

Chair
Cabinet Economic Growth and Infrastructure Committee

MARITIME NEW ZEALAND PROPOSAL TO INCREASE FUNDING (PRIMARILY FROM THE MARITIME LEVY)

Proposal

1. I seek the Committee's agreement to increase annual funding by \$1.62 million (primarily from the maritime levy) for the regulatory and compliance functions of Maritime New Zealand (Maritime NZ) for the next three years, and to cancel scheduled future reductions in the levy.

Executive summary

2. In 2015/16 Maritime NZ carried out a planned mid-point funding review between the last full review, undertaken in 2011/12, and the next planned full review in 2018/19. The review focused mainly on the implications of two major new regulatory systems, the Maritime Operating Safety System (MOSS) and Seafarer Certification (SeaCert) that have been introduced since the 2011/12 funding review.
3. Implementation of these systems has involved a greater than planned level of Maritime NZ activity due to operators and seafarers being less prepared than expected for entry into the new system and their individual circumstances more diverse than previously understood. The additional activity was not a direct benefit to operators and seafarers (i.e. private goods subject to direct fees) as originally thought but more the cost of developing and maintaining the new systems (i.e. levy-funded club goods).
4. Maritime NZ had a revenue shortfall of \$3 million in 2013/14 and 2014/15. The shortfall is forecast to continue in 2015/16 and the following two years (when a full funding review is scheduled). The shortfall will increase further if scheduled levy reductions of \$0.70 million in 2016/17, \$1.32 million in 2017/18 and \$2.30 million in 2018/19 are implemented (these levy reductions were scheduled on the assumption that they would be balanced out by increases in fee revenue across all chargeable activity (including MOSS and SeaCert)).
5. Maritime NZ has to date covered the shortfall through efficiencies, cost savings, drawing on cash reserves and diverting resources from some operational areas but this approach is not sustainable. The diversion of resources has meant that Maritime NZ is challenged to deliver its core statutory functions e.g. not delivering expected service levels or meeting some performance targets in the affected areas. Continuing to draw on reserves would not be prudent or sustainable.
6. The funding proposal in this Cabinet paper is to meet the shortfall by not proceeding with the scheduled levy reductions and to increase fees and the levy. The average cost to the maritime sector will be \$1.62 million per annum for the next three years after taking into account the \$1.38 million annual value of efficiencies and cost savings. The

revenue increase would comprise an increase in SeaCert fees (of \$0.220 million per annum to ensure direct costs are fully recovered) and an increase in the maritime levy (of \$1.40 million per annum).

7. The proposal will deliver the funding needed to return Maritime NZ to a break-even position by 2016/17 and maintain that position through to the full funding review in 2018/19.
8. The proposal also covers technical and administrative changes to fee regulations that do not affect the overall funding position.

Maritime NZ Mid-Point Funding Review 2015

9. Maritime NZ has had an operating deficit for the last five years. While the deficit is small, it masks the real issue of a shortfall of some \$3 million for 2014/15 for the regulatory and compliance functions. The deficit is forecast to continue in outyears and is expected to reach approximately \$3.7 million in 2018/19.
10. In 2015/16 Maritime NZ carried out a scheduled mid-point funding review between a full review in 2011/12 and the next planned full review in 2018/19.¹ The purpose of this mid-point review is to consider whether the staff effort and third party funding assumptions that support the fee and levy decisions made in 2012 remain appropriate following the introduction of MOSS and SeaCert, and to address any other specific funding pressures.

Background to the mid-point funding review

11. The 2011/12 full review found that Maritime NZ fees significantly under-recovered the cost of directly chargeable services, with the shortfall being met by the maritime levy. To address the problem, the Government approved a revised third party funding scheme designed to move Maritime NZ fees progressively to full cost recovery over six years from 2013/14 to 2018/19, with corresponding levy reductions.
12. A review of progress with the revised funding scheme was planned for 2015/16, the mid-point of the six-year transitional path.
13. At the time of the 2011/12 review, two major reforms of Maritime NZ regulatory systems, the Maritime Operator Safety System (MOSS) and a new seafarer certification system (SeaCert), were still under development. Although fees for these systems were consequently not part of the full review, the fees were based on the hourly rate implemented for other cost recoverable Maritime NZ services at the time of the full review.
14. MOSS replaced the Safe Ship Management (SSM) system for commercial ships, under which oversight of operators' safety system was outsourced to commercial providers (SSM companies). Under MOSS, Maritime NZ now directly exercises the oversight

¹ A funding review should be done every three years as recommended in the New Zealand Treasury's *Guidelines for setting charges in the public sector* and the Office of the Auditor General's guide *Charging fees for public sector goods and services*.

formerly delegated to SSM companies. SeaCert modernised New Zealand's seafarer certification framework to reflect contemporary industry needs and facilitate transferability to international qualifications.

15. As MOSS and SeaCert were new systems, both were planned for a pricing check in 2015/16, once the new systems had been in operation for 18 months and the accuracy of assumptions would be known.
16. Because the mid-point review was focused on third party funded activity, including MOSS, SeaCert and the maritime levy, Crown funding was outside its scope. Crown funding will be part of the full review of the Maritime NZ business model in 2018/19.

