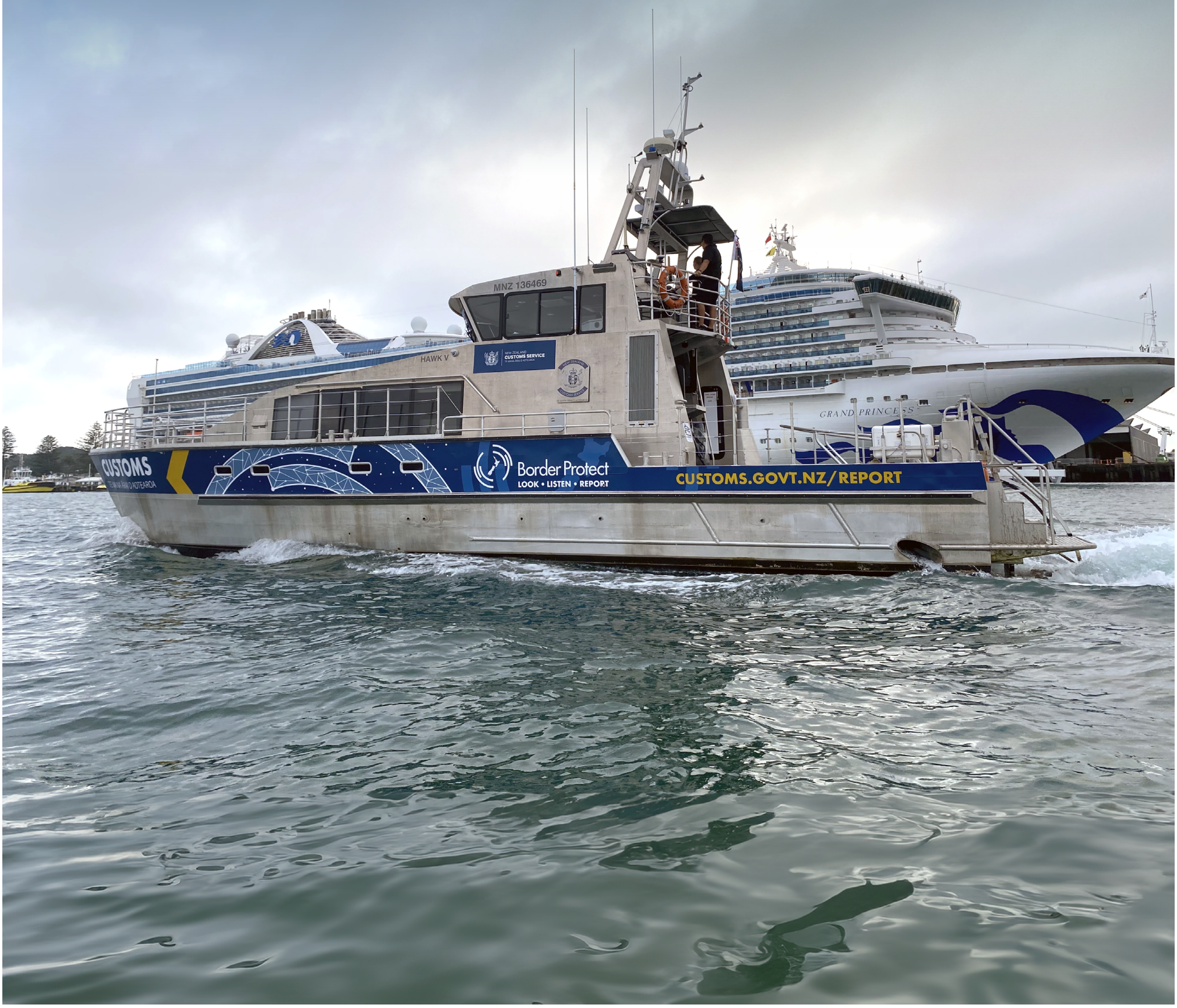
NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

Biosecurity New Zealand
Ministry for Primary Industries
Manatū Ahu Matua

Recovering the Costs of Border Processing Services

A Joint Consultation Document

12 July 2024



Contents

SECTION 1

Summary of proposals

Purpose of this consultation document

The New Zealand Customs Service (Customs) and Ministry for Primary Industries (MPI) are consulting on options for the recovery of border processing costs for the next levy period (from 1 December 2024).

The border processing levy revenue enables Customs and MPI to manage border risks while also streamlining travellers' interaction with the border. Levies fund a range of activities to process and clear craft, travellers and their baggage.

The levy rates were last set in December 2021 as the usual 1 July review date was delayed by the impacts of responding to the COVID-19 pandemic (COVID-19).

Summary of the Proposals

We are seeking people's views about our proposed changes to the levy rates and changes to the caps on the levy rates. We are also looking to reset the review date so the following levy period starts on 1 July 2027.

The proposals covered in this document are:

1. To set a levy period of two years seven months (returning the review date to 1 July);
2. For levies under the Customs and Excise Act 2018 to:
    a. return any surplus/recover any deficits in the memorandum accounts as at the end of the current levy period (30 November 2024);
    b. set a maximum cap for each fee at 5 percent above the calculated levy rate (incorporating the effects of returning/recovering a surplus/deficit); and
    c. set proposed levy rates calculated using traveller forecasts produced by the Border Executive Board (BEB);
3. For levies under the Biosecurity Act 1993, due to uncertainty over costs for the next levy period, to:
    a. not return the projected surplus in the memorandum account;
    b. retain the current 5 percent cap over the existing levy rate (no change to the cap currently in place); and
    c. reset the levy rates for the next period at the same rate as is currently set (no change in levy rates).

Table 1 shows the results of the proposals outlined on the previous page.

Table 1 Levy rates and caps: Current and proposed[1]

Consultation document reference	Description	Current rates	Proposed new rates[2]	Current cap	Proposed new cap[2]
Customs' Border Processing Levy Charges					
Levy Rate One	All arriving air and sea travellers (non-cruise)	$16.59	▼ $14.17 (decrease)	$17.42	▼ $14.87 (decrease)
Levy Rate Two	Arriving cruise ship travellers	$11.48	▲ $21.54 (increase)	$16.44	▲ $22.61 (increase)
Levy Rate Three	All departing air and sea travellers (non-cruise)	$4.52	▼ $3.45 (decrease)	$4.75	▼ $3.62 (decrease)
Levy Rate Four	Departing cruise ship travellers	$4.55	▼ $2.31 (decrease)	$5.97	▼ $2.42 (decrease)
MPI's Border Processing Levy Charges					
Levy Rate Five	All arriving air and sea travellers (non-cruise)	$16.92	$16.92 [unchanged]	$17.77	$17.77 [unchanged]
Levy Rate Six	Arriving cruise ship travellers	$10.58	$10.58 [unchanged]	$11.11	$11.11 [unchanged]

Forecast traveller numbers will change before levies are set

The levy rates and caps in Table 1 are calculated using the BEB forecasts as at December 2023. New BEB forecasts are due as at 1 July 2024. These new forecasts may materially change the expected revenues over the next levy period.

As a result, the Chief Executive of Customs and Director-General of MPI will have different information when making decisions about the actual levies to be set. For example, if the new forecasts suggest traveller numbers will be lower than expected (which seems likely), the resulting levy rates could be materially higher than those indicated in this document. If this occurs, we will target further consultation to those directly affected before recommending to Ministers those levies be set.

1 All levy rates and caps in this document are exclusive of Goods and Services Tax
2 How the proposed levy rates and caps are calculated is outlined in Section 6. This means there may be minor rounding differences if you use a figure from one of the tables to calculate another (for example, increase a levy rate by five percent to calculate a cap). This is because the calculations are based on the underlying, non-rounded values, whereas the numbers in the tables have usually been rounded.

SECTION 2

Have your say

Customs and MPI value your feedback

Your feedback will enable us to understand your views and the possible impacts of the options.

Questions appear throughout this consultation document and are also listed in **Appendix 1**. In addition to the questions, we are interested in your thoughts on the overall border processing levy approach.

When making your submission, please include:

- the title of this consultation: ***Recovering the costs 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; and
- the questions you are responding to and your responses.

The deadline for submissions is **9.00 am on 9 August 2024. You can provide your submission:**

By email to: consultingonfeesandlevies@customs.govt.nz

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

Your submission could be made public

An analysis of any submissions made will be prepared and provided as advice to Ministers after the consultation period finishes. Potentially, this may include information identifying the submitter.

Your submission will be official information and people can request a copy under the Official Information Act 1982 (OIA). The OIA specifies that information is to be made available to those who request it unless there is a good reason for withholding it.

Additionally, Cabinet papers and cost recovery impact statements are typically proactively released. These documents generally contain summary information about submissions, including who submitted and what the submissions said. Sometimes a fuller "Summary of submissions" document will be published.

