

Treasury Report: Funding of Passenger Clearance Services - Cabinet Paper

Date:	26 November 2004	Treasury Priority:	Medium
Security Level:	IN-CONFIDENCE	Report No:	T2004/2218

Action Sought

	Action Sought	Deadline
Minister of Finance	Submit the attached Cabinet paper to Cabinet Office	12 noon, Thursday 2 December 2004
Associate Minister of Finance (Hon Trevor Mallard)	For your information	None
Associate Minister of Finance (Hon David Cunliffe)	For your information	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
			✓
Gareth Chaplin	Manager, International & Defence Section		

Enclosure: **Yes**

26 November 2004

SH-12-7-1

Treasury Report: Funding of Passenger Clearance Services - Cabinet Paper

Purpose of Report

1. The attached Cabinet paper seeks Cabinet agreement on how passenger clearance services at international airports are to be funded.
2. This paper has been developed by the Ministerial Committee on the funding of border security of which you are the Chair. It reflects the broad agreements reached with Industry representatives (airline, airport, consumer and tourism representatives), and notes areas where disagreement still exists. These include the questions of funding services at new international airports, and the degree of differentiation in charges between the major metropolitan airports and the smaller regional international airports.

Recommended Action

It is recommended that you:

- a **sign** the attached draft Cabinet paper and accompanying CAB 100 prior to the Cabinet office deadline of 12.00 p.m. Thursday 2 December; and
- b **indicate** whether you wish to meet with officials to discuss this paper or possible amendments.

Meet/Don't meet

Gareth Chaplin

Manager, International and Defence
for Secretary to the Treasury

Hon Dr Michael Cullen

Minister of Finance

IN CONFIDENCE

Chair
CABINET POLICY COMMITTEE

FUNDING OF PASSENGER CLEARANCE SERVICES AT INTERNATIONAL AIRPORTS

Proposal

1. This paper seeks:
 - agreement on how passenger clearance services at international airports are to be funded; and
 - approval for departments to develop drafting instructions for legislative changes necessary to implement the proposed funding arrangements.
2. The proposed funding regime has been developed by the Ministerial Committee on funding of border security and has been subject to consultation with stakeholders. Stakeholders broadly accept the package this paper canvases, although there are differences over how parts of the package could be implemented.

Background

3. The numbers of passengers using New Zealand's international airports are increasing at a high rate, reflecting the relative attraction of New Zealand as a tourist destination, and the numbers of New Zealanders travelling overseas on business and on holiday. This high growth has led to demands for funding to maintain existing levels of services for growing passenger numbers. On top of this, there are increasingly expensive security requirements, and growing pressure to increase the overall standard of passenger processing at the border.
4. The Government and Industry are both facing substantial increases in investment and spending. However, the arrangements for funding Government services are ad-hoc and uncoordinated, and do not provide a proper basis for adapting to changing circumstances.
5. At the start of this year existing passenger clearance services cost the Crown \$55 million a year. Some services were cost recovered while others were not. The systems of cost recovery differ in purpose and application between agencies. Overall approximately \$18 million or 33% of the costs were recovered from airports and travellers as follows:

Table One: Passenger Clearance costs as at March 2004

Service	Total Cost	Crown contribution	User contribution
International departing passenger screening (Avsec)	\$11.420 m	\$0 m	\$11.420 m (100%)
Passenger, crew & craft clearance (Customs)	\$19.670 m	\$14.340 m (73%)	\$5.330 m (27%)
Passenger & aircraft biosecurity clearance (Biosecurity)	\$18.620 m	\$18.620 m (100%)	\$0 m
Passenger clearance & turnaround of inadmissible passengers (Immigration)	\$4.830 m	\$3.230 m (67%)	\$1.600 m (33%)
Total	\$54.540 m	\$36.190 m	\$18.350 m

