Submission to

Ministry of Business, Innovation & Employment

on the

Consultation on Immigration Fees and Levies

Date: 20 July 2018

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the consultation on Immigration Fees and Levies.

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 MBIE 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 reserves the right to comment further.

EXECUTIVE SUMMARY

1. The tourism industry is a significant user of Immigration New Zealand (INZ) services and therefore needs a strong organisation that effectively manages the risks and costs associated with internationals visiting and working in New Zealand.

2. TIA is concerned about the forecast $50m deficit in the Memorandum Account and the proposed increase in fees and levies on visitors and workers to wipe the deficit.

3. It is frustrating that expected efficiencies from significant projects such as the ICT Transformation and Visa Service Change 2020 have not yet materialised.

4. We are concerned to see that the identification of further efficiencies in the immigration system that could result from the proposed Electronic Travel Authority is not a priority for INZ, and that there will be no consultation on further cost reductions within INZ.

5. TIA is of the opinion that improved fiscal and operational management is required at INZ so that any future fee reviews are kept to a minimum, the 5-year fiscal and operational goals are achieved, and any over-accumulations in out-years is well managed.

6. We are concerned insufficient research has been undertaken into potential negative impacts of the increase in fees and levies.

7. TIA is strongly opposed to increasing the Border Clearance Levy to include services at the border provided by Immigration New Zealand.

RECOMMENDATIONS

8. That INZ adopt more robust fiscal and planning management practices to ensure there is no repeat of the current poor financial position.

9. That any future over-accumulations are returned to visitors and workers via a reduction in fees and levies, such as occurred following the review of the Border Clearance Levy.

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10. That INZ monitors the impacts of fee and levy increases on demand for visitor and work visas.

11. That the Border Clearance Levy is not increased to include services provided by INZ.

12. That further investigation of efficiencies at the border between Ministry of Primary Industries, Customs and INZ is undertaken to identify where cost-savings can be achieved.

13. That consideration be given to the role the Electronic Travel Authority can play in reducing INZ costs at the border.

INTRODUCTION

14. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With around 1600 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.

15. 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.

16. 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 or by phone on 04 494 1842.

STAKEHOLDER CONSULTATION

17. In preparing this submission TIA has engaged with central government and industry stakeholders including other industry associations.

COMMENT

Our understanding of the issue

We understand that:

18. Since the last review of fees and levies in 2015, there have been considerable changes to the internal and external operating context of Immigration New Zealand (INZ). These changes have resulted in the revenue from fees and levies being insufficient to cover operating and capital costs.

19. In spite of some efficiency gains made by INZ, the 2016/17 year saw a shortfall between visa revenue and costs of $11.3 million. This deficit was forecast to reach $50 million by the end of June 2018.

20. With respect to the aim of matching the cost to process against each visa type, some visa fees are higher than they should be and some are lower than they should be.

21. INZ aims to address these problems by consulting on a principle-based approach to reviewing fees and levies, drawing on the best practice guidelines published by Treasury.

22. The Government wishes to fully recover the costs of services provided to third parties through fees and levies. The Government is proposing a package of proposals with five components that will collectively result in:
    - Work visa fees increasing by 54% (excl. Recognised Seasonal Employer scheme, Working Holiday visas and work visas granted on humanitarian grounds)
    - Student visa fees 6.5% decrease
    - Group visitor visa fees 45% decrease
    - Business visa fees 1% decrease
    - Other visa fees (incl. Recognised Seasonal Employer scheme, Working Holiday visas and work visas granted on humanitarian grounds) 10% increase
    - All levy rates 43% increase

23. The Government is seeking feedback on the concept of recovering all INZ border costs using the existing Border Clearance Levy. These costs are calculated to be $20.156m p.a.

General

This submission consists of two parts. Part One discusses the proposed changes in immigration fees and levies; Part Two discusses the proposed change to the Border Clearance Levy.

PART ONE – Proposed changes to immigration fees and levies

The need for a strong and effective immigration service

24. The tourism industry needs a strong immigration service that effectively manages the risks and costs associated with internationals visiting and working in New Zealand.

25. The tourism industry is a significant user of immigration services. 402,079 visitor visas were processed in YE 2016/17, the largest of the five visa categories (Residence, Visitor, Student, Work and Other Temporary).

26. With regard to work visas, there were 543 chef work visas approved in May 2018, along with 313 visas for retail supervisors, 296 for café/restaurant managers and 119 for cooks. The combined 1271 visa approvals over one of the traditionally quietest tourism months of the year demonstrates the ongoing demand for work visas in the industry. With that comes demand for an immigration system that is timely, efficient and understands the needs of our industry.

