Submission to

Maritime New Zealand on

Review of Maritime NZ Funding for 2019/20 – 2024/25

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the review of Maritime NZ funding. This submission represents the views of Tourism Industry Aotearoa as a collective whole and may not necessarily represent the views of individual members.

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 Maritime New Zealand 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 considers the increase in the Maritime Levy to be excessive and unjustified. The Consultation Document proposes to increase the Maritime Levy by $10m (45%) in 2019/20, from $22.4m to $32.4m p.a., with another increase of $3m in 2022/23. Over the six year period 2019/20 – 2024/25 operators will pay an additional $69m in Maritime Levies.

2. Safety is a key consideration for the tourism industry. Tourism in New Zealand has earned a strong reputation and safety in the maritime sector is an important component of that reputation. Our view is that maritime safety is well managed in the tourism sector as a result of a strong regulatory framework and overall positive working relationship between operators and MNZ as regulator. Increases in Maritime Levy costs on individual operators of more than 200% are unjustified.

3. These proposals fail one of the primary tests for a levy - that the payer of the levy should clearly benefit from what the levy is spent on. There is a concerning lack of information in the document on where the additional monies raised will be spent.

4. These proposals come at a time when tourism operators and visitors have been subjected to a multitude of cost increases by Government agencies. It is frustrating that MNZ have a silo mentality and no regard to other cost influences and the bigger economic picture.

5. We ask for the consultation process to be temporarily suspended and the document withdrawn until a series of alternative options that are acceptable to MNZ and industry operators is developed for consideration. This might involve either a pause or withdrawal on some of the proposals being recommended, a staggered introduction over a number of years so that cost increases are well-signalled and built into industry pricing mechanisms, a fairer allocation of the levy burden so costs fall more fairly where they are incurred, or a combination of these options.

6. We disagree with aspects of the new Maritime Levy allocation model, As noted, the tourism maritime sector, both international and domestic, has a well-earned reputation for safety. There is data to support this. Other sectors outside tourism carry a much

higher risk profile. It is a major flaw that a new Maritime Levy Allocation model does not recognise and take into account the history of safety management within the maritime tourism industry.

7. Foreign passenger vessels are being required to carry 23% of the levy burden. However these vessels are amongst the most highly monitored due to working in a number of international jurisdictions and having to comply with many requirements of the International Maritime Organisation (IMO).

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.

10. Any enquiries relating to this paper should in the first instance be referred to Steve Hanrahan, TIA Advocacy Manager, at steve.hanrahan@tia.org.nz or by phone on 027 9122 624.

COMMENT

Tourism 2025

11. Tourism 2025, 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.

12. The Tourism 2025 Growth Framework is based around five key themes of Insight, Connectivity, Productivity, Visitor Experience and Target for Value. This growth framework is being reset in 2019, with a shift to integrating sustainable tourism, in particular the Tourism Sustainability Commitment; articulating a longer-term view of tourism in alignment with central government; and identifying new priority actions to be addressed over the next 1-3 years.

Stakeholder Engagement

13. We have engaged with various stakeholders during the development of this submission including TIA members in the maritime sector, the international cruise sector, and other industry associations. We acknowledge their input and support.

Our understanding of the issue

14. Maritime NZ is the national regulatory, compliance and response agency for the safety, security and environmental protection of maritime waters. The agency undertakes a full funding review every six years, with an additional mid-term review after the first three years. TIA last submitted on the mid-term review in January 2016.

15. Since 2012 Maritime NZ have been progressing on a pathway from a regulator model which is largely fee or Crown funded to a regulator model which is largely levy funded.

16. Total MNZ revenue for 2018/2019 is $58.4m, sourced from levies (73%), fees (4%), Crown (16%), and other (7%).

17. From our assessment of the consultation document we consider there are two significant changes. Firstly the proposal to significantly increase the Maritime Levy (ML) by $10m - $13m p.a. and secondly the introduction of a new Maritime Levy Allocation method.

Our View

1. TIA considers the significant increase in Maritime Levy to be unjustified

18. The Maritime Levy (ML) for 2018/19 period is $22.4m, the largest single contributor to MNZ funding at 38% of total MNZ funds. The Maritime Levy is paid by commercial maritime operators.

19. The Consultation Document proposes to increase the Maritime Levy by $10m (45%) in 2019/20, from $22.4m to $32.4m p.a. There will be a further increase of $3m in 2022/23. Over the six year period 2019/20 – 2024/25 operators will pay an additional $69m in Maritime Levies. Allowing for the proposed small reductions in fees as a result of amalgamating and standardising some fees, the overall increase in ML is nearly $63m over six years.

