Submission to New Zealand Customs and Ministry for Primary Industries

On the Joint Consultation Document 'Recovering The Cost of Border Processing Services'

Date: 2 July 2021

1. Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the Joint Consultation Document from New Zealand Customs and Ministry for Primary Industries on Recovering The Cost of Border Processing Services.

EXECUTIVE SUMMARY

2. Now is not the time to increase fees for tourism operators. While such a mandate might be reasonable for sectors and industries that are quicky recovering from the impacts of 2020 it is irresponsible to subject the tourism sector to the same policy.

3. Border control is a Public Good. We support the government decision to close the border to protect the health of New Zealand and her citizens. However, the border closure was a decision made by government for the wider good of New Zealand and the New Zealand economy. It does not, and should not, rest with the private sector to fund the costs of the border closure.

4. Of the six levy options offered in the Document TIA supports Option 1. The continuation of the existing levy rate - Option 1 – is necessary given the ever-changing nature of the pandemic. The massive disruption of global travel that led to the correct decision to suspend funding reviews in 2020, still largely applies in 2021.

5. Due to the unpredictable nature of international travel at present, we are concerned that the visitor projections provided in the document are unreliable and subject to significant change for the foreseeable future. An opening of the New Zealand maritime border is still a significant time away, with ongoing talks identifying a high number of logistical challenges.

6. Airports and airlines are having to balance multiple levy hikes as well as increased infrastructure and security costs. Where once airlines may have been able to absorb these costs, the financial impacts of the pandemic on airline fleets will result in costs being passed directly onto the consumer who already face additional costs due to COVID19.

7. We question if the service delivery model remains right for the future. We are concerned about the high fixed costs of service delivery within Customs and MPI, and would like to see an increased effort to find alternative border management tools to assist with border security.

8. We support a continued alignment of levy periods, including levy review periods for NZ Customs and Ministry of Primary Industries. We also support limiting the proposed levy review cap to five percent.

INTRODUCTION

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

10. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive, Chris Roberts.

11. TIA's Vision is 'Leading the world's most sustainable tourism industry *Kōkiritia ngā mahi tāpoi ki te ao'.* The outcomes of this consultation will contribute to achievement of our Vision. Economic sustainability is a core component of a successful tourism business and many would argue it is the foundation of such a business. Fees and levy increases are placing increased pressure on already fragile businesses. In a pre-COVID world such increases may have been able to be absorbed without significant detrimental impact. Now it's a different reality and fee and levy increases reduce the pace of recovery for businesses and impact negatively on operator's confidence in government.

12. Any enquiries relating to this paper should in the first instance be referred to Lori Keller, TIA Industry Advocate by email at lori.keller@tia.org.nz or by phone on 021 0868 5356.

OUR UNDERSTANDING OF THE PAPER

13. As part of the Government's COVID-19 aviation relief package, funding reviews were suspended for 12 months, including any review of the border processing levies. The Government has agreed to fund the subsequent shortfall in revenue up to 30 June 2021, an estimated $168m in border processing costs. The Government has directed Customs and MPI to consult on options for returning to full recovery of border processing costs.

14. 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. NZ Customs set the duration of this period to be five months ending on 30 November 2021, and may extend this period up to 36 months. On 16 April 2021, MPI's levies were carried over at their existing rates for a period ending on 30 June 2022.

15. The Border Processing Levy (BPL) is currently $20.11 for Non-cruise passengers and $21.06 for Cruise (including GST). The consultation document provides six options for reviewing the BPL, from no change through to an option proposing an increase of more than 600%.

16. TIA is very concerned to learn via an Official Information Act request, that Cabinet has already agreed in principle to one of the listed options, well ahead of the consultation process. This crucial fact is not revealed anywhere in the consultation material. We question whether this is genuine consultation.

STAKEHOLDER ENGAGEMENT

17. TIA has sought feedback from members to inform our submission. We have consulted with the NZ Cruise Association, Auckland Airport, Wellington Airport, Christchurch Airport, Queenstown Airport, BARNZ, and Air New Zealand.

OUR FEEDBACK

Preferred Option

18. Of the six levy options offered in the Document TIA supports Option 1. The continuation of the existing levy rate - Option 1 - seems reasonable given the ever-changing nature of the pandemic. Other than the opening of the Australia and Cook Island borders (with the subsequent pauses due to COVID outbreaks in each country), there has been no material change in the border environment since the closure in March 2020.

19. The cost recovery model for border services was broken by the pandemic and remains broken. Until there is more clarity on timeframes for the re-opening of the borders to our major markets (China, United Kingdom, United States) a carry-over of the current levy rates must be the default position.

20. We understand why the government does not want to accrue further deficits in the wake of border closures, however we question the urgency and timing of the introduction of new levies. TIA suggests maintaining levies at their current level for the next 24 months with a review in July 2023. This will ensure that a level of volatility has been removed from the current visitor arrival projections and future levy proposals are made on the basis of reliable data over 2021 and 2022.

