

In Confidence

POL Min (04) 30/2

Funding of Passenger Clearance Services at International Airports

On 8 December 2004, the Cabinet Policy Committee:

Background

- 1 noted that in April 2004, Cabinet invited the Minister of Finance to report in due course with proposals for final decisions on the funding of passenger clearance services at international airports [CAB Min (04) 13/9];
- 2 noted that border funding proposals have been developed by the Ministerial Committee on the Funding of Border Security and have been subject to consultation with the industry;
- 3 noted that the industry broadly accepts the package canvassed in the paper under POL (04) 392;

Aviation Security services

- 4 agreed that Aviation Security (Avsec) services should be fully industry funded;

Biosecurity and Customs services

- 5 agreed that the Crown should fully fund the current level of Biosecurity and Customs services at existing metropolitan international airports (Auckland-Mangere, Wellington and Christchurch);
- 6 noted that:
 - 6.1 regional airports would prefer that Crown funding be benchmarked to the rate of the third cheapest airport, as this more closely reflects their operating and cost structure;
 - 6.2 the difference in per passenger Customs and Biosecurity costs between the second and third cheapest airports (Christchurch and Wellington) is minimal, although it may grow in time;
- 7 agreed that the Crown should partially fund Biosecurity and Customs services at existing regional international airports (Hamilton, Palmerston North, Dunedin, and Queenstown);
- 8 agreed that Crown funding be set at full funding up to the per passenger rate of the third cheapest airport; and for costs beyond that 50% funding of per passenger costs above the rate of the third cheapest airport;
- 9 agreed that the maximum Customs and Biosecurity charges for existing regional airports would be capped at the per passenger rate of the second most expensive airport with the Crown meeting the costs above that level;

Other matters

- 10 agreed that any new airport would meet the full cost of government services;
- 11 agreed that there be no change to the way immigration services at international airports are funded;
- 12 agreed that all government charges should be recovered from airlines;
- 13 agreed that to achieve transparency, non-government airport charges would not be allowed to be aggregated within government charges;
- 14 agreed that specific government approval (beyond that required under the Biosecurity Act 1993 and the Customs and Excise Act 1996 to be a port of first arrival) would not be necessary for airports seeking to provide for international air services;
- 15 agreed that cost increases due to growth in passenger movements for Biosecurity and Customs services should be Crown funded in a manner that matches increased demand as appropriate, as per the formula set out in paragraphs 5, 7 and 8;
- 16 agreed that costs incurred as a result of changes to service quality standards, such as improvements in passenger processing time, should be funded by whoever requests, or is the primary beneficiary of, the new service;
- 17 agreed that new services should be funded on the same basis as other services (cost recovery for Avsec services, Crown funding of others);
- 18 agreed in principle that gazetted hours and after hour charges be removed, subject to satisfactory arrangements being agreed with industry to control the Crown's exposure to the risk of increased costs due to industry's demands for changes in service delivery introduction;
- 19 agreed that all airports (new and existing) will be allowed to charge Avsec for space for regulatory functions at airports, subject to satisfactory arrangements being agreed with airports that protect Avsec from having to pay excessive levels of rent;
- 20 agreed that the above decisions come into effect on 1 October 2005, to link them to the introduction of Hold-stow Baggage Screening;

Financial issues

- 21 noted that the net fiscal impact of these decisions is likely to be \$3.596 million (GST incl.) in 2005/06 and \$4.722 million in outyears, and that these costs will be captured as part of the 2005 Budget round;
- 22 noted that the overall financial cost of border services would be split between the Crown and Industry approximately 50/50;

Next steps

- 23 agreed to a Border Industry CEO forum (Ministry of Tourism lead, with Customs, Ministry of Agriculture and Forestry, Ministry of Transport, Avsec, and industry stakeholders) to build upon the success of the consultation process and to facilitate ongoing issues;
- 24 directed the New Zealand Customs Service and Ministry of Agriculture and Forestry (Biosecurity) to develop drafting instructions for the legislative changes necessary to implement the above decisions;
- 25 directed officials from Ministry of Transport (lead), Customs, Ministry of Agriculture and Forestry, Treasury and Ministry of Tourism to report to the Cabinet Policy Committee by 31 March 2005 with progress on consultation with industry on how the Avsec charge is to be allocated across airports and options for the collection mechanism for government charges;
- 26 directed officials from Customs (lead), Ministry of Transport, Ministry of Agriculture and Forestry, Treasury and Ministry of Tourism to report to the Cabinet Policy Committee by 31 March 2005:
 - 26.1 with progress on legislative issues;
 - 26.2 on consultation with airports and airlines on arrangements to control the Crown's exposure to the risk of increased costs due to industry's demands for changes in service delivery and removal of after-hours charges;
- 27 noted that the Minister of Finance indicates that consultation with the government caucuses and other parties represented in Parliament is not required.

Secretary

Reference: POL (04) 392