6. These costs have increased following decisions to fund \$7.677 million in full year costs for Vote Customs and Vote Biosecurity to maintain existing levels of services for the growth in passenger numbers at Auckland and Christchurch International airports [POL Min (04) 20/9 refers], and to fund \$5.911 million in full year costs for Vote Customs for enhanced Border Security [CAB Min (04) 13/3(20) refers]. These new costs are 100% Crown funded.
7. Upcoming services that must be introduced include Hold-stow Baggage Screening (HBS), estimated to cost the Aviation Security Service (Avsec) \$21.400 million per annum. In addition Border agencies will be introducing a time standard for passenger processing at international airports. Both projects will involve increased spending by the industry. HBS is estimated to require \$40 million in capital expenditure across airports, and additional operating costs of \$8 million pa. Other miscellaneous industry costs are expected to increase by around \$6 million per annum.

Reviewing the Funding of Passenger Clearance Services

8. These factors contributed to a Ministerial Committee (comprising the Ministers of Finance, Biosecurity, Tourism, Transport and Customs) being formed to review the funding of passenger clearance services. The Government published a discussion document "Funding of Passenger Services" in May 2004, and opened a consultation process with stakeholders. The discussion document was prepared in order to engage stakeholders and to outline Government's proposals. These proposals were:
 - the funding sources for existing as well as new international passenger clearance services should be examined;
 - 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 on the public private benefits; and
 - 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.

9. With regard to implementation and collection:
- there will be one unified charge covering the cost of all Government-funded services (rather than a series of separate charges);
 - cost sharing between government and users will cover central government's costs only; and
 - costs should be recovered from users in the most efficient and cost-effective way.
10. In practice, there are trade-offs between these proposals. In particular, deciding the appropriate balance between public and private benefit on each service could lead to substantial complexity in cost recovery systems.
11. After some initial opposition, Industry's response was to broadly agree with these proposals, but to suggest that the primary beneficiary of each service should pay the full costs of that service. This would mean in practice that airlines and passengers would meet the full cost of Avsec, since these two groups are clearly the major beneficiaries of enhanced security. The Crown would meet the full costs of Customs and Biosecurity, since New Zealand as a whole is the primary beneficiary of these services.
12. The Ministerial Committee carefully considered this suggestion. Its advantages include its simplicity and its longevity; it would not need regular renegotiating. Its disadvantages include the muted pricing signals it would give. It might also cost the Crown more than ascribing public-private ratios to each service, although this has to be weighed against the possibility of continuing debate – perhaps through the Court system – over these ratios.
13. The downstream implications of the suggestion also required careful consideration. The most important of these is the need to replace the pricing signals inherent in Customs' existing charging arrangements for arrivals outside normal hours with some form of administrative regime to minimise fiscal risk.
14. A further consideration is the most effective way to recognise the fact that there are economies of scale in running airports, which inevitably means that the cost per passenger of services will be higher in smaller airports. Also Industry decisions on such matters as the scheduling of services and where hubbing will take place, influence the costs of providing passenger clearance services.
15. Finally Ministers considered the potential social costs and benefits of Crown funding of passenger clearance services at all international airports (including any new airports established in the future). Ministers concluded that on balance it would be appropriate that the Crown's exposure to these costs should be limited to a contribution to costs at existing regional international airports, and that any new international airports established in the future should meet the full costs of passenger processing.

Ministerial Committee proposals

Funding of existing Border Services

16. After considering the Industry's proposal, the Ministerial Committee went back to the Industry with following overall package.
- i. Avsec services should be fully Industry funded;

- ii. the Crown should fully fund the current level of Biosecurity and Customs services at existing metropolitan international airports (Auckland-Mangere, Wellington and Christchurch);
 - iii. the Crown should partially fund Biosecurity and Customs services at existing regional international airports (Hamilton, Palmerston North, Dunedin, and Queenstown). Crown funding being set at:
 - a) full funding up to the per passenger rate of the second cheapest airport, and for costs beyond that;
 - b) 50% funding of per passenger costs above the rate of the second cheapest airport;
 - c) the maximum Customs and Biosecurity charge 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;
 - d) Any new airport would meet the full cost of Government services.
 - iv. all Government charges should be recovered from airlines who would be expected to include the charges on airline tickets;
 - v. in order to achieve transparency, non-government airport charges would not be allowed to be aggregated within government charges;
 - vi. specific Government approval (beyond those required under Biosecurity and Customs Acts to be a port of first arrival) would not be necessary for airports seeking to provide for international air services; and
 - vii. controls on the demands Industry decisions can impose on the costs of delivering border services need to be maintained to manage the Crown's ongoing fiscal risk.
17. While the Ministerial committee proposed that Avsec services should be Industry funded, no proposal was made on how that funding should be allocated across airports. If Cabinet agrees to the proposal then there will be further consultation with Industry. This will need to occur in early 2005 in order for new levies to be in place by 1 October 2005.

