



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA



Biosecurity New Zealand
Ministry for Primary Industries
Manatū Ahu Matua

RECOVERING THE COST OF BORDER PROCESSING SERVICES JOINT CONSULTATION DOCUMENT

June 2021

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New Zealand Customs Service

Ministry for Primary Industries

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EXECUTIVE SUMMARY

International travel is vital to the New Zealand economy. It brings in tourists, international students and workers, and helps to maintain business and social connections.

The New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI)¹ provide border processing services for arriving and departing travellers,² for the purpose of protecting New Zealand's border from biosecurity and other risks and threats while facilitating secure and efficient travel.

Since 1 January 2016, Customs and MPI have recovered border processing costs³ through border processing levies (levies).⁴ The purpose of this system is to ensure that levied travellers arriving and departing New Zealand meet the costs to Customs and MPI that their travel creates, rather than taxpayers having to meet those costs.

In early 2020, Customs and MPI were in the process of reviewing the levy rates, but these reviews were interrupted by events surrounding the COVID-19 pandemic. After the start of the COVID-19 pandemic and the introduction of border restrictions, the number of travellers arriving and departing New Zealand fell by 98 percent. This fall in the number of travellers had widespread effects throughout the economy including on the transport and tourism sectors. It also affected government agencies providing transport and border-related services.

To relieve the immediate impact of the COVID-19 pandemic on the aviation sector, the Government agreed to a relief package in March 2020 that included suspending funding reviews across all aviation and border agencies for 12 months. Customs' and MPI's existing levy rates were subsequently carried over at their existing rates.

Customs and MPI reduced border processing costs where practicable, while maintaining service levels for those travellers still arriving and departing. However, current levy revenue is insufficient to cover the current border processing costs, and deficits are accumulating in the memorandum accounts for border processing services (memorandum accounts).⁵

The Government is working towards safely reopening New Zealand's borders. It has opened quarantine-free travel⁶ with Australia and the Cook Islands, and is looking at other ways to progressively relax border restrictions.

The Government has directed Customs and MPI to consult on options for returning to full recovery of border processing costs. The speed at which Customs and MPI return to full cost recovery needs to carefully balance the Government's fiscal objectives against the impact on

¹ MPI's border processing services are provided by Biosecurity New Zealand, a business unit within MPI.

² In section 143(1) of the Customs and Excise Act 2018, 'traveller' means, "any person who arrives in New Zealand from, or departs from New Zealand for, any place outside New Zealand."

In section 140AA(1) of the Biosecurity Act 1993, 'traveller' means, "any person who arrives in New Zealand from any place outside New Zealand."

³ In the Customs and Excise (Border Processing Levy) Order 2015, 'border processing costs' means "costs incurred by Customs in, or for the purpose of, carrying out its functions under the Customs and Excise Act 2018 or any other enactment, in relation to relevant travellers and their accompanying baggage (or other goods in their possession or under their control, but excluding costs referred to in section 413(5) of the Customs and Excise Act 2018." Customs and Excise (Border Processing Levy) Order 2015, cls 6(4), 7(4), 8(4) and 9(4).

In the Biosecurity (Border Processing Levy) Order 2015, 'border processing costs' means "costs incurred by MPI in, or for the purpose of, exercising its powers or performing its functions under the Biosecurity Act 1993 in relation to relevant travellers and the goods in their possession or under their control (including as part of their personal effects or baggage), but excluding costs referred to in section 140AA(5) of the Biosecurity Act 1993." Biosecurity (Border Processing Levy) Order 2015, cls 6(4) and 7(4).

⁴ 'Border processing levies' are also known as 'border clearance levies'.

⁵ Accounts operated by Customs and MPI that record border processing costs and levy revenue.

⁶ 'Quarantine-free travel' is defined in the COVID-19 Public Health Response (Air Border) Order (No 2) 2020.

travellers, and any flow-on impact for others including airlines and airports, cruise lines and maritime ports, and the tourism sector. Given the extraordinary effects of the COVID-19 pandemic, the Government has agreed that Customs and MPI may use Crown funding to eliminate the estimated \$186 million deficits in their memorandum accounts as at 30 June 2021.

As a result, Customs and MPI are now consulting options for resuming recovery of border processing costs, as follows:

- Option 1 – no change to levy rates, with deficits continuing to accumulate
- Option 2 – change levy rates from **1 December 2021** to recover costs over **three years**
- Option 3a – change levy rates from **1 September 2023** to recover costs over **three years**, with **levied travellers** funding the deficits that accumulate between 1 July 2021 and 31 August 2023
- Option 3b – change levy rates from **1 September 2023** to recover costs over **three years**, with **taxpayers** funding the deficits that accumulate between 1 July 2021 and 31 August 2023
- Option 4 – change levy rates from **1 December 2021** to recover costs over **one year**
- Option 5 – change levy rates from **1 December 2021** to recover costs over **six years**.

Customs and MPI have estimated:

- the number of levied travellers
- Customs' and MPI's border processing costs.

Under each option, levy rates would be set to recover estimated border processing costs over the course of the levy period,⁷ adjusted to take account of any deficit at the start of the levy period. Table 1 shows Customs and MPI combined arriving and departure levies for cruise⁸ and non-cruise⁹ travellers under each option.

The table also shows the combined proposed caps for the levy rates (limits that Customs and MPI may not exceed when increasing rates in accordance with the levy orders).¹⁰ Customs and MPI propose that caps be set at five percent above the proposed levy rates. This will allow a small margin of flexibility to increase rates, if necessary, without the need for a new levy order to be made.

⁷ 'Levy period' means a period prescribed by, or set in accordance with, the Customs and Excise (Border Processing Levy) Order 2015 or the Biosecurity (Border Processing Levy) Order 2015. Levy rates apply only for the levy period for which they are set.

⁸ 'Cruise ship' means "A ship, boat, or other vessel operated by a cruise line for an international cruise as part of its international cruise business. Customs and Excise (Border Processing Levy) Order 2015 cl 3; Biosecurity (Border Processing Levy) Order 2015 cl 3.

⁹ In this consultation document, 'non-cruise travellers' means travellers other than cruise ship travellers. Most non-cruise travellers arrive on flights operated by commercial airlines, but some arrive on charter flights or private aircraft, or on private marine craft such as yachts.

¹⁰ Customs and Excise (Border Processing Levy) Order 2015, cls 6(3) and 7(3); Biosecurity (Border Processing Levy) Order 2015, cls 6(3) and 7(3).

Table 1 – Total levies for each option

	Total levy rates ^[1] \$ excl GST	Change from current rates ^[2] \$ excl GST	Total caps \$ excl GST
Non-cruise			
Option 1	17.49	-	19.70
Option 2	54.78	37.29	57.50
Option 3a	41.39	23.90	43.46
Option 3b	26.77	9.28	28.11
Option 4	139.79	122.30	146.78
Option 5	33.14	15.65	34.80
Cruise			
Option 1	18.31	-	32.40
Option 2	30.75	12.44	32.29
Option 3a	27.04	8.73	28.40
Option 3b	22.56	4.25	23.67
Option 4	61.07	42.76	64.13
Option 5	24.9	6.59	26.14

[1] The combined total of Customs' and MPI's arrival and departure levies.

[2] Option 1 reflects the current levy rates and caps.

Customs and MPI prepared the estimates of traveller numbers using the best information available as at 10 May 2021. If updated information is available following this consultation, Customs and MPI may adjust these estimates and propose levy rates different to those in this consultation document. However, Customs and MPI would not propose rates higher than the proposed caps without consulting further with relevant stakeholders.

Regardless of the option implemented, Customs and MPI will monitor the levies and propose adjustments as necessary to ensure the levy rates are on track to recover costs by the end of the levy period. This could result in adjustments from 1 July 2023 for Options 2 and 5, and from 1 September 2023 for Options 3a or 3b.

MPI also proposes an amendment to the Biosecurity (Border Processing Levy) Order 2015 to introduce flexibility in setting the start and end dates of future levy periods. Currently, levy periods must start on 1 July and end on 30 June. This amendment would future-proof the levy order as well as accommodate the levy periods for the options in this consultation document.

If the Government decided to implement an option in this consultation document, other amendments to the levy orders would also be required. For example, amendments would be required to reset rates and start the next levy period on the dates set out in the options. To implement Option 5, amendments would also be required to provide for a levy period of six years.

Customs and MPI invite stakeholders and the general public to provide feedback on the options in this consultation document. Section 2 provides information about how to provide your feedback. Customs and MPI will inform Ministers of your feedback.

SECTION 1: BACKGROUND AND PURPOSE

This section describes and explains:

- › the role of Customs and MPI at the border
- › why border processing costs are recovered from levied travellers
- › the legal basis for recovering these costs
- › the effect that the COVID-19 pandemic has had on cost recovery
- › the problem that this consultation document addresses.

Appendix 1 provides a timeline of events related to the border processing levies.

The role of Customs at the border

Customs works to protect New Zealand's borders, promote and facilitate travel and trade, and collect revenue in the face of changing demands and expectations. This role includes facilitating the flow of travellers, goods and craft across the border, and protecting New Zealand from a variety of risks and threats associated with them. Risks related to illicit drugs, undeclared currency,¹¹ prohibited weapons and health have become increasingly visible as a result of the COVID-19 pandemic.

Appendix 2 provides further information about the role of Customs.

The role of MPI at the border

MPI is the lead agency for New Zealand's biosecurity system. Biosecurity protects our human health and environment including our taonga (treasures), provides the platform for us to grow our economy through primary production and tourism and trade, and maintains and enhances our way of life into the future.

The biosecurity system is based on activities across three main inter-related areas:

- › internationally
- › at the border
- › within New Zealand.

These interconnected activities reduce or minimise the risk that the many pathways into New Zealand present.

Appendix 3 provides further information about the role of MPI.

¹¹ The cross-border movement of undeclared currency can be used by criminal groups to move the profits of illegal activity.

Border processing costs are funded through cost recovery

Customs and MPI incur costs in carrying out activities related to travellers (border processing costs). These activities include:

- › risk assessment before travellers arrive
- › processing of travellers and their goods at the border
- › investigations after travellers cross the border.

Appendix 4 provides further details about these activities.

Since 1 January 2016, Customs and MPI have charged border processing levies (the levies) to recover these costs. Customs and MPI charge these levies under the Customs and Excise (Border Processing Levy) Order 2015 and the Biosecurity (Border Processing Levy) Order 2015 respectively (the levy orders). The purpose of these levies is to ensure that travellers arriving and departing New Zealand fund the costs that their travel creates for Customs and MPI.

Customs and MPI operate memorandum accounts that record border processing costs and levy revenue (the memorandum accounts). They regularly review levy rates to ensure that the balance in the memorandum accounts trends towards zero (New Zealand Treasury, 2011). When levy rates are reset, the new rates take into account any surplus or deficit that has accumulated in the memorandum accounts.

Before the COVID-19 pandemic, Customs estimated that 53 percent of its total revenue in 2020/21 would be from fees and levies, and estimated that border processing levies would raise \$76.2 million, over 65 percent of Customs' revenue from fees and levies.¹² MPI forecast that approximately 35 percent of its total revenue would be generated from cost recovery.¹³ More specifically, border processing levies were forecast to raise approximately \$100 million, around half of MPI's revenue from cost recovery.

Cost recovery follows Treasury and Auditor-General guidance

Customs and MPI use cost recovery frameworks that are consistent with guidance published by New Zealand Treasury (2017), and the New Zealand Controller and Auditor-General (2008). The four key principles that guide our approach to cost recovery are: equity; efficiency; transparency, and justifiability. The key principle of these frameworks is equity, which suggests that those who create the need for a service should fund that service.

Further information about Customs' and MPI's cost recovery frameworks and how they are applied are included in Appendix 5.

¹² Customs also charges goods clearance fees on imports and exports.

¹³ MPI also charges the Biosecurity System Entry Levy on imports to recover biosecurity clearance costs related to goods, and well as fees and levies related to other services that MPI delivers.

Legal basis for cost recovery

Legislation and levy orders provide authority to collect the levies

Since 1 January 2016, all travellers entering or departing New Zealand, other than exempt travellers, have been required to pay levies to Customs and MPI. Section 413 of the Customs and Excise Act 2018 and Section 140AA of the Biosecurity Act 1993 provide the legislative basis for charging the levies.

Two levy orders provide the specific authority to collect the levies (the levy orders):

- › Customs and Excise (Border Processing Levy) Order 2015¹⁴
- › Biosecurity (Border Processing Levy) Order 2015.¹⁵

The Customs and Excise (Border Processing Levy) Amendment Order 2021 carries over the current levy rates into the third levy period starting 1 July 2021. The Chief Executive of Customs set the duration of this period to be five months ending on 30 November 2021 (Stevenson, 2021). The Chief Executive of Customs may extend this period up to 36 months by notice in the New Zealand Gazette.¹⁶

On 16 April 2021, MPI's levies were carried over at their existing rates for a period ending on 30 June 2022.¹⁷

Travellers who must pay the levies

The Customs and Excise (Border Processing Levy) Order 2015 provide for four levy rates,¹⁸ for:

- › travellers arriving other than on a cruise ship (non-cruise arrival)
- › travellers arriving on a cruise ship
- › travellers departing other than on a cruise ship (non-cruise departure)
- › travellers departing on a cruise ship.

The Biosecurity (Border Processing Levy) Order 2015 provides for two levy rates,¹⁹ for:

- › travellers arriving other than on a cruise ship
- › travellers arriving on a cruise ship.

¹⁴ The Customs and Excise (Border Processing Levy) Order 2015 incorporates amendments made on 1 October 2018 and 26 March 2021.

¹⁵ The Biosecurity (Border Processing Levy) Order 2015 incorporates amendments made on 1 July 2018, 1 October 2018 and 16 April 2021.

¹⁶ Customs and Excise (Border Processing Levy) Order 2015, cl 2A(b).

¹⁷ Biosecurity (Border Processing Levy) Amendment Order 2021.

¹⁸ Customs and Excise (Border Processing Levy) Order 2015, cls 4 and 5.

¹⁹ Biosecurity (Border Processing Levy) Order 2015, cls 4 and 5.

All travellers must pay these levies, other than two classes of exempt travellers:

- › levy-funded exempt travellers²⁰ – for example, children under the age of two years, and travellers other than passengers.²¹ The border processing costs of levy-funded exempt travellers are funded by the levy
- › non-levy funded exempt travellers²² – for example, travellers on a non-passenger commercial craft. The costs of non-levy funded exempt travellers are funded by the Crown.

Appendix 6 sets out the details of these exemptions.

Customs and MPI collect the levies from airlines and cruise lines on behalf of the travellers on their craft. For travellers who arrive or depart on other craft such as yachts, Customs and MPI collect the levies from the person in charge of the craft, or an agent of the owner or operator of the craft.²³

Formula for setting levy rates

Each levy order sets out the method for setting levy rates.

The formula to calculate each levy rate is:²⁴

- › an estimate of the border processing costs for the levy period, adjusted as described below
- divided by:**
- › an estimate of the number of travellers in the levy period excluding exempt travellers.

The estimated costs are adjusted to take account of:²⁵

- › any estimated under or over-recovery of costs for the previous levy period
- › any remaining under or over-recovery of costs for the period before the previous levy period.

Section 3 describes the activities that make up border processing costs.

²⁰ 'Levy-funded exempt traveller' is defined in Customs and Excise (Border Processing Levy) Order 2015, cl 3; Biosecurity (Border Processing Levy) Order 2015, cl 3.

²¹ 'Passenger' means, "a person carried on a craft during a flight or voyage, other than a person— (a) who is employed or engaged under a contract of service or a contract for services; and (b) who, under that contract, provides services on the craft during the flight or voyage wholly for the purposes of the business of the craft". Customs and Excise (Border Processing Levy) Order 2015, cl 3; Biosecurity (Border Processing Levy) Order 2015, cl 3.

²² 'Non-levy-funded exempt traveller' is defined in Customs and Excise (Border Processing Levy) Order 2015, cl 3; Biosecurity (Border Processing Levy) Order 2015, cl 3.

²³ Customs and Excise (Border Processing Levy) Order 2015, cl 12; Biosecurity (Border Processing Levy) Order 2015, cl 10.

