

9 August 2024

New Zealand Customs Service
Biosecurity New Zealand
Recovering the Costs of Border Processing Services - Consultation

By email: consultingonfeesandlevies@custom.govt.nz

Kia ora

Recovering the Costs of Border Processing Services: TIA Submission

Tourism Industry Aotearoa welcomes the opportunity to submit on the joint consultation document prepared by New Zealand Customs and Biodiversity New Zealand: *Recovering the Cost of Border Processing Service*.

Tourism Industry Aotearoa

TIA is the peak body for the tourism industry in Aotearoa New Zealand. With almost 1,300 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure activities, attractions, retail, airports and airlines, transport, as well as related-tourism services.

TIA is sharply focused on ensuring the sustainable future of the industry, and this is clearly articulated in our key guiding documents and programmes. This includes the tourism industry's strategic framework, *Tourism 2050 – A Blueprint for Impact, He Pae Tukutuku*.

Tourism 2050 has the Vision of '*Enriching Aotearoa New Zealand through a flourishing tourism ecosystem*'. As part of this, there is a strong recognition of the need for 'balanced growth' where the various parts of the tourism system are advanced on an even and sustainable basis, and that all participants in the sector have a role to play. TIA is advancing its programme to implement the ten key Actions set out in Tourism 2050.

Tourism

Tourism is an important part of the fabric of our nation, Aotearoa New Zealand. Within communities, tourism generates economic activity and diversity, resilience, jobs, and fosters regional prosperity. In so doing, tourism showcases our cultural richness and fosters pride and social connectivity both locally and globally.

Tourism is also important from an economic perspective, contributing total expenditure of \$37.7b, 6.2% of GDP, 11.4% of exports and supporting 11.3% of employment.¹

Within the tourism system, the smooth and efficient operation of our border is a key function that needs to work well for our visitors and all New Zealanders. This function has many parts, with migration, biosecurity, trade and civil aviation among the tasks that need to be effectively delivered. For the tourism industry, it is the overall effectiveness, and cost, of this border function that is of paramount importance.

TIA Feedback

TIA supports the overall approach where the border services provided by Customs and MPI are delivered on a neutral cost recovery basis. This approach ensures the provision of services that benefit both travellers and New Zealanders in a transparent and fair basis. As part of this, TIA supports the scheduled review of the levies used in this system, and we welcome the opportunity to contribute to the current levy review.

¹ Stats NZ, Tourism Satellite Account: Year ended March 2023, 2024

TIA has responded to the consultation questions, and these are set out in Attachment 1.

The key points that TIA wishes to reinforce are:

- **Cumulative impacts of border costs.** The Customs and MPI charges are a part of the total set of government charges for crossing the New Zealand border. As such, the proposed changes need to be viewed as part of the full suite of charges. We understand that the oversight group, the Border Executive Board has a role in this, but it remains the reality that several portfolios (and Ministers) are involved, and these tend to act independently. For instance, at present the charge levels for the International Visitor Levy is under consideration by MBIE, as are Immigration New Zealand's Visa charges. Changes in these areas can together lift the cost of crossing our border to a prohibitive level, and the border charges are part of this wider picture.

TIA recommendation: Customs and MPI to engage with other agencies to assess the overall costs of, and increases to, crossing the New Zealand border and consider any changes in relation to the overall picture.

- **Justification of increase of Levy Two: Arriving Cruise Travellers.** The consultation paper does not provide a full explanation of the rationale for the large increase of Levy Two, with the cost increasing 88% (Table 1) which is much faster than the negligible volume movement (Table 5). As we understand it, this increase includes a greater coverage of Customs' overheads and some inflationary pressure, but mostly stems from costs associated with the New Zealand Traveller Declaration and the Maritime Supply Chain Security. There is no explanation made exactly why these costs should be borne by travellers particularly through Levy Two cruise travellers. This case needs to be clearly made and substantiated.

