submission to**  
**NZ Customs Service and the Ministry for Primary Industries**  
**on the**  
**Implementation of the Border Clearance Levy**

**28 July 2015**



**and**



## Executive Summary

1. The Tourism Industry Association New Zealand (TIA) and the Coalition Against Travel Tax (CATT) are opposed to the introduction of a Travel Tax or 'Border Clearance Levy' from 1 January 2016.
2. Our submission has two themes;
  - 1) The tax is bad policy and will have unintended adverse consequences
  - 2) If it is to be imposed, the design, timing and implementation of the tax needs significant amendment.
3. CATT considers that border services clearly have a public good purpose and should therefore be funded from general taxation.
4. The Travel Tax was put together in haste immediately before the May Budget with very limited analysis and no consultation.
5. The Act passed immediately following the Budget provides a power to impose a levy – it does not require it to be imposed. Substantive analysis still needs to be undertaken into the justification for the tax, costs to be recovered and potential impacts.
6. Unreleased independent analysis commissioned by the Government estimated the Travel Tax will reduce international visitors by 1.4% and visitor expenditure by 0.9%. This analysis was completed very quickly and may well underestimate the impact and distribution of those effects both nationally and at regional level. There needs to be a comprehensive impact analysis carried out to fully understand the implications of the introduction of the new tax.
7. Additional time is needed to allow offshore operations in Australia and elsewhere to prepare their business systems and processes to meet the legal requirements in their jurisdictions for full disclosure of costs.
8. As the Travel Tax is directly associated with international transportation services, it should not be subject to GST.
9. Tourism is a crucial contributor to the broader New Zealand economy as well as regional economies and takes the lead in promoting New Zealand to the world. The Travel Tax is an unwelcome handbrake on growing the visitor economy. It is a tax on success.
10. There is no benefit to the economy from the tax. The risks are all negative, and the proposal does not align with a Government that is publicly committed to boosting economic productivity and supporting businesses to thrive. The introduction of this tax shows a focus on balancing the Crown books rather than supporting the country's biggest export earner to grow further.
11. The Government is acting inconsistently with its flagship strategy, the Business Growth Agenda (BGA): *Tourism is a pivotal part of our export profile... we want New Zealand to continue to rank as a desirable destination and are focused on ensuring New Zealand is able to increase the value of this sector.*
12. The industry-led growth framework Tourism 2025 has identified enhancing the visitor experience as a key requirement for growing the value of the visitor economy. It is essential that we do everything possible to lower barriers and enhance the overall experience for our visitors. The introduction of the Travel Tax goes firmly against this principle and there is no evidence that the funding change will support an improved visitor experience at the border.

13. Any tax, justified or not, should be collected as efficiently as possible and as fairly as possible. Any exemptions for certain classes of passengers arriving and departing New Zealand should be minimal.
14. The proposed Travel Tax is to fund the costs of activities carried out by the Ministry for Primary Industries (MPI) and the New Zealand Customs Service (Customs) relating to the processing of people arriving and departing from New Zealand. It is vital that there is no 'creep' to other agencies in this definition. If Customs wants to recover the costs of these services, it should be from the agencies for whom they are performed.
15. It is critical that an industry oversight body is established to monitor efficiency incentives for Customs and MPI. It is otherwise likely that any increase in their costs can simply be recovered by raising the level of the tax which is likely to create further barriers to international travel. Such a body can work with Customs and MPI to identify efficiencies, service improvements and spending priorities.

## Recommendations

16. **The introduction of the tax should be delayed until 1 January 2017** for the following reasons:

- Detailed impact analysis needs to be completed to fully understand the impact that the introduction of the new Travel Tax levy will have on the propensity for international visitors to travel to New Zealand and New Zealanders' propensity to travel offshore.
- Greater transparency is required of the cost structures for both Customs and MPI and more work needs to be done to establish what costs are appropriate and fair to be recovered through the Travel Tax.
- Australia and some other countries have strict requirements for fully inclusive price advertising. Brochures have already been issued for air and sea travel to New Zealand in 2016.
- The proposed 1 January 2016 introduction of the Travel Tax does not provide adequate time for the agencies responsible for collecting the tax to update their systems to incorporate the necessary requirements.
- As 2016 is a transition year, the financial impact on the Crown accounts of a delay until 1 January 2017 is minimal.

