

# FUNDING *of* PASSENGER CLEARANCE SERVICES

*At New Zealand's International Airports  
in Today's Security Environment*



A GOVERNMENT DISCUSSION DOCUMENT FOR KEY STAKEHOLDERS



MAY 2004



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# EXECUTIVE SUMMARY

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Existing passenger clearance services cost the Crown and users approximately \$55 million per annum. New services required to meet international standards, to safeguard the health, safety and economic welfare of New Zealanders and to meet user demands for service quality will add approximately \$28 million to this bill. While the need for these services is generally accepted, someone will have to pay for them.

The government is consulting with key stakeholders in the travel, tourism and aviation industries on the appropriate public and private funding sources for both new and existing passenger clearance services. The government is also keen to work with stakeholders on the best way to implement any cost recovery.

The government's objective is to allocate costs in a way that is fair, equitable and efficient to both New Zealand and to users (airports, airlines or travellers), and to collect any charges via mechanisms that are least cost, most effective and most responsive to anticipated changes in traveller numbers.

A five-member Ministerial Committee established to review the funding of border security is proposing in this document that:

I. For the *funding* of passenger clearance services:

1. In noting the current co-funding arrangements for existing passenger clearance services, the funding sources of existing as well as new international passenger clearance services should be examined.
2. In recognition of their public benefit, some passenger services will be fully or partially Crown funded. The level of Crown funding will be determined on a case-by-case basis, depending on judgements as to the public-private benefits.
3. Charges will be "location specific" (reflecting the cost of undertaking those services at each airport) but may not necessarily reflect the full cost of services delivered at a particular location.

II. With regard to *implementation and collection*:

4. There will be one unified charge per passenger covering the cost of all government-funded services.
5. Cost sharing between government and users will cover central government's costs only. It will not cover consequential costs to airports and airlines, as the government has no control over such costs.
6. Costs should be recovered in the most efficient and cost effective way.

This approach to sharing funding between the Crown and users is consistent with the Cabinet approved *Guidelines for setting charges in the public sector*.

This consultation on funding border protection services does not include services delivered by the New Zealand Police, the Defence Force or any intelligence agency. These agencies will continue to be fully Crown funded as at present.

**No final decisions have been made on these proposals.** The Ministerial Committee recognises that stakeholders' input is vital to achieving a successful outcome to this process. The Committee is therefore keen to hear stakeholders' views on the appropriate sources of border services funding, and the best way of recovering costs where this is determined to be appropriate.

# CONTEXT FOR CONSULTATION

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In preparing this consultation, Ministers and officials have considered New Zealand's international obligations, including under the Convention on International Civil Aviation (Chicago, 1944) and its Annex Nine, and New Zealand's air services agreements with other countries, and also the non-binding policies and guidance material issued by ICAO, such as ICAO's Policies on Charges for Airports and Air Navigation Services (ICAO, 2001).

There may, however, be further matters or pertinent issues that you consider have not been included in this discussion document.

If there are other matters you would like raised as part of this consultation on passenger clearance services, please identify them to your appropriate industry representative so they can be included in discussion at the consultation advisory group meetings.

## Other border service reviews

The passenger clearance services funding review is one of several reviews of border services being overseen by the Ministerial Committee on funding of border security in 2004.

These reviews include:

- consultation under the auspices of the New Zealand Customs Service on proposals for funding new goods clearance services (currently underway);
- a review by the Ministry of Agriculture and Forestry of the best funding arrangements for biosecurity services (consultation expected to start in mid 2004); and
- domestic aviation security levy review (consultation currently occurring).

While the proposals that form the basis of all these reviews are consistent with the methodology outlined in the aforementioned Cabinet-approved *Guidelines for setting charges in the public sector*, there are specific circumstances which differentiate each review and have led to the consultations being conducted separately.

In particular:

- Consultation on Customs' goods security cost recovery involves a core group of stakeholders with specific interests in trade goods crossing New Zealand's land and sea borders. In contrast, the passenger cost recovery consultation encompasses stakeholders with interests in people travelling across international air borders only. Consultation therefore involves a significantly wider group of stakeholders than goods cost recovery, including representatives of air travellers, local government and the tourism and travel industries.
- The source of funding for *passenger* clearance services provided by MAF at international airports has been absorbed into the passenger clearance services review. However, review of funding for all other sorts of *non-passenger* biosecurity services undertaken by MAF, the Ministries of Fisheries and Health, and the Department of Conservation is being conducted separately with the specific stakeholders involved. These services include border services such as clearances of cargo, vessels, vehicles and mail, as well as pre-border services such as import health standard development, and post-border services, such as surveillance and incursion response programmes. Proposals arising out of the non-passenger biosecurity review that relate to border services will be considered by the Ministerial Committee for border security to ensure consistency.
- The domestic aviation security levy review is being undertaken to ensure there is no under- or over-recovery or cross subsidisation from international to domestic aviation security services. The domestic aviation security review is looking at the appropriate level of the two levies (domestic and international). The passenger clearance services review will determine the appropriate user/government split for funding the international levy.

## Ongoing role for stakeholders

It is the government's hope and intention that the proposed consultation advisory group will work in partnership with the government to establish the best way to fund and implement passenger clearance services at international airports in New Zealand.

Initially this will involve consideration of the proposals outlined in this discussion document and other matters raised by stakeholders in the course of the consultation process.

In the longer term, there will be a large number of other implementation issues for which the government will be keen to engage stakeholders' ongoing involvement. These issues are likely to occur over the following 12 months as initiatives discussed in this document are developed and rolled out, and may include discussion around:

- the frequency of collection, holding and accounting requirements for charges;
- the frequency of review of any proposed unified charge and security initiatives and who should be able to initiate reviews;
- how after-hours or one-off services should be funded;
- procedures for dealing with over- or under-recovery of charges; and
- legislative implications.

During the meetings of the consultation advisory group, stakeholders' views will be sought on what they consider would be the best forum through which to maintain an ongoing engagement with industry and stakeholders.

## Underlying principles

This document contains a set of proposals by the Ministerial Committee on funding of border security. In making these proposals the Ministerial Committee has worked on the basis of the key underlying principle of "collective responsibility".

This principle holds that it is appropriate that taxpayers share in the cost of protection services, where these services provide a benefit to all New Zealanders. It is also a principle, however, that groups that directly benefit from or influence the cost of services should pay a share of the costs of those services.

As has been already stated, the Ministerial Committee's proposals have also been informed by the Cabinet-approved *Guidelines for setting charges in the public sector*.

Once again, no final decisions have been made on any of the proposals outlined in this discussion document.



Table 1: New and enhanced passenger clearance services at a glance

Initiative (and agency responsible)	Initiating authority	What the new service comprises	Proposed method of implementation	Estimated <sup>2</sup> annual cost	Consequences of failing to implement new service	Consequential benefits of implementing the new service
Hold baggage screening (Avsec)	International Civil Aviation Organisation Chicago Convention APEC	Screening of all hold baggage for explosives by 01 January 2006	Screening of all departing international hold baggage	\$21.4 m	Inconsistent with international obligations and likely prohibition on flying to ICAO member countries	Will assist in detection of dangerous goods and may assist with pre-clearance of passengers
Enhanced passenger processing and border security (Customs)	Customs/ APEC Leaders Statement  UN Resolution 1373	Dedicated resources to analyse advance passenger information  Increased processing capability to manage arrival and departure queues  Increased level of risk assessment secondary processing (questioning and baggage search)	Increased staffing levels at international airports	\$5.4 m	Capability to manage risks from arriving air passengers will continue to steadily decline as passenger arrivals increase  Threats to NZ's reputation as a safe business and travel destination	Increased capacity to manage established risks to the community such as drug trafficking
Enhancements to Advanced Passenger Screening (Immigration)	New Zealand Immigration Service	Extended use of <i>Advance Passenger Processing</i> (APP) system to all airlines to cover all passengers (compared to 80% of passengers covered by existing voluntary uptake system)  Update of Immigration-Customs systems link	Existing APP system.  New technology for Immigration-Customs link	\$1.0 m	Degraded ability to manage security and immigration risk prior to travel. Incomplete APP coverage leaves gaps in security and immigration pre-boarding screening.  Obsolescent Immigration-Customs link leads to failure to transmit information required for immigration operations and is inadequate for transmitting advance information from APP to Customs.	Facilitates airline operations: risk passengers are not boarded, rather than refused entry on arrival

2 GST inclusive. Estimates only, tender process and liaison with industry over implementation required to finalise. More complete costing should be known by late 2004/early 2005.



# *Background to* consultation

# 1. Introduction

In the past three years the world in which New Zealanders live and travel has been irrevocably altered.

