

Chair
Cabinet Economic Growth and Infrastructure Committee

MARITIME OPERATOR SAFETY SYSTEM FEES

Proposal

1. This paper proposes that the Economic Growth and Infrastructure Committee approve fees for services provided by Maritime New Zealand under the Maritime Operator Safety System established by Maritime Rules Parts 19 and 44.

Executive summary

2. On 30 September 2013, Cabinet noted my intention to make Maritime Rules Parts 19 and 44, which will establish a new Maritime Operator Safety System to replace the existing Safe Ship Management System [EGI Min (13) 23/1 and CAB Min (13) 34/5 refer]. I made the new rules on 3 October 2013.
3. Maritime New Zealand (Maritime NZ) developed the Maritime Operator Safety System as an effective replacement for the under-performing Safe Ship Management System, which is structured around safety systems provided and supervised by commercial Safe Ship Management companies. That system involves an inherent conflict between the companies' commercial and regulatory roles, and is associated with an unsatisfactory safety record. The new system provides Maritime NZ with direct oversight of operators, who will be responsible for their own safety systems.
4. A key feature of the new Maritime Operator Safety System is that Maritime NZ will carry out regulatory approvals and audits delegated to Safe Ship Management companies under the existing rules.
5. Amendments to the Shipping (Charges) Regulations 2000 will be necessary to establish fees for chargeable services performed by Maritime NZ for the purposes of Maritime Rules Parts 19 and 44. Following my making the new rules, Maritime NZ consulted stakeholders on proposed fees for those services.
6. The proposed fees are based on the fully allocated hourly cost of Maritime NZ directly chargeable services, established by the Maritime NZ funding review in 2011/12, which followed an independent value for money review by Ernst and Young in 2010. Using detailed information captured by time-recording and financial system upgrades recommended by Ernst and Young, the funding review found that hourly charges for Maritime NZ regulatory services recovered less than half of the fully allocated hourly cost (\$235 GST incl), with safety levies on commercial ships subsidising the shortfall.
7. Cabinet agreed in March 2013 to future funding arrangements under which Maritime NZ fees will move progressively onto a full cost recovery basis and the industry levy will be reduced to phase out the subsidisation of fees [EGI Min (13) 6/1, CAB Min (13) 10/6 refer]. Under that decision, fees for Maritime NZ permits, approvals and ship registration services will move to full cost recovery over a 6 year transition period.

8. The funding review and Cabinet decision excluded fees for the Maritime Operator Safety System and a new Seafarer Certification and Operational Limits regime, as both initiatives were still at the proposal stage and subject to completion of the rule-making and implementation planning processes. The funding review's underlying cost analysis remains relevant and has informed the fee proposals in this paper, as it has the revised Seafarer Certification fees recently approved by Cabinet [EGI Min (13) 28/3 refers]. The present proposal completes the Maritime NZ fee review process.
9. The introduction of the proposed fees is a major change for maritime transport operators, as safety management systems are currently provided, overseen and audited on a commercial basis by Safe Ship Management companies. Although Maritime NZ fees would effectively replace commercial charges, they are new and coincide with the transition to full cost recovery for Maritime NZ chargeable services.
10. Fee increases over the 6 year transition to the full cost recovery rate have been smoothed over two 3 year phases, rather than escalated year by year. Operators moving into the system over each 3 year period will pay the same fee rates during that period. This will be more equitable and avoid creating an incentive to enter the system earlier than necessary, which would be disruptive to Maritime NZ workflow and capacity management over the transition period.
11. Maritime NZ analysis shows that over the 10 year certification cycle of the Maritime Operator Safety System, average costs for single vessel operators would be around 11 percent higher than under Safe Ship Management, and costs for larger operators would be appreciably lower (for example, costs for a 10 vessel operator would be around one-third lower). The variance reflects economies of scale and differences in the design of the two systems.
12. Submissions on the fee proposals raised concerns over the potential impact of moving to full cost recovery charges and implementing a new regulatory compliance regime at the same time. A key concern was that the use of hourly rather than fixed charges creates uncertainty over costs, provides no efficiency incentive for Maritime NZ, and is likely to exacerbate costs. These are reasonable concerns, given that time and cost estimates are yet to be tested in practice. I have asked that the Ministry of Transport and Maritime NZ ensure suitable monitoring arrangements are in place and that I be provided with a report on progress at the close of 2015.
13. Concerns were also raised in respect to the fixed charge proposed for entry to the new system. The average 'effort hours' it reflected were considered too high for applicants with small and simple operations. Revisions to the proposals as consulted reflect an effort to address this particular concern.

Maritime Operator Safety System

14. Maritime Rules Parts 19 and 44 establish the Maritime Operator Safety System that replaces the existing Safe Ship Management System for domestic operators of commercial vessels. Key features of the new scheme are that each operator will be directly responsible for its own safety management system, Maritime NZ will be directly responsible for regulatory approvals and audits of surveyors and audits of operators, and ship surveyors will be subject to performance requirements. Under the current scheme, oversight of safety management systems is delegated to third party providers (Safe Ship Management companies) which provide vessel safety manuals and survey services to operators – the latter delivered by surveyors working to in-house Safe Ship Management company standards.

