



Cabinet Economic Growth and Infrastructure Committee

EGI (15) 113

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Summary of Paper

22 May 2015

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Border Clearance Levy: Release of Consultation Document

Portfolio	Primary Industries / Customs
Purpose	This paper seeks approval to release the attached consultation document on the proposed design of the Border Clearance Levy (the Levy) on arriving and departing international air and sea passengers and crew.
Previous Consideration	Budget 2015 announcements included Cabinet's decision to introduce the Levy from 1 January 2016, to fund the costs of border processing incurred by the Ministry for Primary Industries (MPI) and the New Zealand Customs Service (Customs) [CBC Min (15) 1/2].
Summary	<p>In 2014/15, Customs and MPI will process over 11 million arriving and departing international travellers, at a cost of about \$103 million per annum. The recently-approved Levy will apply from 1 January 2016 to help meet these costs.</p> <p>The attached consultation document seeks feedback on the following policy parameters for the Levy:</p> <ul style="list-style-type: none"> all travellers (both passengers and crew) will be required to pay the Levy unless there is a compelling reason for an exemption (eg it is proposed that individuals travelling on aircraft used specifically for diplomatic or military purposes, air passengers and crew in transit, and children aged under two years will be exempt); the Levy will be collected, where practical, as part of ticket sales by passenger airline and cruise ship operators, and collected directly from travellers at the point of arrival and departure on other craft (eg private yachts or aircraft). <p>The Levy will be set at different rates for arriving and departing passengers to reflect differences in costs between these two groups. In relation to the arriving Levy, a decision is sought on whether (recommendation 3 below):</p> <p>Either: the Levy should be set on the basis of a national average of the costs of the air and cruise ship pathways, ie between \$15.50 and \$16.20 (GST exclusive) per arriving traveller;</p> <p>Or: there should be at higher Levy rate for cruise ship travellers to reflect the higher costs of processing cruise ships, ie between \$19.40 and \$20.10 for arriving cruise ship travellers and between \$15.30 and \$16.00 (GST exclusive) for other travellers.</p>

The table on page 7 summarises the maximum Levy rates for consultation.

Final recommendations on the design of the Levy will be submitted to EGI for approval in October 2015. The impact and operation of the Levy will be reviewed in 2018.

Regulatory Impact Analysis	A draft Regulatory Impact Statement (RIS) is attached. A final RIS will be submitted for consideration when Cabinet decisions are sought on the final Levy design in October 2015.
Baseline Implications	PricewaterhouseCoopers have been commissioned to review the cost recovery models used to calculate the proposed Levy – this review is to be completed by early June 2015 and may lead to minor changes to the proposed Levy rates. Authority is therefore sought for the Ministers for Primary Industries and Customs to adjust the consultation document to reflect any such changes.
Legislative Implications	<p>The Border Processing (Arrivals and Departures) Levy Bill was introduced under urgency on Budget night.</p> <p>A Levy Order will be required – Cabinet approval will be sought in November 2015.</p>
Timing Issues	<p>The consultation document will be released in June 2015, for a six week consultation period.</p> <p>It is proposed that the Levy will be collected only on tickets purchased on or after 1 January 2016.</p>
Announcement	The consultation document will be posted on MPI's and Customs' websites. Targeted meetings will be held with key stakeholders.
Consultation	<p>MPI, Customs, Transport, CAA, MBIE, Treasury, MFAT, Justice and PCO were consulted. DPMC was informed.</p> <p>The Minister for Primary Industries indicates that discussion will be required with the government caucus and is not required with other parties represented in Parliament.</p>

The Minister for Primary Industries and the Minister of Customs recommend that the Committee:

- 1 note that on 20 April 2015, the Cabinet Business Committee:
 - 1.1 agreed to introduce, from 1 January 2016, a Border Clearance Levy (Levy) on arriving and departing international air and sea passengers and crew to fund the costs of border processing incurred by the Ministry for Primary Industries (MPI) and the New Zealand Customs Service (Customs);
 - 1.2 agreed that the Levy would be directly imposed in primary legislation enacted under urgency on Budget night, with detailed Levy design and implementation issues to be consulted on and set out in delegated legislation;