Events such as September 11 and its aftermath, the disastrous outbreak of foot and mouth in the United Kingdom in 2001, and the SARS virus during 2002/03, all mean that the world's expectations and demands for high quality, well-managed border security and protection are now greater – and more intense – than at probably any other time in our recent history.

The governments of our key travel and trade partners as well as the international community – including the United Nations and ICAO – are demanding greater vigilance and a higher level of surveillance of goods, people and their belongings as they cross national borders.

In addition to heightened security concerns, New Zealand's borders are under increasing pressure to respond to a rise in passenger volumes. We have an obligation to process increasing passenger numbers as effectively and efficiently as possible.

The combination of security concerns and rising passenger numbers has given renewed emphasis to the continual process of reviewing the level and performance of passenger clearance services provided by New Zealand border authorities. The result of the latest review is that significant new and/or extended services are planned which will be introduced progressively over the next two years. These services, detailed in the table on page 6, are:

- i. New x-ray hold baggage screening for departing passengers, provided by the Aviation Security Service ("Avsec").
- ii. Enhanced passenger screening and border security on arrival and departure of passengers, by the New Zealand Customs Service ("Customs").
- iii. Enhancements to Advanced Passenger Screening by the Department of Labour's New Zealand Immigration Service ("Immigration"), to expand pre-border checks of passengers bound for New Zealand.

It is the government's desire that these enhancements will be managed, and funded, with the cooperation and support of the aviation, travel and tourism industries in New Zealand.

## 2. Purpose of consultation

The government is committed to ensuring that New Zealand's passenger clearance services are funded adequately, and in a fair and consistent way.

It is also committed to ensuring that any charges and collecting mechanisms for recovering the cost of services are coordinated and delivered at the lowest possible cost and that they are "future proof" – that is, they can be adjusted fairly and appropriately in response to any significant shift in passenger numbers.

With this in mind, the purpose of consultation is to:

- draw together the expertise of key people and organisations working in the airline, aviation, travel and tourism industries, and representatives of local government and consumer interests;
- discuss the basis for funding the new services and sharing the costs of funding between the government and user groups; and
- reach mutual agreement on how to implement and collect any future charges.

### 3. What is being consulted on?

Achieving and maintaining services at the level of world's best practice demands an ongoing process of continual review and improvement. This means that all New Zealand's passenger clearance services need to be funded – not just now, but into the future.

The government consultation with industry and stakeholders will focus on:

#### I. Funding issues

Under the government's *Guidelines for setting charges in the public sector*, there are three broad options for funding of passenger clearance services:

- i. user funding (i.e. funding by users including airports and airlines, the wider travel and tourism industry, and/or those broadly impacted by the services e.g. travellers);
- ii. full government (taxpayer) funding; and
- iii. a mixture of government and user funding.

#### II. Implementation issues

Key issues to be examined in this part of the consultation include:

- how any charges to recover all or some of the cost of services from users should be collected, whether charges should reflect location specific costs, and what the collection mechanism should be; and
- how any collection mechanism could be established and operated at least cost.

As a starting point for discussion, the Ministerial Committee on funding of border security has put forward six proposals on how it believes the new and enhanced services should be funded and the cost of some of these services recovered.

These six proposals are summarised in the box on page 13. They form the framework for this discussion document, the basis for discussion in consultation meetings, and for the feedback the government is seeking from key stakeholders.

### 4. Who is being consulted?

Consultation is directed at those organisations representing people directly impacted by the government's decisions on passenger clearance services.

This includes representatives of airports and airlines operating in New Zealand. It also includes representatives of New Zealand's travel and tourism industries; local government interests; and representatives of the broader consumer interest.

This is *not* a nationwide or broad public consultation.

Specific key stakeholder groups being invited to take part in the consultation on passenger clearance services include:

- the Board of Airline Representatives of New Zealand (BARNZ), the International Air Transport Association (IATA) and international airlines operating in New Zealand;
- the Aviation Industry Association of New Zealand (AIA) and the seven existing New Zealand international airports;
- the Tourism Industry Association of New Zealand, the Inbound Tour Operators Council of New Zealand, regional tourism organisations, and the Travel Agents Association of New Zealand;
- the Consumers Institute of New Zealand and Business New Zealand, as representatives of the travelling/consumer public and business interests generally; and
- Local Government New Zealand.

## 5. Process for consultation

### Consultation advisory group

It is proposed that consultation be conducted through a specially established government-stakeholder forum (to be known as the “consultation advisory group”); to be headed by a government-appointed consultation chair and comprising representatives from stakeholders with an interest in the funding and implementation of passenger clearance services.

The process and details of consultation will be clarified with stakeholders at the first meeting of the consultation advisory group. This first meeting is planned for May 2004, the date and time to be confirmed with stakeholders.

The intention of the consultation advisory group forum is to allow for detailed discussion of technical issues while at the same time ensuring that the government gains a clear understanding of the views and wishes of stakeholders, before Ministers make any final funding decisions.

### Process for establishing the consultation advisory group

The following process is proposed:

- Key stakeholder groups will be contacted by officials from the Passenger Clearance Services Secretariat (a cross-government group located within The Treasury), and invited to nominate representatives to join the consultation advisory group.
- A nomination form which organisation office holders may use to formally advise the Secretariat of their selected representative is contained on page 33 of this document. (Use of this form is optional. Representatives can also be nominated by phone to the Secretariat.) Nominations should be received by 17 May 2004.
- Any groups or individuals who have an interest they believe is not already represented in the list of primary stakeholder groups are invited to contact the Secretariat on (04) 917 7034 to discuss representation. (The list of primary stakeholder groups can be seen on the previous page under the heading “Who is being consulted?”)
- All nominations will be considered and membership of the consultation advisory group will include representatives of all stakeholders. To maintain a workable size this may require some members of the group to represent groups rather than all stakeholders being personally represented.

## 6. Timing

The government is aware of the pressures and challenges facing the industry and is keen to conduct consultation and allow for planning and implementation as soon as possible.

It is proposed that stakeholder consultation will take place between May and July 2004, with final Cabinet decisions on funding due towards the end of the year.

## 7. Cost of passenger clearance services

The annual cost of the enhanced border services as identified in Table 1, page 6 is estimated to be at least \$28 million dollars a year<sup>3</sup>.

This is in addition to the cost of providing existing passenger clearance services, which cost close to \$55 million a year. These existing services comprise:

- international departing passenger screening (Avsec);
- passenger, crew and craft clearance (Customs);
- passenger and aircraft clearance for biosecurity purposes (Ministry of Agriculture and Forestry); and
- passenger clearance and turnaround of inadmissible passengers (Immigration).

(Note: Table 2 on page 17 identifies the cost of these existing services and the present contribution to funding from both the Crown and users.)

## 8. What are the passenger clearance services discussed in this document?

In this document Passenger Clearance Services (PCS) encompasses:

- personal travel security to cover terrorist and other threats to air passengers and aircraft;
- all those border services operating at international airports which protect New Zealand and New Zealanders from human and 'natural' threats to our national interest and wellbeing; and
- services at international airports which ensure the speedy, effective and efficient processing of travellers.

Four core government services are included in this consultation on funding passenger clearance services at international airports. They are:

- **Aviation security services**  
These are provided by the Aviation Security Service (Avsec) to protect individual travellers, airlines and New Zealanders from terrorism and any acts by air passengers that could endanger an aircraft.
- **Biosecurity services**  
Provided by the Ministry of Agriculture and Forestry (MAF) to protect New Zealand from "natural" threats knowingly or unwittingly brought into the country by air passengers which could endanger the health and/or wellbeing (including economic wellbeing) of New Zealand and New Zealanders (e.g. the import of unwanted animal, insect or health threats including disease).
- **Customs**  
Provided by the New Zealand Customs Service to protect individuals and the community from potential risks arising from terrorists and traffickers in illegal goods (such as drugs, pornography and wildlife).
- **Immigration services**  
Provided by the New Zealand Immigration Service to protect New Zealand from non bona fide and undocumented travellers.

3 This is an estimate only, as the final figure will only be known once (a) the industry has been fully consulted over implementation and (b) Cabinet decisions have been taken as to the nature of the services. Final costs will also be subject to the outcome of a public tender process, due for completion in early 2005.

## Services not included

Services delivered by the following agencies are NOT covered by consultation on funding New Zealand border services:

- the New Zealand Police;
- the New Zealand Defence Force;
- any intelligence agency.

These agencies will continue to be fully Crown funded as at present.

Consultation on passenger clearance services also does not include:

- passenger clearance services provided at New Zealand's seaports for sea passengers. This will be subject to a separate consultation following the discussions on services at airports.; or
- security or services which would need to be in place for unscheduled, one-off, or specially commissioned international flights to New Zealand airports.