Year	Maritime Levy (Current) $m	Maritime Levy (proposed)$m	Variance $m	Less reduction in fees ($m)	Net increase ($m)
2019/20	$22.40	$ 32.40	($10.00)	$ 0.99	($9.01)
2020/21	$22.40	$ 32.40	($10.00)	$ 0.93	($9.07)
2021/22	$22.40	$ 32.40	($10.00)	$ 1.05	($8.95)
2022/23	$22.40	$ 35.40	($13.00)	$ 1.03	($11.97)
2023/24	$22.40	$ 35.40	($13.00)	$ 1.09	($11.91)
2024/25	$22.40	$ 35.40	($13.00)	$ 1.09	($11.91)
	$156.80	**$225.80**	**($69.00)**	**$6.18**	**($62.82)**

20. We asked maritime members to assess the impacts of the increased levy on their business, using the calculation sheet provided by MNZ. A summary of responses is below:

Operator	**No. Vessels**	**Current ML (total)**	**New ML (total)**	**Variance $**	**Variance %**
1	1	$ 1,900	$ 5,700	$ 3,800	200%
2	1	$ 1,403	$ 5,424	$ 4,021	287%
3	2	$ 2,873	$ 10,047	$ 7,174	250%
4	4	$ 1,145	$ 4,108	$ 2,963	259%
5	4	$ 1,393	$ 4,080	$ 2,687	193%
6	23	$ 25,182	$ 84,904	$ 59,722	237%

21. We are both surprised and concerned at the proposed increase in the Maritime Levy. While we support an approach to continuous improvement of the maritime safety system in New Zealand the size of the increase is unwarranted and places a significant additional levy burden on maritime tourism operators.

22. Safety is a key consideration for the tourism industry. Tourism in New Zealand has earned a strong reputation at both a national and international level and while stunning landscapes and warm hospitality contribute strongly to that, so too does our reputation as a safe destination. The maritime sector is an important component of the tourism industry and a safe sector contributes to our overall reputation.

23. Our view is that maritime safety is well managed in the tourism sector as a result of a strong regulatory framework and overall positive working relationship between operators and MNZ as regulator. There is an overall sense from operators that the safety system is working well and while there is always room for improvement, individual operator Maritime Levy increases commonly of more than 200% are unjustified.

24. A strong safety management system within maritime tourism is reinforced in safety data such as that from the 2017 MNZ Briefing to the Incoming Minister of Transport which notes the following in regards to serious harm incidents and fatalities over the five year period 2012/13 – 2016/17:

Category	Vessel types	[1]Serious Harm Incidents p.a.	Fatalities p.a.
Foreign Shipping	Cargo, passenger	11	1
Domestic Coastal Shipping	Passenger, freight, coastal tankers, traders, research vessels	4	0 (Since 2008)
Domestic Fishing	Line fishing, trawling, aquaculture	21	2
Domestic Passenger & Non-passenger	Charter services, water taxis	11	3
Domestic Outdoor & Adventure	Rafting, jet boating, kayaking, river boarding	3	<1
Offshore	Petroleum, gas & mineral exploration, extraction, production & decommission	<1	0
Recreational Boating	Powered & non-powered craft	15	21

25. Our understanding is the financial contribution to the safety system by the recreational boating sector is primarily via the Fuel Excise Duty (FED) which was $5.6m in 2018-19, significantly less than the $22.4m paid by commercial operators via the Maritime Levy. There is a strong disconnect between where the safety risk falls in the sector and who pays.

26. The consultation document identifies a number of areas where the additional $63m funding will be allocated, including international engagement, regulatory reform, systemic risk activities, and ICT systems integration, applications development, data, analytics and mobility. However it fails to provide any specific dollar-figures on where the additional funds will be spent.

27. These proposals fail one of the primary tests for a levy - that the payer of the levy should clearly benefit from what the levy is spent on. One of the justifications for the Maritime Levy increases is a greater focus on international engagement and the requirements of the IMO (International Maritime Organisation). Domestic operators however are querying why they are being asked to pay increased fees when they do not operate in the international arena. For example, New Zealand is a recent signatory to the Ballast Water Management Convention (BWM). However as the consultation

[1] Average p.a. based on five year period 2012/13 – 2016/17. Same for Fatalities.

paper notes there are very few New Zealand vessels to which the Convention applies – less than 30 across the total New Zealand maritime fleet, and less than 10 are non-SOLAS which is the category many domestic tourism vessels will fall under. However the consultation document proposes implementation activities that are club goods and therefore funded from the Maritime Levy.

28. It is our understanding that a number of the international conventions MNZ plans to consider might affect the domestic sector in the future e.g. Athens Convention, MARPOL. Those operating internationally argue that New Zealand's work on this isn't to the benefit of international operators either as those vessels are already complying with these conventions as applicable in other parts of the world. There is a view that this work is being done in the national interest and therefore should be Crown funded.

29. These proposals come at a time when tourism operators and visitors have been subjected to a multitude of cost increases by Government agencies. These include:

- Introduction of the International Visitor Levy (2019) - $35 per international visitor[2]
- Introduction of Electronic Travel Authority (2019) - $9-$12 per international visitor
- Increased immigration fees and levies to reduce a $50m deficit in Immigration NZ's Memorandum Account
- Increase in AVSEC fees for international passengers of 51% between 2019/20 and 2021/22
- Minimum wage increases of 7% in 2019 (Increasing $1.20 to $17.70/hour).

These increases come on top of existing maritime taxes such as the Border Clearance Levy.