²⁴ Customs and Excise (Border Processing Levy) Order 2015, cls 6 to 9; Biosecurity (Border Processing Levy) Order 2015, cls 6 and 7.

²⁵ Customs and Excise (Border Processing Levy) Order 2015, cls 6 to 9; Biosecurity (Border Processing Levy) Order 2015, cls 6 and 7.

Caps

Each levy order specifies amounts that levy rates must not exceed (caps). Caps enable the Chief Executive of Customs and the Director-General of MPI, in certain circumstances, to increase levy rates up to the caps without requiring amendments to the levy orders. Customs and MPI would consult representative groups of stakeholders as appropriate before adjusting the levy rates.

Travellers also pay other government fees and levies

Travellers use various government services and therefore pay fees and levies aside from the border processing levies. Appendix 7 lists other government fees and levies related to travellers.

The COVID-19 pandemic has affected cost recovery

International travel is vital to the New Zealand economy. It brings in tourists, international students and workers, and helps to maintain business and social connections. However, the COVID-19 pandemic disrupted the free flow of people across international borders, and the number of travellers arriving and departing New Zealand fell by 98 percent after border restrictions were put in place in March 2020. This impacted:

- ▶ businesses and organisations throughout the economy that depend on international travel, in particular the aviation, cruise and tourism sectors
- ▶ the financial situation of border and transport agencies funded through cost recovery, resulting in substantial deficits and large estimated funding gaps
- ▶ the Crown's overall fiscal position.

In March 2020, the Government agreed to a relief package for the aviation sector to mitigate the immediate impact of the border closure. The package included, among other things:

- ▶ suspending funding reviews of all aviation and border agencies for 12 months, including reviews of border processing levies
- ▶ refunding airlines the equivalent of the border processing levies
- ▶ relief from payment of Airways New Zealand and Civil Aviation Authority fees and levies
- ▶ establishing a \$320 million International Air Freight Capacity scheme.

The Government is working to reopen borders safely. It opened quarantine-free travel with Australia and the Cook Islands. It has set up a group of independent public health experts to advise, among other things, on when the Government could relax border restrictions and on public health controls when the borders reopen (Hipkins & Verrall, 2021).

The 12-month suspension of funding reviews affected reviews that Customs and MPI were carrying out for the levy period starting on 1 July 2021. Instead of completing those reviews, the levy rates were carried over into the next levy period at their existing rates.

In response to the fall in the number of travellers and levy revenue, Customs and MPI took actions to reduce the border processing costs. For example, they redeployed staff from border processing services to other services such as goods clearance or enforcing the COVID-19 Public Health Response (Maritime Border) Order 2020.²⁶

However, it was not possible to reduce costs by the same extent as the decline in revenue. In particular, Customs and MPI needed to:

- provide services at airports operating passenger flights even when the number of travellers was very low
- retain sufficient capacity to process travellers in the future when the number of travellers is estimated to recover towards pre-COVID-19 levels
- retain fixed assets such as IT systems and equipment that have associated costs such as depreciation and capital charge.

As a result, border processing costs have exceeded revenue by a wide margin and substantial deficits have accumulated in the memorandum accounts.

On 1 March 2021, the Government agreed that Customs and MPI may use Crown funding to eliminate the deficits in the memorandum accounts up to 30 June 2021. This decision means that taxpayers would fund an estimated \$186 million in border processing costs, deviating from the usual practice of recovering these costs from levied travellers. The Government made this decision in light of the extraordinary circumstances in which most of these deficits had accumulated following the outbreak of COVID-19.

The purpose of this consultation document

As a result of the COVID-19 pandemic, revenue from the current levy rates is estimated to be less than Customs' and MPI's estimated border processing costs.

The purpose of this consultation document is to seek stakeholders' views on options to address this problem. The Government has directed Customs and MPI to consult on a range of options and to inform Ministers of stakeholders' views before it makes a decision.

Section 2 of this consultation document describes how you can provide feedback on this consultation document. Section 3 set out the estimated number of levied travellers, and Customs' and MPI's estimated border processing costs. Section 4 contains a discussion of each option for setting levy rates.

²⁶ The COVID-19 Public Health Response (Maritime Border) Order 2020 strengthened maritime border controls to reduce the risk of COVID-19 entering New Zealand through the maritime border.

SECTION 2: HAVE YOUR SAY

What Customs and MPI are consulting on

Customs and MPI are consulting on options for resetting levy rates to fully recover border processing costs. The proposed levy rates for each option differ depending on:

- › the date that levy rates are reset
- › the duration of the levy period
- › who funds the deficits related to travel before the levy rates are reset.

This consultation document proposes:

- › levy rates and caps associated with each option
- › an amendment to the Biosecurity (Border Processing Levy) Order 2015 to future-proof the levy order and facilitate the implementation of the options.

Who this consultation document is intended for

Customs and MPI welcome feedback from the public, particularly from those potentially affected by the options in this consultation document:

- › people intending to arrive or depart New Zealand
- › international airlines and cruise ship operators
- › operators of other aircraft carrying passengers arriving or departing New Zealand
- › owners of private marine craft that may arrive or depart New Zealand
- › other businesses and organisations that may be affected by the impact of levy rate changes on the number of travellers arriving and departing New Zealand
- › taxpayers.

Customs and MPI value your feedback

Customs and MPI would like to hear your views on the options in this consultation document. Your feedback will enable us to understand your views and the possible impacts of the options.

Your responses to the questions in this consultation document will help Customs and MPI to understand your views. The questions appear throughout this consultation document and are also listed in Section 5.

When making your submission, please include:

- › the title of this consultation: **Recovering the cost of border processing services**
- › your name and title
- › your organisation's name (if you are making a submission on behalf of an organisation)
- › your email address (or postal address) so that Customs and MPI can acknowledge your submission and later inform you of the outcome of the consultation process
- › the questions you are responding to, and your responses.

The deadline for submissions is **9.00 am on 2 July 2021**. You can provide your submission:

By email to: LevyConsultation2021@customs.govt.nz

By post: Consultation: Recovering the cost of border processing services
New Zealand Customs Service
PO Box 2218
Wellington 6140

Next steps

Once consultation has ended, Customs and MPI will consider the feedback and provide advice to the Minister of Customs and the Minister for Biosecurity.

The Ministers may submit a proposal to Cabinet for approval. If Cabinet approves the proposal, the levy orders would be amended to implement Cabinet's decision.

Customs and MPI seek to provide as much notice as possible to stakeholders before any change to levy rates. Customs and MPI would inform stakeholders of Cabinet's decision, and the amendments would be notified in the New Zealand Gazette before they take effect.

Goods and Services Tax

This consultation document expresses levy rates exclusive of goods and services tax (GST).

Your submission could be made public

Customs and MPI intend to publish a summary of submissions to cover the main themes identified by submitters. Customs and MPI may also publish individual submissions.

Your submission will be official information and people can request a copy under the Official Information Act 1982 (OIA). Customs and MPI must release information unless there is a good reason for withholding it under the OIA. The Ombudsman may review any decision to withhold information.

When you make your submission, please advise whether you want your submission or specific information in your submission withheld, such as commercially sensitive or personal information. Please identify the sections of the OIA and state the reasons that would justify withholding information.

Further guidance about the OIA can be found at: <https://www.ombudsman.parliament.nz/>.

SECTION 3: ESTIMATED NUMBER OF LEVIED TRAVELLERS AND COSTS

Section 3 contains information to support the consultation process, including:

- › the estimated number of levied non-cruise and cruise travellers arriving and departing New Zealand
- › Customs' and MPI's estimated border processing costs
- › questions related to these estimates.

Customs and MPI use these estimates to calculate the levy rates in the options discussed in Section 4.

Customs and MPI prepared the estimates of traveller numbers and costs using the best information available as at 10 May 2021. Following the current consultation, Customs and MPI may revise these estimates and as a result propose levy rates different to those in this consultation document. However, Customs and MPI would not propose rates higher than the proposed caps without consulting further with relevant stakeholders.

Estimated number of levied travellers

Before the COVID-19 pandemic, increasing numbers of travellers arrived and departed New Zealand year on year. COVID-19 has created great uncertainty about the number of travellers who will arrive and depart New Zealand in the coming years. In particular, there is uncertainty about:

- › the Government's future decisions on relaxing or re-imposing border restrictions, informed by the best available scientific evidence and strategic public health advice
- › foreign government decisions about border restrictions and requirements
- › airline and cruise lines commercial decisions about the services and capacity they will provide
- › individuals' decisions about whether to travel.

Border and transport agencies²⁷ developed a range of scenarios of the future number of passengers, ranging from optimistic to pessimistic, and agreed on a moderate scenario to use for budgeting and other planning purposes.

Table 2 shows the estimated number of levied travellers, based on the moderate scenario. The number of levied travellers is estimated to gradually increase towards pre-COVID-19 levels. The table shows how these estimates compare to the number of levied travellers immediately before COVID-19 affected New Zealand (February 2019 to January 2020).

There is substantial uncertainty surrounding these estimates due to factors related to the COVID-19 pandemic. To develop this scenario, officials made assumptions about the Government's future decisions on border restrictions such as the timing of quarantine-free travel and the resumption of cruise travel. These assumptions do not signal the Government's future

²⁷ Border and transport agencies are: the Ministry of Business, Innovation and Employment (including Immigration New Zealand), MPI (including Biosecurity New Zealand), Ministry of Transport, Civil Aviation Authority (including the Aviation Security Service), Maritime New Zealand and Customs.

policy decisions. The scenario also involves assumptions about other governments' border restrictions, airline and cruise line commercial decisions about service capacity, and individuals' travel decisions.

Table 2 – Estimated number of levied travellers

	Pre-COVID-19 Feb-19 to Jan-20 Actual Million	Year to June 2020 Actual Million	Year to June 2021 Estimated Million	Year to June 2022 Estimated Million	Year to June 2023 Estimated Million	Year to June 2024 Estimated Million
Non-cruise						
Arrival	6.95	5.20	0.16	0.83	2.40	4.00
Departure	6.91	5.05	0.19	0.85	2.41	4.00
Change from baseline		-25%	-98%	-88%	-65%	-42%
Cruise						
Arrival	0.28	0.24	-	0.05	0.12	0.20
Departure	0.28	0.23	-	0.05	0.12	0.20
Change from baseline		-17%	-100%	-84%	-59%	-30%

Questions about the estimated number of levied travellers

1. Do you consider that the estimated number of levied non-cruise travellers is reasonable? If not, please explain why. If possible, please provide estimated numbers of levied non-cruise travellers that you consider reasonable, and the assumptions your numbers are based on.
2. Do you consider that the estimated number of levied cruise travellers is reasonable? If not, please explain why. If possible, please provide estimated numbers of levied non-cruise travellers that you consider reasonable, and the assumptions your numbers are based on.

Customs border processing costs

Activities that make up Customs' border processing services

Customs' border processing services involve:

- › assessing risks before travellers arrive at the border
- › advice to travellers and engagement with industry before travellers arrive at the border
- › processing travellers at the border
- › investigations of illegal activity.

Figure 1 shows a breakdown of border processing costs for non-cruise travellers as budgeted in 2021 before the COVID-19 pandemic. It highlights that at-border processing is the most costly part of non-cruise border processing services, followed by pre-border risk assessment. Appendix 4 provides more detail about border processing activities.

Figure 1 – Breakdown of non-cruise border processing services costs (2020/21 budget)

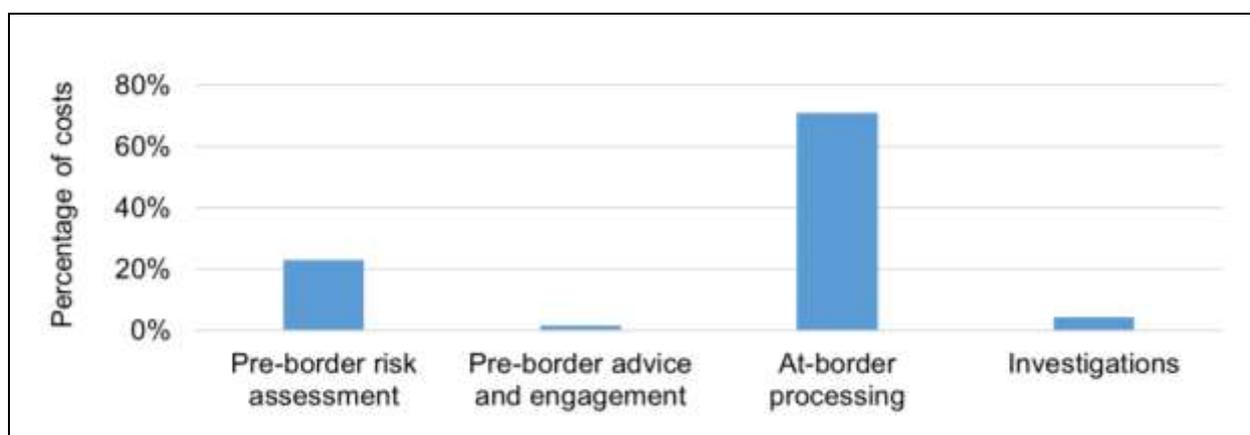
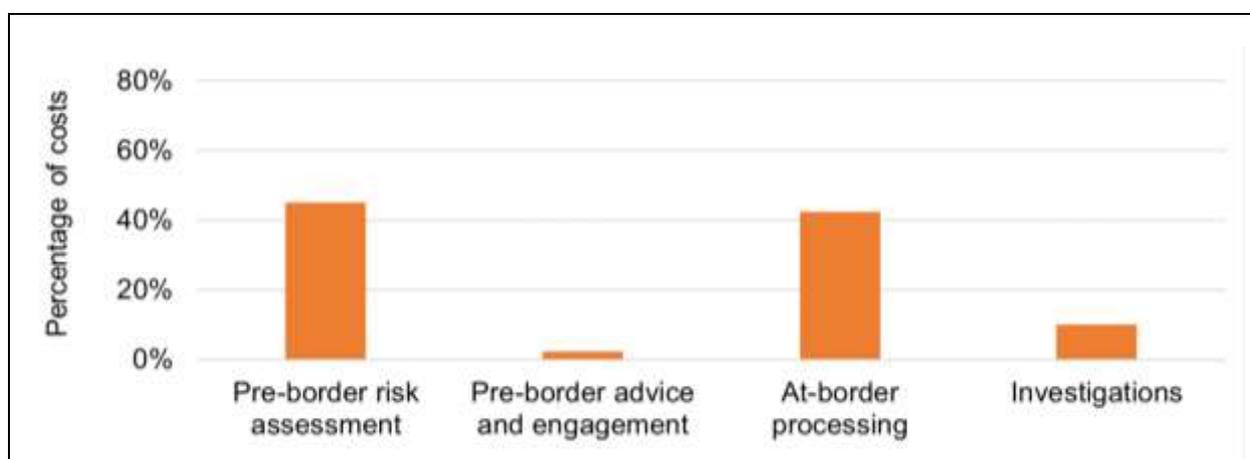


Figure 2 shows a breakdown of border processing costs for cruise travellers. It highlights that Customs' costs related to cruise travel differs from non-cruise travel, with relatively more costs on pre-border risk assessment and investigations of illegal activity.

Figure 2 – Breakdown of cruise border processing services (2020/21 budget)



Customs has been improving its border processing services

Since the levy rates last changed on 1 July 2018, Customs has continued to improve its border processing services. These improvements contributed to Customs' ability to protect New Zealand from risks and threats, and Customs' productivity in processing legitimate travellers.

The improvements in the way Customs protects New Zealand from risks and threats included:

- ▶ an expanded capability to identify and target risks early, including stronger liaison with partners and better capability to investigate and disrupt organised crime networks
- ▶ better cash detection and financial analysis to identify and target cross-border smuggling of criminal proceeds and financial support
- ▶ a mobile app to provide frontline officers with better access to information for interacting with travellers and more structured and consistent data for risk targeting
- ▶ equipment to more quickly detect traces of illicit substances while processing travellers.