Domestic aviation security is not covered by this discussion, as this is already funded by airlines operating within New Zealand and passed on to passengers.

## 9. New Zealand’s seven international airports

The seven international airports at which the passenger clearance services under discussion are located are:

- Auckland
- Hamilton
- Palmerston North
- Wellington
- Christchurch
- Dunedin
- Queenstown.

### Members of the Ministerial Committee on funding of border security

Minister of Finance	Hon Dr Michael Cullen (Chair)
Minister of Biosecurity	Hon Jim Sutton
Minister of Tourism	Hon Mark Burton
Minister of Transport	Hon Pete Hodgson
Minister of Customs	Hon Rick Barker
<i>The Committee has also been assisted by:</i>	
The Minister of Immigration	
The Associate Transport Minister (responsible for civil aviation)	



# MINISTER'S FOREWORD

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On 11 September 2001 the world was again made aware of the need for effective travel security. And the United Kingdom's foot and mouth outbreak and the SARS virus reminded us that travel security also needed to cover natural threats.

With nearly three and a half million travellers crossing our borders each year, New Zealand is an open nation. The benefits of our connection to the world are huge; they include tourism – our number one foreign exchange earner; our ability to visit friends and family overseas; exposure to other cultures and ideas; even the sometimes dubious pleasure of travelling to see our favourite sports teams compete.

Our travel links, however, are not without costs and in the present world environment New Zealand's existing border arrangements are increasingly under pressure from terrorist or natural threats.

We know that a malicious element will exploit any weakness in New Zealand's security to hurt us and other nations. At the same time more points of origin have made exotic destinations closer, but also mean that a moth or snake that once would have died in transit can now arrive, alive and potentially dangerous, in New Zealand. Complicating these threats is a growth in passenger volumes estimated at more than five per cent a year<sup>1</sup>. More affordable travel worldwide, rising living standards in key tourist markets, and increasing numbers of ports of origin are driving this growth. Together, increasing risks and greater traveller numbers mean that our 2000 kilometre 'moat' and existing border security arrangements are no longer sufficient to ensure we meet our own and international expectations.

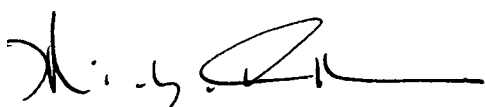
To continue to protect the travelling public, our environment, and our primary industry based economy – while at the same time completing passenger processing within acceptable time limits – we must put in place significant enhancements and improvements to our border practices. To trade easily with other nations we also need to take actions that convince them that we are a low-risk origin and transit point.

The government has therefore decided to introduce a package of initiatives to improve travel security. These initiatives will be rolled out over the next two years. To ensure that the new travel security initiatives are introduced in an efficient and least cost manner, a Ministerial Committee has been established to coordinate their development, implementation and funding. At the same time – and in order to be consistent – we are suggesting that funding sources of existing services also be reviewed.

The Ministerial Committee has developed a set of proposals on how passenger clearance services at international airports can be funded and implemented. These form the basis of the consultation outlined in this document.

Before making final decisions, we need to hear the views of affected operators, businesses and users of the services. It is our desire and intention to work with industry and key users on the basis for funding and implementing border services. Working together, we have the best chance of achieving the outcome we all need and want – the delivery of passenger clearance services at New Zealand's international airports equal to the world's best, and funded in a fair and equitable way. In this way, we can also ensure that New Zealand's reputation as a safe and reliable destination is maintained.

Your best opportunity to contribute to the shaping of final policy is to have your say through industry and stakeholder consultation. In this document, we propose the establishment of a "consultation advisory group" which would meet with government representatives starting in May 2004. I would strongly encourage you through your industry representatives, to participate in this forum and have your say.



**Hon Dr Michael Cullen**

*Chair, Ministerial Committee on funding of border security*

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1 Source: Tourism Research Council New Zealand.



## Proposals of the Ministerial Committee on funding of border security

The following proposals have been made by the Ministerial Committee looking at enhanced passenger clearance services for New Zealand's international airports. The Ministers' proposals have created the framework for the structure of this discussion document and will also be a starting point for discussion at meetings of the proposed consultation advisory group. **No final decisions have been made on these proposals.**

### I. For the funding of passenger clearance services:

1. In noting the current co-funding arrangements for existing passenger clearance services the funding sources of existing as well as new international passenger clearance services should be examined.
2. In recognition of their public benefit, some passenger services will be fully or partially Crown funded. The level of Crown funding will be determined on a case-by-case basis, depending on judgements as to the public-private benefits.
3. Charges will be location specific (reflecting the cost of undertaking these services at international airports) but may not have to reflect the full cost of services delivered at a particular location.

### II. With regard to implementation and collection:

4. There will be one unified charge covering the cost of all Government-funded services (rather than a series of separate charges).
5. Cost sharing between government and users will cover central government's costs only. It will not cover consequential costs to airports and airlines as the government has no control over such costs.
6. Costs should be recovered from users in the most efficient and cost effective way.

This approach to sharing funding between the Crown and users is consistent with the Cabinet approved *Guidelines for setting charges in the public sector*.



# *Proposals and questions for* consultation

**Part I:** The funding approach

**Part II:** Implementing and collecting any charges

## **Section description**

The proposals in this section are those put forward by the Ministerial Committee on funding of border security. They are presented for discussion at the consultation advisory group forums.

Part I comprises Proposals 1 to 3 of the Ministerial Committee along with questions that arise from those proposals. Part I deals with how passenger clearance services might be funded.

Part II comprises Proposals 4 to 6 of the Ministerial Committee along with questions that arise from those proposals. Part II deals with how to implement and collect any charges.

# PROPOSAL 1

## FUNDING OF EXISTING CLEARANCE SERVICES

### Proposal

- The funding sources of existing as well as new international passenger clearance services should be examined as part of upgrading passenger clearance services and implementing new border security services.

### Consultation question

- 1.1 Should the funding sources of existing passenger clearance services be reviewed?

### Background for discussion

#### Key issues

- Should the same issues of funding and cost recovery for enhanced services be applied to funding and cost recovery of existing services?
- Consistency and equity of funding and cost recovery
- Ease of collection
- Transparency of costs
- Ensuring the present means of funding existing services is “future proof” (e.g. able to cater for significant changes in passenger volumes)

The Ministerial Committee proposes that the funding sources of existing passenger clearance services be reviewed as part of the consultation with key stakeholders.

This will help ensure that funding is consistent and equitable between activities and services, and that Crown and user contributions are appropriate. Reviewing existing activities will also help ensure that:

- existing passenger clearance systems can handle New Zealand's anticipated growth in passenger numbers;
- all passenger clearance charges and collection mechanisms – whether existing or new – can work effectively, and achieve the desired end result of minimising all collection and compliance costs; and
- funding of passenger clearance services between main and regional international airports is on an equitable basis.

### Identification of the costs to be funded – and shared

Existing passenger clearance services cost \$54.54 million a year at present (see Table 2, below, for details). \$36.19 million (66 %) of this is Crown funded, with the balance paid by users (passengers, airlines and airports).

Added to the cost of the new services, the total bill for passenger clearance services, existing and new, would be approximately \$83 million per annum.

These figures do not include the cost of:

- other services that the Crown fully funds (and will continue to fully fund under the enhanced arrangements) such as those delivered by the New Zealand Police, the Defence Force and intelligence agencies; prosecution and detention when offences are uncovered or finds are made;
- the costs of policy development and legislation;
- domestic passenger screening, costing \$11.9 million, which is presently charged to and paid by airlines, who pass the costs on to passengers.

**Table 2: Costs of existing passenger clearance services at international airports<sup>4</sup>**

Service	Present Cost (\$m)	Funding split: Crown (taxpayer) contribution to total cost	Funding split: User contribution to total cost
Aviation Security	11.42	0	\$11.42M (100%)
Customs	19.67	\$14.34 m (73%)	\$5.33m (27%)
MAF	18.62	\$18.62 m (100%)	0
Immigration	4.83	\$3.23 m (67%)	\$1.60 m (33%)
<b>Total</b>	<b>54.54</b>	<b>36.19</b>	<b>18.35</b>

<sup>4</sup> Figures are for current 2003/04 forecast, and are GST inclusive.

## PROPOSAL 2

### FUNDING SERVICES: A SHARED APPROACH BETWEEN CROWN AND USERS

#### Proposal

- In recognition of their public benefit, some passenger services will be fully or partially Crown funded.
- The level of Crown funding will be determined on a case-by-case (service-by-service) basis.
- The Crown's contribution will relate to costs that are under the control of the government.