You may wish to suggest reasons for withholding specific information in your submission, such as if information is commercially sensitive or if personal information should be withheld. We will consider these requests in accordance with the provisions of the OIA and will contact you if needed. Customs and MPI decisions, including withholding of information, are reviewable by the Ombudsman.

SECTION 3

Resetting the levy review date to 1 July after delays in 2021

Good cost recovery process requires a review of levies at a minimum of once every three years. The last reset was delayed from its normal review timing of 1 July 2021 by five months, due to the response to COVID-19.

Having changes to caps and levy rates happen in December is not ideal. It is at the beginning of the busy summer season. Given the consultation will be happening in the middle of the year, it does not give industry much notice as to what the levy rates will be for the upcoming season.

We considered three options regarding the review date for the end of the next levy period:

1. Reduce the next levy period from three years to two years and seven months (next reset would be due on 1 July 2027);
2. Set the next levy period for three years (next reset would be due on 1 December 2027); and
3. Set the next levy period for three years and seven months (next review would be due on 1 July 2028).

We propose the first option to change the date that the levy periods commence from 1 December to 1 July. To do that, we propose that the next levy period only be two years and seven months, finishing on 30 June 2027.

This is our preferred option, though industry participants have indicated a preference for setting levy rates for three years to provide certainty of levy rates for the longest period. There are two main advantages to resetting the levy period to start on 1 July:

- industry participants get notice earlier in the year of the proposed changes (consultation usually takes place around March/April in each review year); and
- any work to implement changes in levy rates is happening in the off season (late autumn/winter) rather than in the busier summer travel season.

We considered but do not propose the third option. A three-year, seven-month levy period is longer than the expected timeframe for good cost recovery practice (three years), and predicting costs and traveller volumes into the future gets more uncertain as the timeframe lengthens.

All the analysis and calculations in this document are based on the next levy period finishing on 30 June 2027.

QUESTION 1

Do you agree that the next levy period should finish on 30 June 2027? If you prefer one of the other options for the end of the next levy period, please explain which option and why.

SECTION 4

Caps on levy rates

Caps are usually set at five percent above levy rate

Each levy order[3] specifies amounts that levy rates must not exceed (caps) but does not set the actual levy rates. Caps enable the Chief Executive of Customs and the Director-General of MPI, in certain circumstances, flexibility to increase levy rates up to the caps without requiring amendments to the levy orders. Customs and MPI would consult representative groups of stakeholders before adjusting both the levy rates or the caps.

One of the proposed Customs' levy rates (Levy Two – arriving cruise ship travellers) will be higher than the rate currently set in the Order-in-Council. Accordingly, the cap in the Order-in-Council must be adjusted upwards. We propose to adjust all four caps for the Customs' levies to be five percent above the proposed levy rates for the next levy period. Five percent above the levy rate is the proportion used to set the current cap.

Table 2 outlines the proposed caps for the four Customs levy rates (highlighted) but includes potential caps should a higher cap rate be considered appropriate (7.5 percent or 10 percent). The rationale for the proposed cap for each proposed levy rate is outlined in Section 6.

Table 2: Current and proposed caps for Customs' levies

Levy	Customs	Current cap	Proposed levy rate	5% cap	7.5% cap	10% cap
One	All arriving air and sea travellers (non-cruise)	$17.42	$14.17	$14.87	$15.23	$15.58
Two	Arriving cruise ship travellers	$16.44	$21.54	$22.61	$23.15	$23.69
Three	All departing air and sea travellers (non-cruise)	$4.75	$3.45	$3.62	$3.71	$3.80
Four	Departing cruise ship travellers	$5.97	$2.31	$2.42	$2.48	$2.54

MPI proposes to retain the current caps into the next levy period, as the proposed levy rates aren't changing (ie, they will remain at five percent above the proposed levy rate for the next levy period). The proposed MPI caps for levy five and levy six are outlined in Table 1.

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

Should caps be set higher for the next levy period?

We propose to keep caps at five percent

While we considered options for setting a higher cap than five percent above the levy rate, we do not propose to do this. Under the current cost recovery methodology in place since 2016, there has never been an adjustment during a levy period. So, it is unlikely an adjustment will be required during the next levy period. Where no adjustment occurs, the caps do not come into play, so the level of the caps is irrelevant.

Is it likely a levy rate adjustment will be needed?

There could be some reasons why the next levy period differs from the current or previous levy periods so a potential levy rate adjustment might be required. Economic conditions in the countries that comprise or facilitate most travellers to New Zealand are mixed and there are indications traveller volumes may be lower than predicted (particularly for the cruise industry) over the next levy period. If those conditions are sufficiently compelling, there could be an argument for setting the proposed caps at a higher rate than five percent.

Our general assessment is that it is unlikely any adjustment during the levy period will be required for Customs' levies so there is no need to set a cap higher than five percent.

Given the cruise industry's situation, does Levy Two require particular consideration?

Levy two could potentially need an adjustment during the next levy period if the number of cruise ship arrivals are significantly lower than expected. With its memorandum account forecast to start with a small deficit, the proposed cap for levy two (arriving cruise ship travellers) could be a limiting factor. If the cap was set at a higher rate (for example, 10 percent) it would allow for additional flexibility.

But doing that now is not really required, as if there is sufficient variation to require a levy rate adjustment during the next levy period, it would likely require an adjustment of the cap anyway (see analysis of Levy Two in Section 6).

QUESTION 2

Do you agree the caps for the next levy period should be set at five percent above the proposed levy rates? If you think another cap should apply (for one or more of the levy rates), please explain what that cap should be and why.

SECTION 5

How levy rates and caps are set

Formula for setting levy rates

Each levy order sets out the method for setting levy rates. See the two diagrams below for the formula used to calculate each levy rate.[4]

Where there is a deficit (D) in the memorandum account

A	Estimated border processing costs for the levy period	+	D	Any deficits in previous two levy periods	

divided by

B	Number of leviable travellers predicted to travel during the levy period

Where there is a surplus (S) in the memorandum account

A	Estimated border processing costs for the levy period	+	S	Any surpluses in previous two levy periods

divided by

B	Number of leviable travellers predicted to travel during the levy period

The following sections provides the data used to calculate the proposed levy rates using the approach outlined in the diagrams. The estimated border processing costs (or A in the diagrams) are outlined separately for Customs and MPI below. Then the traveller numbers (or B in the diagrams) are discussed.

The proposed levy rates and caps calculated using these figures are outlined in Section 6 for the four Customs levies and Section 7 for the two biosecurity levies. The proposed caps are calculated at a set percentage above the proposed levy rate.

4 Though each formula is specified separately in the Levy Orders, these diagrams show each levy calculation takes a broadly similar approach.

Customs' border processing costs over the next levy period ('A' in the diagrams)

Higher costs arise from specific new recoverable activities

The estimated costs for Customs to process arriving air and sea travellers are outlined for each financial year of the next levy period in Table 3. As well as the general pressure on prices and costs in the New Zealand economy, there are two significant new cost elements that have been reflected in the costs for all of Customs' activities over the next levy period:

- from beginning of the next levy period, a significant portion of the New Zealand Traveller Declaration (NZTD) operating costs of $26.5 million each year; and
- from 1 July 2025, a portion of the costs of Customs new maritime capability of $5.2 million each year.

A detailed break down of the activities that make up each of these new cost elements, and the portions of those costs applied to each of the Customs levies, is included in Section 9, along with a general analysis of the elements also driving up costs across the board.

Customs' estimated border processing costs

Customs' cost estimates for each proposed levy

Table 3 sets out Customs' estimated border processing costs forecast through to the end of the next levy period.

Table 3: Customs' border processing costs through to 2026/27

Levy	Levy name	2022/23 Actual ($millions)	2023/24 Forecast ($millions)	2024/25 Forecast ($millions)	2025/26 Forecast ($millions)	2026/27 Forecast ($millions)
One	All arriving air and sea travellers (non-cruise)	$61.170	$63.828	$98.242	$101.582	$104.831
Two	Arriving cruise ship travellers	$17.838	$20.939	$22.284	$23.042	$23.779
Three	All departing air and sea travellers (non-cruise)	$2.536	$3.848	$6.625	$6.851	$7.070
Four	Departing cruise ship travellers	$0.580	$0.815	$1.052	$1.088	$1.122
Total:		$82.124	$89.430	$128.204	$132.562	$136.803

What costs are recovered by the border processing levy?

Border processing levy revenue enables Customs to manage border risks while also streamlining travellers' interaction with the border. Levies fund a range of activities to process and clear craft, travellers and their baggage, including:

- assessing risks before travellers arrive at the border;
- advising travellers and engaging with industry before travellers arrive at the border;
- processing travellers at the border, including ensuring they comply with all necessary requirements; and
- actioning non-compliance when detected, including investigations of illegal activity.