[CBC Min (15) 1/2]

- 2 agree, subject to consultation, that the Levy:
- 2.1 cover all passengers and crew arriving and/or departing from New Zealand, subject to the following exemptions:
 - 2.1.1 any passenger travelling on any aircraft or ship being used specifically for the military, diplomatic, or ceremonial purposes of any government;
 - 2.1.2 any air passenger or crew member in transit through New Zealand who does not leave the transit/arrival/departure areas of the airport;
 - 2.1.3 children under 2 years of age;
 - 2.2 be collected, where practical, as part of ticket prices by passenger airline and cruise ship operators, and collected directly from travellers at the point of arrival and departure on other craft (e.g. private yachts or aircraft, commercial non-passenger ships);
 - 2.3 be collected on tickets purchased on or after 1 January 2016;
 - 2.4 be set at different rates for arriving and departing passengers to reflect differences in costs between these two groups, with a corresponding rate of between \$2.60 and \$3.10 (GST exclusive) per departing traveller;

- 3 agree to consult on:

EITHER

- 3.1 a rate for arriving travellers set on the basis of a national average of cost of between \$15.50 and \$16.20 (GST exclusive) per arriving traveller;

OR

- 3.2 a higher Levy rate for cruise ship travellers to reflect the higher costs of processing cruise ships of between \$19.40 and \$20.10 for arriving cruise ship travellers and between \$15.30 and \$16.00 (GST exclusive) for other travellers;

- 4 s 9(2)(g)(i)

- 5 note that the document entitled *Implementing the Border Clearance Levy: Consultation Document* (the consultation document), attached to the paper under EGI (15) 113, sets out the proposed approach to implementing the Levy and seeks feedback on key design parameters;
- 6 note that consultation on the initiative will involve targeted discussions with key stakeholders;
- 7 agree to the release of the consultation document in June 2015, for a period of six weeks;
- 8 authorise the Minister for Primary Industries and the Minister of Customs to make any necessary amendments to the consultation document that do not change the substantive proposal before the document is publicly released;

- 9 invite the Minister for Primary Industries and the Minister of Customs to report back to the Cabinet Economic Growth and Infrastructure Committee in October 2015 on the outcome of the consultation and with proposals for the final design and implementation arrangements for the Levy;
- 10 note that the Levy will be reviewed in 2018.

Janine Harvey
Committee Secretary

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Border Clearance Levy: Approval to release consultation document

Proposal

1. This paper seeks Cabinet approval to the proposed design of the Border Clearance Levy (Levy) on arriving and departing international air and sea passengers and crew, and approval to release the associated consultation document.

Executive Summary

2. In 2014/15, the New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) will process over 11 million arriving and departing international travellers, at a cost of about \$103 million per annum. These services are currently funded by the Crown. About 95 percent of people cleared at the border are passengers and crew on commercial passenger flights, a further four percent are passengers and crew from foreign-going passenger ships. The remaining one percent are from commercial non-passenger craft (eg. cargo ships), private aircraft and yachts, and the military. Officials anticipate that the number of travellers crossing our border will increase to about 13.3 million in 2018/19.
3. In April 2015 Cabinet agreed to introduce from January 2016 a Border Clearance Levy on arriving and departing international travellers, with detailed Levy design to be consulted on and set out in delegated legislation [CBC Min (15) 1/2 refers].
4. We seek agreement to consult on a proposed Levy design within the following policy parameters:
 - a. All travellers (both passengers and crew) will be required to pay the Levy unless there is a compelling reason for an exemption. For example, the proposed exemptions are individuals travelling on aircraft used specifically for diplomatic or military purposes, air passengers and crew in transit, and children under 2 years old.
 - b. The Levy will be collected, where practical, as part of ticket sales by passenger airline and cruise ship operators, and collected directly from travellers at the point of arrival and departure on other craft (e.g. private yachts or aircraft). It will be collected only on tickets purchased on or after 1 January 2016.