15. Part 19 requires maritime transport operators to develop and operate in accordance with safety systems tailored to their particular operation. Each operator is required to operate under a Maritime Transport Operator Certificate issued by the Director of Maritime NZ (the Director) if the operator has prepared a Maritime Transport Operator Plan acceptable to the Director. A Maritime Transport Operating Certificate may be issued for up to 10 years. A Maritime Transport Operator Plan must be amended to reflect changes in an operation, subject to the Director's approval for significant alterations.
16. Maritime NZ will audit operators to check that the operation aligns with the Maritime Transport Operator Plan. Audit frequency is dependent on the outcome of the first audit, operational performance (in terms of compliance), and the type of operation. Audit frequency and cost will therefore reflect the level of risk involved and the compliance history of the operator.
17. All vessels in an operation must have a certificate of survey issued by a recognised surveyor. Surveyors are no longer required to be employed by Safe Ship Management companies. They may operate as independent commercial providers and determine their own survey charges.
18. Part 44 covers surveyor responsibilities, surveyor recognition processes and vessel certification. Only surveyors recognised (or deemed to be recognised under transitional arrangements) by the Director can act as surveyors for the purposes of the Maritime Operator Safety System. Recognised surveyors may be subject to Maritime NZ audits of their performance of survey activities under Part 44.

Transitional arrangements

19. Rule Part 19 deems an existing Safe Ship Management Certificate for a ship to be a Maritime Transport Operator Certificate that expires on the expiry date of the existing certificate. For operations with multiple ships, the deemed certificate will expire on the earliest expiry date of the relevant existing certificates.
20. Under Rule Part 44 currently-recognised surveyors will continue to be recognised until the expiry date of their certificate of recognition if they continue to meet all relevant conditions of the certificate. Thereafter, recognised surveyors will need to apply for recertification under Part 44, which retains the existing 5 year recognition period.

Chargeable activities relating to the Maritime Operator Safety System

21. The Maritime Transport Act 1994 (the Act), section 445, provides for fixing fees and charges to meet costs and expenses incurred by Maritime NZ and the Director in the exercise of functions and powers and the provision of services under the Act. Maritime NZ proposes charges for the following activities that it will perform under the Maritime Operator Safety System:
 - processing an application for a Maritime Transport Operator Certificate
 - processing an application to amend a Maritime Transport Operator Plan
 - processing an application for recognition as a surveyor
 - audit of a maritime transport operation
 - audit of a surveyor's performance

22. Charges for these activities will be based on the hourly service delivery cost analysis developed by the 2011 Maritime NZ funding review, together with establishment costs specific to the Maritime Operator Safety System.

Background to Maritime NZ hourly charges

23. The 2011 Maritime NZ funding review followed a value for money review by Ernst and Young in 2010. The value for money review had found that Maritime NZ delivered overall value for money but its funding sources and costs were misaligned and it needed to upgrade time-recording and financial systems to capture the information necessary for a robust funding review.
24. Based on information from the upgraded systems, the funding review found that the fully-allocated cost of Maritime NZ chargeable services was more than double the average hourly charge on which fees had been based since 2000. Safety levies on commercial ships subsidised the shortfall. The review recommended a transition to full cost recovery for chargeable services and removal of the subsidy.
25. In March 2013, Cabinet agreed to a future funding scheme for Maritime NZ under which direct charges will be moved to full cost recovery and subsidisation from levies phased out, with fees to rise progressively over 6 years to full cost recovery (\$235 an hour incl GST after factoring in planned efficiencies over the transition period) [EGI Min (13) 6/1, CAB Min (13) 10/6 refer]. Under that decision, phased levy reductions and fee increases for maritime operational and ship registration services took effect from 1 July 2013.
26. The fees changes adopted by Cabinet did not include fees relating to the Maritime Operator Safety System or the new Seafarer Certification framework because both initiatives were still at the proposal stage and subject to rule-making and implementation planning processes, and it was acknowledged that the relevant fees would have to be addressed separately. The underlying cost analysis of the funding review and Cabinet's decision on Maritime NZ cost recovery remain relevant, and have informed the recently-approved Seafarer Certification fees [EGI Min (13) 28/3 refers]. The present proposal follows the same approach.

Hourly rates applicable to the Maritime Operator Safety System

Office-based rate

27. The hourly rates for Maritime NZ office-based services will comprise two components: a base rate that aligns with the hourly rates already adopted for the transition to full cost recovery for Maritime NZ directly chargeable services; and an additional component to meet the Maritime Operator Safety System share of IT system costs.

Base rate component

28. Under the 6 year progression to full cost recovery for Maritime NZ chargeable services, fees for 2014/15 (year 2) are based on an hourly rate of \$166 (GST incl). For the purposes of Maritime Operator Safety System fees, this rate will be applied through 2013/14, 2014/15 and 2015/16, rather than stepping the rate up year by year.
29. This approach is taken because 60 percent of the approximately 2000 existing maritime operators are expected to enter the new system between 2013/14 and 2015/16 as their transitional deemed approvals expire. Applying a single rate means that the rate is the same for every operator that is required to enter the new system over those 3 years. Rate increases during this period would incentivise operators to enter the new system earlier than necessary,

with unpredictable application volumes creating workflow and planning difficulties for Maritime NZ. Applying the year 2 rate for 3 years would not alter overall cost recovery, as using this higher fee in year one offsets the foregone year three increase.