Costs generally reflect the number of travellers, so the larger the number of travellers covered by the levy, the higher the recoverable costs under that levy.

Customs has also improved its understanding of the costs of its activities further by refining its activity-based costing methodology. This methodology involves assigning Customs' resource costs to either:

- operational activities directly related to Customs' services;
- corporate services such as finance; and/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. Appendix 3 has more information about Customs' methodology.

Customs has been improving its management of border processing services

Customs has continued to improve its border processing services. These improvements contribute to Customs' ability to protect New Zealand from risks and threats and its efficiency in processing legitimate travellers.

The key changes since levies were last reviewed in 2021 include:

- adjusting our staffing and processing to respond as New Zealand returned to fully open borders following the restrictions during COVID-19;
- expanding the use of eGates to more countries and for use by younger travellers;
- implementing the New Zealand Traveller Declaration for arrivals (see Section 9 for details of the effect on Customs' costs); and
- expanding Customs' maritime capability to target and manage risks at the sea border (see Section 9 for details of the effect on Customs' costs).

QUESTION 3

Do you have any comments to make on Customs' border processing cost estimates?

MPI's border processing costs over the next levy period ('A' in the diagrams)

MPI's cost estimates

MPI has forecast an increase in costs to replace assets, such as x-ray machines and other technologies, which are coming to the end of their life cycles. New initiatives to drive efficiencies are also being planned to improve technology and processes at the border. MPI estimates that these increased costs will reduce the surplus in the memorandum account to zero by the end of the next levy period (30 June 2027). This forecast is only indicative and MPI is committing to do a thorough internal review of its costs and assets at the border to develop more accurate costings. If the review finds the forecast costs to be lower, the rates could be reduced by the Director-General of MPI.[5]

Table 4: MPI financial forecasts

	2022/23 Actual ($millions)	2023/24 Forecast ($millions)	2024/25 Forecast ($millions)	2025/26 Forecast ($millions)	2026/27 Forecast ($millions)
	($40.646)	($18.882)	$15.577	$12.746	$5.497
Revenue	$83.738	$107.910	$114.269	$116.401	$117.619
Expenditure	$61.974	$73.451	$117.100	$123.650	$123.116
Surplus/(deficit)	$21.764	$34.460	($2.805)	($7.249)	($5.524)
Closing balance	($18.881)	$15.577	$12.746	$5.497	$0.000

Within these costs, approximately three percent are attributable to cruise passengers and 97 percent to non-cruise passengers.

Make up of MPI's border processing costs

Purpose the levy revenue is used for

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 and property, and support services like intelligence analysis. Appendix 2 provides further detail on activities funded by MPI's border processing levies.

Increased biosecurity risk assessment and interventions at the border

TMPI responded to Foot and Mouth outbreak in Indonesia by enhancing measures at the border. Foot and Mouth is one of the highest threat animal diseases that would have severe impacts on our animal industries and economy, with a rapid cease in trade in animal products and significant management measures being required. High-risk travellers were identified for additional screening through advanced passenger information.

5 The current provisions allow the Director-General of MPI to adjust the rate via a Gazette notice.

Enhanced measures included the use of disinfectant foot mats and communications to passengers offshore, in-flight and on arrival in New Zealand. Additional risk assessment and screening was also put in place in the mail and cargo pathways for goods coming into New Zealand from Indonesia.

Technological improvements

MPI has increased technological intervention options at the border, such as the implementation of the New Zealand Traveller Declaration. The digital arrival declaration enables advanced and faster passenger risk assessments, meaning easier passage for low-risk passengers and increased use of the express lanes.

The current fleet of x-ray machines are nearing the end of their useful lives within the next two to three years, requiring replacements.

Changing biosecurity risks

The biosecurity risk to New Zealand is expected to continue to become more complex and wide-ranging. Such exacerbators include increased travel confidence from global travellers, new flights from China and the wider Asia-Pacific region and the impacts from climate change. These factors will likely lead to diversification in the range of pest and disease species New Zealand is exposed to, albeit ones that may be anticipated and planned.

Changes to New Zealand's climate are highly likely to add to the number of species the biosecurity system needs to mitigate and manage, as tropical and sub-tropical species become viable in warmer parts of the country. Additionally, there is growing acknowledgement of the Government's commitments under Te Tiriti o Waitangi (Treaty of Waitangi) to protecting taonga threatened by biosecurity incursions that put cultural values at risk. Emerging production technologies will likely lead to new host–pest associations and to the discovery and creation of new organisms to manage, including genetically modified organisms.

QUESTION 4

Do you have any comments to make on MPI's border processing cost estimates?

Forecast numbers of leviable travellers ('B' in the diagrams)

Border processing levies were last set in 2021 during a period of economic and travel uncertainty. Since then, travel has rebounded much faster than expected. In 2021, Customs and MPI[6] were forecasting around 0.12 million cruise passenger arrivals and 2.4 million non-cruise passenger arrivals in 2022/23. The actual number of cruise passenger arrivals was 59 percent higher at 0.19 million and the actual number of non-cruise passenger arrivals was 100 percent higher at 4.8 million.

Air passenger volumes at some airports are higher than pre-COVID-19 numbers and are continuing to increase. The increase in arriving travellers has led to a corresponding increase in levy revenue but has also increased Customs and biosecurity risks at the New Zealand border.

The forecast traveller numbers for the next levy period are sourced from forecasts produced by the Border Executive Board (BEB) as at December 2023. These forecasts are the best available information on traveller movements and are used by border agencies. Some arriving and departing people are exempt travellers that do not have to pay the levies (see Appendix 4 for more detail).

We acknowledge that airlines and cruise lines have indicated a range of different factors that could impact traveller numbers for the next levy period. We will use the new forecasts from BEB as at 1 July 2024 to set the levy rates for the next levy period to ensure as close a match between costs and revenue as possible.

6 The Border Executive Board or BEB was not providing forecasts of traveller numbers at this time.

We will monitor any changes in traveller numbers and revenue over the next levy period but the memorandum accounts exist to manage some variations in numbers. We try to only make adjustments to the levy rates once per levy cycle, to give industry certainty on the levy rates and to avoid imposing additional costs to adjust to any changes.

Table 5 shows the forecast leviable traveller numbers used in this consultation document through to the end of the next levy period (based on it finishing on 1 July 2027).

Table 5: Forecast number of leviable travellers until 30 June 2027

Levy	Levy name	2022/23 Actual (millions)	2023/24 Forecast (millions)	2024/25 Forecast (millions)	2025/26 Forecast (millions)	2026/27 Forecast (millions)
One and Five	All arriving air and sea travellers (non-cruise)	4.793	6.205	6.541	6.663	6.773
Three	All departing air and sea travellers (non-cruise)	4.690	6.205	6.541	6.663	6.726
Cruise travellers						
Two and Six	Arriving cruise ship travellers	0.191	0.284	0.282	0.288	0.285
Four	Departing cruise ship travellers	0.189	0.284	0.282	0.288	0.284

Customs and MPI use the same traveller estimates from the BEB to calculate the proposed levy rate options discussed below. These are the most accurate forecasts of traveller movements available. We use the medium estimate of the forecast figures, as a matter of course. However, the global economic situation is impacting international travel, so actual traveller numbers may be lower than the forecast figures.

The BEB traveller number forecasts are updated every six months. The next traveller estimates will be available in July 2024 (not in time to be included in this consultation document). Since the Chief Executive of Customs and the Director-General of MPI will have more up-to-date figures available when they set the rates in September 2024, this may mean the final levy rates and caps may be different to those in this consultation document but we don't expect these to substantially differ from the levy rates proposed.

If there will be significant variances from new forecasts of traveller numbers, either generally or in specific traveller categories, Customs and MPI will consult further with impacted stakeholders.

QUESTION 5

Do you think the forecasts used are reasonable and reliable over the levy period? If not, why not?

QUESTION 6

Do you see any things that might change the forecast traveller numbers (or a subset of them) over the levy period? If so, please describe what these might be and your assessment of the likely effects.

SECTION 6

Customs' proposed levy rates and proposed caps

Levy One: All arriving air and sea travellers (non-cruise)

Proposed levy rate

Customs' recommended option is to implement the proposed levy rate of $14.17 per traveller, returning the accumulated surplus in the memorandum account.

We considered options of whether to retain some or all of the surplus. Customs has no grounds for retaining the surplus. Customs is confident in the costs estimated for the next levy period.

