



Submission to
Ministry for Primary Industries
on the
Discussion Document on
Developing a Cost Recovery Framework for the
Ministry for Primary Industries

Date: 21 July 2016

TOURISM INDUSTRY AOTEAROA

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the discussion document on Developing a Cost Recovery Framework for the Ministry for Primary Industries.

EXECUTIVE SUMMARY

1. Tourism Industry Aotearoa (TIA) welcomes the development of this cost recovery framework as we hope that this framework will provide greater transparency and rationale for the Ministry for Primary Industry's (MPI) levy and fee structure.
2. However, we are concerned that the consultation document fails to provide solid rationale for when imposing a new levy might be more appropriate than crown funding.
3. We are of the opinion that the tourism sector is being perceived as an easy target for government revenue gathering and that the tourism sector is being unjustifiably targeted to subsidise the fees of other operators and/or sectors.
4. The main interface between MPI and the tourism sector is the Border Clearance Levy, introduced in January 2016. TIA is concerned that MPI's cost recovery framework may seek to legitimise what is in our view an unnecessary and unjustifiable tax on both New Zealand and overseas travellers.
5. TIA is of the opinion that the Border Clearance Levy is the prime example of misguided cost recovery by MPI and we are concerned that the proposed framework could be used to legitimise over-accumulation such as is the case with the Border Clearance Levy.

RECOMMENDATIONS

6. TIA recommends that newly introduced levies require a review at least after 12 months to avoid significant surplus gathering.
7. We are of the opinion that the framework should also consider the sector's current contribution to crown funding, e.g. tourism as New Zealand's largest export earner.

INTRODUCTION

8. TIA is the peak body for the tourism industry in New Zealand. With over 1,500 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and activities, attractions and retail, airports and airlines, 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

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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 Nienke van Dijken, TIA Policy Analyst at nienke.vandijken@tia.org.nz or by phone on 04 494 1842.

COMMENT

Tourism 2025

11. Tourism 2025 (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.

12. The Tourism 2025 framework is based around five key themes which are:

- Insight - this is at the core of the framework recognising that having timely, accessible and relevant insight is what will help tourism businesses with the information they need to support operational and strategic decision making.
- Connectivity - focusing on growing sustainable air connectivity is critical for an island nation that relies on 95% of its visitors arriving on a commercial aircraft.
- Productivity - making more money from the investments we already have and finding new solutions to seasonality (the tourism industry's perennial challenge) and regional dispersal.
- Visitor experience - we can derive more value by creating outstanding visitor experiences that meet the needs of a changing visitor mix and recognising the end to end visitor experience, the need to improve facilitation and be measuring dissatisfaction.
- Target for Value - the identification of targeted opportunities that, if taken up, will deliver the greatest economic benefit.

Our understanding of the issue

13. TIA understands that the Ministry for Primary Industries (MPI) is undertaking a First Principles Review of the way it recovers costs, seeking to ensure a strong and consistent foundation for the way MPI charge. The development of a guiding framework is the first step of this review.

14. MPI's discussion document 'Developing a Cost Recovery Framework for the Ministry for Primary Industries' sets out the objectives, principles, policies and processes that

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make up MPI's proposed charging framework. Once finalised, the framework will be used to inform a detailed review of MPI's existing charges.

15. TIA would like to commend MPI on developing this framework. Our expectation is that this framework will provide greater transparency and rationale for MPI's levy and fee structure.
16. TIA notes the unfortunate irony that the early work to develop a framework was overtaken by the expedient introduction of the Border Clearance Levy, which was thought up and implemented in the absence of the very principles and policies that are now being set out in this framework.

Targeting the tourism sector

17. TIA is of the opinion that the tourism sector is being perceived as an easy target for government revenue gathering and that the tourism industry is being unjustifiably targeted to subsidise the fees of other operators and/or sectors.
18. Over the last year, TIA has observed that more and more of these funding reviews or proposed levy changes are targeting the tourism industry. Examples are the Border Clearance Levy, the review of Maritime NZ fees and Maritime Levy 2016-19 and the CAA Funding Review.
19. All of these funding reviews and/or introduced levies are being introduced with minimal stakeholder and industry engagement.
20. TIA has expressed its concerns about this increase of levies and taxes targeted at the tourism industry with the Prime Minister and Minister of Tourism, Rt Hon John Key.

General

Three types of goods

21. In the consultation document MPI recognises that *it is unable to use a 'one size fits all' approach to setting charges and that it does not intend to define rules that all charging activities conform to.* Instead, MPI aims to develop a framework that brings together elements of available guidance and good practice to identify issues that need to be thought through.
22. TIA strongly agrees with MPI that a 'one size fits all' approach to setting charges will not work. However, we are also of the opinion that for charges targeted at the tourism sector, the three types of goods –private good, club good and public good– do not suffice. This distinction between the three types of goods is not easily defined for tourism related charges. A clear example of this is the discussion on the Border Clearance Levy (BCL).