TIA recommendation: The justification for the large increase to Levy Two is not clearly made, particularly the costs associated with the New Zealand Traveller Declaration and the Maritime Supply Chain Security. TIA considers that until this rationale is established, it cannot support the proposed increase to Levy Two.

- **Timing of changes.** The consultation document does not indicate awareness of the nature of the commercial arrangements of the tourism industry, particularly around the long lead times around the pricing and booking for tourism products. For instance, cruise companies often list prices sometimes years ahead and this is the price their customers pay. If government charges increase at short notice, it is very difficult for operators to change their prices meaning that they often absorb the cost themselves. If the proposed change to Levy Two is implemented, TIA understands that the cruise operators will need to find in the region of \$2m to cover the levies than they cannot on-charge. For this reason, two responses need to be considered: 1) to delay implementation of increased levies to mid-2025 so they can be factored into operators' prices; or 2) establish a transitional arrangement where the levy level at the time when the product was sold is honored.

TIA recommendation: In recognition of the commercial characteristics of the cruise sector, consideration must be given to either delaying implementation of the proposed Levy Two increase or putting in place a transitional arrangement to honor the levy as it was when the tickets were sold.

- **Increasing service efficiency.** In our assessment, there was little discussion of efficiencies that Customs and MPI could apply to reduce service costs while providing a quality service. The approach in the consultation document seemed to be adding costs on to the traveller rather than also looking at service efficiency.

TIA recommendation: Customs and MPI to ensure that operational efficiencies are central to all consideration of service design and delivery to minimise the cost of the services provided.

- **Forecasts uncertainties.** The consultation document notes the uncertainties of the tourism context that makes forecasting difficult. We appreciate this uncertainty but do not accept that if traveller demand is lower, then those visitors who do travel are simply loaded with a higher levy. This highlights that the both the nature of the service provided, and the price charged are variable aspects, and both need to be considered in adjusting to actual demand levels.

TIA recommendation: Should forecasts of traveller volumes change, this must trigger consideration of all options available to adjust to the actual demand level, and with further industry consultation to be undertaken if significant increases to levy levels are required.

Overall Comment

TIA is pleased that only one of the six levies is increasing. However, we are concerned at the size of the increase of Levy Two for Arriving Cruise Ship Travellers. We consider that the case for this levy increase is not well made, as set out above and in our consultation question responses. We request that this rationale is clearly addressed, and any increase fully justified.

Finally, we reiterate the need to look at all government border costs as a whole and not as separate components. For our visitors, it is the overall cost that matters. We fear that, taken together, the overall border costs are contributing materially to New Zealand becoming seen as an expensive destination to the point where it is impacting demand levels and thereby our ability to contribute to government growth aspirations. The global competitive position of Destination New Zealand is an attribute that we must always recognise and protect. The cost of crossing our border is a key aspect of this. Accordingly, we request the Customs and MPI work with other agencies on the overall charging regime for crossing our border.

Conclusion

We would be most happy to expand on the points raised in this submission so please do not hesitate to get in touch. Bruce Bassett can be contacted on 021 609 674 or bruce.bassett@tia.org.nz.

Ngā mihi,

A handwritten signature in blue ink, appearing to read 'R Ingram', followed by a period.