PROPOSED LEVY RATE FOR ALL ARRIVING AIR AND SEA TRAVELLERS (NON-CRUISE)

$14.17 per traveller

The forecast is for traveller numbers to grow over the levy period. This indicates traveller numbers have returned to a more normal level in the post-COVID-19 environment. We expect little risk of a sudden drop in traveller numbers that would cause levy revenue to fall below the fixed costs of providing Customs' services (in the short term). If traveller numbers track according to forecasts, then the levy revenue, along with the accumulated surplus, will meet Customs' forecast costs for the next levy period.

QUESTION 7

What are your views on Customs' proposed levy rate for all arriving air and sea travellers (non-cruise)?

Proposed cap

Customs' recommended option is to set the proposed cap at **$14.87** per traveller, which should allow sufficient flexibility for the next levy period. The proposed cap is five percent above the proposed levy rate for the next period.

PROPOSED CAP FOR ALL ARRIVING AIR AND SEA TRAVELLERS (NON-CRUISE)

$14.87 per traveller

Sensitivity analysis shows that leviable traveller numbers would have to decline by between 1.7 million and 1.9 million travellers (between 10 and 11 percent) before the proposed cap rate would not recover the costs over the next levy period. The forecast is for traveller numbers covered by this levy to grow over the levy period.

QUESTION 8

What are your views on the proposed cap for all arriving air and sea travellers (non-cruise)?

Levy One: Situation at the end of the current levy period[7]

Table 6 shows the forecast traveller numbers used when the levy was reset in 2021 and the actual traveller numbers each year over the current levy period. These are based on 1 July to 30 June years.

Table 6: Number of arriving air and sea travellers (non-cruise) – forecast versus actual

	2022/23 (millions)	2023/24 (millions)	2024/25 (millions)
Forecast traveller numbers at time of 2021 reset	1.837	3.176	6.020
Actual traveller numbers (from 2023 report)	0.719	4.793	6.205[8]
Difference from forecast	(1.118)	1.617	0.185

The current levy period began with many restrictions and limitations in response to COVID-19. As those restrictions were changed or removed, traveller numbers began to recover as airlines began reinstating services.

Table 7 shows the costs Customs incurred over the current levy period. These were significantly higher than predicted initially due to the ongoing effects of COVID-19. The restrictions in place required border processes to operate completely differently. As the current levy period progressed, COVID-19 restrictions were relaxed and costs normalised (in fact, they were slightly lower than predicted for the latter two years).

7 Figures for this section are available here: Border processing levies – New Zealand Customs Service. There is both a 2021 and 2023 report available.

8 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Table 7: Customs' costs to process arriving air and sea travellers (non-cruise) – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$50.866	$63.808	$65.084
Actual costs (from 2023 report)	$60.007	$61.170	$62.832[9]
Actual difference from forecast	$9.141	($2.638)	($2.252)

Table 8 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period.

Table 8: Customs memorandum account balances for arriving air and sea travellers (non-cruise)

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	-	($49.170)	($30.763)
Revenue	$10.838	$79.577	$103.087
Cost	($60.007)	($61.170)	($62.832)
Closing balance	($49.170)	($30.763)	$9.493

The current levy rate is generating significantly more revenue than the applicable costs, mainly due to growth in traveller numbers being higher than forecast. It is expected that by 1 July 2024, there will be a $9.493 million surplus (compared to a $30.763 million deficit at the end of the previous financial year).

It is predicted that the memorandum account will reach a surplus of $16.962 million by the end of the current levy period on 30 November 2024.

9 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Levy One: Analysis of options for the next levy period

Levy rate to return the forecast surplus in the memorandum account

The cost recovery framework has an objective of setting the levy whereby at the end of the levy period the balance in the memorandum account is as close to zero as possible (neither in surplus nor deficit).

We considered options of whether to retain some or all of the surplus in the memorandum account for unknown costs. Customs is sufficiently confident in the costs estimated for the next levy period so there is no need to retain any surplus.

There will be a forecast surplus in this memorandum account of $16.962 million by 1 December 2024. If this surplus is returned over the next levy period, the levy rate for the next levy period would be as follows:

CUSTOMS' ESTIMATED BORDER PROCESSING COSTS FOR THE LEVY PERIOD

$260.480m

SURPLUS IN THE MEMORANDUM ACCOUNT (SURPLUS IS NEGATIVE)

-$16.962m

NUMBER OF LEVIABLE TRAVELLERS PREDICTED TO TRAVEL DURING THE LEVY PERIOD

17,189,972

CUSTOMS' PROPOSED SURPLUS RETURNING RATE

$14.17 per traveller

Proposed cap in Order-in-Council to provide upper limit for levy rate

While the proposed cap is set at five percent above the proposed levy rate, if a higher cap was required the options are:

- at 5 percent above the proposed levy rate, which is equivalent to **$14.87 per traveller**;
  (current cap's proportion above current levy rate and recommended cap's proportion for the proposed levy rate)
- at 7.5 percent above the proposed levy rate which is equivalent to $15.23 per traveller; and
- at 10 percent above the proposed levy rate which is equivalent to $15.58 per traveller.

As noted in Section 4, we propose the option of a five percent cap be implemented for this levy rate. We see no reason for a higher cap being required given the degree of confidence we have in the predicted costs, and the expected growth in traveller numbers over the next levy period.

Levy Two: All arriving cruise ship travellers

Proposed levy rate

Customs' preferred option is to implement the proposed levy rate of **$21.54 per traveller**, collecting the accumulated small deficit in the memorandum account.

One option could be not recovering the deficit to limit the increase in the levy rate. As this deficit is fairly small, the impact would be limited.

PROPOSED LEVY RATE FOR ALL ARRIVING CRUISE SHIP TRAVELLERS

$21.54 per traveller

The proposed levy rate is an increase of $10.06 (88 percent) on the current rate of $11.48 per traveller. The proposed increase reflects the additional Customs' costs by increased cruise ship passengers since 2021. The current levy rate (set in 2021) did not reflect the full costs of the infrastructure, staff and support mechanisms needed to support normal cruise traveller processing. As a result, higher costs need to be recovered through the next levy period.

The number of cruise travellers is forecast to remain fairly flat over the next levy period. The cruise industry expects traveller numbers could be lower (potentially by as much as 20 percent) meaning the actual levy rate could be higher (see analysis later in this section for an assessment of the effect of reductions in traveller numbers on levy rates).

QUESTION 9

What are your views on the proposed levy rate for all arriving cruise ship travellers?

Proposed cap

PROPOSED CAP FOR ALL ARRIVING CRUISE SHIP TRAVELLERS

$22.61 per traveller

Customs' recommended option is to set the proposed cap at **$22.61 per traveller**, which should allow sufficient flexibility for the next levy period. The proposed cap is five percent above the proposed levy rate of $21.54 per traveller.

Sensitivity analysis shows that leviable traveller numbers would only have to decline by between 31,236 and 39,044 travellers (four and five percent) before the proposed cap rate would not recover the costs over the next levy period. That level of decrease represents a reduction of as few as eight cruise ship arrivals over the season.

QUESTION 10

What are your views on the proposed cap for all arriving cruise ship travellers?

Levy Two: Situation at the end of the current levy period[10]

Table 9 shows the forecast traveller numbers used when the levy was reset in 2021 and the actual traveller numbers each year over the current levy period. These are based on 1 July to 30 June years.

Table 9: Number of arriving cruise ship travellers – forecast versus actual

	2021/22 (millions)	2022/23 (millions)	2023/24 (millions)
Forecast traveller numbers at time of 2021 reset	0.000	0.060	0.178
Actual traveller numbers (from 2023 report)	0.000	0.191	0.284[11]
Difference from forecast	0.000	0.131	0.106

The current levy period began with significant restrictions on cruise ships due to COVID-19. It was only after those restrictions were removed that traveller numbers began to recover as the cruise industry began reinstating services.

Table 10 shows the costs Customs incurred over the current levy period. These were significantly higher than predicted initially due to the ongoing effects of managing COVID-19 and adjusting to operating with continuing border restrictions as the border reopened to cruise ships.

Table 10: Customs' costs to process arriving cruise ship travellers – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$0.026	$0.918	$2.241
Actual costs (from 2023 report)	$0.163	$2.536	$3.897[12]
Actual difference from forecast	$0.137	$1.618	$1.656

10 Figures for this section are available here: Border processing levies - New Zealand Customs Service. There is a 2021 and 2023 report available.
11 The final figure from the 2023 report (for 2023/24 year) is a forecast.
12 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Table 11 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period.

Table 11: Customs memorandum account balances for arriving cruise ship travellers

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	$1.236	$1.073	$0.732
Revenue	0	$2.196	$3.256
Cost	($0.163)	($2.536)	($3.897)
Closing balance	$1.073	$0.732	$0.092

The current levy rate is not recovering Customs' costs as the total costs have risen (for example, some NZTD costs will apply from 1 July 2024) and the traveller volumes have plateaued. Over the last three years, the small surplus in the memorandum account has been eroded. Though a small surplus is predicted in the account on 1 July 2024, it is predicted to go into deficit quickly after that. The deficit is forecast to be $359,000 by the end of the current levy period.

