

## Treasury Report: Briefing for POL Committee

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### Executive Summary

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POL Agenda Item	Page	Treasury Recommendation	Fiscal Implications (GST inclusive)	Comment
Funding of Passenger Clearance Services at International Airports		<p><b>support</b> the regional airports' proposal that their cost benchmarking is done from the third cheapest airport, and</p> <p><b>support</b> the balance of the other recommendations</p>	Operating costs of \$3.596m in 2005/06 rising to \$4.722m in 2006/07 and outyears. These costs will be captured as part of the 2005 Budget.	<p>You are submitting this paper as Chair of the Ministerial Committee on funding of border security.</p> <p>It seeks Cabinet agreement to the Committee's proposals. Industry has been consulted on these proposals and broadly agrees with them.</p> <p>A small concession to the regional airports on how their costs are benchmarked would address one of the two issues raised by industry.</p> <p>The other issue of contention, charging new airports the full costs of government services, has both supporters and detractors within the industry consultation group.</p>

### Funding of Passenger Clearance Services at International Airports

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**Responsible Person:** Michael von Geldern

#### Summary

1. You are submitting this paper to the Policy Cabinet Committee as Chair of the Ministerial Committee on funding of border security. The Committee has, with input from industry, developed a set of policy proposals which is the first of two stages in the review of the funding of border security. The second stage will focus on implementing the policy proposals should Cabinet approve them.

2. The broad policy proposal being put forward is that the primary beneficiary of the service being provided should pay for that service. From this principle Aviation Security Service costs are funded by industry while Customs and Biosecurity costs are funded by the Crown. In addition to the primary beneficiary principle there is also a limited element of location specific charging to reflect the higher costs of providing Customs and Biosecurity services to regional airports.

3. The two other key proposals which the Committee is seeking Cabinet approval for are:

- All government charges should be recovered from airlines, and
- Any new airport would meet the full cost of Government services.

There are further miscellaneous proposals which are spelt out in the recommendations of the Cabinet paper.

4. Industry submissions on the Ministerial Committee's proposals were broadly supportive. The points of contention were around whether new airports should face the full costs of Government services (a concern for Wellington Airport, Pacific Blue and Rotorua Airport), and how regional airports are charged (a concern for the regional airports, Wellington Airport and Pacific Blue). The former issue requires weighing up of several conflicting points – including regional development, biosecurity risks, ensuring business factors in its full costs of operations, and ensuring a 'level playing field'. The latter issue is addressed via a split recommendation which is outlined in the following paragraph.

5. The paper includes a split recommendation. The first split recommendation reflects the Ministerial Committee's proposal which is to benchmark the costs for the regional airports at the per passenger rate of the **second** cheapest airport. The second split recommendation reflects the views of the Regional airports who in their submission have proposed benchmarking the costs for the regional airports off the **third** cheapest airport. This split recommendation was included as the cost difference between the second and third cheapest airports is less than \$1 per person, thus Ministers can make a concession to the regional airports at very little cost

6. No agreement is sought from Ministers on how the Aviation Security charge should be split between airports. This issue will be dealt with as part of the second (implementation) phase of the border funding review. If Cabinet made a decision on this it would cut across the consultation process agreed with industry.

## Recommendation

We recommend that you;

- a) **support** the regional airports' proposal that their cost benchmarking is done from the third cheapest airport, and
- b) **support** the balance of the other recommendations.