17. The Government has wrongfully disregarded the clear and obvious public good characteristics of border services. The public good recognition must be retained. In introducing any private good element, the costs should land where the benefits accrue. This is particularly relevant to bio-security services.

18. CATT suggests that **a significant proportion of the funding of MPI and Customs border services should remain Crown-funded**. A secure border is in the interests of every New Zealander; and certain sectors who are direct beneficiaries are not contributing to the cost under these proposals. If the Government insists in moving away from the public good model which has existed until now, the cost burden should be shared between the traveller – who typically receives little or no direct benefit; the sectors that do directly benefit; and all New Zealanders who receive a public good from having a secure border. More work needs to be done to determine the appropriate split, further supporting the need for delay.

19. The Travel Tax should be **zero-rated for GST**.

20. The Travel Tax should be collected as efficiently as possible and as fairly as possible. **Exemptions should be minimal**.

21. The CATT supports the establishment of a **traveller reference group** that is tasked with monitoring how the funds that have been collected from the Tourism Tax are allocated each year. This group, with representation from the tourism, travel and aviation sectors, can usefully assist Customs and MPI to identify efficiencies and priorities for spending. This group should also provide oversight in future reviews of the Travel Tax and any other proposed legislative changes in relation to border taxes.

## Introduction

### Coalition Against Travel Tax

22. This submission by the Coalition against Travel Tax (CATT) has been prepared by the Tourism Industry Association New Zealand (TIA) with support and input from a range of tourism, travel and aviation sector interests. This includes the New Zealand Airports Association (NZAA), Board of Airline Representatives New Zealand (BARNZ), Cruise New Zealand (CNZ), Holiday Accommodation Parks Association New Zealand (HAPNZ), Top Ten Holiday Parks, Kiwi Holiday Parks, Family Parks Holiday Parks and Campgrounds, Motel Association of New Zealand (MANZ), Bed & Breakfast Association New Zealand, Rental Vehicle Association New Zealand (RVA), Bus and Coach Association New Zealand, Travel Agents Association of New Zealand (TAANZ) and the Tourism Export Council (TEC). Input has also been received from airlines, cruise companies and airports.
23. Any enquiries relating to this paper should in the first instance be referred to Chris Roberts, TIA Chief Executive at [chris.roberts@tiaanz.org.nz](mailto:chris.roberts@tiaanz.org.nz) or by phone on 04 495 0818. Correspondence can also be sent to PO Box 1697, Wellington, 6140.
24. CATT is unanimously opposed to the introduction of this new tax on travellers. This section of our submission provides background on the history of discussions in New Zealand on border charges and why we oppose the sudden change in Government policy.

### History

25. Border taxes have frequently been considered by New Zealand Governments. The most comprehensive examination was in 2003, when the Government instigated discussions on the funding of various aspects of border controls, including cargo, bio-security and passenger security.
26. This was being looked at because of *“the combination of security concerns and rising passenger numbers”* – the same reasons now being given for imposing the Travel Tax.
27. It was a topical debate and aspects of the policy framework were re-worked several times. A raft of papers were released by the Treasury in 2004-5. The Treasury facilitated a cross-industry consultation process and produced a discussion document in May 2004 (the ‘Cullen Report’) which recorded the proposals for the funding of passenger clearance from five Ministers who had formed an ad hoc committee for this purpose (Cullen, Sutton, Burton, Hodgson, Barker).
28. This established a framework which recognised the public benefits of some services, and proposed these to be fully or partially Crown funded. Industry’s response was to broadly agree with these proposals, but to suggest that the primary beneficiary of each service should pay the full costs of that service. This would mean in practice that airlines and passengers would meet the full cost of Aviation Security, since these two groups are clearly the major beneficiaries of enhanced security (an identifiable private good). The Crown would meet the full costs of Customs and Biosecurity, since New Zealand as a whole is the primary beneficiary of these services (a clear public good).
29. This split in responsibility was accepted and in December 2004 Cabinet accepted recommendations, which included:
  - Aviation Security (AVSEC) services should be fully industry funded;
  - the Crown should fully fund the current level of Biosecurity and Customs services at existing metropolitan international airports;