Improvements to Customs' productivity in processing legitimate travellers included:

- ▶ expanded use of eGates before the COVID-19 pandemic. In 2019, ePassport holders from 13 countries could use eGates, up from five countries in 2017. Customs suspended its use of eGates due to the COVID-19 pandemic, but is resuming their use for quarantine-free travel
- ▶ use of the mobile app and the trace detection equipment to improve the speed that Customs can inspect travellers of interest.

Customs has also improved its understanding of the costs of its activities after developing an activity-based costing methodology. This methodology involves assigning Customs' resources to either:

- ▶ operational activities directly related to Customs' services, or
- ▶ corporate services such as finance, or
- ▶ business-sustaining activities such as statutory reporting.

The methodology assigns corporate services activities to the operational activities that use those services, and spreads business-sustaining costs across all services. This methodology provides a more transparent and accurate understanding of the costs of services. Customs implemented this methodology during 2019/20 and it resulted in the allocation of more costs to border processing services than previously. Appendix 5 contains more information about Customs' methodology.

More information on these service improvements can also be found in the annual performance reports on the levies.²⁸

²⁸ See the "Monitoring and review" section in Section 4 for more about performance reports.

Changes to Customs' border processing services in response to COVID-19

Customs reduced border processing costs

After the fall in the number of travellers at the start of the COVID-19 pandemic, Customs maintained core services while implementing actions to keep border processing costs to a minimum. These actions included:

- › reviewing the need to fill vacancies, holding vacancies, and reducing the use of consultants
- › redeploying airport staff to other functions such as enforcing the Maritime Border Order, and therefore not allocating these costs to the levy memorandum account. Usually, Customs has 350 staff working at international airports. After New Zealand's borders largely closed, Customs needed only half that number
- › managing overtime and reducing leave balances
- › reviewing contracts with service providers
- › limiting other discretionary spending such as staff travel.

Customs needed to maintain a certain level of staffing to process the few travellers who were still arriving and departing New Zealand. This involved staff at airports as well as staff involved in Customs' intelligence, risk assessment and investigations activities. Customs also needed to retain the capacity to provide services as the number of levied travellers increases in the future. Customs also had ongoing fixed costs, such as depreciation and a capital charge on IT systems, eGates and kiosk management systems.

Customs' activities previously focused on cruise travellers are currently focused on other services. For example, activities such as gathering intelligence, assessing risks and carrying out investigations usually relate to all risk channels (cruise travellers, non-cruise travellers, and goods) but currently relate only to non-cruise travellers and goods.

Customs is increasing border processing activities as border restrictions are lifted

Processing travellers at airports is now considerably more resource-intensive than before the COVID-19 pandemic. When quarantine-free travel with Australia started in April 2021, most of Customs' airport staff returned from redeployments despite the number of travellers still being far below pre-COVID-19 levels.

Auckland and Christchurch airports are receiving both red zone flights²⁹ and quarantine-free travel flights. Customs and MPI are operating two separate areas for processing travellers at these airports. Staff need to interact more with each traveller. For example, for red zone flights, Customs officers:

- › manage travellers' movement from when they disembark their flight
- › check pre-departure COVID-19 tests
- › carry out manual primary processing (whereas many travellers previously used eGates).

²⁹ Flights other than quarantine-free travel flights.

Appendix 8 provides further details about the processing of travellers at airports before and after the outbreak of COVID-19.

Customs' processing of travellers is likely to continue to be different in the future compared to before the COVID-19 pandemic. There is still uncertainty over what border processing will involve in this environment, and how much it will cost. Changes to border processing have included, or may include:

- separate areas for processing travellers from quarantine-free travel flights
- health certification related to COVID-19 such as evidence of vaccination or a pre-departure test
- new processes to manage the risk of travellers transmitting COVID-19 when they arrive, including health checks
- differences in the use of eGates, which closed when New Zealand's borders closed, but reopened for quarantine-free travel with Australia and the Cook Islands.

When cruise travellers are permitted to arrive in New Zealand in the future, border processing activities might differ because of health risks related to COVID-19. Customs has not yet determined the nature of those activities. However, as an illustrative example, Customs officers might be present when travellers are disembarking more often than was previously the case, depending on where the cruise ship is arriving from.

Estimated cost of Customs' border processing services

Table 3 sets out Customs' estimated border processing costs.

Table 3 – Customs' estimated border processing costs

Financial year	2019/20	2019/20	2020/21	2020/21	2021/22	2022/23	2023/24
	Budget \$m	Actual \$m	Budget \$m	Estimated \$m	Estimated \$m	Estimated \$m	Estimated \$m
Non-cruise	79.190	74.000	79.577	61.688	81.168	82.792	84.448
Cruise	2.610	2.600	3.423	0.164	0.989	2.054	3.337
Total	81.800	76.600	83.000	61.852	82.157	84.846	87.784

Customs' border processing costs for non-cruise travellers

Customs' best estimate of future costs relating to non-cruise travel is the same as the costs that Customs budgeted immediately before the impact of the COVID-19 pandemic as part of preparing for Budget 2020, and adjusted for consumer price inflation to maintain their real value.

Customs is taking this approach because of the uncertainty over what border processing will involve and how much it will cost. Customs budgeted \$79.6 million for 2020/21 immediately before the impact of the COVID-19 pandemic. Over the coming year, Customs expects to know more about how much it will cost to process travellers in a COVID-19 environment.

In response to COVID-19, Customs substantially reduced its costs related to non-cruise travellers by redeploying staff and taking the other actions described above. As a result, instead of the \$79.2 million budgeted for 2019/20 for non-cruise border processing costs, Customs' actual costs were \$74.0 million.

Customs continued to take savings actions for most of 2020/21. In March 2021, Customs estimated that its non-cruise border processing costs for 2020/21 would be \$61.7 million, \$17.9 million less than the \$79.6 million budgeted for this year. However, Customs made this estimate before the Government decided to allow quarantine-free travel with Australia. When quarantine-free travel with Australia started, most of Customs' airport staff returned to the airport from their redeployment, despite number of levied travellers still being far below pre-COVID-19 levels. Therefore, the actual costs for 2020/21 are likely to be higher than Customs had estimated in March 2021.

Customs' border processing costs for cruise travellers

Customs' costs related to cruise travellers reduced dramatically in 2020/21. Customs estimates that it will have only \$164,000 costs related to cruise travel in 2020/21, \$2.9 million less than budgeted. This is because Customs is currently focusing its activities on risks other than those posed by cruise travellers.

When cruise travel resumes, Customs will focus again on processing cruise travellers. Although Customs estimates that its costs will increase with the estimated increase in the number of cruise travellers, the relationship is not linear. For example, Customs' risk assessment activity related to cruise travellers changes dynamically over time, depending on Customs' judgement about the risks posed by cruise travellers.

Questions about Customs' estimated costs

3. Do you consider that Customs' estimated border processing costs for non-cruise travellers are reasonable? If not, please explain why.
4. Do you consider that Customs' estimated border processing costs for cruise travellers are reasonable? If not, please explain why.

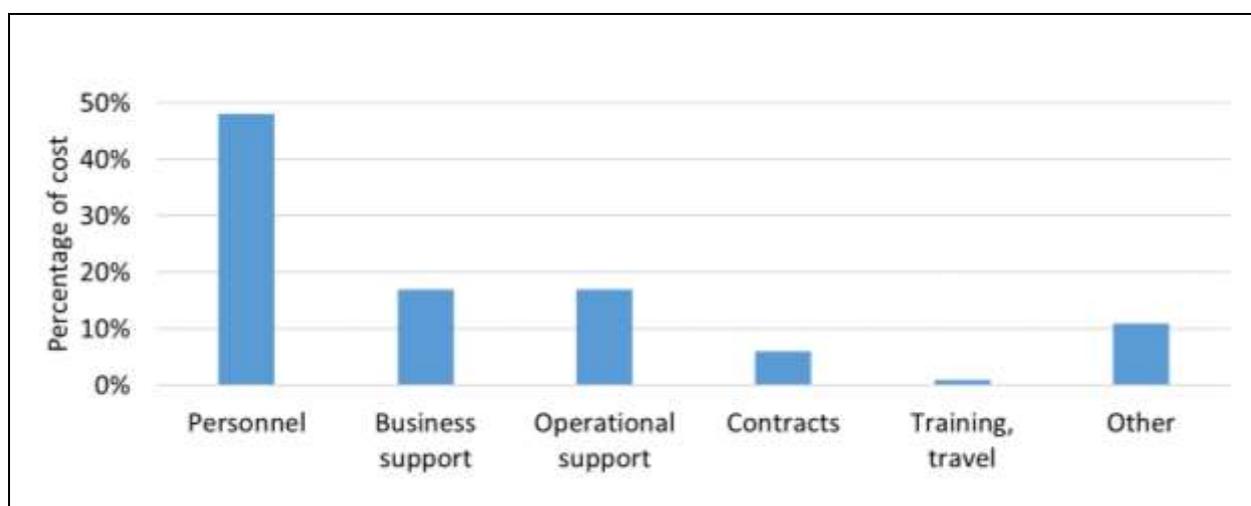
MPI border processing costs

Activities that make up MPI's border processing services

MPI's border processing levies fund services to manage the biosecurity risks of travellers arriving into New Zealand. These include assessment of arrival documentation against biosecurity requirements, verification for compliance, and detector dog or X-ray searches as required. The levy also funds the overhead costs of providing these services, such as training, property and support services like intelligence analysis. Appendix 4 provides further detail on activities funded by MPI's border processing levies.

MPI's main cost drivers for processing travellers entering New Zealand are personnel costs, along with operational and business support costs, as set out in Figure 3.

Figure 3 – Breakdown of MPI border processing costs



MPI has been improving its border processing services

In recent years, the biosecurity risk to New Zealand has been steadily increasing. The causes have included increasing volumes and diversity of trade and tourism, climate change, population growth and increasing public and consumer expectations.

MPI has recently invested in the biosecurity system to ensure it continues to manage the growing scale and complexity of these risks. While this has resulted in ongoing improvements, a 2019 independent review commissioned by MPI, found that more still needs to be done in response to the rapidly expanding range and intensity of these risks (Delane, 2019).

MPI is working to make sure the border system continues to be ready to respond to future challenges. This includes:

- › working with other border sector agencies to make better use of intelligence, data analysis and risk-based profiling
- › harnessing new tools and innovative technologies
- › increasing public and business participation in the system.

MPI measures its effort and investment across three key performance areas:

- › **risk** - measured by compliance with biosecurity requirements
- › **cost** - measured by cost per passenger
- › **customer experience** - measured by average processing time.

In the last few years there has been investment in significant technology improvements to deliver faster, less intrusive and more effective X-ray screening of baggage. This new technology enables MPI to detect risk goods that previously went undetected.

In addition, there was significant investment in additional frontline border staff in 2019/20. This was the first significant increase to staffing levels in several years, despite strong growth in the number of travellers in the same period.

MPI's border processing services changed in response to COVID-19

In response to the substantial fall in the number of travellers due to the COVID-19 pandemic, MPI took urgent action to reduce border processing costs. These actions included:

- › the early retirement of approximately 20 staff
- › temporarily redeploying more than 100 staff into vacancies in other parts of MPI. These staff will return to border processing services as the demand for those services increases
- › suspending baggage handling contracts in Auckland, Wellington, Christchurch and Queenstown airports.

Balanced against this, MPI recognises the importance of retaining sufficient capability to process travellers as the number of travellers continue to recover. With the commencement of quarantine-free travel, MPI is managing travellers from red zone flights separately from those travelling via quarantine-free travel flights. Redeployed MPI staff will continue to return to border processing duties as required to meet these increasing demands.

The New Zealand maritime border remains closed, including for international cruise travel. As travel through this pathway resumes, MPI will continue to ensure it provides robust border biosecurity services. Similar to the non-cruise pathway, these services will likely need to take account of additional health risks related to COVID-19.

Estimated MPI costs of traveller biosecurity processing

Table 4 sets out the estimated MPI costs of traveller biosecurity processing.

Table 4 – Estimated MPI cost for border biosecurity services

Financial year	2019/20 Budget \$m	2019/20 Actual \$m	2020/21 Budget \$m	2021/22 Estimated \$m	2022/23 Estimated \$m	2023/24 Estimated \$m
Non-cruise	65.920	66.480	57.020	64.610	66.640	68.000
Cruise	1.540	1.280	-	1.250	1.280	1.310
Crown	-	0.592	0.592	0.592	0.592	0.592
Total	67.460	68.352	57.612	66.452	68.512	69.902

The cost of MPI's border processing services in 2019/20 was \$0.9 million higher than budgeted. This was largely due to the cost of exiting staff who chose to retire early. These services are budgeted at approximately \$57.6 million for 2020/21 and are estimated to increase to \$69.9 million in 2023/24, reflecting the planned investment in new technology to improve border scanning capability of passengers.

MPI is currently reviewing how it delivers border processing services. While this review may potentially result in changes, MPI's cost estimates in this document are based on the current service delivery model.

The ongoing impact of the COVID-19 pandemic on international travel creates uncertainty in these cost estimates. MPI will continue to monitor costs and the number of levied travellers, and provide updates through the annual performance reports on the levies. MPI would consult stakeholders if monitoring indicates the need for a significant increase to levy rates beyond the proposed caps.³⁰

Questions about MPI's estimated costs

5. Do you support MPI's approach to estimating costs related to non-cruise travellers? If not, please explain why.
6. Do you support MPI's approach to estimating costs related to cruise travellers? If not, please explain why.

³⁰ See the section "Monitoring and review" in Section 4 for more about performance reports and monitoring levy rates.

SECTION 4: OPTIONS AND IMPACT ASSESSMENT

Section 4 discusses options for setting levy rates to recover border processing costs, and related proposals. It:

- › lists a range of options for setting levy rates
- › describes the objective, principles and impacts used to assess the options
- › assesses the options against these objectives, principles and impacts
- › proposes caps that levy rates must not exceed
- › proposes an amendment to the Biosecurity (Border Processing Levy) Order 2015 to provide flexibility in setting the start and duration of levy periods
- › describes how the proposals in this consultation document would be implemented
- › describes how Customs and MPI monitor and review levy rates
- › seeks your feedback on each of these matters.

The Government's policy objective for this consultation

The Government's policy objective for this current consultation is for Customs and MPI to return to full recovery of border processing costs, in line with the regulatory framework that Customs and MPI had been operating under since 2016.

Options considered in this consultation document

Customs and MPI are consulting on the following options for setting levy rates:

- › **Option 1** – no change to levy rates, with deficits continuing to accumulate
- › **Option 2** – change levy rates from **1 December 2021** to recover costs over **three years**
- › **Option 3a** – change levy rates from **1 September 2023** to recover costs over **three years**, with **levied travellers** funding the deficits that accumulate between 1 July 2021 and 31 August 2023
- › **Option 3b** – change levy rates from **1 September 2023** to recover costs over **three years**, with **taxpayers** funding the deficits that accumulate between 1 July 2021 and 31 August 2023
- › **Option 4** – change levy rates from **1 December 2021** to recover costs over **one year**
- › **Option 5** – change levy rates from **1 December 2021** to recover costs over **six years**.

For all options other than Options 1 and 3b, levy rates would be set at levels that recover:

- › the estimated border processing costs for the levy period, plus
- › the estimated under-recovery of border processing costs for the period from 1 July 2021 until the start of the levy period.

The estimated costs, and estimated number of levied travellers, were described in Section 3. All the options would involve Customs or MPI delivering the level service reflected by the estimated costs presented in Section 3.

Options not considered

Customs and MPI did not consider or assess options to permanently reduce services to avoid the need to increase levy rates. We did not consider such options because of the potentially substantial effect on industry, the public, and New Zealand's environment if Customs and MPI reduced services to the extent that would be needed to avoid an increase in levy rates.

The types of reductions in services that Customs and MPI might need to make to substantially reduce costs include:

- reducing the number of airports that process travellers
- reducing working hours at airports (for example, Customs currently operates 24/7 at Auckland and Christchurch airports)
- reducing performance standards for the time taken to process travellers. For example, before COVID-19, the performance standard for processing travellers was 45 minutes from the aircraft arriving at the gate to the traveller being free to leave the airport.
- reducing the level of risk assessment of and intervention with travellers, thereby reducing the level of border protection against biosecurity breaches and other risks and threats (such as smuggling drugs).