Funding of new and volume driven Border services

18. The above funding proposals cover existing passenger services. To provide for changes in passenger demand and for the introduction of possible new services, the Ministerial Committee proposed that:
- viii. cost increases due to growth in passenger arrivals for biosecurity and customs services should be Crown funded in a manner that matches, as appropriate, increased demand (as the Government already has for the remainder of this year and all of next year);
 - ix. 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. If it is Crown funded, it is to be sought through existing Budget processes (as will be the case for any funding needed to reach ICAO standards for passenger processing from late 2006);
 - x. new services should be funded on the same basis as other services (cost recovery for Avsec, Crown funding of others in accordance with the formula described in paragraph 16 (iii)).

Other Ministerial Committee proposals

After Hour Charges

19. As part of its package of proposals, Industry requested the removal of gazetted hours for Customs services and suggested that airports be allowed to charge all Government agencies for the use of processing space required for regulatory activities at airports
20. This option exposes the Crown to potentially significant increases in costs of providing Customs passenger clearance services. Conceptually the situation could occur where costs increase over a static volume of passenger arrivals merely due to changes in airline scheduling. The immediate fiscal consequences of removal of after hours charges would be the need to replace around \$4.800 million p.a. in third party revenue with Crown funding in Vote Customs. In the longer term there would be increased fiscal risk to the Crown as there would be no price signal on Industry to manage demands for border services. Under the current regime the Crown funds a certain level of services (for which out-of-hours is the proxy) with users meeting the costs of services demanded beyond this level.
21. However, this proposal does have some advantages. After hours charges tend to conflict with the need of airports to operate at hours that suit the needs of travellers and airlines and may unfairly favour incumbents with existing slots and therefore discourage competition. It should be noted that there are some natural constraints on airline schedules that reduce the risk of significant costs increases such as passengers being unwilling to purchase tickets for flights that depart or arrive in the early hours of the morning.
22. The Committee proposed that;
 - xi. cost recovery gazetted hours and after hour charges should be removed, but only in principle and contingent on 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.

Charging for space at airports

23. Industry has also requested that airports be allowed to charge the Avsec, Customs and MAF for space needed for processing activities at airports. Government agencies already pay for administration space, although there are marked variations in how this is managed across agencies and across airports.
24. There are good economic efficiency reasons for allowing charging for airport space. In particular, it would make airports more willing to provide adequate space to Government agencies as they could get an economic return on this space and would also identify to Government agencies the full cost of their decisions and hence improve decision-making. Customs and MAF were charged for such space for a small number of years following the corporatisation of airports.
25. Risks with this proposal are that it could expose the Crown to potentially excessive charges from monopoly airport providers. Customs and MAF do not agree that airports should be allowed to charge them for use of space at airports. Because all airports are required to provide this space none are commercially disadvantaged relative to each other. Further, the airports are able to recover the costs of space through both landing charges and departure charges on passengers. Airports charging for space would also have precedent effects for MAF and Customs' space at seaports and airport space required for Avsec's domestic screening activities. On the other hand, Avsec can see

benefits from being charged for processing space, especially given the increased requirements for passenger processing; Avsec feels that this could materially assist in negotiations with airports over the space required for operational areas. The risks of excessive charging by monopoly providers already exist, since agencies pay rent for office and cafeteria space now, and there are mechanisms to allow for resolution. For its part, Industry is concerned about the possibility of monopoly Crown-owned providers exploiting their position to over-recover rentals.