27. The timely processing and approval of work visas has been an area of regular concern for TIA members. TIA has been supportive of recent INZ change programmes including the $140m ICT Transformation Project and the Visa Service Change 2020 Programme. The expectation is that these significant projects will lead to improvements in the timeliness and costs of using the New Zealand immigration service, enhancing the visitor experience for those visiting New Zealand and ensuring that employers can easily access migrant staff where there are no suitable New Zealanders.

28. TIA accepts the general cost recovery principle – that the cost of processing visas should be recovered from those applying for the visas. However, we note that a change in government policy – such as the increased labour market testing now required for work visas – can add significantly to the processing cost, at no fault of the applicant. Consistency in policy and its implementation is highly desirable.

29. The consultation document forecasts an annual decline in work visas of 1%-2% over 2018-2020. This forecast is perplexing and concerning in light of the fact that tourism along with many other industries is experiencing significant labour and skill shortages. While the industry is investing in attracting more New Zealander to work in tourism there will be a continued reliance on overseas workers where there are no suitable New Zealander available. It would appear that this reduced forecast in work visas is being driven more by government policy rather than actual anticipated demand.

Ongoing concern regarding fiscal deficiencies and planning management at INZ

30. We are concerned that expected efficiencies from significant projects such as the ICT Transformation and Visa Service Change 2020 have not yet materialised. We appreciate that some changes are in early stages and efficiencies are not always immediate. However, we are concerned that the change programmes and other policy changes are resulting in the requirement for additional operating funding totalling $119.774m over five years – a significant increase on the current $315m annual expenditure (2017/18 Year) for the immigration system.

31. INZ had an $11.3m shortfall between visa revenue and costs in 2016/17 and forecasts a <$50m deficit in the Memorandum Account as at 30 June 2018. This is a significant and concerning deficit, particularly when other Memorandum Accounts of importance to the industry e.g. Border Clearance Levy, appear to be run more efficiently.

32. This is not the first time INZ has faced a major deficit. In 2012, the Visas and Permits Memorandum Account had a deficit balance of $36.4m. This was the result of year-on-year deficits, including a $13.6m deficit for 2011/12. INZ attributed the deficit to lower than expected volumes of visa applications (particularly student visas) and the

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effect of the Canterbury earthquake in February 2011 in reducing the number of people coming to New Zealand.[1]

To address the deficit in the Memorandum Account, Cabinet approved an increase in immigration visa and permit fees from 2 July 2012. It was expected that a net operating surplus would occur from 2017/18, reducing the account deficit and bringing it closer to zero.[2]

This has clearly not materialised. Anticipated efficiency gains from the $140m ICT transformation project and the Visa Service Change 2020 Programme appear not to have yet materialised and therefore migrant workers and visitors are being asked to bear the increased costs.

33. Also frustrating for TIA is that the Cabinet Paper notes there will not be consultation on further cost reductions within INZ. Given that this review occurs at the same time as the introduction of the proposed Electronic Travel Authority (ETA), we would have thought a priority for INZ and MBIE was the identification of further efficiencies in the immigration system as a result of the ETA.

34. The consultation document's 5-year outlook to 2021/22 implies that the changes will 'balance the books', wiping the $50m deficit. We hold concerns that the deficit may not be eliminated over this time. Alternatively, if the deficit is wiped there is potential for over-accumulation in out-years beyond 2021/22.

35. Improved fiscal and operational management is desired at INZ so that any future fee reviews are kept to a minimum, the 5-year fiscal and operational goals are achieved, and any over-accumulations in out-years are returned to visitors and workers via reduced fees.

Insufficient research into potential negative impacts

36. TIA is concerned insufficient research has been undertaken into potential negative impacts of the increase in fees and levies.

37. The consultation document notes that New Zealand and global evidence suggests that proposed changes to fees and levies are not likely to have a measurable impact on international visitor volume or international student numbers. However, it does acknowledge there is limited research on the impact of fee increases on skilled migrants' decisions to work in New Zealand and that industry responses to fee increases in other countries, such as Australia, have suggested any increase could impact on the ability to fill skill shortages.

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[1] Controller and Auditor-General, *Central Government: results of the 2011/12 audits, part 11: memorandum accounts in Central Government*, as sourced on - https://www.oag.govt.nz/2013/central-govt/part11.htm
[2] Controller and Auditor-General, *Central Government: results of the 2011/12 audits, part 11: memorandum accounts in Central Government*, as sourced on - https://www.oag.govt.nz/2013/central-govt/part11.htm

38. To our knowledge, MBIE/INZ has not undertaken any research into whether increased costs will influence skilled migrants' decisions to work in New Zealand.

39. We acknowledge that some of the fee and levy increases while significant in percentage-terms, may be less impactful in actual increases. For example, the cost of several work visa types increases by $205 (54%) to $580, plus the levy applied to a work visa increases by $17 (45%) to $55. While these increases may not appear too significant, it should not be taken for granted that the impact will be minimal.