- c. The Levy will be set at different rates for arriving and departing passengers to reflect differences in costs between these two groups.
- d. Ministers are asked to provide feedback on whether the arriving Levy is
- e. Either
 - i. set on the basis of the average national per passenger costs of the air and cruise pathways; this would result in a Levy of up to \$16.20 per arriving traveller (all figures GST exclusive), and up to \$3.10 per departing traveller.
- Or
 - ii. providing for a higher Levy rate for cruise ship travellers compared to those travelling on other modes of transport, to reflect the higher costs incurred by MPI in processing cruise ships stopping at multiple ports. This would result in a Levy of up to \$20.10 per arriving cruise ship traveller, reducing the corresponding Levy on other transport modes to no more than \$16.00 per traveller.
- 5. We seek agreement to release the attached consultation document in June 2015, subject to Cabinet's agreement to the above policy parameters. We will report back to Cabinet by October 2015 on the outcomes of consultation and with final recommendations on the design of the Levy.
- 6. MPI and Customs will review the impact and operation of the Levy from mid 2018, in light of the first two and half years of its operation. This review will also consider whether the Levy has had any impact on traveller numbers and whether there is a case for further differentiating the Levy according to location or transport mode.

Background

- 7. On 13 April 2015, the Cabinet Business Committee agreed to introduce a Levy on arriving and departing international air and sea passengers and crew to fund the costs of border processing incurred by MPI and Customs. The Levy will ensure that costs are borne by those who give rise to the security and biosecurity risks that require delivery of border processing services or who benefit from them. The Levy will also ensure that funding arrangements for MPI and Customs border processing services are sustainable.
- 8. The Committee agreed that the Levy will take effect from 1 January 2016, enabled under primary legislation to be enacted under urgency on Budget night. The detailed Levy design and implementation issues are to then be consulted on [CBC Min (15) 1/2 refers].
- 9. The Border Processing (Arrivals and Departures) Levy Act amended the Biosecurity Act 1993 and the Customs and Excise Act 1996 to provide an obligation to pay the Levy. The Act includes empowering provisions that allow Orders in Council to be made to provide for other matters necessary for the Levy's administration.

10. Officials have now developed a consultation document outlining the proposed design and implementation details.

Objectives and design principles for the Levy

Objectives of the Levy

11. Customs and MPI border clearance activities for people are driven directly by volumes of travellers. The development of cost recovery options has concentrated on Levy mechanisms which are aligned with, and responsive to, these volumes. Within this broad approach, officials have focused on Levy options that:
 - a. Ensure as far as possible that all travellers who generate the costs of border clearance activities (i.e. as risk exacerbators) make a fair financial contribution to these services.
 - b. Allow the resourcing of border clearance services to respond to varying volumes of work generated by travellers.
 - c. Support the provision of robust border clearance services on a sustainable basis, with minimal impact on travellers.

Design principles for the Levy

12. The following design principles have also been taken into consideration:
 - a. Meets objectives for the Levy: the Levy should generally reflect the costs generated by classes of travellers, be responsive to border clearance work volumes, be financially sustainable, and have a minimal impact on travellers
 - b. Efficiency: administration costs should be minimised through simple, easily administered Levy collection mechanisms
 - c. Effectiveness: avoidance behaviour and adverse incentives should be minimised through the use of a clear and achievable implementation pathway (i.e. can be implemented by 1 January 2016)
 - d. Accountability: processes for setting the Levy and reporting against services and revenue should be transparent.
13. These principles are consistent with the guidelines on setting third party fees set by the Office of the Auditor General and the Treasury.

Who should be levied?

14. About 95 percent of travellers cleared at the border are crew and passengers from commercial passenger airlines. A further four percent are crew and passengers from foreign-going passenger ships. Around 45 percent of arriving passengers are New Zealanders. The remaining one percent are from

commercial non-passenger craft (e.g. cargo ships), private aircraft, yachts, and the military (see Table 1).