30. For years 4 to 6, the year 5 transitional rate of \$218 (GST incl) would be applied, again to manage potential effects on demand without reducing the overall level of cost recovery over the 3 year period.
31. From year 7, when the transition to full cost recovery is completed for all other Maritime NZ fees and charges, fees will be based on the year 6 hourly rate of \$235 (GST incl).

IT system cost component

32. Maritime NZ is introducing a replacement IT system for its data, processing, and information collection requirements. The system will provide full support, including online processes, for the Maritime Operator Safety System, which Maritime NZ estimates will generate 25 percent of IT system activity. On that basis, 25 percent of IT depreciation, interest, software and maintenance costs will be met through Maritime Operator Safety System fees. This amounts to \$160,000 per year to be recovered through those fees.
33. Based on Maritime NZ's estimate of Maritime Operator Safety System-related activity for the next 6 years, the IT cost component will translate to \$11 an hour (GST excl) for office-based services.

Proposed office-based hourly rates

34. The combined base hourly rate and additional IT component produce the following rates:

2013/14, 2014/15, 2015/16:	\$179 (GST incl)
2016/17, 2017/18, 2018/19:	\$231 (GST incl)
2019/20 and outyears:	\$248 (GST incl)

Rate for off-site activities

35. Many chargeable Maritime Operator Safety System-related activities will routinely be undertaken by Maritime NZ staff out of the office. In particular, off-site visits will be necessary for the purpose of assessing applications for a Maritime Transport Operator Certificate, and for the auditing of operators and surveyors. The effect of charging for both the time and cost of travel is that operators in remote locations would pay considerably more than those based close to a Maritime NZ office. Operators in remote areas would thus be disadvantaged purely due to geographical location.
36. The impact of travel-related costs can be evened out by averaging costs over all routine off-site activities, rather than charging directly for the time and expenses for each off-site visit. The Maritime NZ funding review established that this could be achieved by a one-third loading on the office-based cost applied to the time actually spent undertaking the off-site activity and office based activity directly associated with the off-site visit. For any follow-up visit to deal with matters specific to the individual operator, charging should revert to the standard office-based hourly rate plus time and cost of travel.
37. This approach was agreed in relation to other Maritime NZ off-site activities as part of Cabinet's March 2013 decision on Maritime NZ future funding.
38. It is proposed that the same approach be applied for the purposes of the Maritime Operator Safety System, with the one-third loading applied to the office-based rate. Under this

formulation, the loaded rate would be applicable to the actual time spent undertaking an activity at an off-site location.

Proposed off-site hourly rates

39. In calculating the off-site rate, the IT cost is included after adding the one-third loading to ensure that the travel loading does not compound the IT cost component. The resulting hourly rates applicable to time spent off-site and in the Maritime NZ office in relation to the off-site activity are:

2013/14, 2014/15, 2015/16:	\$234 (GST incl)
2016/17, 2017/18, 2018/19:	\$303 (GST incl)
2019/20 and outyears:	\$326 (GST incl)

Cost of proposed regulatory services

40. Maritime NZ has undertaken detailed modelling of the costs that operators are likely to incur for regulatory services under the Maritime Operator Safety System. Because the effort and time involved in providing many of the services will vary according to such factors as the size, type and complexity of a given maritime operation, Maritime NZ has modelled a range of examples that take these variable factors into account.
41. Charges for each regulatory service are discussed individually below. Their collective impact compared with costs under the existing Safe Ship Management System is discussed in the next section of the paper, at paragraphs 62 to 69, and illustrated in Appendix 2.

Maritime Transport Operator Certificate application fees

42. A person wishing to operate as a maritime transport operator must obtain a Maritime Transport Operator Certificate, which may be issued for up to 10 years. They will need to make an application to the Director of Maritime NZ and provide the documentation required under maritime rules. Maritime NZ will undertake an assessment that comprises: administrative processing, desk top review, fit and proper person check, site assessment, final consideration, and issue of a Maritime Transport Operator Certificate or advice as to why the application has been declined.
43. The proposed Maritime Transport Operator application fee comprises fixed and variable components. The fixed component covers time required for administrative processes that take a consistent amount of time to complete for any application. The GST incl fee rises from \$564 to \$781, as detailed in Appendix 1, in line with the hourly rate increases in 2016/17 and 2019/20.
44. The variable fee component will cover the actual time required for aspects of an assessment that vary according to factors as the type, size, complexity and compliance record of a particular operation. Around 85 percent of maritime transport operators are single vessel operators.
45. Maritime NZ modelling indicates the average expected application costs shown in Table 1, which include fixed and variable components. The increase in fees over time is due to the proposed hourly rate increases in 2016/17 and 2019/20.