Levy Two: Analysis of options for the next levy period

Levy rate to return the forecast surplus in the memorandum account

The cost recovery framework has an objective of setting the levy whereby at the end of the levy period the balance in the memorandum account is as close to zero as possible (neither in surplus nor deficit).

We considered options of whether to retain some or all of the surplus in the memorandum account for unknown costs. Customs is sufficiently confident in the costs estimated for the next levy period so there is no need to account for additional costs.

There will be a forecast deficit in this memorandum account of $0.359 million by 1 December 2024. If this deficit is to be reduced over the next levy period, the levy rate for the next levy period would be set as on the following page.

CUSTOMS' ESTIMATED BORDER PROCESSING COSTS FOR THE LEVY PERIOD

$16.459m

SURPLUS IN THE MEMORANDUM ACCOUNT (SURPLUS IS NEGATIVE)

$0.359m

NUMBER OF LEVIABLE TRAVELLERS PREDICTED TO TRAVEL DURING THE LEVY PERIOD

780,887

CUSTOMS' PROPOSED DEFICIT RECOVERING RATE

$21.54 per traveller

Proposed cap in Order-in-Council to provide upper limit for levy rate

While the proposed cap is set at five percent above the proposed levy rate, if a higher cap level was required the options are:

- at 5 percent above the deficit reducing rate, which is equivalent to **$22.61 per traveller**; *(current cap's proportion above current levy rate and recommended proportion for next levy period)*
- at 7.5 percent above the deficit reducing rate which is equivalent to $23.15 per traveller; and
- at 10 percent above the deficit reducing rate which is equivalent to $23.69 per traveller.

As noted in Section 4, we propose the option of a five percent cap be implemented for this levy rate. However, it is likely setting a cap at that amount may be insufficient given potential changes in the forecast number of travellers (see next section for analysis).

Likely reduction in cruise ship travellers over the next levy period

Customs ongoing engagement with the cruise industry indicates cruise ship traveller numbers over the next levy period may be lower than currently forecast by BEB. The cruise industry has suggested the number of travellers could be as much as 20 percent fewer than forecast, starting in the 2024/25 season and potentially continuing across the entire next levy period.

As a result, the levy rate may need to be set higher than proposed in this document. The shift will be more noticeable than for the levy rate for all arriving air and sea travellers (non-cruise), as the costs are spread over a lower traveller base. In 2021, we estimated the impact that specific changes in the levy rate might have on the number of travellers (a demand elasticity estimate). We estimated a change in levy rates for cruise travellers of $9.90 (only slightly less than the change proposed) could potentially result in around 500 fewer travellers (0.2 percent of cruise travellers).

But other factors, such as the prevailing economic conditions, are likely to have significantly larger effects than any increase in the price that an increased levy may drive. Table 12 shows the impact that various levels of reduction in the number of cruise travellers would have on the potential levy rates required to recover the costs over the next levy period.

Table 12: Proposed levy rates and proposed caps for cruise ship travellers if the number of travellers is lower than the current forecast[13]

	Reduction	Proposed levy rate	Increase
Proposed levy rate from Table 1		$21.54	
If the number of cruise ship travellers reduced by:	▼ 5%	$22.67	▲ $1.13
	▼ 10%	$23.93	▲ $2.39
	▼ 15%	$25.34	▲ $3.80
	▼ 20%	$26.92	▲ $5.38
	▼ 25%	$28.72	▲ $7.18

BEB will update the traveller forecasts in July 2024. These new forecasts will be used when calculating the actual levy rates, which will mean the effect of any reduction in traveller numbers built into those forecasts is likely to be incorporated into the actual levy rate set for the next levy period.

Levy Three: All departing air and sea travellers (non-cruise)

Proposed levy rate

Customs' recommended option is to implement the proposed levy rate of **$3.45 per traveller**, returning the small, accumulated surplus in the memorandum account.

We considered options of whether to retain some or all of the surplus. Customs has no grounds for retaining the surplus. Customs is confident in the costs estimated for the next levy period.

PROPOSED LEVY RATE FOR ALL DEPARTING AIR AND SEA TRAVELLERS (NON-CRUISE)

$3.45 per traveller

The forecast is for traveller numbers to grow over the levy period. This indicates traveller numbers have returned to a more normal level in the post-COVID-19 environment. We see little risk of a sudden and unexpected drop in traveller numbers that would cause levy revenue to fall below the fixed (in the short term) costs of providing Customs services. If traveller numbers track according to forecasts, then levy revenue, along with the accumulated surplus, will meet Customs' forecast costs for the next levy period.

13 Calculated using the BEB forecasts as at December 2023.

QUESTION 11

What are your views on the proposed levy rate for all departing air travellers and sea travellers (non-cruise)?

Proposed cap

Customs' recommended option is to set the proposed cap at **$3.62 per traveller**, which should allow sufficient flexibility for the next levy period. The proposed cap is five percent above the proposed levy rate for the next period.

PROPOSED CAP FOR ALL DEPARTING AIR AND SEA TRAVELLERS (NON-CRUISE)

$3.62 per traveller

Sensitivity analysis shows leviable traveller numbers would have to decline by between 0.857 million and 1.028 million travellers (between five and six percent) before the proposed cap rate would not recover the costs over the next levy period. The current forecast is for traveller numbers to grow over the levy period. There are some indications that the number of travellers covered by this levy could be lower than expected when new forecasts become available.

QUESTION 12

What are your views on the proposed cap for all departing air travellers and sea travellers (non-cruise)?

Levy Three: Situation at the end of the current levy period[14]

Table 13 shows the forecast traveller numbers used when the levy was reset in 2021 and the actual traveller numbers each year over the current levy period (1 July to 30 June years).

Table 13: Number of departing air and sea travellers (non-cruise) – forecast versus actual

	2021/22 (millions)	2022/23 (millions)	2023/24 (millions)
Forecast traveller numbers at time of 2021 reset	1.846	3.205	6.000
Actual traveller numbers (from 2023 report)	0.782	4.690	6.205[15]
Difference from forecast	(1.064)	1.485	0.205

14 Figures for this section are available here: Border processing levies - New Zealand Customs Service. There is a 2021 and 2023 report available.

15 The final figure from the 2023 report (for 2023/24 year) is a forecast.

The current levy period began with many restrictions and limitations due to COVID-19. As those restrictions were changed or removed, traveller numbers began to recover as the airlines began reinstating services.

Table 14 shows the costs Customs incurred over the current levy period. They have been running higher than expected for the last two years of the current levy period.

Table 14: Costs to Customs of processing departing air and sea travellers (non-cruise) – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$17.360	$17.707	$18.062
Actual costs (from 2023 report)	$16.387	$17.838	$19.044[16]
Actual difference from forecast	($0.973)	$0.131	$0.982

Table 15 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period. Given that traveller numbers (both arrival and departure) recovered more rapidly than was forecast for the post-COVID-19 period, this memorandum account is moving rapidly from a significant deficit towards a surplus. The forecast in the 2023 Performance Report is that by the end of June 2024, there will be a $0.986 million deficit.

Table 15: Customs' memorandum account balances for departing air and sea travellers (non-cruise)

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	($0.211)	($13.324)	($9.986)
Revenue	$3.274	$21.176	$28.044
Cost	($16.387)	($17.838)	($19.044)
Closing balance	($13.324)	($9.986)	($0.986)

The current levy rate is generating significantly more revenue than the applicable costs, mainly due to growth in traveller numbers being higher than forecast. It is predicted that the memorandum account will reach $0.642 million by the end of the current levy period.

16 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Levy Three: Analysis of options for the next levy period

Levy rate to return the forecast surplus in the memorandum account

The cost recovery framework has an objective of setting the levy whereby at the end of the levy period the balance in the memorandum account is as close to zero as possible (neither in surplus nor deficit).

We considered options of whether to retain some or all of the surplus in the memorandum account for unknown costs. Customs is sufficiently confident in the costs estimated for the next levy period so there is no need to retain any surplus.

There will be a forecast surplus in this memorandum account of $0.642 million by 1 December 2024. If this surplus is returned over the next levy period, the levy rate for the next levy period would be as on the following page.