#### Consultation questions

- 2.1 Do you agree that the funding of passenger clearance services should vary between services to reflect the varying levels of public and private benefit?
- 2.2 If not, how should funding levels be determined?
- 2.3 What do you see as the appropriate funding split between the Crown and users for individual services or in total? Why?

#### Background for discussion

##### Key issues

- Collective responsibility is the principle underlying any funding split
- Each service has a different level of public and private benefit
- Any Crown contribution should be linked to the public benefit arising
- Some user contribution is appropriate
- Cabinet approved Guidelines are used as the basis for identifying funding contributions – under these, full Crown funding is an option only when “risk exacerbators” and “beneficiaries” cannot be identified and made to contribute

The options for funding passenger clearance services at international airports are:

- i. Crown funding through general taxation; or
- ii. recovering costs directly from passengers or transport operators (airlines) or airports; or
- iii. a combination of Crown funding and cost recovery.

Different approaches can be used to determine what the appropriate Crown and/or user contributions to each of the proposed passenger clearance services might be.

The government's preferred model for identifying appropriate candidates for cost recovery for services is outlined in the Cabinet-approved *Guidelines for setting charges in the public sector* (published by the Treasury in December 2002)<sup>5</sup>.

This model identifies the primary beneficiaries of the relevant service, as well as those who have caused or created the need for the service to exist in the first place. This is known as the “risk exacerbator-beneficiary” model. While this approach identifies suitable candidates for charging based on the risk they create or benefit they receive from the service, the identification and quantification of specific

<sup>5</sup> The Guidelines cover charges for services for which the government is a monopoly supplier. They do not set out to be definitive, but provide a checklist of issues on which to base a sound analysis. They also point out that government agencies cannot charge above the costs of providing their services unless authorised by or under an Act of Parliament. The *Guidelines* can be downloaded from The Treasury website: [www.treasury.govt.nz](http://www.treasury.govt.nz)

benefits for specific services will often be very difficult to ascertain and will involve trade-offs between different objectives such as equity, economic efficiency, fiscal objectives and transparency, and practical matters such as feasibility and ease of collection.

*Risk exacerbators* are those individuals or organisations whose actions make it necessary for the government to become involved.

*Beneficiaries* are people who benefit from the output, including those who would be adversely affected if the output were not provided. As indicated below (Table 3) this can include New Zealand as a whole.

Where there are multiple beneficiaries different approaches are open for discussion – for example, the Crown could take responsibility for the capital costs of security measures, with users paying for ongoing operating costs.

Stakeholders are invited to consider which might be the most appropriate approach.

A review of services conducted by officials identified several risk exacerbators and beneficiaries for each passenger clearance service, and a strong mix of public and private benefit. The outcome of this review is shown in Table 3 below.

**Table 3: Preliminary classification of risk exacerbators and beneficiaries**

Service	Risk Exacerbators *	Beneficiary	Secondary beneficiaries / Users**
Aviation Security	Terrorists, mentally disturbed persons	Airlines Passengers	Airports New Zealand
Customs	Terrorists and traffickers in prohibited goods (e.g. drugs, pornography, wildlife)	New Zealand	Passengers Airports Airlines
Immigration	Non bona fide & undocumented travellers	New Zealand	Passengers Airports Airlines
Biosecurity (MAF)	Passengers knowingly or unwittingly carrying biosecurity risks	Specific primary industries on a case-by-case basis New Zealand	Passengers Airports Airlines

**Notes to Table 3:**

\* It is obviously impractical to identify and recover costs from terrorists or traffickers for the purposes of passenger clearance services. Only in the case of biosecurity threats are the risk exacerbators identifiable – as potentially all passengers are risk exacerbators in this context.

\*\* Users are considered as beneficiaries in terms of the outcome – for example, a passenger is a beneficiary of planes arriving safely, and a secondary beneficiary when they experience a fast and efficient clearance process, spending less time queuing in Customs' halls and waiting for aircraft turnaround.

The mix of public and private benefits evident from this review suggests that several groups should make a contribution to the cost of services.

On the one hand, some government/taxpayer contribution to some services would be appropriate because:

- there are clear public benefits arising out of some services; it would therefore be appropriate for the Crown to make a contribution in recognition of the benefit the taxpayer derives;
- the benefit of some services is so widely distributed that it would either not be feasible, or it would be too expensive, to collect a fee to reflect this benefit via a targeted charge. General taxation may therefore be more appropriate; and
- a distinct group of exacerbators and/or beneficiaries cannot be identified and therefore, made to pay for the services they use or have given rise to. Under the Cabinet guidelines Crown funding is a default option in such cases.

On the other hand, any calculation as to the level of Crown versus user contribution needs be put in the context of the level of benefit received by user groups, and the level of influence those groups exert on service costs. Some private contribution to services is also appropriate because:

- there are direct benefits to specific groups;
- the cost drivers of the service are often established by user specific requirements – for example expectations by airports, airlines and passengers that have a direct impact on the cost of providing the service. These include expectations that:
  - passengers will be processed within a specific time of their arrival,
  - services will be provided at certain times and locations convenient to the users, or
  - off-schedule flights should be handled immediately on arrival;
- the private sector needs to take into account costs incurred by the government in managing the impact of those business decisions; for example:
  - the operation of large numbers of international airports for a country of our size,
  - the layout of terminals, including whether hold stow baggage screening will be carried out pre- or post-check in, and
  - the introduction of hubbing at Auckland International Airport on the costs of passenger clearance; and
- there are equity and economic efficiency benefits from certain groups contributing to the cost of the services they use (in particular, appropriate costing makes users realise the consequences of their choices and leads to appropriate decision making).

The calculation of benefits is not easy due to:

- insufficient information about the benefits people derive from different services;
- difficulties identifying the value of benefits (for example how do you value a “clean green” image, or the social cost of drugs entering New Zealand?); and
- difficulties identifying equity and economic efficiency considerations.

The Ministerial Committee therefore proposes that the Crown makes a contribution to the cost of those services where New Zealand as a whole is the beneficiary, to reflect the public benefit of those services.

But what level of contribution is appropriate? And should the contribution apply to all or only some of the “public benefit” services listed above?

### **Determining the appropriate funding split**

In considering the public benefit that arises from each service, the Ministerial Committee has followed two key principles:

1. That *legitimate costs* should be borne by the risk exacerbator, primary beneficiary, or secondary beneficiary/user; and
2. Where possible, charges should impact on those with the greatest ability to change behaviour and therefore to *minimise risks and influence the costs of passenger processing*.

The Ministerial Committee has also considered the Crown’s existing contribution to the public benefit through the funding of:

- policy and legislation processes;
- new border protection services delivered by the New Zealand Police, Defence Force and intelligence agencies; and
- prosecution and custodial services for offenders.



### Crown contribution on a case-by-case basis

Under the risk exacerbator-beneficiary model, the Ministerial Committee considers the case for a Crown contribution to be stronger for some services than for others.

For example:

- **Aviation security services**  
Passengers who arrive safely at their destination, and the airlines that carry them, are the primary beneficiaries of anti-terrorist services. While there are secondary public benefits arising from the prevention of terrorism, they are much harder to quantify. It is a logical conclusion, therefore, that funding of aviation security specific activities should continue to be borne primarily by passengers or airlines as primary beneficiaries.
- **Immigration and Customs**  
In the table the primary beneficiary of immigration and customs services is identified as “New Zealand”. Therefore, a greater Crown contribution may be appropriate.

### User contribution also appropriate

As a matter of principle, however, Ministers also see the retention of some level of user funding as appropriate because:

- while users may not always be the primary beneficiaries of the service, they drive the costs of the service (by driving the location of services as well as the size and timing of demand). Passengers also benefit from the quick and efficient provision of the service;
- users have some ability to control both the way the service is provided and the risks that the service is seeking to minimise. A direct financial contribution provides incentives on users to act in ways that reduce the costs of the service or the risk.

### Working papers on charges

- A discussion on the general pros and cons of various charging mechanisms is attached as Working Paper 3.
- A brief review of research findings on the economic effects of increases in passenger charges is attached as Working Paper 4.

### Limits to the Crown's contribution

The Ministerial Committee is proposing that the government share the costs of providing some passenger clearance services where there is a public benefit component to these services.

It is intended that this will include the Crown funding a proportion of the direct costs of the service provided by the border agency, such as staff salaries and capital equipment.

It is not envisaged that the Crown will assume any responsibility for any consequential costs to passengers, travel agents, airlines or airports that arise from the implementation of these charges. For example, it is not envisaged that the Crown will make a contribution to *any cost that airports incur as a result of hold stow baggage screening that are separate from the costs the government incurs*.