Table 1: Indicative Maritime Transport Operator application fees (GST incl)

Operation Size	Fixed application fee for all sizes of operation	Indicative variable assessment time range	Indicative all-up fee range (inclusive of fixed application fee)
Single vessel	\$564 (1 April 2014 – 30 June 2016) \$728 (1 July 2016 – 30 June 2019)	4 – 11 hours	\$1,392 - \$2,842 (1 April 2014 – 30 June 2016) \$1,797 - \$3,668 (1 July 2016 – 30 June 2019) \$1,929 - \$3,937 (From 1 July 2019)
Two vessels	\$ 781 (From 1 July 2019)	5 – 13 hours	\$1,628 - \$3,240(1 April 2014 – 30 June 2016) \$2,101 - \$4,181 (1 July 2016 – 30 June 2019) \$2,255 - \$4,488 (From 1 July 2019)
10 vessels		9.5 – 21.5 hours	\$2,519 - \$4,960 (1 April 2014 – 30 June 2016) \$3,252 - \$6,401 (1 July 2016 – 30 June 2019) \$3,490 - \$6,871 (From 1 July 2019)
50 vessels		31 – 63 hours	\$6,845 - \$13,522 (1 April 2014 – 30 June 2016) \$8,833 - \$17,451 (1 July 2016 – 30 June 2019) \$9,483 - \$18,734 (From 1 July 2019)

46. These costs will not be incurred until an operator enters the Maritime Operator Safety System upon the expiry of certification under the existing Safe Ship Management System, which could take up to 5 years depending on how recently the existing certification was issued.

Approval of an amendment to a Maritime Transport Operator Plan

47. The approval of the Director of Maritime NZ will be required for changes to a Maritime Transport Operator Plan that are material to an operation’s nature, scope, risk, safety, and operating procedures. Maritime NZ has developed a costing structure that reflects the variation in time taken to process a plan amendment, depending on its nature.
48. For simpler amendment types that involve a consistent amount of processing effort, fixed application fees based on average processing times will apply. Amendments involving the addition or removal of operational activities may have safety implications, and would therefore require case by case assessment. For those amendment types, a fixed application fee will cover process steps involving consistent effort, with hourly charges applicable to the safety assessment.
49. Six fixed application fees are proposed, based on average processing times ranging from half an hour to slightly less than two hours calculated at the applicable office-based hourly rate. The fees vary between \$90 to \$327 (GST incl) based on the proposed hourly rate for the 3 years commencing 2013/14, and will increase proportionately to the hourly rate increases proposed for 2016/17 and 2019/20.

50. Appendix 1 describes the six types of plan change to which fees apply, specifies the fixed application fees for each, and the two fees in respect of which an hourly charge would apply to time-variable safety assessment of a proposed plan amendment.

Operator audit

51. Maritime NZ will undertake periodic audits of operators that include verifying that the safety management system remains relevant to the operation and is being applied; and that each ship carries a copy of its safe operating procedures, has a valid certificate of survey and operating limits are being complied with.
52. Initial audits will be undertaken within 2 years of an operator obtaining a Maritime Transport Operator Safety Certificate, and then within 4 years of the initial audit. Subsequent audits will occur at a maximum of 4 yearly intervals, based on an updated assessment of the operation's risk.
53. Transitional arrangements deem operators in the Safe Ship Management system to hold Maritime Transport Operator Certificates but they will be audited according to the audit cycle for ships in the existing system. Once a Maritime Transport Operator Certificate had been issued, the cycle would move to that described above.
54. Audits will be charged entirely on the basis of the actual hours spent preparing for, conducting and following up on the audit. These hours will all be charged at the off-site hourly rate. The operator will only be charged for actual travel time and expenses if a follow-up visit is required due to non-conformities found by the audit. Operators will receive early notification of the scope of the audit to allow adequate preparation.
55. Time estimates in the table below are for a relatively well-organised operation that has prepared for the audit. The increase in the indicative fees over time is due to the proposed increases in the hourly rate in 2016/17 and 2019/20.

Table 2: Estimated operator audit fees (GST incl)

Operation Size	Number of vessels checked as part of the	Time and fee range (indicative) for a well-prepared operation with few (if any) issues found
Single vessel	1	6 – 14 hours \$1,401 - \$3,229 (1 April 2014 – 30 June 2016) \$1,816 - \$4,186 (1 July 2016 – 30 June 2019) \$1,952 - \$4,499 (From 1 July 2019)
Two vessels	1	6 – 14 hours \$1,401 - \$3,229 (1 April 2014 – 30 June 2016) \$1,816 - \$4,186 (1 July 2016 – 30 June 2019) \$1,952 - \$4,499 (From 1 July 2019)
10 Vessels	3	10.5 – 24 hours \$2,451 - \$5,603 (1 April 2014 – 30 June 2016)

		\$3,177 - \$7,261 (1 July 2016 – 30 June 2019) \$3,414 - \$7,805 (From 1 July 2019)
Large operator (50 vessel example)	7	13.5 – 39 hours \$3,151 - \$9,182 (1 April 2014 – 30 June 2016) \$4,084 - \$11,901 (1 July 2016 – 30 June 2019) \$4,391 - \$12,791 (1 July 2019)

56. The time and cost could be expected to exceed these indicative ranges where, for example, problems are found during the audit, non-conformities require follow-up, an operator has a poor compliance history, or an operation is unusually large or diverse. Conversely, where an operator has a good compliance history, a simple operation, and is well prepared for the audit (which does not identify any problems) the time and cost could be lower than the minimum indicated.

Application for surveyor recognition, extension and re-certification

57. Applications may be for initial recognition, extension of scope of an existing recognition, or for re-certification. The proposed application fees for surveyors comprise fixed and variable components that vary depending on the type and scope of recognition sought.
58. The fixed component of the fee covers time required to carry out processes that take a consistent amount of time to complete: reviewing the application for completeness; verifying the applicant's suitability for the scope of recognition sought; and processing the decision on the application.
59. The variable component covers competency tests (practical assessments, written and oral examinations) that may be required as a result of Maritime NZ's assessment of the applicant's suitability. The need, if any, for such tests will vary from applicant to applicant.
60. The table below shows the fixed fees for the three application types and indicative upper ranges for competency testing. The increase in fixed fees over time is due to the proposed increases in the hourly rate 2016/17 and 2019/20.