CUSTOMS' ESTIMATED BORDER PROCESSING COSTS FOR THE LEVY PERIOD

$59.82m

+

SURPLUS IN THE MEMORANDUM ACCOUNT (SURPLUS IS NEGATIVE)

-$0.642m

÷

NUMBER OF LEVIABLE TRAVELLERS PREDICTED TO TRAVEL DURING THE LEVY PERIOD

17,143,572

=

CUSTOMS' PROPOSED SURPLUS RETURNING RATE

$3.45 per traveller

Proposed cap in Order-in-Council to provide upper limit for levy rate

While the proposed cap is set at five percent above the proposed levy rate, if a higher cap level was required the options are set out below:

- at 5 percent above the proposed levy rate which is equivalent to **$3.62 per traveller**;
  (proportion above current levy rate and recommended proportion for next levy period)
- at 7.5 percent above the proposed levy rate which is equivalent to $3.71 per traveller; and
- at 10 percent above the proposed levy rate which is equivalent to $3.80 per traveller.

As noted in Section 4, we propose the option of a five percent cap for this levy rate. We see no reason for a higher cap given the degree of confidence we have in the predicted costs and the expected growth in traveller numbers over the next levy period.

Levy Four: Departing cruise ship travellers

Proposed levy rate

Customs' recommended option is to implement the proposed levy rate of **$2.31 per traveller**, returning the accumulated surplus in the memorandum account.

We considered options of whether to retain some or all of the surplus. Customs has no grounds for retaining the surplus. Customs is confident in the costs estimated for the next levy period.

PROPOSED LEVY RATE FOR ALL DEPARTING CRUISE SHIP TRAVELLERS

$2.31 per traveller

This is a substantial decrease on the current rate of $4.55 per traveller. This will partly offset the substantial increase in the rates for arriving cruise ship passengers (see discussion under Levy Two above).

The forecast is for cruise traveller numbers to remain flat over the next levy period. The cruise industry is indicating the changes in scheduling of cruises and their itineraries may mean actual traveller numbers drop, so the actual levy rate could be set higher than proposed.

QUESTION 13

What are your views on the proposed levy rate for all departing cruise ship travellers?

Proposed cap

PROPOSED LEVY RATE FOR ALL DEPARTING CRUISE SHIP TRAVELLERS

$2.42 per traveller

Customs' recommended option is to set the proposed cap at **$2.42 per traveller**, which should allow sufficient flexibility for the next levy period. The proposed cap is five percent above the proposed levy rate for the next levy period.

Sensitivity analysis shows that leviable traveller numbers would have to decline between 0.288 million and 0.296 million travellers (between 37 and 38 percent) before the proposed cap rate would not recover the costs over the next levy period.

QUESTION 14

What are your views on the proposed cap for all departing cruise ship travellers?

Levy Four: Situation at the end of the current levy period[17]

Table 16 shows the forecast traveller numbers used when the levy was reset in 2021, and the actual traveller numbers each year over the current levy period. These are based on 1 July to 30 June years.

Table 16: Number of departing cruise ship travellers – forecast versus actual

	2021/22 (millions)	2022/23 (millions)	2023/24 (millions)
Forecast traveller numbers at time of 2021 reset	0.000	0.060	0.177
Actual traveller numbers (from 2023 report)	0.000	0.189	0.284[18]
Difference from forecast	0.000	0.129	0.107

The current levy period began with significant restrictions on cruise ships due to COVID-19. It was only after those restrictions were removed that traveller numbers began to recover as the cruise industry began reinstating services.

Table 17 shows the costs Customs incurred over the current levy period. These were significantly higher than predicted initially due to the ongoing effects of managing COVID-19 and adjusting to operating with continuing border restrictions as the border reopened to cruise ships.

Table 17: Customs' costs to process departing cruise ship travellers – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$0.010	$0.333	$0.812
Actual costs (from 2023 report)	$0.111	$0.580	$0.878[19]
Actual difference from forecast	$0.101	$0.247	$0.066

17 Figures for this section are available here: Border processing levies - New Zealand Customs Service. There is a 2021 and 2023 report available.
18 The final figure from the 2023 report (for 2023/24 year) is a forecast.
19 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Table 18 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period.

Table 18: Customs' memorandum account balances for departing cruise ship travellers

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	$0.336	$0.225	$0.505
Revenue	$0.000	$0.860	$1.291
Cost	($0.111)	($0.580)	($0.878)
Closing balance	$0.225	$0.505	$0.918

The current levy is recovering more than the costs but not by a significant amount. Over the current levy period, a small surplus in the memorandum account has accrued. The memorandum account is forecast to be $0.955 million in surplus by the end of the current levy period.

Levy Four: Analysis of options for the next levy period

Levy rate to return the forecast surplus in the memorandum account

The cost recovery framework has an objective of setting the levy whereby at the end of the levy period the balance in the memorandum account is as close to zero as possible (neither in surplus nor deficit).

We considered options of whether to retain some or all of the surplus in the memorandum account for unknown costs. Customs is sufficiently confident in the costs estimated for the next levy period so there is no need to retain any surplus.

CUSTOMS' ESTIMATED BORDER PROCESSING COSTS FOR THE LEVY PERIOD

$2.754m

+

SURPLUS IN THE MEMORANDUM ACCOUNT (SURPLUS IS NEGATIVE)

-$0.955m

÷

NUMBER OF LEVIABLE TRAVELLERS PREDICTED TO TRAVEL DURING THE LEVY PERIOD

780,438

=

CUSTOMS' PROPOSED SURPLUS RETURNING RATE

$2.31 per traveller

Proposed cap in Order-in-Council to provide upper limit for levy rate

While the proposed cap is set at five percent above the proposed levy rate, if a higher cap level was required the options are set out below:

- at 5 percent above the proposed levy rate which is equivalent to **$2.42 per traveller**; *(proportion above current levy rate and recommended proportion for next levy period)*
- at 7.5 percent above the proposed levy rate which is equivalent to $2.48 per traveller; and
- at 10 percent above the proposed levy rate which is equivalent to $2.54 per traveller.

As noted in Section 4, we propose the option of a five percent cap be implemented for this levy rate. The forecast is for cruise traveller numbers to be flat during the next levy period but there are indications traveller numbers could be significantly lower than forecast. However, unlike the memorandum account for arriving cruise ship travellers, this memorandum account will have a surplus of $0.955 million on 1 December 2024. Even if traveller numbers run lower than expected, this gives a cushion recovering the costs over the next levy period.

SECTION 7

Biosecurity levies

The two biosecurity levies are analysed together. The supporting analysis in the following sections applies to both proposed levy rates and caps.

Levy Five: All arriving air and sea travellers (non-cruise)

Proposed levy rate

MPI's recommended option is to reset the levy rate at the current rate of **$16.92 per traveller** for the next levy period. The current surplus would be retained and used to offset future costs.

PROPOSED LEVY RATE FOR ALL ARRIVING SEA TRAVELLERS (NON-CRUISE)

$16.92 per traveller

The forecast is for traveller numbers to grow over the levy period. This indicates travel has returned to a more normal level in the post-COVID-19 environment. We expect little risk of a sudden drop in traveller numbers that would cause levy revenue to fall below the fixed costs (in the short term).

QUESTION 15

What are your views on MPI retaining the current levy rate for all arriving air and sea travellers (non-cruise) for the next levy period?

Proposed cap

MPI's recommended option is to retain the current cap of **$17.77 per traveller** for the next levy period. This is already set at five percent above the current levy rate.

PROPOSED LEVY RATE FOR ALL ARRIVING SEA TRAVELLERS (NON-CRUISE)

$17.77 per traveller

As the proposed levy rates are not changing, MPI does not propose to change the current cap in the Order-in-Council, which are set at five percent above the current levy rates. This is consistent with the approach outlined in Section 4.

QUESTION 16

What are your views on MPI retaining the current cap for all arriving air and sea travellers (non-cruise) for the next levy period?

Levy Six: All arriving cruise ship travellers

Proposed levy rate

MPI's recommended option is to reset the levy rate at the current rate of **$10.58 per traveller** for the next levy period.

PROPOSED LEVY RATE FOR ALL ARRIVING CRUISE SHIP TRAVELLERS

$10.58 per traveller

The forecast is for traveller numbers to remain flat over the levy period. There are also indications that the number of traveller numbers may fall. We expect little risk of a sudden drop in traveller numbers would cause levy revenue to fall below the fixed costs (in the short term).

QUESTION 17

What are your views on MPI retaining the current levy rate for all arriving cruise ship travellers for the next levy period?

Proposed cap

MPI's recommended option is to retain the current cap (**$11.11 per traveller**) for the next levy period. This is already set at five percent above the current levy rate.

PROPOSED CAP FOR ALL ARRIVING CRUISE SHIP TRAVELLERS

$11.11 per traveller

As the proposed levy rates are not changing, MPI does not propose to change the current cap in the Order-in-Council, which are set at five percent above the current levy rates. This is consistent with the approach outlined in Section 4.

QUESTION 18

What are your views on MPI retaining the current cap for all arriving cruise ship travellers for the next levy period?