Mid-point review findings

17. The mid-point review established that Maritime NZ's forecast revenue requirement to fund its regulatory and compliance activities until 2018/19 was around \$35 million per annum. However, it received around \$32 million per annum in 2014/15 and has forecasted the same in 2015/16.
18. The review has established that over 80 percent of the revenue shortfall of \$3 million per annum (against forecast revenue in 2013/14 and 2014/15) was due to a higher than planned amount of necessary, but non-chargeable, work for MOSS and SeaCert. In addition, there has been some under recovery of fees for SeaCert services (less than full cost recovery) and underfunding of costs relating to working on international conventions and with international organisations that regulate maritime safety and security.
19. The funding shortfall will increase further from 2015/16 if the stepped reductions (scheduled and notified as part of the 2011/12 full review) in the maritime levy rates proceed. The reductions apply to international ships under the Marine Safety Charges Regulations 2000. The scheduled reductions were based on the expectation that MOSS and SeaCert would be self-funding through fees for directly chargeable services. In practice, more MOSS and SeaCert work than anticipated has proven to have the characteristics of a club good and therefore not to be directly cost-recoverable.
20. If the scheduled levy reductions proceed, levy revenue is forecast to fall by (and the funding shortfall will increase by) \$0.70 million in 2016/17, \$1.32 million in 2017/18 and \$2.3 million in 2018/19 and out years (with little or no offsetting increase in fee revenue).
21. By 2018/19, MOSS and SeaCert are expected to be fully implemented and they will move to a business-as-usual state. This is when a full funding review of the Maritime NZ business model will be completed and funding adjusted as appropriate.

Consideration of options

22. Maritime NZ considered whether it could meet its regulatory obligations without additional funding.

Efficiencies and cost savings

23. Since 2013/14, Maritime NZ has achieved efficiencies and cost savings that have reduced its annual funding requirements by \$1.380 million, reducing the effective funding shortfall from \$3.00 million to \$1.620 million. However, covering the \$1.62 million shortfall has been achieved by using cash reserves, diverting resources from other operations and not proceeding with the level of operational resource planned in 2012.
24. The diversion of resources has meant that Maritime NZ is beginning to not deliver expected service levels or meet some performance targets. While the continued use of reserves is not prudent or sustainable, the concern is that continued diversion of resources will compromise safety and security.
25. In many areas, the timeliness and the depth of work has not been to expected standards, e.g. timelines not met, difficulty in making timely responses to important findings of the Coastal Navigation Safety Review, industry concerns about insufficient port state control inspections, and cutting back accident investigations by prioritising to a level where the risk of not investigating an important issue is increasing. In addition, resource constraints have stalled progress on work to improve information collection and analysis, including developing comprehensive risk profiles of each sector - an important part of becoming a risk-focused regulator.
26. The Ministry of Transport is satisfied that the potential for further savings from operational efficiencies is unlikely to deliver sufficient savings to meet the current funding shortfall (and definitely not the future funding shortfall if the scheduled levy reductions occur). This continued shortfall is expected to impact on Maritime NZ's effectiveness in meeting its core statutory responsibilities.

Not proceeding with MOSS and SeaCert

27. MOSS and SeaCert reflect a modern regulatory approach (i.e. focused on risk, ensuring operators and seafarers are accountable for competence and safety). Maritime NZ is changing from being an outsourced, prescriptive and transaction-focused regulator to being a risk-focused, intelligence-led regulator.
28. The introduction of MOSS and SeaCert involved extensive consultation with industry in accordance with the statutory consultation procedure for maritime rule making. Industry support was strong for SeaCert but less so for MOSS because of concerns about costs. Given Maritime NZ's move to become a more risk-focused regulator, additional work would have been necessary even if MOSS and SeaCert had not been introduced.

Reducing work on MOSS and SeaCert

29. The expected safety benefits from MOSS and SeaCert are expected to reduce if work on MOSS and SeaCert is reduced. The original estimates were based on the assumption that operators and seafarers under the previous regulatory system had a basic understanding of what was required to be a safe seafarer or operator. The estimates were also based on the assumption that the additional knowledge required for entry into the new systems could be provided by low cost online engagement and 'one to many' workshops and seminars. The reality was that operators and seafarers were less knowledgeable about what was required, and the range of industry operators and operational risk was more diverse than expected. In other words, the need for and extent of change was greater than expected.
30. Additional work has been necessary to engage more one to one with operators and seafarers and additional risk analysis and operational policy decision-making has been required. Not completing this work would mean operators would be less prepared for entry into MOSS and less knowledgeable of safety systems. From a regulatory and compliance perspective, it makes sense for this work to continue, as not doing it could undermine the safety outcomes that MOSS and SeaCert are intended to deliver.

Using a different model to deliver MOSS and SeaCert

31. The original model to deliver MOSS and SeaCert was based on the expectation that web-based information, workshops and seminars would give operators and seafarers enough information to adequately complete entry requirements and to become sufficiently knowledgeable about their responsibilities under the new system. This did not work as operators and seafarers required additional one to one assistance to be able to adequately complete entry requirements. Maritime NZ is proposing that during the implementation period this additional assistance be continued until MOSS and SeaCert are fully implemented.
32. In the medium term, the level of assistance may reduce as experience is gained and spread throughout the industry. However, a reasonable level of assisted compliance is necessary on an ongoing basis for modern regulatory systems to succeed and to embed the behavioural changes that are vital for improved safety outcomes. This will be taken into account in the full review in 2018/19. In the short term, it was not considered possible to create a new model that meets operators' and seafarers' needs and that did not require additional funding.