Table 3: Surveyor application fees (GST incl)

Application type	Fixed	Application fee (initial)	Variable
Initial recognition	3.75 hours	\$670 (1 April 2014 – 30 June 2016) \$865 (1 July 2016 – 30 June 2019) \$929 (1 July 2019 ->)	0 to 20 hours
Extension of scope	3.75 hours	\$670 (1 April 2014 – 30 June 2016) \$865 (1 July 2016 – 30 June 2019) \$929 (1 July 2019 ->)	0 to 20 hours
Recertification (renewal of recognition)	2.75 hours	\$491 (1 April 2014 – 30 June 2016) \$634 (1 July 2016 – 30 June 2019) \$681 (1 July 2019 ->)	0 to 18 hours

Surveyor audits

61. Audits of surveyors will be on an as required basis and will be based on risk assessment. It is difficult to predict the nature of these audits, which would address particular areas of concern within a wide potential scope, and could involve survey work carried out on numerous vessels. This makes it difficult to estimate the likely time and cost but Maritime NZ believes it would be rare for an audit to take longer than two days. The audit would be charged at the applicable off-site hourly rate.

Comparison of Safe Ship Management and Maritime Operator Safety System costs

62. The approximately 2000 existing operators will move progressively into the new Maritime Operator Safety System over the next 4 years upon expiry of their existing Safe Ship Management certification. An estimated 150 new operators will enter the system directly over the same period.
63. Entry into the new system will involve a one-off application cost that replaces some current Safe Ship Management System charges. The comprehensive assessment regime for initial certification will be more costly than for Safe Ship Management certification, as will audits. Other features of the Maritime Operator Safety System will lower the incidence of costs over its 10 year certification cycle:
- a Maritime Transport Operator Certificate will be issued for up to 10 years, whereas a Safe Ship Management certificate is required every 4 or 5 years (depending on vessel type)
 - a Maritime Transport Operator Certificate covers all vessels in an operation for its 10 year duration but a Safe Ship Management Certificate is required for each vessel in an operation. Multi-vessel operators will benefit from this change.
 - Safe Ship Management usually requires audits to be undertaken every 2 years, while the average standard audit cycle under the Maritime Operator Safety System would be three over 10 years. Audits under the Maritime Operator Safety System are estimated to cost more than under Safe Ship Management but the total cost of audit is equivalent across the two systems
64. The cost over a 10 year lifespan of an operation under the existing and new systems provides a more comprehensive comparison than isolating the cost of entry or the cost of a single audit or survey under each system.
65. Table 4 shows cost comparisons between the current and new systems for a typical single vessel operation and for a specific high quality medium/large multi-vessel business operating 10 vessels. The table shows aggregate and average annual costs covering all transactions under each system over 10 years. Appendix 2 shows the distribution of costs under both systems over the 10 year period, taking into account Maritime NZ fee increases over the 6 year transition to full cost recovery.

Table 4: Ten year cost comparison: (GST excl)

	Current	New system	Current system	New system
	Single vessel operator		Multi-vessel operator (10 vessels)	
Initial entry	\$2,945	\$2,970	\$22,423	\$18,608
Ongoing costs				
Safe Ship Management Company	\$7,430*	n/a	\$24,610	n/a
Survey		\$3,600	\$106,385	\$81,805
Maritime NZ	\$2,388	\$7,426	\$35,558	\$19,128
10 year total	\$12,763	\$13,996	\$188,976	\$119,541
Annual average	\$1,276	\$1,400	\$18,898	\$11,954

* Audit and survey are combined for single vessel operator

66. Costs for the current system are the 'future state' costs of the system, which differ from its historical costs. Maritime NZ fees for the existing system were not revised as part of earlier funding review decisions, given pending decisions on its future.
67. Had the existing system been retained, the Maritime NZ fees would have needed to follow the full cost recovery path proposed for the new system and already adopted for other Maritime NZ user charges. Also, if the current system had been retained, Maritime NZ would have needed to step up its compliance activity to compensate for its continued lack of direct control over the safety system. This would have involved audits/inspections carried out at vessel operators' expense, charged at the applicable hourly rate under the new maritime operational fees that took effect on 1 July 2013.
68. Overall costs are on average around 11 percent higher for a single vessel operator and appreciably lower for a multi-vessel operator (for example, costs for a 10 vessel operator would be around one-third lower). This reflects that entry costs for a small operator represent a higher proportion of 10 year costs than for multi-vessel operators, and that the benefits of operator rather than ship certification and audit, and of longer survey intervals, increase with the number of vessels in the operation.
69. Surveys will continue to be performed on a commercial basis by recognised surveyors, and survey charges in future are assumed to remain in line with charges under the current system.

Consultation

Departmental consultation

70. The following departments were consulted in the drafting of this paper: Treasury, Ministry of Business, Innovation, and Employment, Ministry for Primary Industries. The Department of the Prime Minister and Cabinet was informed.