Levy Five: Situation at the end of the current levy period[20]

Table 19 shows the forecast traveller numbers used when the levy was reset in 2021 and the actual traveller numbers each year over the current levy period. These are based on 1 July to 30 June years.

Table 19: Number of arriving air and sea travellers (non-cruise) – forecast versus actual

	2021/22 (millions)	2022/23 (millions)	2023/24 (millions)
Forecast traveller numbers at time of 2021 reset	$1.837	$3.176	$6.020
Actual traveller numbers (from 2023 report)	$0.719	$4.793	$6.205[21]
Difference from forecast	($1.118)	$1.617	$0.185

The current levy period began with many restrictions and limitations due to COVID-19. As those restrictions were changed or removed, traveller numbers began to recover as the airlines began reinstating services.

Table 20 shows the costs MPI incurred over the current levy period. These were significantly lower than predicted initially reflecting that significant effort (and associated cost) shifted into the cargo pathway.

Table 20: Costs to MPI of processing arriving air and sea travellers (non-cruise) – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$65.860	$66.640	$68.010
Actual costs (from 2023 report)	$51.813	$59.467	$60.680[22]
Actual difference from forecast	($14.047)	($7.173)	($7.330)

20 Figures for this section are available here: Border processing levies - New Zealand Customs Service. There is a 2021 and 2023 report available.
21 The final figure from the 2023 report (for 2023/24 year) is a forecast.
22 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Table 21 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period.

Table 21: MPI memorandum account balances for arriving air and sea travellers (non-cruise)

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	-		
Revenue	$11.167	$81.232	$104.237
Cost	($51.813)	($59.467)	($69.777)
Closing balance	($40.646)	($18.881)	$15.579

Levy Six: Situation at the end of the current levy period[23]

Table 22 shows the forecast traveller numbers used when the levy was reset in 2021 and the actual traveller numbers each year over the current levy period. These are based on 1 July to 30 June years.

Table 22: Number of arriving cruise ship travellers – forecast versus actual

	2021/22 (millions)	2022/23 (millions)	2023/24 (millions)
Forecast traveller numbers at time of 2021 reset	0.000	0.060	0.178
Actual traveller numbers (from 2023 report)	0.000	0.191	0.284[24]
Difference from forecast	0.000	0.131	0.106

The current levy period began with significant restrictions on cruise ships due to COVID-19. It was only after those restrictions were removed that traveller numbers began to recover, as the cruise industry began reinstating services.

23 Figures for this section are available here: Border processing levies - New Zealand Customs Service. There is a 2021 and 2023 report available.
24 The final figure from the 2023 report (for 2023/24 year) is a forecast.

Table 23 shows the costs MPI incurred over the current levy period. These were significantly higher than predicted initially due to the ongoing effects of managing COVID-19 and adjusting to operating with continuing border restrictions as the border reopened to cruise ships with increasing numbers of cruise visitors.

Table 23: Costs to MPI of processing arriving cruise ship travellers – predicted versus actual

	2021/22 ($millions)	2022/23 ($millions)	2023/24 ($millions)
Forecast costs at time of 2021 reset	$0.000	$1.280	$1.300
Actual costs (from 2023 report)	$0.000	$1.915	$3.007[25]
Actual difference from forecast	$0.000	$0.635	$1.707

Table 24 shows the effect of those costs and traveller volumes on the memorandum account during the current levy period.

Table 24: MPI memorandum account balances for arriving cruise ship travellers[26]

	2021/22 Actual ($millions)	2022/23 Actual ($millions)	2023/24 Estimated ($millions)
Opening balance	-	-	-
Revenue	$0.000	$1.915	$3.010
Cost	$0.000	($1.915)	($3.010)
Closing balance	-	-	-

Levy Five and Levy Six: Analysis of options for the next levy period

MPI has forecast an increase in costs to replace assets such as x-ray machines and other technologies that are coming to the end of their life cycle, as well as new initiatives to drive efficiencies through improved technology and processes at the border. MPI estimates that with these increased costs, the memorandum account will be zero by the end of the levy period on 30 June 2027, as outlined in Table 4. This forecast is only indicative and MPI is committing to do a thorough internal review of its costs and assets at the border to develop more accurate costings. If the review finds the forecast costs to be lower, the rates could be reduced by the Director-General of MPI[27].

25 The final figure from the 2023 report (for 2023/24 year) is a forecast.
26 MPI attributes a dollar of revenue to every dollar of cost for arriving cruise ship passengers.
27 The current provisions allow the Director-General of MPI to adjust the rate via a Gazette notice.

SECTION 8

Additional proposals or information

Carrying levy rates forward at end of current levy period

Customs and MPI propose to make a change to the empowering Order-in-Council to ensure continuity of existing rates even where no new levy Order or Notice is published before the end of the current levy period. Along with this requirement, would be an automatic creation of a new levy period, proposed for the usual timeframe (36 months).

The change in the Orders would enable any published levy rates to continue as is (ie, at the same rates) when the current levy period expires (after the 36-month timeframe finishes). This avoids the situation when they could instead fall to zero, which requires adjustments, causes disruption and extra costs.

Though having existing rates continue is not ideal (the rates and, if necessary, caps should be reviewed), allowing the rates in force to continue avoids any short-term variation up and down in the levy rates if the review cannot be completed in time. The review of rates can then be completed subsequently and only one change would be required.

Customs and MPI would still consult with relevant parties if there was a view that we could leave the existing rates in force for at least some part of the next levy period using this mechanism.

QUESTION 19

Do you consider the levy rates should automatically carry forward at the current rates into the next levy period where no new levy rates are set? If not, why not?

New international airports may affect costs for both Customs and MPI in the next levy period

One potential issue that may occur in the next levy period is the possible expansion of international airports from the four currently operating. Although no formal proposals have been submitted, we are aware that some regional airports are considering commencing or resuming scheduled international flights. Doing so would require a number of Crown agencies, including Customs and MPI, to provide services at these airports.

The border processing levy rates in this consultation document do not include any potential costs for servicing one or more new international airports. However, if airports do commence scheduled international flights, this could have an impact on costs recoverable under the border processing levies and thus an influence on the border processing levies levy rates.

The Airports (Cost Recovery for Processing of International Travellers) Act 2014 sets out the processes that apply to the cost recovery of new international airports. Customs and MPI would need to follow the processes in that Act, including consulting with relevant parties, before any adjustments to the border processing levies were made.

QUESTION 20

Do you think the proposed levy rates will have any impact on traveller numbers? If so, what impact?

QUESTION 21

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 9

Customs' significant new costs

There are three significant new or increased cost elements that have been reflected in the costs for all of Customs' activities over the next levy period.

New Zealand Traveller Declaration (NZTD)

Applies: Entire next levy period (1 December 2024 to 1 July 2027)

Total annual cost applicable to BPL: $26.5 million each year (Customs portion)

The NZTD is a joint border agency initiative that provides a digital system that enables travellers to comply with New Zealand entry requirements more efficiently, while increasing the effectiveness of operations at the border. Customs, Biosecurity New Zealand, Immigration New Zealand and the Ministry of Health (including Health New Zealand) have worked collaboratively on the development of this system.

The NZTD has been created to build a safer, smarter and more agile border system. This improves the ability of border agencies to respond to new and emerging risks and supports efficient border processing. The NZTD is used by travellers arriving by both air and sea.

The bulk of the cost of operating the NZTD is recovered through the Customs levies, as Customs manages the system and the supporting processes (such as the call centre). Table 25 shows the portion of the cost allocated to Customs ($26.5 million) to the two Customs' arrival levies, based mainly on the total number of travellers in each category, slightly adjusted for risk. None of these costs are allocated to the departure levies.

Table 25: Allocation of NZTD costs to Customs' Levies

Levy number	Description	Amount allocated to levy cost ($ million)	Percentage (%)
Levy One	All arriving air and sea travellers (non-cruise)	$25.44	96.01%
Levy Three	Arriving cruise ship travellers	$1.06	3.99%
Total		$26.50	100.00%

Maritime Supply Chain Security

Applies: Part of next levy period (1 July 2025 to 1 July 2027)

Total annual cost applicable to BPL: $5.2 million each year (out of $15 million total cost)

Though it started as a requirement for the COVID-19 response, Customs has turned that enhanced capacity into an ongoing maritime presence and enhanced risk management process for maritime arrivals. These new costs cover:

- planning for, and arrival of, all maritime craft;
- risk assessment and management of vessels arriving and moving around New Zealand; and
- the on-water and on-port responses to those risks.

As it is focused on both passenger and goods risk management, the border processing levies only recovers part of this cost ($5.2 million). The $5.2 million cost is allocated to three of the Customs' levies based on the processing costs and relative risk levels of each vessel type, as outlined in Table 26. The maritime non-cruise departure costs are very small, so instead of adding them to Levy Three, they are collected by Levy One.