Funding proposals

33. The proposal is to increase Maritime NZ funding by an average of \$1.62 million per annum for the next three years to cover the forecast revenue shortfall (leading to the full funding review in 2018/19). The proposal also seeks to cancel the scheduled levy reductions. The revenue increase would comprise:
 - an increase in SeaCert fees (\$0.220 million per annum)
 - an increase in the maritime levy (\$1.400 million per annum).
34. The Ministry of Transport has assessed the proposals: it concluded there were no options for Maritime NZ to provide effective regulatory functions without additional

funding. Castalia, an independent consultant, was employed to consider the question of 'who should pay' and provided advice on potential changes. The Ministry of Transport believes the proposal on 'who should pay' meets Treasury's guidance on fees and charges.

SeaCert fixed fees

35. The 2011/12 full funding review aimed for fees to be based on full cost-recovery. The proposal in this paper is for SeaCert fixed fees to be placed on the same full cost-recovery basis as MOSS services. An hourly rate of \$169 (inc GST) was adopted for SeaCert subject to an evaluation in 2015/16 of actual SeaCert implementation experience. This hourly rate was set at less than full cost recovery to encourage entry into the new system and because of expectations that an IT system might reduce costs through standardised online processing of applications. Experience from the last 18 months has been that a higher than expected level of diversity in seafarers' individual needs has meant that standardisation via an IT system could not provide the cost reductions expected.
36. The mid-point review has established that the hourly rate for SeaCert needs to move to full cost recovery, which is a base rate, similar to that for MOSS, of \$221 (inc GST) and held at that rate until the position is reconsidered under the 2018/19 full funding review. The effect of this change will be to increase SeaCert fees by 31 percent (typically an increase in the range of \$83-\$260 for certificates that last a minimum of 5 years).
37. Without the proposed fee change, \$0.220 million of under-recovered SeaCert costs would continue to be met by diverting resources from other operational activity. This approach would not be sustainable.

Maritime levy

Cancellation of scheduled levy reductions for international operators

38. Cancellation of the levy reductions scheduled for 2016/17, 2017/18 and 2018/19 for international operators will avoid the revenue shortfalls of \$0.669 million, \$1.320 million and \$2.3 million forecast for those three years.

Levy increase for all levy payers

39. The proposed \$1.4 million increase in the maritime levy would cover:
 - the higher than planned amount of necessary, but non chargeable, work for MOSS and SeaCert assisted compliance, risk analysis, operational policy and standards development work
 - the \$0.35 million under-recovery of the costs of work relating to international conventions and relationships. International operators contribute to the aspects of this work that apply more directly to international maritime operators. The work in this area has been greater than initially forecasted.
40. The allocation of the \$1.4 million maritime levy increase will be allocated across the different maritime sub-sectors:

- \$0.200 million per annum (averaged over the next three years), will be allocated across domestic non-SOLAS² operators, this is a targeted increase from the costs of assisted compliance
- \$1.200 million per annum (averaged over the next three years) will be allocated across all levy payers. This would cover the higher amount of SeaCert assisted compliance, risk analysis, MOSS and SeaCert operational policy and standards development work, and the under-recovery of international convention-related costs

The maritime levy allocation mechanism means the majority of the increase will fall on international operators, given that the allocation is based on the deadweight tonnage of these ships. International shipping must meet rigorous international maritime requirements, which requires regulatory effort. In addition, international ships are large and present high consequence risks in the event of an accident or incident. Their safety is economically important to New Zealand because they carry 99 percent (by weight) of our imports and exports.

Other proposals

41. Other, more minor proposals, cover areas where costs can be reduced and regulatory flexibility and clarity improved:
 - 41.1. Adjust the Shipping (Charges) Regulations 2014 to hold the GST inclusive MOSS hourly charge at \$231 for office based services and \$303 for off-site visits with effect from 1 July 2016 until the rates are reviewed under the 2018/19 funding review, rather than moving to the higher rates that the regulations currently specify with effect from 2019/20. Maritime NZ considers at this stage that the lower rate is sufficient to meet its current level of costs.
 - 41.2. Provide flexibility for the Director of Maritime NZ (the Director) to waive fees in whole or in part if the actual time and effort required for a transaction is significantly less than that on which the fee is modelled. This will apply to some seafarers as they transfer to new certificates under SeaCert. Situations such as grand parenting (moving to the new regime without more training but with limits on activity) or ring fencing (allowing current holders to effectively 'remain under the old regime') will involve significantly less effort for Maritime NZ staff. This flexibility could also be used if MOSS/SeaCert process changes produce cost savings that warrant lower fees.
 - 41.3. Amend the Shipping (Charges) Regulations 2014 to allow Maritime NZ to charge a fee at the relevant hourly rate (specified in Schedule 1) to recover the cost of chargeable activities under the Maritime Transport Act 1994 (the Act) or rules under the Act but for which a fee is not otherwise prescribed. This proposal is modelled on an existing provision in the Civil Aviation Charges Regulations (No 2) 1991.
 - 41.4. Establish regulations under the Maritime Security Act 2004 to provide for fees in respect of security assessments, security plan testing, audits, inspections, ship

² International Convention for the Safety of Life at Sea (SOLAS), 1974, which applies to some domestic vessels but not others – the others are called 'non-SOLAS'

detentions and approvals undertaken by Maritime NZ under that Act. The fees would replace security-related fees currently provided for in the Shipping (Charges) Regulations 2014. Including security fees in regulations made under the Maritime Security Act 2004 will provide a more direct, visible link between fees and the Act. The applicable fee rates would be the full cost recovery, GST inclusive, rates of \$235 (office-based) and \$313 (out of office) specified in the Shipping (Charges) Regulations 2014.