TABLE 1: EXPECTED ARRIVING AND DEPARTING TRAVELLERS BY TYPE IN 2015/16

	Arriving	Departing	Total	Percent
Commercial airlines	5,674,250	5,629,000	11,303,250	94.47%
Cruise ships	266,234	260,000	526,234	4.40%
Commercial non-passenger ships	60,000	61,000	121,000	1.01%
Non-commercial airlines	2,830	2,830	5,660	0.05%
Military ships	1,750	1,000	2,750	0.02%
Small (private) yachts	2,500	2,500	5,000	0.04%
Other	300	200	500	0.00%
Total	6,007,864	5,956,530	11,964,394	100%

15. As a point of principle, the Levy should apply to as broad a range of travellers as possible, where this is practicable and reasonable to do so. Our preferred approach is to include:
- all passengers and crew travelling on commercial passenger airlines, subject to the exemptions listed below in table 2
 - all passengers and crew travelling on commercial passenger ships
 - all travellers on commercial non-passenger ships and aircraft
 - all travellers arriving or departing on private yachts and aircraft, subject to the exemptions listed below.

Travellers to which the Levy should not apply

16. We are seeking agreement to the proposed exemptions from the Levy for consultation:

TABLE 2: PROPOSED EXEMPTIONS TO THE LEVY

Exempt traveller	Rationale
Any passenger travelling on any aircraft or ship being used specifically for the military, diplomatic, or ceremonial purposes of any Government	This is consistent with advice from the Ministry of Foreign Affairs and Trade, which refers to diplomatic privileges and immunities under the Vienna Convention. This also includes non-commercial flights to Antarctica.
Any air passenger or crew member in transit through New Zealand who does not leave the transit/arrival/departure areas of the airport.	These travellers do not usually generate Customs or biosecurity work, and it would therefore be unfair to apply a charge to them.
Children under 2 years of age.	Children of this age generally travel under the tickets of their parents or guardians, and are not usually the prime focus of Customs or biosecurity activity.

17. Other classes of traveller could also be considered for exemption from the Levy. For example, it might be reasonable for those entering or departing New Zealand on humanitarian grounds (e.g. international assistance related to the Canterbury earthquake or ships entering New Zealand waters because of adverse weather) to be exempt. The consultation document seeks feedback on whether other exemptions should be considered.
18. The number of exempted classes of traveller will influence the Levy rates. Fewer exemptions will result in a lower Levy rate per traveller, while a higher number of exemptions will result in a higher rate – unless the Crown agrees to fund the processing of certain groups.
19. These exemptions are consistent with those applied under the Civil Aviation Authority's Levy regulations, which collect Safety and Passenger Security Levies from departing international air passengers.¹

Setting the Levy rates

20. The Levy will not match the costs incurred by each individual traveller, although it should correspond with the average cost per traveller incurred by Customs and MPI. These average costs are in the ranges of:
 - a. \$2.60 to \$3.10 per departing traveller, and
 - b. \$15.50 to \$16.20 per arriving traveller (all modes combined), or \$19.40 to \$20.10 per arriving cruise ship traveller and \$15.30 to \$16.00 for all remaining travellers.
21. We propose to consult on a range of rates rather than a set amount as this will allow for policy decisions to be made based on the views expressed during the consultation process without having a further formal consultation round.
22. Three factors could drive differential costs that would then need to be reflected in the Levy Order:
 - a. the costs associated with processing arriving and departing travellers
 - b. the costs for processing different transport modes (i.e. the higher biosecurity costs for processing cruise ships)
 - c. the number of exemptions (in particular exempting crew on cruise ships)

Setting different rates for arriving and departing travellers

23. The costs of processing arriving and departing passengers is significantly different because:
 - a. there is no biosecurity screening on departing travellers

¹ A key difference is that the preferred approach is to include all crew (not in transit) as they also generate border clearance costs.