The government is, however, concerned to ensure that any consequential costs are reasonable and minimal. The Ministerial Committee will therefore be looking to work closely with industry to achieve this goal.

Consequential costs that would be excluded under this proposal would include (but not be limited to):

- costs of delay or disruption to passengers from having to comply with new requirements;
- accommodation requirements at airports; and
- administrative costs incurred in handling, accounting for and passing on any unified charge.

Table 4: Indicative Crown contribution for potential Crown/user funding splits

Passenger Clearance Service

	Crown contribution for potential funding split options (\$ million)						
	Option 1 Crown maintains existing contribution & recovers new costs	Option 2 Crown maintains existing contribution & funds new services	Option 3 0% Crown Funding of existing and new services	Option 4 20% Crown Funding	Option 5 50% Crown Funding	Option 6 80% Crown Funding	Option 7 100% Crown Funding
Aviation Security: <b>Existing</b> International departing passenger screening: (presently 0% Crown)	0	0	0	2.28	5.71	9.14	11.42
Aviation Security: <b>New</b> Hold baggage screening	0	21.40	0	4.28	10.70	17.12	21.40
Customs: <b>Existing</b> passenger, crew and craft clearance: (presently 73% Crown)	14.34	19.67	0	3.93	9.83	15.74	19.67
Customs: <b>New</b> enhanced passenger processing and Boarder security, crew and craft clearance	0	5.40	0	1.08	2.70	4.32	5.4
Immigration: <b>Existing</b> passenger clearance & turnaround: (presently 67% Crown)	3.23	4.83	0	0.97	2.42	3.86	4.83
Immigration: <b>New</b> enhancements to advanced passenger screening		1.00	0	0.20	0.50	0.8	1.0
MAF: <b>Existing</b> passenger and aircraft clearance: (presently 100% Crown)	18.62	18.62	0	3.72	9.31	14.90	18.62

Funding Split Summary \*

Crown Contribution \$m	36.19	70.92	0	16.46	41.17	65.88	82.34
User contribution \$m	46.15	11.42	82.34	65.88	41.17	16.46	0
<b>Total Cost \$m</b>	<b>82.34</b>	<b>82.34</b>	<b>82.34</b>	<b>82.34</b>	<b>82.34</b>	<b>82.34</b>	<b>82.34</b>
Average cost per passenger, based on 3,442,211 passengers	\$13.41	\$3.32	\$23.92	\$19.14	\$11.96	\$4.78	\$0.00
Average cost per New Zealander, based on population of 4.0 m (2003)	\$9.05	\$17.73	\$0.00	\$4.12	\$10.29	\$16.47	\$20.59

\* Funding splits are indicative only; actual contributions will reflect public/private benefits.

## PROPOSAL 3

### COST ALLOCATION AND RECOVERY – A NATIONAL OR REGIONAL APPROACH?

#### Proposal

- Charges will be “location specific” (i.e. in proportion to the actual cost of those services at each international airport), but
- because of the significant costs this could impose on some regions, the actual charge to each region may not have to reflect the full cost of those services.

#### Consultation questions

- 3.1 Do you agree that charges should be location specific? Why or why not?
- 3.2 One option is that charges are partly location specific but capped through a subsidy from other users. Do you also agree that smaller existing airports should receive some degree of cross-subsidisation from other users? If so, how much?
- 3.3 Should any cross-subsidisation apply only to existing airports, with any new international airport being responsible for full location specific costs?

#### Background for discussion

##### Key issues

- National average-based funding would spread the cost of funding services evenly and affordably across every passenger crossing the border
- Location specific funding would reflect the actual cost of services in each region – but result in a big variety in user charges
- Cross subsidisation of smaller airports could be a sensible “middle ground”

When working out what proportion of costs might be funded by users, should the government allocate costs on a national average basis or should it reflect “location specific” costs?

Allocating costs on a location specific basis will result in users (passengers, airlines or airports) at small regional airports facing potentially significant cost increases. This occurs due to economies of scale from greater passenger numbers at major metropolitan airports. (See Table 5, page 24, for potential impact.)

Regional differences are also potentially magnified by each airport having to bear the big up-front costs of security equipment and the high initial cost of meeting minimum standards regardless of size or passenger throughput. These requirements increase the minimum cost of operating an international airport and would have a disproportionate impact on smaller airports.

In light of this the Ministerial Committee decided that:

- *in principle* any charge should reflect the actual costs of providing the necessary services on site;
- *in reality*, it may be potentially unfair for existing smaller airports to bear the full cost of the new security measures so there may be a case for some sharing of costs between airports.

There may be, therefore, some potential to cross-subsidise some of the cost of existing international airports. This could take a number of forms, for example an agreed cap on the total size of cost recovery allowable from any airport. A separate question exists as to how any future international airports would fit into any regime. Should new airports be eligible for any cross-subsidisation within the system or should they meet all costs as they fall?

To help guide discussion during consultation, Table 5 indicates what the proposed levels of user funding *could* mean on per passenger charges at various international airports, in the event that the decision was taken for services to be *fully* user-funded and the charges passed on *in their entirety* to passengers. A comparison of these potential costs against what international passengers are already paying in other jurisdictions can be found in Working Paper 2 (Table 6, page 40).

**Table 5: Historical average location specific costs per commercial air passenger**

Airport	Combined Agencies' Direct Costs (\$M)	Combined Agencies' Overheads (\$M)	Total Cost \$M	PAX Arrivals	Average Cost Per PAX	Direct Cost Per PAX  (location specific costs excluding overheads)	Direct Cost Per PAX  (including existing Crown contribution)*
Auckland	38.252	9.519	47.771	2,541,048	\$18.80	\$15.05	\$7.05
Hamilton	2.247	0.352	2.599	57,461	\$45.23	\$39.10	\$31.10
Wellington	4.985	1.029	6.014	226,324	\$26.57	\$22.03	\$14.03
Palmerston North	2.379	0.343	2.722	38,309	\$71.05	\$62.10	\$54.10
Christchurch	10.433	2.441	12.874	531,441	\$24.22	\$19.63	\$11.63
Dunedin	1.956	0.32	2.276	39,423	\$57.73	\$49.62	\$41.62
Queenstown	1.578	0.124	1.702	8,205	\$207.43	\$192.32	\$184.32
<b>Total airports</b>	<b>61.83</b>	<b>14.128</b>	<b>75.958</b>	<b>3,442,211</b>	<b>\$22.07</b>	<b>\$17.96</b>	<b>\$9.96</b>

The above table excludes Customs Enhanced Passenger Processing and Border Security and Immigration Enhancements to Advanced Passenger Screening as it is still uncertain how these costs would be allocated. Including the estimated cost of these services would add \$6.4 million to total costs.

**Disclaimer to Table 5:**

It is important to note that this table does not represent actual costs per passenger arising out of possible charges for border services passed on by airports and airline.

This table is provided **for illustrative purposes only** and shows the average cost of services at various airports. It does not show what would be charged if location specific cost recovery were to be introduced.

It is based on historical average passenger numbers.

**Notes to the above table:**

- The above assessment includes existing border services and the Hold Baggage Screening initiative. Planned enhancements to Custom's passenger processing and border security are excluded as the cost of this will be known only when final decisions have been taken.
- All costs and passenger numbers are for the 2002/03 year.
- Immigration overhead costs are allocated on a per passenger basis. Direct costs are also allocated on this basis except for the component of border management costs that is location specific to Auckland and Christchurch, the two airports with a permanent immigration staff presence.
- Cost per passenger is based on current passenger numbers. If passenger numbers increased, the average per head equivalent cost would reduce accordingly.

## PROPOSAL 4

### ONE CHARGE FOR ALL SERVICES

#### Proposal

- There will be one unified charge for all passenger clearance services covering the cost of all government-funded passenger clearance services (rather than a series of separate charges).

#### Consultation questions

- 4.1 Do you agree there should be one unified charge for all passenger clearance services or do you think there should be several separate charges for separate services?
- 4.2 Should a unified charge cover both arriving and departing passengers? If so, would it be better to collect the unified charge at arrival, or on departure?
- 4.3 Can a unified charge for passenger clearance services work in practice when services are delivered at different times to different groups (for example, to arriving or departing passengers)?

#### Background for discussion

##### Key issues

- At present there is no consistency in charging regimes between different airports
- One unified charge could potentially be simpler for travellers, more transparent and reduce compliance costs

Currently there is a mixed regime for collecting charges for different passenger clearance services which varies between major metropolitan and regional airports. This has resulted in different services collecting charges from different sources through different collection mechanisms.