Rebecca Ingram
Chief Executive

Attachment 1: TIA Responses to Consultation Questions

	Question	TIA Response
1	Do you agree that the next levy period should finish on 30 June 2027. Do you prefer one of the other options for the end of the levy period?	<p>Agree that a July reset date is desirable to allow industry to adapt.</p> <p>This time to adapt is important. Many inbound operators and cruise operators set their prices well ahead of time (years) which means that for charges that are incorporated into the ticket price there is very limited ability to add to the price paid by the traveller. This means that operators are forced to absorb the increased cost. Every effort must be made in setting these levies to avoid undue burden on operators. TIA supports establishing a transition mechanism that allows the levy to be paid at the level it was when the product was sold to the consumer.</p> <p>In the interests of operators who incorporate these prices into their ticket costs, TIA favours the longer three-year seven months period, with the next review to be conducted much sooner so operators can incorporate charges into their prices.</p>
2	Do you agree the caps for the next levy period should be set at 5 percent above the proposed levy rates? If you think another cap should apply, please explain.	<p>TIA supports the cap being set at 5%.</p> <p>That said, we question the need for the cap at all given that this contingency has not been used since the current system was established in 2016.</p> <p>But, if needed, any use of the cap should be well signaled with operators with sufficient lead time and with a transition arrangement if needed.</p>
3	Do you have any comments to make on Customs' border processing cost estimates?	<p>We note that the time period for the costs in Table 3 increase at a rate largely comparable to the volume of travellers as set out in Table 5, other than for Levy Two arriving cruise travellers (refer response to Question 9 below).</p> <p>As a general comment the information provided does not set the rationale for the cost changes, particularly for the Levy Two cruise arrivals where the cost changes are driven by two specific aspects, that of the contribution to the NZ Traveller Declaration and the Maritime Supply Chain Security. In turn, there is no real rationale for each of functions, just that they need to be passed on to the traveller.</p> <p>Overall, the costs could not be critically assessed based on the information provided which seriously compromises our ability to determine if the costs are reasonable, or excessive.</p>
4	Do you have any comments to make on MPIs' border processing cost estimates?	<p>Again, the reasonableness of the costs are not able to be assessed from the information provided. That said, as the MPI levies are unchanged, this is less of a concern.</p> <p>TIA supports the work of MPI in protecting our nation from biosecurity risks.</p>
5	Do you think the forecasts used are reasonable and reliable over the levy period? If not, why not?	<p>The BEB forecasts are key to the pricing models and appear to be based on a solid methodology. Getting input data and/or peer review from informed industry</p>

		<p>parties (such as aviation and cruise sector experts) could add confidence to the standing of the forecasts.</p> <p>The consultation document notes that the forecasts used are from December 2023 and that new BEB forecast will be released in July 2024. On the Customs' website, there are BEB forecasts dated June 2024. Are these the referred to July 2024 forecasts?</p> <p>We note the signals that the cruise forecasts may weaken since the Dec 2023 forecasts and that lower forecasts may mean a higher levy would be needed. If this is the case, the overall cost of providing the service and the per-traveller cost will need to be considered. It is important that the model used is not one of purely cost-plus on the traveller. If demand is less, the costs should also be reduced.</p>
6	Do you see any things that might change the forecast traveller numbers (or subset of them) over the levy period? If so, please describe.	<p>The pattern of recovery of tourism from the COVID-19 period continues and is perhaps slower than hoped for. Arrivals of international travellers by air is around 85% of pre-COVID levels and looking to be steady at this level for the moment. Cruise has recovered well, but the outlook is clearly softening as cruise assets are being deployed away from New Zealand.</p> <p>As such, it is important that the forecasts used are the latest available and that the methodology utilises the best industry intelligence that is available.</p>
7	What are your views on Customs' proposed levy rate for all arriving air and sea travellers (non-cruise)?	<p>TIA notes that the proposed level for Levy One is lower than the current level.</p> <p>This is supported by TIA.</p>
8	What are your views on the proposed cap for all arriving air and sea travellers (non-cruise)?	As set out above, the cap mechanism must be set at 5%, and drawn upon on only in extreme scenarios.
9	What are your views on the proposed levy rate for all arriving cruise ship travellers?	<p>The increase to Levy Two for cruise travellers is excessive.</p> <p>As set out in the response to question 3 above, the costs faced by Customs are not well set out in the consultation report, suggesting the full costs of the infrastructure, staff and support mechanisms are to be included in the overall cost, with inflation adjustment and with specific contributions to cover the NZ Traveller Declaration (\$1.06m) and the Maritime Supply Chain Security (1.64m).</p> <p>The NZTD and MSCS are relatively new to the environment, and we question the rationale for including both in Levy Two, particularly without a specific case being made. For instance, when the NZTD was established, what was its funding model? And what has changed from that point requiring Levy Two to cover this cost?</p> <p>The rationale to include these two new costs must be clearly established.</p> <p>TIA seeks further consideration of the operational efficiency of the service before the levy is increased. There appears to be a cost-plus approach to providing this service rather than a clear intent to reduce cost through efficiency.</p>