- b. the level of Customs resources applied to manage arrival processes is much greater than departures (estimated at 72 percent of Customs total passenger processing costs).
24. We recommend consulting on differentiated rates for arriving and departing passengers.

Setting a higher Levy for processing cruise ship passengers and crew

25. MPI estimates that the costs of screening cruise ships is substantially higher per traveller than other transport modes. This reflects the additional activities MPI must undertake in relation to cruise ships (given biosecurity officers must risk assess individuals at each port they land) as well as the lower volumes of travellers. MPI estimates the costs of processing air travellers is approximately \$8.50 per traveller, whereas the cost for cruise ships is around \$12.60 (Customs considers that the cost of clearing an arriving traveller is up to \$7.50).
26. The consultation paper could seek feedback on either:
- a. a flat rate for all arriving travellers, in a range of \$15.50 to \$16.20
 - b. a differentiated rate for cruise ships of between \$19.40 to \$20.10 per traveller, with a corresponding reduction in the Levy for other modes to between \$15.30 to \$16.00.
27. We are seeking feedback on whether a differentiated charge should be consulted on for the cruise ship sector. We do not recommend proposing differentiated fees for other transport modes.

Exempting other groups from the Levy

28. As outlined in paragraphs 18 and 19, some groups other than those currently proposed might be exempted from the Levy at the end of the consultation process. This would also have an impact on the final rate set as costs would have to be spread over a smaller number of travellers.

29. s 9(2)(f)(iv), s 9(2)(g)(i)
- 

Summary of Levy rates

30. Table 3 summarised the maximum Levy rates that will be consulted on. Figures are presented in both GST exclusive and inclusive terms, to recognise both the revenue input to Customs and MPI, as well as the total payment made by travellers.

Table 3: Summary of all maximum Levy rates for consultation

	Arrival rate options			Departure
	All	Non-Cruise	Cruise	
Biosecurity (GST excl.)	\$8.70	\$8.50	\$12.60	
Customs (GST excl.)	\$7.50	\$7.50	\$7.50	\$3.10
Total (GST excl.)	\$16.20	\$16.00	\$20.10	\$3.10
Total biosecurity and Customs levies (GST incl.)	\$18.63	\$18.40	\$23.12	\$3.57
LEVIES CURRENTLY IN PLACE				
CAA Safety Levy (GST incl.)	-	-	-	\$1.50
Aviation Security Service Passenger Security Charge (GST incl.)	-	-	-	\$11.98
TOTAL LEVIES AT BORDER (GST incl.)	\$18.63	\$18.40	\$23.12	\$17.05

Levy collection mechanisms²

Commercial air

31. We propose using existing arrangements managed by the Civil Aviation Authority (CAA) for the collection of its existing levies. The costs of the Levy is proposed to be incorporated into the price of the ticket.
32. We propose that this is done through airlines sending a return with payment to CAA at the beginning of every month. A reconciliation will be undertaken at the end of the month by comparing the payment with actual data. The CAA agrees that the proposed approach appears feasible but notes that this is subject to completion of the detailed design of business processes and any implementation and operating costs. MPI and Customs will continue to work with the CAA on the proposed Levy collection mechanism for commercial air passengers.
33. While airlines will be required to report on arrivals, as well as departures, this option presents the most efficient and effective option. We will work with airlines to determine what additional costs are incurred in collection.

² Other options that were considered include invoicing carriers on the basis of data held by Customs or requiring all travellers to pay the Levy directly as they leave or depart New Zealand.

Cruise ships

34. The current proposed approach is for Customs to collect the Levy from cruise ship operators, similar to the CAA model. The Levy will be charged as a one-off fee on arrival, irrespective of the number of ports at which the ship may stop. A departure Levy will be incurred once the ship departs New Zealand's territorial waters.
35. The Levy is proposed to be applied to all passengers and crew, whether they disembark the ship or not. Both classes of travellers pose biosecurity and customs risks, and sufficient border clearance capacity must be available to clear any travellers who can potentially disembark the ship.