The Ministerial Committee's objective of minimising costs in collecting charges could be partially achieved by minimising the number of times charges are collected. Currently some services are provided for departing passengers and some services are provided for arriving passengers. As almost all passengers who cross New Zealand's borders make a return journey at some stage, one option would be to combine charges for both arrivals and departures into a single charge. This could be applied on either arrivals or departures.

The Ministerial Committee favours a single unified charge for all passenger clearance services so that a single fee is paid for all central government passenger clearance services. (This fee might also include the \$1.00 (GST inclusive) per passenger International Passenger Safety Levy that partially funds the Civil Aviation Authority, and is paid by airports).

The main advantages of a unified charge are:

- reducing compliance and administration costs;
- transparency in charges; and
- greater certainty for the travelling public on what services they are paying for and why.

At the time the charge is introduced, accompanying literature could include information on what costs the charge is covering, what the Crown is paying for, and what users are paying for.

The Ministerial Committee will be looking to work with industry through the consultation advisory group on how a single unified charge or separate charges for individual services might work in practice.

## PROPOSAL 5

### SCOPE OF A UNIFIED CHARGE

#### Proposal

- Cost sharing between government and users, and the proposed “unified charge”, would cover only the costs of services offered by central government.
- Consequential costs to airports and airlines – such as administrative and infrastructural costs, and local government and airport charges – would not be included in the central government charge, as the government has no control over such costs.

#### Consultation question

- 5.1 Would it be appropriate for a unified charge to cover costs other than for central government services? Why?

#### Background for discussion

It is envisaged that the proposed single unified charge would include only central government services.

A single bill that also included any airport or local government charges is not seen as appropriate, because:

- there would be legal issues over the status of those who refused to pay part of a unified bill;
- there is a risk of confusion over accountability for various services and the legal status of charges;
- it would be impractical to incorporate separate and different local charges in a single unified national charge; and
- it would reduce scrutiny of the individual components of the bill and the need for organisations to justify price increases.

## PROPOSAL 6

### WHO SHOULD COLLECT AND PAY ANY CHARGE?

#### Proposal

- Costs should be recovered from users in the most efficient and cost effective way.

#### Consultation questions

- 6.1 Should it be a government objective to collect charges at the lowest cost and if so at lowest cost to whom?
- 6.2 What is the best method of recovering costs at the border?
- 6.3 In line with other tax collection requirements on firms, the Ministerial Committee proposes that no compensation or cost recovery for collecting the charge will be provided if the passenger is charged directly. Is this a legitimate expectation and, if not, what sort of costs would industry have to incur if they were responsible for collecting and passing on a unified charge?

#### Background for discussion

##### Key issues

- Is a direct levy on airports or airlines the most practical and cost effective way of user charging?
- The government is keen to avoid “cost plus pricing” by companies passing costs on to passengers

The Ministerial Committee is keen to ensure that the collection of any passenger clearance service charge is effective and the costs of collection are minimised. In practice, this will involve identifying the appropriate party to charge and the most practical and cost effective way of charging.

In most cases the appropriate party to charge is likely to be the key beneficiaries and cost drivers – that is, airports, airlines and/or passengers. The most efficient and effective way of charging users is likely to be a direct levy on either airports or airlines.

While the Ministerial Committee recognises that imposing charges on airports or airlines (who are, in turn, likely to on-charge to passengers) imposes costs upon companies, these costs need to be compared with the transaction cost and inconvenience to passengers and others, of establishing new collection mechanisms.

Ministers are also keen to ensure that decisions on the implementation of the charge recognise the likely final impact of the charge. That is, charges should seek to minimise compliance costs, including potential for “cost plus pricing” in passing on costs to passengers. Consequently the Committee is keen to receive feedback on options that would prevent margins being built into charges by those organisations recovering the charge.

The Committee also proposes that, in the event that passengers are charged directly, no margin for collecting the charge should be allowed to be built into the final charge that is applied. This is consistent with government policy on the collection of other taxes and charges,





# *Proposals and questions* at a glance

## Section description

The proposals and questions under consultation and contained in this discussion document are summarised in this section for ease of reference.

Beside each proposal is a page number indicating where the discussion backgrounding each proposal can be located.

This may be useful to participants in the consultation advisory group and those preparing written feedback on consultation.

# I. THE FUNDING APPROACH

## Proposal 1:

### Funding and cost recovery of existing clearance services (Page 16)

- The funding sources of existing as well as new international passenger clearance services should be examined as part of updating and implementing new border security services.

#### Question:

- 1.1 Should the funding sources of existing international passenger clearance services be reviewed?

## Proposal 2:

### Funding services: a shared approach between Crown and users (Page 18)

- In recognition of their public benefit, some passenger services will be fully or partially Crown funded.
- The level of Crown funding will be determined on a case-by-case (service-by-service) basis.
- The Crown's contribution will NOT include a contribution to costs that are not under the control of the government.

#### Questions:

- 2.1 Do you agree that the funding of passenger clearance services should vary between services to reflect the varying levels of public benefit?
- 2.2 If not, how should funding levels be determined?
- 2.3 What do you see as the appropriate funding split between the Crown and users for individual services or in total? Why?

## Proposal 3: Cost allocation and recovery – a national or regional approach (Page 23)

- Charges will be “location specific” (i.e. in proportion to the actual cost of those services at each international airport), but
- because of the significant economic costs this could impose on some regions, the actual charge to each region may not have to reflect the full cost of those services.

#### Questions:

- 3.1 Do you agree that charges should be location specific? Why or why not?
- 3.2 One option is that charges are partly location specific but capped through a subsidy from other users. Do you also agree that smaller existing airports should receive some degree of cross-subsidisation from other users? If so, how much?
- 3.3 Should any cross-subsidisation only apply to existing airports with any new international airport being responsible for full location specific costs?

## II. IMPLEMENTING AND COLLECTING ANY CHARGES

### Proposal 4: One charge for all services (Page 25)

- There will be one unified charge per passenger covering the cost of all government-funded passenger clearance services (rather than a series of separate charges).

#### Questions:

- 4.1 Do you agree there should be one unified charge for all passenger clearance services or do you think there should be several separate charges for separate services?
- 4.2 Should a unified charge cover both arriving and departing passengers? If so, would it be better to collect the unified charge at arrival, or on departure?
- 4.3 Can a unified charge for passenger clearance services work in practice when services are delivered at different times to different groups (for example, to arriving or departing passengers)?

### Proposal 5: Only central government services to be subject to charge (Page 26)

- Cost sharing between government and users and the proposed “unified charge” would cover only the costs of services offered by central government.
- Consequential costs to airports and airlines – such as administrative and infrastructural costs, and local government and airport charges – would not be included in the central government charge, as the government has no control over such costs.

#### Question:

- 5.1 Would it be appropriate for the unified charge to cover costs other than for central government services? Why?

### Proposal 6: Passing on the service charge to users of the services (Page 27)

- Costs should be recovered from users in the most efficient and cost effective way.

#### Questions:

- 6.1 Should it be a government objective to collect charges at the lowest cost and if so at lowest cost to whom?
- 6.2 What is the best method of recovering costs at the border?
- 6.3 In line with other tax collection requirements on firms, the Ministerial Committee proposes that no compensation or cost recovery for collecting the charge will be provided if the passenger is charged directly. Is this a legitimate expectation and if not, what sort of costs would industry have to incur if they were responsible for collecting and passing on a unified charge?





# *Nomination form*

# PASSENGER CLEARANCE SERVICES CONSULTATION ADVISORY GROUP

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Meetings of the consultation advisory group will be held in Wellington between May and July 2004. A member of the PCS Secretariat will be contacting members of key stakeholder organisations with regard to the appointment of their nominated representative to the group.

Use this form to nominate your preferred representative to attend the consultation advisory group meetings. Fax, email or post the form to:

**PCS Secretariat**

**Email:** [fundingpcs@treasury.govt.nz](mailto:fundingpcs@treasury.govt.nz)

**Fax:** (04) 473 0537

**Post:** PO Box 3724, Wellington

Alternatively, you may like to ring the **PCS Secretariat** direct on (04) 917 7034 to discuss representation.

Involvement in consultation on the funding of passenger clearance services will be restricted to identifiable key stakeholders in the related aviation, travel and tourism industries, Local Government New Zealand, the Consumers' Institute of New Zealand, and Business New Zealand. The sending in of a nomination form does not in itself guarantee the nominee a place at the consultation table. If there are any issues relating to the nominee, a member of the PCS Secretariat will contact you to discuss this.