26. The Ministerial Committee proposed that:

- xii. all airports (new and existing) will be allowed to charge Avsec for space for regulatory functions at airports contingent on satisfactory arrangements being agreed with airports that protect Avsec from having to pay excessive levels of rent.

Funding for New International Airports

27. The Ministerial Committee proposal recommends that any new international airport would meet the full costs of Government-provided services, in addition to Avsec. This is intended to send a strong signal to proponents of new airports. The Government is concerned that key investment decisions on new infrastructure assets take full account of appropriate pricing signals. The package for existing airports recognises the property rights that existing airports have had under existing arrangements. Some existing regional airports have noted that they faced similar cost structures when they expanded into international flights.

28. The Privy Council decision on the appeal by Waikato Regional Airport Limited indicated that the principals of equity and efficiency in regard to cost recovery under the Biosecurity Act did not allow MAF the discretion to treat different or new players in the market differently from the existing established players. The Privy Council found that the concept of equity required the Director-General to cost recover in a way that was fair and proportionately shared benefits and burdens. The Privy Council found that MAF's decision to charge regional airports but not metropolitan airports was not fair nor a proportionate sharing of money allocated to border passenger services. Consequently officials consider that the current proposal that new airports would meet the full costs of Government provided services would require new legislation as outlined below in the Legislative and Regulatory Implications section.

Ongoing contact between the Industry and Government agencies

29. It has been suggested that a CEO Forum be established to better manage the strategic relationship between the various Crown agencies and the Industry, building on the success of this consultation process. There will also need to be ongoing contact with Industry over how these decisions will be implemented. All stakeholders have reacted positively to this suggestion, and are looking for more details on how this Forum could best be established. A package is being developed, with the Ministry of Tourism taking the lead from the Government side. It is hoped that the first meeting of the Forum will be early in 2005.

Issues that have been taken off the table

30. Airlines have requested funding the cost of providing the Government with information for advanced passenger screening and information (fiscal cost \$2.250 million p.a.) as well as for aircraft disinsection (bug spraying) (\$0.500 million p.a.). The Committee recommends that airlines should not be compensated for providing information and

insect spraying services required through Government legislation. Industry has accepted these decisions.

31. Immigration passenger clearance services should continue to be funded under the existing status quo arrangements. These include visa application fees that are collected from applicants as a direct charge.

Downstream Issues

32. Should Cabinet endorse the Ministerial Committee's proposals officials will proceed to stage two of this process – implementing the proposals. This will involve:
- further consultation with Industry on how the Avsec charge is to be allocated across airports (i.e. location specific charge, a metropolitan/regional two tier charge, a single New Zealand charge or some intermediate option). There is now urgency to this exercise being completed in time for new levies to be in place by 1 October 2005, as Avsec is currently incurring ongoing operating losses;
 - drawing up the legislation and regulations required from these proposals;
 - agreement between Customs and airports and airlines on the removal of after hours charges contingent on satisfactory arrangements being agreed with Industry to control the Crown's exposure to the risk of increased costs;
 - consulting with Industry on a costing model for the Avsec charge and the regional airports charges;
 - establishing a Border Industry CEO forum;
 - identifying an efficient collection option for Government charges; and
 - the point at which charges should be applied.
33. The Treasury has been co-ordinating the development of passenger clearance funding policy. This will no longer be appropriate as the process moves to the implementation phase. It is therefore proposed that:
- Transport be responsible for taking the lead on further consultation with Industry on how the Avsec charge is to be allocated across airports and in developing options over the collection mechanism for Government charges;
 - Tourism take the lead in establishing a Border Industry CEO forum; and
 - Customs be responsible for leading the work on legislative issues and 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.