Other transport modes

36. For agents operating irregular services to New Zealand the Levy would be payable upon arrival and departure, with scope to establish arrangements that allow agents representing frequent travellers to also pay on a monthly basis. For example, the Passenger Movement Charge in Australia is applied on a manual basis where necessary.
37. There may be additional costs with servicing arrivals at remote locations where there is no permanent presence. We will consider alternative mechanisms (such as those provided under the Airports (Cost Recovery for Processing of International Travellers) Act 2014 or opportunities for cost recovery already in place for both Customs and MPI) to recover any actual additional costs, rather than seeking to recover these costs through the Levy.

Transitional arrangements

38. All travellers will be liable to pay the Levy from 1 January 2016. Officials have considered whether it would be possible to recover Levies from passengers that booked tickets before the implementation date. There is no efficient or equitable way of doing this, given transport operators will not be in a position to collect the Levy before the Levy Order is made in November 2015.
39. We intend, therefore, to make provision in the Levy Order to collect the Levy only on passengers who purchased tickets on or after 1 January 2016. This approach is consistent with the financial recommendations agreed by Cabinet Business Committee in April [CBC Min (15) 1/2 refers].

s 9(2)(f)(iv)

40. s 9(2)(f)(iv), s 9(2)(g)(i)

41. s 9(2)(f)(iv)

Approach to consultation and communications

42. Public consultation is intended to run for six weeks from sometime in June. The discussion document will be placed on MPI's and Customs' websites.
43. There will be significant stakeholder interest in this proposal and consultation will also involve targeted meetings with key stakeholders including: the Board of Airline Representatives of New Zealand (BARNZ), airlines, Cruise New Zealand, cruise ship operators, Tourism New Zealand, Tourism Industry Association, the New Zealand Shipping Federation, the shipping industry and other industry stakeholders, Federated Farmers, primary producers and exporters, and importers.
44. Over the past 24 months, CAA has been engaged in its Triennial Funding Review. ^{s 9(2)(f)(iv), s 9(2)(g)(i)}

^{s 9(2)(f)(iv), s 9(2)(g)(i)}

Transparency, monitoring and review

45. The introduction of the Levy is likely to result in increased public scrutiny of border clearance services from financial management and service delivery perspectives. It is important to be transparent about the rationale for introducing cost recovery and the performance of the approach once implemented. This imposes a discipline on agencies not to pass inefficient costs to users and also helps users to understand and accept the charging practices.
46. The proposed rate of the Levy is intended to maintain existing levels of service – in terms of passenger processing times and levels of intervention. We anticipate having an ongoing conversation with stakeholders (e.g. tourism industry representatives), as well as individual travellers, on why the fees are needed and how they will be used.
47. Customs and MPI will report on both non-financial and financial performance measures through the standard reporting framework for Government agencies, including the release of annual reports and appearing in front of select committees. Feedback will also be sought from stakeholders on whether additional reporting arrangements may be required.
48. We recognise that the most interested commercial stakeholders all have a vested interest in increasing the level of service offered or increasing the level of expenditure – either to improve the quality of the traveller experience, or to increase intervention rates (particularly from primary industry stakeholders).

49. There may not be any counter-pressure to constrain the rate of the Levy as carriers are likely to pass these on directly to passengers. We will report back in October 2015 on mechanisms to ensure this pressure can be applied effectively from a consumer's perspective, and to find the right balance between interventions and enforcement, travel facilitation and cost. This could include, for example, reviews by an independent authority, or improvements to reporting.
50. The non-financial performance measures (see Appendix 1) proposed in the discussion document relate to existing output performance measures. Agencies will continue to develop further appropriate service performance levels to accommodate the change in policy. The levels of expenditure and cost recovery will be monitored on an annual basis to identify any material under or over-recovery. In the case of MPI revenue, surpluses or deficits can only be transferred forward one year.
51. The consultation document includes a breakdown of clearance costs by type and a multi-year memorandum account forecast for Customs and biosecurity costs and revenue. A commitment is made in the consultation document to review the costs and revenue in light of the first two and half years of the operation of the Levy. This review in 2018 will also consider whether the Levy has had any impact on traveller numbers and to determine whether there is a case for a more differentiated Levy according to location or transport mode.