If the Government does not approve levy increases to recover costs, or does not provide additional Crown funding for border processing services, then Customs and MPI would need to reduce services so that they can operate within constrained budgets.

Question about the list of options for recovering costs

7. Are there other options Customs and MPI should consider to enable a return to full recovery of border processing costs?

How Customs and MPI will assess the options

This consultation document contains a preliminary assessment of the options against the Government's policy objective, the principles of cost recovery, and the potential impact on travellers. Customs and MPI will update this assessment after receiving feedback on this consultation document.

Principles of cost recovery

Customs and MPI have well-established principles that they use to assess cost recovery proposals. Appendix 5 describes these principles.

Table 5 highlights how these principles apply to the options for increasing levy rates presented in this consultation document.

Table 5 – Applying cost recovery principles to options to increase levy rates

Principle	How this principle relates to the options
Equity: services should be funded by users who benefit from the service or create risks that the service is designed to manage	Equity is the primary principle relevant to this consultation. It is equitable that travellers fund the cost of the activities that Customs and MPI carry out to manage the risks posed by their travel.
Efficiency: costs should be charged to ensure that maximum benefits are delivered at minimum cost	The options involve no change in efficiency. The levy is collected from airlines and cruise lines on behalf of levied travellers; this is more efficient than collecting the levy from each traveller directly.
Transparency: costs should be identified and allocated to the service for the recovery period in which the service is provided	The options involve no change in transparency. The costs related to each levy are clearly identified
Justifiability: charges should only recover the reasonable costs of providing the service.	The options involve no change to justifiability. The levies only fund border processing services.

Impact of the options on the number of levied travellers

This consultation document estimates the impact that levy increases could have on the number of levied travellers arriving and departing New Zealand. Airlines and cruise lines incorporate levies into the ticket prices travellers pay. Levy increases could affect individuals' decisions about whether to travel, because they would pay more. This could lead to a reduction in the number of travellers. This reduction is consistent with the equity principle because individuals would be taking into account the costs they would create for Customs and MPI if they travelled.

Appendix 9 describes the methodology Customs and MPI have used to estimate the potential reduction in the number of levied travellers under each option, and discusses the considerable uncertainty surrounding these estimates.

Questions about how Customs and MPI will assess the options

8. Are there any other impacts that Customs and MPI should consider when assessing the options?
9. Do you have any other comments about how the options should be assessed?

Option 1 – No change to levy rates, with deficits continuing to accumulate

Option 1 would involve levy rates remaining at their current levels. This option would require the Government to carry over the current levy rates indefinitely.

This option would fail to achieve the Government’s policy objective of recovering border processing costs.

Under Option 1, travellers would not be meeting the costs that their travel creates for Customs and MPI. Customs and MPI border processing services would be operating in deficit. The accumulated deficits in Customs and MPI's memorandum accounts for non-cruise travellers would grow to an estimated \$314.3 million by June 2024, and further deficits would be added every year after that. Similarly, the deficits for cruise travellers would grow to an estimated \$3.3 million by June 2024 and continue growing.

It is unsustainable for both Customs and MPI to operate in ongoing deficit. Customs and MPI would need to ask the Government for capital injections so that their balance sheets could carry these deficits. Eventually, the Government would need to make a decision about whether future travellers, or alternatively taxpayers, would fund the accumulating deficits.

Table 6 summarises the possible impacts of Option 1 (no change to levy rates, with deficits continuing to accumulate).

Table 6 – Possible impacts of Option 1

Type of impact	Possible impact
By what year would levy revenue fund border processing costs?	Never
Equity (travellers fund the costs created by their travel)	Not achieved For example, memorandum account deficits related to non-cruise travellers would reach an estimated \$314.3 million by 30 June 2024 Memorandum account deficits related to cruise travellers would reach an estimated \$3.3 million by 30 June 2024
Efficient collection of the levy	No change
Transparency about costs related to the levies	No change
Justifiable: only costs related to the levy are recovered	No change
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$17.49 non-cruise (no change from the current rates) \$18.31 cruise (no change from the current rates)
Potential reduction in the number of levied travellers	Nil

Question about Option 1

10. What do you think about Option 1 (no change to levy rates, with deficits continuing to accumulate)?

Option 2 – change levy rates from 1 December 2021 to recover costs over three years

Option 2 would involve:

- › changing levy rates from 1 December 2021
- › setting a levy period of three years, ending on 30 November 2024
- › travellers after 30 November 2021 funding deficits related to travel between 1 July 2021 and 30 November 2021.

Option 2 involves changing levy rates as soon as practicable and recovering costs over the usual duration that Customs' and MPI's intend to use when setting levy rates in the future. The levy rates under Option 2 would be less than for Option 4 but higher than for the other options considered in this consultation document.

Total non-cruise levies (for Customs and MPI arrival and departure services) would be \$54.78 (excl GST), an increase of \$37.29. An estimated 9.3 million non-cruise travellers would pay these levies. These levies would fund the estimated \$451.4 million border processing costs for the levy period, plus the estimated \$57.5 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Total cruise levies would be \$30.75 (excl GST), an increase of \$12.44. An estimated 403,000 cruise travellers would pay these levies. These levies would fund the estimated \$11.7 million border processing costs for the levy period, plus the estimated \$0.7 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Option 2 is estimated to reduce non-cruise travel by 1.14 percent. As part of this overall reduction, travel from Australia to visit friends and relatives might reduce by 2.93 percent, and long-haul travel from the United Kingdom by 0.32 percent.

Cruise travel is estimated to reduce by 0.23 percent.

During the first part of the period, levy revenue would be less than the costs, but revenue would gradually increase as the number of levied travellers increases. This increase in revenue would eliminate the deficits in the memorandum accounts by 30 November 2024.

The levy rates in Option 2 are considerably higher than the current rates. This is because the estimated number of levied travellers is lower than usual. Between 1 December 2021 and 30 November 2024, it is estimated that the number of levied non-cruise travellers would be 55 percent lower than before the COVID-19 pandemic. It is estimated that the number of levied cruise travellers would be 67 percent lower. The cost per traveller is higher because some costs and activities are ongoing regardless of the numbers of travellers. There are also additional activities to protect New Zealand from COVID-19 such as separate lanes for quarantine-free travel.

Table 7 shows the levy rates under Option 2, and the information used to calculate these rates. Table 8 summarises the possible impacts of Option 2.

Table 7 – Information used to calculate the levy rates under Option 2

	Estimated deficit as at Nov-21 \$m	Estimated costs in levy period \$m	Estimated travellers in levy period million	Current rate \$ excl GST	Levy rate under Option 2 \$ excl GST	Change \$ excl GST
Non-cruise						
Arrive – Customs	-25.391	196.905	9.302	6.43	23.90	17.47
Arrive – MPI	-25.340	200.947	9.302	8.50	24.33	15.83
Depart – Customs	-6.787	53.572	9.221	2.56	6.55	3.99
Total – non-cruise	-57.518	451.424		17.49	54.78	37.29
Cruise						
Arrive – Customs	-0.128	5.745	0.403	10.40	14.57	4.17
Arrive – MPI	-0.500	3.870	0.403	3.81	10.85	7.04
Depart – Customs	-0.049	2.096	0.402	4.10	5.33	1.23
Total – cruise	-0.678	11.711		18.31	30.75	12.44

Table 8 – Possible impacts of Option 2

Type of impact	Possible impact
By what year would levy revenue fund border processing costs?	2024
Equity (travellers fund the costs created by their travel)	Yes
Efficient collection of the levy	No change.
Transparency about costs related to the levies	No change.
Justifiable: only costs related to the levy are recovered	No change.
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$54.78 non-cruise (an increase of \$37.29) \$30.75 cruise (an increase of \$12.44)
Potential reduction in the number of levied travellers	1.14 percent of non-cruise travellers 0.23 percent of cruise travellers

Questions about Option 2 (change levy rates from 1 December 2021 to recover costs over three years)

11. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
12. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
13. What do you think about the assessment of the impacts of this option?
14. If this option was implemented, what impact would it have on you or your organisation?

Options 3a and 3b – change levy rates from 1 September 2023 to recover costs over three years

Options 3a and 3b would involve delaying levy rate increases until the estimated number of levied travellers have recovered to at least half pre-COVID-19 levels, and:

- › changing levy rates from 1 September 2023
- › setting a levy period of three years, ending on 31 August 2026.

Under Options 3a and 3b, people travelling before 1 September 2023 would be paying less than their travel costs because the current levy rates would not apply until 31 August 2023. Deficits would accumulate in the memorandum accounts between 1 July 2021 and 31 August 2023.

Two alternatives for funding the deficits that accumulate between 1 July 2021 and 31 August 2023 are either:

- › to recover them from levied travellers after 31 August 2023 (Option 3a), or
- › for the taxpayers to fund these deficits (Option 3b).

Neither Option 3a nor 3b align well with the principle of equity (ie, the principle that travellers should fund the costs created by their travel).

Option 3a – levied travellers fund the deficits that accumulate between 1 July 2021 and 31 August 2023

Option 3a would involve setting levy rates to recover the deficits in border processing services from 1 July 2021 to 31 August 2023, as well as the costs related to the levy period.

Under Option 3a, levy rates would be higher than under Option 3b (below) because travellers after September 2023 would be funding the border processing costs related to travellers between 1 July 2021 and 31 August 2023, in addition to the costs related to their own travel.

Total non-cruise levies would be \$41.39 (excl GST), an increase of \$23.90. An estimated 17.4 million non-cruise travellers would pay these levies. These levies would fund the estimated \$465.7 million border processing costs for the levy period, plus the estimated \$254.5 million deficits that accumulate between 1 July 2021 and 31 August 2023.

Total cruise levies would be \$27.04 (excl GST), an increase of \$8.73. An estimated 731,000 cruise travellers would pay these levies. These levies would fund the estimated \$16.5 million border processing costs for the levy period, plus the estimated \$3.3 million deficits that accumulate between 1 July 2021 and 31 August 2023.

Option 3a is estimated to reduce non-cruise travel by 0.74 percent. As part of this overall reduction, travel from Australia to visit friends and relatives might reduce by 1.90 percent, and long-haul travel from the United Kingdom by 0.21 percent.

Cruise travel is estimated to reduce by 0.16 percent.

Table 9 shows the levy rates under Option 3a, and the information used to calculate these rates. Table 10 summarises the possible impacts of Option 3a.

Table 9 – Information used to calculate the levy rates under Option 3a

	Estimated deficit as at Aug-23 \$m	Estimated costs in levy period \$m	Estimated travellers in levy period million	Current rate \$ excl GST	Levy rate under Option 3a \$ excl GST	Change \$ excl GST
Non-cruise						
Arrive – Customs	-115.668	203.845	17.407	6.43	18.36	11.93
Arrive – MPI	-110.475	206.395	17.407	8.50	18.20	9.70
Depart – Customs	-28.364	55.460	17.342	2.56	4.83	2.27
Total – non-cruise	-254.507	465.700		17.49	41.39	23.90
Cruise						
Arrive – Customs	-0.891	9.183	0.731	10.40	13.77	3.37
Arrive – MPI	-2.112	3.977	0.731	3.81	8.32	4.51
Depart – Customs	-0.287	3.328	0.730	4.10	4.95	0.85
Total – cruise	-3.290	16.488		18.31	27.04	8.73

Table 10 – Possible impacts of Option 3a

Type of impact	Possible impact
Year costs would be recovered	2026
Equity (travellers fund the costs created by their travel)	Not achieved. Levied non-cruise travellers before September 2023 would not fully fund the border processing costs their travel creates, resulting in an estimated \$254.5 million deficit by 31 August 2023 Similarly, cruise travel before September 2023 would result in an estimated \$3.3 million deficit by 31 August 2023 Levied travellers in the subsequent three years would fund these deficits
Efficient collection of the levy	No change
Transparency about costs related to the levies	No change
Justifiable: only costs related to the levy are recovered	No change
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$41.39 non-cruise (an increase of \$23.90) \$27.04 cruise (an increase of \$8.73)
Potential reduction in the number of levied travellers	0.74 percent of non-cruise travellers 0.16 percent of cruise travellers

Questions about Option 3a (change levy rates from 1 September 2023 to recover costs over three years, if levied travellers fund deficits related to travellers before September 2023)

15. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
16. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
17. What do you think about the assessment of the impacts of this option?
18. If this option was implemented, what impact would it have on you or your organisation?

Option 3b – taxpayers fund the deficits that accumulate between 1 July 2021 and 31 August 2023

An alternative approach to addressing the accumulated deficits as at 31 August 2023 would be for Customs and MPI to seek additional Crown funding to eliminate these deficits (Option 3b). Under this alternative, taxpayers would fund costs related to travellers who travel between 1 July 2021 and 31 August 2023. In all other respects, Option 3b would be identical to Option 3a.

Option 3b does not achieve the Government's objective of cost recovery because taxpayers – rather than travellers – would fund the border processing costs of travellers between 1 July 2021 and 31 August 2023.

Total non-cruise levies would be \$26.77 (excl GST), an increase of \$9.28. An estimated 17.4 million non-cruise travellers would pay these levies. These levies would fund the estimated \$465.7 million border processing costs for the levy period. Taxpayers would fund the estimated \$254.5 million deficits that accumulate between 1 July 2021 and 31 August 2023.

Total cruise levies would be \$22.56 (excl GST), an increase of \$4.25. An estimated 731,000 cruise travellers would pay these levies. These levies would fund the estimated \$16.5 million border processing costs for the levy period. Taxpayers would fund the estimated \$3.3 million deficits that accumulate between 1 July 2021 and 31 August 2023.

Option 3b is estimated to reduce non-cruise travel by 0.29 percent. As part of this overall reduction, travel from Australia to visit friends and relatives might reduce by 0.75 percent, and long-haul travel from the United Kingdom by 0.08 percent.

Cruise travel is estimated to reduce by 0.08 percent.

Table 11 shows the levy rates under Option 3b, and the information used to calculate these rates. Table 12 summarises the possible impacts of Option 3b.

Table 11 – Information used to calculate the levy rates under Option 3b

	Estimated deficit as at Aug-23 \$m	Estimated costs in levy period \$m	Estimated travellers in levy period million	Current rate \$ excl GST	Levy rate under Option 3b \$ excl GST	Change \$ excl GST
Non-cruise						
Arrive – Customs	-	203.845	17.407	6.43	11.71	5.28
Arrive – MPI	-	206.395	17.407	8.50	11.86	3.36
Depart – Customs	-	55.460	17.342	2.56	3.20	0.64
Total – non-cruise	-	465.700		17.49	26.77	9.28
Cruise						
Arrive – Customs	-	9.183	0.731	10.40	12.56	2.16
Arrive – MPI	-	3.977	0.731	3.81	5.44	1.63
Depart – Customs	-	3.328	0.730	4.10	4.56	0.46
Total – cruise	-	16.488		18.31	22.56	4.25

Table 12 – Possible impacts of Option 3b

Type of impact	Possible impact
By what year would levy revenue fund border processing costs?	2026
Equity (travellers fund the costs created by their travel)	Not achieved. Levied non-cruise travellers before September 2023 would not fully fund the border processing costs their travel creates, resulting in an estimated \$254.5 million deficit by 31 August 2023 Similarly, cruise travel before September 2023 would result in an estimated \$3.3 million deficit by 31 August 2023 Taxpayers would fund these costs
Efficient collection of the levy	No change
Transparency about costs related to the levies	No change
Justifiable: only costs related to the levy are recovered	No change
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$26.77 non-cruise (an increase of \$9.28) \$22.56 cruise (an increase of \$4.25)
Potential reduction in the number of levied travellers	0.29 percent of non-cruise travellers 0.08 percent of cruise travellers

Questions about Option 3b (change levy rates from 1 September 2023 to recover costs over three years, if taxpayers fund deficits related to travellers before September 2023)

19. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
20. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
21. What do you think about the assessment of the impacts of this option?
22. If this option was implemented, what impact would it have on you or your organisation?
23. If you favour this option, why do you consider that it is more appropriate for taxpayers than for travellers to meet a substantial proportion of the border processing costs of travellers between 1 July 2021 and 31 August 2023?