40. Recent research by Griffith Institute for Tourism[3], shows that Chinese visitors are highly price sensitive and have high income elasticity, and that any potential increase in travel costs (including visa and related charges) could have a negative impact on Chinese visitor growth trends and related visitor spend patterns.

    The research also shows that the long-haul nature of travel from China to Australia and New Zealand will continue to make the airfare component more expensive than other outbound destinations more easily accessed by Chinese travellers. Therefore, it is important to consider the entire cost, including airfares to the destination and cost of living within the destination (food and beverage, accommodation, ground transport), in order to retain competitiveness. This is especially important for first time travellers.

    The research concludes with saying that the impact of any ongoing increases in visa charges needs to be considered as an impediment to future visitor growth from China.

PART TWO – Future option of a Border Clearance Levy

Border costs carry a strong public good component and therefore the Crown should maintain its contribution

41. Under these current INZ proposals, the Crown's contribution to immigration border activities will fall to 49% ($20.156m), and the remaining 51% will be derived from immigration levies. TIA understands that the current split is closer to two-thirds Crown and one-third levies. No justification is given for this change in direct funding of a service that clearly has a strong public good element.

42. Of even greater concern is that the proposals also include a future option of removing the Crown contribution entirely by increasing the Border Clearance Levy. TIA opposes this and firmly believe the Crown contribution must continue. INZ border services are a public good that protects and enhances the well-being of New Zealanders.

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[3] Griffith Institute for Tourism, commissioned by Tourism Accommodation Australia, *Visitor Visas for Asian Markets: Comparison between Australia and key competitors,* May 2018, as sourced on https://www.griffith.edu.au/__data/assets/pdf_file/0026/471563/TAA_Visitor_Visa_Paper.pdf

43. Page 5 of the consultation document notes that '*The Crown also contributes to the cost of running the immigration system, recognising that there are public benefits to New Zealanders from a secure border and a well-functioning labour market'*, We agree - New Zealanders and the Government benefit from people coming across the border. International visitors contributed $14.5b expenditure to the economy (YE Mar2017), supporting many businesses and jobs. The government collects $3.27 billion a year from international tourism (including $1.0 billion in PAYE paid by tourism employees and $350m in company taxes paid by tourism operators). The contribution that migrants make to the economy and communities across New Zealand is significant.

44. The Government recognises and shows through its actions that New Zealand as a whole benefits from people mobility across the border. This is demonstrated by the resources dedicated to initiatives such as working holiday bilateral agreements, seasonal employee schemes, humanitarian activities, international education, and targeted migration to attracting the best and brightest to New Zealand.

45. The consultation document contradicts its earlier statement on public benefits, saying on page 31 '*the proposal would primarily enhance the equity principle. The proposal is more equitable than current funding arrangements, as the cost of providing INZ border services would be spread across those that give rise to the cost by presenting a risk to New Zealand'.* This is incorrect. Under the proposal the costs would be levied across all travellers paying the BCL, 99% of whom pose no risk. The premise that all New Zealand citizens leaving and returning to their home country present an immigration risk appears far-fetched and convenient to support the BCL increase.

46. The document also attempts to justify the shift by noting that it will reduce costs to general taxpayers, many of whom do not travel overseas. However, as noted above all New Zealanders benefit directly and indirectly from a strong tourism sector and immigration, providing strong justification for a component of INZ costs to be paid by the Crown. Indeed, rather than removing its reduced 49% contribution to border costs, the Government should be making a larger Crown contribution.

47. The consultation document does not provide any information on why INZ border costs were not included in the original BCL proposal, along with Customs and Ministry of Primary Industries (MPI) costs. TIA is aware it was considered, but rejected at the time as being inappropriate.

48. This proposal arises at a time when the Government is proposing the introduction of the ETA, providing a further layer of border scrutiny and security. It would be reasonable to anticipate that the introduction of the ETA should lead to efficiencies in border security for international visitors, including efficiencies for INZ.

49. Additionally it would be a reasonable expectation that the three agencies operating at the border (Customs, MPI, INZ) are identifying further efficiencies before looking to pass on costs via the BCL. The Cabinet Paper recognises the co-operation already occurring, noting that '*Customs officers largely perform the function of an immigration officer at the border…*'.

50. The BCL has recently been reviewed with new rates taking effect in July 2018. Tourism operators have now built these revised rates into future pricing, often three-plus years in advance. The new BCL rates need to settle into pricing models rather than be increased, particularly in the light of what appears to be poor and insufficient rationale for increasing it.

51. We are strongly opposed to shifting the Crown contribution of INZ border costs to the BCL. Notwithstanding identification of further efficiencies, the current proposal of higher immigration levies and continuation of the Crown contribution is our preferred option.

<u>Follow up process</u>

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

BACKGROUND

53. 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.

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

- Tourism 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).