Legislative and Regulatory Implications

34. The legislative and regulatory implications of the Ministerial Committee's decision are:
- Customs – Changes would be required to the Customs and Excise Act 1996 to support Crown funding arrangements that differentiate between the metropolitan and regional airports.
 - MAF - It is likely that potentially controversial changes would have to be made to the cost recovery provisions of the Biosecurity Act 1993 in order to implement the proposed airport funding regime. The alternative is for the Government to introduce new primary legislation to avoid potential legal challenge. However the relationship between the proposed new legislation and the Biosecurity Act would need careful consideration to ensure that the new legislation was in harmony, and did not adversely impact on the Biosecurity Act.

- Avsec – No legislative changes would be required to change the level of the charge per international passenger and switch from charging international airports to charging international airlines. This can be done by regulation. However, if passengers were to be charged directly then legislation would probably be required.

Industry Position

35. Industry has signalled its broad agreement with the Ministerial Committees proposals above, while retaining their right to raise points of detail. These are around the impact of these decisions on existing regional airports, and the implications of new airports being required to meet the full cost of Government-provided services. Preliminary views were sought from Industry on the Avsec charge options. There was no consensus view on which option should be taken.
36. Regional airports, Wellington International Airport and Pacific Blue do not accept the Ministerial Committee's proposal that distinguishes the regional airports from the metropolitan airports. The regional airports agree that the metropolitan airports have economies of scale but state that there are also benefits to New Zealand in having the additional ports available for the tourist industry, for New Zealand travellers and as a strategic resource. Notwithstanding this, if the Cabinet did distinguish between regional and metropolitan airports the regional airports suggest that Crown funding be benchmarked to the rate of the third cheapest airport as this more closely reflects their scale, operating and cost structure. The difference in per passenger Customs and Biosecurity costs between the second and third cheapest airports is \$0.60 for Customs and \$0.22 for Biosecurity. These cost differences are indicative and may grow in time. Other stakeholders are either neutral or supportive of the Committee's proposal.
37. Wellington International Airport and Pacific Blue do not accept the Committee's proposal that that any new airport would meet the full cost of Government services. Pacific Blue believes that any new airport should have the same charging regime as that of existing international airports and that having to meet the full costs of Government services would create a large barrier to entry for a new airport. Wellington International Airport believes that the proposal is discriminatory, inconsistent with the primary beneficiary model, distorting and short sighted. Other stakeholders are either supportive or have no view on of the Committee's proposal regarding new airports.
38. Making the necessary legislative changes is critical to enabling proper implementation of new funding arrangements by 1 October 2005. This in turn would require a trouble-free path through the legislative process. In the past proposals for cost recovery for passenger clearance has been a litigious issue, and therefore a broad stakeholder consensus is required for these proposals to proceed as planned. Notwithstanding the views of Wellington International airport and Pacific Blue I am confident that a consensus has been reached around the principle issues and that any legislation will not attract an adverse level of outside lobbying or adverse comment from stakeholders.

Publicity & Communications Strategy

39. A press release will be undertaken by the Minister of Finance outlining details of Cabinet's decision.

Fiscal and Financial Implications of the Ministerial Committees' proposals

40. The indicative Crown funding and third party funding for the passenger clearance services currently undertaken by the Crown would be as follows if the Ministerial Committees' proposals are agreed:

Table Two: Indicative Passenger Clearance costs for 2005/06

Agency	Total cost \$m	Crown contribution \$m	User contribution \$m
Avsec	32.820	-	32.820
Customs	29.786	29.447	0.339
Biosecurity	22.094	21.830	0.264
Immigration	5.971	3.975	1.996
Total	90.671	55.252	35.419

Note: Immigration costs are best estimates based on 2004/05 costs.

41. As already noted, the industry reports that it faces increased costs of around \$14 million per annum to implement its share of the new security requirements and other enhancements. Overall, the total costs of around \$105 million are split approximately 50/50 between the Crown and Industry.
42. The indicative per passenger charge at each of the airports is set out below. The decision as to which Avsec charge will be taken will be the subject of consultation with Industry and will be addressed in a follow up Cabinet paper.