# Nomination Form

## Nominee and organisation details

Name of organisation:

Organisation's area of operation/interest:

☐ Aviation

☐ Airline

☐ Travel

☐ Tourism

☐ Local Government

☐ Consumer

☐ Other (please identify)

Name of nominee:

Position in organisation:

Name of person nominating:

Position of person nominating:

Signature of person nominating:

Date:

## Nominee's declaration

The Nominee's acceptance of this nomination implies to the Secretariat that you will be available to attend a series of meetings in Wellington between May and July 2004 as a member of the PCS consultation advisory group and that you will be potentially available for ongoing consultation thereafter.

I  (*insert nominee's name*) accept the nomination of my organisation  (*insert name of organisation*) to represent the organisation's interests and the interests of their members as part of the government's consultation on passenger clearance services at New Zealand airports.

I undertake to consult with appropriate members of my organisation and relevant interested parties in order to represent their views and to communicate to them the nature and extent of the issues under discussion.

Signed

Nominee

Date:







# *Working* Papers

# Working Paper 1:

## Rationale for the new passenger clearance initiatives

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New Zealand is an increasingly popular destination. More than 3.5 million travellers crossed our border last year, up from 1.3 million 10 years ago and forecast to increase at a rate of over 5%<sup>6</sup>. This has placed pressure on performance objectives, including safety and security standards and the ability to process passengers in a reasonable time (currently set, in accordance with the International Civil Aviation Organization (ICAO) recommended practice, at under 45 minutes for arriving passengers; the recommended practice for departing passengers is 60 minutes).

The country of origin of visitors is also becoming more varied. Travellers now arrive directly from countries such as the United Arab Emirates, Chile and Brunei and more direct routes are expected. Reducing international airfares and rising living standards in the developing world are also making New Zealand a more viable and attractive destination.

As the 9/11 terrorist attacks, SARS and the foot and mouth outbreak in the United Kingdom have demonstrated, our openness comes at some risk as well as a benefit to New Zealand. New Zealand's exposure to threats is increasing through the growth in the ports of origin that bring passengers directly to New Zealand, and from an increasing number of flights. A cough in Frankfurt can be a sniff in Wellington within a day.

Security is a global issue. The international response has been a marked increase in most developed nations' security apparatus and increasing expectations in other nations' security systems. For New Zealanders to continue to enjoy relatively easy access to other countries requires that other countries be assured that New Zealand has adequate security arrangements.

'Security risks' are defined as the potential adverse consequences posed to New Zealand's national interests<sup>7</sup> by passengers, or other persons who may wish to exploit travel for the furtherance of their own unlawful activities.

Security risks can also be deliberate or inadvertent. Border security is not required simply to stop deliberate actions such as terrorism and other crimes. Health and biosecurity threats can enter through deliberate action but can also be brought in by unsuspecting hosts. The inadvertently packed apple, dirty boot or even a burr on a jacket is as great a risk as a smuggled plant or animal. In this way, innocent travellers can pose as great a risk to New Zealand interests as the guilty.

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6 Source: Tourism Research Council New Zealand. Predicted annual growth of 5.2% p.a.

7 'National interests' are defined as: "Protection of New Zealand's territorial integrity and security, deriving maximum benefit from relations with other countries, and promoting the core values shared by most New Zealanders", *New Zealand's Foreign and Security Policy Challenges*, (2002), MFAT. They also include for the purposes of this work the safety and security of New Zealand citizens and those visiting or living in the country at any given time, and protection of the natural environment.

## Government's response to security risks

In response to the international environment, the government is developing initiatives to mitigate security (including biosecurity) risks arising from travel. These changes will improve the processing of passengers at the border and assist New Zealand to meet its international obligations by helping to mitigate regional and international security risks as well as providing food-safety assurances.

The outcome sought is a heightened level of risk mitigation at the border in a more risk averse and threatened<sup>8</sup> international security environment, where New Zealand's reputation as a safe destination (and point of origin) for people, goods and craft is increasingly relevant to the preservation of our national interests.

## Processing efficiency

The government's latest passenger clearance service initiatives also allow for the fast, effective and efficient processing of passengers by all services, in line with world's best practice and travellers' own expectations.

A summary of the proposed initiatives is provided in Table 1 on page 6.

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<sup>8</sup> The threat being that presented by transnational crime, international terrorism, and biosecurity hazards with ever increasing opportunity to find their way into New Zealand.

# Working Paper 2:

## An international comparison of passenger clearance service charges

Internationally there is no consistent approach to funding border services. Some countries centrally fund some or all border services. By contrast, other countries blatantly over-recover costs, making their border recovery more of a tax than a charge.

In New Zealand present per-passenger charges total \$25.00 (GST inclusive) of which only \$5 is a central government charge. This comprises:

- \$4 charge for international passenger screening
- \$1 for the Civil Aviation Authority
- \$20 per-passenger charged by airport companies for enjoyment of airport facilities.

By comparison, border charges imposed on residents of the top ten sources of travellers to New Zealand are as follows (indicative figures only).

**Table 6: Border fees charged by the “top ten” markets for NZ tourism\*:**

Country	Visitors to NZ Year Ended August 2003	% Share of Total Visitors	Border Charges in Source Country (\$NZ)
Australia (Sydney)	660,419	32.3	100.76
United Kingdom (Heathrow)	253,248	12.4	136.83
USA (Los Angeles)	207,698	10.2	55.72
Japan (Narita)	157,002	7.7	31.09
Republic of Korea (Incheon)	111,656	5.5	21.92
China (Hong Kong)	65,858	3.2	21.81
Germany (Frankfurt)	51,947	2.5	30.91
Canada (Vancouver)	39,641	1.9	32.61
Singapore	31,461	1.5	20.62
Taiwan (Taipei)	26,703	1.3	14.95
<b>Total</b>	<b>1,605,633</b>	<b>78.5</b>	
All other markets	440,148	21.5	
<b>Total</b>	<b>2,045,781</b>	<b>100.0</b>	

\* Sources: *Passenger Air Tariff General Rules*, IATA and SITA, July 2002 & Statistics New Zealand

### Notes to table:

- In view of reporting discrepancies this table should be treated as indicative only.
- This table lists charges specified in central government legislation that must be added to ticket prices at purchase only. This excludes
  - any local or central government or airport charges not specified in central government legislation (e.g. charges similar to New Zealand airport charges); and
  - general non-travel taxes (e.g. GST).
- This table may include some airport development charges where these are collected through legislation.
- Some countries apply variable charge rates. Unless otherwise stated, figures in this table are based on a per passenger return trip to New Zealand from the source nation's capital. Variable rates are typically cheapest at major airports due to economies of scale.

# Working Paper 3:

## Pros and cons of alternate funding sources

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To assist readers consider the full range of funding options this paper identifies general arguments frequently presented in favour of funding passenger clearance services from general taxation or full or partial cost recovery funding options.

The strength of the following arguments will depend upon individual's viewpoints and the circumstances of the specific service that they are being applied to.

### Funding through general taxation

This option involves the Crown funding passenger clearance services fully through general taxation with users exempted from any obligations for the services provided. This currently exists for biosecurity clearance services and for a range of ancillary or associated services such as police at airports, investigation and prosecution services, intelligence gathering and analysis of the threat to the aviation sector, policy advice and other “core” Government services.

In favour of funding passenger clearance services from general taxation is that:

- Passenger clearance services are, arguably, a core government activity and as such should be funded through taxpayer funding.
- Travellers provide a net benefit to New Zealand. Border charges may reduce the number of tourists and their discretionary spending and so should be avoided. The government funding required for this may then be recouped through increased economic activity<sup>9</sup>.
- International visitors paid \$414 million in GST in 2002 and so already contribute to government services. As visitors under-utilise other government services (e.g. they are ineligible for social welfare), this ‘overpayment’ should be repaid through reduced passenger clearance charges. On the other hand, visitors use and are eligible for several other services, such as ACC, although they do not pay income tax. The extent of any ‘overpayment’ is therefore unclear.
- The government sets border risk management standards and travellers cannot control the volume or cost of services delivered. This is partially offset where there are countervailing pressures such as industry associations and consumer groups who can exert pressure to control costs and service levels.
- There are lower transaction costs associated with collecting the revenue via general taxation than by cost recovery. This occurs as cost recovery requires its own separate administration infrastructure.
- Collection through existing general taxation avoids the costs of setting up new collection and audit systems for the government and also reduces compliance costs to users.
- User charges, especially if collected from several sources at different times, can create a negative impression on travellers.

### Cost recovery

Cost recovery, whether full or partial, attempts to charge users directly for government provided goods or services they consume. By requiring a payment for a service or good, users will better recognise the costs of the resources involved and gain an incentive to adjust their consumption in line with their

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<sup>9</sup> The net effect of increased charges on the economy is unclear as approximately 40% of international travellers are New Zealanders. The extent to which spending in New Zealand by discouraged outgoing tourists would replace spending lost from discouraged incoming tourists, is unclear.

willingness to pay. Any concerns on ability to pay can then be explicitly and transparently addressed where such assistance is deemed necessary or desirable.