- Cost increases due to growth in passenger movements for Biosecurity and Customs services should be Crown funded.
30. In April 2005, Cabinet agreed to extend the commitment for the Crown to fund bio-security and customs services to regional airports with an international service.
  31. This is the policy framework agreed between Government and the private sector that held good until the 2015 Budget.
  32. Indeed it was referenced and reinforced in other reviews since that time, including new legislation to cover the start-up costs of new and re-starting international airports (such as Hamilton and Rotorua), and the Aviation Security funding review in 2013, when consultants Castalia re-checked the policy framework and confirmed it remained consistent with Treasury and Office of the Auditor General Guidelines.
  33. The process followed with the new Travel Tax stands in stark contrast to this history of careful analysis and debate.
  34. Papers released to TIA under the Official Information Act show that the possibility of recovering bio-security costs from passengers was raised by MPI at the end of February 2015. On 18 March 2015, Customs officials asked for the discussion to also include recovering their costs. On 24 March 2015, the Government asked officials to consider a cross-agency border charge (MPI, Customs and Immigration). One week later a paper was provided to Ministers who chose the option of introducing a levy in the May budget, without consultation, to fund MPI and Customs.
  35. Another option was put forward by officials at that time – to defer a decision and take *“a more cohesive approach to addressing border sector funding issues”* with *“potential for achieving greater buy-in from stakeholders”*. This should have been the option chosen and would have been in line with previous public policy practice.
  36. The Government has not allowed time for officials to fully consider the impacts of the Travel Tax, meaning that delayed implementation is necessary.

### **Lack of Consultation**

37. The tourism and aviation sectors have established a close and multi-layered relationship with the Government, built on open dialogue and mutual respect. The way this Travel Tax was introduced in the Budget, without any consultation, is seen by the sectors as a serious breach of trust by the Government.
38. In the development of sound public policy, there should be full consultation with those who are to be asked to fund the spending, prior to the decision being made. The government has taken this decision, not only without consultation, but has ignored previous discussions, findings and agreements entered into.
39. The Customs Service own engagement model – *“transparency, accountability and participation”*- has been ignored in this case.

40. It is imperative that the issues and concerns raised during this belated consultation phase are fully considered. The statute does not require a levy to be imposed - there is still an opportunity not to proceed, delay, or materially adjust the current proposals. The Government must be willing to alter its view if submissions illustrate that current proposals are inappropriate.

### **Principle of a Public Good**

41. As Government has previously acknowledged, border services clearly have a public good purpose. These services should therefore be funded from general taxation.
42. Public goods are goods that have the characteristics of being non-rivalrous and non-excludable. One person benefiting from the outcome of the service being provided, does not interfere with the ability of other persons to benefit, so is non-rivalrous. If a person refused to pay or avoided paying, there would be no effective means to ensure that person did not benefit from provision of the service, so the service is non-excludable. The border services provided by Customs and MPI have these non-rivalrous and non-excludability characteristics and are public goods.
43. There is a general principle when moving from public good to a private good, that those who benefit directly should pay. This has not been applied in the current proposal. With regard to bio-security, the benefit of stopping unwanted plants and diseases from entering the country is of benefit to the general public and to specific primary industries.
44. Private funding of government services generally has the attribute that those who do not wish to pay can be excluded from the benefits. A satisfactory test of whether a service provides a net private benefit is when the private individual or entity is able to consent of their own free will to purchase the services at the price offered.
45. The tax is being imposed using the argument that all travellers will potentially consume all of the border activities – not what they will actually consume. Many travellers will pay for services they do not experience.
46. In choosing to ignore the compelling arguments that border protection is a public good, the bias has been in favour of taxing those whom it was administratively convenient to target. This has now been justified in the absence of any sound identification of a benefit to those taxed, any recognition of the important principle of consent, or any presumption in favour of preserving existing lawful rights.

### **Economic Contribution of International Visitors**

47. The official government measurement of the value of international visitors is \$10.3 billion pa, including \$698 million pa paid directly to the Government in GST. The Government receives a direct net benefit from any increase in international visitors.
48. CATT is not aware of any research that has been done into the total value of government services that international visitors receive but it is undoubtedly less than the GST payments they make – in other words, international visitors are already over-taxed and the Government receives a net benefit.