Table Three: Indicative per passenger costs at each airport

Airport	Biosecurity and Customs \$	Options for the Avsec charge \$			
		Single NZ charge	Metro/Regional charge		Location specific charge
			Option A	Option B	
Auckland	0.00	8.16	7.10	7.50	6.24
Wellington	0.00	8.16	7.10	7.50	11.81
Christchurch	0.00	8.16	7.10	7.50	9.15
Palmerston North	5.81	8.16	35.08	25.08	35.29
Hamilton	1.97	8.16	35.08	25.08	27.76
Dunedin	3.07	8.16	35.08	25.08	25.08
Queenstown	5.81	8.16	35.08	25.08	121.15

Notes:

- Costs are based on 2005/06 costs combined with projected full year costs for new services.
- The Avsec charges include \$4 that is being collected by airports. Thus as an example if a Single New Zealand charge is agreed the increase in costs would be \$4.16.
- The \$1 Civil Aviation Authority International Passenger departing levy currently being collected by airports is not included in the above figures.
- The per passenger cost figures are based on current Tourism Research Council forecasts of 2005/06 passenger movements.
- The Avsec Metro/Regional charge Option A takes total costs for the two groups and averages it out within each group.
- The Avsec Metro/Regional charge Option B uses the lowest cost regional airport per passenger charge for all regional airports and then allocates the remaining

costs across the metropolitan airports. This results in metropolitan airports cross subsidising the regional airports as a whole by \$1.520 million.

43. The financial implications arising from the above decisions are limited to the costs of removing gazetted and after-hours charges, for Customs only and the revenue from the introduction of partial user charges at the regional airports for both Customs and Biosecurity. These costs will be captured as part of the 2005 Budget Round. Based on passenger arrival forecasts for 2005/06 and estimates of the output class expenses for 2005/05 for passenger clearance the fiscal implications for Vote: Customs and Vote: Biosecurity of adopting the Ministerial Committee's proposals for the funding of passenger clearance will be:
- An increase in Revenue: Crown of \$3.800 million (GST excl) in 2005/06 (assuming a 1 October start date for the new arrangements) with a corresponding decrease of the same amount in Revenue: Other and \$4.800 million (GST excl) in 2006/07 and outyears.
 - An increase in Revenue: Other of \$0.603 million (GST excl) in 2005/06 and outyears.

Regulatory Impact Statement

44. A Regulatory Impact Statement (RIS) is attached and complies with the requirements for RISs. A Business Compliance Cost Statement (BCCS) has not been prepared as there are no identifiable red-tape implications arising from this proposal. Further RIS/BCCSs will be prepared as the proposal is further developed.
45. Based on international travel elasticities the indicative increase in border charges of \$4.16 at Auckland Airport (which takes approximately 70% of New Zealand's passengers) would be expected to have the following impacts on traveller numbers.

Table Four: Expected Impact of increased border charges

Traveller type	Lowest-highest estimate	% of total
Tourist and permanent arrivals to New Zealand	-4,000 to -13,000	0.2% to 0.6%
Ex NZ departures	-4,000 to -12,000	0.3% to 0.9%
Total tourist and permanent arrivals plus temporary departures	-8,000 to -25,000	0.3% to 0.8%

46. The net economic impact of any reductions will depend on:
- the type of travellers who would be discouraged (i.e. backpackers or high net worth tourists);
 - the spending levels of foreigners in New Zealand compared to New Zealanders overseas (statistics indicate that New Zealanders in Australia spend more than Australians in New Zealand); and
 - whether location specific border charges would discourage travellers from coming to New Zealand or only change the airport through which they arrive.

Treaty, Human Rights and Gender Implications

47. No Treaty of Waitangi implications have been identified. The proposals in this paper are consistent with the Human Rights Act 1993. There are no gender implications associated with the proposals in this paper.