The cost of resources used in producing a service includes the foregone opportunity of using those resources elsewhere. Therefore, pricing based on costs helps to ensure resources are allocated more efficiently within the economy. By charging for goods and services, government can, where goods and services are voluntarily purchased, receive signals about which products are in demand and which are not. Even where products are not voluntarily purchased, such as passenger screening services, feedback from users can indicate whether the price is reasonable or excessive.

The pricing of government products can also have an impact on the role and structure of government. If goods or services are provided free of charge, users are likely to demand more than they otherwise would. In such an environment, people will demand more of the seemingly costless goods and services irrespective of the cost to society of their production. While this latter risk may be less likely with involuntary purchases, such as passenger screening, the absence of a price will lead to demands for screening services (for example, to be available on call), unrelated to the cost of delivering these services.

Arguments for funding passenger clearance services through cost recovery are:

**From a fairness perspective:**

- International travellers should pay the cost of services required to mitigate travel risks, as it is travellers who impose these risks on New Zealand. This fairness argument is strongest where the services are necessitated by travellers being potentially accidental risk exacerbators, for example biosecurity or SARS. For other risks such as preventing the passage of criminals, terrorists or illegal immigrants, where the vast majority of travellers do not pose any risk, it may be equally unfair to charge travellers. In the latter case the fairness of charging travellers for services required to control a tiny minority of travellers would only be fair if the majority of the public did not travel and derived no benefit from others travelling.
- The total flow of international arrivals and departures defines the basic processing and risk management tasks. A major driver of the costs of passenger processing is the way people move across borders i.e. time, place and mode of arrival. While passengers, for example, may not consider themselves to be the beneficiaries of the outcomes of being processed, they will benefit from processing being carried out in a timely and efficient manner.
- New Zealand's charges should, arguably, be consistent with world practice. A number of other countries charge for passenger clearance services. Not charging could create a situation where New Zealanders both pay other countries' passenger clearance charges and, as taxpayers, pay for the costs of foreign travellers visiting New Zealand. Internationally, governments tend to pay for customs and quarantine services but expect passengers to pay for aviation security.

**From an economic efficiency perspective:**

- Cost recovery can be configured so that those paying can influence operational efficiency and reduce costs. Transport operators or airports have the capacity and capability to put pressure on border agencies to improve processes. Experience at regional airports where border charging has been implemented confirms this.
- Revenue links more closely to activity. Thus any increases in demand for passenger clearance services would be automatically compensated with increasing revenue.
- Cost recovery will ensure that industry includes passenger clearance service costs in their business decisions such as establishing new regional international airports. However, the strength of any price signals will be diluted or distorted if cost recovery is only partial, or if cross subsidisation occurs.
- Business decisions include the full costs that they impose. Therefore decisions such as whether to establish a new international airport consider all the relevant costs. This helps prevent over investment that would occur if not all of the costs of the proposal were included.

## Partial cost recovery

Arguments for funding passenger clearance services through partial cost recovery are:

- The sharing of costs may be more acceptable than full cost recovery.
- Partial cost recovery places incentives on both the Crown and beneficiaries/users to try to minimise the cost of services. Obviously these incentives are not as strong as under full cost recovery and may also be further weakened by the belief that others are monitoring costs.
- It would allow the payment for passenger clearance services to reflect any public good benefits seen to arise from the provision of these services.

In practice “security” benefits usually affect more than the direct beneficiary due to the negative effects of terrorist or other criminal activity or disease on the entire country. For example, the Bali bombing seriously impacted on the Indonesian economy with tourism to Indonesia dropping significantly in the bombing’s aftermath. Similarly, implementing international aviation security measures may benefit New Zealand’s reputation as a whole, contributing to it being perceived as a safe destination. These benefits for the wider community may point to Crown funding of the “public good” element being appropriate. There can, however, be significant difficulties in calculating the proportion of benefits to each group. There can also be significant issues trading off the efficiency of collection against the equity of contribution.

- In some cases one party may want passenger clearance services to be provided in a more expensive way. For example, hold baggage screening may help detect smuggling of native fauna and flora. In this case, the Crown may wish to invest in ancillary screening technology above that necessary to detect explosives in order to help achieve conservation objectives. In such cases the Crown (as the party demanding the higher standard) could be expected to pay for the additional costs.
- Some services will provide benefits beyond their primary purpose which are captured by users. For cases where an activity provides windfall benefits to others there is an open question about what compensation, if any, the windfall beneficiary should provide. In most cases the answer is none<sup>10</sup>, however, there may be an argument for Crown funding on an equity basis where the primary windfall beneficiary is the Crown.

Some disadvantages of partial cost recovery include:

- it results in both deadweight costs of taxation and compliance costs of collecting fees; and
- accountability and efficiency incentives are diluted by split responsibilities for payment.

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<sup>10</sup> For example: If your neighbour improves the sale value of your house by painting their house you do not owe them anything.

## Working Paper 4:

# Expected economic implications of cost recovery of passenger clearance services (a summary of economic studies)

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Any increase in the cost of international travel may reduce the number of travellers. Previous economic studies have suggested that for small increases the impact on travellers is likely to be both small and short lived.

- In 1998 NZIER<sup>11</sup> estimated a \$12 charge would reduce total travel arrivals by 0.2% - 0.6%.
- A study by BERL<sup>12</sup> in 1991 suggested any reductions in passenger numbers following the imposition of a small charge would be short-term and temporary.
- An LECG<sup>13</sup> study in 2003 estimated that a \$30 uniform increase in border charge could reduce tourism and permanent arrivals into New Zealand by between 1.4% and 4.4%. However, a \$30 increase is not a possibility as it would require considerably more than 100% cost recovery. By contrast, even 100% cost recovery, with the Crown withdrawing its existing \$36 million contribution would lead to an increase of about \$19 per passenger. A charge of this magnitude could reduce arrivals by approximately 0.9% to 2.8%. Maintaining the Crown's existing funding and cost recovering new services only would be expected to reduce arrivals by between 0.4% and 1.2%.

In addition to its findings the NZIER study found that:

- a \$12 charge represented a small proportion of the cost of international airfares (from 0.5% to 3%) and an even smaller percentage of the total cost of international travel;
- from an efficiency perspective, recovering the costs of border clearance services from beneficiaries (travellers) is "unambiguously superior to general taxation"; and
- if it is a government priority to stimulate tourism then there are likely to be more effective ways of doing this than a general subsidy on passenger clearance services.

For long haul markets, where border charges are a small component of total travel cost, it is unlikely that this situation will have changed significantly given that much higher security charges are an international trend.

For short haul markets like Australia however, an increase in charges could have a more marked effect. This may be exacerbated by the changing structure of the airline industry which has seen the introduction of low cost or value-based airlines to the trans-Tasman route. However, this cannot be confirmed.

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11 Cost Recovery of Passenger & Craft Border Clearance Services – An Economic Analysis of Funding Options.

12 The Economic Determinants of International Visitor Arrivals to New Zealand.

13 LECG = Law and Economic Consulting Group.



## International literature on the impact of passenger charging

International research literature suggests that price elasticities vary between markets for air travel<sup>14</sup>. In particular, price elasticities are greatest for short-haul leisure travel and lowest for long-haul international business. For the former a 1% increase in price has been variously estimated to decrease traveller numbers by between 1.2% and 1.7% for the latter a 1% price increase reduces passenger numbers by between 0.15% and 0.5%.

The greater price responsiveness of short distance leisure travel is partly due to competition from alternate transport modes. Similarly, as longer haul and international travel tends to be spread over more days than short trips, the airfare is a smaller proportion of the overall costs. This makes international travel less sensitive to changes in ticket price.

In practice, if border charges were to increase by anything other than extreme amounts, the impact on long-haul travel to New Zealand would likely to be minimal. However, for Australian travellers who comprise a third of all international visitors, the impact is likely to be more significant. The literature is unclear on whether:

- travellers respond differently to ticket prices compared to changes in other travel expenses. If travellers place greater weight on ticket prices compared to other travel costs (such as border charges, exchange rates, transfer expenses or travel insurance rates) then the impact of any cost increases would be reduced; and
- price sensitive travellers who are discouraged by any cost increases are lower spenders when they do travel. If so, then this would also mitigate any adverse economic impacts from an increase in border charges.

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<sup>14</sup> A literature survey of air travel elasticities (Gillen, Morrison and Stewart, 2003), identified these markets as business and leisure travel, long-haul and short-haul travel; and international and North American long-haul travel.

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