



**Submission to the  
Civil Aviation Authority  
on the  
Aviation Security Service Funding Review  
2018/19**

**Date: 12 September 2018**

**TOURISM INDUSTRY AOTEAROA**

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the Aviation Security Service Funding Review 2018/19.

This submission is filed without prejudice to TIA's future position. Our ability to prepare a comprehensive submission responding to the consultation document relied on the provision by the Civil Aviation Authority (CAA) of information relevant to the connection between the consultation document and the benefits that would accrue. If any information is provided at a later date, TIA reserve the right to comment further.

## EXECUTIVE SUMMARY

1. TIA welcomes the planned and deliberate approach that AVSEC are taking to improving border and airline security. We accept there is an ever-changing international security environment and acknowledge New Zealand needs to do its part in that international context. Aviation security is a very important consideration in New Zealand's overall destination-management planning.
2. We are concerned to see the proposed increases in cost recovery in the context of multiple fee and levy increases by government agencies.
3. The proposed AVSEC increases are not insignificant; e.g. an over 50% increase for international passengers by 2021.
4. There is very little justification given for the cost increases; e.g. staff costs to increase by 50% over three years. A greater level of transparency could be provided.
5. There is clearly a public good benefit from improved aviation security and hence there should be a Crown Contribution to AVSEC charges.
6. It is important to TIA that the visitor experience while being processed by AVSEC is maintained or improved as a result of these proposals.
7. TIA is opposed to the proposed set-up charges for AVSEC to establish operations at domestic airports.

## INTRODUCTION

8. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With around 1,600 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions and retail, airports and airlines, transport, as well as related tourism services.
9. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive, Chris Roberts.

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10. Any enquiries relating to this paper should in the first instance be referred to Nienke van Dijken, TIA Policy Analyst at [nienke.vandijken@tia.org.nz](mailto:nienke.vandijken@tia.org.nz) or by phone on 04 494 1842.

#### STAKEHOLDER CONSULTATION

11. In preparing this submission, TIA has engaged with its members in the aviation sector including airports, airlines and industry associations.

#### COMMENT

##### Tourism 2025

12. Tourism 2025 ([www.tourism2025.org.nz](http://www.tourism2025.org.nz)), an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching \$41 billion in annual tourism revenues by 2025. The industry's focus is on growing value faster than volume. The Tourism 2025 growth framework is based around five key themes, which are Insight, Connectivity, Productivity, Visitor Experience and Target for Value. This growth framework has been reviewed ([Tourism 2025-two years on](#)) in 2016. While the five themes of the framework remain unchanged, the emphasis in some focus areas has shifted. Focusing on growing sustainable air connectivity is critical for an island nation that relies on 95% of its visitors arriving on a commercial aircraft. One of the priorities for 2016-18 was for airports to establish and implement long term and sustainable development strategies to ensure alignment with overall sector growth.

13. Tourism growth is attracting Government attention, which presents both challenges and opportunities. Constant talk of new visitor taxes and levies and increases in current fees and levies must be debated robustly, with all the issues and options considered. Any form of national or local tourism tax or levy must be fair, efficient and ring-fenced for tourism-related investments. TIA will vigorously resist any poorly designed tax or levy proposals that could tarnish New Zealand's reputation as a country that welcomes visitors.

##### Our understanding of the issue

14. We understand that:

- The Civil Aviation Authority is undertaking its three yearly review of Aviation Security Service funding. This review is considering the principles of the funding framework – who should pay for aviation security services, how should they pay, and how much should they pay.
- The objective is to effectively and efficiently fund AVSEC so that it can continue to ensure New Zealand is a safe place to fly and continues to meet its international obligations in relation to aviation security.

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- The proposed changes for the AVSEC funding framework are:
  - Change from Passenger Security Charge to Passenger Security Levies.
  - Charge airlines the International Passenger Security Levy for transit passengers.
  - Introduce a stepped pricing structure with provision for flexibility.
  - Amend the rates/prices.
  - Introduce a requirement that an airport pays the reasonable setup costs to establish or re-establish AVSEC capacity to process flights at a domestic airport.
  - Introduce a requirement that an airline conducting a charter operation requiring passenger screening from a location at which AVSEC has no capacity to process flights, to pay the reasonable costs of establishing and performing the security service required for the charter flight.

### General

15. There is an ever-changing international security environment and we accept New Zealand needs to do its part in that international context. Aviation security is a very important consideration in New Zealand's overall destination-management plan. One of the value propositions for New Zealand tourism is that New Zealand is a safe destination and we must not take that for granted.