- 41.5. Change the name of the Marine Safety Charges Regulations 2000 to the Maritime Levy Regulations 2000, to reflect the wording of the empowering section 191 of the Maritime Transport Act 1994, which was amended by the Maritime Transport Amendment Act 2013 to clarify that the charge in question is a levy, not a user charge.

Consultation process

42. In November 2015, Cabinet agreed to the release of Maritime NZ's consultation document for the mid-point funding review, *Proposals to Make Changes to Maritime New Zealand Fees and the Maritime Levy for 2016-19*. The release of the consultation document was subject to Maritime NZ taking an open book approach to consultation [EGI-15-MIN-0133 refers].
43. Consultation was completed on an open book basis. Significant financial information was provided in the consultation documents, including benchmarking of the hourly rate and detailed financial projections. Maritime NZ stated at meetings with industry representative groups and at the public seminars that the process was open book and offered to provide any further information. No parties requested further financial information.
44. The consultation document, including detailed financial information, was released for public consultation from 20 November 2015 to 22 January 2016. During the consultation period, Maritime NZ completed a series of eight public seminars in Wellington, Auckland, Tauranga, Napier, Nelson, Christchurch, Dunedin, and Invercargill.
45. Maritime NZ created an industry representative group (covering nine organisations, including Cruise New Zealand, New Zealand Shipping Federation (coastal shipping), and international container lines (international cargo)). This group met three times during development of the funding proposals and at the start of the consultation period. A meeting was also held after the public seminars to provide feedback from seminars.
46. Maritime NZ received 14 written responses to the consultation document. Five were from industry representative organisations: New Zealand Shipping Federation; Cruise New Zealand; Tourism Industry Association; New Zealand Marine Transport Association, and New Zealand Federation of Commercial Fishermen. The remaining responses were from individuals or companies.
47. No submissions were received from or on behalf of international non-passenger ship operators despite the impact of cancelling the scheduled levy reduction and

increasing the levy rate being greatest for this group. This group generates 71 percent of total maritime levy revenue.

Submission themes

48. The mid-point funding review provides an opportunity to 'fix' some straightforward issues now and highlight work required on fundamental issues for the 2018/19 full funding review.
49. The main themes raised by submitters were around 'who should pay'. As noted earlier, Maritime NZ employed Castalia to help examine Treasury and Audit office guidance on 'who should pay':
 - 49.1. *MOSS and SeaCert additional costs*: Some submitters suggested MOSS and SeaCert fees were already too high and further increases would negatively impact the industry. Others thought that some levy payers were already paying more than their fair share.

When MOSS and SeaCert were introduced, it was assumed that these costs would provide direct benefits only for MOSS and SeaCert participants, so were a private good that should be paid for by fees. Experience has shown that these additional costs have much broader impact, in that they are the costs of developing and maintaining the new systems (MOSS/SeaCert). The costs therefore have the characteristics of a club good and should be paid for by the maritime levy. Furthermore, increasing the fees would create compliance issues and a reduced willingness to engage with the regulator.

- 49.2. *Maritime levy*: Some submitters (Cruise NZ, New Zealand Shipping Federation, Tourism Industry Association and Interislander) suggest the maritime levy is inequitably allocated and some industry groups are being unfairly targeted. Some comment was based on an inaccurate view of the reason or basis for allocation. A common complaint is that 'ability to pay' is the only rationale, although the overall allocation is actually based on risk.

See later comments from paragraph 63 on proposal to review the maritime levy allocation.

- 49.3. *Crown funding*: some submitters suggested Crown funding should, in some submitters' view, be higher rather than increasing the maritime levy and fees because there is more public benefit than Maritime NZ's analysis suggests and industry cannot sustain the increase in cost. Crown funding was out of scope for the mid-point funding review but will be considered in the 2018/19 full funding review.
- 49.4. *MOSS and SeaCert fees*: Some submitters consider that MOSS and SeaCert fees are too high and the systems are costly and difficult to deal with. These submissions are counter-balanced by others that say costs have been less than first thought.

The new systems are still in transition and should settle in with full

implementation by 2018/19. Maritime NZ is actively working on efficiencies and cost savings for MOSS and SeaCert processes under a continuous improvement approach. The proposed power for the Director to waive fees to pass on any future cost savings would reinforce this approach.

Other issues raised during consultation

50. Two other issues were raised by the maritime industry during consultation, which were not included in the consultation document:

50.1. A request that Maritime NZ consider reducing the SeaCert fixed fees for entry-level certificates to encourage new entrants to the maritime industry. This has been looked at and Maritime NZ recommends moving the SeaCert certificates for Qualified Deckhand and Advanced Deckhand – Fishing to a lower fixed fee level. While the fixed fees for these two certificates will still increase (because they are calculated at the increased hourly rate), they will not increase as much because they will be in a lower fixed fee category. This change will not significantly affect the overall amount of SeaCert revenue that Maritime NZ receives.