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23. The main interface between MPI and the tourism sector is the BCL, introduced in January 2016. When the BCL was announced, the tourism sector was clearly of the view that border clearance services are a public good and not a private good and therefore should be crown-funded.
24. MPI thought differently and decided that border clearance services are a private good. Since the 1st of January 2016, every air traveller entering and leaving New Zealand pays \$21.57 incl. GST and cruise ship passengers pay \$26.22 incl. GST.
25. MPI will not be surprised at our concern that MPI's cost recovery framework may seek to legitimise what is in our view an unnecessary and unjustifiable tax on New Zealand and its overseas travellers.

Over-accumulation of taxes

26. We are very concerned at recent media reports that the BCL has accumulated more than \$7m (37%) of funds over budget in its first five months of operation. This would indicate to us serious inaccuracies in MPI and Customs budgeting and forecasting processes.
27. Of greater concern is that a framework may now be put in place to legitimise this over-accumulation, e.g. that MPI will seek to recover the full costs of service delivery, including indirect costs.
28. The proposal that the full costs of the service (both direct and indirect) be included in the levy appears to be convenient rather than supported by any solid rationale. What often happens in practice, particularly in indirect services, is that the application of this indirect service applies to other sectors/services and therefore could be regarded as public good and outside of the levy scope.
29. We note the desire by MPI for a minimum of three-yearly reviews and the principle that Memorandum accounts are expected to track towards a zero balance over time.
30. As mentioned above, the BCL has accumulated more than 37% of funds over budget in its first five months of operation. This clearly shows that a three-yearly review does not suffice and TIA urges MPI that new levies require a review at least after 12 months to avoid significant surplus gathering.
31. The fee level for the BCL is fixed until 30 June 2018 so there is the possibility of a significant over-collection – and the obvious temptation to come up with ways of spending this windfall. At the very least, the pressure to maintain strict budgetary controls will be lessened by the ready availability of funds. TIA is keen to discuss with MPI how this surplus of funds will be managed.

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Levies vs crown-funding

32. The consultation document fails to provide solid rationale for imposing a levy instead of crown funding. The proposal notes that *'levies are used when it is difficult to establish a direct link between a customer and the benefit of the service'*. TIA would argue that where there is difficulty in establishing this link, it may well be because it is a public benefit and therefore should be crown funded.
33. The consultation document says that *'in situations where there are both beneficiaries and risk exacerbators, it may not be practical to divide the costs between them. In these situations deciding who to charge may come down to 'which party is easiest and least expensive to charge (administrative efficiency)'*. This statement is extremely concerning. TIA is very strongly of the opinion that 'the ease of charge' and 'the least expensive to charge' should not be determining factors in who should be charged.
34. The framework appears silent on the bigger picture of the sector's contribution to the economic benefit/growth of New Zealand and the adverse impact any fees/levies have on this bigger picture. We would argue that the framework should also consider the sector's current contribution to crown funding, e.g. tourism as New Zealand's largest export earner, including direct contributor to GST of \$929m (year ended March 2015).

Planning and reporting

35. The proposal needs to carry a stronger commitment to working with impacted sectors. Terms such as *'users should have input into planning or services'* and *'MPI sees benefit in engaging service users'* seem a bit weak. We would like to see stronger statements of working with service users in the framework.

FOLLOW-UP PROCESS

36. 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.

CONCLUSION

37. TIA hopes that this cost recovery framework will provide greater transparency and rationale for MPI's levy and fee structure.
38. We are of the opinion that the tourism sector is being perceived as an easy target for government revenue gathering and that the tourism sector is being unjustifiably targeted to subsidise the fees of other operators and/or sectors.

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39. The main interface between MPI and the tourism sector is the Border Clearance Levy, introduced in January 2016. TIA is concerned that MPI's cost recovery framework may seek to legitimise what is in our view an unnecessary and unjustifiable tax on New Zealand and its overseas travellers.
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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.
42. The tourism industry delivers the following value to New Zealand's economy:
- Tourism in New Zealand is a \$81.6 million per day and \$29.8 billion a year industry.
 - The tourism industry directly and indirectly supports 12.1% of the total number of people employed in New Zealand. That means 295,908 people – one in eight – are working in the visitor economy.
 - Tourism is one of New Zealand's biggest export industries, earning \$11.8 billion or 17.4% of New Zealand's foreign exchange earnings (year ended March 2015).

End.

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