30. A characteristic of pricing mechanisms within the tourism sector is that operators often have to provide prices to international markets up to three years in advance so that wholesalers and inbound tour operators can build pricing into itineraries and programmes. Therefore there is little flexibility in passing on cost increases at short-notice.

31. It was frustrating and alarming to hear MNZ's response when questioned at a recent consultation meeting on the bigger picture. The response was that the agency is not required to 'have regard' to other cost influences. In our experience, other Government agencies make a reasonable attempt to manage cost increases and are cognisant of affordability issues and what is occurring outside their own agency. Unfortunately this level of empathy or awareness is not apparent within MNZ.

32. It is frustrating that we have been presented with a proposal that does not include options or alternatives. Operators are being asked to support fee increases of over 200% with no Option B. This is in stark contrast to the Mid-point Review of the Oil Pollution Levy, also currently in consultation, which asks for feedback on three options – Status Quo, Revised Rate A & Revised Rate B.

[2] Some exemptions apply to IVL and ETA

33. The fundamental issue here is that MNZ are going too far in their proposals, and the proposed increase in Maritime Levy is excessive and unjustified. It does seem ironic that one of the identified benefits of the review is a reduced compliance burden for the industry – however costs are increasing by over 200%.

34. We believe MNZ are exceeding what they need to do as a modern regulator. We recommend that the consultation process is temporarily suspended and the document withdrawn until a series of alternative options that are acceptable to MNZ and industry operators is developed for consideration. This might involve either a pause or withdrawal on some of the proposals being recommended, a staggered introduction over a number of years so that cost increases are well-signalled and built into industry pricing mechanisms, a fairer allocation of the levy burden so costs fall more fairly where they are incurred, or a combination of these options.

2. The new allocation model unfairly places greater levy burden on passenger-carrying vessels

35. As part of the review process Maritime NZ have contracted Castalia to re-evaluate the Maritime Levy Allocation model. The subsequent Castalia Report proposes a new allocation model which somewhat conveniently appears to be consistent with the previous model, with some minor re-alignment of vessel categories. International vessels are being required to carry nearly 90% of the levy burden.

Vessel Category	Current ML Revenue	Proposed ML Revenue
Foreign non-passenger	68%	66%
Foreign Passenger	23%	23%
Domestic SOLAS	5%	5%
Domestic non-SOLAS <24m	Not applicable	3%
Domestic non-SOLAS >24m	Not applicable	3%
Domestic Fishing	2%	Not applicable
Domestic non-passenger	2%	Not applicable
Domestic Raft	<1%	Not applicable

36. We disagree with some aspects of the new allocation model, as proposed by the Castalia Report. For instance it appears convenient to start from a risk model based on unmitigated risk (zero-base) and the theoretical value of "what's placed at risk". As

noted earlier the tourism maritime sector, both international and domestic, has a well-earned reputation for safety. Other sectors outside tourism carry a much higher risk profile. It is unreasonable that a new Maritime Levy Allocation model does not recognise the history of safety management within the maritime tourism industry.

37. Foreign passenger vessels are being required to carry 23% of the levy burden. However these vessels are amongst the most highly monitored due to working in a number of international jurisdictions and having to comply with many requirements of the International Maritime Organisation (IMO).

38. The proposed model places a greater risk component on passengers (Pax Cap) than the previous model. While we acknowledge that the people component is more 'valuable' than bulk cargo or containers there is further debate required about whether the carriage of passengers places a significantly greater risk on the maritime system. For example the model does not acknowledge that in the rare instance where people are 'at risk' the first priority for these vessels is to get passengers to safety. There is an obligation on maritime operators to assist any vessels in danger and on the rare occasion when this is required in New Zealand waters it occurs promptly, efficiently and, importantly for this point, often outside the resources provided directly by MNZ as these rescues involve on-board safety rafts and other vessels in the vicinity. Therefore the risk component, outside of any further search and rescue work, is for MNZ to manage essentially an empty vessel. In addition many smaller passenger vessels operate on short, repeated journeys and close to shore e.g. short ferry crossing, scenic tours. Therefore it might be argued that the safety risk of people is low.

39. The Castalia Report heads in the opposite direction, drawing on fatality and injury factors such as the Treasury's $3.85m Value of Statistical Life to calculate an overall value of $361,167 per person per maritime accident. Passengers (Pax Cap) carry 10% of the levy budget, with 83% based on Gross Tonnage/Length[3] and 6% on Dead-weight Tonnage[4].

40. It's our understanding the use of Pax Cap is uncommon within other international levy allocation models and in our view the model requires further debate and analysis.

Follow up process

41. 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

42. 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

[3] GT - measure of a ship's overall internal volume
[4] DWT - measure of how much weight a ship can carry

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.

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

- Tourism in New Zealand is a $107 million per day and $39 billion a year industry. Tourism delivers around $44 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another $63 million in economic activity every day.

- The tourism industry directly and indirectly supports 13.5% of the total number of people employed in New Zealand. That means 365,000 people are working in the visitor economy.

- Tourism is New Zealand's biggest export industry, earning $16.2 billion or 20.6% of New Zealand's foreign exchange earnings (year ended March 2018).