21. We understand that Cabinet has agreed in principle to Option 2 – increasing levy rates to $63.00 for Non-cruise and $35.36 for Cruise (including GST) on 1 December 2021 and recovering costs over three years. We are strongly opposed to this option. It is too soon, too impactful on the traveller, and will slow down the recovery of our tourism industry.

22. If the government insists on re-instating the broken cost recovery model, the only acceptable option is Option 3b. In this option the BCL stays at the current rates until August 2023, with government continuing to fund deficits incurred. The levy rate would increase in September 2023 to recover costs over the next three years to 2026. Under this option the increase for Non-cruise is $10.67 per passenger. Cruise passengers would pay an additional $4.89.

23. While sub-optimal, this option at least provides some certainty in the short-term to 2023 over what will still be a very volatile period for arrivals. It also means fares will not be impacted by increased government costs until September 2023, assisting the recovery of the industry.

Projected Visitor Numbers

24. Due to the unpredictable nature of international travel at present, we are concerned that the visitor projections provided in the document are unreliable and subject to significant change for the foreseeable future. An opening of the New Zealand maritime

border is still a significant time away, with ongoing talks identifying a high number of logistical challenges. Further, the cruise industry will require significant lead time to 'ramp-up' for long distance cruise destinations to New Zealand. The appetite for cruise companies to return to New Zealand is also under threat due to conflicting advice received by the Le Lapérouse cruise liner earlier this year.

25. The speed of the border opening is largely dependent upon the success of New Zealand's vaccination roll out, as well as vaccination uptake in other countries. It is hoped that the majority of New Zealand's population be vaccinated by the end of 2021, however there are no assurances that this will happen. Countries such as Israel, with a high level of the population vaccinated, now require visitors to show 'approved' Western vaccination status. The Ministry of Health has yet to outline any vaccination guidelines and/or process for the return of visitors from international destinations beyond Australia. The Minister of Health has stated on numerous occasions that the reopening of borders will be a gradual and progressive process.

Now is not the time to increase fees

26. We are aware that government agencies are being directed to return to the cost recovery models they had in place pre-COVID. While such a mandate might be reasonable for sectors and industries that are quicky recovering from the impacts of 2020 it is irresponsible to subject the tourism sector to the same policy.

27. To a large degree the proposed border levy increases do not acknowledge the devastation that the pandemic has had upon the international tourism sector, nor does the document address the likely 'non-return' of international visitors to pre-Covid levels for the next 4-5 years (if at all).

28. Moreover, government is also considering a proposed increase in the IVL (International Visitor Levy) to raise funds and advance the 'resetting' of international tourism in New Zealand, potentially leading to a significant reduction in visitor numbers in return for a 'higher value' visitor model.

29. Airports and airlines are having to balance multiple levy hikes as well as increased infrastructure and security costs. Where once airlines may have been able to absorb these costs, the financial impacts of the pandemic on airline fleets will result in costs being passed directly onto the consumer. Add to this, COVID-19 pre-arrival tests requirements (and possible MIQ fees), passengers face a significant cost barrier prior to crossing the NZ border. With traveller confidence at record lows, adding further disincentives to travel to New Zealand will likely result in a further decrease of revenue for Customs and MPI, rather than an offset of expenditure. Travellers cannot, and will not, accept the burden of ever-increasing charges. The potential consequences of a piecemeal approach to levy application, although unintended, is likely to produce significant negative consequences in the tourism sector and wider New Zealand economy.

Border control is a Public Good

30. We support the government decision to close the border to protect the health of New Zealand and her citizens. However, the border closure was a decision made by government for the wider good of New Zealand and the New Zealand economy. It does

not, and should not, rest with the private sector to fund the costs of the border closure. It is a fundamental human right for a citizen to be able to return to their home country. Airports and airlines facilitate this pathway; however, it is not the responsibility of these service providers to fund border processing.

Challenges of the Current Model of Border Processing Services

31. In a COVID-impacted world, border responsibilities take on even greater significance. The services provided by Customs and MPI are integral to New Zealand's security and our quality of life. The pandemic has highlighted the need for all sectors, both public and private, to adapt quickly. The BPL was introduced at a time when there were 14 million border crossings annually, kiwis and international visitors combined. A projected return to those numbers is unknown and highly unlikely in the next 5 years. Applying higher costs to far fewer travellers is not a viable option.

32. TIA has identified two other significant issues with the current model:

    a) the high fixed costs of service delivery within Customs and MPI, and

    b) the need to find alternative (lower labour) border management tools to assist with border security.

    Going forward, we would like Customs and MPI to provide greater transparency around their operational costs and how they intend to manage costs in the future.

Levy Periods and Cap

33. We support a continued alignment of levy periods, including levy review periods for NZ Customs and Ministry of Primary Industries. This coordination allows industry to engage across agencies on the topic and deal with any issues in a collective manner.

34. We also support the proposed levy review cap of five percent. Caps enable Customs and MPI, in certain circumstances, to increase levy rates up to the caps without requiring amendments to the levy orders. We acknowledge that Customs and MPI would consult representative groups of stakeholders before adjusting the levy rates.

<u>Follow up process</u>

35. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.