50.2. Some submissions suggested that the Government review the level of fees charged by independent seafarer training providers and look at accessibility to student loans for entry level training courses to encourage individuals to enter the maritime industry. Industry has raised these issues due to existing staff shortages, with more to come due to an aging workforce. The Ministry of Transport will draw these matters to the attention of the Ministry of Education and the New Zealand Qualifications Authority.

Impact of funding proposal on the maritime industry

51. The funding proposal, if implemented, would affect fees and the maritime levy.

Maritime levy

52. The proposed levy increase is \$1.4 million per annum. Table 1 shows the proposed levy allocation. This makes it clear who will be affected by the changes.

Table 1: Maritime levy 2016/17						
Foreign		Domestic				
Container ships	Cruise ship	NZ SOLAS non-passenger	NZ SOLAS domestic passenger	Fishing ship	NZ domestic passenger	Other
69.3%	19.6 %	1.7%	4.1%	2.4%	1.4%	1.5%

53. The proposed increase in the maritime levy is shared proportionally across the maritime sector. MOSS assisted compliance costs of \$200,000 are directed at small to medium domestic operators, as the benefits relate more closely to these domestic operators than to international operators or large domestic vessels (which are not regulated under MOSS).

54. The average increase from the amount paid in 2015/16 is \$1,800 for a cruise ship (assuming 2000 passenger capacity and six port visits), and \$333 for a container ship (assuming 37,000 deadweight tonnage and three port visits). While this is a five percent increase from 2015/16 payments, when the halt in future levy reductions is included the effective percentage increase is around 21 percent by 2018/19.
55. The annual increase for a New Zealand SOLAS domestic passenger ferry (with a passenger capacity of 500 passengers, e.g. a passenger ferry crossing the Cook Strait) is a 16 percent increase of \$16,395 annually (from \$102,675 to \$119,070).
56. The largest percentage increase from the 2015/16 maritime levy rates relates to domestic fishing ships and other commercial operators. For a deep sea-fishing vessel, it is a 66 percent increase of \$2,282 annually (from \$3,472 to \$5,754). For other vessels, the increase is 66 percent but the amount is much smaller e.g. \$32 (from \$50 to \$82) for fishing vessel (less than 24 metres) and \$40 annually (from \$62 to \$102) for a commercial jet boat.
57. The bullets below give an idea of the impact of the proposed maritime levy increases on various operators relative to their business:
- international cargo ship - 13 cents per container per voyage (based on 2,500 TEU³)
 - cruise ship - \$1 per passenger per voyage (based on 90 percent passenger load)
 - interisland ferry - 13.6 cents per passenger per sailing (based on 1,200 sailings per year with 100 passengers)
 - deep sea fishing vessel - 95 cents per tonne of catch
 - other vessels - impact minor, no single impact measure for this group due to wide range of different types of vessel and operation
58. Note: the indicative overall impact of the maritime levy increase and cessation of the scheduled reductions for international cargo ships is 50 cents per container per voyage and for cruise ships is \$4 per passenger per voyage.

Fees

59. Maritime NZ's current GST inclusive hourly rate for SeaCert on which the fixed fees for services are set is \$169 and would change to \$221.
60. Table 2 shows the effect of increasing fees for the five highest volume applications for new or renewed certificates, which represent around 45 percent of all SeaCert transactions. The nature of seafarer certification means that most fees are paid by the individuals. Costs are effectively spread over the five-year lifespan of a new or renewed certificate.

³ TEU – twenty foot equivalent unit : the measure of a container ship's capacity or load

Table 2: SeaCert fee increases for the most frequently issued certificates

Certificate	Volume (Annual)	Current fee \$ incl GST	Proposed fee \$ incl GST	\$ increase
STCW - Renewal	206	592	774	182
Skipper Restricted Limits	126	763	995	232
GMDSS (Radio officer) Renewal	83	372	486	114
GMDSS (Radio Operator)	69	507	663	156
Watchkeeper - Deck	47	845	1,105	260

61. The SeaCert fees in Appendix 1 include one new fee of \$818 (inc GST), for recognition of foreign certificates not issued under the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) or the counterpart convention on standards for seafarers on fishing vessels (STCW-F).
62. No increase in MOSS fees is proposed as a result of this consultation. However, the scheduled increases in the MOSS hourly rates under existing regulations will proceed but will be capped at lower rates than originally planned at \$231 (office based) and \$303 (off site). This contrasts with the current scheduled rates of \$248 (office-based rate) and \$326 (off site rate) which were scheduled to be in force in 2019/20.