Option 4 – change levy rates from 1 December 2021 to recover costs over one year

Option 4 would involve:

- › changing levy rates from 1 December 2021
- › setting a levy period of one year, ending on 30 November 2022
- › travellers after 30 November 2021 funding deficits related to travel between 1 July 2021 and 30 November 2021.

Levy rates in Option 4 are much higher than in other options because we estimate there would be relatively few travellers funding the border processing costs (including the accumulated deficits). It is estimated that the number of levied non-cruise travellers during the levy period would be 79 percent below pre-COVID-19 levels, and the number of levied cruise travellers would be 80 percent below pre-COVID-19 levels. Levy rates would increase substantially from 1 December 2021 for one year, before likely reducing substantially in the following year.

Total non-cruise levies would be \$139.79 (excl GST), an increase of \$122.30. An estimated 1.5 million non-cruise travellers would pay these levies. These levies would fund the estimated \$147.3 million border processing costs for the levy period, plus the estimated \$57.5 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Total cruise levies would be \$61.07 (excl GST), an increase of \$42.76. An estimated 58,000 cruise travellers would pay these levies. These levies would fund the estimated \$2.9 million border processing costs for the levy period, plus the estimated \$0.7 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Option 4 is estimated to reduce non-cruise travel by 3.59 percent. As part of this overall reduction, travel from Australia to visit friends and relatives might reduce by 9.03 percent, and long-haul travel from the United Kingdom by 1.05 percent.

Cruise travel is estimated to reduce by 0.77 percent.

Table 13 shows the levy rates under Option 4, and the information used to calculate these rates. Table 14 shows the impacts of Option 4.

Table 13 – Information used to calculate the levy rates under Option 4

	Estimated deficit as at Nov-21 \$m	Estimated costs in levy period \$m	Estimated travellers in levy period million	Current rate \$ excl GST	Levy rate under Option 4 \$ excl GST	Change \$ excl GST
Non-cruise						
Arrive – Customs	-25.391	64.340	1.467	6.43	61.16	54.73
Arrive – MPI	-25.340	65.457	1.467	8.50	61.89	53.39
Depart – Customs	-6.787	17.505	1.451	2.56	16.74	14.18
Total – non-cruise	-57.518	147.301		17.49	139.79	122.30
Cruise						
Arrive – Customs	-0.128	1.159	0.058	10.40	22.24	11.84
Arrive – MPI	-0.500	1.263	0.058	3.81	30.47	26.66
Depart – Customs	-0.049	0.434	0.058	4.10	8.36	4.26
Total – cruise	-0.678	2.856		18.31	61.07	42.76

Table 14 – Possible impacts of Option 4

Type of impact	Possible impact
By what year would levy revenue fund border processing costs?	2022
Equity (travellers fund the costs created by their travel)	Yes
Efficient collection of the levy	No change
Transparency about costs related to the levies	No change
Justifiable: only costs related to the levy are recovered	No change
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$139.79 non-cruise (an increase of \$122.30) \$61.07 cruise (an increase of \$42.76)
Potential reduction in the number of levied travellers	3.59 percent of non-cruise travellers 0.77 percent of cruise travellers

Questions about Option 4 (change levy rates from 1 December 2021 to recover costs over one year)

24. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
25. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
26. What do you think about the assessment of the impacts of this option?
27. If this option was implemented, what impact would it have on you or your organisation?

Option 5 – change levy rates from 1 December 2021 to recover costs over six years

Option 5 would involve:

- › changing levy rates from 1 December 2021
- › setting an extended levy period of six years, ending on 30 November 2027
- › travellers after 30 November 2021 funding deficits related to travel between 1 July 2021 and 30 November 2021.

Option 5 has the lowest levy rates of all the cost recovery options (ie excluding Option 1 and Option 3b where levies do not fully recover costs) because the number of levied travellers in the levy period is estimated to be much closer to pre-COVID-19 levels than in the other options.

Total non-cruise levies would be \$33.14 (excl GST), an increase of \$15.65. An estimated 29.7 million non-cruise travellers would pay these levies. These levies would fund the estimated \$926.2 million border processing costs for the levy period, plus the estimated \$57.5 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Total cruise levies would be \$24.90 (excl GST), an increase of \$6.59. An estimated 1.2 million cruise travellers would pay these levies. These levies would fund the estimated \$29.9 million border processing costs for the levy period, plus the estimated \$0.7 million deficits that accumulate between 1 July 2021 and 30 November 2021.

Option 5 is estimated to reduce non-cruise travel by 0.48 percent. As part of this overall reduction, travel from Australia to visit friends and relatives might reduce by 1.25 percent, and long-haul travel from the United Kingdom by 0.14 percent.

Cruise travel is estimated to reduce by 0.12 percent.

Option 5 is more robust than some other options to the uncertainties surrounding the border reopening. For example, if the border reopens much more slowly than estimated, the ability to recover costs within one year under Option 4, or even three years under Option 2, could become difficult. By contrast, it may remain feasible to recover costs over six years.

However, Option 5 is less consistent with Treasury guidance that agencies should not allow deficits to accumulate in memorandum accounts over long periods than options 2 to 4. Under this option, deficits would accumulate for three years because revenue from the estimated increasing numbers of levied travellers would gradually eliminate those deficits.

Option 5 does not align well with the principle of equity because travellers over the first three years of the levy period would not fully fund the costs related to them, resulting in the deficits mentioned in the paragraph above. Levied travellers in the latter three years of the levy period would fund those deficits.

Table 15 shows the levy rates under Option 5, and the information used to calculate these rates. Table 16 shows the impacts of Option 5.

Table 15 – Information used to calculate the levy rates under Option 5

	Estimated deficit as at Nov-21 \$m	Estimated costs in levy period \$m	Estimated travellers in levy period million	Current rate \$ excl GST	Levy rate under Option 5 \$ excl GST	Change \$ excl GST
Non-cruise						
Arrive – Customs	-25.391	405.863	29.705	6.43	14.52	8.09
Arrive – MPI	-25.340	409.942	29.705	8.50	14.65	6.15
Depart – Customs	-6.787	110.423	29.491	2.56	3.97	1.41
Total – non-cruise	-57.518	926.228		17.49	33.14	15.65
Cruise						
Arrive – Customs	-0.128	16.156	1.229	10.40	13.25	2.85
Arrive – MPI	-0.500	7.897	1.229	3.81	6.83	3.02
Depart – Customs	-0.049	5.869	1.228	4.10	4.82	0.72
Total – cruise	-0.678	29.921		18.31	24.90	6.59

Table 16 – Possible impacts of Option 5

Type of impact	Possible Impact
By what year would levy revenue fund border processing costs?	2027
Equity (travellers fund the costs created by their travel)	Yes, but levied travellers in the first three years would only fund some of their costs. Levied travellers in the subsequent three years would fund the balance
Efficient collection of the levy	No change
Transparency about costs related to the levies	No change
Justifiable: only costs related to the levy are recovered	No change
Total Customs and MPI arrival and departure levies (\$ excl GST)	\$33.14 non-cruise (an increase of \$15.65) \$24.90 cruise (an increase of \$6.59)
Potential reduction in the number of levied travellers	0.48 percent of non-cruise travellers 0.12 percent of cruise travellers

Questions about Option 5 (change levy rates from 1 December 2021 to recover costs over six years)

28. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
29. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
30. What do you think about the assessment of the impacts of this option?
31. If this option was implemented, what impact would it have on you or your organisation?

Summary analysis of the options

Table 17 compares the options. This table highlights that:

- Option 1 (no change to levy rates, with deficits continuing to accumulate) does not achieve the objective of cost recovery because estimated levy revenue would be substantially less than estimated border processing costs
- Option 2 (changing rates from 1 December 2021 to recover costs over three years) involves changing levy rates at the soonest practicable time and recovering costs over a reasonable duration – the usual duration that Customs and MPI intend to use when setting levy periods in the future. The levy rates would be less than for Option 4 but higher than for the other options
- Options 3a and 3b (changing rates from 1 September 2023) do not align well with the principle of equity because levied travellers between 1 July 2021 and 31 August 2023 do not fully fund the costs related to them, resulting in large deficits. Those deficits would be funded either by higher levies on levied travellers after 31 August 2023 under Option 3a, or by taxpayers under Option 3b
- Option 4 (changing rates from 1 December 2021 to recover costs over one year) involves higher levy rates than the other options because relatively few levied travellers would fund border processing costs. Levy rates would increase substantially from 1 December 2021 for one year, before likely reducing substantially in the following year
- Option 5 (changing rates from 1 December 2021 to recover costs over six years) involves lower rates than most other options due to the increased number of levied travellers estimated to be travelling. However, Option 5 is less consistent with the guideline that agencies should not allow deficits to accumulate over long periods, than options 2 to 4.

Table 17 – Summary of possible impacts of the options

	Option 1: no change to levy rates, with deficits continuing to accumulate	Option 2: change levy rates from 1 December 2021 to recover costs over three years	Option 3a: change levy rates from 1 September 2023 to recover costs over three years , with levied travellers funding the deficits that accumulate between 1 July 2021 and 31 August 2023	Option 3b: change levy rates from 1 September 2023 to recover costs over three years , with taxpayers funding the deficits that accumulate between 1 July 2021 and 31 August 2023	Option 4: change levy rates from 1 December 2021 to recover costs over one year	Option 5: change levy rates from 1 December 2021 to recover costs over six years
Year costs would be recovered	Never	2024	2026	2026	2022	2027
Total arrival and departure levies (\$ excl GST)	\$17.49 non-cruise \$18.31 cruise	\$54.78 non-cruise \$30.75 cruise	\$41.39 non-cruise \$27.04 cruise	\$26.77 non-cruise \$22.56 cruise	\$139.79 non-cruise \$61.07 cruise	\$33.14 non-cruise \$24.90 cruise
Possible reduction in the estimated number of levied travellers	Nil	1.14 percent of levied non-cruise travellers 0.23 percent of levied cruise travellers	0.74 percent of levied non-cruise travellers 0.16 percent of levied cruise travellers	0.29 percent of levied non-cruise travellers 0.08 percent of levied cruise travellers	3.59 percent of levied non-cruise travellers 0.77 percent of levied cruise travellers	0.48 percent of levied non-cruise travellers 0.12 percent of levied cruise travellers

	Option 1: no change to levy rates, with deficits continuing to accumulate	Option 2: change levy rates from 1 December 2021 to recover costs over three years	Option 3a: change levy rates from 1 September 2023 to recover costs over three years , with levied travellers funding the deficits that accumulate between 1 July 2021 and 31 August 2023	Option 3b: change levy rates from 1 September 2023 to recover costs over three years , with taxpayers funding the deficits that accumulate between 1 July 2021 and 31 August 2023	Option 4: change levy rates from 1 December 2021 to recover costs over one year	Option 5: change levy rates from 1 December 2021 to recover costs over six years
Equity (travellers fund the costs created by their travel)	Not achieved. By June 2024, estimated deficits for levied non-cruise travellers would be \$314.3 million, and for levied cruise travellers would be \$3.3 million	Yes	Not achieved. Levied travellers before September 2023 would not fund all their costs <ul style="list-style-type: none"> • \$254.5 million non-cruise costs • \$3.3 million cruise costs Levied travellers in the subsequent three years would fund these costs	Not achieved. Levied travellers before September 2023 would not fund all their costs <ul style="list-style-type: none"> • \$254.5 million non-cruise costs • \$3.3 million cruise costs Taxpayers would fund these costs	Yes	Partly. Levied travellers in the first three years would only fund some of their costs. Levied travellers in the subsequent three years would fund the balance
Efficiency	No change	No change	No change	No change	No change	No change
Transparency	No change	No change	No change	No change	No change	No change
Justifiability	No change	No change	No change	No change	No change	No change

Proposed caps

The levy orders provide for the Chief Executive of Customs and the Director-General of MPI (Director-General) to vary levy rates up to the caps. This provision simplifies the administrative process for changing levy rates because it is only when levy rates need to increase above the caps that it is necessary to amend the levy orders.

Currently, the levy orders specify caps that range from \$3.10 to \$17.90. Currently, each cap is a different percentage above the corresponding levy rate. For example, MPI's cap for cruise travellers is 370 percent above the levy rate of \$3.81, while Customs' caps for cruise travel are equal to the levy rates. These differences arose because the levy rates have changed while the caps remained the same.

Customs and MPI propose that caps are set **five percent** above the levy rates in each option in this consultation document. The reason for not proposing higher caps is because the options in this consultation document involve substantial increases to levy rates, and if further substantial increases were required in the future, it is appropriate that Ministers should make decisions after consulting with stakeholders.

Table 18 shows the current and proposed caps.

Table 18 – Current and proposed caps

	Current cap \$ excl GST	Percent above current levy rate	Cap for Option 2 \$ excl GST	Cap for Option 3a \$ excl GST	Cap for Option 3b \$ excl GST	Cap for Option 4 \$ excl GST	Cap for Option 5 \$ excl GST
Non-cruise							
Arrive – Customs	7.80	21%	25.09	19.27	12.30	64.22	15.24
Arrive – MPI	8.80	4%	25.54	19.11	12.45	64.98	15.39
Depart – Customs	3.10	21%	6.87	5.08	3.36	17.58	4.17
Cruise							
Arrive – Customs	10.40	0%	15.30	14.46	13.18	23.35	13.91
Arrive – MPI	17.90	370%	11.39	8.74	5.71	32.00	7.17
Depart – Customs	4.10	0%	5.60	5.20	4.78	8.78	5.06

Questions about the proposed caps

32. What do you think about the proposal that caps should be five percent above the levy rates for each option? What alternative options should Customs and MPI consider, and why?

Proposal to amend the Biosecurity (Border Processing Levy) Order 2015

MPI proposes an amendment to the Biosecurity (Border Processing Levy) Order 2015 (the Biosecurity Order) to provide the ability to implement the options considered in this consultation document.

Under the Biosecurity Order, levy rates must be set before the beginning of a new levy period. The levy period in the Biosecurity Order is defined as a period of 12, 24, or 36 months beginning on 1 July and ending on 30 June. However, the options in this consultation document involve levy periods that begin on 1 December or 1 September and end on 30 November or 31 August. These commencement dates are currently incompatible with the Biosecurity Order.

To address this, and to future-proof the Biosecurity Order, MPI proposes an amendment to introduce the ability for the Director-General to set the duration of future levy periods, including the start and end date, up to a maximum of 36 months. The Director-General would notify the dates and duration in the New Zealand Gazette. This proposed amendment is similar to a provision in the Customs and Excise (Border Processing Levy) Order 2015.

Question about the proposed amendment to the Biosecurity (Border Processing Levy) Order 2015

33. What do you think about the proposal to introduce the ability for MPI's Director-General to set the duration of future levy periods up to a maximum of 36 months?

Implementation

If the Government decided to implement an option in this consultation document, the implementation process would involve the following:

- Customs and MPI would publicly communicate the Government's decision
- the levy orders would be amended
- the amendment would be notified in the New Zealand Gazette
- Customs and MPI would change their billing systems to reflect the new rates
- airlines and cruise lines would incorporate the new rates in their ticket prices.

If the Government decided to implement an option in this consultation document, amendments to the levy orders would be required in addition to the proposed amendment to the Biosecurity (Border Processing Levy) Order 2015. For example, amendments would be required to reset rates and start the next levy period on the dates set out in the options. To implement Option 5, amendments would also be required to provide for a levy period of six years.

Question about implementation

34. Are there other implementation issues Customs and MPI should consider? If so, please explain?

Monitoring and review of levy rates

Customs and MPI regularly review levy rates

Regularly reviewing and adjusting levy rates helps to ensure that the levies fully cover border processing costs over time. Customs and MPI monitor the performance of the levies, and publish a performance report annually to provide accountability and transparency.³¹

Before the end of each levy period, Customs and MPI would review levy rates and propose new rates for the next levy period. Customs and MPI intend to usually set levy periods for a duration of three years, in line with the Auditor-General's guidelines.