16. We value the planned and deliberate approach that AVSEC are taking to improving border and airline security.

### **Increasing cost pressures on international visitors and tourism operators**

17. We are concerned about the proposed increases in cost recovery in the context of multiple increases in fees, levies and other charges by government agencies.

18. The proposed increase in costs recovery for international passengers will be 50.8% between 2019/20 and 2021/22. The proposed increase in cost recovery for domestic passengers will be 31.4% between 2018 and 2021. It should not be taken for granted that the impact of the proposed increases in cost recovery will be minimal.

19. This proposal come at a time when many local and central government agencies are increasing fees and levies on visitors and tourism operators. MBIE recently consulted on the introduction of the International Visitor Tourism and Conservation Levy, the Electronic Travel Authority and Immigration Fees and Levies. Earlier in the year, Territorial Authorities consulted on their draft long term plans for 2018-2028. For some commercial operators there were significant rate increases of up to 30% p.a. as a result of new targeted rates and increases in existing rates. Maritime NZ is also signalling increases of their fees and levies. DOC has significantly increased concession fees for many operators.

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The following table shows the new level of fees and levies an international visitor on a tourist visa potentially faces on entering New Zealand.

<b>Fees and levies for a tourist visa</b>	<b>Costs</b>
Visa fee	\$190.00
Immigration levy	\$21.00
Border Clearance Levy	\$18.73
International Visitor Levy	\$35.00
International Passenger Security Levy (2021/22)	\$15.09
<b>TOTAL</b>	<b>\$279.82</b>

20. Government agencies are often not cognisant that their individual increases in costs are only part of a range of cost pressures on visitors and tourism businesses. Businesses cannot absorb all costs and need to pass them on to visitors. Therefore, New Zealand runs the risk of becoming too expensive as a destination. The tourism industry needs central and local government to play their part in mitigating price pressures.

### **Changing from a charge to a levy**

21. AVSEC proposes to amend the current domestic and international passenger security charges to domestic and international levies. Under the definition of a levy, the monies raised must be used to fund things that are directly associated with those paying the levy. The change from a charge to a levy potentially opens up unrelated costs being burdened on travellers (e.g. funding/development of immigration systems).

22. We would be very concerned if the monies raised by the domestic and international levy would be used for any other cost increases. We support the move from passenger 'security charges' to 'aviation security levies', provided there is transparency that demonstrates that unrelated costs are not being incorporated which contribute to the tax burden on passengers.

### **Public good benefit to aviation security**

23. We are of the opinion that there is also a public good benefit to aviation security and hence there should be a Crown Contribution to AVSEC charges.

24. New Zealand as a whole benefits from safe borders. As acknowledged in the consultation document, *civil aviation plays a crucial role in the New Zealand economy, to facilitate tourism and business connections, as well as transport goods. It is essential that the public, international trading partners, and tourists have confidence in New Zealand as a safe place to travel to, from and within by air. History has demonstrated that aviation security incidents can have significant social and economic impacts* (P4, clause 6). This is also reflected in clause 39: *It is recognised that there are other beneficiaries of aviation security services, namely airports and their leaseholders, particularly for the benefits they receive in respect of bulk duty-*

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*free screening; and the New Zealand public, from the economic and social benefits of New Zealand being a safe place to fly.*

However, despite this, airlines and their passengers are identified as the primary beneficiaries of aviation security services (clause 36).

25. Aviation NZ notes in their draft submission: *'Clause 13 of the Consultation Document refers to a broad funding review of all passenger clearance services that was undertaken in 2004. That review did determine that aviation security services should be funded as a private good, notwithstanding that there are substantial public good aspects of aviation security. However that was at the time a pragmatic approach to a 'package' agreed by industry whereby Customs and Biosecurity passenger clearances would in the same pragmatic way be regarded as public goods notwithstanding the significant aspects of private good associated with those services. As the funding of Customs and Biosecurity passenger clearance services are now substantially funded by passenger charges, that review is not an appropriate basis for concluding that aviation security is a private good'.*

TIA agrees with Aviation NZ on this. We also agree with them that *'it seems inequitable as a matter of principle that the current system of passengers on an aircraft funding all of the costs of delivering aviation security should continue without a structured and transparent rationale'.*

26. While airlines and their passengers certainly receive direct benefits from this border security, the government accepts that a safe border benefits the country as a whole. Therefore, improved border security has a significant public benefit, and some, but much less, private benefit. Furthermore, the precise split between public and private benefits is difficult to determine (and is likely to vary significantly from person to person). This would mean any allocation of 'private benefits' of improved border security is ad hoc and potentially economically and administratively inefficient.