Review of levy allocation methodology

63. Some parts of the domestic maritime industry have raised the concern that they are paying more of the levy than they believe they should be, although the increase for them is 16 percent rather than the 66 percent for other domestic operators. Even after the proposed increase in the rates for domestic operators, by 2018/19 international shipping will still generate around 89 percent of total levy revenue.
64. Maritime NZ agrees that there is a need to undertake a full assessment to determine the levy allocation. Maritime NZ plans to initiate a Maritime Levy Model Project in 2016, which will be informed by a survey and industry reporting.
65. Any attempt to revisit the levy methodology using a robust process will take six months to a year. In the submissions, there was strong disagreement about whether the levy methodology should be risk-based, linked to benefits received or Maritime NZ effort in each sector, or if it should take account of ability to pay. Not undertaking a robust process will simply generate additional industry misgivings. In the meantime, Maritime NZ urgently requires additional funds to effectively carry out its statutory functions.

Transport changes to fee/levies and the effect on tourists

66. Given the recent introduction of the border clearance levy, there is concern about other fees/levies related to international tourism. In the transport sector, there are four potential changes to fees/levies.
- 66.1. International passengers: the Civil Aviation Authority has recently proposed to decrease the international passenger security charge (approved by Cabinet). The decrease is balanced by a proposed increase in the international passenger safety charge (due to Cabinet in May). The net effect is a decrease of \$0.98 in the price for each departing international passenger.
- 66.2. International cruise ships: this paper proposes an increase in the marine levy equating to \$1 per passenger, in addition to the cancellation of scheduled levy reductions would add a further \$3 per passenger. Balancing this is a proposal to reduce the oil pollution levy for cruise ships by the equivalent of around \$1.95 per passenger (due to Cabinet in March).

Financial Implications

67. The proposals have no financial implications for the Crown.

Human rights, gender and disability implications

68. The proposals are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. There are no gender or disability implications.

Legislative Implications

69. Amendments to the Shipping (Charges) Regulations 2014 and the Marine Safety Charges Regulations 2000 and new fee regulations under the Maritime Security Act 2004 will be necessary to implement the proposal.

Regulatory Impact Analysis

70. The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper. A Regulatory Impact Statement (RIS) has been prepared (attached as Appendix 2).
71. The Ministry of Transport's Regulatory Impact internal review panel has reviewed the RIS and associated supporting material, and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.

Publicity

72. Decisions about the proposed fees and charges will be notified on Maritime NZ's website and in industry publications as part of Maritime's NZ communications programme.
73. This Cabinet paper and attached RIS will be made publically available following Cabinet's decision on the proposal.

Implementation and timing

74. The new funding arrangements and other changes are recommended to be in place from 1 July 2016. Cabinet agreement to the proposed changes to regulations is required in order to make these changes.
75. If the Committee agrees to the substance and timing of the funding proposal, the regulation changes will be able to be made with a Gazettal period of four weeks, to bring the regulations into effect on 1 July 2016.

Recommendations

76. The Minister of Transport recommends that the Committee:

Maritime levy

- a) **agree** to cancel the scheduled levy reductions for foreign passenger and non-passenger ships in 2016/17, 2017/18 and 2018/19 under the Marine Safety Charges Regulations 2000
- b) **agree** to amend maritime levy rates for all levy payers with effect from 1 July 2016 under the Marine Safety Charges Regulations 2000 to increase the funding for Maritime NZ by \$1.4 million per annum (averaged over the next three years) as set out in Appendix 1
- c) **agree** to change the name of the Marine Safety Charges Regulations 2000 to the Maritime Levy Regulations 2000, to reflect the wording of the empowering section 191 of the Maritime Transport Act 1994 as amended by the Maritime Transport Amendment Act 2013

Fees

- d) **agree** to increase SeaCert ('seafarer certification') fixed fees under the Shipping (Charges) Regulations 2014 to address under-recovery of directly recoverable SeaCert costs (averaged over the next three years), as set out in Appendix 1
- e) **agree** to move the *SeaCert certificates for Qualified Deckhand and Advanced Deckhand – Fishing* to a lower fixed fee scale (an effective saving of approximately \$100), as set out in Appendix 1

- f) **agree** to hold the MOSS (Maritime Operator Safety System) GST inclusive hourly rate at \$231 for office based services and \$303 for off-site visits with effect from 1 July 2016 until the rates are reviewed under the 2018/19 funding review, rather than moving to higher rates in 2019/20 as currently specified by the Shipping (Charges) Regulations 2014), as set out in Appendix 1
- g) **agree** to amend the Shipping (Charges) Regulations 2014 to enable the Director of Maritime NZ to waive MOSS and SeaCert fees in any particular case or class of cases if the Director is satisfied that the work actually done does not justify the payment (or full payment) of the fee or more efficient processes can be used resulting in lower costs
- h) **agree** to amend Schedule 1 of the Shipping (Charges) Regulations 2014 to provide that a fee charged at an hourly rate as specified in Schedule 1 of the regulations is payable for a cost-recoverable activity or service performed by a Maritime NZ employee under the Maritime Transport Act 1994 or rules made under that Act and for which no fee is otherwise prescribed by the regulations
- i) **agree** to establish fee regulations under the Maritime Security Act 2004 to provide that a fee charged at an hourly rate of \$235 (office-based) and \$313 (out of office) is payable for security assessments, security plan testing, audits, inspections, ship detentions, and approvals by a Maritime NZ employee under the Maritime Security Act 2004 or regulations made under the Act
- j) **agree** that Maritime NZ undertake a full review of the maritime levy allocation methodology to determine the appropriate data required and model to apply to maritime levy payers. Maritime NZ is to report back on the results of this work as part of the full 2018/19 funding review
- k) **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to amend the Marine Safety Charges Regulations 2000 and the Maritime (Charges) Regulations 2014 to give effect to recommendations a) to h) and draft regulations under the Maritime Security Act 2004 to give effect to recommendation i), with any necessary consequential or savings provisions
- l) **agree** to publish this Cabinet paper on the Ministry of Transport's website

Hon Simon Bridges
Minister of Transport

Dated: _____

Funding proposal changes

New maritime levy rates

- Amend the Marine Safety Charges Regulations 2000 to change the maritime levy rates applicable from 1 July 2016 as follows.