## Comment

### Impact of the Travel Tax

49. The Prime Minister has publicly stated that the new Travel Tax will not make “a blind bit of difference” to visitor numbers. There is no basis for this assertion.
50. Papers released to TIA under the Official Information Act show that officials recognised the need to understand the potential impact on travel and that more work needed to be done in this area. Days ahead of the Budget announcement, Sapere Research Group was commissioned to undertake some initial price sensitivity analysis.
51. The Sapere analysis provided to Ministers has not been made public, but papers released under the OIA refer to it and state that this analysis estimated the Travel Tax would reduce the number of international visitors by 1.4% and international tourism expenditure by 0.9%.
52. TIA calculates that based on forecast visitor arrivals and spend for 2016, this equates to an annual reduction of 44,000 international visitors and a lost annual spend in the New Zealand economy by international visitors of \$104m.
53. Experiences in other countries also raise significant and valid questions about the potential impact on travel from a border charge, particularly for short-haul travel. The following global analysis provides examples of the overall impact that has been experienced in other jurisdictions.
- Modelling by the International Air Transport Association (IATA) suggests that holiday visitors (as distinct from those travelling to visit friends and relatives) are most sensitive to departure taxes such as the Australian Passenger Movement Charge (PMC), with every price increase of 10% estimated to generate a decline of 5-7% in the number of leisure passengers travelling globally. (*Australian Tourism Industry Submission – Joint Review of Border Fees, Charges and Taxes*).
  - The Netherlands removed its tax after losing two million passengers in the year after its introduction.
  - In the six months following the abolition of Ireland’s travel tax in April 2014, 20 new international air routes started up.
  - A 2014 study in the UK by PwC shows the benefits in removing an existing tax. Evidence from the study shows that removing the Air Passenger Duty (APD) tax could create up to an estimated 61,000 jobs and pay for itself through raising more than £350 million in extra tax receipts.
  - In March 2014, John Key welcomed the British Government’s decision to reduce the APD applying to flights to New Zealand. His media release stated: *“I have consistently advocated for such a change, which will benefit travelling New Zealanders and encourage more tourists to come to New Zealand... The United Kingdom continues to be an important tourism market for New Zealand, but in recent years, tough economic conditions have depressed growth in tourism numbers, not helped by this levy... People from the UK who are thinking of coming to New Zealand for a holiday will be delighted by this news; as we are... it will also be welcomed by our tourism operators in New Zealand who have also lobbied for these duties to be removed”*.
54. IATA has carried out economic analysis on the impact of introducing the New Zealand Travel Tax. This identifies that the tax could cost annually the aviation industry \$33 million and 200 jobs and tourism could be hit by the loss of \$196 million and 1,700 jobs.

55. IATA states that the tax will weaken the profitability of airlines servicing New Zealand as it represents 3 times the average net profit (of US\$4.24) made by airlines in Asia-Pacific for each passenger.
56. There is particular concern about the impact on trans-Tasman travel, which makes up by far the biggest portion of passenger movements. In percentage terms (total and per ticket), this is where the tax has the biggest impact. On these short-haul flights, the tax will represent a larger portion of the ticket price. This aviation market is very elastic – airlines have internal data that shows that small price increases in the past have resulted in reduced loadings.
57. In a survey commissioned in February 2015 by TIA and Australia’s Tourism and Transport Forum (TTF), the cost of travel was identified as the number one barrier for those considering travelling across the Tasman to attend a major sporting event.
58. The Travel Tax will have a damaging cumulative effect. Combined with the existing charges and taxes, the new tax will make the Australia-New Zealand border crossing one of the most heavily taxed in the world. This is completely counter to the goals of the Closer Economic Relations (CER) agreement with Australia.
59. The Travel Tax is a significant cost imposition on the cruise industry. While schedules are largely committed for the next two seasons, international cruise companies have advised they are considering relocating ships away from New Zealand as early as the 2017/18 season because of this new tax.
60. A tax increase in Alaska resulted in a 17% decline in cruise ship business.
61. Cruise companies have advised that the Travel Tax discourages them from using Auckland as a homeport. Vessels based in Auckland, rather than Sydney, make a much greater economic contribution to New Zealand.
62. A cruise company choosing to withdraw a single vessel from New Zealand results in a multi-million dollar loss of contribution to our economy over a cruise season.
63. Analysis done by Market Economics for Cruise NZ suggests that New Zealand could lose up to \$85.2 million in value added and 1,600 jobs in the 2018-19 season. These are significant losses compared to the \$7-8m pa in tax to be collected from the cruise sector.
64. Any policy initiative, in particular a new tax, should include a thorough analysis of the likely and possible consequences, in order to measure the negative impacts against the positive benefits. This has not occurred in this case.
65. The Act only creates the opportunity for cost recovery. There needs to be an evidential basis to justify any tax before it is imposed. Evidence has not been produced and the proposal is simply transferring existing Crown appropriations to a tax.
66. The planned implementation of the Travel Tax therefore needs to be delayed to allow the proper impact analysis to be done by Government, through proper engagement with airlines, airports, cruise companies and other tourism interests. CATT members are ready, willing and able to provide beneficial input to this impact analysis.