Customs and MPI may reset levy rates for a levy period due to unanticipated circumstances that occur during a levy period, or before a levy period but after the levy rates are set. Before resetting levy rates in these circumstances, Customs and MPI must consider:

- › the size (or increased size) of any shortfall in recovery (or any over-recovery) of costs that are likely to occur if the rate is not reset during the remainder of the levy period
- › the amount of time remaining in the levy period.³²

Customs and MPI would consult relevant parties before resetting the rates. If a review finds that rates should increase by more than the caps, the Government's approval would be required to amend the levy orders after consulting as appropriate, including with representatives of groups likely to be substantially affected.³³

Customs and MPI may adjust levy rates in 2023

Regardless of the option the Government decides to implement, Customs and MPI would carry out the monitoring and review process described above. The performance report on the year ended 30 June 2022 may propose adjustments to rates, if necessary. This could result in adjustments from 1 July 2023 for Options 2 and 5, and from 1 September 2023 for Options 3a or 3b.

This review will help to address the continued uncertainty that the COVID-19 pandemic has created about what the levy rates should be. Customs and MPI would be regularly reviewing their estimates of the number of levied travellers and border processing costs, and adjusting the levy rates to avoid under- or over-recovery of costs.

³¹ New Zealand Customs Service and Ministry for Primary Industries, 2018; New Zealand Customs Service and Ministry for Primary Industries, 2019; New Zealand Customs Service and Ministry for Primary Industries, 2020.

³² Customs and Excise (Border Processing Levy) Order 2015, cl 10; Biosecurity (Border Processing Levy) Order 2015, cl 8.

³³ Customs and Excise Act 2018, s 413(4); Biosecurity Act 1993, s 140AA.

Questions about monitoring and review of levy rates

35. What do you think about Customs and MPI reviewing levy rates and adjusting them from 1 July 2023 for Options 2 or 5 to ensure the levies remain on track to recover costs by the end of the levy period?
36. What do you think about Customs and MPI reviewing levy rates before September 2023 for Options 3a and 3b so that the rates set on 1 September 2023 would recover costs by the end of the levy period (i.e. by 31 August 2026)?
37. Do you have any other comments about Customs' and MPI's monitoring and review arrangements?

Final question

38. Is there anything else that Customs and MPI should consider when providing advice to Ministers about resetting levy rates to recover border processing costs?

SECTION 5: LIST OF QUESTIONS

Estimated number of levied travellers

1. Do you consider that the estimated number of levied non-cruise travellers is reasonable? If not, please explain why. If possible, please provide estimated numbers of levied non-cruise travellers that you consider reasonable, and the assumptions your numbers are based on.
2. Do you consider that the estimated number of levied cruise travellers is reasonable? If not, please explain why. If possible, please provide estimated numbers of levied non-cruise travellers that you consider reasonable, and the assumptions your numbers are based on.

Customs' estimated costs

3. Do you consider that Customs' estimated border processing costs for non-cruise travellers are reasonable? If not, please explain why.
4. Do you consider that Customs' estimated border processing costs for cruise travellers are reasonable? If not, please explain why.

MPI's estimated costs

5. Do you support MPI's approach to estimating costs related to non-cruise travellers? If not, please explain why.
6. Do you support MPI's approach to estimating costs related to cruise travellers? If not, please explain why.

List of options for recovering costs

7. Are there other options Customs and MPI should consider to enable a return to full recovery of border processing costs?

How Customs and MPI will assess the options

8. Are there any other impacts that Customs and MPI should consider when assessing the options?
9. Do you have any other comments about how the options should be assessed?

Option 1 – No change to levy rates, with deficits continuing to accumulate

10. What do you think about Option 1 (no change to levy rates, with deficits continuing to accumulate)?

Option 2 – Change levy rates from 1 December 2021 to recover costs over three years

11. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
12. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
13. What do you think about the assessment of the impacts of this option?
14. If this option was implemented, what impact would it have on you or your organisation?

Option 3a – Change levy rates from 1 September 2023 to recover costs over three years, with *levied travellers* funding the deficits that accumulate between 1 July 2021 and 31 August 2023

15. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
16. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
17. What do you think about the assessment of the impacts of this option?
18. If this option was implemented, what impact would it have on you or your organisation?

Option 3b – Change levy rates from 1 September 2023 to recover costs over three years, with *taxpayers* funding the deficits that accumulate between 1 July 2021 and 31 August 2023

19. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
20. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
21. What do you think about the assessment of the impacts of this option?
22. If this option was implemented, what impact would it have on you or your organisation?
23. If you favour this option, why do you consider that it is more appropriate for taxpayers than for travellers to meet a substantial proportion of the border processing costs of travellers between 1 July 2021 and 31 August 2023?

Option 4 – Change levy rates from 1 December 2021 to recover costs over one year

24. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
25. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
26. What do you think about the assessment of the impacts of this option?
27. If this option was implemented, what impact would it have on you or your organisation?

Option 5 – Change levy rates from 1 December 2021 to recover costs over six years

28. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to non-cruise travellers?
29. How suitable do you think this option is for recovering Customs' and MPI's border processing costs related to cruise travellers?
30. What do you think about the assessment of the impacts of this option?
31. If this option was implemented, what impact would it have on you or your organisation?

The proposed caps

32. What do you think about the proposal that caps should be five percent above the levy rates for each option? What alternative options should Customs and MPI consider, and why?

Proposed amendment to the Biosecurity (Border Processing) Order 2015

33. What do you think about the proposal to introduce the ability for MPI's Director-General to set the duration of future levy periods up to a maximum of 36 months?

Implementation

34. Are there other implementation issues Customs and MPI should consider? If so, please explain?

Monitoring and review of levy rates

35. What do you think about Customs and MPI reviewing levy rates and adjusting them from 1 July 2023 for Options 2 or 5 to ensure the levies remain on track to recover costs by the end of the levy period?
36. What do you think about Customs and MPI reviewing levy rates before September 2023 for Options 3a and 3b so that the rates set on 1 September 2023 would recover costs by the end of the levy period (i.e. by 31 August 2026)?
37. Do you have any other comments about Customs' and MPI's monitoring and review arrangements?

Final question

38. Is there anything else that Customs and MPI should consider when providing advice to Ministers about resetting levy rates to recover border processing costs?

Appendix 1 – Events related to border processing levies

Table 1 lists events that have affected, or will affect, recovery of border processing costs.

Table 1 – Events related to recovering border processing costs

Date	Event
1 January 2016	Initial levy rates took effect.
1 July 2018	Customs' and MPI's levy rates changed.
1 July 2019	MPI's levy rates changed.
2018 to 2020	Customs took actions to improve its level of border protection and better facilitate the movement of legitimate travellers. Actions included greater capability to disrupt criminal networks, and the expansion of eGates to additional countries.
April 2019	An independent review commissioned by MPI found that more needs to be done in response to the rapidly expanding range and intensity of biosecurity risks.
2019 and 2020	MPI made investments in significant technology improvements to deliver faster, less intrusive and more effective X-ray screening of baggage. This new technology detects risk goods that went undetected using the former technology. MPI made its first substantial increase in frontline border staff in several years.
March 2020	The number of travellers fell by 98 percent as New Zealand introduced border restrictions in response to COVID-19. The Government suspended funding reviews across all aviation and border agencies for 12 months.
March 2020 onwards	Customs and MPI redeployed staff and took other actions to reduce border processing costs.
18 April 2021	Quarantine-free travel with Australia began. Many Customs and MPI staff returned from redeployment. Border processing activities are different compared to before the COVID-19 pandemic. For example, the areas used to process quarantine-free travel flights are completely separate from the areas used to process flights where travellers will go into managed isolation or quarantine.
30 June 2021	The Government agreed to Customs and MPI using Crown funding to eliminate the deficits in their memorandum accounts as at 30 June 2021.
1 July 2021 onwards	Deficits will again accumulate in the memorandum accounts because costs will exceed revenue.
2021 onwards	It is estimated that the number of non-cruise and cruise travellers will gradually increase. These estimates are based on assumptions about New Zealand and other countries' future border restrictions, and airline and cruise line services. These estimates do not signal any Government decisions about border restrictions.
May 2021	Customs and MPI are consulting on options for changing levy rates from either 1 December 2021 or 23 September 2023 to fully recover border processing costs.

Appendix 2 – About Customs

Managing risk is fundamentally important to New Zealand

Customs works to protect New Zealand's borders, promote and facilitate trade and travel and collect revenue in the face of changing demands and expectations.

The services Customs provides include:

- › protecting New Zealand from external risks and threats, such as illicit drug smuggling
- › facilitating the safe and efficient flow of people and goods across New Zealand's border
- › enforcing relevant law, which includes identifying and seizing prohibited goods
- › providing intelligence and risk assessment information to other government agencies and Customs' frontline staff
- › collecting Crown revenue such as tariff duties and GST on certain imported goods, and excise duties on certain goods such as alcohol, tobacco and fuel
- › monitoring whether traders and travellers are complying with border requirements, including providing assurance over trade security and the border revenue system
- › participating in free trade negotiations, particularly on matters related to customs processes and rules of origin of goods
- › participating in the global customs community by helping to develop international customs policy and through relationships with overseas customs and law enforcement bodies
- › supporting the economic, protection, and security outcomes of other agencies through the services described above.

The Customs and Excise Act 2018 underpins the work of Customs

The Customs and Excise Act 2018 allows Customs to perform services designed to protect the border, process travellers and manage risks, including those from imported goods and travellers entering New Zealand.

The Customs and Excise Act 2018 allows Customs to recover costs of certain services that manage border-related risks. Most cost recovery by Customs is for services related to processing travellers and clearing goods. Recovery of border processing costs under the Customs and Excise Act 2018 is set out in the Customs and Excise (Border Processing Levy) Order 2015.

Cost recovery at Customs

Cost recovery plays a significant role in providing funding for Customs' to undertake its services for processing travellers and clearing goods. These services are critical to protecting New Zealand from border-related risks and threats while ensuring safe and efficient travel and trade.

International travel is a source of risk for New Zealand

Customs' protects New Zealand from a variety of risks and threats associated with international travel, such as illicit drugs, undeclared currency,³⁴ prohibited weapons and health threats, which are becoming more visible. Reducing the harm to families and communities through increasingly disrupting the supply of illicit drugs is a key priority for the Government.

Levy revenue enables Customs to manage these risks while also streamlining travellers' interaction with the border.

Levies fund a range of activities to process and clear craft, travellers and their baggage. In 2018/19 Customs risk-assessed and processed 14.5 million travellers.

Customs takes a targeted risk management approach. One key risk management activity is screening. Much of this is automated and some occurs before travellers' arrival. It also involves detector dogs and the primary-line processing of travellers at booths, eGates and alongside cruise ships. In some cases this is followed up with interventions such as searches and investigations.

Customs activities are intelligence-driven. This enables Customs to focus on threats while providing a streamlined border experience. Examples of intelligence-driven activities funded through the levies include identifying and targeting risks, monitoring, analysis of arriving travellers and craft.

³⁴ The cross-border movement of undeclared currency can be used by criminal groups to move the profits of illegal activity.

Appendix 3 – About MPI and Biosecurity in New Zealand

Biosecurity is fundamentally important to New Zealand

Biosecurity protects our human health and environment, our taonga (treasures), provides the platform for us to grow our economy through primary production and tourism and trade and maintains and enhances our way of life into the future. These protections enable the primary sector to thrive. The value of our exports are forecast to grow to \$49 billion in 2022.

Biosecurity risks are growing in scale and complexity

New Zealand is exposed to increasing biosecurity risks. The causes include increasing volumes and diversity of trade and tourism, climate change, population growth and increasing public and consumer expectations, for example:

- ▶ Global logistics networks are becoming increasingly sophisticated, resulting in strong ongoing growth in New Zealand consumers importing goods directly via the internet. The resulting growth in mail and courier parcels is exposing us to a wider range of risks from pests and diseases which increases the complexity of risk profiling across these pathways. For example, in late 2018 more than 24 brown marmorated stink bugs were found in a mail package of shoes.
- ▶ The establishment of pests and diseases that were not previously seen as a threat may be able to become established here due to climate change. This could have serious implications for our native biodiversity, as well as the ability of the primary sector to access and be competitive in some overseas markets.

The importance of biosecurity is highlighted by the increase in large biosecurity responses over the last few years, including *Mycoplasma bovis*, *Bonamia ostreae*, myrtle rust and Queensland fruit fly. These require substantial resources to contain, manage and eradicate. The estimated 10-year cost to eradicate *Mycoplasma bovis* alone is \$880 million.

Cost recovery is actively managed by MPI

Approximately \$220 million (around 25 percent) of MPI's 2020/21 departmental costs is forecast to be cost recovered. Given the scope and significance of cost recovery, MPI has an ongoing work programme to ensure the systems and processes that support it remain fit for purpose. As part of this cost recovery, settings are reviewed annually to ensure they are fair and effective.

The scope and diversity of services MPI provides across different sectors means that it is not practical to adopt a 'one-size-fits-all' approach to cost recovery settings. Instead, MPI takes a principles-based approach, as described in MPI's cost recovery policy guidance (Ministry for Primary Industries, 2018).

Appendix 4 – Border processing activities

Customs' and MPI's border processing costs that can be recovered by the levies are limited to costs related to relevant travellers and their baggage and other relevant goods. This appendix illustrates the types of activities that give rise to these costs.

Table 1 – Illustrative list of border processing activities

Customs	MPI
<p>Pre-border risk assessment and related activities</p> <ul style="list-style-type: none"> liaising with other government agencies about protecting against border risks related to travellers patrolling the coastline gathering intelligence on incoming travellers modelling and analysis of information processing electronic data related to travellers identifying travellers of interest. 	<p>Pre-border risk assessment and related activities</p> <ul style="list-style-type: none"> screening for targeted interventions and identifying travellers of biosecurity interest. <p>Pre-border processing travellers and their goods</p> <ul style="list-style-type: none"> en-route biosecurity processing where possible. <p>Planning</p> <ul style="list-style-type: none"> co-ordinating resourcing and tasking of border activities.
<p>Pre-border advice and engagement</p> <ul style="list-style-type: none"> providing advice to travellers liaising with industry, including planning and problem solving about processing travellers. 	<p>Pre-border advice and engagement</p> <ul style="list-style-type: none"> managing craft applications for arrival at non-approved Places of First Arrival.
<p>At-border processing travellers and their goods</p> <ul style="list-style-type: none"> primary processing (manual and via eGate): validating identity, completing health-related and immigration processes, identifying travellers of interest, including questioning and using detector dogs secondary processing: interacting with travellers of interest, including questioning, X-ray and search. <p>Search passenger craft, including using detector dogs.</p>	<p>At-border processing travellers and their goods</p> <ul style="list-style-type: none"> assessing arrival documentation against biosecurity requirements verifying compliance to biosecurity requirements of travellers using intervention tools, eg communications, searches, detector dogs, X-ray. <p>Collecting information related to pathways and effectiveness of interventions.</p>
<p>Investigations and compliance</p> <ul style="list-style-type: none"> disrupting illegal activity before travellers of interest arrive in New Zealand monitoring travellers of interest after they have completed at-border processing carrying out investigations resulting in enforcement action dealing with goods seized from travellers. 	<p>Investigations and compliance</p> <ul style="list-style-type: none"> reviewing and managing high-risk travellers verifying the process for disposing risk goods seized from travellers investigating non-compliance compliance monitoring and analysis to measure performance of pathways.

Appendix 5 – Cost recovery framework

Customs' approach to cost recovery

How Customs calculates levy rates

Customs uses an activity-based costing methodology to understand the cost of its services. This involves a multi-step process for allocating costs:

- allocating Customs' corporate activities to the resources that use them. For example:
 - Customs prepares operational documents for airport staff to follow when they are carrying out processes. The cost of preparing these documents become part of the resource costs that go with the frontline airport staff
 - Other resource costs include payroll, training, finance, accommodation and IT provisions. These resource costs reflect the corporate services frontline Customs staff need to carry out their activities
- allocating the costs associated with people to the activities they carry out, and allocating the cost of other resources (premises and equipment) to the activities that use them. For example:
 - if a Customs officer spent (say) 50 percent of their time working with detector dogs, 50 percent of their resource costs would be allocated to detector dog activity
- allocating Customs' activities to the services to which they contribute. For example:
 - if (say) 90 percent of detector dog activity at Auckland airport related to arriving airline travellers, 90 percent of the costs related to that activity is allocated to the border processing service for arriving airline travellers
- distributing the cost of business sustaining activities across all services. Business sustaining activities do not directly contribute to delivering services but are necessary for Customs' continuity. For example:
 - statutory reporting is a business sustaining activity. It is an activity that all organisations are required to undertake.