Consultation

52. The following departments have been consulted and their views incorporated in this paper: Ministry of Transport, Civil Aviation Authority, Ministry of Business, Innovation, and Employment (Immigration and Tourism policy), the Treasury, Ministry of Foreign Affairs and Trade, Ministry of Justice, and the Parliamentary Counsel Office. The Department of the Prime Minister and Cabinet has been informed.

Financial Implications

53. Cabinet has already agreed to replace estimated Crown funding for MPI and Customs passenger processing services with third party funding to maintain the existing baseline. This represented the existing level of Crown funding for these services and hence the expected return to the Crown that would be realised if a full Levy is put in place.
54. Customs and MPI have commissioned Price Waterhouse Cooper to undertake a review of the cost recovery models used to calculate the proposed Levy. This review will be completed by early June 2015 and may lead to minor changes to the Levy rates. We seek agreement for the Ministers for Primary Industries and Customs to make minor adjustments to the consultation paper to reflect this.
55. We will report back in October to confirm the level and sources of funding, on the basis of the consultation and final policy decisions.

Legislative Implications

56. There are no legislative implications from the proposals in this paper. Following consultation, we intend to seek Cabinet agreement in October 2015 to the Levy design, implementation arrangements, and Levy rate. We intend to seek Cabinet agreement in November 2015 to the Levy Order giving effect to the Levy.

Regulatory Impact Analysis


57. A Regulatory Impact Statement (RIS) was required, but was not provided, when Cabinet agreed to introduce the Levy. However, the regulatory impact of imposing a Levy and alternative options was set out at a high level in the Cabinet paper proposing its introduction [CBC Min (15) 1/2 refers].
58. A draft RIS for consultation on the Levy design has been prepared and is attached to this paper. The substantive Regulatory Impact Analysis elements have also been incorporated into the discussion document.
59. A final RIS will be prepared and submitted for consideration when Cabinet decisions are sought on the final Levy design in October 2015. The Regulatory Impact Analysis Team (RIAT) in the Treasury has determined that the Levy will have a significant impact. The RIAT will quality assure the final RIS.

Recommendations

60. The Minister for Primary Industries and the Minister of Customs recommend that the Committee:
1. **Note** that on 20 April 2015 Cabinet agreed:
 - a. to introduce from 1 January 2016 a Border Clearance Levy on arriving and departing international air and sea passengers and crew to fund the costs of border processing incurred by the Ministry for Primary Industries (MPI) and the New Zealand Customs Service (Customs)
 - b. that the Levy would be directly imposed in primary legislation enacted under urgency on Budget night, with detailed Levy design and implementation issues to be consulted on and set out in delegated legislation [CBC Min (15) 1/2 refers]
 2. **Agree**, subject to consultation, that the Levy:
 - a. cover all passengers and crew arriving and/or departing from New Zealand, subject to the following exemptions:
 - i. any passenger travelling on any aircraft or ship being used specifically for the military, diplomatic, or ceremonial purposes of any Government