## **Size is Irrelevant**

67. The Government has made much of the fact that the proposed cost per traveller is less than the Passenger Movement Charge (PMC) in Australia and issued a table of international comparisons with its budget announcement, which are of little or no relevance. Benchmarking with other countries cannot be done without transparency and understanding of the respective costs covered.
68. A small bad tax is still a bad tax. It is an unwelcome signal being sent by Government – that it is willing to impose risks on efforts to grow the value of the visitor economy, contrary to the goals of its Business Growth Agenda.
69. Tourism is highly sensitive to taxes. A significant fall in demand occurs if a high tax rate is applied and there is a smaller fall in demand if a state introduces a lower tax rate. (*Impact Of Value Added Tax On Tourism, Renata Dombrovski, University of Rijeka, Croatia*).
70. The Government had previously supported the aviation and tourism sectors in objecting to the travel taxes imposed by other countries. It has now done a complete about-face, seemingly taking the approach “if you can’t beat them, join them”.
71. Global studies also show that once these types of taxes are in place, there is an irresistible opportunity for future governments to raise the level and increase their income, from a cohort that is in no position to complain, and in the case of overseas visitors who are not able to vote.

## **GST**

72. As the tax is directly associated with international transportation services, the tax should not be subject to GST, in line with the zero rating of transport services detailed under Section 11a of the Goods and Services Tax Act 1985.

## **Improving the Visitor Experience**

73. The industry-led growth framework Tourism 2025 has identified enhancing the visitor experience as a key requirement for growing the value of the visitor economy.
74. Improved visitor facilitation into New Zealand is an important component of the visitor experience. As was noted in the Tourism 2025 visitor experience report, “*visitor facilitation covers a wide range of areas such as visas, customs and immigration. Given that New Zealand finds itself in an increasingly competitive global race for the tourism dollar, it is essential that our industry does everything reasonably possible to remove or lower barriers and to ensure the overall experience for our visitors is as easy and efficient as possible.*”
75. The Travel Tax is to replace the current government funding of Customs and MPI border services. In terms of what is delivered, it is a ‘business as usual’ situation. There is no commitment that the experience will improve for the travellers now being forced to pay for the border checks.
76. A change to a ‘user pays’ model carries with it greater responsibility for quality of service. Stakeholders will expect to see improvements – it cannot be business as usual.
77. Through an oversight committee, the industry would insist that a primary factor considered with every spending decision is the degree to which it enhances the visitor experience. This measurement would need to be tracked in line with progress towards the Tourism 2025 \$41 billion aspirational goal.

78. There are no customer focused performance measures in the consultation document. It is reasonable to request a customer focused metric to assess MPI and Customs service performance by, for example, proposing an average acceptable queue length. Members of CATT can offer substantial feedback on what would be a helpful customer focused metric to assess service performance.
79. Much of the funding collected will go on overheads. The Border Clearance Levy Consultation document shows that operational support (17.4%) and corporate support (21%) is a significant proportion of MPI's allocation of costs for passenger clearance activities, while for Customs it is 18.6% and 23.1% respectively. Combined this is 38.4% of total cost allocation for MPI and 41.7% of total costs for Customs on non-frontline services. Because of these substantial overhead allocations, an increase in passenger numbers does not automatically result in an increase in costs.
80. There needs to be full transparency and disclosure of border costs to those who are paying the bill. A robust information disclosure regime (similar to that required of airports) is needed.