Stakeholder consultation

71. Submissions on the fee proposals raised concerns over the impact on a cost-sensitive industry of charges designed to achieve full cost recovery at the same time as introducing a new system that places Maritime NZ in a more active regulatory role.

72. Submitters questioned proposed Maritime Transport Operator Certificate application fees based on assumptions about the risk and complexity of different categories of operation. Setting fixed fees on this basis was seen as likely to lock in fees higher than necessary to cover processing times once the new arrangements were bedded in – particularly for the 85 percent of operators running a single vessel business.
73. Another key concern, conversely, is that time-based charges for audits and other activities create uncertainty over costs, provide no efficiency incentive for Maritime NZ, and are likely to exacerbate costs. Fixed fees were suggested as a way to manage that risk.
74. Some submitters believe that Maritime NZ's comparison of costs under the existing and new systems overstates the costs of the existing system. As discussed in paragraph 67, the cost comparison reflects Maritime NZ fees that would have applied to the current system had it been retained, not the pre-funding review fees.
75. A range of practical issues were raised, including that high hourly charges will prevent smaller operators from seeking Maritime NZ assistance with implementing the new system, or that operators may elect to avoid costs by operating illegally.
76. Issues raised over application fees for Maritime Transport Operator Certificates have been addressed by specifying a fixed fee only for the administrative component, with an hourly charge for the actual time spent on processes requiring variable effort. Maritime NZ considers this change and correction of misunderstandings evident from some submissions will address concerns over operators electing to operate illegally.
77. Concerns over the uncertainty of time-based charges, estimates of Maritime NZ effort and the potential impact on costs are reasonable at this early stage, when estimates about the likely time required for audits and other time-based activities are yet to be tested in practice. The same factors, as already identified, mean that setting fixed fees for such activities is likely to be problematic at present, if not necessarily in future.
78. It will be essential for Maritime NZ to have effective, transparent measures in place to monitor and measure the efficiency and cost effectiveness of its service performance under the new system. Once sufficient information on actual performance under the system has been built up, specific areas of activity where a fixed fee would be appropriate may become evident.
79. I have asked that the Ministry of Transport and Maritime NZ ensure suitable monitoring arrangements are in place and that I be provided with a report on progress at the close of 2015.

Financial implications

80. There are no financial implications for the Crown from this proposal.

Legislative implications

81. The proposed fees will require amendments to the Shipping (Charges) Regulations 2000.
82. In formulating the proposed hourly charge for off-site services relating to the Maritime Operator Safety System, it has been established that the Shipping (Charges) Regulations 2000, regulation 5(3), does not make it clear that the only charge to be made for a routine off-site visit is the adjusted hourly rate that applies to work actually performed at the off-site location and office based activity directly associated with the off-site visit. This can be

addressed in conjunction with the off-site fee provisions for Maritime Operator Safety System-related services.

Regulatory Impact Analysis

83. A Regulatory Impact Statement is required with respect to the proposals in this paper. A Regulatory Impact Statement has been prepared by Maritime NZ and is attached to this Cabinet Paper. The Regulatory Impact Statement and associated material have been assessed by the Ministry of Transport's Regulatory Impact Statement internal review panel as meeting the quality criteria.
84. I have assessed the analysis and advice of my officials, as summarised in the attached Regulatory Impact Statement and I am satisfied that the regulatory proposals recommended in this paper:
- are required in the public interest
 - will deliver the highest net benefits of the practical options available
 - are consistent with our commitments in the Government statement 'Better Regulation, Less Regulation'

Human rights, gender, and disability implications

85. There are no gender, disability, or human rights implications from this proposal.

Publicity

86. Decisions about the proposed fees and charges will be notified on Maritime NZ's website and in industry publications as part of the Maritime NZ communications programme for implementation of the Maritime Operator Safety System.
87. This Cabinet paper and attached Regulatory Impact Statement will be made publicly available following Cabinet's decision on the proposal.

Recommendations

88. The Minister of Transport recommends that the Cabinet Economic Growth and Infrastructure Committee:
1. **note** that the Minister of Transport has made Maritime Rules Parts 19 and 44 which implement the new Maritime Operator Safety System and replace the existing Safe Ship Management System for commercial ships [EGI Min (13) 23/1 and CAB Min (13) 34/5 refer]
 2. **note** that amendments to the Shipping (Charges) Regulations 2000 will be necessary to establish fees for chargeable regulatory services performed by Maritime New Zealand for the purposes of Maritime Rules Parts 19 and 44
 3. **note** that Maritime New Zealand has developed a fee structure under which fees for services relating to Maritime Rules Parts 19 and 44 will move progressively onto a full cost recovery basis in line with Cabinet's decision on Maritime New Zealand future funding in March 2013 [EGI Min (13) 6/1, CAB Min (13) 10/6 refer]
 4. **agree** that the Shipping (Charges) Regulations 2000 be amended to:

- 4.1 specify that the hourly charge for office-based services provided by Maritime New Zealand for the purposes of Maritime Rules Part 19 and 44 will be:
 - \$179 (GST incl) for services provided in 2013/14, 2014/15 and 2015/16
 - \$231 (GST incl) for services provided in 2016/17, 2017/18 and 2018/19
 - \$248 (GST incl) with effect from 2019/20
- 4.2 specify that the hourly charge applicable to routine services provided by Maritime New Zealand at an off-site location and office based activity directly associated with the off-site visit for the purposes of Maritime Rules Part 19 and 44 will be:
 - \$234 (GST incl) for services provided in 2013/14, 2014/15 and 2015/16
 - \$303 (GST incl) for services provided in 2016/17, 2017/18 and 2018/19
 - \$326 (GST incl) with effect from 2019/20
- 4.3 specify that the following Maritime New Zealand services are subject to the hourly charges pursuant to recommendations 4.1 and 4.2:
 - i. processing an application for a Maritime Transport Operator Certificate
 - ii. audit of a maritime transport operation
 - iii. audit of a recognised surveyor
 - iv. competency testing of an applicant for recognition as a surveyor, extension of the scope of recognition as a surveyor, or recertification as a recognised surveyor
 - v. safety assessment for approval of an amendment to a Maritime Transport Operator Plan to add or remove a category or categories or activity or activities of maritime transport operation
- 4.4 agree that the Shipping (Charges) Regulations 2000 be amended to specify the fixed application fees listed in Appendix 1 for:
 - i. application for a Maritime Transport Operator Safety Certificate
 - ii. approval of amendments to Maritime Transport Operator Plans
 - iii. recognition as a surveyor, extension of scope of recognition as a surveyor, and recertification as a surveyor
5. **agree** that regulation 5(3) of the Shipping Charges Regulations 2000 be amended to specify that the only charge to be made for a routine off-site visit is the adjusted hourly rate that applies to work actually performed at the off-site and office based activity directly associated with the off-site visit
6. **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to amend the Shipping (Charges) Regulations 2000 to give effect to recommendations 4 and 5 and make any savings, transitional and consequential amendments

7. **agree** to publish this Cabinet paper on the Ministry of Transport's website

Hon Gerry Brownlee
Minister of Transport

Dated: _____

Fixed Application Fees

Application for Maritime Transport Operator Certificate	
	Initial application fee (GST incl)
Maritime Transport Operator Certificate Application Fee	\$564 (initial fee) (1 April 2014 – 30 June 2016) \$728 (initial fee) (1 July 2016 – 30 June 2019) \$781 (initial fee) (From 1 July 2019)
Approval of a Maritime Transport Operator Plan amendment	
Type of plan amendment	Application fee (GST incl)
Change to the full name of the maritime transport operator	\$196 (1 April 2014 – 30 June 2016) \$252 (1 July 2016 – 30 June 2019) \$270 (From 1 July 2019)
Change to a person responsible for exercising the privileges (charge per person being added or having an increase in responsibility)	\$327 (1 April 2014 – 30 June 2016) \$422 (1 July 2016 – 30 June 2019) \$453 (From 1 July 2019)
Addition of a primary port of harbour from which the operation is conducted	\$265 (1 April 2014 – 30 June 2016) \$342 (1 July 2016 – 30 June 2019) \$367 (From 1 July 2019)
Removal of a primary port or harbour from which the operation is conducted	\$90 (1 April 2014 – 30 June 2016) \$116 (1 July 2016 – 30 June 2019) \$124 (From 1 July 2019)
	Initial application fee (GST incl)
Addition of a category or categories or activity or activities of maritime transport operation	\$268 (initial fee) (1 April 2014 – 30 June 2016) \$346 (initial fee) (1 July 2016 – 30 June 2019) \$371 (initial fee) (From 1 July 2019)

Removal of a category or categories or activity or activities of maritime transport operation	<p>\$135 (initial fee) (1 April 2014 – 30 June 2016)</p> <p>\$173 (initial fee) (1 July 2016 – 30 June 2019)</p> <p>\$186 (initial fee) (From 1 July 2019)</p>
Surveyor recognition	
Application type	Initial application fee (GST incl)
Initial recognition of surveyor	<p>\$670 (1 April 2014 – 30 June 2016)</p> <p>\$865 (1 July 2016 – 30 June 2019)</p> <p>\$929 (1 July 2019 ->)</p>
Extension of scope of surveyor recognition	<p>\$671 (1 April 2014 – 30 June 2016)</p> <p>\$866 (1 July 2016 – 30 June 2019)</p> <p>\$930 (1 July 2019 ->)</p>
Recertification of surveyor recognition	<p>\$491 (1 April 2014 – 30 June 2016)</p> <p>\$634 (1 July 2016 – 30 June 2019)</p> <p>\$681 (1 July 2019 ->)</p>

10 YEAR COMPARISON OF COSTS (\$ GST Excl) FOR CURRENT SAFE SHIP MANAGEMENT SYSTEM AND NEW MARITIME OPERATOR SAFETY SYSTEM