Table 26: Allocation of Maritime Supply Chain Security costs to Customs' levies

Levy number	Description	Amount allocated to levy cost ($ million)	Percentage (%)
Levy One	All arriving air and sea travellers (non-cruise)[28]	$3.48	66.83%
Levy Two	Arriving cruise ship travellers	$1.64	31.54%
Levy Four	Departing cruise ship travellers	$0.09	1.63%
Total		$5.20	100.00%

Price and wage pressures

Aside from the above new activities, there are some additional cost pressures across the New Zealand economy. Though non-personnel costs are broadly increasing in line with the Consumer Price Index (CPI), there are:

- known future cost increases relating to new accommodation leases that have been agreed and are already in place; and
- agreed employment contract wage rises and adjustments occurring during the next levy period.

Excluding the two new cost elements described earlier in this section, overall operational costs are forecast to increase by 10.45 percent over the next levy period. This is higher than the forecast 6.60 percent increase in the CPI over the next levy period.

28 These costs are allocated to travellers arriving on non-cruise maritime vessels only (not to those arriving on aircraft).

APPENDIX 1

List of questions

Question regarding the resetting of the start date of the levy period to 1 July:

Question 1 Do you agree that the next levy period should finish on 30 June 2027? If you prefer one of the other options for the end of the next levy period, please explain which option and why.

Question regarding setting caps to five percent:

Question 2 Do you agree the caps for the next levy period should be set at five percent above the proposed levy rates? If you think another cap should apply (for one or more of the levy rates), please explain what that cap should be and why.

Question regarding Customs' estimated border processing costs:

Question 3 Do you have any comments to make on Customs' border processing cost estimates?

Question regarding MPI's estimated border processing costs:

Question 4 Do you have any comments to make on MPI's border processing cost estimates?

Questions regarding the forecast number of leviable travellers:

Question 5 Do you think the forecasts used are reasonable and reliable over the levy period? If not, why not?

Question 6 Do you see any things that might change the forecast traveller numbers (or a subset of them) over the levy period? If so, please describe what these might be and your assessment of the likely effects.

Questions about Customs' levy rates and caps for all arriving air and sea travellers (non-cruise):

Question 7 What are your views on Customs' proposed levy rate for all arriving air and sea travellers (non-cruise)?

Question 8 What are your views on the proposed cap for all arriving air and sea travellers (non-cruise)?

Questions about Customs' levy rates and caps for all arriving cruise ship travellers:

Question 9 What are your views on the proposed levy rate for all arriving cruise ship travellers?

Question 10 What are your views on the proposed cap for all arriving cruise ship travellers?

Questions about Customs' levy rates and caps for all departing air travellers and sea travellers (non-cruise):

Question 11 What are your views on the proposed levy rate for all departing air travellers and sea travellers (non-cruise)?

Question 12 What are your views on the proposed cap for all departing air travellers and sea travellers (non-cruise)?

Questions about Customs' levy rates and caps for all departing cruise ship travellers:

Question 13 What are your views on the proposed levy rate for all departing cruise ship travellers?

Question 14 What are your views on the proposed cap for all departing cruise ship travellers?

Questions about MPI's levy rates and caps for all arriving air and sea travellers:

Question 15 What are your views on MPI retaining the current levy rate for all arriving air and sea travellers (non-cruise) for the next levy period?

Question 16 What are your views on MPI retaining the current cap for all arriving air and sea travellers (non-cruise) for the next levy period?

Question 17 What are your views on MPI retaining the current levy rate for all arriving cruise ship travellers for the next levy period?

Question 18 What are your views on MPI retaining the current cap for all arriving cruise ship travellers for the next levy period?

Question about carrying forward published rates if no review done:

Question 19 Do you consider the levy rates should automatically carry forward at the current rates into the next levy period where no new levy rates are set? If not, why not?

Final questions about the overall border processing levy approach:

Question 20 Do you think the proposed levy rates will have any impact on traveller numbers? If so, what impact?

Question 21 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 2

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 27: Illustrative list of border processing activities

Customs	MPI
Pre-border risk assessment and related activities • 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.	**Pre-border risk assessment and related activities** • screening for targeted interventions and identifying travellers of biosecurity interest • pre-border processing travellers and their goods • en-route biosecurity processing where possible • planning • coordinating resourcing and tasking of border activities.
Pre-border advice and engagement • providing advice to travellers • liaising with industry, including planning and problem-solving about processing travellers.	**Pre-border advice and engagement** • managing craft applications for arrival at non-approved Places of First Arrival.
At-border processing travellers and their goods • primary processing (manual and via eGate): validating identity, completing health-related and immigration processes, identifying travellers of interest, including questioning and using detector dogs and ensuring compliance with requirements • secondary processing: interacting with travellers of interest, including questioning, xray and search • search passenger craft, including using detector dogs.	**At-border processing travellers and their goods** • assessing arrival information against biosecurity requirements • verifying compliance to biosecurity requirements of travellers • using intervention tools, including communications, searches, detector dogs and x-ray • collecting information related to pathways and effectiveness of interventions.

Investigations and compliance	Investigations and compliance
• 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 • managing goods seized from travellers.	• 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 3

Cost recovery framework

Legal basis for cost recovery

Legislation and levy orders provide authority to collect the levies

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 2015; and
- Biosecurity (Border Processing Levy) Order 2015.

Cost recovery follows Treasury and Auditor-General guidance

Customs and MPI use cost recovery frameworks 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 those who create the need for a service should fund that service.

We note that these principles are set out in MPI's cost recovery guidelines[29] and MPI's legislation[30]. MPI can only cost recover if it has sufficiently met the transparency and justifiability principles.

Customs' approach to cost recovery

Assessing border processing services against the principles

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

- **Equity:** are the costs fair?
  - 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 benefit directly from the activity. Is the activity best characterised as a private, club or public good?
  - If the activity is designed to manage risks, which individuals or groups create the need for this activity?

29 Ministry for Primary Industries Cost Recovery Policy Guidance, MPI Information Paper No. 2018/08.
30 This includes the Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999 which are relevant to the revenue and expenditure reviews and to some design changes. The Animal Welfare Act 1999 and Biosecurity Act 1993, which are relevant to some design changes, specify only equity and efficiency as relevant principles.

- **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? Are the costs reasonable?

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 (for example, charging a fee to refund overpayments of duty and negotiate international trade arrangements)
- the administrative cost or inefficiency in charging the end user outweighs any return
- Customs' or New Zealand's international obligations prevent charging
- charging would not align with the principles of natural justice (for example, charging individuals for reviews of Customs' decisions related to them, or for prosecution activities against them).

MPI's approach to cost recovery

MPI's cost recovery principles are as follows:

- **Transparency:** costs are transparent
- **Justifiability:** costs are reasonable
- **Efficiency:** costs are recovered in a way that net benefits are maximised
- **Equity:** costs are recovered in a way that is fair.

These principles are set out in MPI's cost recovery guidelines[31] and MPI's legislation[32].

The principles build on each other with transparency and justifiability providing a foundation to the consideration of, and sometimes trade-offs between, efficiency and equity. MPI can only cost recover if it has sufficiently met the transparency and justifiability principles.

Once the transparency and justifiability principles have been met, the efficiency and equity principles state that the beneficiaries of a service should generally pay for that service. That is, beneficiaries pay 100 percent of the costs unless there is a strong efficiency or equity reason why they should not.

---

31 Ministry for Primary Industries Cost Recovery Policy Guidance, MPI Information Paper No. 2018/08.
32 This includes the Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999, which are relevant to the revenue and expenditure reviews, and to some design changes. The Animal Welfare Act 1999 and Biosecurity Act 1993, which are relevant to some design changes, specify only equity and efficiency as relevant principles.

APPENDIX 4

Travellers exempt from border processing levies

Table 28 and Table 29 show 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 as crew and children under the age of two years. Levied travellers fund the costs related to these exempt travellers; and
- 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 28: Levy-funded exempt travellers[33]

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 (d), departs New Zealand on an aircraft for a place outside New Zealand without having been required to enter a departure hall

33 The numbering in Table 28 and Table 29 follows the numbering used in clause 11 of the Customs and Excise (Border Processing Levy) Order 2015.

Table 29: 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 to Antarctica of a Contracting Party[34] 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 (h), departs New Zealand as soon as is reasonably practicable
j.	a traveller who departs New Zealand on a craft on a journey that is not intended to: i. go beyond the exclusive economic zone ii. 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 that: i. has returned to New Zealand after a journey that did not extend beyond the exclusive economic zone ii. did not meet during that journey with any other craft or persons entering the exclusive economic zone from a point outside New Zealand

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

Te Kāwanatanga o Aotearoa
New Zealand Government