This activity-based costing methodology enables Customs to understand the estimated border processing costs. PricewaterhouseCoopers reviewed the methodology and found it to be “comprehensive and based on sound logic and reasoning” (Pollard, 2019).

To calculate levy rates, Customs uses the estimated cost of border processing services, the deficit in the memorandum account before the levy period, and the estimated number of people travelling during the levy period.

Customs' cost recovery framework

Customs' cost recovery framework guides it in deciding who should fund its services. It is based on charging guidelines developed by the Controller and Auditor-General (2008) and the Treasury (2017). Customs' cost recovery framework has the following principles:

- equity – Customs' services are funded by those who use them
- efficiency – Customs delivers high service standards at a sustainable cost
- transparency – Customs provides clear and easily understood information about funding decisions, including the costs and charges
- justifiability – Customs recovers only the costs of delivering the service.

Assessing border processing services against the principles

In determining who should fund border processing costs in accordance with these four principles, Customs considers the following questions:

- **Equity:**
 - What is the purpose of the activity or function? Are the outputs designed to deliver benefits or manage risks? What are these benefits and risks?
 - If the activity is designed to deliver benefits, which individuals or groups benefits directly from the activity. Is the activity best characterised as a private, club or public good?³⁵
 - If the activity is designed to manage risks, which individuals or groups create the need for this activity?
- **Efficiency:** is it administratively efficient to charge the individuals or group identified?
- **Transparency:** can the costs be identified and allocated to the service?
- **Justifiability:** are there situations where cost recovery may not be justified?

Managing risks

Customs undertakes a number of activities to manage border-related risks including: assessing the risk of travellers or cargo, targeting travellers and goods of interest, examining and seizing goods, and investigating apparent illegal behaviour.

Both travellers and persons involved in the importation and exportation of goods create a potential risk and generate the need for Customs' activities to manage that risk.

³⁵ A **private good** is a good that is purchased and used by one party and is not available to others. For example, a request for attendance by Customs officers outside of the working hours of Customs when a flight is diverted or delayed.

A **club good** is a good available only to a certain group of people, where use by one member of the group does not detract from its use by another, for example, a Mutual Recognition Arrangement between New Zealand and another country that benefits people exporting goods to that country.

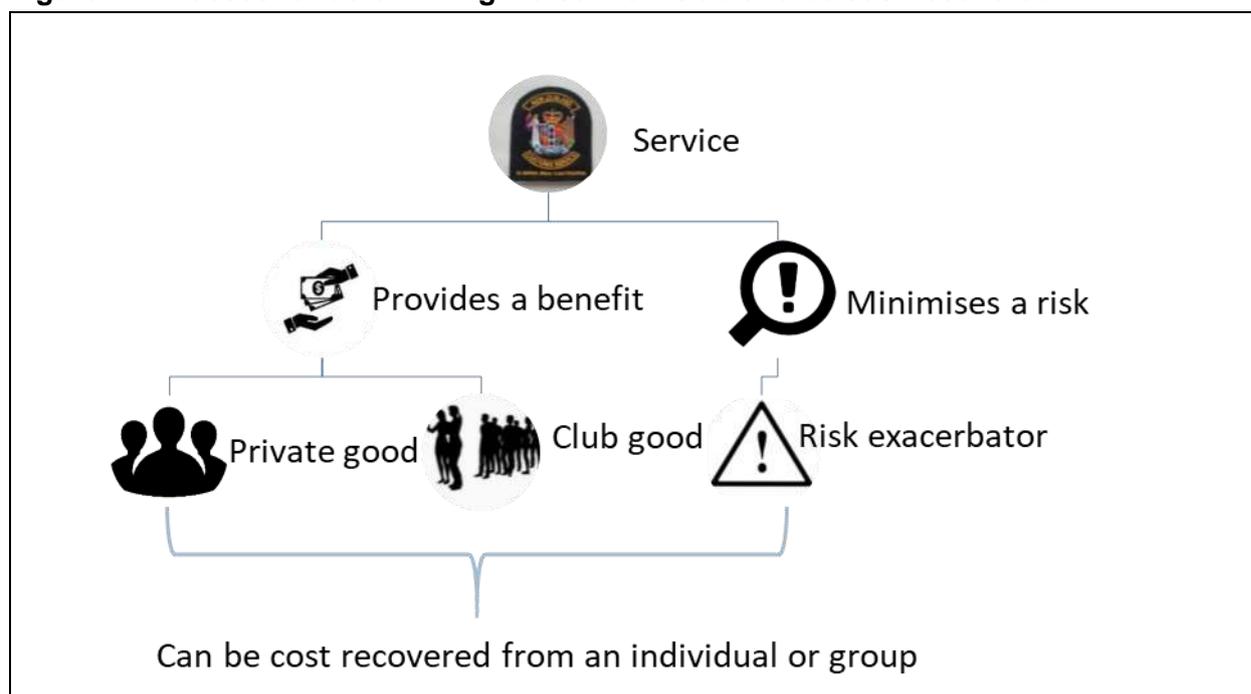
A **public good** is an activity where excluding people from its benefits is either difficult or costly, and its use by one person does not detract from its use by another, for example, policy advice.

Customs has determined, that in line with its cost recovery principles, it is fair to charge travellers, importers and exporters for the costs Customs incurs for processing activities. They are the people most directly related to these activities and are often best placed to take action to minimise the need for Customs to perform these activities.

It is difficult, or may be inappropriate, to recover from each traveller the costs they create for Customs. Customs therefore recovers border processing costs from all travellers other than exempt travellers such as those under the age of two years.

Figure 1 illustrates the relationship between the purpose of the service (to provide a benefit or minimise a risk) the people who use the service (people receiving a private good or club good, or risk exacerbators), and whether cost recovery may be appropriate.³⁶

Figure 1 – Process for determining if a service is able to be cost recovered



Other factors to take into account

There are specific situations where it may be more appropriate for the Crown to fund activities or functions. These include:

- where charging individual fees is inconsistent with government policy, or stands in the way of Customs achieving its wider objectives (e.g. charging a fee to refund overpayments of duty and negotiate international trade arrangements)
- where the administrative cost or inefficiency in charging the end user outweighs any return
- where Customs' or New Zealand's international obligations prevent charging
- where charging would not align with the principles of natural justice (e.g. charging individuals for reviews of Customs' decisions related to them, or for prosecution activities against them).

³⁶ A 'risk exacerbator' is an individual or group that creates a risk.

MPI's approach to cost recovery

Cost recovery is an important part of MPI's funding arrangements. It involves charges (usually fees or levies) to recoup the costs of providing services to individuals, businesses or other entities. Cost recovery is only undertaken where there is a lawful authority provided for in legislation or in some cases on a contractual basis.

MPI recovers costs associated with activities and services that deliver outputs. Our charges do not generally seek to recover costs or reflect benefits associated with the wider outcomes a service may contribute to.

Guiding principles

Four key principles guide our approach to cost recovery – equity, efficiency, justifiability and transparency. These four principles are the criteria that have been used to assess options set out in this consultation document and are common features in most legislation that authorises us to recover costs:

- **equity** – services should be funded from users that benefit from the service or users that create risks that the service is designed to manage (risk exacerbators)
- **efficiency** – costs should be charged to ensure that maximum benefits are delivered at minimum cost
- **transparency** – costs should be identified and allocated to the service for the recovery period in which the service is provided
- **justifiability** – charges should only recover the reasonable costs (including indirect costs) of providing the service.

Guidance from the Treasury, and the Controller and Auditor-General

When setting or reviewing charges, in addition to the four principles, MPI also applies the general guidance on cost recovery for public entities published by the Treasury and Controller and Auditor-General. That guidance requires consideration of:

- **authority** – does the public entity have legal authority to charge a fee for the goods and services provided?
- **effectiveness** – are resources allocated in a way that contributes to the outcomes being sought by the activity? Is the level of funding fit for purpose?
- **simplicity** – is the cost recovery regime straightforward and understandable to relevant stakeholders?
- **accountability** – public entities are accountable to Parliament and to the public. To be accountable, entities need to ensure that their processes for identifying costs and setting fees are transparent.
- **consultation** – has the entity engaged in meaningful consultation with stakeholders and is there opportunity for stakeholders to contribute to the policy and design of the cost recovery activity?

Treasury's guidance encourages agencies to adopt an 'open-book' approach throughout the different stages of the cost recovery process. This consultation document includes information about the costs of each option, thereby addressing Treasury's guidance to provide this information. The cost information includes the drivers of costs and planned investments, the different types of cost that make up charges, service volumes, and information on service efficiency and effectiveness.

Appendix 6 – Travellers exempt from border processing levies

Tables 1 and 2 shows the travellers exempt from paying levies under the Customs and Excise (Border Processing Levy) Order 2015. Similar exemptions apply under the Biosecurity (Border Processing Levy) Order 2015.

In these tables, there are two classes of exempt traveller:

- levy-funded exempt travellers, such and crew and children under the age of two years. Levied travellers fund the costs related to these exempt travellers.
- non-levy funded exempt travellers, such as travellers on a non-passenger commercial craft. The Crown funds the costs related to these exempt travellers.

Table 1 – Levy-funded exempt travellers³⁷

- (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
 - (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:

³⁷ The numbering of Table 1 and 2 follows the numbering used in clause 11 of the Customs and Excise (Border Processing Levy) Order 2015.

Table 2 – Non-levy funded exempt 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 Party.³⁸
 - (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
 - (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
 - (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.

³⁸ Antarctica (Environmental Protection) Act 1994, s7(1).

Appendix 7– Other fees and levies related to travellers

Aside from border processing levies, other government agency fees and levies apply to people travelling to New Zealand, or to people applying for a visa to visit, work, study or reside in New Zealand. Some agencies collect these levies from airline and cruise lines who incorporate levies in ticket prices, while others charge fees and levies directly to individuals. Table 1 shows the fees and levies charged for certain categories of traveller.

Table 1 – border and transport agency fees and levies paid by certain categories of traveller

	Visa fee	Immigration Levy	New Zealand Electronic Travel Authority Fee	Conservation and Tourism Levy	Civil Aviation Authority fees[1] Aviation Security Service Fees (2) Maritime New Zealand levies (3)
	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST
Australia	Citizen	Nil	Nil	Nil	\$16.32 (Air) \$1.94 (Cruise)
	Resident individual	Nil	Nil	\$9.00 - \$12.00	\$16.32 (Air) \$1.94 (Cruise)
	Resident family group	Nil	Nil	\$36.00 - \$48.00	\$16.32 (Air) \$1.94 (Cruise)
Visitor	Visa free individual ¹	Nil	Nil	\$9.00 - \$12.00	\$35.00 \$16.32 (Air) \$1.94 (Cruise)
	Visa free family group	Nil	Nil	\$36.00 - \$48.00	\$35 per person \$16.32 (Air) \$1.94 (Cruise)
	Visa required individual	\$190.00	\$21.00	Nil	\$35.00 \$16.32 (Air) \$1.94 (Cruise)
	Visa required family group	\$190 (for the family unit)	Levy = \$21.00 per person	Nil	\$35 per person \$16.32 (Air) \$1.94 (Cruise)
	Visa required (Pacific national) individual	\$150.00	\$21.00	Nil	Nil \$16.32 (Air) \$1.94 (Cruise)
	Visa required (Pacific national) family group - as above - family groups can apply for one visa	\$150 (for the family unit)	Levy = \$21.00 per person	Nil	Nil \$16.32 (Air) \$1.94 (Cruise)
	Other group visitor visa - for large groups of unrelated travellers e.g. tour groups	\$50 (for the group)	Levy = \$15.00 per person	Nil	\$35.00 per person \$16.32 (Air) \$1.94 (Cruise)

	Visa fee	Immigration Levy	New Zealand Electronic Travel Authority Fee	Conservation and Tourism Levy	Civil Aviation Authority fees[1] Aviation Security Service Fees (2) Maritime New Zealand levies (3)
	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST
Student	Visa required (Other)	\$270.00	\$25.00	Nil	\$35.00 (most student visa applicants are required to pay - except the pathway visa and official development assistance scholarship holders) \$16.32 (Air) \$1.94 (Cruise)
	Visa required (Pacific)	\$200.00	\$25.00	Nil	Nil (most Pacific countries exempt from the IVL) \$16.32 (Air) \$1.94 (Cruise)
Temporary work	Partnership work visa or Work to Residence	\$580.00	\$55.00	Nil	Nil \$16.32 (Air) \$1.94 (Cruise)
	Essential Skills (Pacific)	\$370.00	\$55.00	Nil	Nil (Pacific countries exempt from the IVL) \$16.32 (Air) \$1.94 (Cruise)
	Essential Skills	\$440.00	\$55.00	Nil	Nil (Essential skills - the most common work visa - exempt from the IVL) \$16.32 (Air) \$1.94 (Cruise)
	Recognised seasonal employer (Pacific)	\$270.00	\$15.00	Nil	Nil \$16.32 (Air) \$1.94 (Cruise)
	Working holiday	\$190.00	\$55.00	Nil	\$35.00 \$16.32 (Air) \$1.94 (Cruise)

	Visa fee	Immigration Levy	New Zealand Electronic Travel Authority Fee	Conservation and Tourism Levy	Civil Aviation Authority fees[1] Aviation Security Service Fees (2) Maritime New Zealand levies (3)	
	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST	\$ incl GST	
Residence	Skilled migrant category (Other)	\$2,480.00	\$830.00	Nil	Nil	\$16.32 (Air) \$1.94 (Cruise)
	Skilled migrant category (Pacific)	\$1,610.00	\$830.00	Nil	Nil	\$16.32 (Air) \$1.94 (Cruise)

(1) The Civil Aviation Authority (CAA) levy charged per passenger is \$1.84. Civil Aviation (Safety and Security) Levies Order 2002, cl 9.

(2) The Aviation Security Service (AVSEC) levy charged per passenger is \$14.48. Civil Aviation (Safety and Security) Levies Order 2002, cl 10G.

(3) The Maritime New Zealand Levy charged per passenger is \$1.93. Maritime Levies Regulations 2016, reg 8.

*Note: In addition to the above 'passenger' related transport levies there are a number of craft and ship levies e.g. oil and pollution, personnel registration, capacity and tonnage that are collected from operators and recovered from passengers.

Appendix 8 – Border processing at airports

This appendix describes the border processing of travellers at airports before and after the outbreak of COVID-19.

Before COVID-19

For all travellers

- › Travellers disembarked their aircraft and made their way to the Customs' processing area.
- › Customs carried out primary processing through eGates or Customs' booth.
- › Customs or MPI carried out secondary processing if required; otherwise, the passenger continued to the exit.
- › MPI collects the arrival cards and Customs balances the flights and sends the cards to Stats New Zealand, who forward them to the Ministry of Business, Innovation and Employment (MBIE).

During COVID-19

For quarantine-free travellers (other than airline staff)³⁹

- › Travellers disembark their aircraft and make their way to the Customs' processing area.
- › Customs carries out primary processing through Customs' eGates or booth.
- › Customs may assist in reminding passengers of their obligation to wear a face covering.
- › If a traveller answers 'yes' to health questions at the eGates, a Customs officer refers them to a Customs' booth for processing. A Customs officer will process the traveller and may then refer them to the Ministry of Health if required.
- › If the Ministry of Health requires the traveller to go into quarantine, the Ministry of Health holds the traveller until after processing the entire flight, then passes these travellers to the Police or Customs to escort them to where they will await their transportation to quarantine.
- › If the traveller is not required to go into quarantine, Customs or MPI may carry out secondary processing. Otherwise, the traveller can continue through to exit.
- › MPI collects all cards, Customs then scans all arrival cards and sends them to the Ministry of Health and Statistics New Zealand. Customs sends the physical card directly to MBIE.
- › When a COVID-19 case appears in the jurisdiction where the flight arrived from, the quarantine-free travel process could change substantially. For example, Customs may need to ask additional questions, or a pre-departure COVID-19 test could be required.