SINGLE VESSEL OPERATOR

Safe Ship Management System (SSM)			Maritime Operator Safety System (MOSS)	
<u>Year 1</u>	Total	2,945	Total	2,970
SSM Cert (SSM Co)		100	<i>MTOC application</i>	1,770
<i>SSM Cert (MNZ)</i>		363		
<i>MNZ inspection</i>		482		
Renewal Survey (incl SSM audit)		1,475	Renewal Survey	1,200
SSM manual		375		
SSM membership fee		150		
<u>Year 2</u>	Total	180	Total	2,013
SSM membership fee		180	<i>Initial audit</i>	2,013
<u>Year 3</u>	Total	1,525	Total	1,200
Mid term survey (incl SSM audit)		1,375	Mid term survey	1,200
SSM membership fee		150		
<u>Year 4</u>	Total	180	Total	-
SSM membership fee		180		
<u>Year 5</u>	Total		Total	2,659
SSM Cert (SSM Co)		100	<i>Ongoing audit</i>	2,659
<i>SSM Cert (MNZ)</i>		513		
<i>MNZ inspection</i>		682		
Renewal survey (incl SSM audit)		1,475		
SSM membership fee		150		
<u>Year 6</u>	Total	180	Total	1,200
SSM membership fee		180	Renewal survey	1,200
<u>Year 7</u>	Total	1,555	Total	-
Mid term survey (incl SSM audit)		1,375		
SSM membership fee		180		
<u>Year 8</u>	Total	180	Total	4,004
SSM membership fee		180	<i>Ongoing audit</i>	2,804
			Mid term survey	1,200
<u>Year 9</u>	Total	2,919	Total	-
SSM Cert (SSM Co)		100		
<i>SSM Cert (MNZ)</i>		513		
<i>MNZ inspection</i>		682		
Renewal survey (incl SSM audit)		1,475		
SSM membership fee		150		
<u>Year 10</u>	Total	180	Total	-
SSM membership fee		180		
TOTAL		12,763	TOTAL	13,996
ANNUAL AVERAGE		1,276	ANNUAL AVERAGE	1,400

MULTI-VESSEL OPERATOR (10 vessels)

SSM			MOSS		
<u>Year 1</u>	Total	22,404		Total	18,608
SSM Cert (SSM Co)		400	<i>MTOC application</i>		3,343
SSM Cert (MNZ)		1,444			
MNZ inspection		2,805			
Renewal survey		10,925	Renewal survey		10,925
SSM audit		2,490			
Mid term survey		4,340	Mid term survey		4,340
<u>Year 2</u>	Total	14,691		Total	14,187
SSM Cert (SSM C)		200			
<i>SSM Cert (MNZ)</i>		800	<i>Initial audit</i>		4,872
<i>MNZ inspection</i>		1,886			
Renewal survey		4,615	Renewal survey		4,615
SSM audit		2,490			
Mid term survey		4,700	Mid term survey		4,700
<u>Year 3</u>	Total	20,288		Total	13,042
SSM Cert (SSM Co)		200			
<i>SSM Cert (MNZ)</i>		874	<i>MTOC amendment</i>		367
<i>MNZ inspection</i>		2,159			
Renewal survey		4,715	Renewal survey		2,825
SSM audit		2,490			
Mid term survey		9,850	Mid term survey		9,850
<u>Year 4</u>	Total	15,596		Total	6,230
SSM Cert (SSM Co)		200			
<i>SSM Cert (MNZ)</i>		948			
<i>MNZ inspection</i>		2,576			
Renewal survey		5,050	Renewal survey		1,890
SSM audit		2,490			
Mid term survey		4,340	Mid term survey		4,340
<u>Year 5</u>	Total	24,170		Total	11,364
SSM Cert (SSM Co)		400			
<i>SSM Cert (MNZ)</i>		2,044	<i>Ongoing audit</i>		6,314
<i>MNZ inspection</i>		3,971			
Renewal survey		10,925	Renewal survey		5,050
SSM audit		2,490			
Mid term survey		4,340			
<u>Year 6</u>	Total	15,435		Total	15,659
<i>SSM Cert (SSM Co)</i>		200			
<i>SSM Cert (MNZ)</i>		1,025	<i>MTOC amendment</i>		394
MNZ inspection		2,408			
Renewal survey		4,615	Renewal survey		5,050
SSM audit		2,490			
Mid term survey		4,700	Mid term survey		4,340
<u>Year 7</u>	Total	20,802		Total	9,315
SSM Cert (SSM Co)		200			
<i>SSM Cert (MNZ)</i>		1,022			
<i>MNZ inspection</i>		2,525			
Renewal survey		4,715	Renewal survey		4,615
SSM audit		2,490			
Mid term survey		9,850	Mid term survey		4,700

<u>Year 8</u>	Total	15,871		Total	19,462
SSM Cert (SSM Co)		200			
<i>SSM Cert (MNZ)</i>		<i>1,022</i>	<i>Ongoing audit</i>		<i>6,787</i>
<i>MNZ inspection</i>		<i>2,769</i>			
Renewal survey		5,050	Renewal survey		2,825
SSM audit		2,490			
Mid term survey		4,340	Mid term survey		9,850
<u>Year 9</u>	Total	24,189		Total	6,624
SSM Cert (SSM Co)		400			
<i>SSM Cert (MNZ)</i>		<i>2,050</i>			
<i>MNZ inspection</i>		<i>3,984</i>	<i>MTOP amendment</i>		<i>394</i>
Renewal survey		10,925	Renewal survey		1,890
SSM audit		2,490			
Mid term survey		4,340	Mid term survey		4,340
<u>Year 10</u>	Total	15,446		Total	5,050
SSM Cert (SSM Co)		200			
<i>SSM Cert (MNZ)</i>		<i>1,025</i>			
<i>MNZ inspection</i>		<i>2,416</i>			
Renewal survey		4,615	Renewal survey		5,050
SSM audit		2,490			
Mid term survey		4,700	Mid term survey		-
TOTAL		188,861	TOTAL		119,541
ANNUAL AVERAGE		18,886	ANNUAL AVERAGE		11,954