		Table 12 sets out the levy implications if the number of travellers is lower than the current forecast. While TIA appreciates that that reduced travellers will impact Customs, it is not equitable for those people who do travel pay more because others didn't. The paper makes no mention of the ability of Customs to scale back its work and therefore its costs, and it should.
10	What are your views on the proposed cap for all arriving cruise ship travellers?	As above.
11	What are your views on the proposed levy rate for all departing air travellers and sea travellers (non-cruise)?	Supported by TIA
12	What are your views on the proposed cap for all departing air travellers and sea travellers (non-cruise)?	As above.
13	What are your views on the proposed levy rate for all departing cruise ship travellers?	Supported by TIA
14	What are your views on the proposed cap for all departing cruise ship travellers?	As above.
15	What are your views on MPI retaining the current levy rate for all arriving air and sea travellers (non-cruise) for the next levy period?	Supported by TIA
16	What are your views on MPI retaining the current cap for all arriving air and sea travellers (non-cruise) for the next levy period?	As above.
17	What are your views on MPI retaining the current levy rate for all arriving cruise travellers for the next levy period?	Supported by TIA.
18	What are your views on MPI retaining the current cap for all arriving cruise travellers for the next levy period?	As above.
19	Do you think the levy rates should automatically carry forward at the current rates into the next levy period where no new levy rates are set? If not, why not?	Supported by TIA. However, this does not lessen the importance of setting the levy rates for the next levy period on a timely basis with adequate time for operators to incorporate levy changes into their product pricing.
20	Do you think the proposed levy rates will have any impact on traveller numbers? If so, what impact?	The consultation document makes one reference to demand impacts for cruise travellers, suggesting 500 fewer travellers, or a reduction of 0.2% of cruise travellers. Price sensitivity is not well understood. TIA's recent submission on the International Visitor Levy cited MBIE analysis based on a \$100 IVL which indicated significant visitor loss and subsequent spending loss (we can provide this submission). TIA's primary concern is around the cumulative impact of several small changes. For instance, there

		<p>are review process underway for the IVL and Visas in addition to this Border Services consultation.</p> <p>Should all these processes lead to significant overall price increases for crossing the New Zealand border, then we would expect significant demand impacts, which we consider run counter to the Government's state objective to double exports.</p> <p>With respect to cruise, it also faces a range of specific regulatory and port use cost increases that impact the attractiveness of New Zealand as a place for cruise companies to deploy their vessels. The industry has clearly indicated that the cost of doing business is already reducing the capacity of the sector operating in New Zealand and that this will likely continue.</p>
21	<p>Is there anything else that Customs and MPI should consider when providing advice to ministers about resetting levy rates to recover border processing costs?</p>	<p>As set out above the question of cumulative costs of crossing the border is of paramount importance to TIA.</p> <p>Evidence is that there is price sensitivity in the market, and this has likely already resulted in the subdued cruise sector.</p> <p>TIA supports the overall process used to ensure New Zealand's border services are largely user-pays and are cost-neutral. That said, we do require that the information provided to inform our views is sufficient and clearly presented to allow us to make a clear assessment of the situation.</p>
	<p>Section 9: Customs' significant new costs</p>	<p>TIA notes that Customs faces cost pressures for the New Zealand Traveller Declaration, Maritime Supply Chain Security, and price and wage pressures.</p> <p>As pointed out earlier, these cost pressures are not well set out in the body of the document where the price levels are discussed. For instance, what role of the NZTD or the Maritime Supply Chain Security in the calculations for each levy? For instance, for Levy Two, these two areas appear to contribute a large proportion of the \$10.06 proposed per traveller increase.</p> <p>The text in the consultation document does not make the case why these areas are included and the case that these costs are passed on to the traveller. TIA requests that this rationale is provided before this review process is completed.</p>