Consultation – Government and Industry stakeholders

48. The following Departments and Crown entities were consulted and provided invaluable assistance in the development of this paper: New Zealand Customs Service, Ministry of Agriculture and Forestry, Ministry of Tourism, Ministry of Transport, Department of Prime Minister and Cabinet, Department of Labour (New Zealand Immigration Service), Ministry of Foreign Affairs and Trade, Ministry of Economic Development, Aviation Security Service and the Civil Aviation Authority.
49. The following industry stakeholders were consulted as part of the consultation process: Air New Zealand, Qantas, Pacific Blue, Board of Airline Representatives of New Zealand, Auckland International Airport, Hamilton International Airport, Palmerston International Airport, Wellington International Airport, Christchurch International Airport, Queenstown International Airport, and Dunedin International Airport. The Consumers Institute, Tourism Industry Association, and Local Government New Zealand were also consulted.

Recommendations

50. It is recommended that the Committee:

- 1 **note** that the border funding proposals have been developed by the Ministerial Committee on funding of border security and have been subject to consultation with Industry. Industry broadly accepts the package this paper canvases;
- 2 **agree** that Aviation Security services should be fully Industry funded;
- 3 **agree** that the Crown should fully fund the current level of Biosecurity and Customs services at existing metropolitan international airports (Auckland-Mangere, Wellington and Christchurch);
- 4 **note** that 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. 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;
- 5 **either** (Border Funding Ministers' proposal)
 - 5.1 **agree** that the Crown should partially fund Biosecurity and Customs services at existing regional international airports (Hamilton, Palmerston North, Dunedin, and Queenstown). Crown funding being set at full funding up to the per passenger rate of the **second** cheapest airport; and for costs beyond that 50% funding of per passenger costs above the rate of the **second** cheapest airport;or (Regional airports preferred option)
 - 5.2 **agree** the Crown should partially fund Biosecurity and Customs services at existing regional international airports (Hamilton, Palmerston North, Dunedin, and Queenstown). Crown funding being 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;

- 6 **agree** 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;
- 7 **agree** that any new airport would meet the full cost of Government services;
- 8 **agree** that there be no change to the way Immigration services at international airports are funded;
- 9 **agree** that all Government charges should be recovered from airlines;
- 10 **agree** that in order to achieve transparency, non-government airport charges would not be allowed to be aggregated within government charges;
- 11 **agree** that specific Government approval (beyond those required under Biosecurity and Customs Acts to be a port of first arrival) would not be necessary for airports seeking to provide for international air services;
- 12 **agree** that cost increases due to growth in passenger movements for Biosecurity and Customs services should be Crown funded in a manner that matches, as appropriate, increased demand, as per the formula set out in recommendation 3 and 5;
- 13 **agree** 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;
- 14 **agree** that new services should be funded on the same basis as other services (cost recovery for Avsec services, Crown funding of others);
- 15 **agree** that gazetted hours and after hour charges should be removed, but only in principle and contingent on 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;
- 16 **agree** that all airports (new and existing) will be allowed to charge Avsec for space for regulatory functions at airports contingent on satisfactory arrangements being agreed with airports that protect Avsec from having to pay excessive levels of rent;
- 17 **agree** that, should the above proposals be agreed, they will come into effect on 1 October 2005 so as to link them to the introduction of Hold-stow Baggage Screening;
- 18 **agree** to a Border Industry CEO forum (Ministry of Tourism led, including Customs, Biosecurity, Transport, Avsec, and Industry stakeholders) to build upon the success of this consultation process and to facilitate ongoing issues;
- 19 **agree** that Customs and Biosecurity develop drafting instructions for legislative changes necessary to implement the proposed changes;
- 20 **note** that the net fiscal impact of these decisions is likely to cost \$3.596 million (gst inclusive) in 2005/06 and \$4.722 million in outyears. These costs will be captured as part of the 2005 Budget Round. The overall financial cost of border services would be split between the Crown and Industry approximately 50/50;

- 21 **direct** officials from Transport (lead), Customs, Biosecurity, Treasury and Tourism to report back to Cabinet Policy Committee by 31 March with progress on consultation with Industry on how the Avsec charge is to be allocated across airports and in developing options over the collection mechanism for Government charges; and
- 22 **direct** officials from Customs (lead), Transport, Biosecurity, Treasury and Tourism report back to Cabinet Policy Committee by 31 March with progress on legislative issues and 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.

Hon Dr Michael Cullen
Minister of Finance