### **Charging transit passengers the International Passenger Security Levy**

27. In our opinion, it is appropriate that transit passengers are included in the cost recovery given they are subject to the same level of screening as other passengers.
28. Our understanding is that if transit passengers were not to be included in the cost recovery, the international levy (excl GST) would presumably need to be \$13.10 in 2019/20; \$13.76 in 2020/21; and \$14.34 in 2021/22, resulting in the very concerning position of cost recovery increase for international passenger of more than 60%.

### **Very little detail in consultation document on cost increases**

29. We are concerned about the significant cost increases. While we are advised the main drivers are growth in passenger volumes and additional screening functions (new

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technologies and behind-the-scenes screening), there is very little detail included in the consultation document. We note the large increase in staff costs (which is the largest cost component) of \$40m, almost 50% over the next 3 years. The document refers to the Treasury Guidelines which are around 10% wage inflation over the next 3 years, suggesting an almost 40% increase in staff (or wage bracket creep). Additionally, there is very little detail on capital cost increases.

30. Without more detail on the reasons behind the significant cost increases, we cannot say whether or not we are supportive of the proposed increase in cost recovery. While acknowledging the sensitivity of some of this information in relation to security needs, it would appear a greater level of transparency and a wider understanding of the assumptions behind the significant cost increases could be provided.

### **The importance of the visitor experience**

31. It is important to TIA that the visitor experience while being processed by AVSEC is maintained or improved as a result of these proposals.
32. Many tourism businesses and organisations are doing a great job in creating an experience platform where the visitor will recall and share the details of a memorable visit through pictures, stories and souvenirs with friends and family during their travels and when they return home. We need to consistently deliver experiences that exceed visitors' expectations. A focus on delivering an outstanding experience, including superior customer service for our visitors, is the ultimate driver for a growing world class and profitable industry.
33. As most visitors leave New Zealand via an international airport, there is a role to play for AVSEC in delivering an outstanding visitor experience. There is a need for continuously maintaining and upgrading services to ensure a continuation of a world-class passenger and visitor experience. Appropriate investment in new technologies can play an important role in improving efficiency and effectiveness. Other than enhanced security, there is no mention in the consultation document that passengers can expect a better or more streamlined process at airports.
34. It is important that AVSEC balances the importance of this maintaining and upgrading of services to ensure a continuation of a world-class passenger and visitor experience against the overall cost pressures on the industry, flowing into visitor prices.

### **Set-up costs for AVSEC to establish operations at domestic airports**

35. We are concerned about the proposed set-up charges for AVSEC to establish operations at domestic airports.
36. It is the Government that decides passenger screening is required at regional airports (as the result of a national risk assessment process); not the regional airport. Apart from these set-up costs, the regional airport would also face considerable costs in

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making space available for screening and queues, ensure secure access around the terminal, etc.

37. We do not agree that the overall situation at a regional airport varies from the existing security funding model: it has the same beneficiaries, the same ability to levy via airline tickets, and the cost of buying new screening equipment also applies to existing airports (where it is covered by the normal levy funding calculations).

38. Furthermore, as Aviation NZ notes in their submission: Regulatory processes (in particular the Airport Authorities Act, Civil Aviation Act, Commerce Act and associated regulations) limit the flexibility of an airport to alter airport pricing to recover costs such as those proposed for AVSECs set up cost recovery. It is usual for airport pricing as a consequence to be undertaken approximately only every five years (the maximum period required by law) and involves consultation across all users of the airport's 'aeronautical' services.

Airports are unlikely to be able to respond to set up costs from AVSEC without undertaking the statutory requirements of consultation and undertaking a full review of their pricing as it affects all stakeholders and customers of aeronautical services. This will take time and will not be an efficient way for these costs to get ultimately passed on via the airport - to the airlines - to the passengers (who are identified in this consultation document as the ultimate user/payer for aviation security services).

39. The potential risk to charging set-up costs to the individual regional airports is that the significant set-up costs could change the viability of flights to a regional destination. This could have a flow-on effect on visitor numbers and destination attractiveness and would go against the Government's and the industry's efforts to regional dispersal of visitor numbers.

#### Follow up process

40. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.

#### BACKGROUND

41. Tourism for New Zealand is big business as the country's largest export sector. It is a major contributor to the New Zealand economy that will always be here and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

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42. The tourism industry delivers the following value to New Zealand's economy:

- Tourism in New Zealand is a \$99 million per day and \$36 billion a year industry. Tourism delivers around \$40 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$59 million in economic activity every day.
- The tourism industry directly and indirectly supports 14.5% of the total number of people employed in New Zealand. That means 399,150 people are working in the visitor economy.
- Tourism is New Zealand's biggest export industry, earning \$14.5 billion or 20.7% of New Zealand's foreign exchange earnings (year ended March 2017).

End.

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