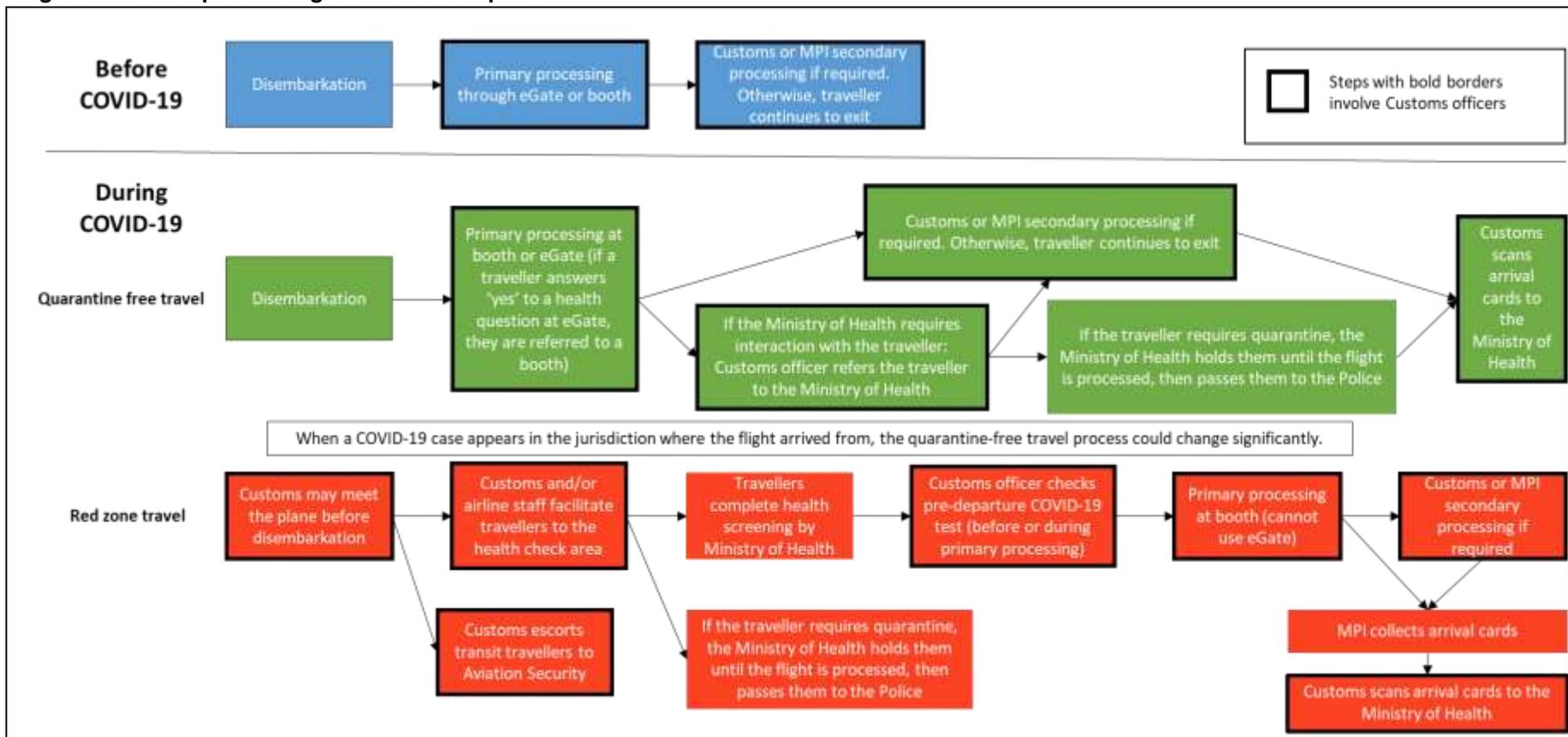
³⁹ This appendix describes the process at Auckland International Airport. Some processes may differ between airports.

For red zone travellers (other than airline staff)

- Customs keeps each flight separate throughout the process.
- Before travellers disembark from a flight, Customs may liaise with the airline staff regarding physical distancing, masks, and about transit travellers and travellers with exemptions.
- If transiting, Customs escorts transit travellers to Aviation Security.
- Customs facilitate remaining travellers to the health check area.
- If the Ministry of Health requires the traveller to go into quarantine, the Ministry of Health holds the traveller until after processing the entire flight, then passes these travellers to the Police or Customs to escort them to their transportation to quarantine.
- Customs checks pre-departure COVID-19 tests and carries out primary processing. Customs carries out all primary processing at a booth. eGates are closed for red zone flights.
- Customs carries out secondary processing if required. This includes secondary processing for travellers whose health-related documentation is non-compliant. This secondary processing can take 15 to 30 minutes and result in no further action, a formal warning, or an infringement notice if found to be non-compliant.
- MPI collects all cards, Customs then scans all arrival cards and sends them to the Ministry of Health and Statistics New Zealand. Customs sends the physical card directly to MBIE.

Figure 1 illustrates the main elements of the border processing at airports, leaving out some details for the sake of simplicity.

Figure 1: Border processing activities at airports



Appendix 9 – Impact of rate changes on number of levied travellers

Introduction

Increases in levy rates could reduce the number of travellers relative to the number who would have travelled in the absence of any change in levy rates. Reductions in the number of travellers could have flow-on social and economic effects.

Results

Table 1 shows the estimated impact on the number of levied travellers of the options considered in this consultation document. Option 4 involves the highest levy rates and therefore the greatest reduction in travel (2.3 percent). Option 3b has the lowest reduction in travel (0.2 percent). Option 3b involves the lowest levy rate increases because it assumes that taxpayers would contribute to travellers' costs up until 31 August 2023.

Table 1 – Impact of levy increases on the number of levied travellers

Option	Increase in total Customs and MPI arrival and departure levies \$ excl GST	Estimated reduction in number of levied travellers
Non-cruise		
Option 1	Nil	Nil
Option 2	37.29	1.14%
Option 3a	23.90	0.74%
Option 3b	9.28	0.29%
Option 4	122.30	3.59%
Option 5	15.65	0.48%
Cruise		
Option 1	Nil	Nil
Option 2	12.44	0.23%
Option 3a	8.73	0.16%
Option 3b	4.25	0.08%
Option 4	42.76	0.77%
Option 5	6.59	0.12%

Within these overall impacts, the impacts are different for different groups of traveller. For example, Table 2 highlights that the impacts are different for non-cruise travellers from Australia

visiting friends and family, compared to travellers from the United Kingdom. For levied travellers from the United Kingdom, the estimated impact is smaller than average. Their cost of travel is larger than average, and they are less price sensitive. By contrast, for levied travellers from Australia visiting friends and family, the estimated impact is larger than average. Their cost of travel is less than average, and they are more price sensitive.

Table 2 – Impact on non-cruise travellers from Australia visiting friends and relatives, and on travellers from the United Kingdom

Option	Estimated overall reduction in number of non-cruise levied travellers	Estimated reduction in travel from Australia visiting friends and family	Estimated reduction in travel from the United Kingdom
Option 1	Nil	Nil	Nil
Option 2	1.14%	2.93%	0.32%
Option 3a	0.74%	1.90%	0.21%
Option 3b	0.29%	0.75%	0.08%
Option 4	3.59%	9.03%	1.05%
Option 5	0.48%	1.25%	0.14%

These estimates are uncertain

These estimates are based on a simple model of how markets respond to small changes in travel costs. The model ignores other factors that may affect people’s decision to travel.

The estimates are based on price elasticities – the degree to which fewer people will travel if the price increases – that have a wide range of uncertainty. Also, future travellers may be less, or more, sensitive to changes in levies than travellers who travelled before the COVID-19 pandemic (Song & Choi, 2020; Suau-Sanchez, Voltes-Dorta & Cugueró-Escofet, 2020). For example, the decisions to travel might depend on:

- the type of services airlines offer in the future, including low airfare services
- the type of services cruise lines offer in the future
- health concerns on the desire to travel
- the risk of experiencing a lockdown or border closures while travelling
- video-conferencing on business travel
- potential additional requirements for travellers, for example, proof of a pre-departure COVID-19 test or vaccination
- the impact of the COVID-19 pandemic on incomes of discretionary travellers.

These factors might reduce price-sensitive discretionary travel by more than non-discretionary travel. If that were the case, the impact of levy increases might be less than the estimates shown above.

Method

The analysis in this appendix follows the method used to estimate the impact of establishing the levies (McWha & Murray, 2015). Briefly, the impact on the number of levied travellers is a function of the price of travel and the elasticity of demand. The analysis used Statistics New Zealand data on visitors by country of residence in 2019 (Statistics New Zealand, 2021), estimates of the cost of travel from the Ministry of Business, Innovation and Employment, and elasticities estimated by Schiff and Becken (2011).

Appendix 10 – Glossary

This appendix lists terms and their meaning in this consultation document.

Activity-based costing methodology

A multi-step process for allocating costs to services. Customs uses an activity-based costing methodology (Pollard, 2019).

Biosecurity New Zealand

The business unit within MPI that provides border processing services.

Biosecurity Order

Biosecurity (Border Processing Levy) Order 2015.

Border and transport agencies

Ministry of Business, Innovation and Employment, MPI (including Biosecurity New Zealand), Ministry of Transport, Civil Aviation Authority (including the Aviation Security Service), Maritime New Zealand and Customs.

Border clearance levies

An informal term for 'border processing levies'.

Border processing costs

In the Customs and Excise (Border Processing Levy) Order 2015, 'border processing costs' means "costs incurred by Customs in, or for the purpose of, carrying out its functions under the Customs and Excise Act 2018 or any other enactment, in relation to relevant travellers and their accompanying baggage (or other goods in their possession or under their control, but excluding costs that are otherwise recovered, or otherwise to be recovered, under the Customs and Excise Act 2018 or the Airports (Cost Recovery for Processing of International Travellers) Act 2014."

In the Biosecurity (Border Processing Levy) Order 2015, 'border processing costs' means "costs incurred by MPI in, or for the purpose of, exercising its powers or performing its functions under the Biosecurity Act 1993 in relation to relevant travellers and the goods in their possession or under their control (including as part of their personal effects or baggage), but excluding costs that are otherwise recovered or otherwise to be recovered under the Biosecurity Act 1993 or the Airports (Cost Recovery for Processing of International Travellers) Act 2014."

Border processing levies

Levies provided for by the Customs and Excise (Border Processing Levy) Order 2015 and the Biosecurity (Border Processing Levy) Order 2015. Customs and MPI collect these levies from travellers other than those exempt from the levies.

Border processing services

Customs' and MPI's services related to travellers. For MPI, these services are provided by Biosecurity New Zealand. These services involve activities before travellers arrive or depart, at the border, and after travellers cross the border. Appendix 4 provides more detail about these activities.

Caps

Amounts prescribed in the levy orders that levy rates must not exceed.⁴⁰

Club good

A good available only to a certain group of people, where use by one member of the group does not detract from its use by another. For example, a Mutual Recognition Arrangement between New Zealand and another country that benefits people exporting goods to that country.

Crown

Her Majesty the Queen in right of New Zealand; and includes all Ministers of the Crown and all departments; but does not include- (i) an Office of Parliament; or (ii) a Crown entity; or (iii) a State enterprise named in Schedule 1 of the State-Owned Enterprises Act 1986.⁴¹

Cruise ship

A ship, boat, or other vessel operated by a cruise line for an international cruise as part of its international cruise business.⁴²

Cruise traveller

Traveller on a cruise ship. Under the levy orders, there are separate levy rates for cruise and non-cruise travellers.

Customs

The New Zealand Customs Service.

Director-General

The Director-General of MPI.

Efficiency (cost recovery principle)

This consultation document uses the following definition of 'efficiency' to assess the options presented in this consultation document, "Costs should be charged to ensure that maximum benefits are delivered at minimum cost."

⁴⁰ Customs and Excise (Border Processing Levy) Order 2015, cls 6(3) and 7(3); Biosecurity (Border Processing Levy) Order 2015, cls 6(3) and 7(3).

⁴¹ Public Audit Act 2001, s4.

⁴² Customs and Excise (Border Processing Levy) Order 2015 cl 3; Biosecurity (Border Processing Levy) Order 2015 cl 3.

Equity (cost recovery principle)

This consultation document uses the following definition of 'equity' to assess the options presented in this consultation document, "Services should be funded by users who benefit from the service or create risks that the service is designed to manage".

GST

Goods and Services Tax.

Justifiability (cost recovery principle)

This consultation document uses the following definition of 'justifiability' to assess the options presented in this consultation document, "Charges should only recover the reasonable costs of providing the service."

Levied travellers

Travellers other than levy-funded exempt travellers and non-levy funded exempt travellers.

Levies

Border processing levies provided for by the Customs and Excise (Border Processing Levy) Order 2015 and the Biosecurity (Border Processing Levy) Order 2015.

Levy orders

The Customs and Excise (Border Processing Levy) Order 2015 and the Biosecurity (Border Processing Levy) Order 2015.

Levy period

A period prescribed by, or set in accordance with, the Customs and Excise (Border Processing Levy) Order 2015 or the Biosecurity (Border Processing Levy) Order 2015. Levy rates apply only for the levy period for which they are set.

Levy-funded exempt travellers

Classes of traveller defined in clause 3 of the Customs and Excise (Border Processing Levy) Order 2015 and clause 3 of the Biosecurity (Border Processing Levy) Order 2015. For example, children under the age of two years and travellers other than passengers. Levied travellers fund the border processing costs of levy-funded exempt travellers.

Maritime Border Order

COVID-19 Public Health Response (Maritime Border) Order 2020. This Order strengthened maritime border controls to reduce the risk of COVID-19 entering New Zealand through the maritime border.

MBIE

Ministry of Business, Innovation and Employment.

Memorandum accounts

Accounts operated by Customs and MPI that record border processing costs and levy revenue. Customs and MPI regularly review levy rates to ensure that the balance in the memorandum accounts trends towards zero.

MPI

Ministry for Primary Industries.

Non-cruise travellers

Travellers other than cruise travellers. Most non-cruise travellers arrive on flights operated by commercial airlines, but some arrive on charter flights or private aircraft, or on private marine craft such as yachts. There are separate levy rates for cruise and non-cruise travellers.

Non-levy funded exempt travellers

Classes of traveller defined in clause 3 of the Customs and Excise (Border Processing Levy) Order 2015 and clause 3 of the Biosecurity (Border Processing Levy) Order 2015. For example travellers on non-passenger commercial craft. The Crown funds the border processing costs of non-levy funded exempt travellers.

OIA

Official Information Act 1982.

Passenger

A person carried on a craft during a flight or voyage, other than a person— (a) who is employed or engaged under a contract of service or a contract for services; and (b) who, under that contract, provides services on the craft during the flight or voyage wholly for the purposes of the business of the craft.⁴³

Private good

A good that is purchased and used by one party and is not available to others. For example, a request for attendance by Customs officers outside of the working hours of Customs⁴⁴ when a flight is diverted or delayed.

Public good

An activity where excluding people from its benefits is either difficult or costly, and its use by one person does not detract from its use by another. For example, policy advice.

Quarantine-free travel

Quarantine-free travel provided for by the COVID-19 Public Health Response (Air Border) Order (No 2) 2020.

⁴³ Customs and Excise (Border Processing Levy) Order 2015, cl 3; Biosecurity (Border Processing Levy) Order 2015, cl 3.

⁴⁴ Customs and Excise Act 2018, s 440.

Red zone flight

Flights other than quarantine-free travel flights.

Risk exacerbator

An individual or group who creates risks that a government service is designed to manage.

Transparency (cost recovery principle)

This consultation document uses the following definition of 'transparency' to assess the options presented in this consultation document, "Costs should be identified and allocated to the service for the recovery period in which the service is provided."

Traveller

In section 413(1) of the Customs and Excise Act 2018, 'traveller' means, "any person who arrives in New Zealand from, or departs from New Zealand for, any place outside New Zealand."

In section 140AA(1) of the Biosecurity Act 1993, 'traveller' means, "any person who arrives in New Zealand from any place outside New Zealand."

Appendix 11– References

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