Maritime NZ proposed levy rate changes by industry group (GST exclusive)

Industry group	Basis of levy	New rate (GST exclusive)
Foreign non-passenger ship	First Port Deadweight tonnage (DWT)	\$0.1108
	Subsequent Port DWT	\$0.0376
Foreign passenger ship	Passenger capacity per vessel per port visited	\$3.0913
New Zealand non-passenger ship	DWT	\$2.4586
New Zealand passenger ship	Passenger capacity per vessel	\$238.1443
New Zealand fishing ship	Gross tonnage (GT)	\$4.1088
	Length	\$13.7017
New Zealand domestic passenger	GT	\$5.1361
	Length	\$17.1147
Other New Zealand vessels	DWT	\$2.6177
	GT	\$5.1361
	Length	\$17.1147

New MOSS and SeaCert hourly rates

Amend the Shipping (Charges) Regulations 2014 as follows.

- Change the MOSS hourly rate from the Year 2 hourly rate to the Year 5 hourly rate from 2016/17, as planned under the 6-year transitional path. Hold the hourly rate at the Year 5 hourly rate (until it is reviewed under the 2018/19 funding review, rather than moving to the Year 6 hourly rate in 2019/20 as currently specified in the Shipping (Charges) Regulations 2014).
- Change the SeaCert hourly rate from the Year 2 hourly rate to the Year 5 hourly rate under the 6-year transitional path and hold at that rate (until it is reviewed under the 2018/19 funding review).

Figures incl. GST	2013/14 Year 1	2014/15 Year 2	2015/16 Year 3	2016/17 Year 4	2017/18 Year 5	2018/19 Year 6	2019/20 & outyears
Hourly rate	\$144	\$166	\$184	\$201	\$218	\$235	\$235
MOSS	N/A	\$179 office based (incl. \$12.65 for IT) \$234 off site visit	Year 5 hourly rate \$231 office based (incl. \$12.65 for IT) Year 5 hourly rate \$303 off site visit				
SeaCert	N/A	\$169 (incl. \$3 for IT)	Year 5 hourly rate \$221 (incl. \$3 for IT)				
Marine protection documents	\$235 office based \$313 off site visit						
Other chargeable activities	\$144 office based \$192 off site visit	\$166 office based \$221 off site visit	\$184 office based \$245 off site visit	\$201 office based \$268 off site visit	\$218 office based \$291 off site visit	\$235 office based \$313 off site visit	\$235 office based \$313 off site visit

New SeaCert entry-level certificates fixed fees (based on new hourly rate)

- Amend the Shipping (Charges) Regulations to give effect to the following new fixed fees for entry-level SeaCert certificates.

Seafarer certificate	Annual numbers	Current fixed fee level	Current Year 2 fixed fee	Current fixed fee Year 5	New fixed fee level	New fixed fee level Year 5
Qualified Deckhand	23	4	\$676	\$884	3	\$774
Advanced Deckhand - Fishing	35	5	\$761	\$995	4	\$884

New SeaCert fixed fees – all certificates (based on new hourly rate)

- Amend the Shipping (Charges) Regulations 2000 to give effect to the following new fixed fees for SeaCert certificates and endorsements.

SeaCert certificate / endorsement	Current fixed fee	New fixed fee from 2016/17	Volume monthly	Volume annually	Level (fixed fee category of certificate)
Pre Assessment	\$304	\$398	5	59	-
National certificates of proficiency					
Qualified Deckhand	\$676	\$774	2	23	Level 3 (level changed)
National certificates of competency					
Skipper Restricted Limits	\$761	\$995	11	126	Level 5
Skipper Restricted Limits endorsed <24 metres	\$761	\$995	0	0	Level 5
Skipper Coastal/Offshore	\$676	\$884	0	3	Level 4
Master Yacht <24 metres	\$676	\$884	0	3	Level 4
Marine Engineer Class 6	\$676	\$884	1	14	Level 4