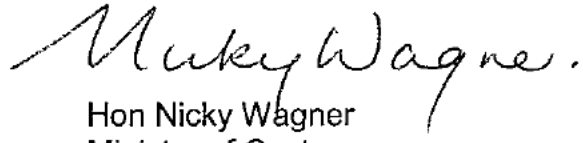
- ii. any air passenger or crew member in transit through New Zealand who does not leave the transit/arrival/departure areas of the airport.
 - iii. children under 2 years of age.
 - b. be collected, where practical, as part of ticket prices by passenger airline and cruise ship operators, and be collected directly from travellers at the point of arrival and departure on other craft (e.g. private yachts or aircraft, commercial non-passenger ships)
 - c. be collected on tickets purchased on or after 1 January 2016
 - d. be set at different rates for arriving and departing passengers to reflect differences in costs between these two groups, with a corresponding rate of **between \$2.60 and \$3.10** (GST excl.) per departing traveller
3. **Agree** to consult on:
- a. **Either:** a rate for arriving travellers set on the basis of a national average of cost of **between \$15.50 and \$16.20** (GST excl.) per arriving traveller
 - b. **Or:** a higher Levy rate for cruise ship travellers to reflect the higher costs of processing cruise ships of **between \$19.40 and \$20.10** for arriving cruise ship travellers and **between \$15.30 and \$16.00** (GST excl.) for other travellers
4. s 9(2)(g)(i)
5. **Note** the attached consultation document sets out the proposed approach to implementing the Levy and seeks feedback on key design parameters
6. **Note** consultation on the initiative will involve targeted discussions with key stakeholders
7. **Agree** to release the attached consultation document in June 2015, for a period of six weeks
8. **Delegate** authority to the Minister for Primary Industries and Minister of Customs so they can make amendments to the consultation paper that do not change the substantive proposal before it is publicly released
9. **Invite** the Minister for Primary Industries and Minister of Customs to report back in October 2015 on the outcomes of consultation and proposals for the final design and implementation arrangements for the Levy

10. **Note** that the Levy will be reviewed in 2018.



Hon Nathan Guy
Minister for Primary Industries

21 / 5 / 2015



Hon Nicky Wagner
Minister of Customs

21 / 5 / 2015

Appendix 1: Output Performance Measures

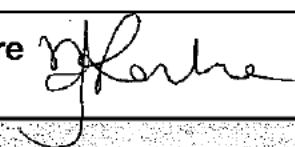
For Customs, relevant performance targets include the following:

Measure	Performance target
The value of harm avoided through Customs drug seizures	\$100-\$200 million per annum
Losses incurred by importers of illegal goods(e.g. drugs, proceeds of crime) through intervention by Customs	Equal to or more than \$10 million per annum
Percentage of travellers who rate their experience of immigration processing as good or very good	Equal to or more than 85% of those surveyed
Percentage of air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently	Equal to or more than 77% of those surveyed
Percentage of arriving air passengers who exit Customs primary processing points within 45 minutes of arrival	Equal to or more than 90%

For MPI, the relevant performance target is:

Measure	Performance target
Percentage of air passengers that comply with biosecurity requirements but the time they leave the airport	98.5%

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:		
Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation		
Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission: Ministry of Transport, Civil Aviation Authority, Ministry of Business, Innovation, and Employment (immigration and tourism policy), the Treasury, Ministry of Foreign Affairs and Trade, Ministry of Justice, and the Parliamentary Counsel Office.		
Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed: Department of the Prime Minister and Cabinet		
Others consulted: Other interested groups have been consulted as follows:		
Deborah Roche, Deputy Director-General, Policy and Trade Branch, Ministry for Primary Industries		
Date:	20 105 15	Signature 
Certification by Minister:		
Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.		
The attached proposal:		
<i>Consultation at Ministerial level</i>	<input type="checkbox"/> has been consulted with the Minister of Finance [required for all submissions seeking new funding] <input checked="" type="checkbox"/> has been consulted with the following portfolio Ministers: <i>Customs</i> <input type="checkbox"/> did not need consultation with other Ministers	
<i>Discussion with National caucus</i>	<input type="checkbox"/> has been or <input checked="" type="checkbox"/> will be discussed with the government caucus <input type="checkbox"/> does not need discussion with the government caucus	
<i>Discussion with other parties</i>	<input type="checkbox"/> has been discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input type="checkbox"/> will be discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input checked="" type="checkbox"/> does not need discussion with other parties represented in Parliament	
Portfolio	Date	Signature
<i>Primary Industries</i>	21 15 15	