### **Outbound Passengers**

81. New Zealanders will make up almost half of the travellers required to pay the Travel Tax. Outbound passengers are a crucial element in airline economics. Any discouragement of outbound travel may impact on the economics of airline services and adversely impact on air connectivity. A CAPA Consulting Report (March 2013) illustrates this as follows:
- Ryanair responded to Germany's departure tax by reducing flights from Frankfurt Hahn Airport by more than 25%.
  - Air Berlin indicated that the tax would cost the airline EU180-EU200million annually.
  - Lufthansa estimated the introduction of the tax could lead to the loss of up to 10,000 jobs and cut passenger numbers as much as 5%.
82. Research carried out by Australia's Tourism and Transport Forum (TTF) in 2014 found that New Zealanders travelling to Australia are extremely price sensitive. For every 1.5% increase in ticket prices to Australia, demand drops by around 1%.

### **Hypothecation**

83. The proposed Travel Tax is to "fund the direct and indirect costs of activities carried out by the Ministry for Primary Industries and the New Zealand Customs Service relating to the processing of people arriving and departing from New Zealand." *Border Processing (Arrivals and Departures) Levy 2015*.
84. The tax should not be used to fund duties carried out on behalf of other agencies, such as checking for non-payment of fines (Ministry of Justice) or unpaid child support (IRD). In particular, Customs officers commonly act as delegated Immigration Officers under the Immigration Act 2009. The costs allocated against these immigration duties must be excluded from the hypothecation calculation. If Customs wants to recover the costs of these services, it should be from the agencies for whom they are performed.
85. The calculation of the costs of those activities, which will determine the level of the Travel Tax, needs to be totally transparent and subject to industry scrutiny. The information made available on costs is woefully inadequate. We do not have clear visibility of what activities are to be covered and no visibility of what different activities cost.
86. There must be adherence to Treasury and Office of the Auditor-General guidelines on Government cost recovery.

## **Offshore Jurisdiction Requirements**

87. Australia and some other countries have strict requirements for fully inclusive price advertising. Brochures have already been issued for air and sea travel to New Zealand in 2016. In some cases, it will be illegal for the new tax to be added to the advertised trip costs, meaning the travel company, airline or cruise company will bear the cost, not the traveller.
88. The introduction of the new tax needs to be delayed until 1 January 2017 to allow for full integration into advertised pricing channels.

## **Application and Exemptions**

89. Any tax, justified or not, should be collected as efficiently as possible and as fairly as possible. Any exemptions for certain classes of passengers arriving and departing New Zealand should be minimal.
90. It is difficult to justify any exemptions under the "risk exacerbator" model, as it is difficult to distinguish different levels of risk caused by different groups of people. Any exemptions are therefore inconsistent with the rationale for imposing the levy in the first place.
91. The issue of whether airline and ship crew should be subject to the tax needs careful examination.
92. No group, such as those arriving on New Zealand in privately owned aircraft, yachts or other sea vessels, should be excluded from collection on the basis that they are small in number or difficult to collect from.
93. One rate applying to all arriving passengers (with no departing tax) would provide simplicity and efficiency.
94. If there are to be separate rates, these should be for 1. All air passengers, regardless of whether they are travelling on a commercial service; and 2. All maritime passengers, regardless of whether they are travelling on a commercial service.
95. The legislation allows for the government to "*prescribe persons responsible for collecting the levy from those primarily responsible for paying it*". There is clearly an intention for airlines to use the IATA system to collect the tax from passengers. However, the collection method for all other classes of travellers entering and leaving the country is far from clear and appears still to be in development.
96. Requiring the Civil Aviation Authority to administer the collection of the tax from the airlines makes no sense. The tax income goes to Customs and MPI; calculation of those required to pay is made by Customs and MPI; therefore Customs or MPI should administer the collection.
97. It would be entirely inappropriate to mix-up the collection of the new Travel Tax with the existing aviation security charge. AVSEC cannot be used as a model to base the Travel Tax on. It has a separate purpose and goes to different agencies.

## **Traveller Reference Group**

98. An important public policy principle is that those who are asked to pay for a government provided service, or their representatives, should have a say over how that funding is spent. This principle has been accepted in the case of aviation security, with the AVSEC committee's oversight.