SeaCert certificate / endorsement	Current fixed fee	New fixed fee from 2016/17	Volume monthly	Volume annually	Level (fixed fee category of certificate)
Marine Engineer Class 5	\$676	\$884	1	17	Level 4
Marine Engineer Class 5 Steam	\$676	\$884	0	0	Level 4
Marine Engineer Class 5 Motor and Steam	\$676	\$884	0	0	Level 4
Marine Engineer Class 4	\$676	\$884	0	2	Level 4
National endorsements					
Passenger	\$372	\$486	0	3	Level 1
Cook Strait	\$372	\$486	0	0	Level 1
Less than 24 metres	\$372	\$486	0	0	Level 1
Less than 500 gross tonnage	\$372	\$486	0	0	Level 1
500–3000 gross tonnage	\$372	\$486	0	0	Level 1
Square-rigged	\$372	\$486	0	0	Level 1
High-speed vessel	\$372	\$486	0	0	Level 1
Temporary seasonal	\$372	\$486	0	0	Level 1
Steam	\$372	\$486	0	0	Level 1
STCW certificates of proficiency					
Deck Watch Rating	\$761	\$995	0	5	Level 5
Engine Room Watch Rating	\$761	\$995	0	2	Level 5
Able Seafarer Deck	\$761	\$995	1	14	Level 5
Able Seafarer Engine	\$676	\$884	0	2	Level 4
Electro-technical Rating	\$761	\$995	0	0	Level 5
Integrated Rating	\$676	\$884	0	2	Level 4
STCW certificates of competency					
Watchkeeper Deck of ship less than 500 gross tonnage in near-coastal area	\$761	\$995	0	0	Level 5
Watchkeeper Deck (STCW-95)	\$845	\$1,105	0	0	Level 6
Watchkeeper Deck	\$845	\$1,105	4	47	Level 6
Chief Mate on ship less than 3000 gross tonnage	\$592	\$774	0	0	Level 3
Chief Mate	\$761	\$995	2	18	Level 5
Master on ship less than 500 gross tonnage in near-coastal area (limited to coastal area)	\$676	\$884	0	3	Level 4
Master on ship less than 500 gross tonnage in near-coastal area	\$676	\$884	1	9	Level 4

SeaCert certificate / endorsement	Current fixed fee	New fixed fee from 2016/17	Volume monthly	Volume annually	Level (fixed fee category of certificate)
Master on ship less than 500 gross tonnage	\$676	\$884	0	0	Level 4
Master on ship less than 3000 gross tonnage	\$761	\$995	0	0	Level 5
Master	\$761	\$995	1	11	Level 5
Chief Mate of Yacht	\$761	\$995	0	3	Level 5
Master of Yacht less than 500 gross tonnage	\$676	\$884	0	0	Level 4
Master of Yacht	\$676	\$884	1	6	Level 4
Electro-technical Officer	\$676	\$884	0	2	Level 4
Marine Engineer Class 3 (STCW-95)	\$845	\$1,105	0	0	Level 6
Marine Engineer Class 3	\$845	\$1,105	3	35	Level 6
Marine Engineer Class 2 of ship less than 3000 kilowatts	\$676	\$884	0	0	Level 4
Marine Engineer Class 2	\$761	\$995	1	12	Level 5
Marine Engineer Class 2 endorsed as chief engineer	\$676	\$884	0	0	Level 4
Marine Engineer Class 1	\$761	\$995	1	11	Level 5
GMDSS (Radio Operator)	\$507	\$663	6	69	Level 2
Radio Officer	\$507	\$663	0	0	Level 2
STCW-F certificates of proficiency					
Advanced Deckhand – Fishing	\$761	\$884	3	35	Level 4 (level changed)
STCW-F certificates of competency					
Mate Fishing Vessel – Limited	\$761	\$995	1	12	Level 5
Mate Fishing Vessel – Unlimited	\$761	\$995	0	2	Level 5
Skipper Fishing Vessel – Limited	\$592	\$774	0	0	Level 3
Skipper Fishing Vessel – Unlimited	\$592	\$774	0	0	Level 3
STCW endorsements					
Basic tanker	\$372	\$486	2	27	Level 1
Advanced tanker	\$372	\$486	0	2	Level 1
Other certificates					
Compass adjuster	\$676	\$884	0	0	Level 4
Commercial jet boat driver license	\$271	\$354	2	21	-

SeaCert certificate / endorsement	Current fixed fee	New fixed fee from 2016/17	Volume monthly	Volume annually	Level (fixed fee category of certificate)
Pilot license	\$507	\$663	2	18	Level 2
Pilotage exemption certificate	\$507	\$663	3	36	Level 2
Approval as a medical practitioner	\$552	\$663	0	5	Level 2
Approval as an assessor	\$552	\$663	0	2	Level 2
Approval as an examiner	\$552	\$663	1	8	Level 2
Other applications					
Renewal of national certificates of proficiency	\$372	\$486	0	0	Level 1
Renewal of national certificates of competency	\$372	\$486	0	2	Level 1
Transition of national certificate of proficiency or competency					
Renewal of national endorsements	\$372	\$486	0	0	Level 1
Renewal of STCW certificates of competency	\$592	\$774	17	206	Level 3
Renewal of STCW certificates of proficiency	\$592	\$774	1	8	Level 3
Renewal of GMDSS (Radio Operator)	\$372	\$486	7	83	Level 1
Transition of STCW certificate of competency or proficiency					
Renewal of STCW endorsements	\$372	\$486	1	6	Level 1
Renewal of STCW-F certificates of proficiency	\$372	\$486	0	0	Level 1
Renewal of STCW-F certificates of competency	\$372	\$486	0	0	Level 1
Replacement certificates and licenses	\$372	\$486	2	23	Level 1
Recognition (under MOU) of foreign certificate	\$592	\$774		0	Level 3
Recognition (outside MOU) of foreign certificate	\$761	\$995		0	Level 5
Foreign qualification acceptance for reduction in sea service for MEC 3	\$85	\$111		0	-
Recognition	-	\$818	14	167	-