99. Without an industry oversight body – a traveller reference group - there are no efficiency incentives for Customs and MPI. It is likely that any increase in their costs can simply be recovered by raising the level of the tax, which is likely to create further barriers to international visitors travelling to New Zealand.
100. Treasury identified this issue in the development of the Travel Tax proposal. In papers released to TIA under the Official Information Act, Treasury states: *“Treasury is concerned about future levy increases, however, if some parties respond to incentives and seek to increase the level of intervention at the border. For example, primary industry groups may seek to reduce their own level of surveillance and response activity (at no cost) by increasing the amount of passenger-funded border intervention. There may not be any counter-pressure to constrain the rate of the levy from carriers...”*. That necessary counter-pressure can be provided by the oversight body.
101. 100% screening of all arriving passengers is advocated for by some in the agriculture sector, but is not favoured by MPI and is strongly opposed by CATT. It is expensive, inconveniences travellers and is not an effective risk mitigation measure. The industry oversight body would provide oversight on cross-sector issues such as this.
102. It may be appropriate for the agriculture/horticulture sector to participate in the oversight body and have a say on service provision - but only if they, as direct beneficiaries, are paying a portion of the border costs.
103. The relationship between costs and passenger numbers is not simplistic and the oversight body is needed to ensure that an inaccurate formula (increase in passenger numbers = increase costs = increase tax) is not used to justify further increases.
104. Furthermore, over time, efficiencies are likely to increase, a high proportion of costs are fixed, and therefore the amount of the tax per head should actually decrease as passenger numbers increase.
105. Through industry input there is an opportunity to identify efficiencies and improvements to border services.
106. MPI and Customs’ priority spending items should be presented at least annually to the industry oversight body before they are committed to. This will ensure that linkages are made with spending in areas that improve the visitor experience.
107. Every three years there should be a full review, with industry involvement, of the wider economic impact that the introduction of the tax has had.

## Conclusion

108. The CATT unanimously and unequivocally is opposed to the proposed Travel Tax. Global studies identify the negative implications of introducing taxes at the border. The imposition of a travel tax does not only affect international visitors, but also New Zealanders who embark on travel offshore. The introduction of this Travel Tax has been done with no initial industry consultation and the CATT is very concerned that there has been no proper impacts analysis to better understand the implications on travel to and from New Zealand.
109. Priorities for border services need to be aligned with the Tourism 2025 visitor experience goals, with travellers expected to pay for the service entitled to expect an improved service. The introduction and ongoing implementation of the new Travel Tax will require full oversight by an industry reference group.

110. Due consideration should be paid to the industry submissions made by other industry organisations and companies. Due to the complex nature of the introduction of the new Travel Tax, organisations across the breadth of the tourism sector have specific issues that need careful consideration within the broader context of the introduction of the tax.

## Background

### Tourism 2025

111. Tourism 2025 ([www.tourism2025.org.nz](http://www.tourism2025.org.nz)), an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching \$41 billion in annual tourism revenues by 2025. To achieve that, the industry must grow international tourism at a rate of 6% year on year and domestic tourism at a rate of 4% year on year.

112. The Tourism 2025 framework is based around five key themes which are:

- Insight - this is at the core of the framework recognising that having timely, accessible and relevant is what will help tourism businesses with the information they need to support operational and strategic decision making.
- Connectivity - focusing on growing sustainable air connectivity is critical for an island nation that relies on 95% of its visitors arriving on a commercial aircraft.
- Productivity - making more money from the investments we already have but finding new solutions to seasonality (the tourism industry's perennial challenge) and regional dispersal.
- Visitor experience - we can derive more value by creating outstanding visitor experiences that meet the needs of a changing visitor mix and recognising the end to end visitor experience, the need to improve facilitation and be measuring dissatisfaction.
- Target for Value - the identification of targeted opportunities that, if taken up, will deliver the greatest economic benefit.

113. The Travel Tax is a significant negative impact on the Visitor Experience and also impacts on the productivity of transport operators, travel companies and the wider tourism industry.

114. Tourism for New Zealand is big business as the country's second largest export sector (and currently replacing Dairy as number one). It is a major contributor to the New Zealand economy that will always be here. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

115. The tourism industry delivers the following value to New Zealand's economy:

- Tourism in New Zealand is a \$65 million per day and \$24 billion a year industry.
- The tourism industry directly and indirectly supports more than 166,000 full-time jobs, or 8.3% of the workforce.
- The tourism industry represents 7.1% of GDP and is New Zealand's second largest export industry.